



## Employment, Inventories and the Housing Cycle

The June labor market report delivered a jolt of disappointing news: job losses jumped to 467,000, breaking a string of four months of diminishing declines in payroll employment; the unemployment rate rose further; and average hourly earnings were stagnant. The weaker-than-expected job market will cut deeper into household incomes, damping any recovery in consumer spending and an eventual turnaround in the overall economy.

Another recent report, however, gave fresh evidence that the dismal jobs outlook may delay economic recovery but is unlikely to derail it. The Institute for Supply Management's manufacturing survey in June moved up for the sixth consecutive month, suggesting that industrial output is closer to stabilizing. Indeed, details of the report indicated that new orders were basically flat from the month before while production actually increased a bit.

More important for the outlook over the next several months were the responses to questions about inventories. Manufacturers indicated their inventories were contracting faster than in the spring, and that customers' inventories were 'too low'. To have products ready to ship to meet the current level of orders, firms will soon need to step up production; as they do so, they will begin to expand their work force once again. Such an improvement in labor market conditions will be an essential ingredient of a housing recovery.

Even before employment improves, though, there are encouraging signs from the housing market. Inventories of homes-for-sale are slowly retreating from their recent record levels in many areas. Home sales pick-up has occurred in many (but not all) states over the past year.

For example, existing home sales in Arizona have been higher than year-ago levels for three straight quarters, based on data through first quarter 2009 from the National Association of Realtors®. Similarly, Nevada has recorded four quarters of rising sales relative to year-ago; however, Michigan continues to see declines. In Florida and California, more timely data are available on a monthly basis from their state associations of Realtors. Through May 2009, Florida has posted sales higher than a year earlier for nine consecutive months; California has a 14-month string of rising sales.

Many of these sales, of course, are distressed sales, consisting of short sales and sales of foreclosed properties. Nevertheless, that indicates that there are ready buyers at current prices, and these distressed sales do clear out the stock of for-sale homes. The consistency of the improvement hints that these markets may have reached their bottom. Home prices tend to lag in a recovery, but even here



we are starting to see the seeds of turnaround. Price declines over the first quarter of 2009 slowed in Arizona, California, Michigan and Florida, according to the Federal Housing Finance Agency's purchase-only home price index.

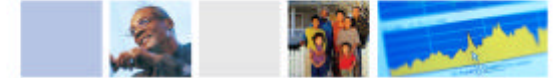
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# July 2009 Economic and Housing Market Outlook



Office of the Chief Economist

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## Major Economic Indicators

| Indicator                              | 2008 |     |      |      | 2009 |      |     |     | 2010 |     |     |     | Annual Totals |      |      |      |      |      |
|--|------|-----|------|------|------|------|-----|-----|------|-----|-----|-----|---------------|------|------|------|------|------|
|  | Q1   | Q2  | Q3   | Q4   | Q1   | Q2   | Q3  | Q4  | Q1   | Q2  | Q3  | Q4  | 2005          | 2006 | 2007 | 2008 | 2009 | 2010 |
| Real GDP (%)                           | 0.9  | 2.8 | -0.5 | -6.3 | -5.5 | -1.5 | 1.0 | 2.0 | 2.5  | 3.0 | 3.0 | 3.5 | 2.7           | 2.4  | 2.3  | -0.8 | -1.0 | 3.0  |
| Consumer Prices (%) a.                 | 4.5  | 4.5 | 6.2  | -8.3 | -2.4 | 1.0  | 1.5 | 1.5 | 1.8  | 2.0 | 2.0 | 2.2 | 3.8           | 1.9  | 4.0  | 1.7  | 0.4  | 2.0  |
| Unemployment Rate (%) b.               | 4.9  | 5.3 | 6.0  | 6.9  | 8.1  | 9.3  | 9.7 | 9.9 | 9.8  | 9.8 | 9.7 | 9.6 | 5.1           | 4.6  | 4.6  | 5.8  | 9.3  | 9.7  |
| 30-Year Fixed Mtg. Rate (%) b.         | 5.9  | 6.1 | 6.3  | 5.9  | 5.1  | 5.0  | 5.4 | 5.5 | 5.6  | 5.7 | 5.9 | 6.0 | 5.9           | 6.4  | 6.3  | 6.0  | 5.2  | 5.8  |
| 1-Year Treas. Indexed ARM Rate (%) b.  | 5.1  | 5.2 | 5.2  | 5.1  | 4.9  | 4.8  | 4.9 | 4.9 | 4.9  | 5.1 | 5.3 | 5.5 | 4.5           | 5.5  | 5.6  | 5.2  | 4.9  | 5.2  |
| 10-Year Const. Mat. Treas. Rate (%) b. | 3.7  | 3.9 | 3.9  | 3.7  | 2.7  | 3.7  | 3.6 | 3.8 | 4.0  | 4.2 | 4.4 | 4.5 | 4.3           | 4.9  | 4.6  | 3.8  | 3.5  | 4.3  |
| 1-Year Const. Mat. Treas. Rate (%) b.  | 2.1  | 2.1 | 2.1  | 1.0  | 0.6  | 0.5  | 0.5 | 0.6 | 0.8  | 0.9 | 1.0 | 1.2 | 3.6           | 4.9  | 4.5  | 1.8  | 0.6  | 1.0  |

## Housing and Mortgage Markets

| Indicator                                 | 2008  |       |       |       | 2009  |       |       |       | 2010  |       |       |       | Annual Totals |         |         |         |         |         |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------------|---------|---------|---------|---------|---------|
|   | Q1    | Q2    | Q3    | Q4    | Q1    | Q2    | Q3    | Q4    | Q1    | Q2    | Q3    | Q4    | 2005          | 2006    | 2007    | 2008    | 2009    | 2010    |
| Housing Starts c.                         | 1.06  | 1.02  | 0.87  | 0.66  | 0.53  | 0.49  | 0.47  | 0.55  | 0.65  | 0.75  | 0.85  | 0.95  | 2.07          | 1.80    | 1.36    | 0.91    | 0.51    | 0.80    |
| Total Home Sales d.                       | 4.93  | 4.84  | 4.89  | 4.62  | 4.46  | 4.55  | 4.85  | 5.00  | 5.15  | 5.40  | 5.60  | 5.85  | 7.46          | 6.73    | 5.72    | 4.84    | 4.72    | 5.50    |
| Conventional Mtg. Home Price Index (%) e. | -2.1  | -7.5  | -10.4 | -1.0  | 3.6   | -5.0  | -5.0  | -2.0  | -2.5  | -1.5  | -1.5  | -0.5  | 12.4          | 5.5     | 0.0     | -5.3    | -2.1    | -1.5    |
| S&P/Case-Shiller® Home Price Index (%) f. | -23.9 | -8.5  | -13.1 | -26.4 | -26.6 | -14.0 | -10.0 | -7.0  | -5.0  | -3.0  | -3.0  | -1.0  | 14.7          | -0.3    | -8.6    | -18.3   | -14.4   | -3.0    |
| 1-4 Family Mortgage Originations g.       |       |       |       |       |       |       |       |       |       |       |       |       |               |         |         |         |         |         |
| Conventional                              | \$440 | \$480 | \$280 | \$210 | \$370 | \$540 | \$500 | \$440 | \$385 | \$435 | \$520 | \$410 | \$3,167       | \$2,858 | \$2,312 | \$1,410 | \$1,850 | \$1,750 |
| FHA & VA                                  | \$46  | \$70  | \$90  | \$84  | \$96  | \$135 | \$125 | \$94  | \$95  | \$105 | \$120 | \$105 | \$90          | \$80    | \$120   | \$290   | \$450   | \$425   |
| Total                                     | \$486 | \$550 | \$370 | \$294 | \$466 | \$675 | \$625 | \$534 | \$480 | \$540 | \$640 | \$515 | \$3,257       | \$2,938 | \$2,432 | \$1,700 | \$2,300 | \$2,175 |
| ARM Share (%) h.                          | 8     | 8     | 8     | 3     | 1     | 2     | 2     | 2     | 3     | 4     | 5     | 6     | 31            | 21      | 10      | 7       | 2       | 5       |
| Refinancing Share - Applications (%) i.   | 49    | 47    | 39    | 56    | 78    | 65    | 55    | 55    | 52    | 51    | 47    | 46    | 44            | 43      | 42      | 48      | 63      | 49      |
| Refinancing Share - Originations (%) j.   | 54    | 52    | 43    | 58    | 80    | 69    | 59    | 59    | 58    | 57    | 53    | 54    | 48            | 47      | 49      | 52      | 67      | 56      |
| Residential Mortgage Debt (%) k.          | 2.7   | 0.1   | -1.1  | -2.9  | -0.2  | 0.0   | 1.0   | 1.0   | 2.0   | 4.0   | 6.0   | 5.0   | 13.3          | 11.1    | 7.1     | -0.3    | 0.4     | 4.3     |

Note: Quarterly and annual forecasts (or estimates) are shown in shaded areas; totals may not add due to rounding; quarterly data expressed as annual rates.

Annual forecast data are averages of quarterly values; annual historical data are reported as Q4 over Q4.

- a. Calculations based on quarterly average of monthly index levels; index levels based on the seasonally-adjusted, all-urban consumer price index.
- b. Quarterly average of monthly unemployment rates (seasonally-adjusted); Quarterly average of monthly interest rates (not seasonally-adjusted).
- c. Millions of housing units; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).
- d. Millions of housing units; total sales are the sum of new and existing detached single-family homes; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).
- e. Annualized growth rate of Freddie Mac's Conventional Mortgage Home Price Index (CMHPI); not seasonally-adjusted
- f. National composite index (annualized growth rate), not seasonally-adjusted
- g. Billions of dollars (not seasonally-adjusted).
- h. Federal Housing Finance Board (FHFB); quarterly averages of monthly shares of conventional, home-purchase mortgage closings (not seasonally-adjusted).
- i. Primary Mortgage Market Survey®; quarterly averages of monthly shares of all single-family mortgage applications (not seasonally-adjusted).
- j. Home Mortgage Disclosure Act for all single-family mortgages (not seasonally-adjusted); Annual share is dollar-weighted average of quarterly shares.
- k. Federal Reserve Board; growth rate of residential mortgage debt, the sum of single-family and multifamily mortgages (not seasonally-adjusted, annual rate)

Prepared by Office of the Chief Economist and reflects views as of 7/8/2009 (MAS); Send comments and questions to chief\_economist@freddiemac.com.

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