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In Like a Lion, Out Like a Lamb

The “snowmageddon” that blanketed the Mid-Atlantic region last month, together with other severe storms across the country in January and February, are fading into history. The storms’ impact on the economy, though, is likely to last a little longer. While we expect most of the effects to be temporary and reverse as less disruptive weather patterns return in the spring, the challenge in the near term is to determine whether the weakness in recent economic and housing market reports mostly reflects the storms’ impact, or whether they are a harbinger of a more troubling deterioration of the fundamentals.

The latest report on the labor market is consistent with there being temporary factors masking an underlying improvement. Nonfarm payroll employment fell 36,000 in February, beating market expectations and a far cry from the 600,000+ monthly job losses of a year ago; the modest February decline was also largely offset by upward revisions that added 35,000 jobs over the prior two months. Moreover, the Labor Department reported that severe weather kept a much larger number of people away from work than typically occurs in February. Market estimates of the effect are in the 100,000-job range, suggesting there may be a large increase in payrolls this month as weather conditions return to more normal patterns. The boost that these new jobs give to household incomes can help solidify the economic recovery.

The signals from housing markets are less clear. Sales of new and existing homes fell sharply in recent months. Some decline had been anticipated after last November, which was the original expiration date for the First Time Homebuyers’ tax credit. Many buyers rushed to complete their purchases before the deadline, bolstering the housing market’s apparent strength last fall. Sales continued to weaken into January, however, and pending sales contracts declined further as well, giving rise to concerns about the underlying foundation for the market. With winter weather worse than normal in both January and February, though, many potential buyers may have skipped the open houses and stayed inside. The next few months will be an important test for the housing recovery as the temporary impact of the storms dissipates and the spring selling season provides a clean reading on homebuying demand.

There are other economic indicators that are less vulnerable to weather, and these are steadily trending upwards. The ISM manufacturing survey first rose back above 50 last summer, indicating an increase in industrial production, and early this year reached its highest reading since 2004. The rise in factory output has brought about a stabilization in manufacturing payrolls, which in January and February were flat to positive, the first two-month stretch without a decline since 2006. A corresponding survey for the service sector recently moved back to its pre-crisis levels, suggesting the recovery is broadening to most segments of the economy. Spending figures confirm a shift from the inventory-led recovery in GDP towards one based on rising final sales, as real consumer spending growth has accelerated in recent months.

Despite these encouraging signs, the recovery remains fragile. Fortunately, financial market conditions are improving. Many risk spreads are down to pre-crisis levels and liquidity is returning to the markets, even as the Fed discusses its eventual exit from the extraordinary measures put in place during the crisis. Conforming mortgage rates for 30-year fixed-rate mortgages remain near or below 5 percent, close to the record lows reached last year, and homebuyer affordability remains high. Also, the *Making Home Affordable* program continues to help thousands of families avoid foreclosure and remain in their homes. These forces will help the economy and housing markets shake the chills of winter and emerge stronger in the spring.

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March 2010 Economic and Housing Market Outlook

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Office of the Chief Economist

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Major Economic Indicators

Indicator	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	Annual Totals 2006	2007	2008	2009	2010	2011
Real GDP (%)	-2.7	-5.4	-6.4	-0.7	2.2	5.9	**3.5**	**3.5**	**3.3**	**3.3**	**3.5**	**3.5**	2.4	2.5	-1.9	0.1	**3.4**	**3.5**
Consumer Prices (%) a.	6.4	-9.2	-2.2	1.9	3.7	2.6	**1.5**	**1.5**	**1.5**	**1.5**	**1.7**	**2.0**	1.9	4.0	1.6	1.5	**1.5**	**2.0**
Unemployment Rate (%) b.	6.0	6.9	8.1	9.3	9.6	10.0	**9.7**	**9.7**	**9.5**	**9.3**	**9.1**	**8.9**	4.6	4.6	5.8	9.3	**9.6**	**8.8**
30-Year Fixed Mtg. Rate (%) b.	6.3	5.9	5.1	5.0	5.2	4.9	**5.0**	**5.2**	**5.4**	**5.6**	**5.7**	**5.8**	6.4	6.3	6.0	5.0	**5.3**	**6.1**
1-Year Treas. Indexed ARM Rate (%) b.	5.2	5.1	4.9	4.8	4.7	4.4	**4.3**	**4.4**	**4.5**	**4.7**	**4.8**	**4.9**	5.5	5.6	5.2	4.7	**4.5**	**5.2**
10-Year Const. Mat. Treas. Rate (%) b.	3.9	3.7	2.7	3.7	3.5	3.5	**3.7**	**3.8**	**4.0**	**4.3**	**4.3**	**4.4**	4.9	4.6	3.8	3.4	**4.0**	**4.4**
1-Year Const. Mat. Treas. Rate (%) b.	2.1	1.0	0.6	0.5	0.5	0.4	**0.4**	**0.4**	**0.5**	**0.7**	**0.9**	**1.2**	4.9	4.5	1.8	0.5	**0.5**	**1.3**

Housing and Mortgage Markets

Indicator	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	Annual Totals 2006	2007	2008	2009	2010	2011
Housing Starts c.	0.87	0.66	0.53	0.54	0.59	0.56	**0.60**	**0.65**	**0.75**	**0.80**	**0.90**	**1.00**	1.80	1.36	0.91	0.55	**0.70**	**1.10**
Total Home Sales d.	4.89	4.59	4.47	4.63	5.05	5.60	**5.70**	**5.70**	**5.70**	**5.70**	**5.90**	**6.10**	6.73	5.72	4.84	4.94	**5.70**	**6.20**
Conventional Mtg. Home Price Index (%) e.	-10.4	-0.9	4.2	-10.0	-8.1	-2.8	**-2.5**	**-1.5**	**-1.5**	**-0.5**	**-0.5**	**-0.4**	5.3	-0.2	-5.4	-4.3	**-1.5**	**1.0**
S&P/Case-Shiller® Home Price Index (%) f.	-13.4	-26.3	-26.4	12.7	13.9	-4.4	**-5.0**	**-3.0**	**-3.0**	**-1.0**	**-0.9**	**-0.8**	-0.3	-8.4	-18.2	-2.5	**-3.0**	**0.0**
1-4 Family Mortgage Originations g.																		
Conventional	$255	$210	**$354**	**$460**	**$396**	**$339**	**$280**	**$320**	**$335**	**$265**	**$290**	**$325**	$2,858	$2,312	$1,310	**$1,549**	**$1,200**	**$1,360**
FHA & VA	$90	$84	$96	$125	$119	$111	**$95**	**$105**	**$115**	**$85**	**$90**	**$100**	$80	$120	$290	$451	**$400**	**$340**
Total	$345	$294	**$450**	**$585**	**$515**	**$450**	**$375**	**$425**	**$450**	**$350**	**$380**	**$425**	$2,938	$2,432	$1,600	**$2,000**	**$1,600**	**$1,700**
ARM Share (%) h.	8	3	1	3	4	5	**4**	**4**	**5**	**6**	**7**	**9**	21	10	7	3	**5**	**10**
Refinancing Share - Applications (%) i.	39	56	78	70	59	74	**65**	**55**	**35**	**25**	**25**	**25**	43	42	48	70	**45**	**25**
Refinancing Share - Originations (%) j.	36	47	**75**	**69**	**61**	**77**	**70**	**60**	**40**	**30**	**30**	**30**	47	49	50	**70**	**50**	**30**
Residential Mortgage Debt (%) k.	-1.3	-3.1	-0.3	-1.6	-3.1	-2.3	**0.0**	**1.0**	**2.0**	**3.0**	**3.0**	**4.0**	11.1	7.1	-0.4	-1.9	**1.5**	**5.0**

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 3/11/2010 (MAS); Send comments and questions to chief_economist@freddiemac.com.