



Labor Market Impacts on Housing

That the employment loss in April was “only” 539,000 was a sign of the times. True, it was less than the monthly job loss over the previous five months, less than consensus projections, and an indicator that the rate of job loss was subsiding. Still, the employment decline was fairly widespread across industries, with manufacturing losing another 149,000 jobs, and the unemployment rate rising to 8.9%, the highest since September 1983. A broader measure of labor underutilization that counts workers who were working part-time but wanted full-time jobs, discouraged workers and others “marginally attached” to the labor market hit 15.8% of the labor force.

Job loss has several effects on the housing market, such as fewer household formations, weaker home sales and apartment rentals, and higher delinquency rates on residential loans. Recessions generally have a larger effect on lower-wage and less-skilled workers, who often are younger and in their prime household-forming years. As laid-off workers move in/stay with relatives or double-up with friends, fewer new households are formed. Based on the experience of the last few recessions, the U.S. may well have 300,000 fewer new households formed this year because of the recession, affecting home sales as well as apartment rentals. Indeed, the National Multi Housing Council’s quarterly survey of Apartment Market Conditions reported that rental market conditions had loosened as of early this year, reflecting rising vacancies.

Further, by eroding family income, unemployment eventually contributes to higher delinquency rates. Serious delinquency rates on conventional home loans made to prime borrowers peak about three-to-five quarters after employment recovery begins, based on the experience of previous business cycles. Delinquencies and charge-offs also rise for multifamily mortgages as rent growth slows and vacancies rise. Accordingly, many lenders have tightened credit standards: The Federal Reserve reported that one-half of banks had tightened standards on home loans to prime borrowers, and two-thirds of banks had tightened underwriting for commercial real estate loans, in the early months of this year; this is on top of the tightening that had already occurred in every quarter since 2006 for standard home loans and since 2005 for commercial mortgage loans.

Declining property values have contributed to substantial charge-offs on residential mortgages. Freddie Mac’s house-price index has fallen about 20% from its peak in the summer of 2006 through the first quarter of 2009; further, the National Council of Real Estate Investment Fiduciaries investment-grade multifamily market value index had its fourth consecutive decline in its first quarter 2009 appreciation index, with values down 20.3% from a year earlier. At banks and savings institutions at year-end 2008, the charge-off rate on 1- to 4-family mortgages had risen to 1.47%; for multifamily loans it rose to 0.82%, the highest since 1994.

While the near-term outlook will still have plenty of poor economic news, the recent signs—such as the labor market report for April—suggest that the economic decline will be subsiding. Federal Reserve Chairman Bernanke reported that the consensus view on the Board is for



recovery to settle in during the second half of the 2009. Likewise, home sales and housing starts appear to have either reached their nadir or will shortly. With housing affordability at the highest level in 40 years, the excess housing inventory should be gradually absorbed in the coming year. National house price indexes are expected to show further decline, but at a more modest pace than in recent quarters, through the end of 2010. Prospects for rent growth will also remain subdued over this period.

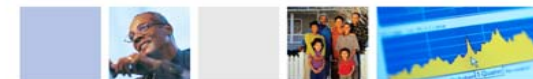
Frank E. Nothaft
Chief Economist

Amy Crews Cutts
Deputy Chief Economist

Calvin Schnure
Economic Analysis Director

May 21, 2009

May 2009 Economic and Housing Market Outlook



Office of the Chief Economist

Revised 5/18/2009

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	-6.1	-1.5	1.0	2.0	2.5	3.0	3.0	3.5	2.7	2.4	2.3	-0.8	-1.2	3.0
Consumer Prices (%) a.	4.5	4.5	6.2	-8.3	-2.4	0.5	1.3	1.5	1.8	2.0	2.0	2.2	3.8	1.9	4.0	1.7	0.2	2.0
Unemployment Rate (%) b.	4.9	5.3	6.0	6.9	8.1	9.1	9.3	9.5	9.7	9.7	9.6	9.5	5.1	4.6	4.6	5.8	9.0	9.6
30-Year Fixed Mtg. Rate (%) b.	5.9	6.1	6.3	5.9	5.1	4.8	4.9	5.1	5.3	5.5	5.7	5.9	5.9	6.4	6.3	6.0	5.0	5.6
1-Year Treas. Indexed ARM Rate (%) b.	5.1	5.2	5.2	5.1	4.9	4.8	4.8	4.9	4.9	5.1	5.3	5.5	4.5	5.5	5.6	5.2	4.8	5.2
10-Year Const. Mat. Treas. Rate (%) b.	3.7	3.9	3.9	3.7	2.7	3.1	3.2	3.3	3.5	3.7	3.9	4.1	4.3	4.9	4.6	3.8	3.1	3.8
1-Year Const. Mat. Treas. Rate (%) b.	2.1	2.1	2.1	1.0	0.6	0.5	0.6	0.7	0.8	1.0	1.2	1.3	3.6	4.9	4.5	1.8	0.6	1.1

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.	1.05	1.03	0.88	0.66	0.52	0.45	0.50	0.55	0.75	0.85	0.95	1.05	2.07	1.80	1.36	0.91	0.51	0.90
Total Home Sales d.	4.93	4.85	4.90	4.62	4.47	4.55	4.70	4.80	5.15	5.40	5.60	5.85	7.46	6.73	5.72	4.84	4.63	5.50
Conventional Mtg. Home Price Index (%) e.	-2.7	-7.5	-11.5	-1.9	0.0	-5.0	-5.0	-2.0	-2.5	-1.5	-1.5	-0.5	12.5	5.7	0.2	-6.0	-4.3	-1.5
S&P/Case-Shiller® Home Price Index (%) f.	-23.9	-8.5	-13.3	-26.0	-20.0	-14.0	-10.0	-7.0	-5.0	-3.0	-3.0	-1.0	14.7	-0.3	-8.7	-18.2	-12.8	-3.0
1-4 Family Mortgage Originations g.																		
Conventional	\$440	\$480	\$280	\$210	\$330	\$603	\$753	\$545	\$385	\$435	\$520	\$410	\$3,167	\$2,858	\$2,312	\$1,410	\$2,231	\$1,750
FHA & VA	\$46	\$70	\$90	\$84	\$90	\$128	\$137	\$115	\$95	\$105	\$120	\$105	\$90	\$80	\$120	\$290	\$470	\$425
Total	\$486	\$550	\$370	\$294	\$420	\$730	\$890	\$660	\$480	\$540	\$640	\$515	\$3,257	\$2,938	\$2,432	\$1,700	\$2,700	\$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	71	70	60	52	51	47	46	44	43	42	48	70	49
Refinancing Share - Originations (%) j.	54	52	43	58	80	75	74	64	58	57	53	54	48	47	49	52	73	56
Residential Mortgage Debt (%) k.	2.6	0.1	-1.0	-2.8	-4.0	-1.0	1.0	2.0	3.0	5.0	6.0	5.0	13.3	10.9	7.0	-0.3	-0.5	4.8

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 5/18/2009 (PTT); Send comments and questions to chief_economist@freddiemac.com.

Opinions, estimates, forecasts and other views contained in this document are those of Freddie Mac's Office of the Chief Economist, do not necessarily represent the views of Freddie Mac or its management, should not be construed as indicating Freddie Mac's business prospects or expected results, and are subject to change without notice. Although the Office of the Chief Economist attempts to provide reliable, useful information, it does not guarantee that the information is accurate, current or suitable for any particular purpose.

Information from this document may be used with proper attribution. Alteration of this document is strictly prohibited. © 2009 by Freddie Mac.