

Details

- GDP growth for the fourth quarter of 2003 was revised upwards to 4.1% due to higher business spending than was originally estimated. Leading indicators are suggesting even stronger growth than we forecast last month, and so we bumped our forecast to 4.5% for the first half of 2004. Growth in the second half of the year should be a bit slower at 4.2% but still well above the threshold necessary to start generating jobs.
- Wintertime price spikes in energy have brought up inflation in the first two months of this year, however many industries currently face either declining or weak pricing power. Our forecast for inflation in the first quarter was revised upwards to 2.5%. For the remainder of the year, inflation should be very tame at around 1.2%
- We are still awaiting the jobs that are expected to come with strong economic growth. The February employment numbers showed just 21,000 new jobs were added (128,000 were expected) and January's count was revised downward by 15,000 jobs. The unemployment rate remains steady at 5.6%, and we revised our forecast down to 5.6% through June and show a gentle decline to a 5.4% unemployment rate at year's end.
- The dismal employment report in February indicates an economy that still faces weakness – thus we do not expect any Fed action until 2005. Our forecast for 30-year fixed mortgage rates was taken down to 5.6% for the first quarter but remains unchanged for the remainder of the year, averaging 5.75% over 2004. The 10-year constant maturity Treasury rate is expected to average 4.2% over the year.
- Very low interest rates will translate into a record year for home sales. We did not modify our forecast from February, which projected total home sales of 7.28 million units. Housing starts should also have a great year, meeting or exceeding last year's recent high. We have total housing starts at 1.84 million units in 2004, down from 1.85 million in 2003; multifamily starts should decline, while one-family starts may set a new record in 2004.
- Freddie Mac's 4Q-2003 Conventional Mortgage Home Price Index showed strong appreciation in home values nationally at 8.4% for 2003. Strong economic growth and lower interest rates in 2004 should keep house price growth robust in 2004 at between 7 and 8%, falling to between 6 and 7% in 2005 as interest rates start to rise.
- Our lower mortgage rate forecast led us to boost single-family conventional originations by \$160 billion above February's forecast due to an increase in refis. The refi share of mortgage applications has remained above 50% and looks to stay there through the first half of the year, then slow to near 40% by year's end. Total single-family originations in 2004 should come in near \$2.6 trillion, or 30% lower than the record high set in 2003.
- Due to the popularity of hybrid adjustable rate mortgages (hybrid ARMs -- which have fixed rates for 3 to 10 years before becoming annually adjustable) the ARM share in 2004 is projected to rise to 28 percent, even with very low fixed mortgage rates available.
- Residential mortgage debt (MDO) growth should be in the double digits over the next year, rising by between 11 and 12% in 2004. MDO growth in 2005 should be more modest at just under 10%.

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Major Economic Indicators															
Indicator	2003				2004				2005		Annual Totals				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	2001	2002	2003	2004	2005
Real GDP (%)	2.0	3.1	8.2	4.1	4.5	4.5	4.2	4.2	4.0	4.0	0.0	2.8	4.3	4.3	4.0
Consumer Prices (%) a.	3.9	0.6	2.3	0.7	2.5	1.2	1.2	1.2	2.0	2.2	1.8	2.2	1.9	1.5	2.3
Unemployment Rate (%) b.	5.8	6.1	6.1	5.9	5.6	5.6	5.5	5.4	5.4	5.4	4.8	5.8	6.0	5.5	5.4
30-Year Fixed Mtg. Rate (%) b.	5.5	5.5	6.0	5.9	5.6	5.6	5.7	5.8	5.9	5.9	7.0	6.5	5.8	5.7	6.0
10-Year Const. Mat. Treas. Rate (%) b.	3.9	3.6	4.2	4.3	4.1	4.1	4.2	4.2	4.3	4.4	5.0	4.7	4.0	4.2	4.4
1-Year Const. Mat. Treas. Rate (%) b.	1.3	1.2	1.2	1.3	1.2	1.3	1.4	1.5	1.7	1.8	3.5	2.0	1.3	1.4	1.9

Housing and Mortgage Markets															
Indicator	2003				2004				2005		Annual Totals				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	2001	2002	2003	2004	2005
Housing Starts c.	1.74	1.74	1.88	2.03	1.90	1.85	1.80	1.80	1.67	1.67	1.60	1.70	1.85	1.84	1.65
Total Home Sales d.	6.80	6.95	7.57	7.43	7.20	7.40	7.30	7.20	7.20	7.20	6.20	6.54	7.19	7.28	7.24
House Price Appreciation (%) e.	5.4	5.0	5.9	17.8	7.7	8.3	8.5	6.6	6.7	7.0	7.6	7.6	8.4	7.8	6.6
1-4 Family Mortgage Originations f.															
Conventional	\$787	\$1,000	\$1,140	\$553	\$518	\$669	\$673	\$504	\$431	\$524	\$1,900	\$2,558	\$3,480	\$2,364	\$1,978
FHA/VA	\$54	\$59	\$64	\$54	\$51	\$66	\$67	\$50	\$48	\$58	\$167	\$187	\$231	\$234	\$220
Total	\$841	\$1,059	\$1,204	\$607	\$569	\$735	\$740	\$554	\$479	\$582	\$2,067	\$2,745	\$3,711	\$2,598	\$2,198
ARM Share (%) g.	16	15	18	27	28	26.7	28	28.7	29	29	12	17	19	28	29
Refinancing Share (%) h.	77	75	57	50	56	49	45	40	35	35	57	59	65	48	35
Residential Mortgage Debt (%) i.	11.1	15.5	12.7	10.7	8.7	14.1	12.8	10.2	8.2	12.0	10.3	12.4	12.5	11.4	9.9

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 data are averages of quarterly values.

- a. Calculations based on quarterly averages of monthly index levels; based on the seasonally-adjusted, all-urban consumer price index.
- b. Quarterly averages of monthly 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) home sales; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).
- e. Freddie Mac/Fannie Mae conventional home price index (CMHPI); not seasonally-adjusted.
- f. Includes single-family and multifamily debt; Stated at an annual rate.
- 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 mortgage applications; not seasonally-adjusted.
- l. Federal Reserve Board; residential mortgage debt is the sum of single-family and multifamily mortgages; not seasonally-adjusted.