



MAY 2017

Housing Gets Off to a Good Start

Despite weak economic growth, housing got off to a good start in 2017. This is in part because interest rates have been a bit of a surprise, drifting down since March. Lower interest rates and strong job growth have bolstered housing demand. The U.S. housing market is now on track to eclipse last year as the best in over a decade.

Economic growth remains tepid. First quarter real GDP growth was just 0.7 percent. Declines in consumer spending and inventory investment drove growth lower. Changes in inventory investment tend not to persist, but the decline in consumer spending would augur bad for growth if it lasted. Recent tracking data however, suggests consumer spending will rebound in the second quarter. Look for growth to pick back up, averaging 2.3 percent for the remainder of this year.

Despite weak growth, the labor market keeps plugging along. Through April 2017, the U.S. economy added jobs for 79 straight months. The unemployment rate was 4.4 percent in April, the lowest since 2001.

Mortgage rates hover near four percent

Mortgage rates for the 30-year fixed-rate mortgage reached as high as 4.3 percent in March. Since then rates have declined about a quarter of a percentage point to right around four percent where they have been holding in recent weeks. Mortgage rates are likely to head higher later this year.

Short term rates will keep rising as monetary policy firms. We forecast headline inflation as measured by the Consumer Price Index to be about 0.6 percentage points higher in 2017 relative to 2016. Increased inflation and higher short term rates will push up long-term rates, including

Forecast Snapshot (May 2017)

Summary (annualized)	2016	2017	2018
30-year PMMS (%)	3.7	4.2	4.7
Total home sales (M)	6.01	6.02	6.02
House price growth (%)	6.4	5.4	4.1
Total originations (\$B)	2,125	1,755	1,600



mortgage rates. But the pace of rate increases will be measured, with the 30-year fixed mortgage rate averaging 4.3 percent in the fourth quarter.

Home sales beat expectations

Up until this month, we had been expecting home sales to take a small step back in 2017. However, data indicate no such slowdown. Existing home sales in March were the highest since 2007. New home sales beat expectations as well. Altogether, total home sales for the first quarter were the highest since 2007. Based on these recent data and our revised outlook for mortgage rates, we now forecast a slight increase in home sales in 2017.

Construction also got off to a good start. Total housing starts through the first quarter were the highest since 2007, but are still low relative to [long-run demand](#). With housing supply struggling to keep up with demand house price growth remains robust. U.S. house price growth averaged 6.4 percent from March 2016 to March 2017 per the [Freddie Mac House Price Index](#). With home sales, housing starts and home values up, 2017 is shaping up to be the best year for housing in over a decade.

Mortgage originations benefit from lower rates

Mortgage originations have also surprised. Recent data indicate the first quarter is about \$60 billion higher than we forecasted primarily due to resilience in refinances. Cash-out refinance activity has been picking up and low rates moderated the decline in rate/term refinances. The decline in rates since March should help spur additional refinance activity. And strength in home sales should lead to more home purchase loans. Putting it all together we have increased our 2017 forecast for mortgage originations by just over \$200 billion and added \$100 billion to our 2018 forecast.

Refinance activity shows a rise in cash-out transactions

This month we release updated [Quarterly Refinance Statistics](#) through the first quarter of 2017. In the first quarter of 2017, 49 percent of refinance borrowers¹ took cash out, up from 44 percent in the fourth quarter of 2016. This is the highest share since the fourth quarter of 2008, but still below the peak of 89 percent in the third quarter of 2006.

While the percentage of refinance borrowers taking cash out increased in the first quarter, the total dollar amount cashed out decreased. In the first quarter of this year, an estimated \$14.0 billion in net home equity was cashed out, down from \$19.1 billion in the fourth quarter of 2016. The volume has increased in recent quarters, but is still below the peak of \$84 billion in the second quarter of 2006.

For more information, please visit our web site:

http://www.freddiemac.com/finance/refinance_report.html

¹ "Cash out" borrowers are those that increased their loan balance by at least 5 percent. The Quarterly Refinance Statistics only covers prime, conventional first-lien mortgages.



May 2017 Economic & Housing Market Forecast

Forecasted Figures

Historical Data

As of 5/11/2017

2016
2017
Annual Totals

Indicator	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018
Real GDP (%)	0.8	1.4	3.5	2.1	0.7	2.3	2.3	2.2	2.0	1.9	2.2
Consumer Prices (%) a.	0.1	2.3	1.8	3.0	3.1	2.3	2.1	2.2	1.8	2.4	2.4
Unemployment Rate (%) b.	4.9	4.9	4.9	4.7	4.7	4.5	4.5	4.5	4.9	4.6	4.5
30-Year Fixed Mtg. Rate (%) b.	3.7	3.6	3.5	3.8	4.2	4.1	4.2	4.3	3.7	4.2	4.7
5/1 Hybrid Treas. Indexed ARM Rate (%) b.	2.9	2.8	2.8	3.0	3.2	3.2	3.3	3.5	2.9	3.3	4.0
10-Year Const. Mat. Treas. Rate (%) b.	1.9	1.8	1.6	2.1	2.4	2.4	2.5	2.6	1.9	2.5	2.9
1-Year Const. Mat. Treas. Rate (%) b.	0.6	0.6	0.6	0.8	0.9	1.1	1.4	1.6	0.7	1.3	2.0
Housing Starts c.	1.15	1.16	1.14	1.25	1.25	1.25	1.27	1.30	1.17	1.27	1.36
Total Home Sales d.	5.89	6.04	5.96	6.11	6.22	6.25	5.80	5.80	6.01	6.02	6.02
FMHPI House Price Appreciation (%) e.	1.6	1.4	1.6	1.7	1.6	1.2	1.2	1.2	6.4	5.4	4.1
1-4 Family Mortgage Originations f.											
- Conventional	\$295	\$432	\$466	\$458	\$298	\$410	\$378	\$293	\$1,651	\$1,379	\$1,274
- FHA & VA	\$95	\$113	\$134	\$132	\$99	\$102	\$91	\$84	\$474	\$376	\$326
- Total	\$390	\$545	\$600	\$590	\$397	\$512	\$469	\$377	\$2,125	\$1,755	\$1,600
Refinancing Share - Originations (%) g.	51	44	47	50	42	31	30	28	48	33	25
Residential Mortgage Debt (%) h.	1.3	3.1	4.4	3.4	3.8	4.0	4.2	4.3	3.1	4.1	4.7

Note: Quarterly and annual forecasts 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 single-family homes; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).
- e. Quarterly growth rate of Freddie Mac's House Price Index; seasonally-adjusted; annual rates for yearly data.
- f. Billions of dollars (not seasonally-adjusted).
- g. Home Mortgage Disclosure Act for all single-family mortgages (not seasonally-adjusted); annual share is dollar-weighted average of quarterly shares (2014 estimated).
- h. Federal Reserve Board; growth rate of residential mortgage debt, the sum of single-family and multifamily mortgages (not seasonally-adjusted, annual rate).

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Economic & Housing Research **Outlook**

Prepared by the Economic & Housing Research group

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