



JUNE 2018

Tight Labor Market Prevails Despite Moderate GDP Growth

Economic growth decelerated in the first quarter of 2018, dropping to a 2.2 percent annual rate from 2.9 percent in the fourth quarter of 2017. Looking ahead, the combination of increased consumer spending and business investment is expected to push GDP growth slightly higher. We forecast real GDP to rise to 2.6 percent and 2.5 percent in 2018 and 2019, respectively.

Following a solid April, nonfarm payroll gains in May were even better. Strong job growth helped push the unemployment rate down to 3.8 percent—a new low in the current economic cycle. Average hourly earnings also inched up to 2.7 percent year-over-year in May. We forecast the labor market to maintain its current trajectory, with low unemployment, solid job gains and a gradual increase in wages. In our forecast, the unemployment rate averages 3.9 percent and 4.0 percent in 2018 and 2019, respectively.

Forecast Snapshot (June 2018)

Summary (annualized)	2017	2018	2019
30-year FRM (%)	4.0	4.6	5.1
Total home sales (M)	6.12	6.29	6.44
House price growth (%)	7.3	6.6	4.8
Total originations (\$B)	\$1,888	\$1,750	\$1,760



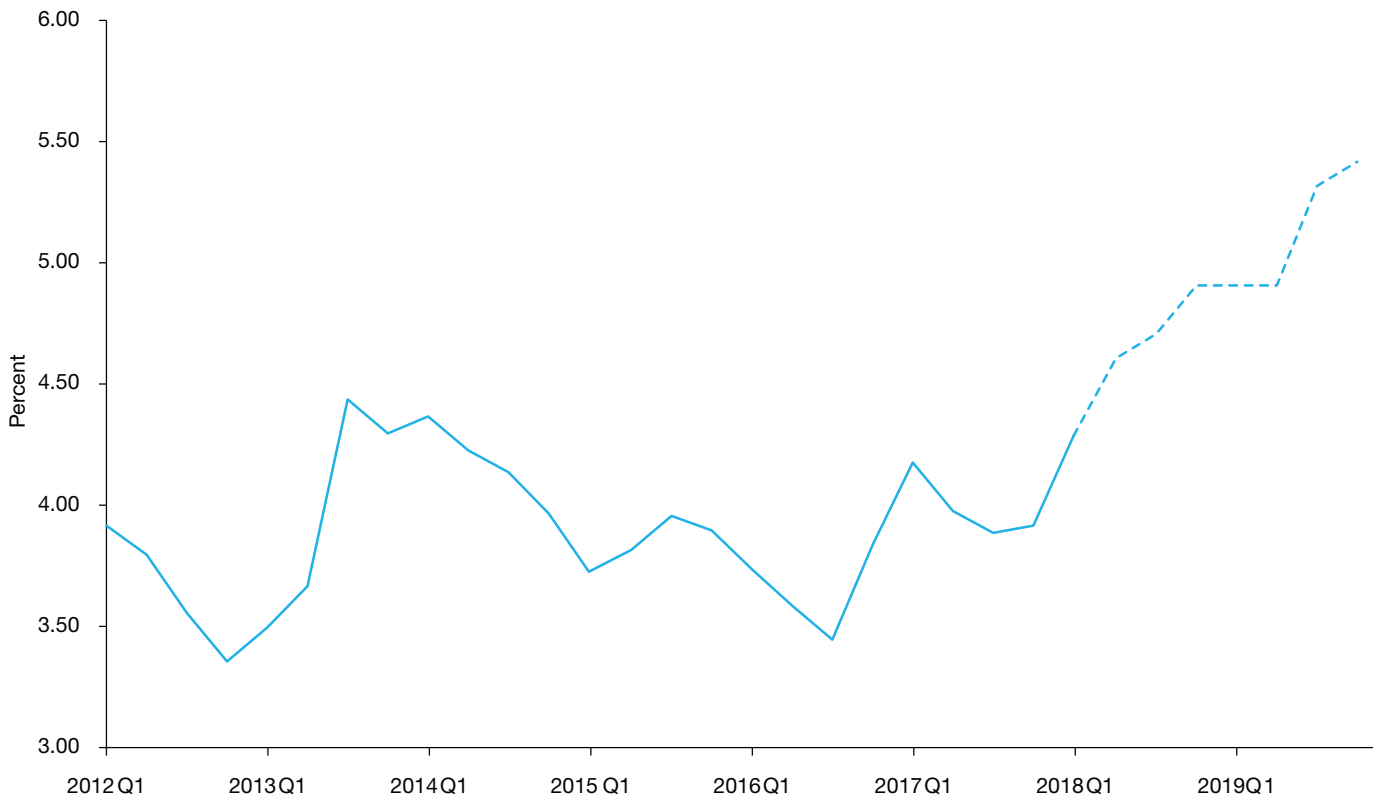
Mortgage rates continue to rise

The 30-year fixed-rate mortgage reached a high of 4.66 percent in the third week of May and is sitting at 4.62 percent (as of June 14). The steady climb in mortgage rates have slowed recently because of declines in long-term Treasury yields, driven by tensions in Europe and uncertainty surrounding a possible trade war. The downward pressure on rates generated by uncertainty should help mitigate the forces pushing rates higher, such as rising inflation and continued monetary policy tightening. Our forecast has mortgage rates slowly rising, averaging 4.9 percent in the fourth quarter of this year, and increasing to 5.4 percent by the fourth quarter of 2019.

Exhibit 1

Mortgage rates heading up

Freddie Mac Primary Mortgage Market Survey®



Source: Freddie Mac Primary Mortgage Market Survey® (PMMS®)

Note: Dashed line indicates forecasted data.



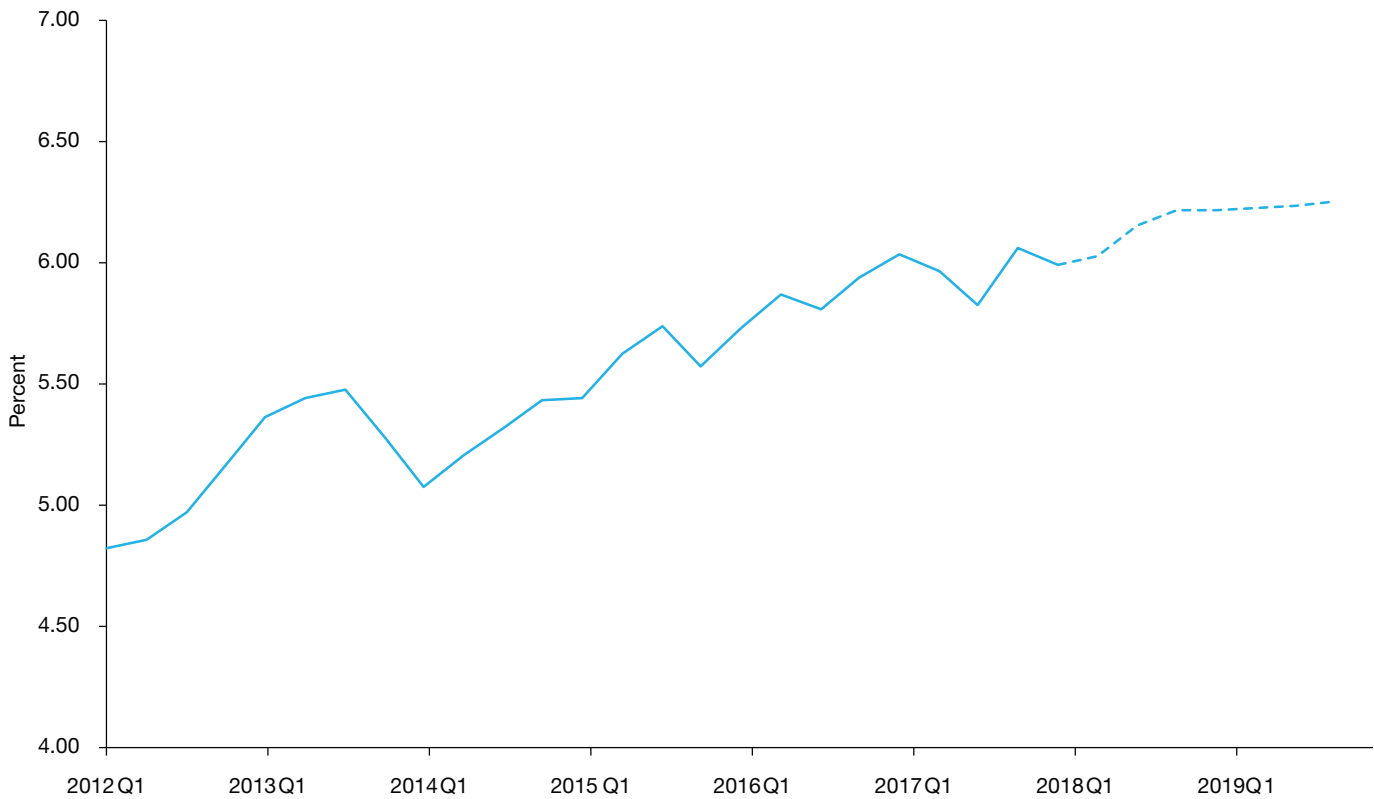
Housing demand remains healthy

The pace of home sales continues to hold up so far this year because of the strong underlying demand for buying a home. We forecast modest growth in total (new and existing) home sales over the next two years. Sales are expected to increase to 6.29 million this year and 6.44 million next year.

Exhibit 2

Home sales have been picking up

Home sales (existing + new)



Source: U.S. Census Bureau, Freddie Mac May 2018 Economic and Housing Research Outlook

Note: Dashed line indicates forecasted data.

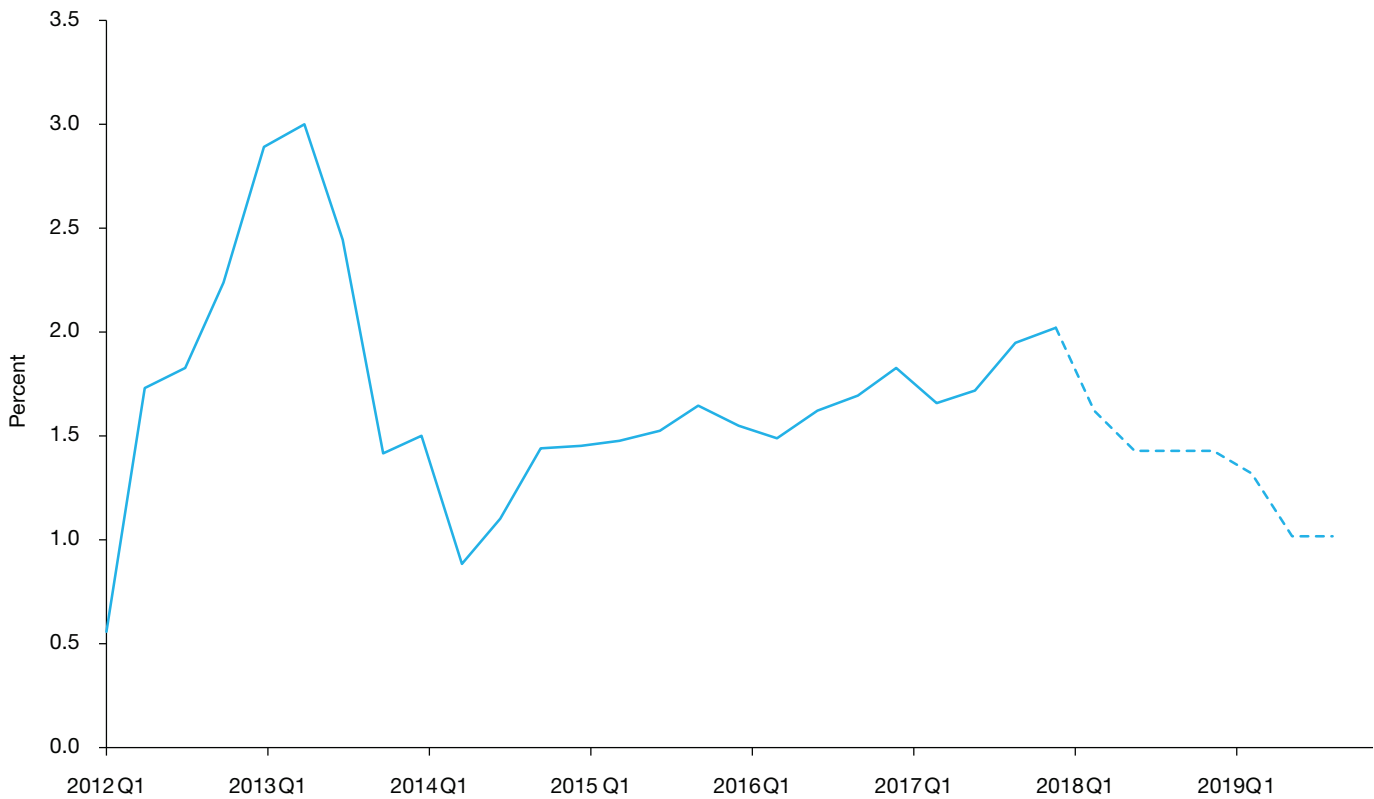


Increased homebuyer demand and limited supply continue to put upward pressure on home prices. However, with a gradual uptick in new supply, home price growth should begin to moderate. We forecast home prices to increase 6.6 percent in 2018, with the annual growth rate moderating to 4.8 percent next year.

Exhibit 3

House price appreciation in the U.S.

Quarterly percent change in Freddie Mac House Price Index



Source: Freddie Mac House Price Index, May 2018 Economic and Housing Research Outlook
 Note: Dashed line indicates forecasted data.



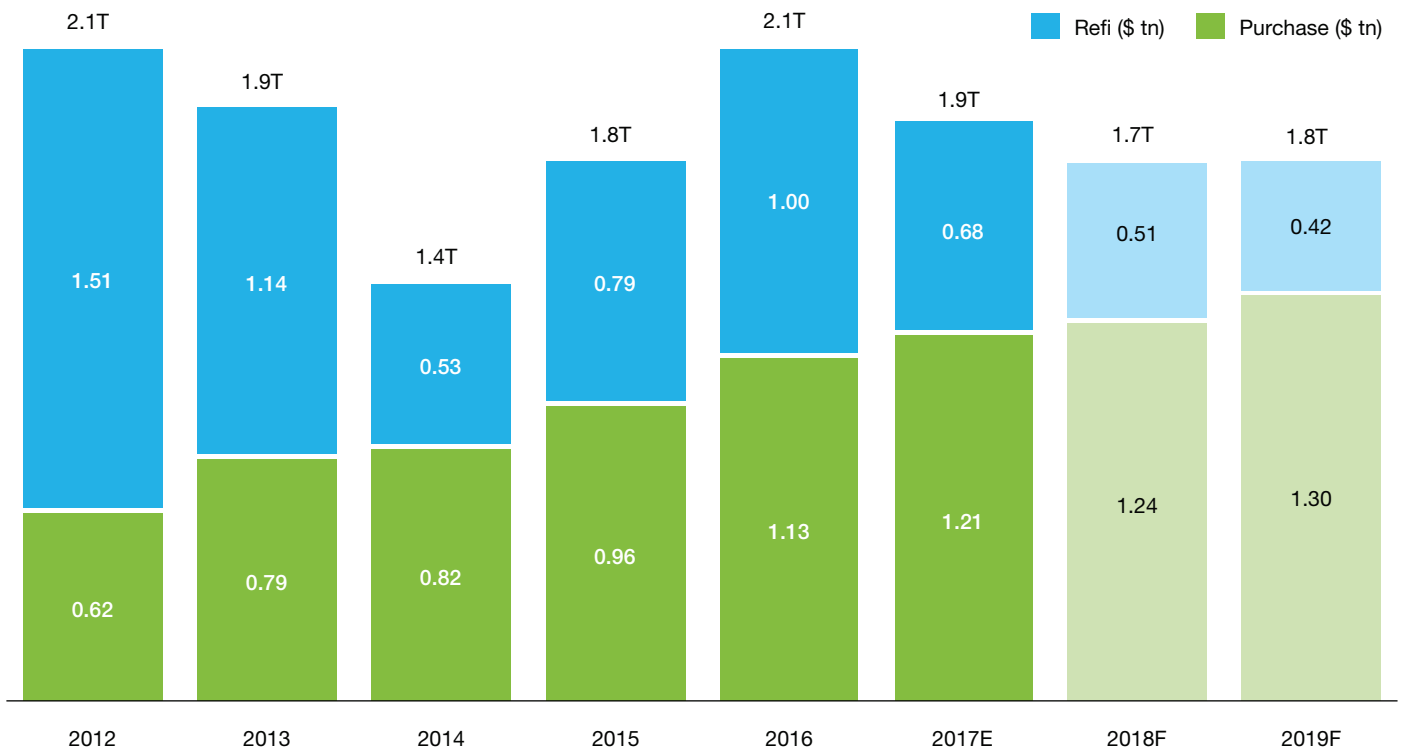
Mortgage originations expected to decline this year

Higher mortgage rates are putting downward pressure on refinance activity, pushing total origination volume down so far in 2018. We forecast a 7 percent decline in total origination volume in 2018 to \$1.75 trillion, before a small rebound (1 percent) in 2019 to \$1.76 trillion. Home price appreciation and modest increases in home sales will drive purchase origination volume up, though not enough to offset the refinance decline expected this year. We forecast purchase origination volume to increase 4 percent to \$1.25 trillion this year, and much more (8 percent) next year (\$1.34 trillion).

Exhibit 4

Mortgage originations likely to decline in 2018

Annual single-family mortgage originations (\$ trillions)



Source: Freddie Mac June 2018 Economic and Housing Research Outlook

Note: Totals may not add due to rounding.



June 2018 Economic & Housing Market Forecast

Forecasted Figures

Historical Data

As of 6/11/2018

Indicator	2017				2018				Annual Totals		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019
Major Economic Indicators											
Real GDP (%)	1.2	3.1	3.2	2.9	2.2	2.9	2.8	2.6	2.6	2.6	2.5
Consumer Prices (%) a.	3.0	0.1	2.1	3.3	3.5	2.2	2.3	2.4	2.1	2.6	2.4
Unemployment Rate (%) b.	4.7	4.4	4.3	4.1	4.1	3.9	3.9	3.8	4.4	3.9	4.0
30-Year Fixed Mtg. Rate (%) b.	4.2	4.0	3.9	3.9	4.3	4.6	4.7	4.9	4.0	4.6	5.1
5/1 Hybrid Treas. Indexed ARM Rate (%) b.	3.2	3.1	3.2	3.3	3.6	4.0	4.2	4.4	3.2	4.1	4.7
10-Year Const. Mat. Treas. Rate (%) b.	2.4	2.3	2.2	2.4	2.8	2.9	3.0	3.1	2.3	3.0	3.5
1-Year Const. Mat. Treas. Rate (%) b.	0.9	1.1	1.3	1.6	1.9	2.2	2.4	2.5	1.2	2.3	2.9
Housing & Mortgage Markets											
Housing Starts c.	1.24	1.17	1.17	1.26	1.32	1.28	1.31	1.33	1.20	1.31	1.40
Total Home Sales d.	6.22	6.15	5.99	6.25	6.16	6.20	6.35	6.43	6.12	6.29	6.44
FMHPI House Price Appreciation (%) e.	1.8	1.7	1.7	1.9	2.0	1.6	1.4	1.4	7.3	6.6	4.8
1-4 Family Mortgage Originations f.											
- Conventional	\$292	\$376	\$403	\$389	\$298	\$371	\$371	\$308	\$1,460	\$1,348	\$1,358
- FHA & VA	\$107	\$106	\$112	\$103	\$90	\$111	\$109	\$92	\$429	\$402	\$397
- Total	\$399	\$482	\$515	\$492	\$388	\$482	\$480	\$400	\$1,888	\$1,750	\$1,760
Refinancing Share - Originations (%) g.	43	30	33	41	40	27	26	23	36	29	24
Residential Mortgage Debt (%) h.	2.9	3.7	4.1	4.0	2.0	4.6	4.8	4.9	3.7	4.1	5.2

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).

Prepared by the Economic & Housing Research group; Send comments and questions to chief_economist@freddiemac.com.



Economic & Housing Research **Forecast**

Prepared by the Economic & Housing Research group

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