



MAY 2018

Housing Demand Holding Steady Amidst Rising Mortgage and Home Prices

Real Gross Domestic Product (GDP) grew at an annualized rate of 2.3 percent in the first quarter of 2018, down from 2.9 percent in the fourth quarter of 2017. First quarter expansion tailed off as consumer spending growth was the lowest in nearly 5 years. We still expect spending to pick up in coming quarters as the fiscal stimulus from tax cuts further kicks in. We forecast real GDP growth of 3.1 percent in the second quarter of 2018 and 2.7 percent for the full year.

The U.S. labor market keeps chugging along, generating many new jobs. The economy has added jobs for 91 consecutive months through April 2018, helping to push the unemployment rate to 3.9 percent last month, the lowest level since 2000. However, wage gains remain elusive. Average hourly earnings increased 2.6 percent year-over-year last month. Hourly earnings growth is only a hair above the rate of inflation (2.5 percent year-over-year increase, according to the April Consumer Price Index). We forecast consumer price inflation of 2.7 percent in 2018 and 2.5 percent in 2019.

Forecast Snapshot (May 2018)

| Summary (annualized) | 2017 | 2018 | 2019 |
|--------------------------|---------|---------|---------|
| 30-year FRM (%) | 4.0 | 4.6 | 5.1 |
| Total home sales (M) | 6.12 | 6.32 | 6.44 |
| House price growth (%) | 7.3 | 7.0 | 3.1 |
| Total originations (\$B) | \$1,865 | \$1,750 | \$1,744 |



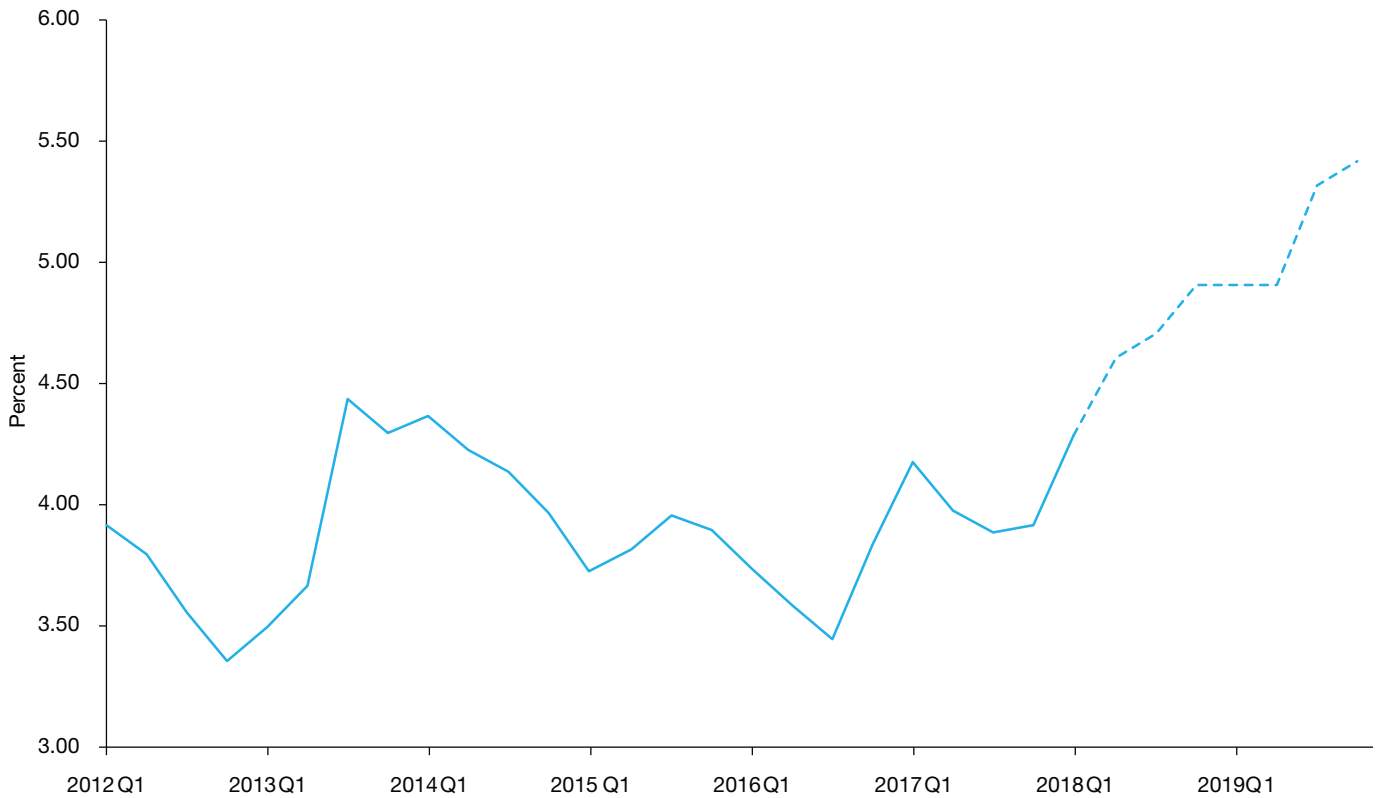
Mortgage rates on the rise

Firming inflation will put upward pressure on interest rates, including mortgage rates. The 30-year fixed-rate mortgage kept climbing in May, up to 4.66 percent by the middle of the month. We expect the uptick in rates to continue. Our forecast has mortgage rates averaging 4.9 and 5.4 percent in the fourth quarter of 2018 and 2019, respectively.

Exhibit 1

Mortgage rates on the rise

Freddie Mac Primary Mortgage Market Survey®



Source: Freddie Mac Primary Mortgage Market Survey® (PMMS®)
 Note: Dashed line indicates forecasted data.



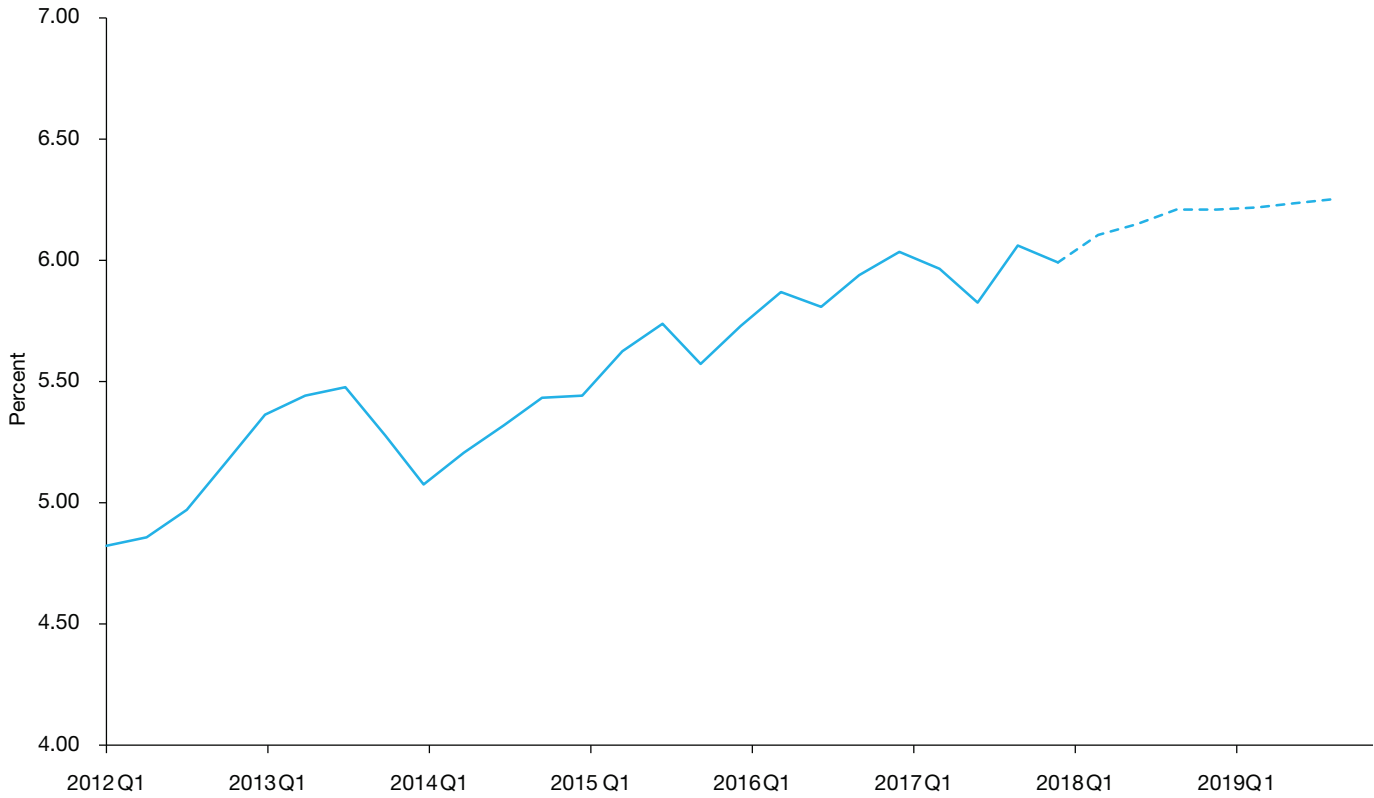
Housing demand holds up

Higher mortgage rates have not yet slowed home purchase demand. Buyer resiliency in the face of higher rates reflects the healthy economy and strong consumer confidence. We forecast modest growth in home sales over the next two years. Total home sales (new and existing) are forecasted to increase to 6.32 million (+3 percent year-over-year) this year and to 6.44 million (+2 percent year-over-year) in 2019.

Exhibit 2

Home sales pick 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.

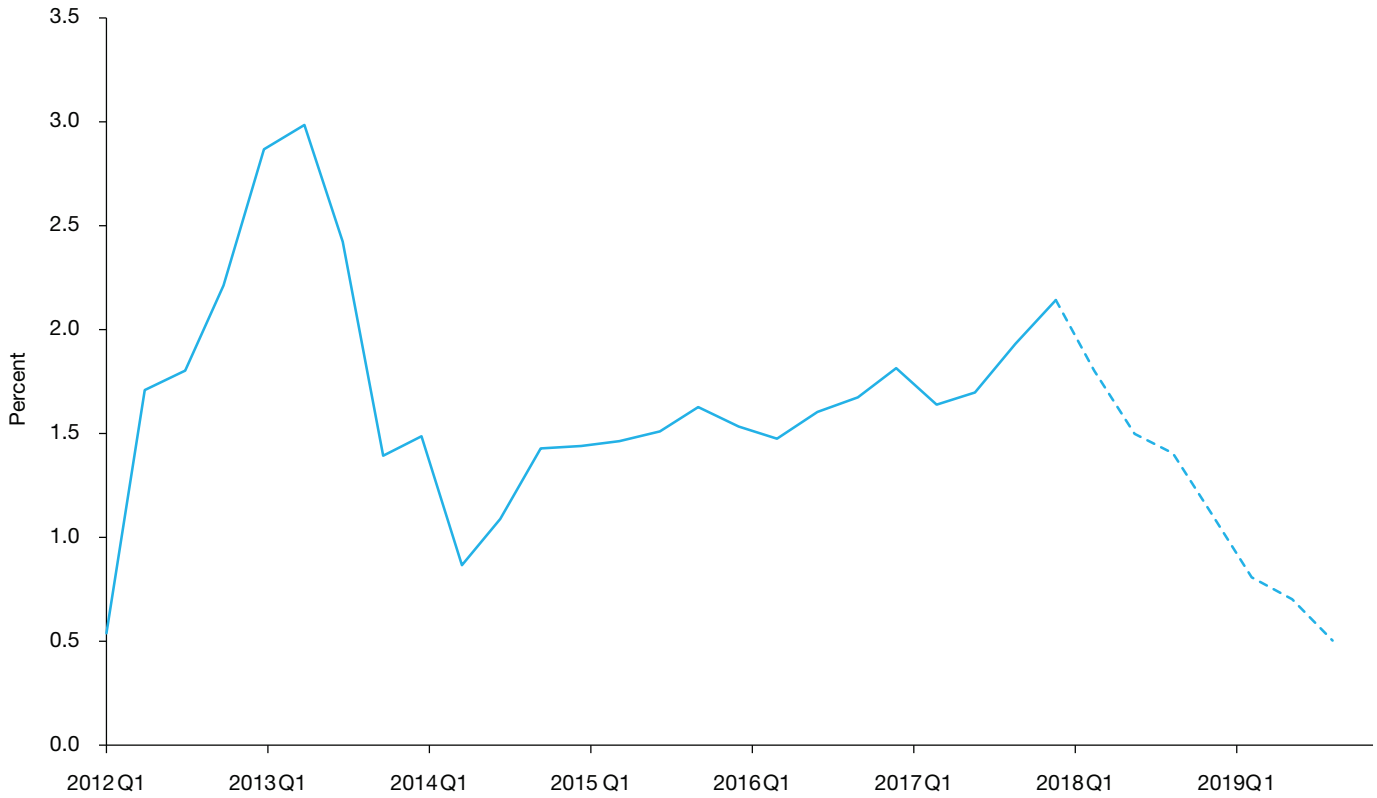


Robust housing demand and limited supply continue to put upward pressure on house prices. Nationally, home prices are increasing at around a seven percent annual rate. With higher mortgage rates tempering demand, and new supply gradually coming online, home price growth should moderate. We forecast home prices to increase 7.0 percent in 2018, with the annual growth moderating to 3.1 percent in 2019

Exhibit 3

House price appreciation

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 decline

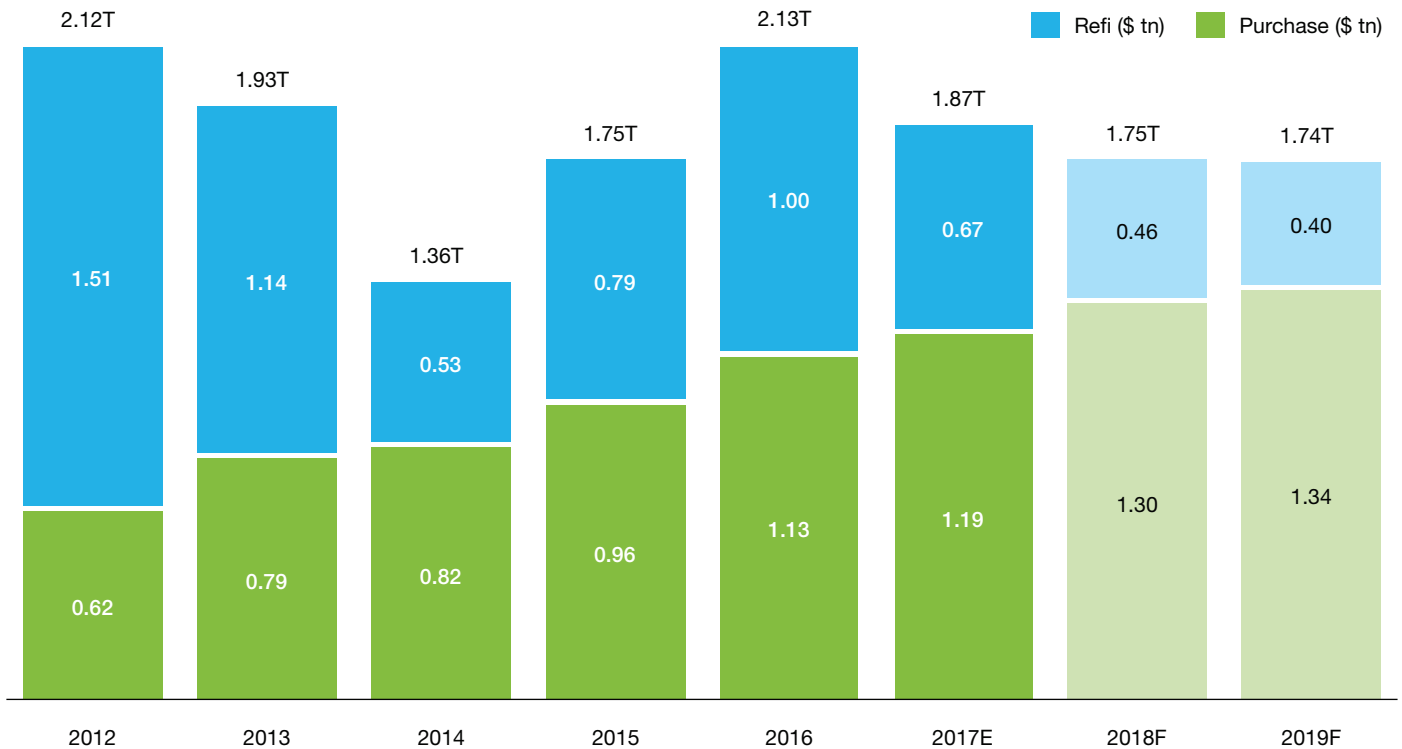
Higher borrowing costs reduce homebuyer affordability and the incentive to refinance. However, the strong labor market and years of pent-up buyer interest are providing a lift to purchase demand. In 2018, the negative impact of higher mortgage rates on refinance activity will outweigh the positive factors lifting originations.

Refinance activity, which already declined \$300 billion (32 percent) from 2016 to 2017, is forecasted to decline another \$175 billion (26 percent) in 2018. Higher home sales and house price appreciation will drive purchase origination volume up \$60 billion (up 5 percent), but not enough to offset the decline in refinances. Full year originations are forecasted to fall about 6 percent in 2018 to \$1.75 trillion and stabilize at \$1.74 trillion in 2019.

Exhibit 4

Mortgage originations decline

Annual single-family mortgage originations (\$ trillions)



Source: Freddie Mac May 2018 Economic and Housing Research Outlook



May 2018 Economic & Housing Market Forecast

Forecasted Figures

Historical Data

As of 5/3/2018

2017
2018
Annual Totals

| Indicator | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2017 | 2018 | 2019 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|---------|---------|---------|
| Major Economic Indicators | | | | | | | | | | | |
| Real GDP (%) | 1.2 | 3.1 | 3.2 | 2.9 | 2.3 | 3.1 | 2.8 | 2.6 | 2.6 | 2.7 | 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 | 4.0 | 3.9 | 3.8 | 4.4 | 4.0 | 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 | 3.0 | 3.1 | 3.2 | 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 | 6.18 | 6.30 | 6.35 | 6.43 | 6.12 | 6.32 | 6.44 |
| FMHPI House Price Appreciation (%) e. | 1.8 | 1.6 | 1.7 | 1.9 | 2.1 | 1.8 | 1.5 | 1.4 | 7.3 | 7.0 | 3.1 |
| 1-4 Family Mortgage Originations f. | | | | | | | | | | | |
| - Conventional | \$290 | \$369 | \$388 | \$390 | \$298 | \$371 | \$371 | \$308 | \$1,436 | \$1,348 | \$1,347 |
| - FHA & VA | \$107 | \$106 | \$112 | \$103 | \$90 | \$111 | \$109 | \$92 | \$429 | \$402 | \$397 |
| - Total | \$397 | \$475 | \$500 | \$493 | \$388 | \$482 | \$480 | \$400 | \$1,865 | \$1,750 | \$1,744 |
| Refinancing Share - Originations (%) g. | 46 | 30 | 32 | 39 | 40 | 27 | 26 | 23 | 36 | 29 | 24 |
| Residential Mortgage Debt (%) h. | 2.9 | 3.7 | 4.1 | 4.0 | 4.4 | 4.6 | 4.8 | 4.9 | 3.7 | 4.7 | 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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