



OCTOBER 2018

Economic Growth Slows in Third Quarter

After strong GDP growth in the second quarter of the year, GDP growth is expected to slow to around 3 percent in the third quarter of 2018, down 1.2 percent from the previous quarter.

The impact of Hurricane Florence on the mortgage market is expected to be small, causing only a slight temporary dip in growth rate and no major increase in foreclosures, unlike last year's hurricanes. With the end of this year approaching, we have added 2020 estimates to our forecast. We expect the economy to grow at a rate of 3.0 percent for 2018, slowing to 2.4 percent in 2019 and dropping to 1.8 percent in 2020 as the effects of expansionary fiscal policy fade.

In September, the U.S. economy added 134,000 jobs and the unemployment rate declined to a 49-year low of 3.7 percent. Jobless claims remained at record-level lows after a 1-week blip in the downward trend due to claims immediately following the hurricane. The four-week moving average for continuing jobless claims fell to the lowest point in 45 years during September. Payroll growth was weak in September, increasing just 0.3 percent which is inconsistent with the current strong labor conditions. We forecast unemployment to average 3.9 percent for the year and fall slightly to 3.8 percent in 2019 before rising to 4.0 percent in 2020.

Forecast Snapshot (October 2018)

Summary (annualized)	2017	2018	2019	2020
30-year FRM (%)	4.0	4.5	5.1	5.6
Total home sales (M)	6.12	6.07	6.18	6.25
House price growth (%)	7.2	5.4	4.6	2.9
Total originations (\$B)	\$1,810	\$1,649	\$1,650	\$1,600



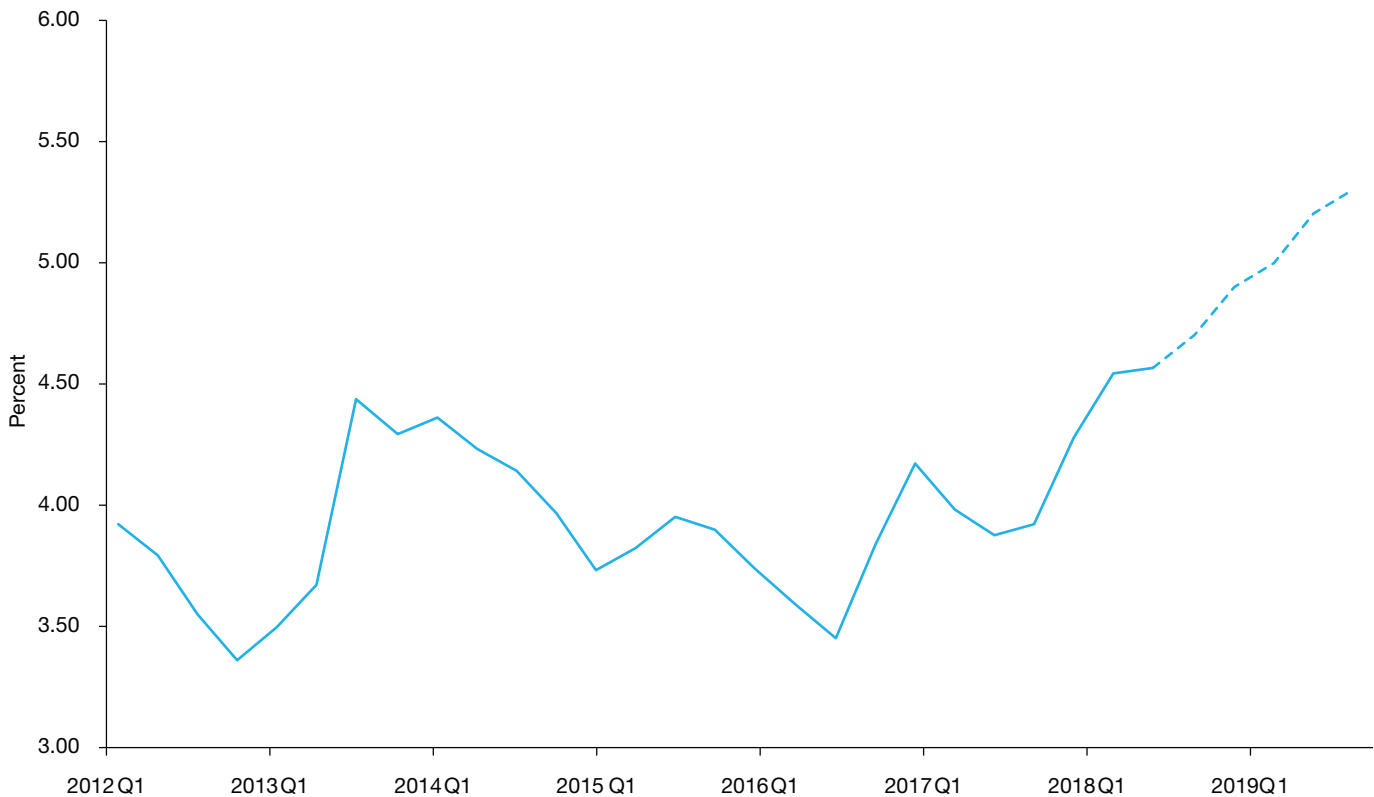
Mortgage rates are on the rise

Mortgage rates remained steady at 4.6 percent for the third quarter until the weekly average rate increased to 4.9 percent in the beginning of October, a level that we have not seen since mid-2011. We expect mortgage rates to continue to gradually inch higher. We anticipate that the 30-year fixed-rate mortgage will average 4.5 percent in 2018, rising to 5.1 percent in 2019 and 5.6 percent in 2020.

Exhibit 1

Mortgage rates expected to continue to rise in 2019

Freddie Mac Primary Mortgage Market Survey®



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

Note: Dashed line indicates forecasted data.



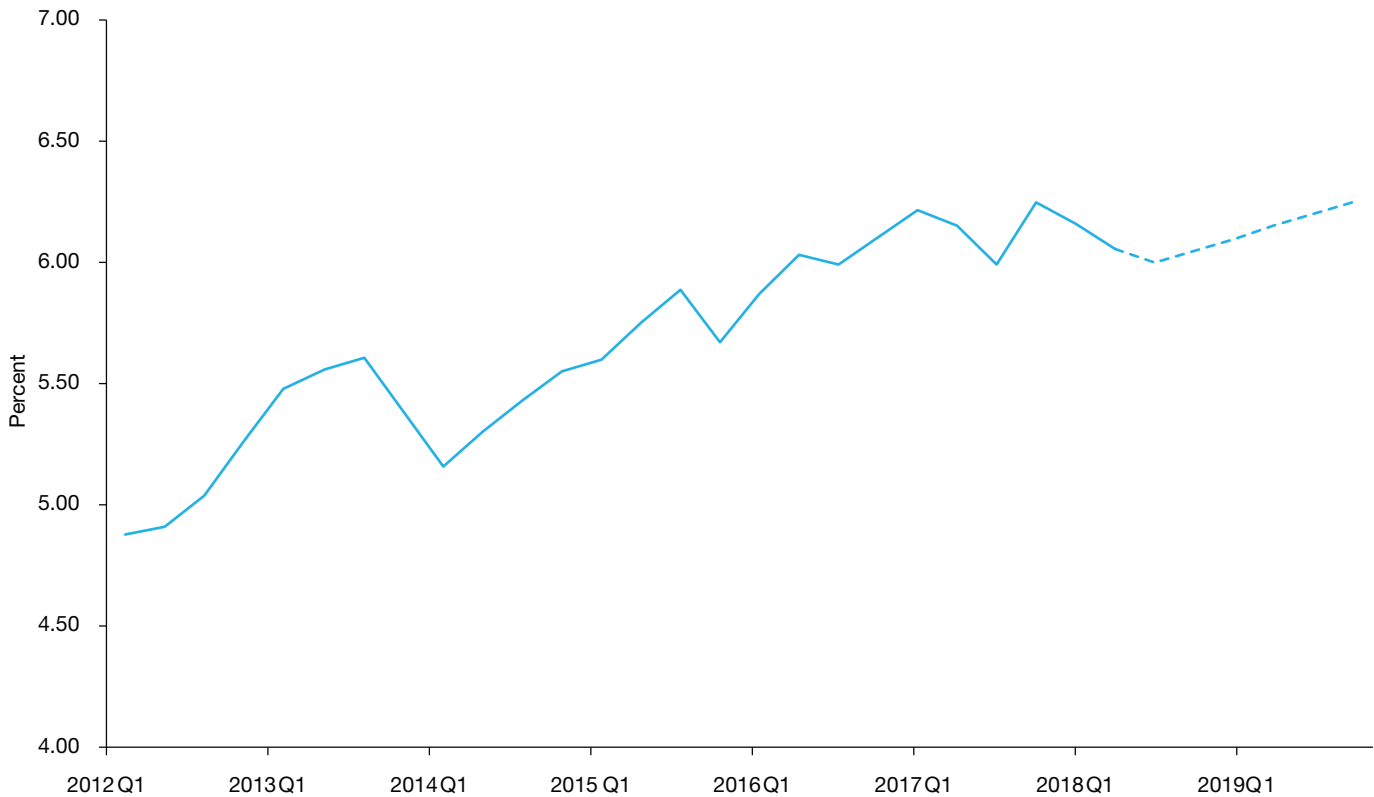
Homes sales slow in the third quarter

After falling for four straight months, existing single-family home sales remained unchanged at 5.34 million in August. New single-family home sales increased 3.5 percent to 629,000, but the overall trend still points downward as the previous month's figures were recently revised down. Housing starts jumped 9.2 percent to 1.28 million in August, though much of the increase is from multifamily homes. Permits fell 5.7 percent to 1.23 million which is a more than one-year low. The slowing of homes sales this year is due mostly to higher borrowing costs and house prices. We expect total home sales to decrease 0.9 percent to 6.07 million in 2018 and then regain momentum, increasing 1.8 percent to 6.18 million in 2019 and increasing 1.1 percent to 6.25 million in 2020.

Exhibit 2

Home sales expected to regain momentum despite recent dip

Home sales (existing + new)



Source: U.S. Census Bureau, Freddie Mac October 2018 Economic and Housing Research Forecast

Note: Dashed line indicates forecasted data.

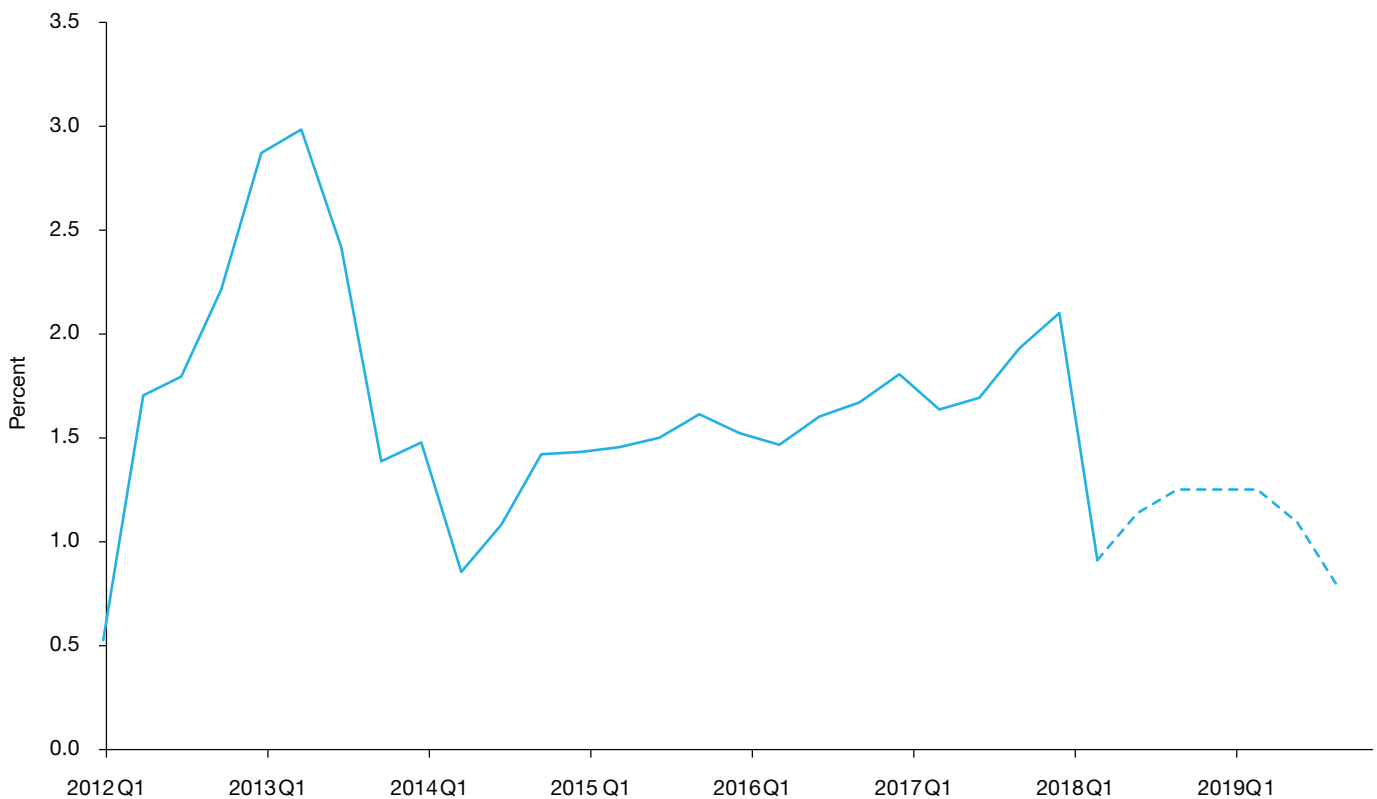


Home price growth remained steady during the third quarter of 2018. The Freddie Mac House Price Index is estimated to have increased 1.0 percent in the third quarter, only a small increase from the second quarter growth. We forecast that home prices will increase 5.4 percent in 2018, with the growth rate slowing slightly to 4.6 percent in 2019 and even further to 2.9 percent in 2020.

Exhibit 3

Home price appreciation in the U.S.

Quarterly percent change in Freddie Mac House Price Index



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



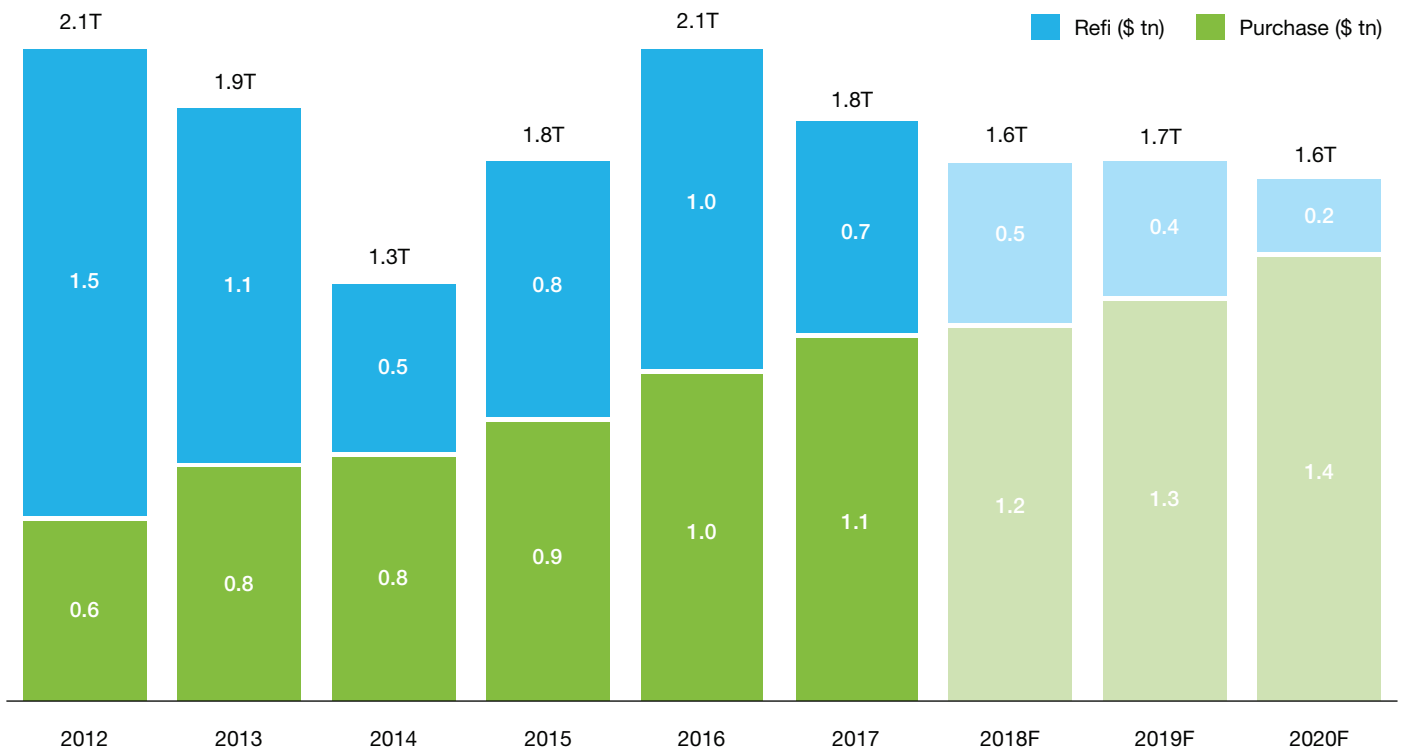
Mortgage originations decrease with weaker home sales and slow home price growth

Rising rates coupled with increasing home prices have discouraged homebuying activity. In our latest outlook, we forecast single-family mortgage originations to decline 8.9 percent year over year to \$1.65 trillion in 2018. Originations are expected to remain little changed in 2019 before falling once more to \$1.60 trillion in 2020.

Exhibit 4

Mortgage originations likely to decline slightly in 2018

Annual single-family mortgage originations (\$ trillions)



Source: Freddie Mac October 2018 Economic and Housing Research Forecast

Note: Totals may not add due to rounding. Includes only 1st liens.



October 2018 Economic & Housing Market Forecast

Forecasted Figures

Historical Data

As of 10/8/2018

Indicator	2017				2018				Annual Totals			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019	2020
Major Economic Indicators												
Real GDP (%)	1.8	3.0	2.8	2.3	2.2	4.2	3.0	2.6	2.5	3.0	2.4	1.8
Consumer Prices (%) a.	3.0	0.1	2.1	3.3	3.5	1.7	2.3	2.4	2.1	2.5	2.4	2.6
Unemployment Rate (%) b.	4.7	4.4	4.3	4.1	4.1	3.9	3.8	3.8	4.4	3.9	3.8	4.0
30-Year Fixed Mtg. Rate (%) b.	4.2	4.0	3.9	3.9	4.3	4.5	4.6	4.7	4.0	4.5	5.1	5.6
5/1 Hybrid Treas. Indexed ARM Rate (%) b.	3.2	3.1	3.2	3.3	3.6	3.8	3.9	4.1	3.2	3.8	4.5	5.0
10-Year Const. Mat. Treas. Rate (%) b.	2.4	2.3	2.2	2.4	2.8	2.9	2.9	3.0	2.3	2.9	3.5	3.9
1-Year Const. Mat. Treas. Rate (%) b.	0.9	1.1	1.3	1.6	1.9	2.3	2.5	2.4	1.2	2.3	2.9	3.4
Housing & Mortgage Markets												
Housing Starts c.	1.23	1.17	1.17	1.26	1.32	1.26	1.28	1.30	1.20	1.29	1.35	1.40
Total Home Sales d.	6.22	6.15	5.99	6.25	6.16	6.05	6.00	6.05	6.12	6.07	6.18	6.25
FMHPI House Price Appreciation (%) e.	1.8	1.7	1.7	1.9	2.1	0.9	1.0	1.3	7.2	5.4	4.6	2.9
1-4 Family Mortgage Originations f.												
- Conventional	\$270	\$354	\$385	\$373	\$284	\$346	\$340	\$285	\$1,382	\$1,255	\$1,263	\$1,244
- FHA & VA	\$107	\$106	\$112	\$103	\$90	\$109	\$105	\$90	\$429	\$394	\$387	\$375
- Total	\$377	\$460	\$497	\$476	\$374	\$455	\$445	\$375	\$1,810	\$1,649	\$1,650	\$1,600
Refinancing Share - Originations (%) g.	44	30	33	41	40	29	24	23	37	29	25	15
Residential Mortgage Debt (%) h.	2.4	3.8	4.0	4.3	2.0	3.0	3.4	3.8	3.6	3.1	4.6	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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