



JULY 2019

Housing Market Sees Increased Momentum Due to Low Mortgage Rates

During the last week of May, the 30-year fixed-rate mortgage dipped below 4.0% and has remained there amid concerns over trade disputes, a possible economic slowdown, and market anticipation of a Federal Reserve interest rate cut. This decline in mortgage rates has caused a spike in purchase and refinance mortgage applications. Moreover, we expect that low mortgage rates, along with a thriving labor market, will help sustain the housing market for at least the next year and a half.

The lasting impact of trade tensions will have some visible impact on second and third quarter GDP growth in 2019. Without the short-term effects of tax cuts and fiscal stimulus we experienced in 2018, we forecast growth of 2.1% for full year 2019, decelerating to 1.8% in 2020.

We expect consumer prices to rise by 2.4% in the third quarter of 2019, amid declining gasoline and fuel prices as well as weak wage growth. However, our consumer price growth forecast remains unchanged at 2.1% for the full year, before edging down to 2.0% in 2020.

Despite fears of economic slowdown, the U.S. labor market stands firm and continues to beat expectations. Specifically, historically low jobless claims, high payroll growth, and the low unemployment rate continue to reaffirm our forecast for a strong labor market. There has not been much change in workers' willingness to switch jobs, and businesses are holding on to their current workforce in a tight labor market. Considering the continued positive news regarding the labor market, we have lowered our unemployment rate forecast to 3.7% for both 2019 and 2020.

Forecast Snapshot (July 2019)

Summary (annualized)	2017	2018	2019	2020
30-year PMMS (%)	4.0	4.6	4.1	4.0
Total home sales (M)	6.12	5.96	6.00	6.12
House price growth (%)	7.2	4.8	3.4	2.6
Total originations (\$B)	\$1,810	\$1,636	\$1,796	\$1,715



Mortgage rates reached their lowest levels in nearly two years

Over the past few months, the uncertainty regarding trade disputes has led to a lowering of long-term interest rates, including mortgage rates. We have revised down our quarterly forecasts for the 30-year fixed-rate mortgage for this year and next year, with the annual average expected to be 4.1% in 2019, before decreasing modestly to 4.0% in 2020.

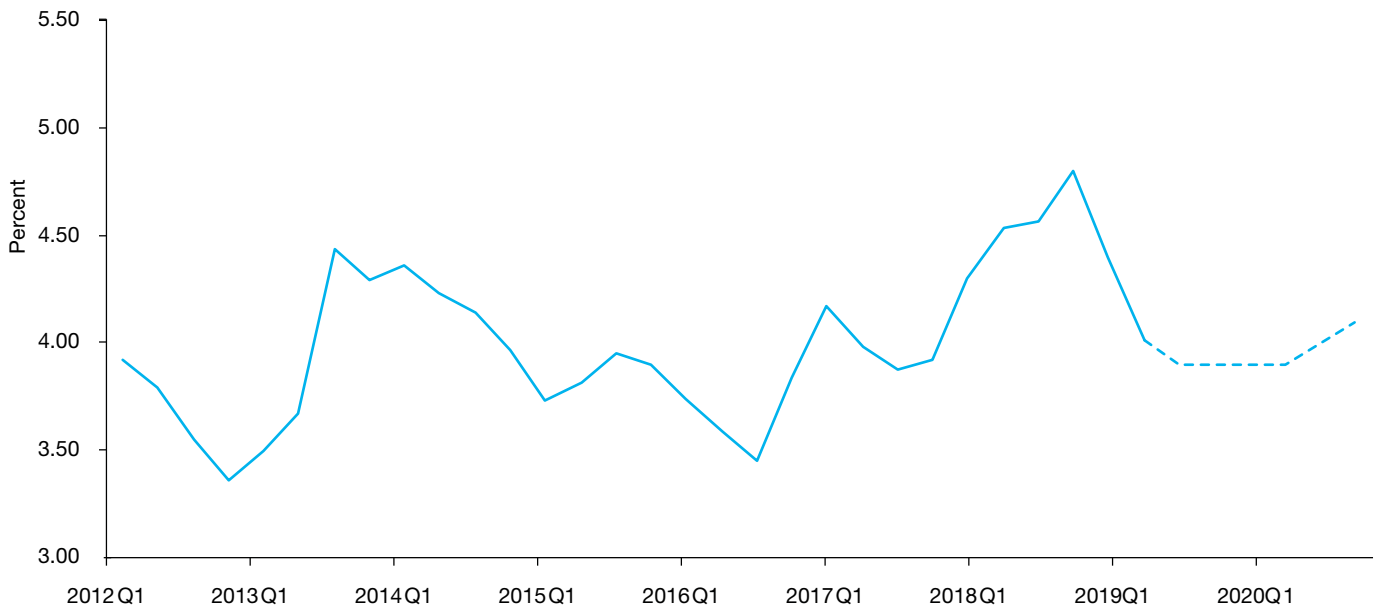
Owing to possible interest rate cuts in the second half of 2019, we expect the Federal Funds effective rate to be 2.3% in the third and fourth quarter of 2019. While our 2019 annual forecast for the Federal Funds rate remains unchanged from our previous forecast at 2.4%, we expect the annual average for 2020 to be 2.3%, which assumes no further rate cuts in 2020.

The lower federal funds rate will turn investor interest towards more lucrative stocks and away from government bonds. We forecast the 10-year Treasury rate to decline to 2.3% in 2019 and stay at the same level in 2020. Also, maintaining the spread between government bond yields, we expect the 1-year Treasury rate to be 2.2% in both 2019 and 2020.

Exhibit 1

Mortgage rates declining since the beginning of 2019

Freddie Mac Primary Mortgage Market Survey®



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

Note: Dashed line indicates forecasted data.



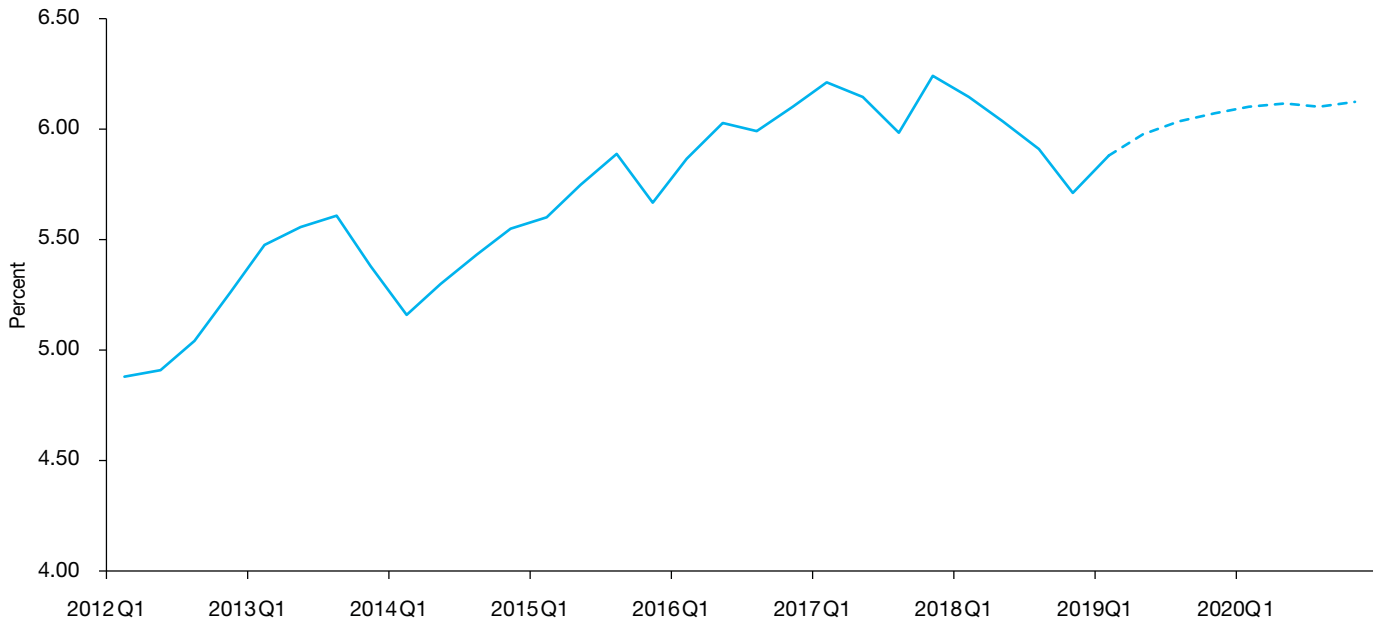
Homes sales showing signs of recovery

Consistently strong homebuilder confidence and lower mortgage rates support our view that housing starts and sales will recover from their slump in 2018. We anticipate annual housing starts to be 1.26 million in 2019, before increasing to 1.34 million in 2020. Given the combination of increased homebuyer demand and a housing supply shortage, we expect home sales to be 6.00 million in 2019, before reaching its 2017 levels in 2020 at 6.12 million.

Exhibit 2

Home sales to regain momentum following recent signs of recovery

Home sales (existing + new)



Source: U.S. Census Bureau, Freddie Mac July 2019 Economic and Housing Research Forecast

Note: Dashed line indicates forecasted data.

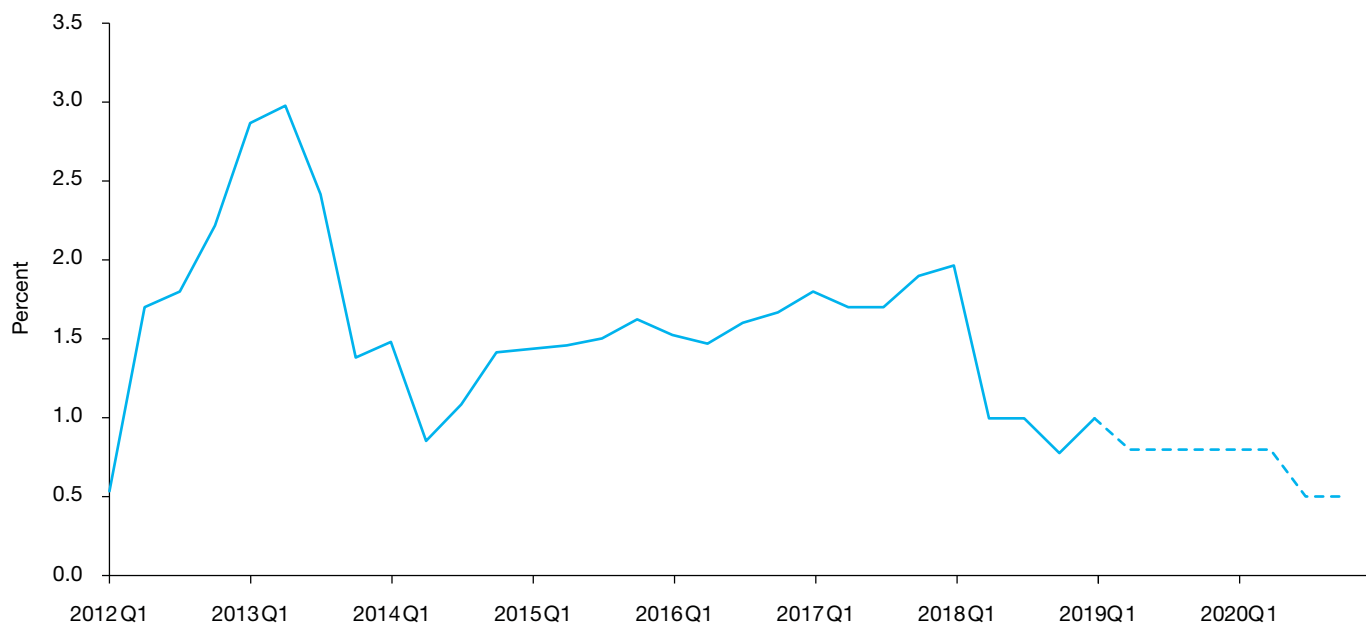


Based on mixed signals relayed by recent reports on house price growth, house prices are expected to appreciate 3.4% in 2019, before moderating to a downward revised growth rate of 2.6% in 2020.

Exhibit 3

House price appreciation in the U.S.

Quarterly percent change in Freddie Mac House Price Index



Source: Freddie Mac House Price Index, July 2019 Economic and Housing Research Forecast

Note: Dashed line indicates forecasted data.



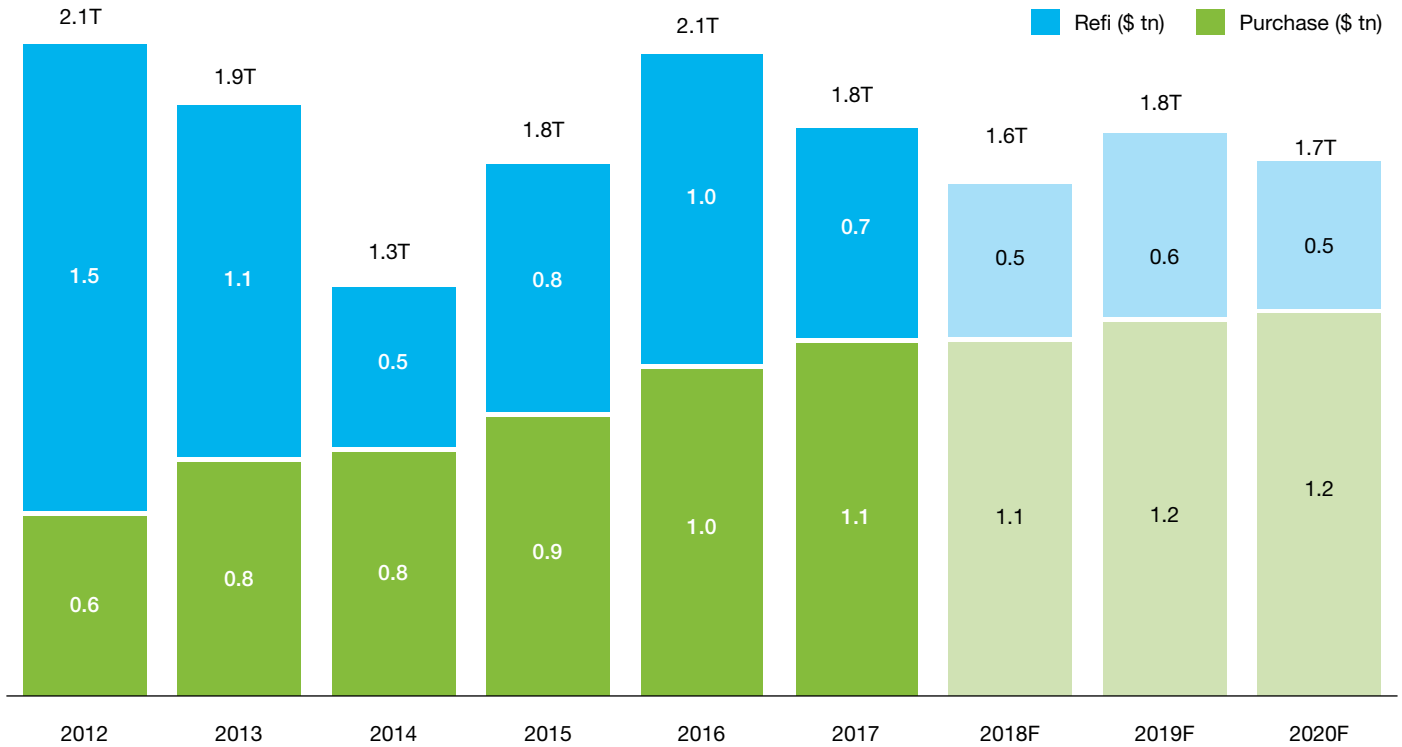
Mortgage originations expected to increase with low mortgage rates

Mortgage origination volumes have responded to lower mortgage rates, and we anticipate further increases relative to our June forecast given the lower expected mortgage interest rates in our July forecast. The refinance share of originations is expected to grow to 34% in 2019, before decreasing slightly to 28% in 2020, as the effect of lower rates on refinance originations tapers over time. More recently, purchase originations have also seen a modest increase in activity as new homebuyers look to take advantage of lower mortgage rates. We expect total annual mortgage originations to be 1.8 trillion in 2019 and 1.7 trillion in 2020.

Exhibit 4

Mortgage originations likely to appreciate in 2019

Annual single-family mortgage originations (\$ trillions)



Source: Freddie Mac July 2019 Economic and Housing Research Forecast
 Note: Totals may not add due to rounding. Includes only 1st liens.



July 2019 Economic & Housing Market Forecast

Forecasted Figures

Historical Data

As of 7/17/2019

Indicator	2018				2019				Annual Totals			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019	2020
Major Economic Indicators												
Real GDP Growth (%)	2.2	4.2	3.4	2.2	3.1	1.5	1.8	2.0	2.5	3.0	2.1	1.8
Consumer Prices (%) a.	3.2	2.1	2.0	1.5	0.9	2.9	2.4	2.3	2.1	2.2	2.1	2.0
Unemployment Rate (%) b.	4.1	3.9	3.8	3.8	3.9	3.6	3.6	3.6	4.4	3.9	3.7	3.7
30-Year Fixed Mtg. Rate (%) b.	4.3	4.5	4.6	4.8	4.4	4.0	3.9	3.9	4.0	4.6	4.1	4.0
5/1 Hybrid Treas. Indexed ARM Rate (%) b.	3.6	3.8	3.9	4.1	3.9	3.6	3.6	3.7	3.2	3.8	3.7	3.7
10-Year Const. Mat. Treas. Rate (%) b.	2.8	2.9	2.9	3.0	2.7	2.3	2.1	2.1	2.3	2.9	2.3	2.3
1-Year Const. Mat. Treas. Rate (%) b.	1.9	2.3	2.5	2.7	2.5	2.3	2.0	2.0	1.2	2.4	2.2	2.2
Federal Funds Effective Rate (%) b.	1.5	1.7	1.9	2.2	2.4	2.4	2.3	2.3	1.0	1.8	2.4	2.3
Housing & Mortgage Markets												
Housing Starts c.												
- Single-Family	0.89	0.89	0.88	0.83	0.86	0.84	0.90	0.90	0.85	0.87	0.88	0.99
- Multifamily	0.43	0.37	0.36	0.36	0.35	0.42	0.38	0.39	0.35	0.38	0.39	0.35
Total	1.32	1.26	1.23	1.19	1.21	1.26	1.28	1.29	1.20	1.25	1.26	1.34
Home Sales (incl. Condos) d.												
- Existing Home Sales	5.51	5.41	5.31	5.14	5.21	5.33	5.40	5.44	5.51	5.34	5.34	5.46
- New Home Sales	0.64	0.63	0.61	0.58	0.68	0.65	0.64	0.64	0.61	0.62	0.65	0.66
Total	6.15	6.04	5.91	5.72	5.89	5.98	6.04	6.08	6.12	5.96	6.00	6.12
FMHPI House Price Appreciation (%) e.	2.0	1.0	1.0	0.8	1.0	0.8	0.8	0.8	7.2	4.8	3.4	2.6
1-4 Family Mortgage Originations f.												
- Conventional	\$289	\$350	\$341	\$302	\$280	\$411	\$395	\$333	\$1,400	\$1,282	\$1,418	\$1,355
- FHA & VA	\$88	\$90	\$94	\$82	\$75	\$109	\$105	\$88	\$410	\$354	\$378	\$360
Total	\$377	\$440	\$435	\$384	\$355	\$520	\$500	\$421	\$1,810	\$1,636	\$1,796	\$1,715
- Purchase Originations f.	\$226	\$312	\$326	\$284	\$226	\$340	\$331	\$292	\$1,147	\$1,149	\$1,189	\$1,242
- Refinance Originations f.	\$151	\$128	\$109	\$100	\$129	\$180	\$169	\$129	\$663	\$487	\$607	\$473
Refinancing Share - Originations (%) g.	40	29	25	26	36	35	34	31	37	30	34	28
Residential Mortgage Debt (%) h.	2.9	3.1	3.0	2.1	2.3	3.0	2.9	2.9	3.0	2.8	2.9	2.9

Note: Quarterly and annual forecasts (or estimates) are shown in shaded areas; totals may not add due to rounding; annual forecast data are averages of quarterly values, except GDP and CPI which are reported as Q4 over Q4.

- a. Calculations based on quarterly averages of monthly index levels; index levels based on the seasonally-adjusted, all-urban consumer price index; reported as an annual rate.
- b. Quarterly average of monthly unemployment rates (seasonally-adjusted); Quarterly average of monthly interest rates (not seasonally-adjusted); reported as an annual rate.
- c. Millions of housing units; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).
- d. Includes 2-unit structures or more.
- e. Millions of housing units; total sales are the sum of new and existing detached single-family homes; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).
- f. Quarterly growth rate of Freddie Mac's House Price Index; seasonally-adjusted; annual rates for yearly data.
- g. Billions of dollars (not seasonally-adjusted). Includes only 1st lien mortgage originations.
- h. Home Mortgage Disclosure Act for 1st lien single-family mortgages (not seasonally-adjusted); Annual share is dollar-weighted average of quarterly shares.
- i. Federal Reserve Board; growth rate of single-family residential mortgage debt (households and nonprofit organizations; home mortgages; liability, seasonally-adjusted), reported as 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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