



AUGUST 2019

Low Mortgage Rates, Strong Labor Market Fueling Housing Market

The recent decline in mortgage rates stem from the on-going global trade disputes and weakening global economy, which have led to a drop in long term interest rates in most countries. Despite the negative impacts of trade and the deteriorating global economy, the domestic U.S. economy continues to grow and the three-year low in mortgage rates has poised housing to reaccelerate.

As a result, we expect a significant increase in refinance originations in upcoming quarters. Going forward, the combination of low mortgage rates, a tight labor market, and strong consumer confidence will offset declining business sentiment. These factors will set the stage for continued improvement in the housing market heading into the fall.

The lasting impact of trade tensions will have some visible impact on the second half of 2019 and early 2020. Without the short-term effects of tax cuts and fiscal stimulus we saw in 2018, for the full year 2019, we forecast slower growth of 2.2%, and further decelerating to 1.8% in 2020.

The declining trend in gasoline prices as well as wage stagnation lead us to predict that consumer price inflation will remain at 2.4% and 2.3% in the third and fourth quarters of 2019, respectively. Our yearly consumer price forecast remains unchanged at 2.1% in 2019, before edging down to 2.0% in 2020.

Despite fears of an economic slowdown, the U.S. labor market stands firm. Unemployment claims are approaching their lowest levels since the early 1970's. Job openings also remain higher than unemployment claims for an impressive sixteen consecutive months. There has been little change in workers' willingness to change jobs, while at the same time, businesses are holding on to their current

Forecast Snapshot (August 2019)

Summary (annualized)	2017	2018	2019	2020
30-year PMMS (%)	4.0	4.6	3.9	3.7
Total home sales (M)	6.12	5.96	5.94	6.04
House price growth (%)	7.2	4.9	3.4	2.6
Total originations (\$B)	\$1,810	\$1,636	\$2,045	\$1,823



workforce in a tight labor market. This continued strength in the labor market supports our forecast of a strong unemployment rate of 3.7% in the third and fourth quarters of 2019. Our full year 2019 forecast remains at 3.7%, before modestly increasing to 3.8% in 2020.

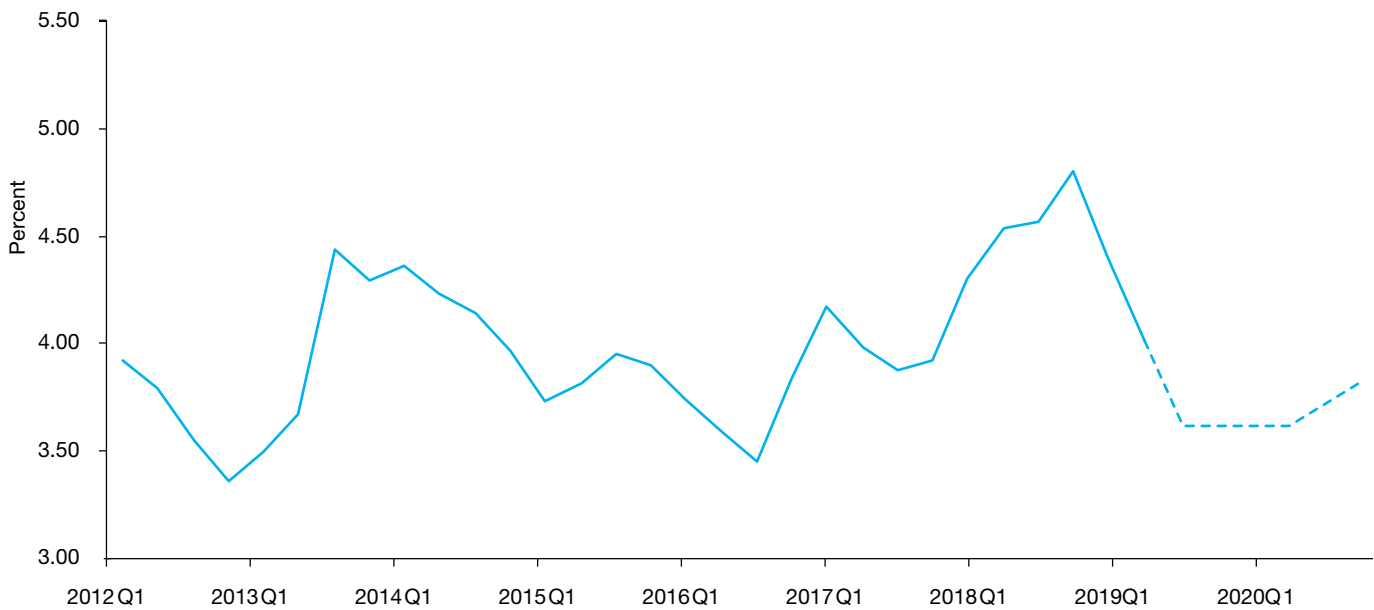
Mortgage rates to remain low for foreseeable future

Over the past few months, the increased global uncertainty has put downward pressure on interest rates. Long-term government bond yields around the world have plummeted, dropping below zero in many European countries. [Denmark](#), one of the few countries outside of the United States with a 30-year fixed-rate mortgage, saw its mortgage rate fall as low as 0.5%. While we are not projecting the 30-year fixed-rate mortgage in the United States to come anywhere close to that rate anytime soon, the mortgage rate trend in Denmark provides an example of the enormous downward pressure on long-term interest rates around the world. Thus, we have adjusted our quarterly forecast for the 30-year fixed-rate mortgage to remain around 3.6% through the second quarter of 2020. We project the annual average to be 3.9% in 2019, before sinking to 3.7% in 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.



Anticipating more possible interest rate cuts in the second half of 2019 and again in 2020, we expect the Federal Funds effective rate to be 2.1% in the third and fourth quarter of 2019. Thus, our 2019 annual forecast for the Federal Funds rate has been lowered to 2.3%, before declining to 2.0% in 2020 due to the expected rate cuts next year.

As yield rates around the world fall, foreign investors are flocking to the American bond market. This has put significant downward pressure on the 10-year Treasury rate. We expect 10-year Treasury yields to decline to 2.2% in 2019, and then to 1.8% in 2020. Also, maintaining the spread between government bond yields, we expect the 1-year Treasury rate to be 2.1% in 2019, before dropping to 1.7% in 2020.

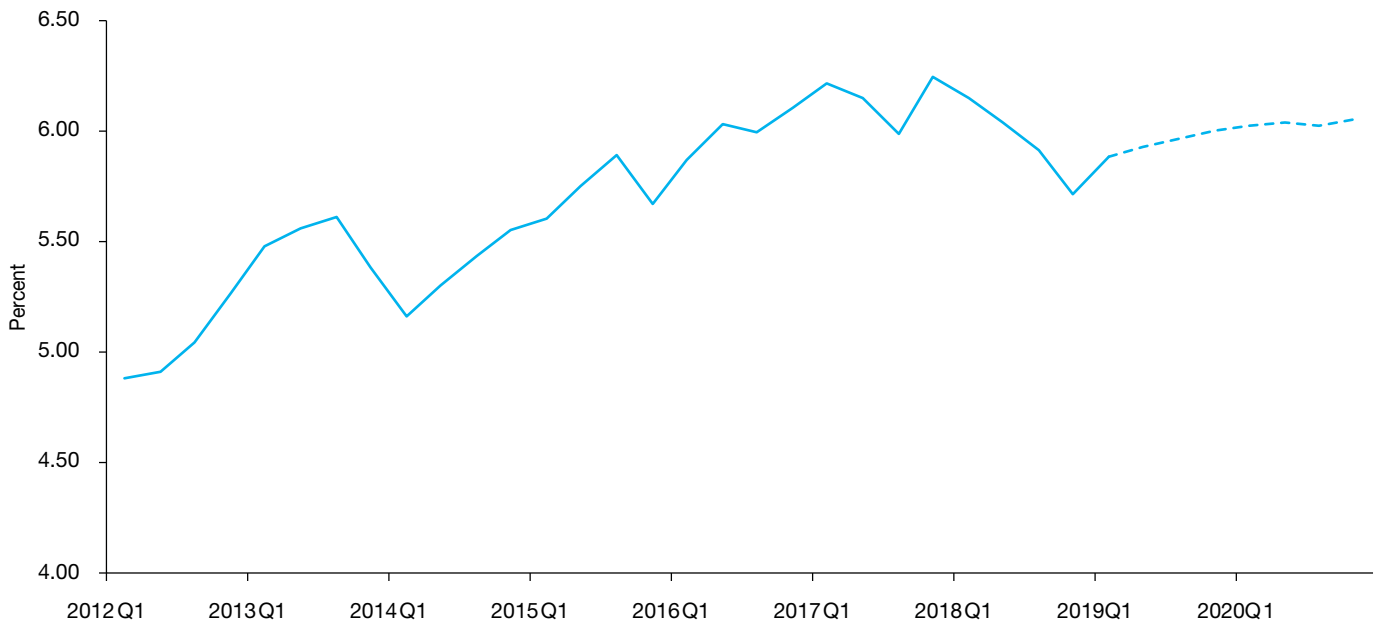
Homes sales showing signs of recovery

Consistently strong homebuilder confidence supports our view that housing starts will recover from their 2018 slump. We anticipate annual housing starts to be 1.25 million in 2019, before increasing to 1.28 million in 2020. Current mortgage rates have brought optimism that sales will recover in the second half of 2019. Given the combination of increased demand and a projected upward tick in

Exhibit 2

Home sales expected to regain momentum following recent signs of recovery

Home sales (existing + new)



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

Note: Dashed line indicates forecasted data.



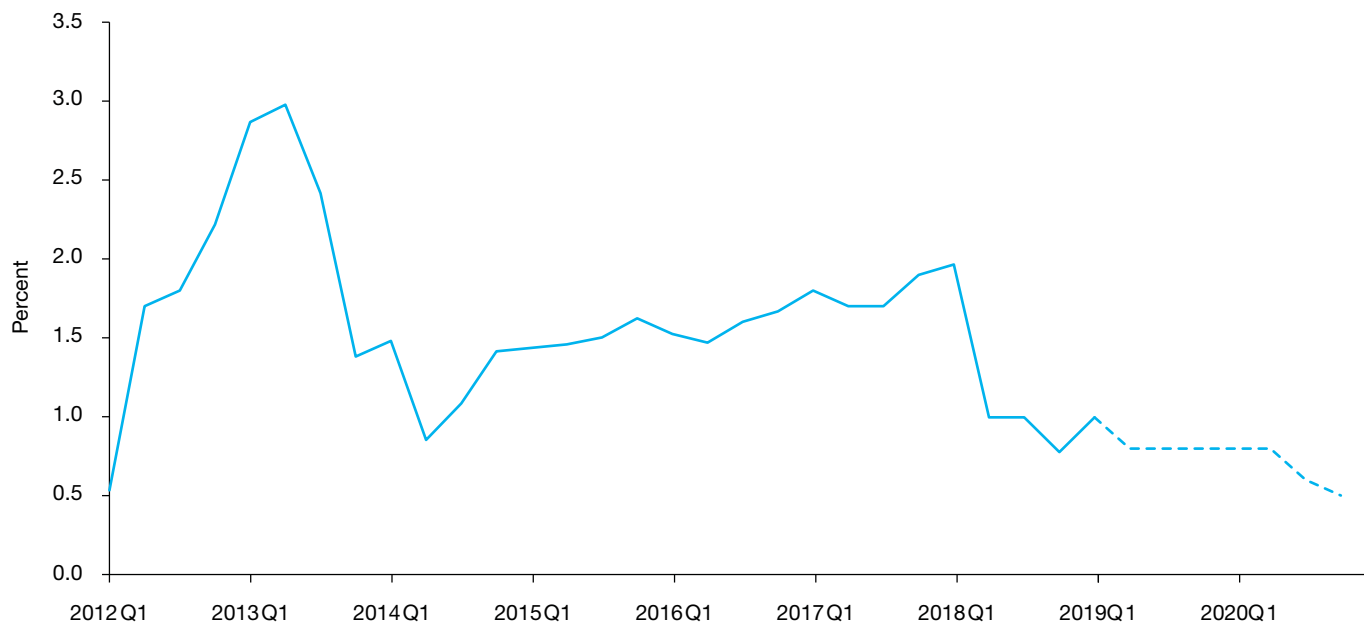
housing supply, we expect home sales to be 5.94 million in 2019, before reaching near-2017 levels in 2020, at 6.04 million.

Strong data over the last few months gives us reason to believe that house prices will continue to beat expectations in the coming months. We estimate that house prices will appreciate 3.4% in 2019, before tapering off slightly in 2020 at 2.6%.

Exhibit 3

House price appreciation in the U.S.

Quarterly percent change in Freddie Mac House Price Index



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

Note: Dashed line indicates forecasted data.



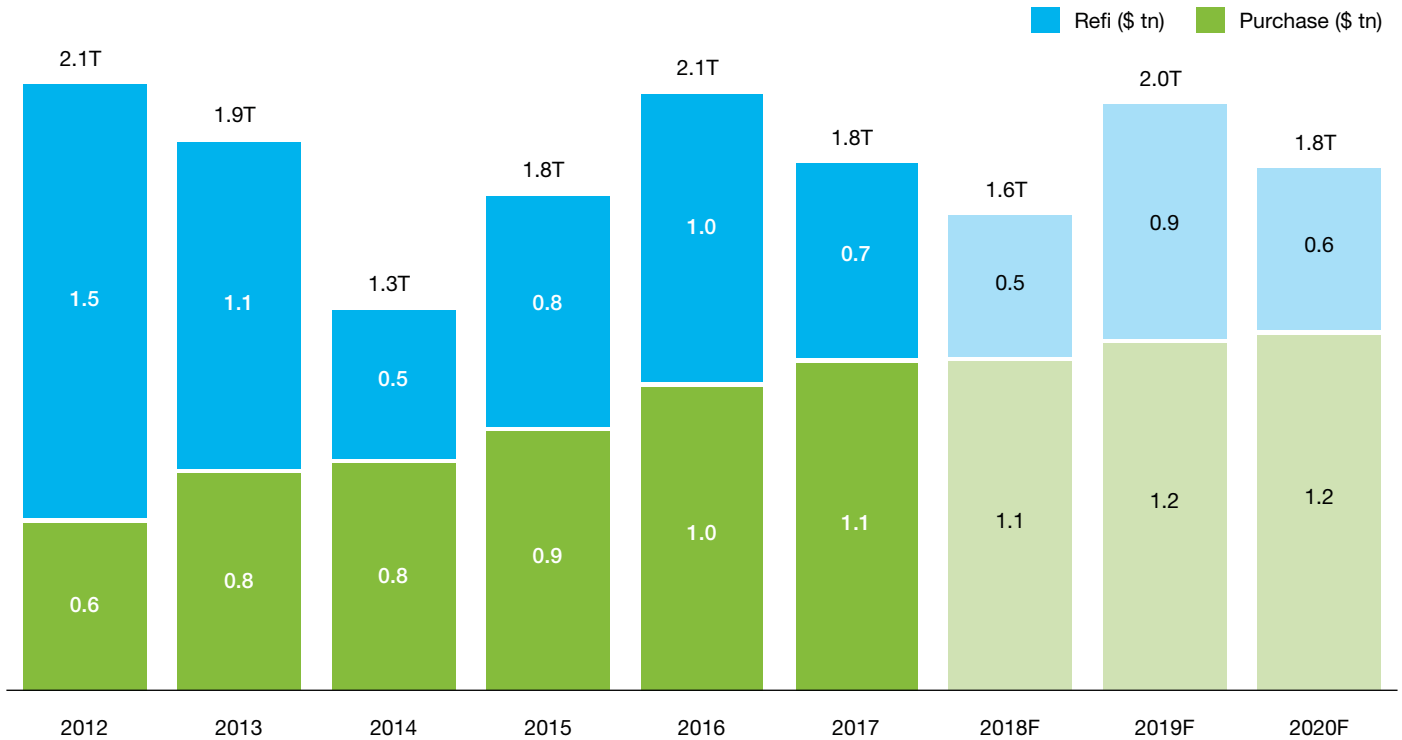
Refinance originations expected to increase with low mortgage rates

We anticipate total originations to increase significantly relative to our July forecast. This increase is driven primarily by a surge in refinancing given the lower expected mortgage interest rate path in our August forecast. The MBA Mortgage Applications Refinance Index is up 50% in just the last month. This reinforces our belief in the strength of the refinance market. We estimate the refinance share of originations to grow to 43% in 2019 and 33% in 2020. 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 2 trillion in 2019 and 1.8 trillion in 2020.

Exhibit 4

Mortgage originations likely to increase in 2019

Annual single-family mortgage originations (\$ trillions)



Source: Freddie Mac August 2019 Economic and Housing Research Forecast

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



August 2019 Economic & Housing Market Forecast

Forecasted Figures

Historical Data

As of 8/14/2019

Indicator	2018				2019				Annual Totals			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019	2020
Major Economic Indicators												
Real GDP Growth (%)	2.6	3.5	2.9	1.1	3.1	2.1	1.8	1.9	2.8	2.5	2.2	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	3.7	3.7	4.4	3.9	3.7	3.8
30-Year Fixed Mtg. Rate (%) b.	4.3	4.5	4.6	4.8	4.4	4.0	3.6	3.6	4.0	4.6	3.9	3.7
5/1 Hybrid Treas. Indexed ARM Rate (%) b.	3.6	3.8	3.9	4.1	3.9	3.6	3.4	3.4	3.2	3.8	3.6	3.5
10-Year Const. Mat. Treas. Rate (%) b.	2.8	2.9	2.9	3.0	2.7	2.3	1.8	1.8	2.3	2.9	2.2	1.8
1-Year Const. Mat. Treas. Rate (%) b.	1.9	2.3	2.5	2.7	2.5	2.3	1.8	1.8	1.2	2.4	2.1	1.7
Federal Funds Effective Rate (%) b.	1.5	1.7	1.9	2.2	2.4	2.4	2.1	2.1	1.0	1.8	2.3	2.0
Housing & Mortgage Markets												
Housing Starts c.												
- Single-Family	0.89	0.89	0.88	0.83	0.86	0.84	0.88	0.89	0.85	0.87	0.87	0.94
- Multifamily	0.43	0.37	0.36	0.36	0.35	0.42	0.38	0.38	0.35	0.38	0.38	0.34
Total	1.32	1.26	1.23	1.19	1.21	1.26	1.26	1.27	1.20	1.25	1.25	1.28
Home Sales (incl. Condos) d.												
- Existing Home Sales	5.51	5.41	5.31	5.14	5.21	5.28	5.33	5.37	5.51	5.34	5.30	5.39
- New Home Sales	0.64	0.63	0.61	0.58	0.67	0.64	0.63	0.63	0.61	0.62	0.64	0.65
Total	6.15	6.04	5.91	5.72	5.876	5.92	5.96	6.00	6.12	5.96	5.94	6.04
FMHPI House Price Appreciation (%) e.	2.0	1.0	1.0	0.8	1.0	0.8	0.8	0.8	7.2	4.9	3.4	2.6
1-4 Family Mortgage Originations f.												
- Conventional	\$289	\$350	\$341	\$302	\$280	\$445	\$487	\$417	\$1,400	\$1,282	\$1,630	\$1,440
- FHA & VA	\$88	\$90	\$94	\$82	\$75	\$100	\$130	\$111	\$410	\$354	\$415	\$383
Total	\$377	\$440	\$435	\$384	\$355	\$545	\$617	\$528	\$1,810	\$1,636	\$2,045	\$1,823
- Purchase Originations f.	\$226	\$312	\$326	\$284	\$226	\$340	\$317	\$288	\$1,147	\$1,149	\$1,171	\$1,220
- Refinance Originations f.	\$151	\$128	\$109	\$100	\$129	\$205	\$300	\$240	\$663	\$487	\$874	\$603
Refinancing Share - Originations (%) g.	40	29	25	26	36.2	37.7	48.6	45.4	37	30	43	33
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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