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Supply Headwinds, Higher Rates Affecting Mortgage Market Despite Robust Economy

McLEAN, Va. (June 21, 2018) – This year’s hike in mortgage rates is not having a large impact on homebuyer demand or sales, but its effect on refinancing activity will likely keep total mortgage loan originations slightly down this year, according to [Freddie Mac](#)’s (OTCQB: FMCC) June [Forecast](#).

In the first half of the year, the story of the housing market has been one of weaker affordability – through higher mortgage rates and home prices – and meager levels of new and existing homes for sale. This in turn has kept sales growth in check despite the fact that the healthy economy is generating solid levels of demand.

Amidst these obstacles, Freddie Mac is forecasting total (new and existing) home sales in 2018 to increase 2.8 percent, home price appreciation to be 6.6 percent and total originations to fall to 6.4 percent due to a decline in refinancing activity.

“Homeowners have come out on top as the housing market’s shining star in the first six months of the year, as rising home values continue to build their household wealth, and those who decided to sell likely found a buyer very quickly,” said Freddie Mac Chief Economist Sam Khater. “Meanwhile, prospective buyers are active and looking in most markets, but supply is very low, competition is swift and higher mortgage rates and home prices are squeezing the budget of some prospective buyers. This market reality continues to dampen sales growth.”

Added Khater, “For lenders, the shift is underway to focusing primarily on the purchase market because of this year’s tumble in refinancing activity.”

Forecast Highlights

- Sustained job growth has pushed the unemployment rate down to 3.8 percent – a new low in the current economic cycle. Steady hiring should continue to support higher wage growth, which in turn should spur consumer spending and business investment. Gross Domestic Product (GDP) growth overall is expected to come in at 2.6 percent in 2018.
- The economy will likely continue to operate in a rising interest rate environment. The 30-year fixed-rate mortgage rate is forecasted to average 4.9 percent by the end of the year.
- Home buyer demand has been strong the first half of the year, but supply and demand imbalances are keeping home sales in check and causing prices to increase at a swift rate. Total (new and existing) home sales this year are forecasted to increase 2.8 percent year-over-year to 6.29 million. Even as mortgage rates rise, home prices are expected to increase 6.6 percent.
- Despite an expected rise in purchase origination volume, higher mortgage rates are weighing on refinance activity and will ultimately slow total originations this year by 6.4 percent to \$1.75 trillion.

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