



JUNE 2017

Housing Remains a Bright Spot for Economy

The economic picture remains much the same as in recent years. After revisions to consumer spending, real gross domestic product (GDP) growth in the first quarter of 2017 was 1.2 percent. Inflation remains tepid. The Consumer Price Index (CPI) rose 0.2 percent in April. Core CPI rose just 0.1 percent. The labor market maintained its momentum. May marked the 80th consecutive month of job gains. The unemployment rate dropped another 0.1 percentage points to 4.3 percent. Weak growth, moderate inflation and a labor market at full employment are likely to persist.

Housing remains a bright spot. Year-to-date total home sales and housing construction are the highest in years. But housing data weakened this past month. Housing starts fell 2.6 percent in April. Permits for single-family homes also declined. After a strong March, home sales took a hit in April as well. New home sales fell 11.4 percent and existing home sales fell 2.3 percent. The recent declines are likely to reverse as low mortgage interest rates and solid job gains boost the housing market. We expect housing starts and home sales to firm in the coming months and for 2017 to exceed 2016's best-in-a-decade levels.

Rates remain higher than 2016

Mortgage rates have been on the decline. As of June 22, 2017, the U.S. weekly average 30-year fixed mortgage rate was 3.90 percent, 30 basis points lower than at the start of 2017. Lower mortgage rates help support refinance activity. However, today's mortgage rate is still almost 50 basis points higher than last year's low. In 2016, mortgage rates fell below 3.5 percent for 16 weeks and below 3.7 percent for 37 weeks. Unless rates fall below 3.5 percent this year and stay there for an extended period, refinance volume will fall short of

Forecast Snapshot (June 2017)

Summary (annualized)	2016	2017	2018
30-year PMMS (%)	3.7	4.2	4.7
Total home sales (M)	6.01	6.02	6.02
House price growth (%)	6.4	5.4	4.1
Total originations (\$B)	2,125	1,755	1,600



last year's levels. And we don't expect mortgage rates to fall that much. Thus, we forecast mortgage origination volume will decline \$370 billion in 2017.

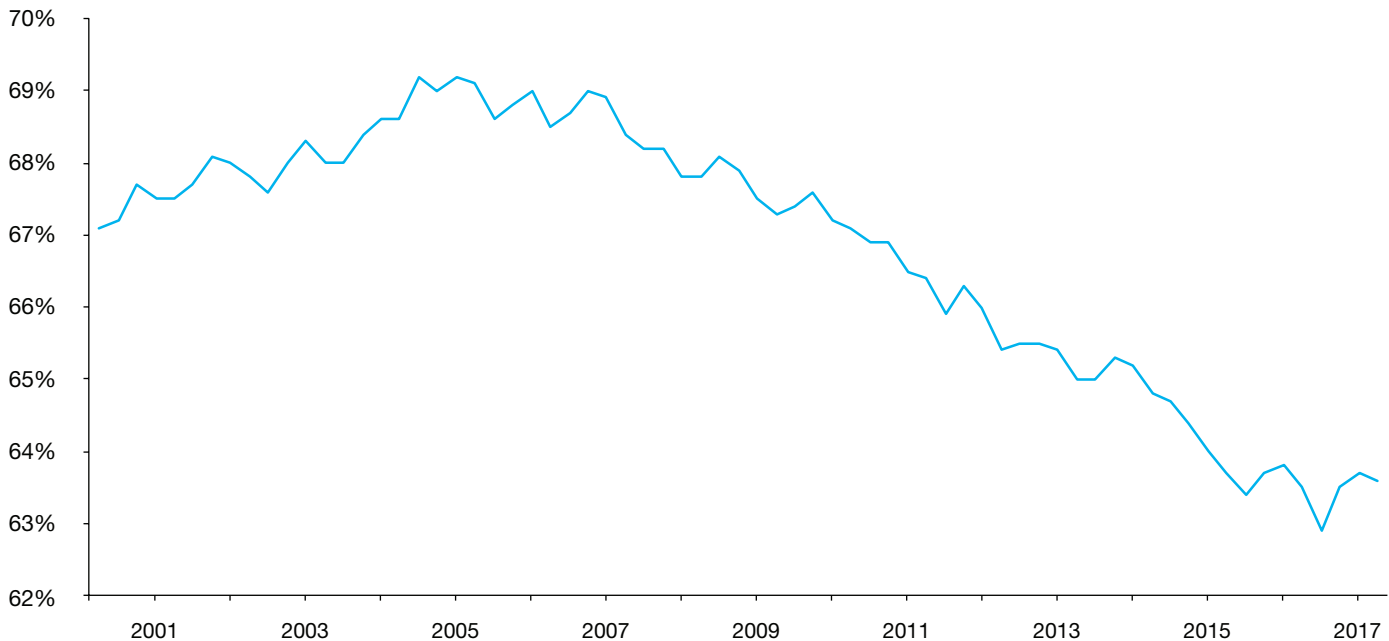
Thinking of buying a home?

June is National Homeownership Month, a time to reflect on the many benefits of owning a home. Owning a home is a key to wealth accumulation: Home owners build equity through paying down principal and home price appreciation. Tax benefits magnify the financial benefits of increasing home equity.

Prior to the Great Recession, homeownership rose to an all-time high of 69.2 percent of households. During the recession, many people lost their homes through foreclosures, and homeownership rates in the U.S. dipped to a 50-year low. In the first quarter of 2017, the rate was 63.6 percent—six-percentage points lower than its peak in 2004.

Exhibit 1

Homeownership rates are low despite low mortgage rates



Source: U.S. Census Bureau



So, where is homeownership headed from here? Here are a few of the factors that have caught our attention.

- **Why are the Experts Pessimistic About the Future of Homeownership?** Some experts expect the homeownership rate to continue to decline in the future. These experts point to the rising share of racial and ethnic minorities in the population, groups whose homeownership rates historically lag behind the national average. Last Fall, we explained how the experts form their projections, and [why they might be overly pessimistic](#).
- **Will the Hispanic Homeownership Gap Persist?** The Hispanic homeownership rate has been increasing in recent years and has been gaining ground on the rate among non-Hispanic whites. In our upcoming June Insight, we discuss how the increasing average age of resident Hispanics and the changing share of new immigrants is likely to impact Hispanic homeownership rates in the future.
- **Student Loans and Homeownership.** Many housing analysts believe the explosive growth of student debt is preventing some Millennials from buying their first homes. In 2015, we [reviewed evidence](#) that highlights which student loans were good investments in a future career and which piled up debt that will be hard to repay.
- **Where do the Service Workers In San Francisco Live?** Rapid increases in house prices in the last few years have made homeownership more challenging for first-time buyers. In April, we analyzed how the overall cost of living in the San Francisco area is roughly [50 percent higher than the national average](#) and how even higher-income families are affected.
- **Three Trends That Are Shaping the Future of Housing.** Most commentary on housing focuses on the short-term – this month’s housing starts and this quarter’s house price inflation. But some of the most profound influences on housing have been developing for decades. Increasing income inequality, the increasing share of land costs in housing prices, and increasing land use restrictions are [three trends that are shaping the future of housing](#).

To cap off these discussions, our soon-to-be published article, “If housing is so affordable, why doesn’t it feel that way?” takes on all these issues at once to assess the real barriers to homeownership today.



June 2017 Economic & Housing Market Forecast

Forecasted Figures

Historical Data

As of 6/7/2017

2016

2017

Annual Totals

Indicator	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018
Real GDP (%)	0.8	1.4	3.5	2.1	1.2	2.3	2.3	2.2	2.0	2.0	2.2
Consumer Prices (%) a.	0.1	2.3	1.8	3.0	3.1	2.3	2.1	2.2	1.8	2.4	2.4
Unemployment Rate (%) b.	4.9	4.9	4.9	4.7	4.7	4.4	4.4	4.3	4.9	4.5	4.5
30-Year Fixed Mtg. Rate (%) b.	3.7	3.6	3.5	3.8	4.2	4.0	4.2	4.3	3.7	4.2	4.7
5/1 Hybrid Treas. Indexed ARM Rate (%) b.	2.9	2.8	2.8	3.0	3.2	3.1	3.3	3.5	2.9	3.3	4.0
10-Year Const. Mat. Treas. Rate (%) b.	1.9	1.8	1.6	2.1	2.4	2.3	2.5	2.6	1.9	2.5	2.9
1-Year Const. Mat. Treas. Rate (%) b.	0.6	0.6	0.6	0.8	0.9	1.1	1.4	1.6	0.7	1.3	2.0
Housing Starts c.	1.15	1.16	1.14	1.25	1.25	1.25	1.27	1.30	1.17	1.27	1.36
Total Home Sales d.	5.89	6.04	5.96	6.11	6.22	6.25	5.80	5.80	6.01	6.02	6.02
FMHPI House Price Appreciation (%) e.	1.6	1.4	1.6	1.7	1.6	1.2	1.2	1.2	6.4	5.4	4.1
1-4 Family Mortgage Originations f.											
- Conventional	\$295	\$432	\$466	\$458	\$298	\$410	\$378	\$293	\$1,651	\$1,379	\$1,274
- FHA & VA	\$95	\$113	\$134	\$132	\$99	\$102	\$91	\$84	\$474	\$376	\$326
- Total	\$390	\$545	\$600	\$590	\$397	\$512	\$469	\$377	\$2,125	\$1,755	\$1,600
Refinancing Share - Originations (%) g.	51	44	47	50	42	31	30	28	48	33	25
Residential Mortgage Debt (%) h.	1.3	3.1	4.4	3.4	3.8	4.0	4.2	4.3	3.1	4.1	4.7

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).

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Economic & Housing Research **Outlook**

Prepared by the Economic & Housing Research group

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