



AUGUST 2018

Strong Economic Growth Despite Weaker Housing Market Activity

The U.S. economy accelerated in the second quarter of 2018, with real GDP growth at 4.1 percent, which was the strongest quarterly growth rate since the third quarter of 2014. This growth occurred despite weaker housing market activity. Housing starts, existing-home sales and new home sales all declined in the second quarter, and home price growth moderated.

Does recent housing data indicate the start of a slowdown, or is it just a temporary blip? We forecast the housing market to post modest growth in the second half of this year, as well as next year. The healthy economy and robust labor market should support homebuyer demand.

The U.S. labor market keeps chugging along, adding jobs for 94 consecutive months through July, the longest such streak recorded by the U.S. Bureau of Labor Statistics (BLS). The unemployment rate in July dropped to 3.9 percent, and we forecast that it will remain there for the rest of the year, before dropping slightly to 3.8 percent next year.

Forecast Snapshot (August 2018)

Summary (annualized)	2017	2018	2019
30-year FRM (%)	4.0	4.6	5.1
Total home sales (M)	6.12	6.14	6.36
House price growth (%)	7.3	6.0	4.9
Total originations (\$B)	\$1,807	\$1,655	\$1,690



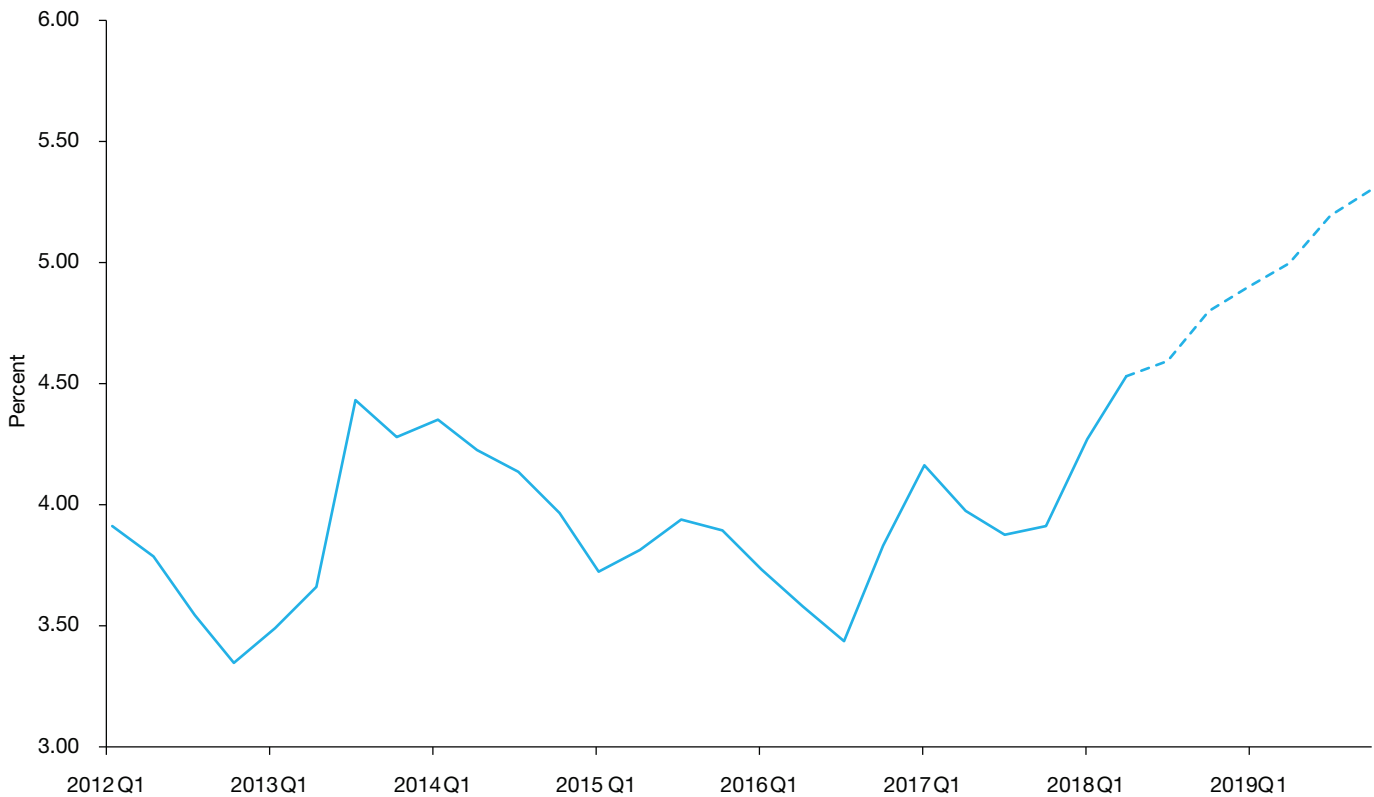
Mortgage rates stabilized over the summer

Mortgage rates surged in the first half of 2018, which weighed on the housing market by reducing affordability. The U.S. weekly average mortgage rate increased from 3.99 percent in the first week of January to as high as 4.66 percent in May. This increase in rates would require a buyer with a \$250,000 30-year fixed-rate mortgage to pay over \$1,000 more each year in principal and interest. Since May, rates have stabilized, but we expect a gradual upward trend, with an average of 4.6 percent this year and 5.1 percent in 2019.

Exhibit 1

Mortgage rates expected to continue rising in 2019

Freddie Mac Primary Mortgage Market Survey®



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

Note: Dashed line indicates forecasted data.



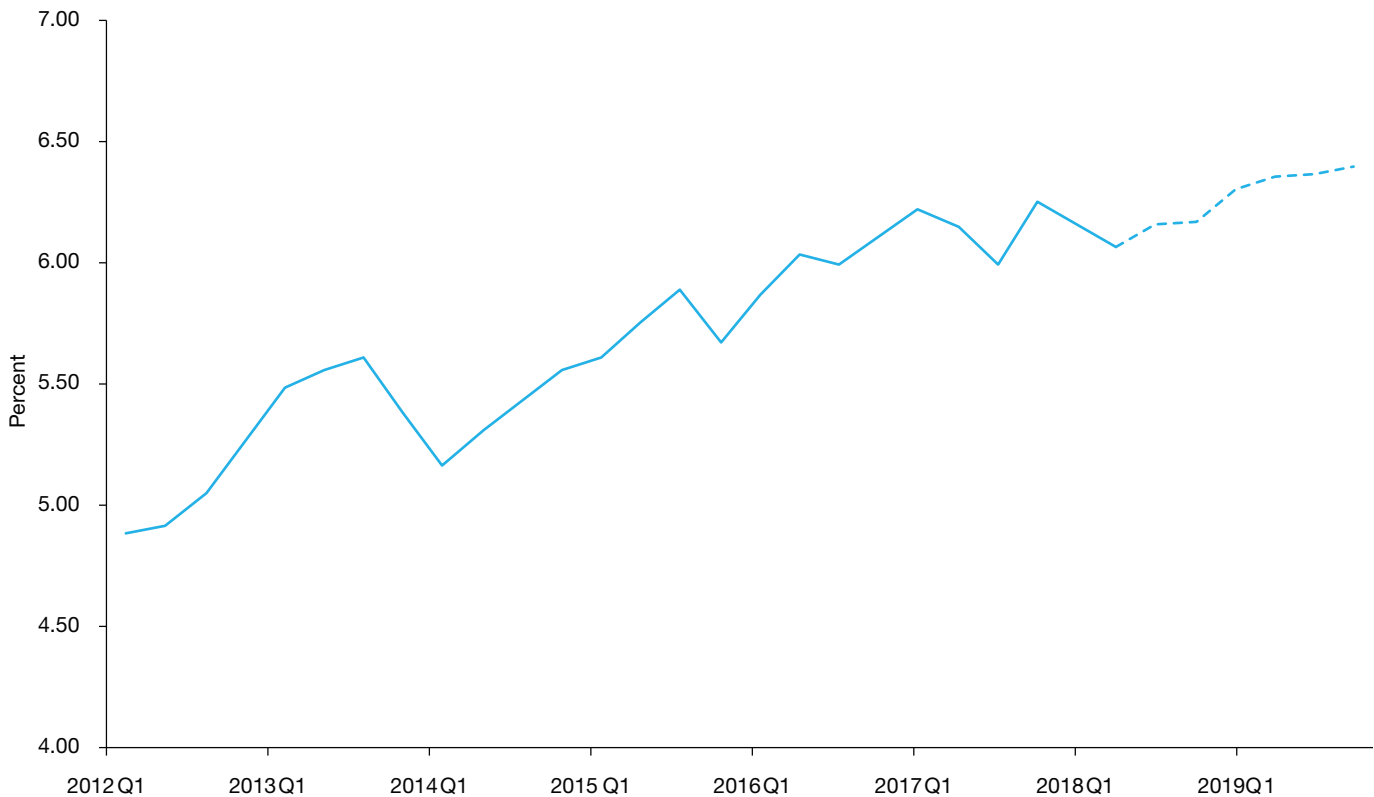
Homes sales tumbled in the second quarter

Home sales slipped in the second quarter. Higher mortgage rates and home prices, combined with limited for-sale inventory, led to a modest decline of 1.6 percent in total (new and existing) home sales. Housing starts also stalled, falling 4.5 percent for the quarter. We expect housing construction to increase, which will bring more supply to the market and help drive sales growth modestly. We forecast total home sales to be 6.14 million this year and to rise to 6.36 million next year.

Exhibit 2

Total home sales expected to regain momentum despite recent dip

Home sales (existing + new)



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

Note: Dashed line indicates forecasted data.

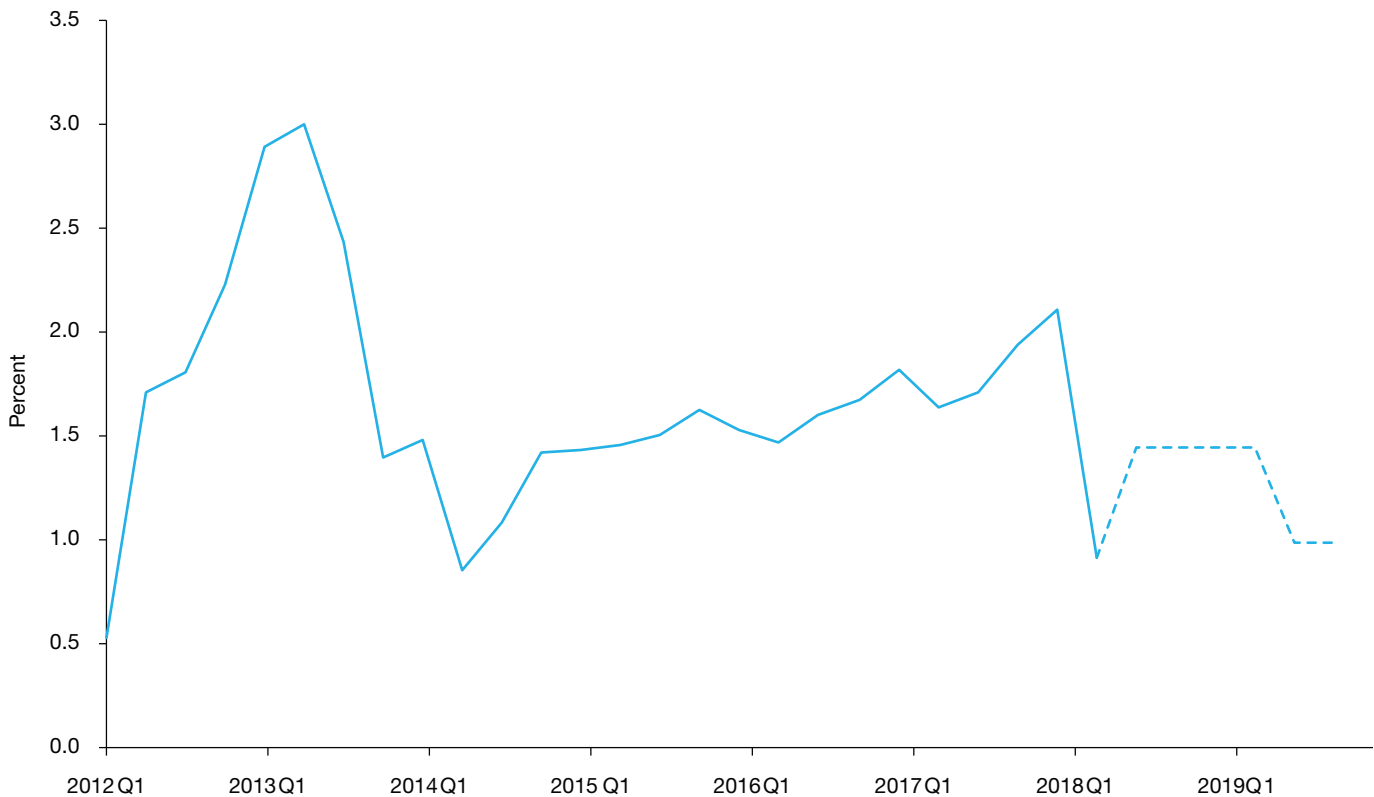


Home price growth was strong in the first quarter of this year, with the Freddie Mac House Price Index (FMHPI) increasing 2.1 percent. This robust growth rate was well above recent gains. For example, the quarterly growth rate in 2017 averaged 1.8 percent. This robust growth was unlikely to persist, and indeed, home price appreciation moderated in the second quarter to 0.9 percent. We forecast that home prices for the year will increase 6 percent, with the growth rate moderating to 4.9 percent next year.

Exhibit 3

Home price appreciation in the U.S.

Quarterly percent change in Freddie Mac House Price Index



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



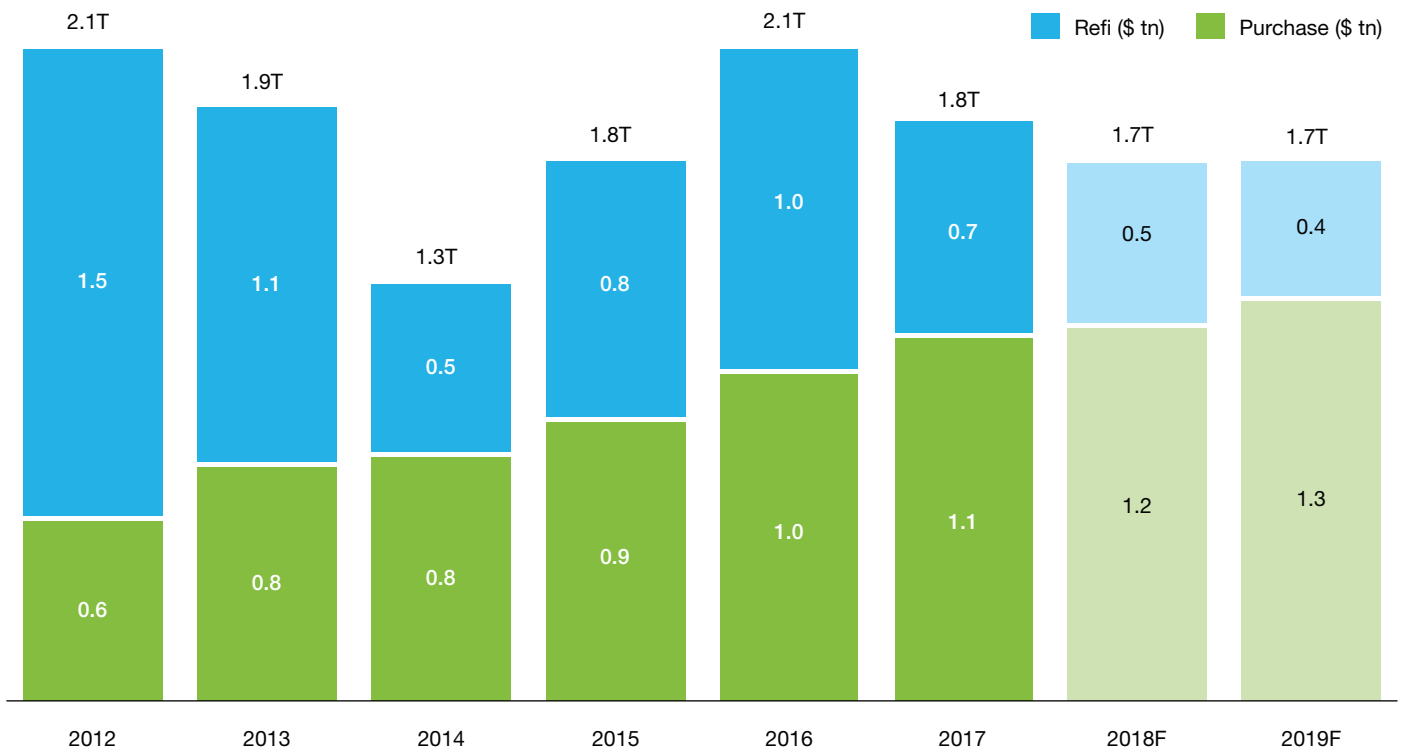
Mortgage originations revised to reflect expected decline

Weaker home sales and house price growth led us to revise down our forecast for 2018 single-family mortgage originations. In this month's forecast, we project these originations to decline to \$1.66 trillion (down 8.4 percent year-over-year). We expect that growth in home sales and house prices will push these originations 2.1 percent higher in 2019 to \$1.69 trillion.

Exhibit 4

Single-family mortgage originations likely to decline slightly in 2018

Annual single-family mortgage originations (\$ trillions)



Source: Freddie Mac August 2018 Economic and Housing Research Forecast

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



August 2018 Economic & Housing Market Forecast

Forecasted Figures

Historical Data

As of 8/9/2018

Indicator	2017				2018				Annual Totals		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019
Major Economic Indicators											
Real GDP (%)	1.8	3.0	2.8	2.3	2.0	4.1	2.8	2.6	2.2	2.7	2.5
Consumer Prices (%) a.	3.0	0.1	2.1	3.3	3.5	1.7	2.3	2.4	2.1	2.6	2.4
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
30-Year Fixed Mtg. Rate (%) b.	4.2	4.0	3.9	3.9	4.3	4.5	4.6	4.8	4.0	4.6	5.1
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
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
1-Year Const. Mat. Treas. Rate (%) b.	0.9	1.1	1.3	1.6	1.9	2.2	2.3	2.4	1.2	2.2	2.9
Housing & Mortgage Markets											
Housing Starts c.	1.23	1.17	1.17	1.26	1.32	1.26	1.34	1.35	1.20	1.32	1.40
Total Home Sales d.	6.22	6.15	5.99	6.25	6.16	6.06	6.16	6.17	6.12	6.14	6.36
FMHPI House Price Appreciation (%) e.	1.8	1.6	1.7	1.9	2.1	0.9	1.4	1.4	7.3	6.0	4.9
1-4 Family Mortgage Originations f.											
- Conventional	\$270	\$354	\$385	\$373	\$284	\$346	\$347	\$283	\$1,382	\$1,260	\$1,293
- FHA & VA	\$104	\$105	\$112	\$104	\$90	\$109	\$107	\$89	\$429	\$395	\$397
- Total	\$374	\$459	\$497	\$477	\$374	\$455	\$454	\$372	\$1,807	\$1,655	\$1,690
Refinancing Share - Originations (%) g.	44	30	33	41	40	29	28	24	37	30	24
Residential Mortgage Debt (%) h.	2.9	3.7	4.1	4.0	2.0	4.6	4.8	4.9	3.7	4.1	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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