



APRIL 2019

## Low Mortgage Rate Environment Supports Continued Housing Market Growth

Mortgage interest rates saw a drastic decline at the end of March and have remained near the same level since then. Furthermore, the job market continues to show signs of strength, and wage growth has been increasing moderately. All these factors are conducive for a steadily growing housing market in 2019.

The U.S. economy continues to grow along with a strong labor market. However, given the weakening consumer spending, we forecast overall GDP growth rate in 2019 and 2020 to be 2% and 1.8% respectively.

After declining in the first quarter of 2019, inflation is expected to pick up for the rest of the year. However, overall consumer price growth in 2019 is expected to be at 1.8%, which is below the Federal Reserve's inflation target, before bouncing back to 2.1% in 2020.

### Forecast Snapshot (April 2019)

Summary (annualized)	2017	2018	2019	2020
30-year PMMS (%)	4.0	4.6	4.3	4.5
Total home sales (M)	6.12	5.97	5.98	6.14
House price growth (%)	7.2	4.8	3.5	2.6
Total originations (\$B)	\$1,810	\$1,646	\$1,737	\$1,701



### Mortgage rates have declined since the beginning of 2019

Owing to the recent decline in mortgage rates, we have revised down our forecasts for the 30-year fixed-rate mortgage and 5/1 adjustable rate mortgage. We expect the 30-year fixed-rate mortgage to average 4.3% and 4.5% in 2019 and 2020, respectively. And we expect the 5/1 adjustable to stay at 3.8% for the remainder of this year, which is the same level as last year.

Similarly, due to historically low Treasury rate yields, we have revised down our forecast for the 10-year as well as the 1-year Treasury rates. We have lowered the 10-year Treasury rate by the same magnitude as the 30-year fixed-rate mortgage to lower to 2.6% and 2.7% in 2019 and 2020, respectively. We expect the 1-year Treasury rate to stay at 2.4%, the same level as 2018, for both 2019 and 2020.

Exhibit 1

### Mortgage rates have declined 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.



In its latest FOMC meeting, the Federal Reserve suggested that it will hold off on rate hikes while it assesses the strength of the economy. Based on this, we foresee no rate hikes in the near future with our overall Federal Funds effective rate forecast staying flat at 2.4% for both these years.

**Homes sales showing signs of recovery**

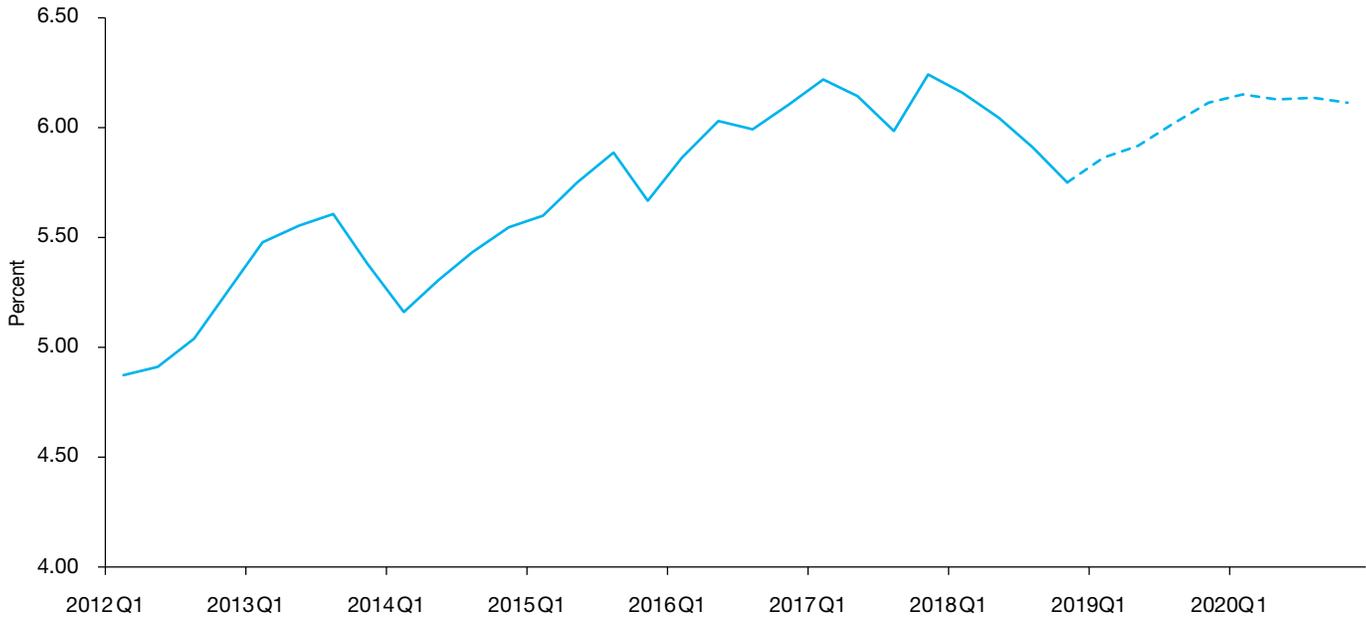
The January and February data on housing starts has informed our decision to lower the first quarter 2019 forecast for housing starts. This has effectively lowered our 2019 annual forecast for total starts to 1.26 million units, before increasing to 1.33 million units in 2020.

Due to healthy home sales data so far in 2019, as well as low mortgage rates and a strong job market piquing new homebuyer interest, we expect home sales to be higher than previous forecasts. Most of this increase is expected to come from existing home sales. We now anticipate total home sales to surpass its 2018 levels in 2019 and be at 5.98 million before growing to 6.14 million in 2020.

Exhibit 2

**Home sales expected to regain momentum**

Home sales (existing + new)



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

Note: Dashed line indicates forecasted data.

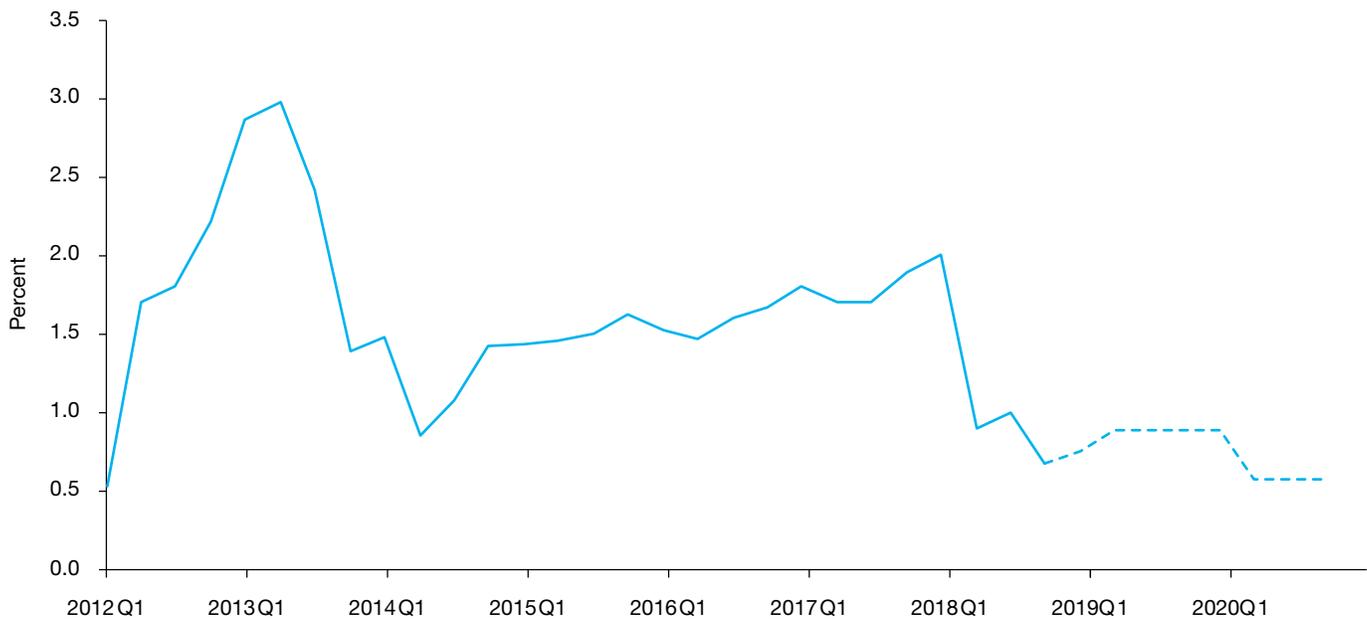


In line with recent trends, we have adjusted our house price growth forecast to increase slightly to 2.6% in 2020. On the other hand, we expect it to grow 3.5% in 2019, as previously forecasted.

Exhibit 3

**Home price appreciation in the U.S.**

Quarterly percent change in Freddie Mac House Price Index



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

Note: Dashed line indicates forecasted data.



**Mortgage originations expected to increase with low mortgage rates**

Single-family mortgage origination volumes are expected to soar for the remainder of 2019 mainly due to higher refinance traffic. The recent drastic decline in mortgage rates will prove to be an incentive for borrowers to refinance, especially the ones who took out a mortgage at the end of 2018. Overall, we expect annual forecasts of the refinance share of originations to increase to 33% and 27% in 2019 and 2020, respectively.

Exhibit 4

**Mortgage originations likely to increase in 2019**

Annual single-family mortgage originations (\$ trillions)



Source: Freddie Mac April 2019 Economic and Housing Research Forecast

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



## April 2019 Economic & Housing Market Forecast

Forecasted Figures

Historical Data

As of 4/17/2019

Indicator	2018				2019				Annual Totals			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019	2020
<b>Major Economic Indicators</b>												
Real GDP Growth (%)	2.2	4.2	3.4	2.2	1.2	2.4	2.3	2.2	2.5	3.0	2.0	1.8
Consumer Prices (%) a.	3.2	2.1	2.0	1.5	0.9	2.0	2.1	2.3	2.1	2.2	1.8	2.1
Unemployment Rate (%) b.	4.1	3.9	3.8	3.7	3.9	3.8	3.7	3.7	4.4	3.9	3.8	3.9
30-Year Fixed Mtg. Rate (%) b.	4.3	4.5	4.6	4.8	4.4	4.2	4.3	4.3	4.0	4.6	4.3	4.5
5/1 Hybrid Treas. Indexed ARM Rate (%) b.	3.6	3.8	3.9	4.1	3.9	3.7	3.8	3.8	3.2	3.8	3.8	3.8
10-Year Const. Mat. Treas. Rate (%) b.	2.8	2.9	2.9	3.1	2.7	2.5	2.5	2.5	2.3	2.9	2.6	2.7
1-Year Const. Mat. Treas. Rate (%) b.	1.9	2.3	2.5	2.7	2.5	2.4	2.4	2.4	1.2	2.4	2.4	2.4
Federal Funds Effective Rate (%) b.	1.5	1.7	1.9	2.2	2.4	2.4	2.4	2.4	1.0	1.8	2.4	2.4
<b>Housing &amp; Mortgage Markets</b>												
Housing Starts c.												
- Single-Family	0.89	0.90	0.88	0.80	0.87	0.88	0.90	0.90	0.85	0.87	0.89	0.98
- Multifamily	0.43	0.37	0.36	0.33	0.35	0.38	0.38	0.39	0.35	0.37	0.38	0.35
Total	1.32	1.26	1.23	1.15	1.22	1.26	1.28	1.29	1.20	1.25	1.26	1.33
Home Sales (incl. Condos) d.												
- Existing Home Sales	5.51	5.41	5.31	5.14	5.22	5.30	5.40	5.50	5.51	5.34	5.36	5.48
- New Home Sales	0.66	0.63	0.61	0.61	0.65	0.62	0.62	0.62	0.61	0.63	0.63	0.65
Total	6.16	6.05	5.92	5.75	5.87	5.92	6.02	6.12	6.12	5.97	5.98	6.14
FMHPI House Price Appreciation (%) e.	2.0	0.9	1.0	0.7	0.8	0.9	0.9	0.9	7.2	4.8	3.5	2.6
1-4 Family Mortgage Originations f.												
- Conventional	\$289	\$350	\$341	\$302	\$282	\$378	\$372	\$321	\$1,400	\$1,282	\$1,353	\$1,332
- FHA & VA	\$88	\$102	\$94	\$80	\$79	\$105	\$108	\$92	\$410	\$364	\$384	\$369
Total	\$377	\$452	\$435	\$382	\$361	\$483	\$480	\$413	\$1,810	\$1,646	\$1,737	\$1,701
- Purchase Originations f.	\$226	\$321	\$326	\$282	\$222	\$323	\$330	\$291	\$1,147	\$1,156	\$1,166	\$1,237
- Refinance Originations f.	\$151	\$131	\$109	\$100	\$139	\$160	\$150	\$122	\$663	\$490	\$571	\$463
Refinancing Share - Originations (%) g.	40	29	25	26	39	33	31	30	37	30	33	27
Residential Mortgage Debt (%) h.	2.0	3.7	4.4	3.0	3.6	3.8	4.0	4.2	3.6	3.3	3.9	3.9

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; annual historical data 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).

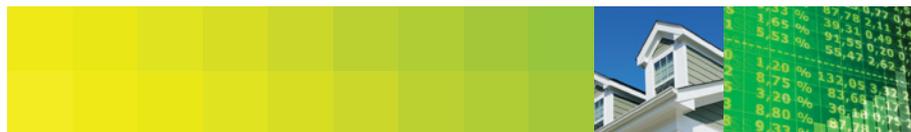
f. Quarterly growth rate of Freddie Mac's House Price Index; seasonally-adjusted; annual rates for yearly data.

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 residential mortgage debt, the sum of single-family and multifamily mortgages (not seasonally-adjusted, reported as Q4 over Q4).

Prepared by the Economic & Housing Research group; Send comments and questions to [chief\\_economist@freddiemac.com](mailto:chief_economist@freddiemac.com).



## Economic & Housing Research **Forecast**

Prepared by the Economic & Housing Research group

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