



JUNE 2019

Housing Market Expected to Realize the Positive Impacts of Low Mortgage Rates in 2019

Concern about future world economic growth and uncertainty around trade and monetary policy have put downward pressure on interest rates. As of the first week of June, the U.S. weekly average 30-year fixed mortgage rate was 3.82%, the lowest since September of 2017. Low mortgage rates along with a strong labor market will help housing markets post modest growth over the next year and a half. We expect refinance mortgage originations to receive a boost in 2019, increasing about 20% relative to 2018.

While real GDP grew at an annual rate of 3.1% in the first quarter, it is unlikely to persist into the second half of 2019. Second quarter growth is tracking around half of first quarter growth at 1.5% through May. In the second half of the year, we anticipate that trade tensions and the waning effects of last year's fiscal stimulus will put downward pressure on growth. For the full year 2019, we forecast GDP growth of 2.2%, decelerating to 1.8% in 2020.

The surge in gasoline prices in the second quarter of 2019 and carryover effects on other goods and services will likely lead to higher consumer prices. Due to these increasing costs, combined with the possible effects on import prices from trade disputes, we expect consumer prices to rise by 3.0% and 2.4% in the second and third quarter of 2019, respectively. This upward revision increases our forecast for consumer price growth in 2019 to 2.1%, and we forecast a similar increase in 2020.

Forecast Snapshot (June 2019)

Summary (annualized)	2017	2018	2019	2020
30-year PMMS (%)	4.0	4.6	4.1	4.2
Total home sales (M)	6.12	5.96	6.03	6.19
House price growth (%)	7.2	4.8	3.6	2.7
Total originations (\$B)	\$1,810	\$1,636	\$1,774	\$1,715



The employment situation report released by the Bureau of Labor Statistics for May showed that the unemployment rate remained at 3.6%, unchanged from last month. We forecast continued strength in the labor market with the unemployment rate inching up in the second half of the year but remaining at the low end of its historical range. Overall, we expect the unemployment rate to stay unchanged from the previous forecast at 3.8% and 3.9% in 2019 and 2020, respectively.

Mortgage rates continue to decline since the beginning of 2019

Concerns about global growth and ongoing trade disputes have pushed long-term interest rates lower resulting in mortgage rates seeing their lowest level since the fall of 2017.

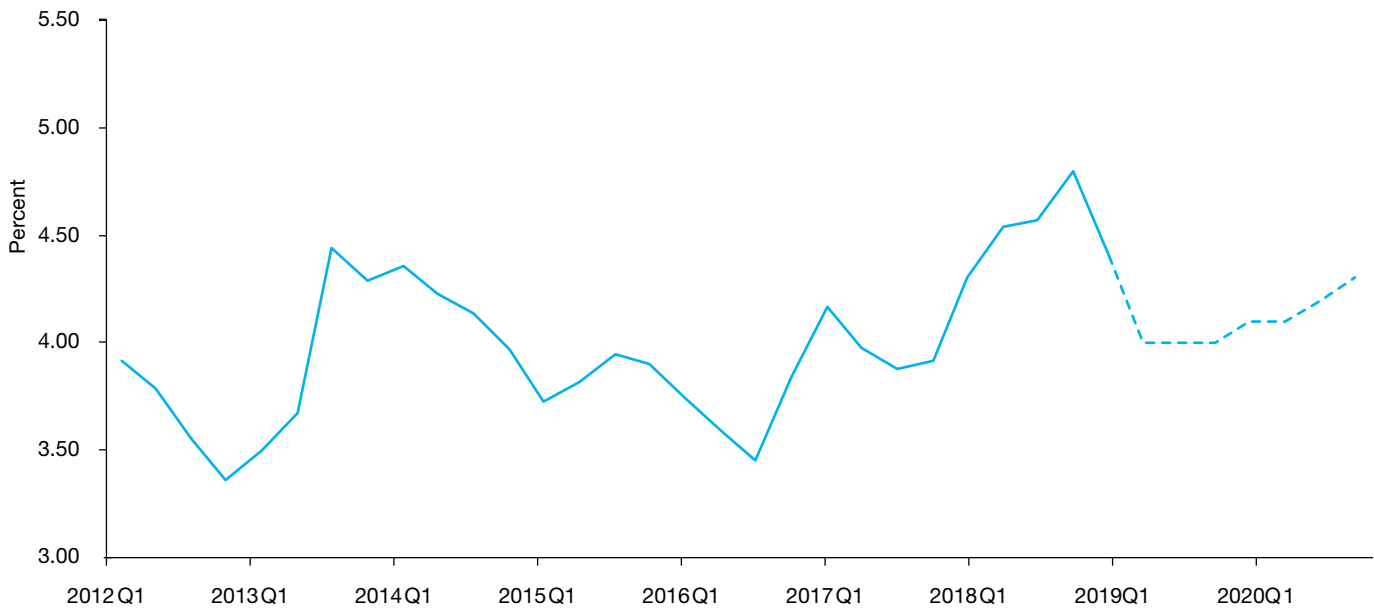
We have revised down our forecast for the 10-year and 1-year Treasury rates. The 10-year Treasury rate is expected to decline to 2.4% and 2.5% in 2019 and 2020, respectively. Also, we lowered the 1-year Treasury rate forecast to 2.2% in 2019 before increasing to 2.3% in 2020.

We expect mortgage rates to follow Treasury yields with the 30-year fixed-rate mortgage averaging 4.1% in 2019, before increasing modestly to 4.2% in 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.



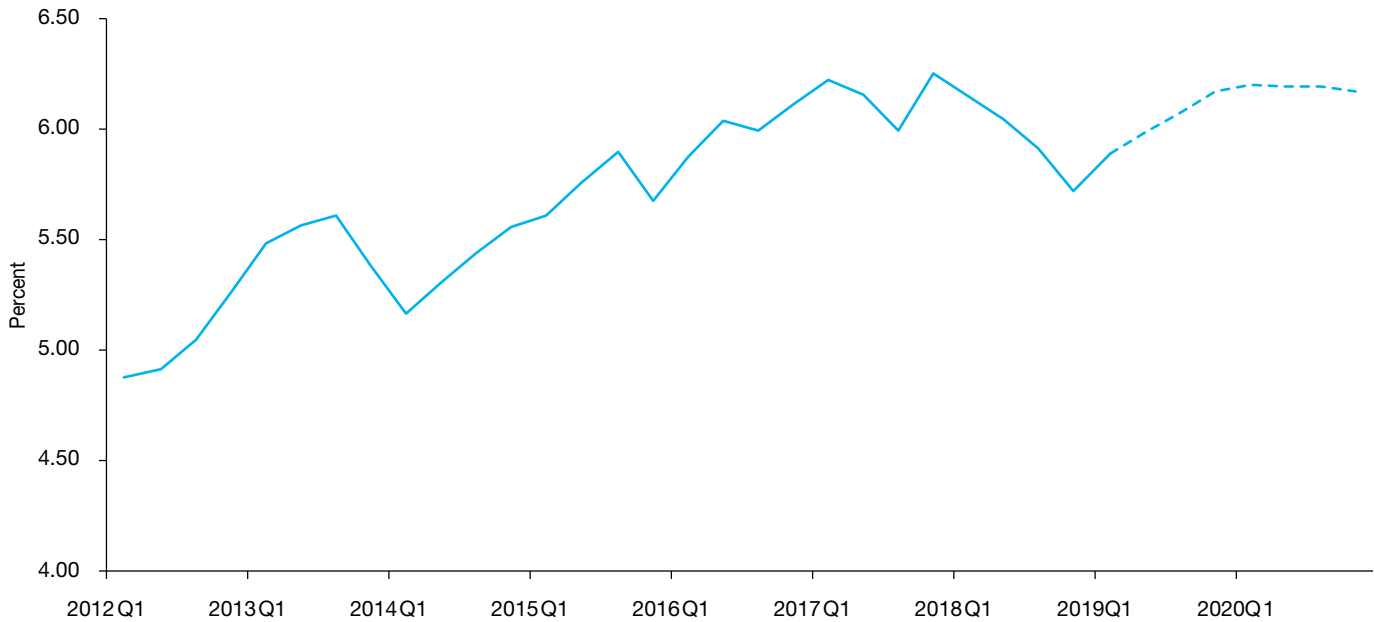
Homes sales showing signs of recovery

Strengthening homebuilder confidence, an increase in the level of housing permits, and low mortgage rates are expected to translate into stronger housing starts and increased home sales. Our annual forecast for housing starts has increased to 1.26 million and 1.35 million in 2019 and 2020, respectively. We anticipate home sales to reverse the 2018 slump and come in stronger at 6.03 million in 2019 before surpassing 2017 levels and increasing to 6.19 million in 2020.

Exhibit 2

Home sales expected to regain momentum

Home sales (existing + new)



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

Note: Dashed line indicates forecasted data.

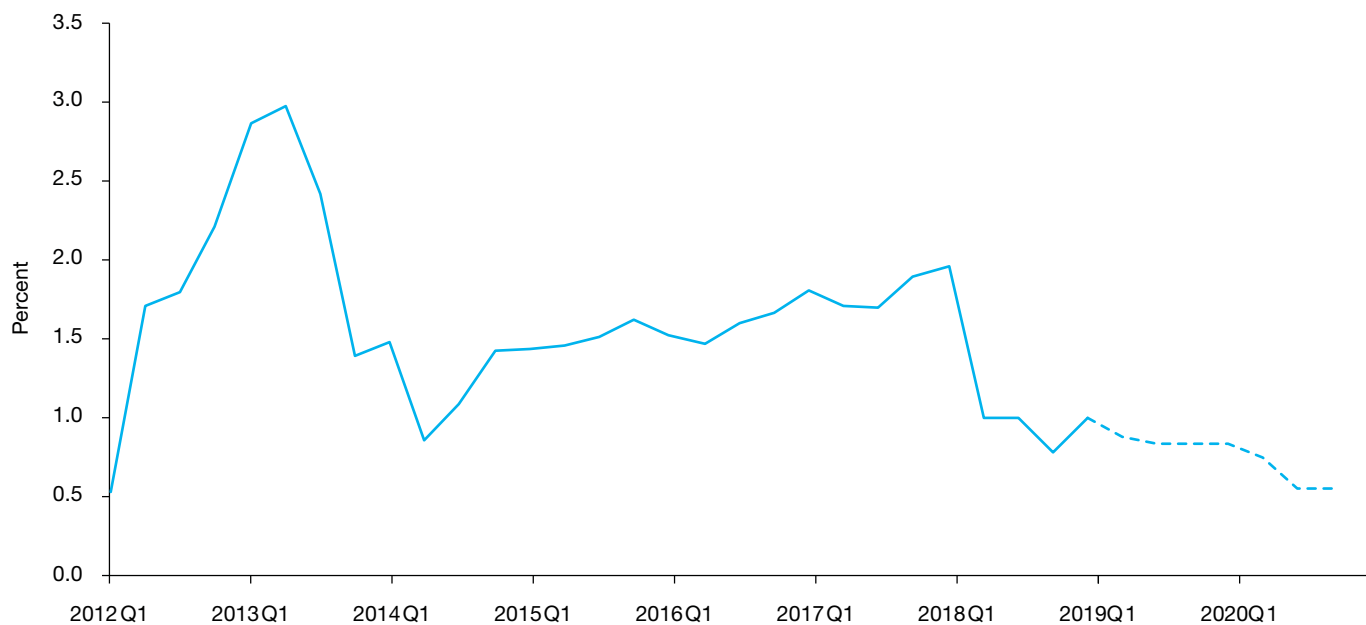


In line with recent trends, house prices are expected to appreciate 3.6% in 2019 before moderating in 2020 at 2.7%, a slightly higher growth rate from our forecast last month.

Exhibit 3

Home price appreciation in the U.S.

Quarterly percent change in Freddie Mac House Price Index



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

Note: Dashed line indicates forecasted data.



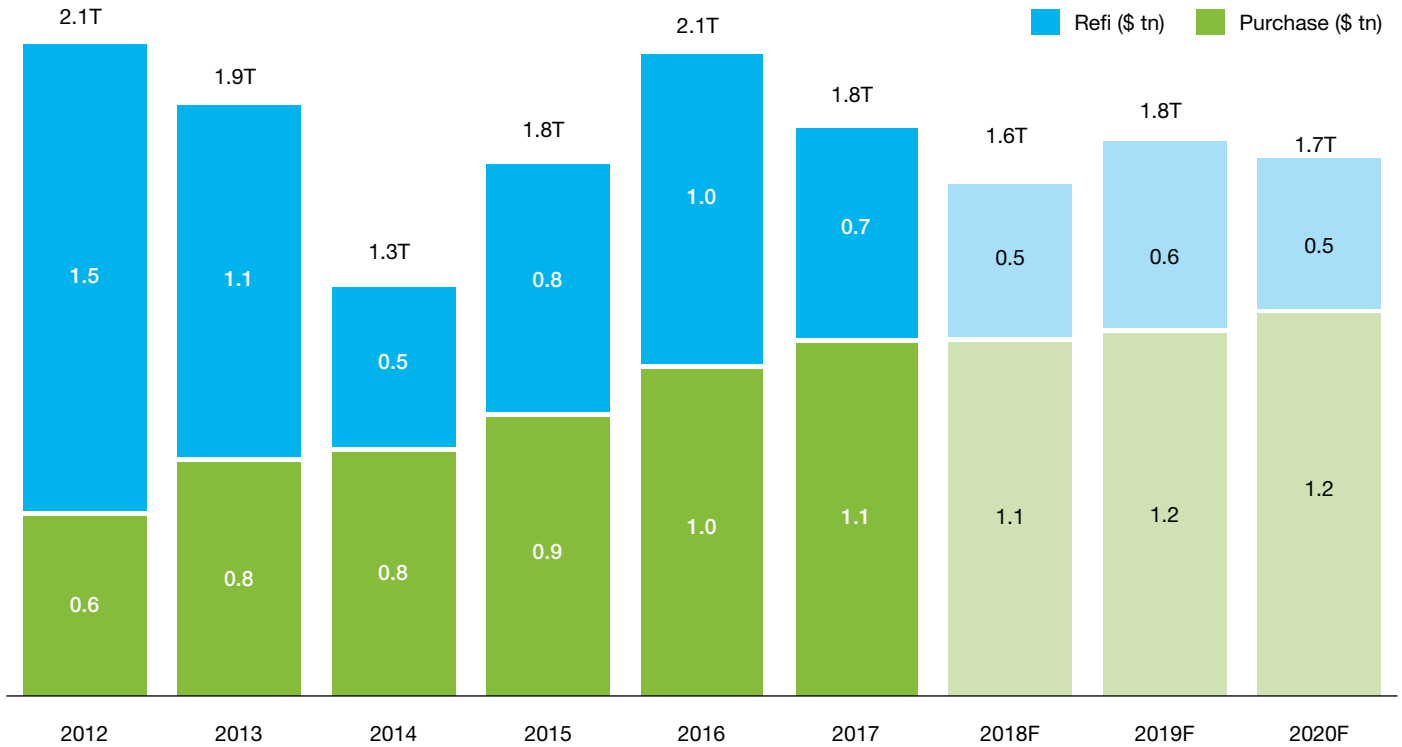
Mortgage originations expected to increase with low mortgage rates

We expect mortgage originations, particularly mortgage refinance originations volumes, to benefit the most from low mortgage rates in 2019. We expect refinance originations volume to rise around 20% in 2019. We also expect lower mortgage rates to translate into higher annual mortgage origination levels of \$1.8 trillion and \$1.7 trillion in 2019 and 2020, respectively.

Exhibit 4

Mortgage originations likely to increase in 2019

Annual single-family mortgage originations (\$ trillions)



Source: Freddie Mac June 2019 Economic and Housing Research Forecast

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



Forecasted Figures

Historical Data

June 2019 Economic & Housing Market Forecast

As of 6/5/2019

Indicator	2018				2019				Annual Totals			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019	2020
Major Economic Indicators												
Real GDP Growth (%)	2.2	4.2	3.4	2.2	3.1	1.5	2.1	2.0	2.5	3.0	2.2	1.8
Consumer Prices (%) a.	3.2	2.1	2.0	1.5	0.9	3.0	2.4	2.3	2.1	2.2	2.1	2.1
Unemployment Rate (%) b.	4.1	3.9	3.8	3.8	3.9	3.7	3.8	3.8	4.4	3.9	3.8	3.9
30-Year Fixed Mtg. Rate (%) b.	4.3	4.5	4.6	4.8	4.4	4.0	4.0	4.0	4.0	4.6	4.1	4.2
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	2.3	2.2	2.2	2.3	2.9	2.4	2.5
1-Year Const. Mat. Treas. Rate (%) b.	1.9	2.3	2.5	2.7	2.5	2.2	2.1	2.1	1.2	2.4	2.2	2.3
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
Housing & Mortgage Markets												
Housing Starts c.												
- Single-Family	0.89	0.89	0.88	0.83	0.85	0.87	0.91	0.92	0.85	0.87	0.89	1.00
- Multifamily	0.43	0.37	0.36	0.36	0.35	0.37	0.39	0.39	0.35	0.38	0.38	0.35
Total	1.32	1.26	1.23	1.19	1.20	1.24	1.30	1.31	1.20	1.25	1.26	1.35
Home Sales (incl. Condos) d.												
- Existing Home Sales	5.51	5.41	5.31	5.14	5.21	5.33	5.43	5.53	5.51	5.34	5.37	5.52
- New Home Sales	0.64	0.63	0.61	0.58	0.68	0.65	0.64	0.64	0.61	0.62	0.65	0.67
Total	6.15	6.04	5.91	5.72	5.89	5.98	6.07	6.17	6.12	5.96	6.03	6.19
FMHPI House Price Appreciation (%) e.	2.0	1.0	1.0	0.8	1.0	0.9	0.8	0.8	7.2	4.8	3.6	2.7
1-4 Family Mortgage Originations f.												
- Conventional	\$289	\$350	\$341	\$302	\$280	\$410	\$393	\$336	\$1,400	\$1,282	\$1,419	\$1,374
- FHA & VA	\$88	\$90	\$94	\$82	\$75	\$101	\$96	\$83	\$410	\$354	\$355	\$341
Total	\$377	\$440	\$435	\$384	\$355	\$511	\$489	\$419	\$1,810	\$1,636	\$1,774	\$1,715
- Purchase Originations f.	\$226	\$312	\$326	\$284	\$226	\$340	\$331	\$292	\$1,147	\$1,149	\$1,190	\$1,242
- Refinance Originations f.	\$151	\$128	\$109	\$100	\$129	\$171	\$158	\$127	\$663	\$487	\$584	\$473
Refinancing Share - Originations (%) g.	40	29	25	26	36	34	32	30	37	30	33	28
Residential Mortgage Debt (%) h.	2.8	2.9	2.9	1.9	3.0	3.0	2.9	2.9	2.9	2.6	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

www.freddiemac.com/finance

Opinions, estimates, forecasts and other views contained in this document are those of Freddie Mac's Economic & Housing Research group, do not necessarily represent the views of Freddie Mac or its management, should not be construed as indicating Freddie Mac's business prospects or expected results, and are subject to change without notice. Although the Economic & Housing Research group attempts to provide reliable, useful information, it does not guarantee that the information is accurate, current or suitable for any particular purpose. The information is therefore provided on an "as is" basis, with no warranties of any kind whatsoever. Information from this document may be used with proper attribution. Alteration of this document is strictly prohibited.

© 2019 by Freddie Mac.