

JULY 2022

Quarterly Forecast: Market Slowdown will Continue as High Rates and Prices Exacerbate Affordability Challenges

U.S. economic growth fell at a 1.6% annual rate in Q1 2022 primarily due to a decrease in exports and government spending and an increase in imports. Consumption has been supported by a strong labor market. The unemployment rate remained steady at 3.6% as of June. The U.S. economy added 372,000 nonfarm payroll jobs in June averaging 456,000 jobs gained per month in 2022.

Despite the strength in the labor market, economic uncertainty is on the rise and the economy is slowing due to inflation and ongoing geopolitical tensions. Inflationary pressures remain high with the all-item consumer price index (CPI) increasing 8.5% year-over-year in May 2022. Inflation has eaten into consumers' pandemic savings as the costs of essentials such as food, energy, and rent have outpaced wage and income growth. Inflationary pressures will likely remain high throughout the year due to the impact of the geopolitical conflict on food and energy prices.

The Federal Reserve has increased the target fed funds rate by 1.5 percentage points through the first half of 2022 and the markets have been pricing in more aggressive rate increases. As a result, mortgage rates have been volatile over the past few weeks but have increased from 3.8% in the first quarter to 5.3% in the second quarter of 2022. We forecast 30-year fixed-rates to average 5% in 2022 and rise to 5.1% in 2023. House price appreciation is slowing to a more moderate growth rate and we expect price growth to be 12.8% and 4.0% in 2022 and 2023 respectively.

The rise in mortgage rates along with house price appreciation is leading to affordability challenges and causing a slowdown in the housing market. Both existing and new home sales have slowed in the latest surveys. Total home sales are down 17% since the beginning of the year. We expect housing demand to moderate and forecast home sales to slow to 6 million in 2022 and 5.4 million in 2023.

Given the house price growth and home sales expectation, we expect home purchase mortgage originations to be \$2.0 trillion in 2022, slowing to \$1.9 trillion in 2023. With mortgage rates expected to continue to rise, we forecast refinance activity to slow with refinance originations declining from \$2.8 trillion in 2021 to \$885 billion in 2022 and \$463 billion in 2023. Overall, we forecast total originations to decline from the high of \$4.8 trillion in 2021 to \$2.8 trillion in 2022 and \$2.3 trillion in 2023.

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Forecast Snapshot

Summary (annualized)	2021	2022	2023
30-year PMMS (%)	3.0	5.0	5.1
Total home sales (M)	6.9	6.0	5.4
House price growth (%)	17.8	12.8	4.0
Total originations (\$B)	\$4,838	\$2,842	\$2,346



2022 Q3

Economic and Housing Market Outlook

Draft revised 07/05/2022

	2021				2022				2023				2020	2021	2022	2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
30-year PMMS (%) a.	2.9	3.0	2.9	3.1	3.8	5.3	5.5	5.4	5.2	5.2	5.0	5.0	3.1	3.0	5.0	5.1
Total home sales (M) b.	7.1	6.7	6.8	7.0	6.8	6.0	5.7	5.6	5.3	5.3	5.3	5.5	6.5	6.9	6.0	5.4
House price growth (%) c.	4.3	5.5	3.3	3.8	5.1	3.8	1.7	1.7	1.6	1.6	0.3	0.3	11.3	17.8	12.8	4.0
Total originations (\$B) d.	\$1,310	\$1,229	\$1,213	\$1,085	\$827	\$780	\$661	\$574	\$470	\$652	\$638	\$586	\$4,441	\$4,838	\$2,842	\$2,346
Purchase originations (\$B) d.	\$399	\$564	\$551	\$498	\$407	\$568	\$529	\$453	\$363	\$541	\$520	\$460	\$1,587	\$2,012	\$1,957	\$1,883
Refinance originations (\$B) d.	\$911	\$666	\$662	\$587	\$420	\$212	\$132	\$121	\$107	\$111	\$119	\$126	\$2,853	\$2,825	\$885	\$463

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.

a. Quarterly average of monthly interest rates (not seasonally-adjusted); reported as an annual rate.

b. Millions of housing units; total sales are the sum of new and existing single-family, condo/co-op home sales; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).

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

d. Billions of dollars (not seasonally-adjusted). Includes only 1st lien mortgage originations.

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