

Quarterly Economic & Housing Market Outlook

Research & Insight
August 2024



Overview



Economy: The U.S. Economy Continues to Grow But at a Slower Pace

- Labor market cooling with unemployment rate rising above 4% for the first time since November 2021.
- Inflation moderating and is expected to continue to moderate towards the Fed target.

Housing Market: Affordability Challenged by Higher Rates; House Prices Resilient

- Mortgage rates declining after hovering around 7% for much of Spring 2024.
- Home sales continue to be affected by rate lock effect.
- Housing supply has only increased modestly, the rate lock-in effect particularly dampens repeat buyer activity.
- Home price growth remains strong on low supply.

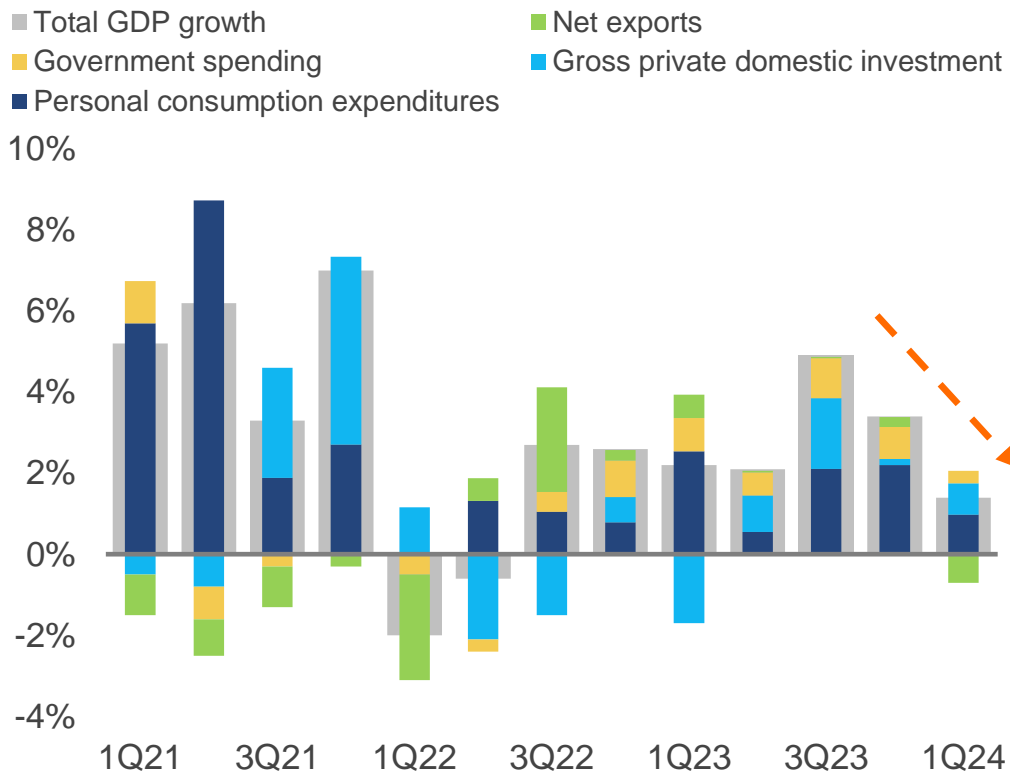


Economy: The U.S. Economy Continues to Grow But at a Slower Pace

The Economic Expansion Continues, but at a Slower Pace

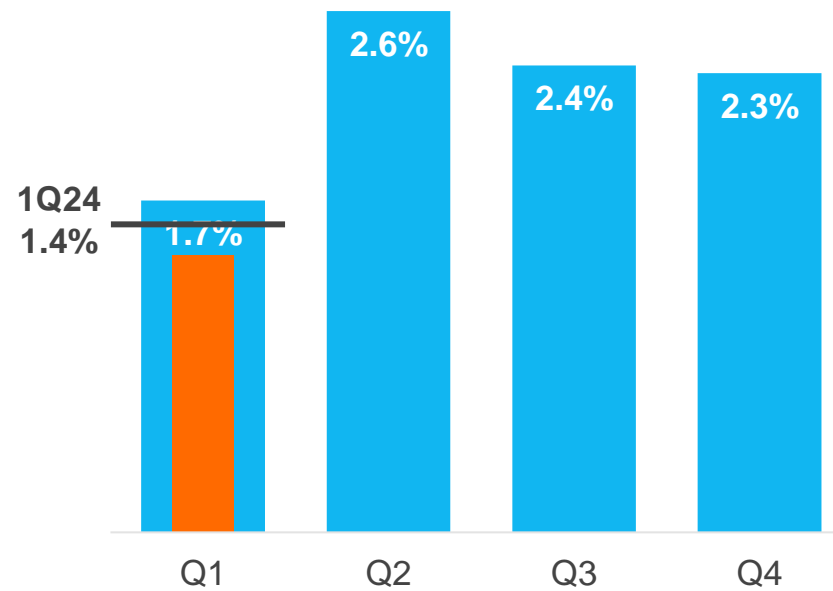


GDP Quarter-over-quarter Annualized Growth and Contributions



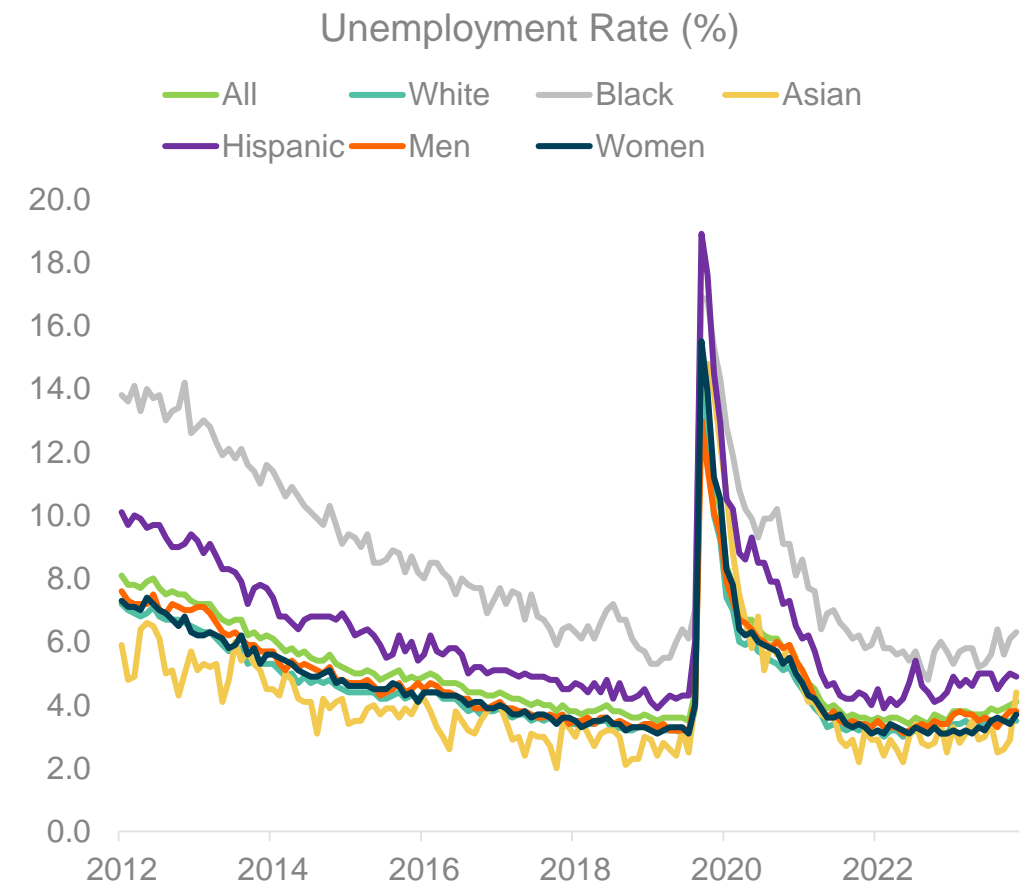
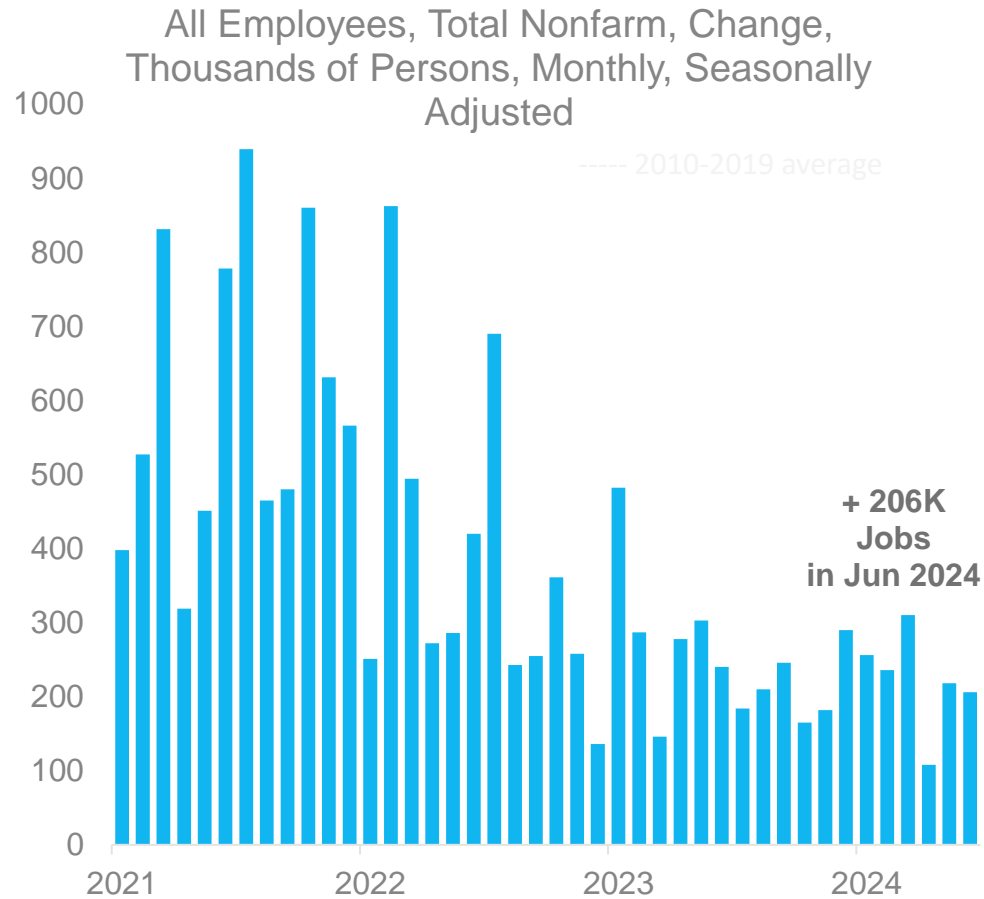
Average of Annualized GDP Growth*

1Q 2000 to 1Q 2024



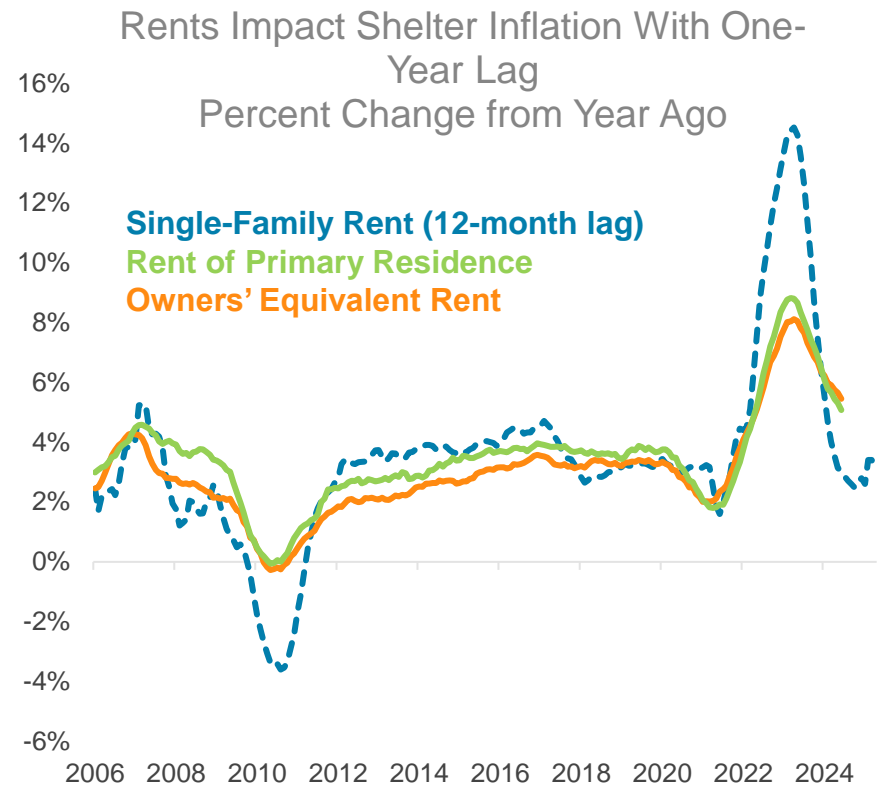
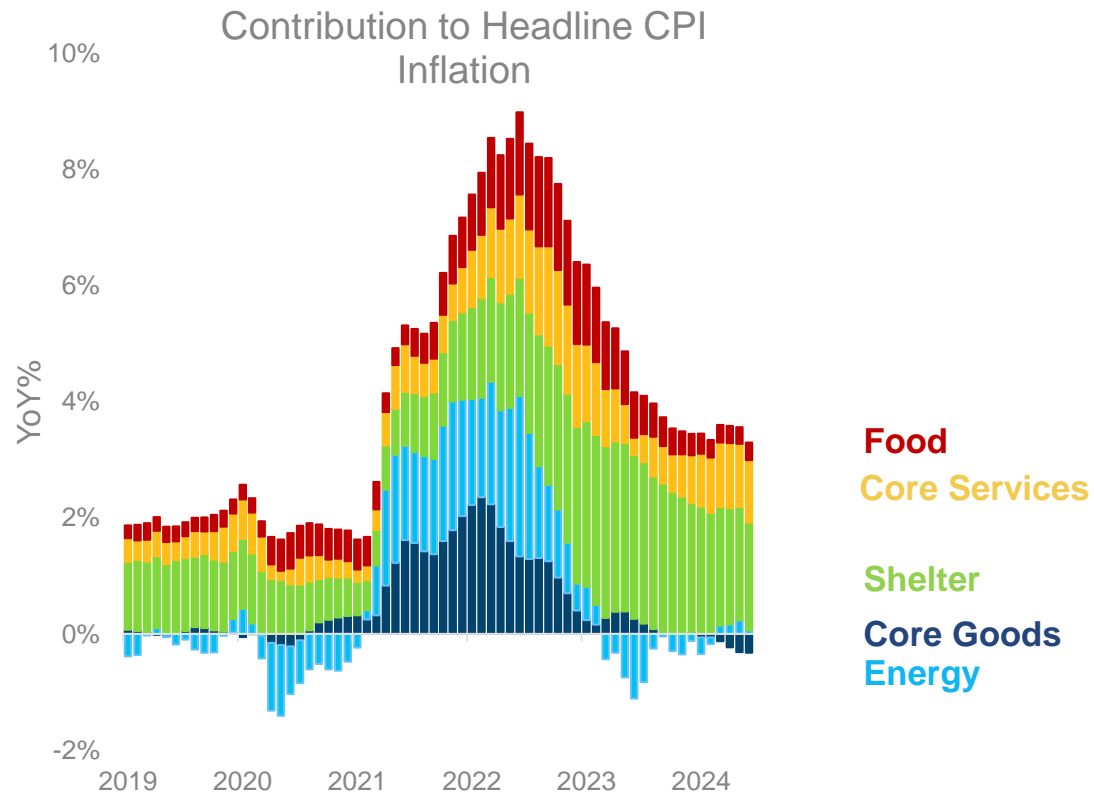
Source: Bureau of Economic Analysis (BEA) * 2020 is excluded due to volatility

Labor Market is Cooling, but Remains Tight



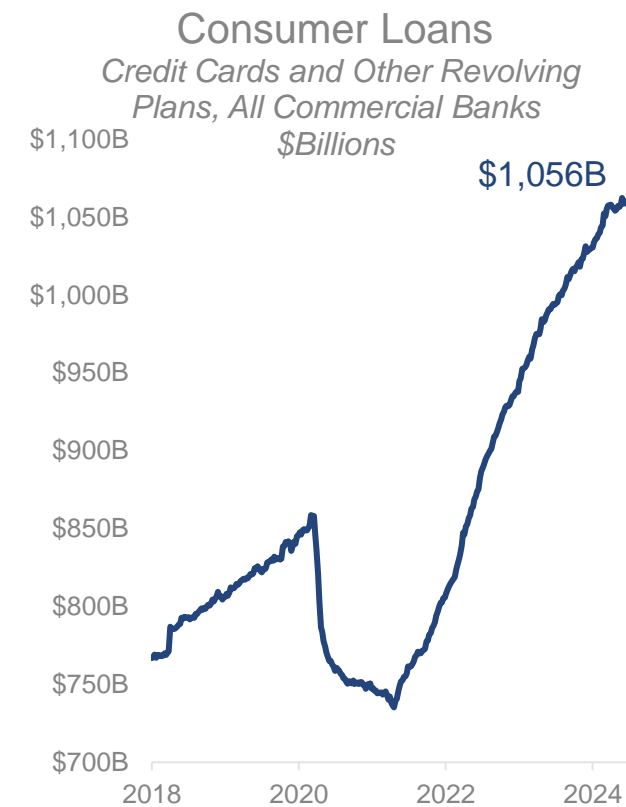
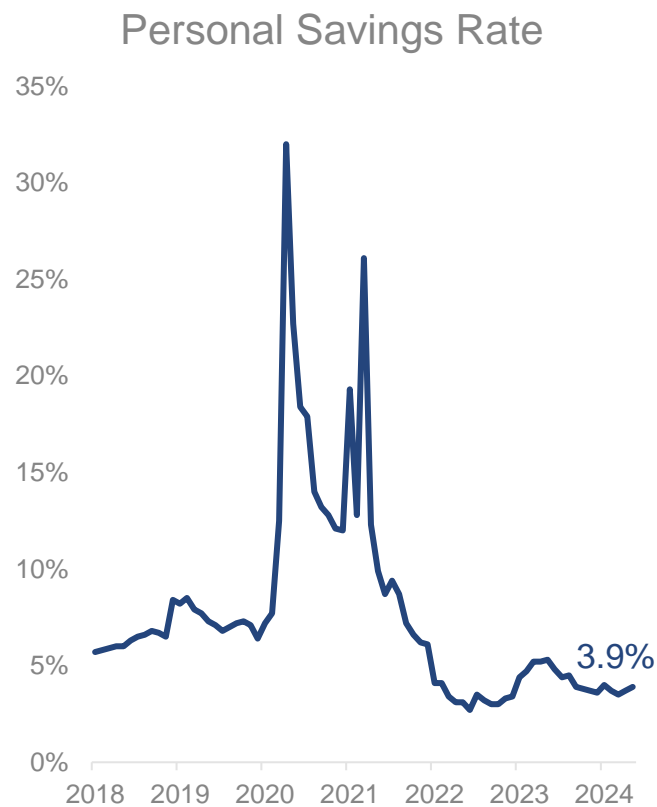
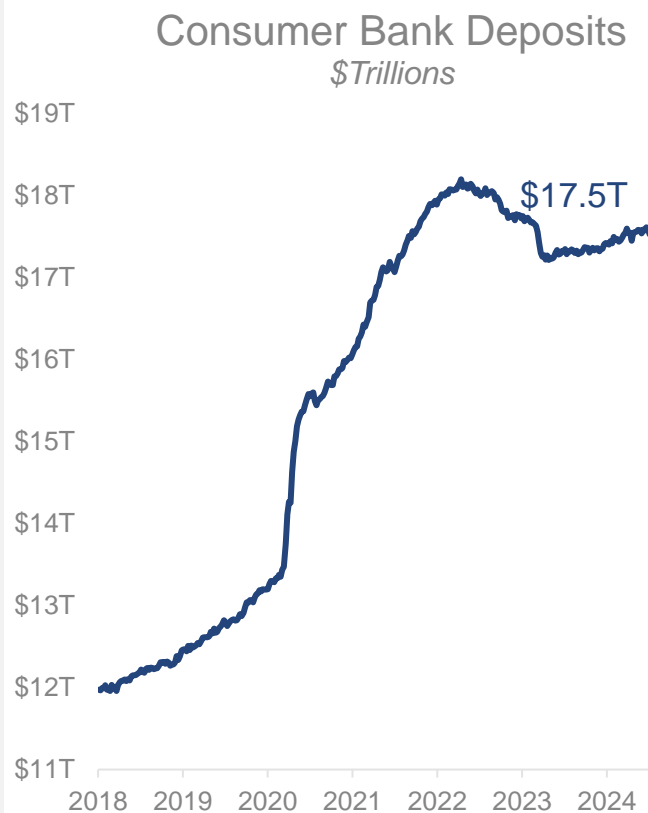
Source: BLS

Goods and Energy Inflation has Normalized and Services Inflation is Expected to Follow Because Shelter Inflation Will Decline the Rest of this Year



Source: Bureau of Labor Statistics, CoreLogic

Consumer Balance Sheet Improved Significantly Due to Stimulus, but They Have Weakened as Credit Demand Surged During the Last 18 Months

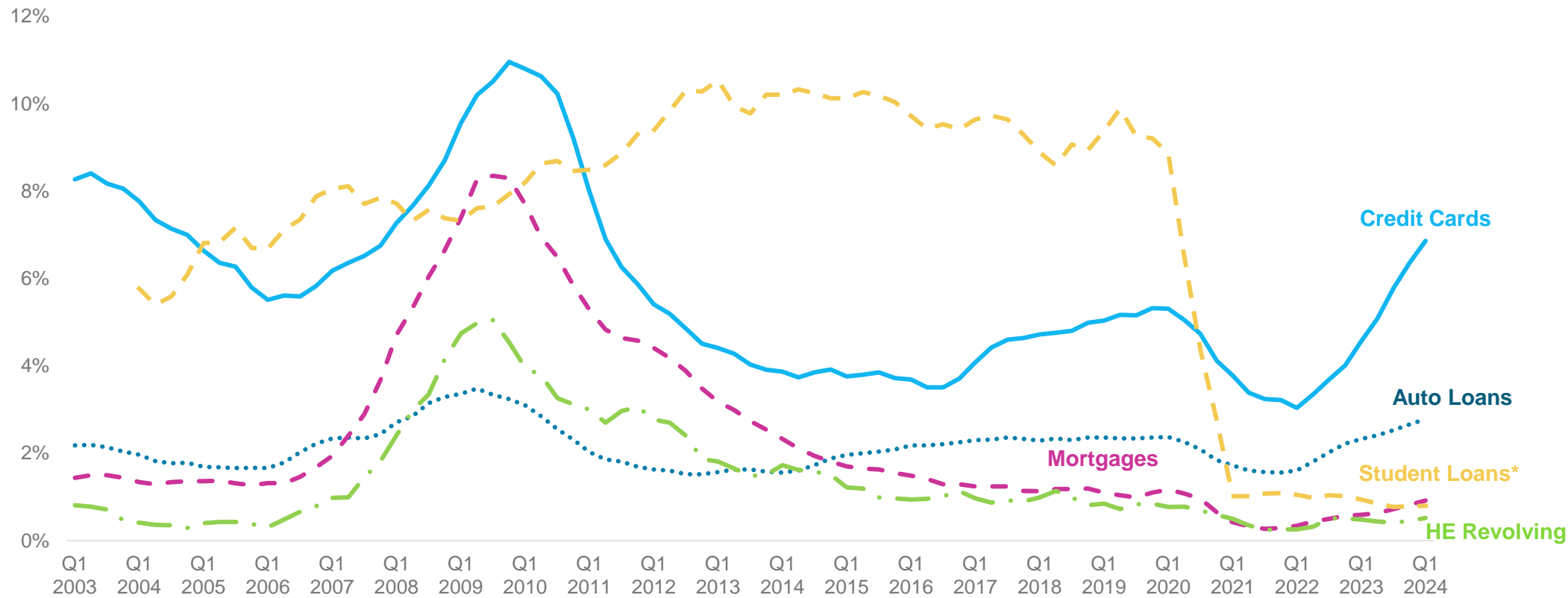


Source: Federal Reserve, Bureau of Economic Analysis.

Serious Delinquency Rate for Credit Cards and Autos Continue to Increase, But Mortgage Performance Remains Solid



Transition Into Serious Delinquency (90+) by Loan Type
4 Quarter Moving Sum

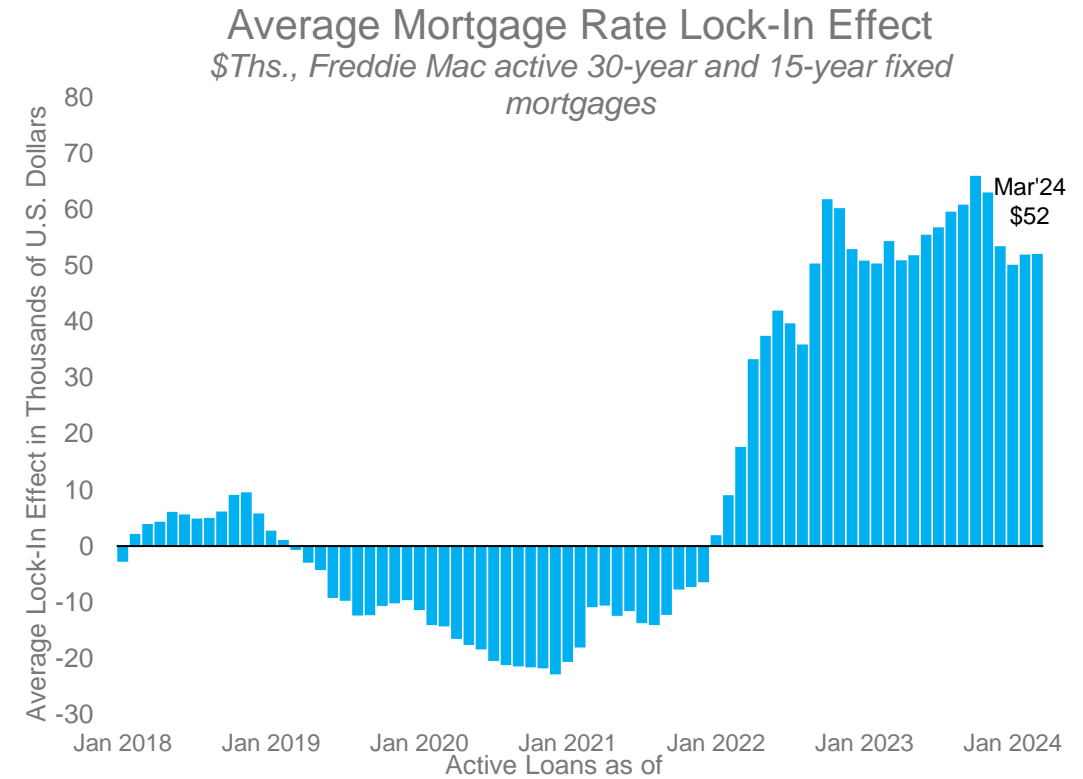


Source: New York Fed Consumer Credit Panel/Equifax *Student loan data are not reported prior to 2004 due to uneven reporting



Housing Market: Affordability Challenged by Higher Rates; House Prices Resilient

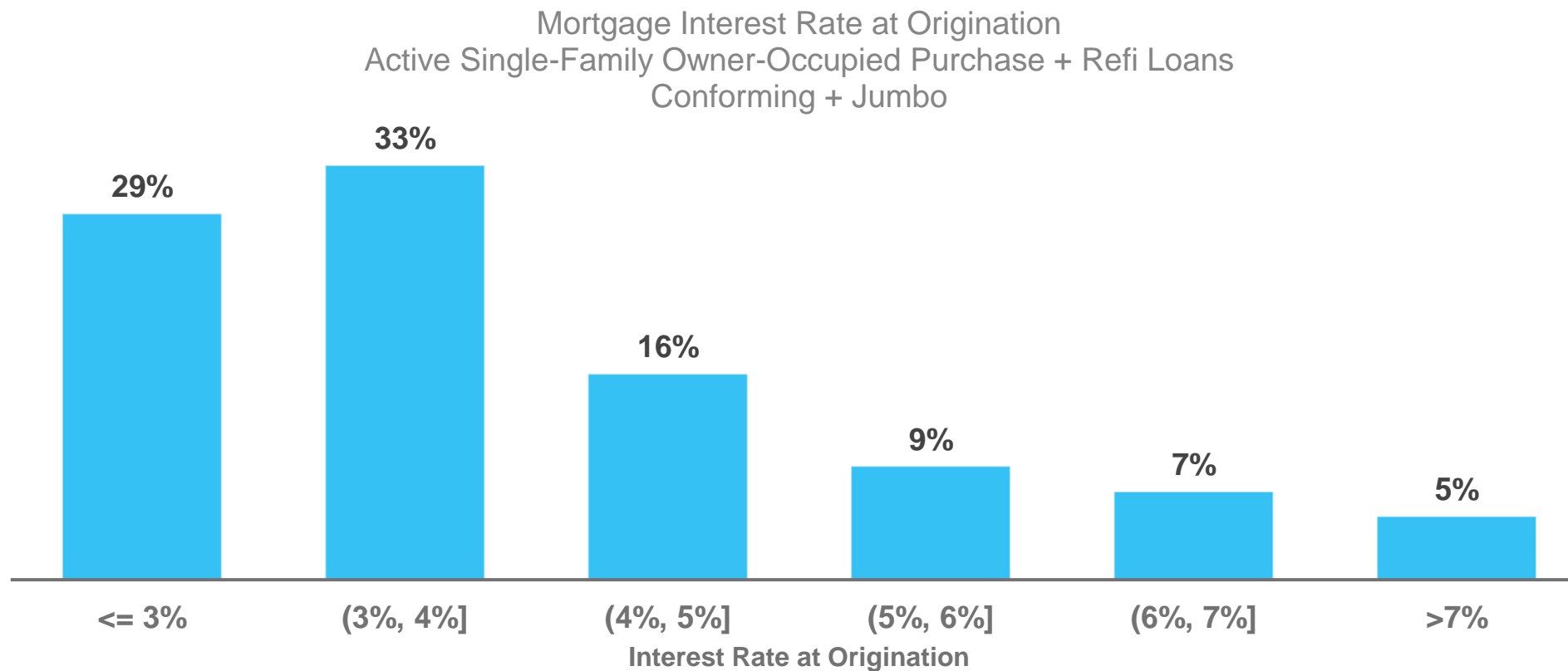
Mortgage Rates Decline After Hovering Around 7% During Spring



Lock-in computed by the formula $V = B - \sum_{i=1}^n \frac{P}{(1+r)^i} - F / ((1+r)^n)$ where B is the current outstanding mortgage balance, P is the monthly principal and interest payment, r is the current prevailing 30-year/15-year mortgage

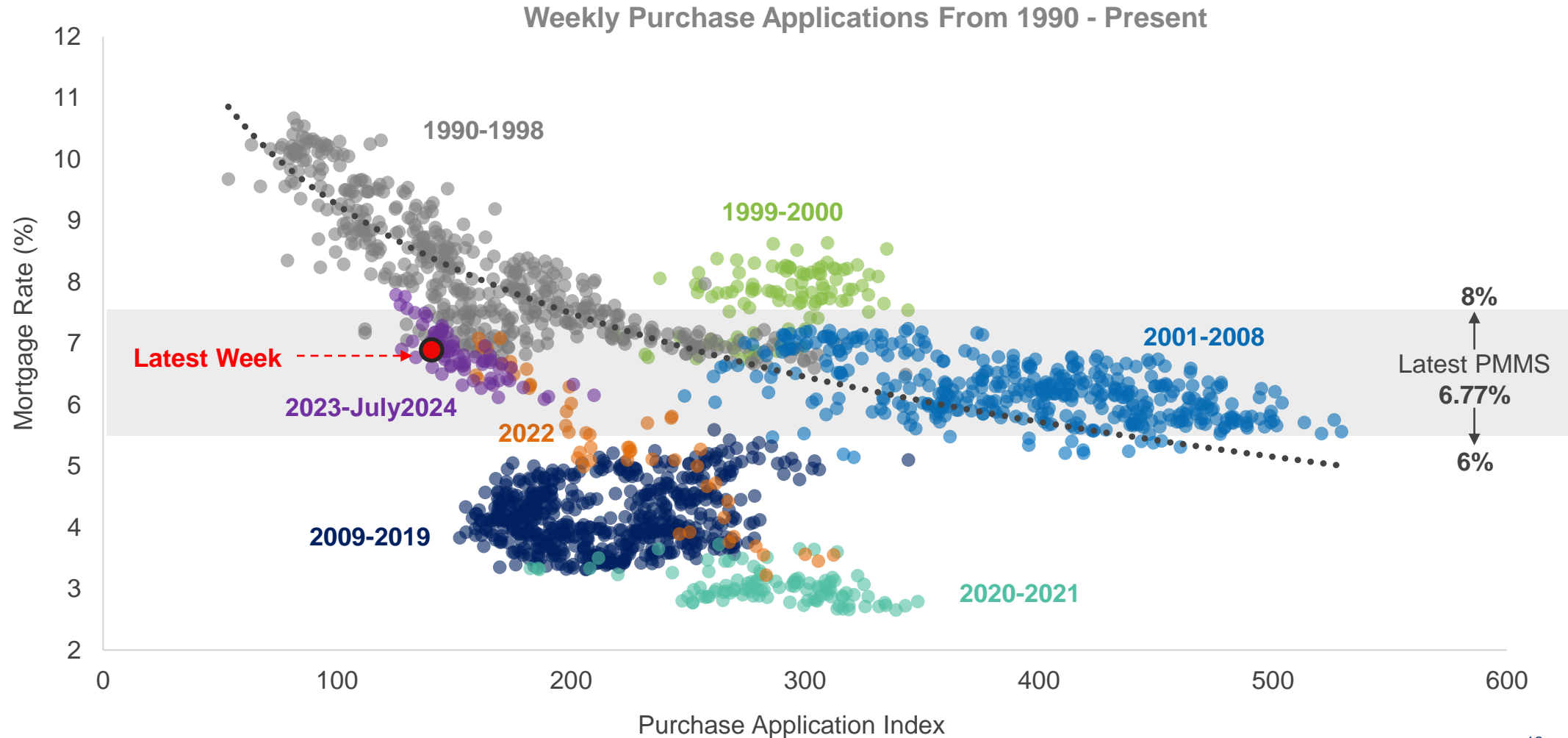
Source: Freddie Mac; National Association of Realtors. Freddie Mac Primary Mortgage Market Survey as of 1/25/2024

Refinance Activity is Almost Non-Existent as Over Six Out of Ten Mortgages Have Rates Below 4%



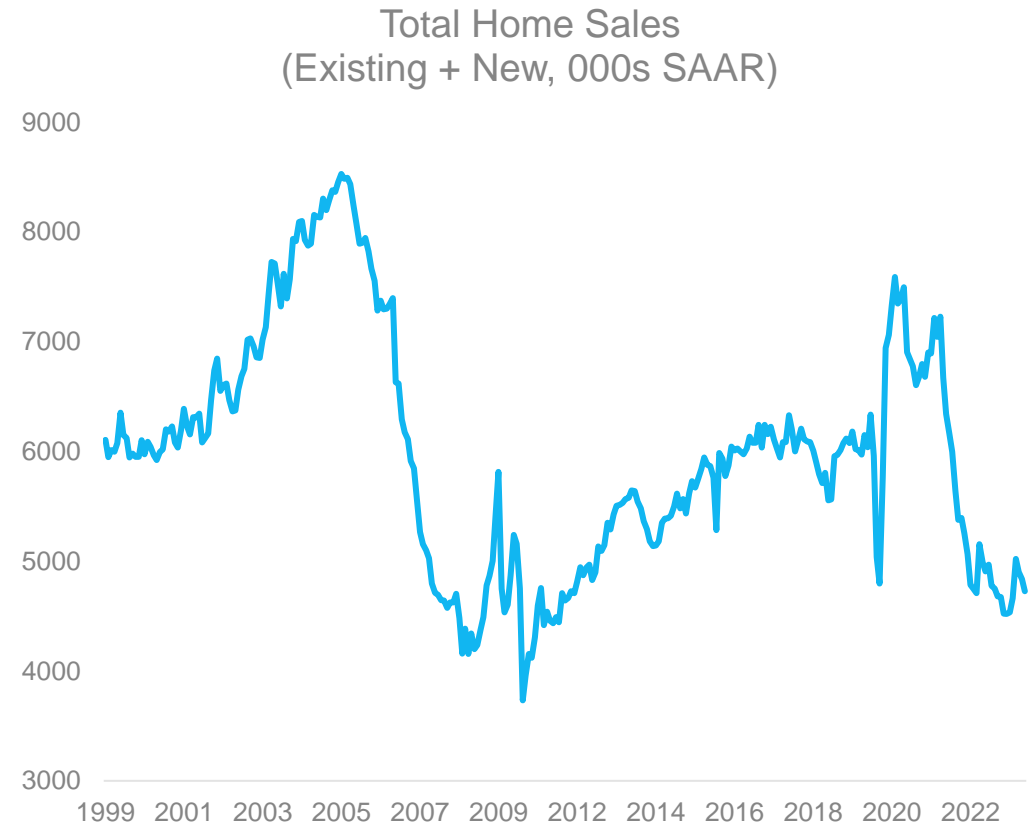
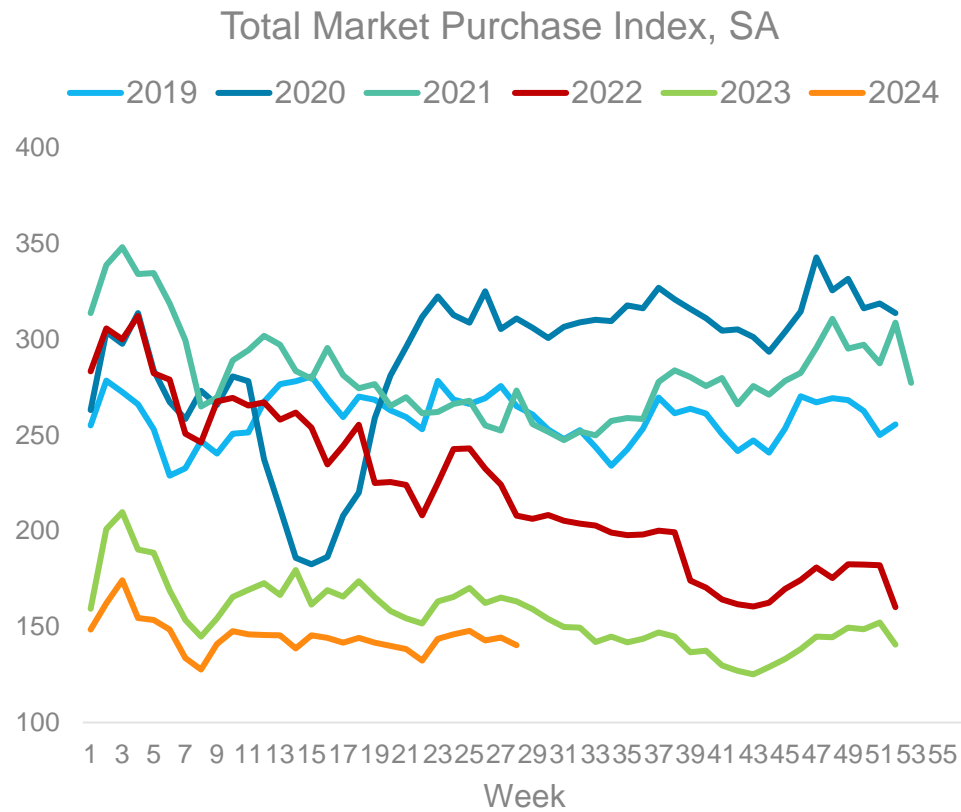
Note: Includes single-family owner occupied, mortgage originated since 1990 and active as of January 2024, both purchase and refinance. "At Origination" refers to when purchased or refinanced.
Source: Freddie Mac calculations using the National Mortgage Database (NMDb).

While Mortgage Rates are not that Different than Overall Rates Over the Last Three Decades, Purchase Demand is Very Low



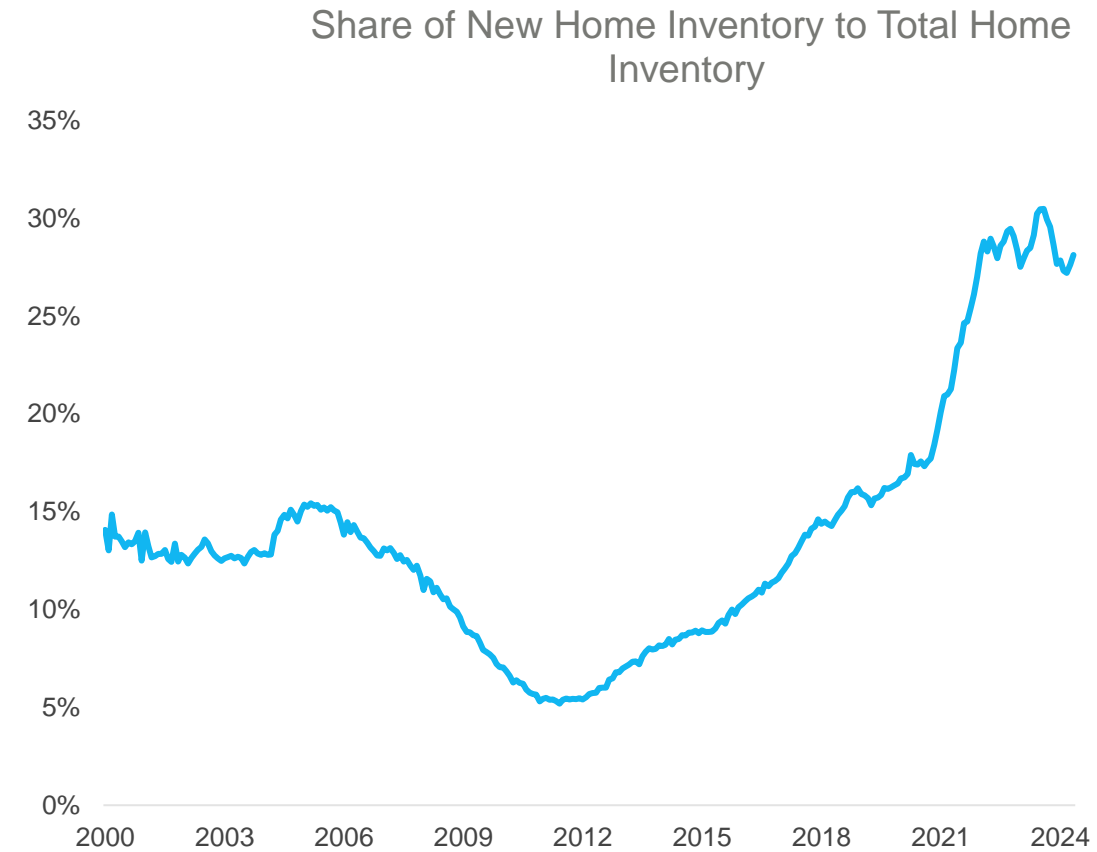
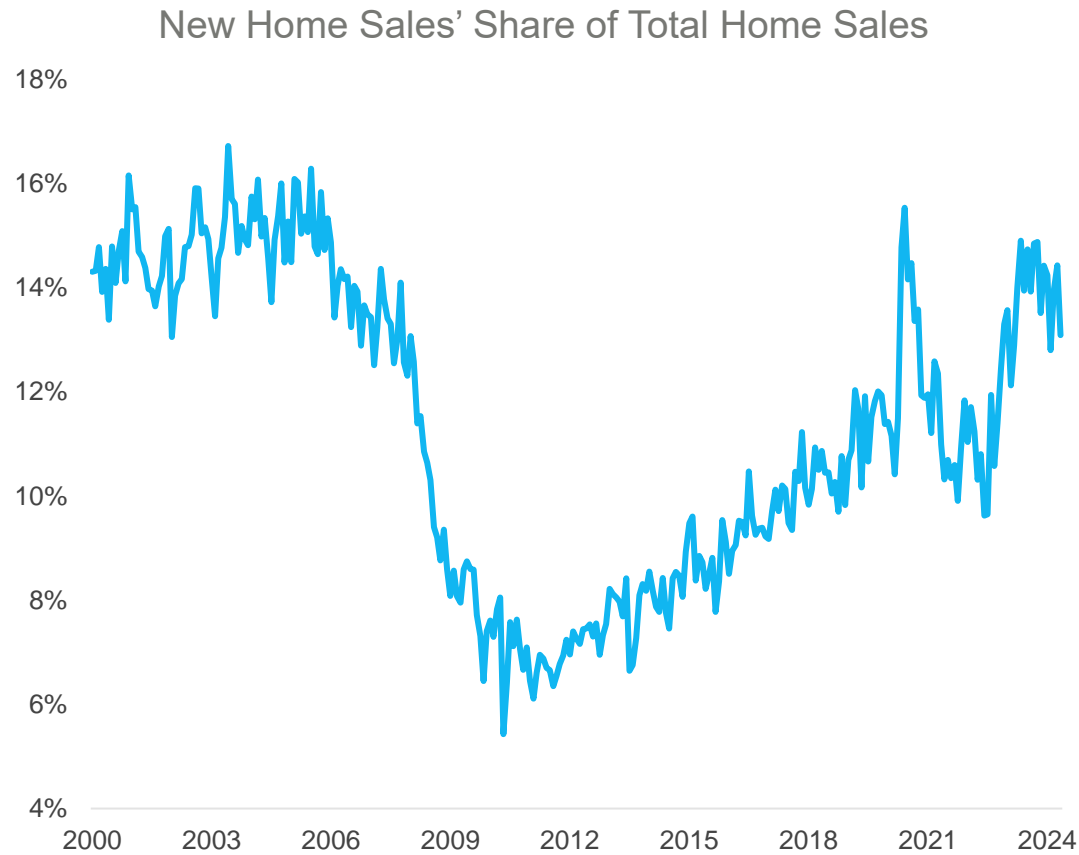
Source: Freddie Mac, Mortgage Bankers Association (MBA)

Purchase Applications and Home Sales Decline on Higher Rates and Rate Lock Effect



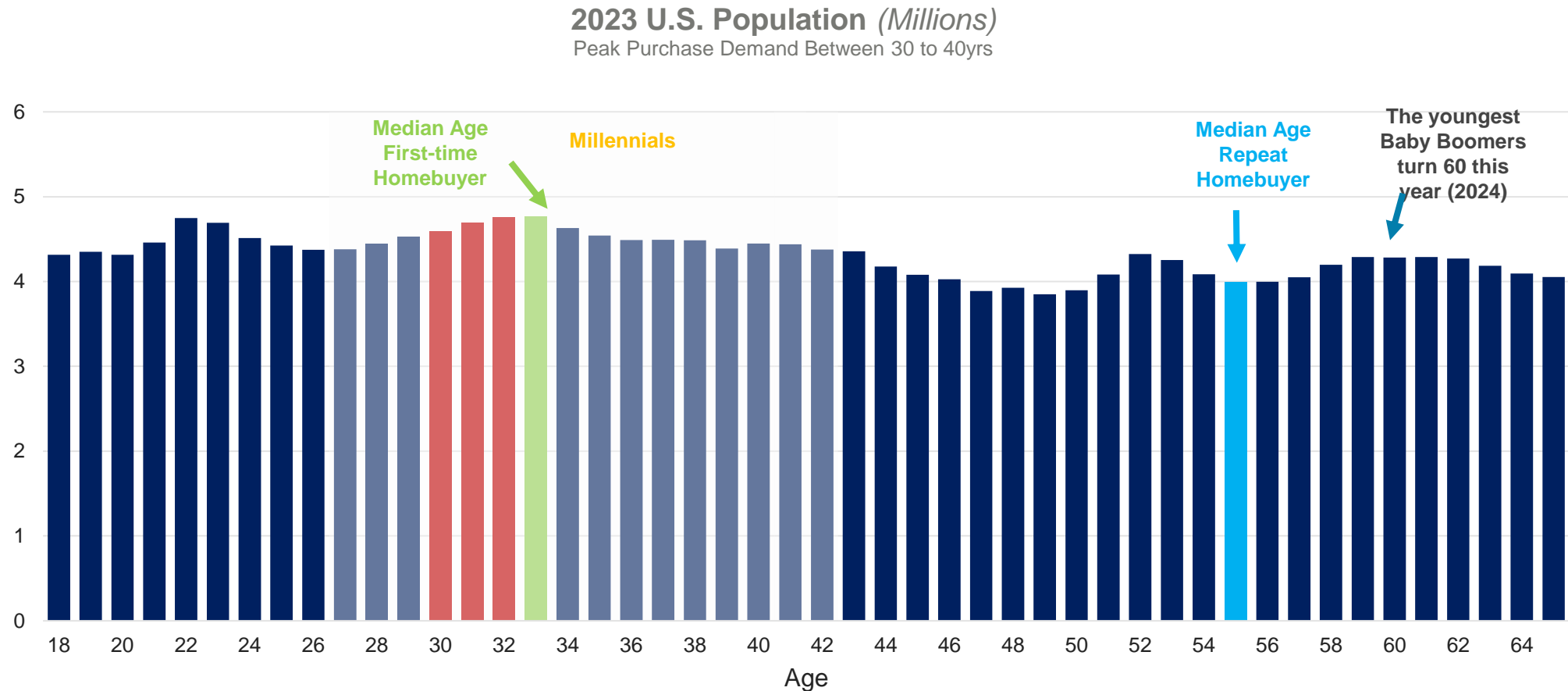
Source: National Association of Realtors (NAR); U.S. Census Bureau, MBA

New Home Sales Are Taking a Large Share of Homes Sold Than in the Past Decade



Source: U.S. Census Bureau; HUD, NAR

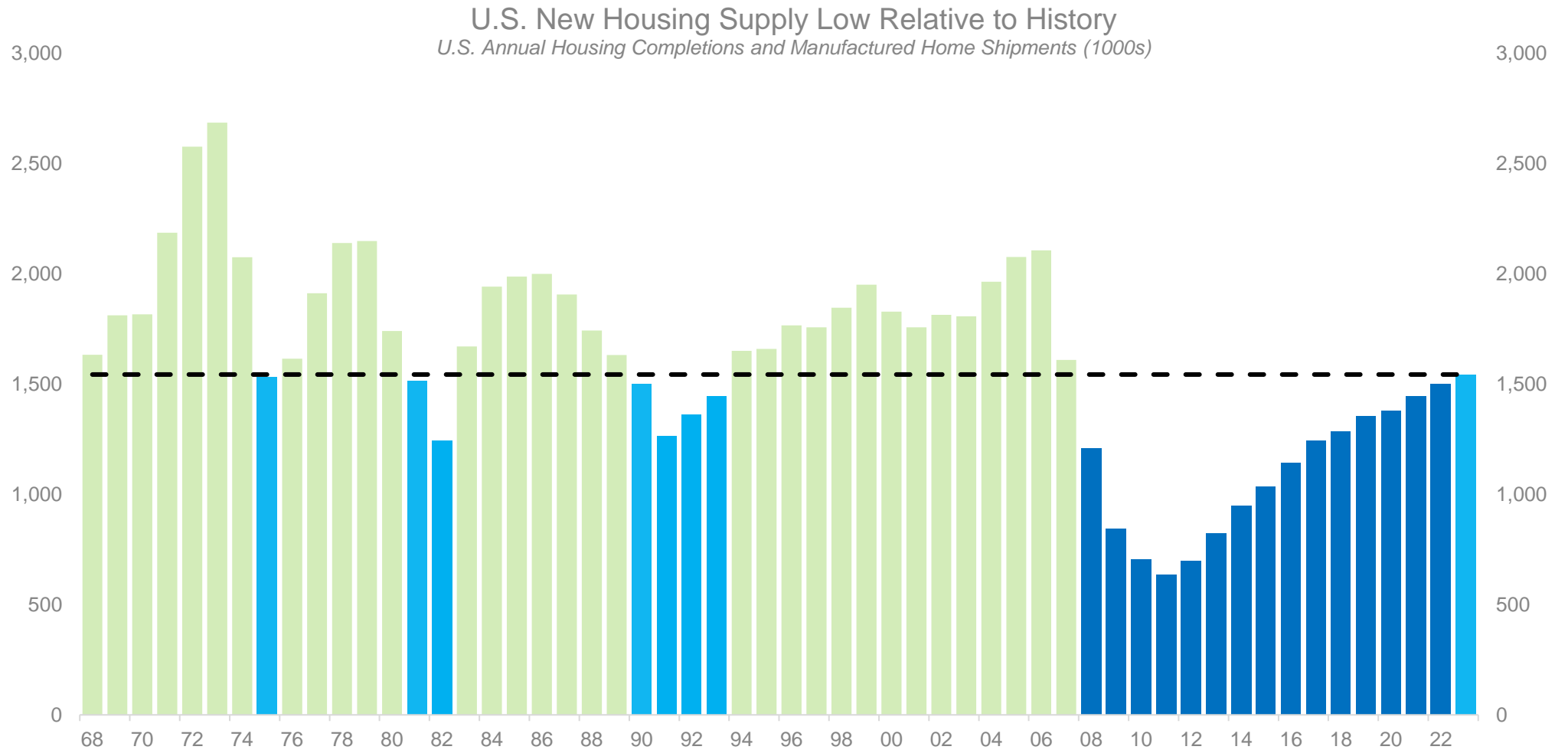
Housing Demand Robust on Favorable Age Demographics of First-time Homebuyer's



Millennials (ages 27-42 as of 2023) are now near the **peak homebuying age**

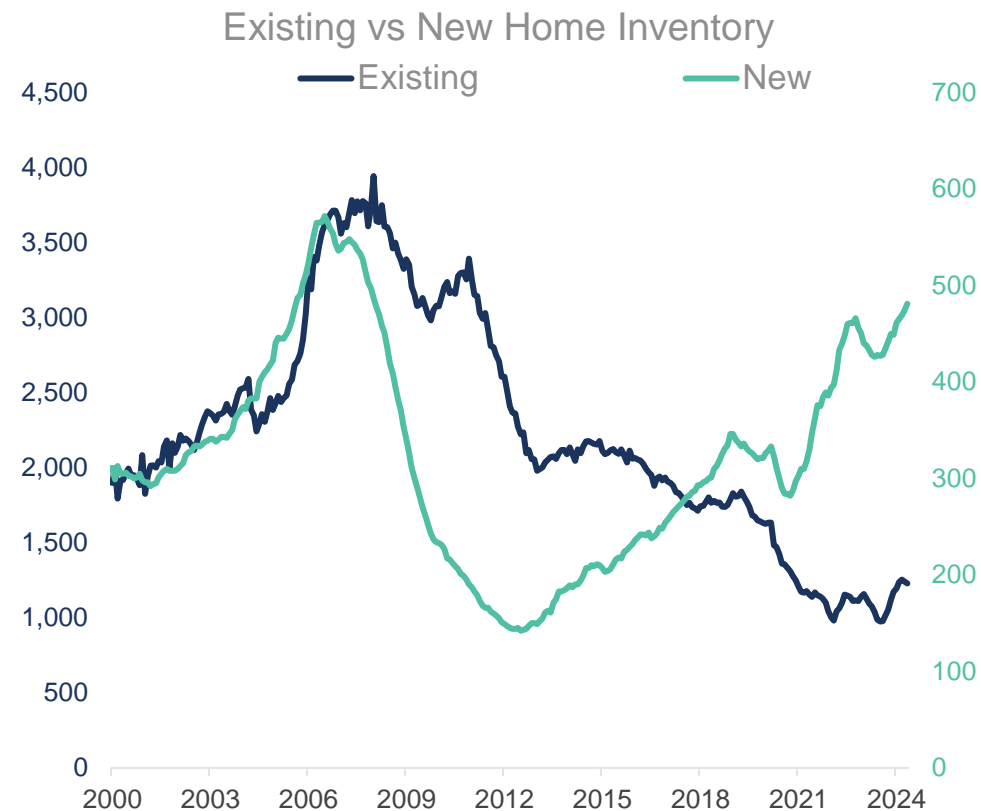
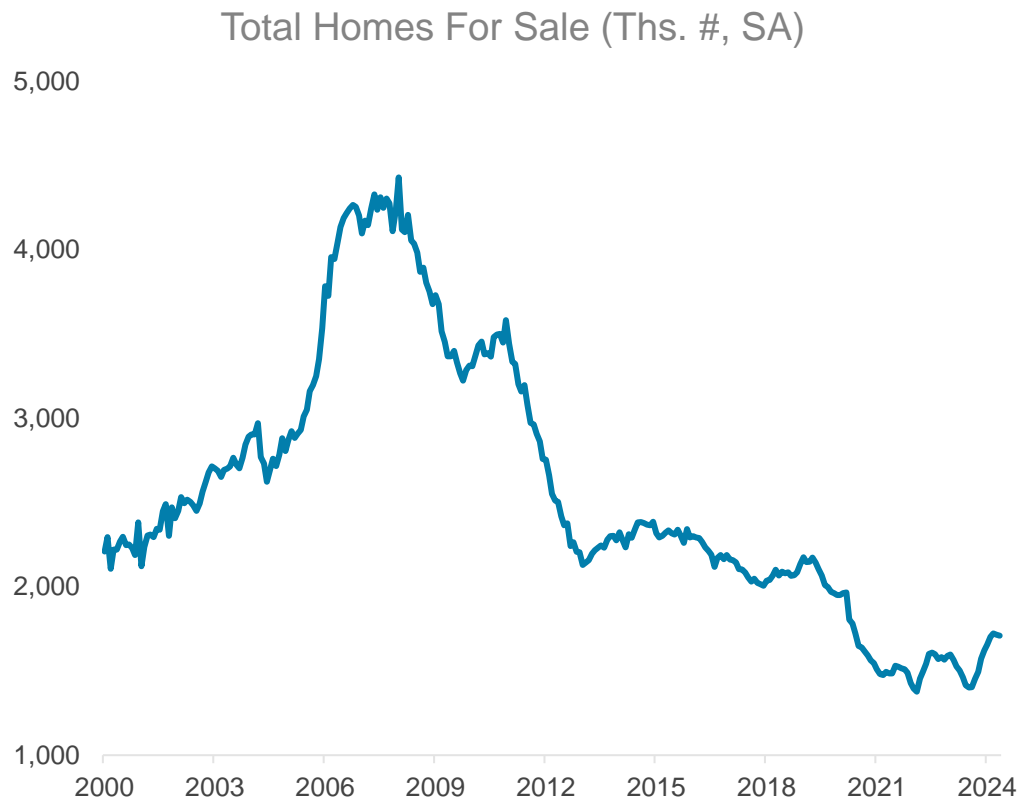
Source: U.S. Census Bureau

New Housing Completions Improved in 2023, but still Below Pre-Global Financial Crisis Levels...



Source: U.S. Census Bureau and Department of Housing and Urban Development, Institute for Building Technology & Safety

Despite Weak Sales, Supply Remains Low as Market is Dominated by Chronic Undersupply of Resales

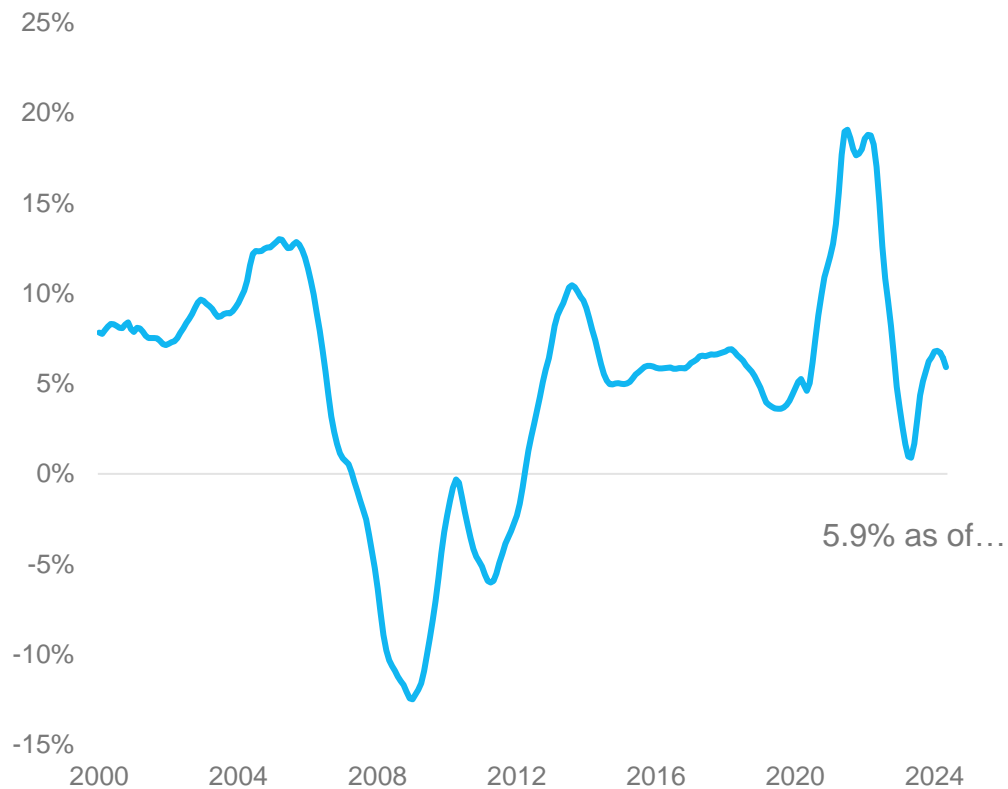


Source: NAR, Census

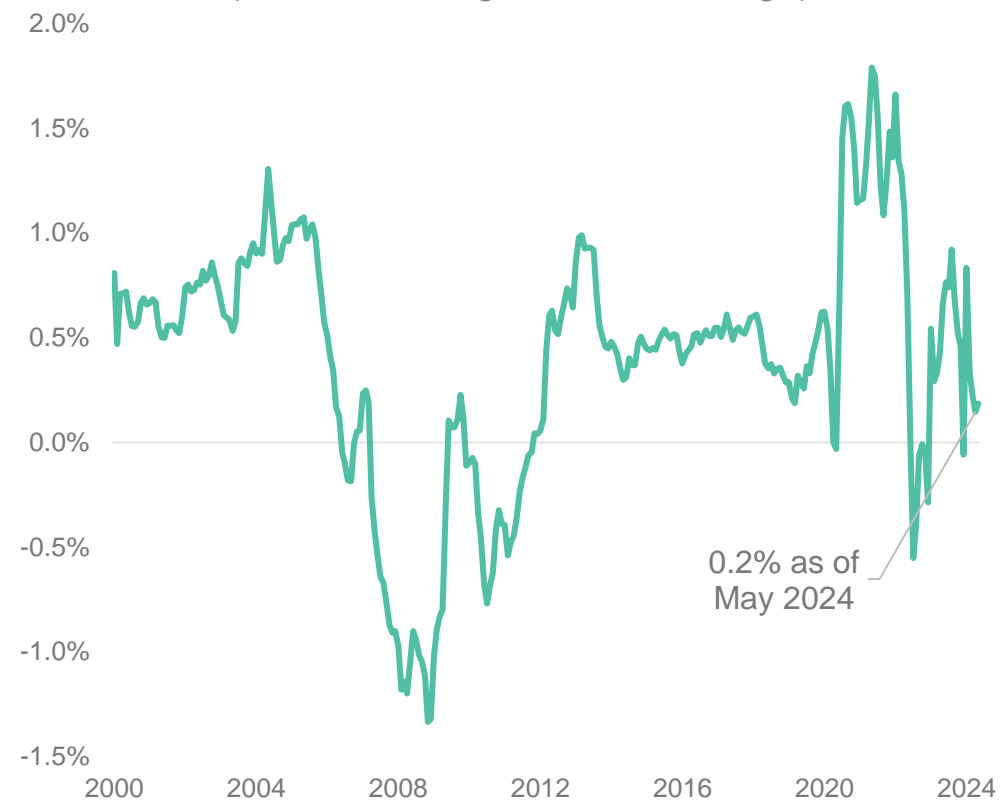
Home Prices have Stabilized Over Last 3 Months



Freddie Mac House Price Index *Percent Change from Year Ago*



Freddie Mac House Price Index *(Percent Change from Month Ago)*

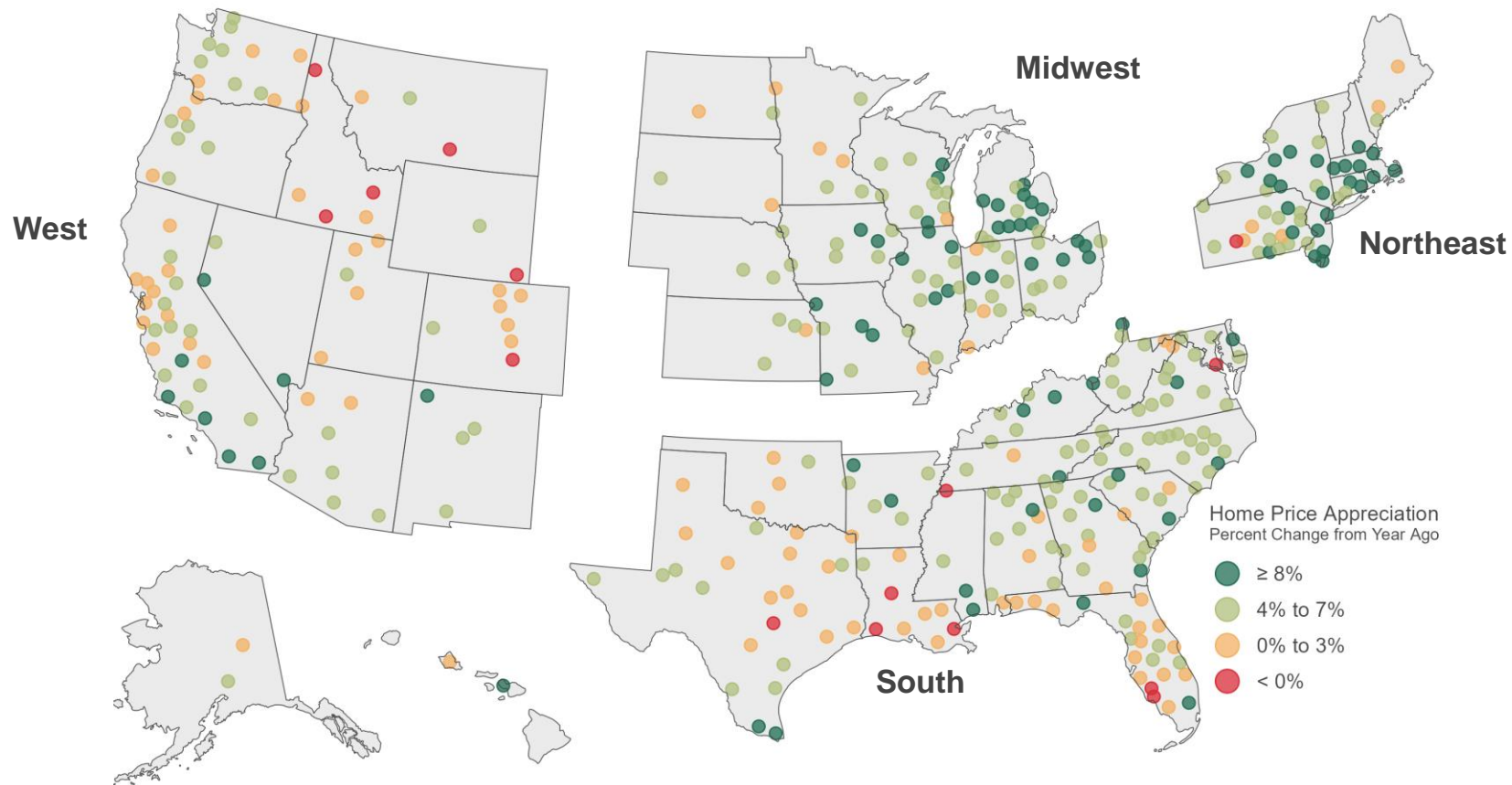


Source: Freddie Mac

Midwest and Northeast Regions Experiencing Stronger House Price Growth - Price Growth Is Softer in Coastal Gulf of Mexico

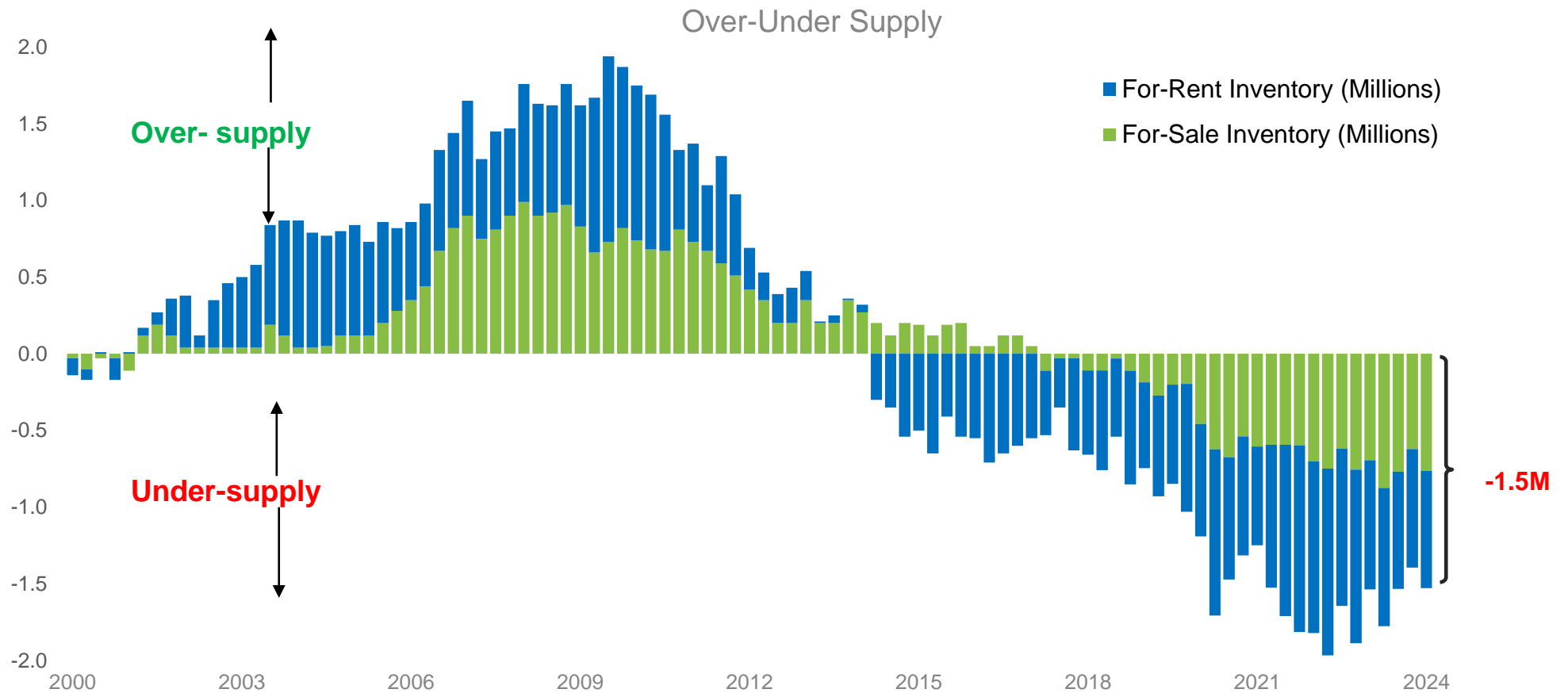


May 2024 Freddie Mac House Price Index Home Price Appreciation by Metro



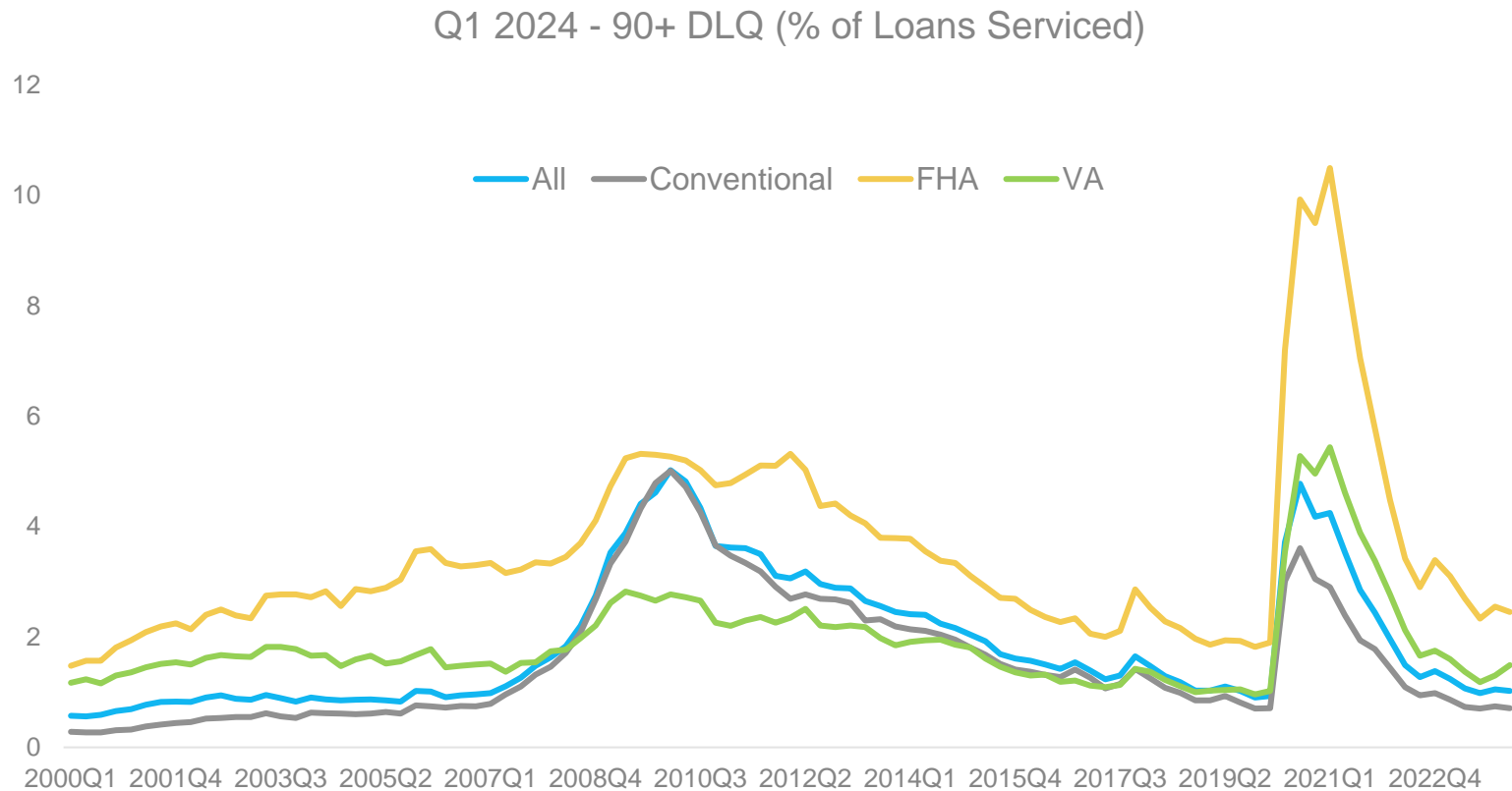
Source: Freddie Mac

The Under-Supply of Housing Remains Large and is Not Improving



Source: Freddie Mac calculations using US Census Bureau data. Negative values reflect undersupply. The under/oversupply of vacant housing was estimated based on the average vacancy rate from 1994 Q1 to 2003 Q4

Delinquency Rates Remain Low Across All Loan Types



Q1 2024 Compared to Q4 2023

All : -3bps
 Conventional: -3bps
 FHA: -10bps
 VA : -19bps

Q1 2024 Compared to Q1 2023

All : -22bps
 Conventional: -15bps
 FHA: -65bps
 VA : -11bps

Source: MBA

Forecast for 2024



- We expect U.S. economic growth to slow and the labor market to cool in 2024 as the impact of higher rates is felt through the economy.
- Inflation is expected to cool through the second half of the year though remaining above the Federal Reserve's target rate of 2%. We anticipate a rate cut towards the end of this year if the job market cools off enough to keep inflation in check. We expect mortgage rates to decline further in 2025 to below 6.5%, further stimulating the housing market by making homeownership more affordable.
- Despite strong housing demand, the housing outlook remains subdued. While inventory is improving in some parts of the country, supply remains short due to solid fundamentals in the housing market. We anticipate these challenges to persist in 2024, keeping total home sales volume down. However, we expect some improvement in home sales in 2025 with easing mortgage rates. Due to strong demand fundamentals, we expect upward pressure on home prices and forecast home prices to increase in 2024 and 2025.
- We anticipate a modest increase in purchase origination volumes this year and into 2025, supported by high home prices. On the refinance side, we expect refinance origination volumes to remain flat in 2024. However, we expect the drop-in mortgage rates in 2025 to prompt buyers who obtained higher rates in 2023 to refinance into lower rates. Under such a scenario, we expect the refinance volume to grow modestly next year. With some pickup in refinance and purchase originations, we forecast total origination volumes in 2024 and 2025 to grow modestly.



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