

Quarterly Economic & Housing Market Outlook

Research & Insights: February 2024



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Economy: Economic Growth Resilient Amidst Rising Rates

- Optimism in the economy increased coming into 2024.
- Labor market cooling with unemployment rate near historic lows.
- Inflation moderating, but still above the Fed target.

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

- Mortgage rates have come down from their peak in 2023 but remain elevated.
- Elevated rates and high house prices continue to impact affordability, purchase applications and home sales.
- Both existing and new homes sales declined in 2023; existing home listings decreased due to the rate-lock effect.
- Home prices rebound on low supply.

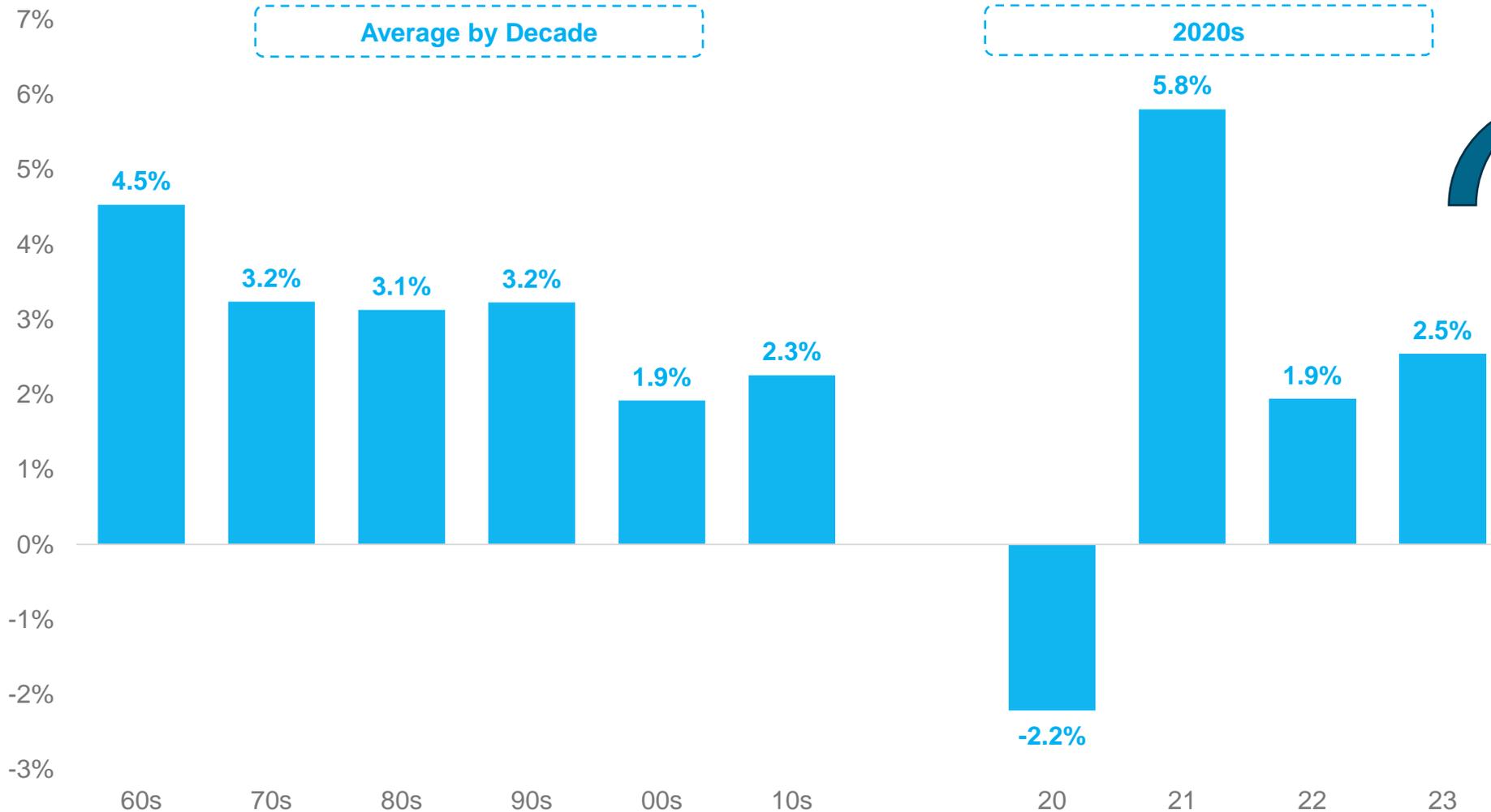


Economy: Economic Growth Resilient Amidst Rising Interest Rates

Economic Growth Expanded in 2023 Defying Expectations of a Recession



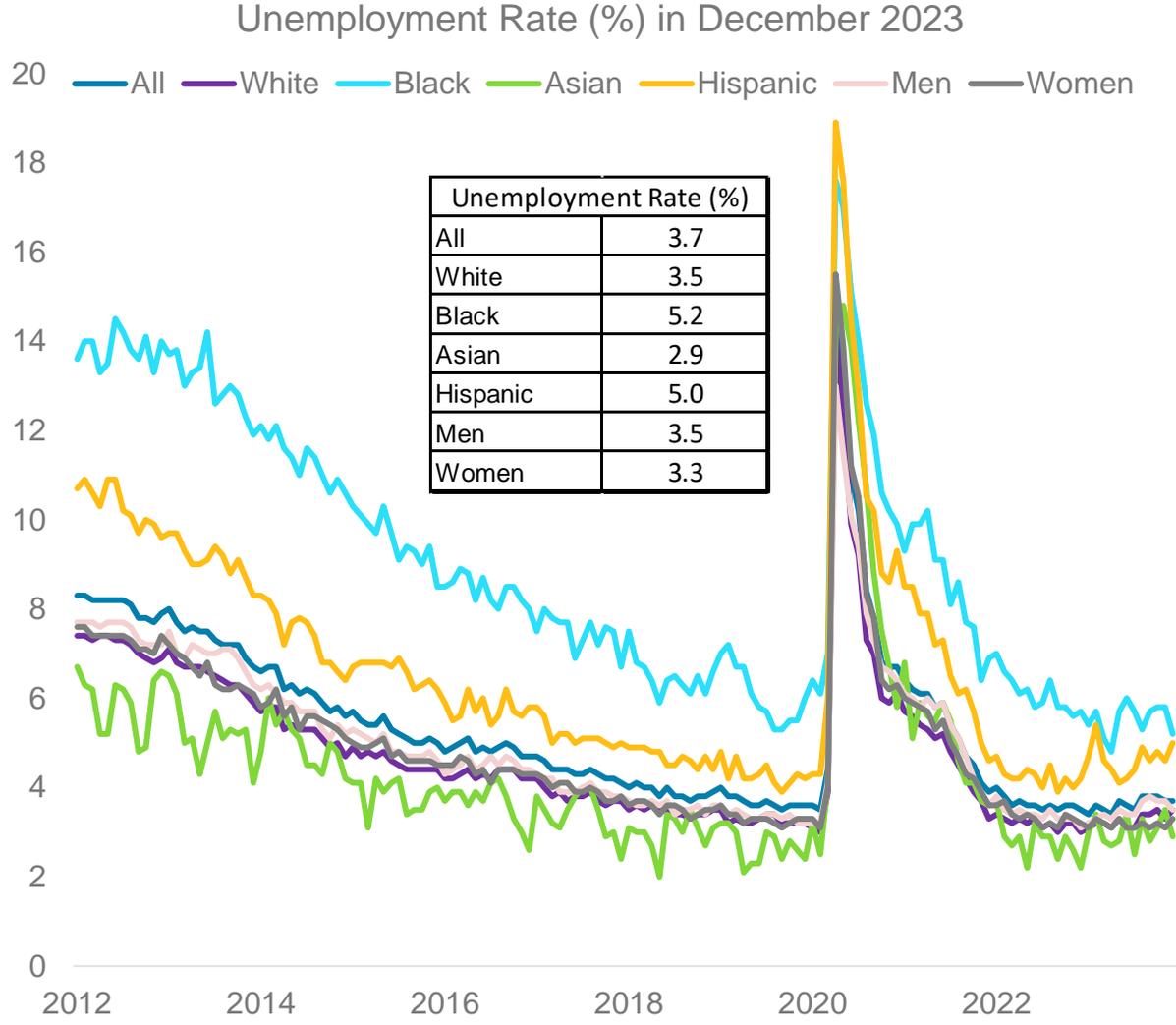
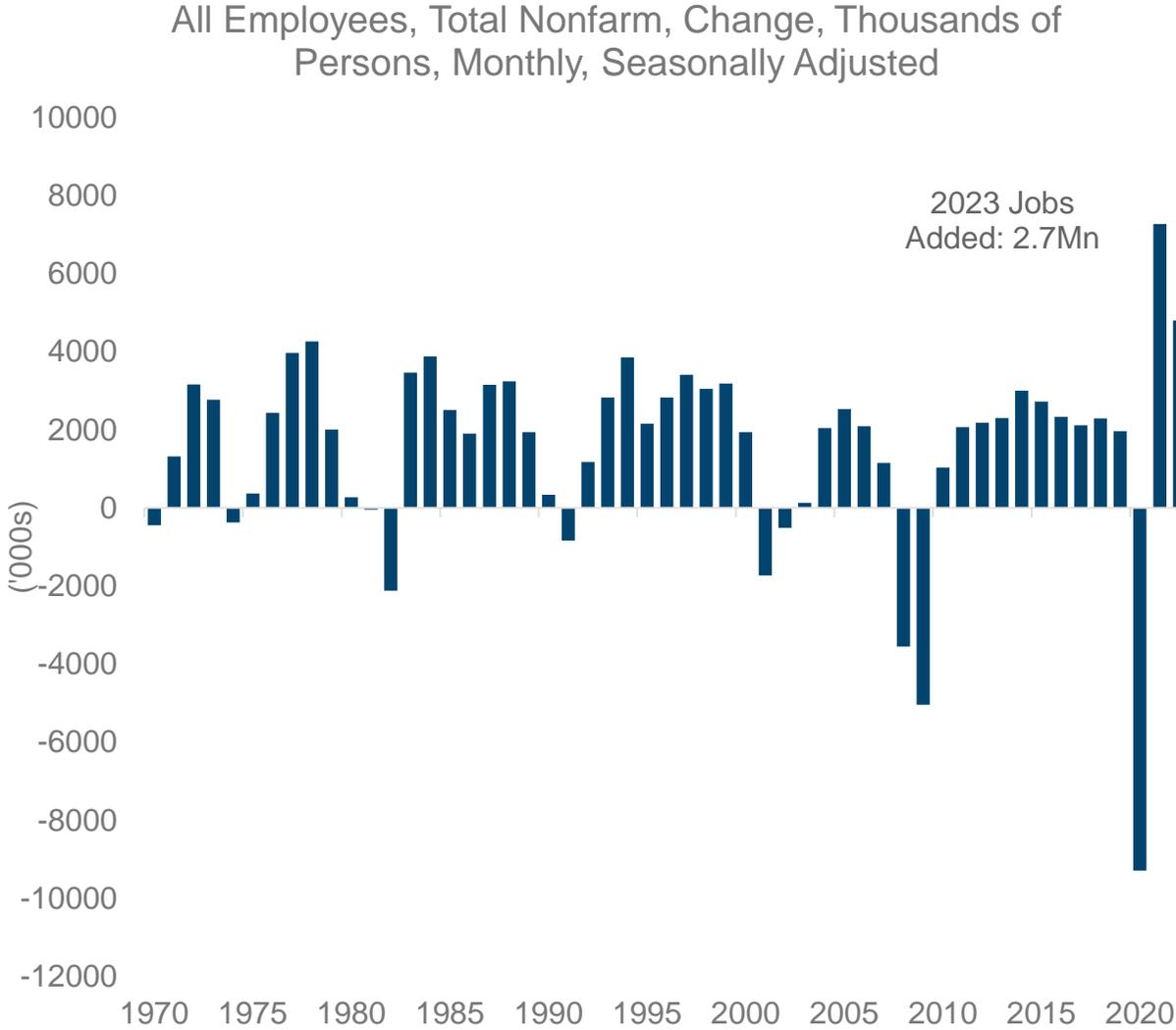
Annual Real Gross Domestic Product
Annualized Growth



2023 Quarterly Real GDP

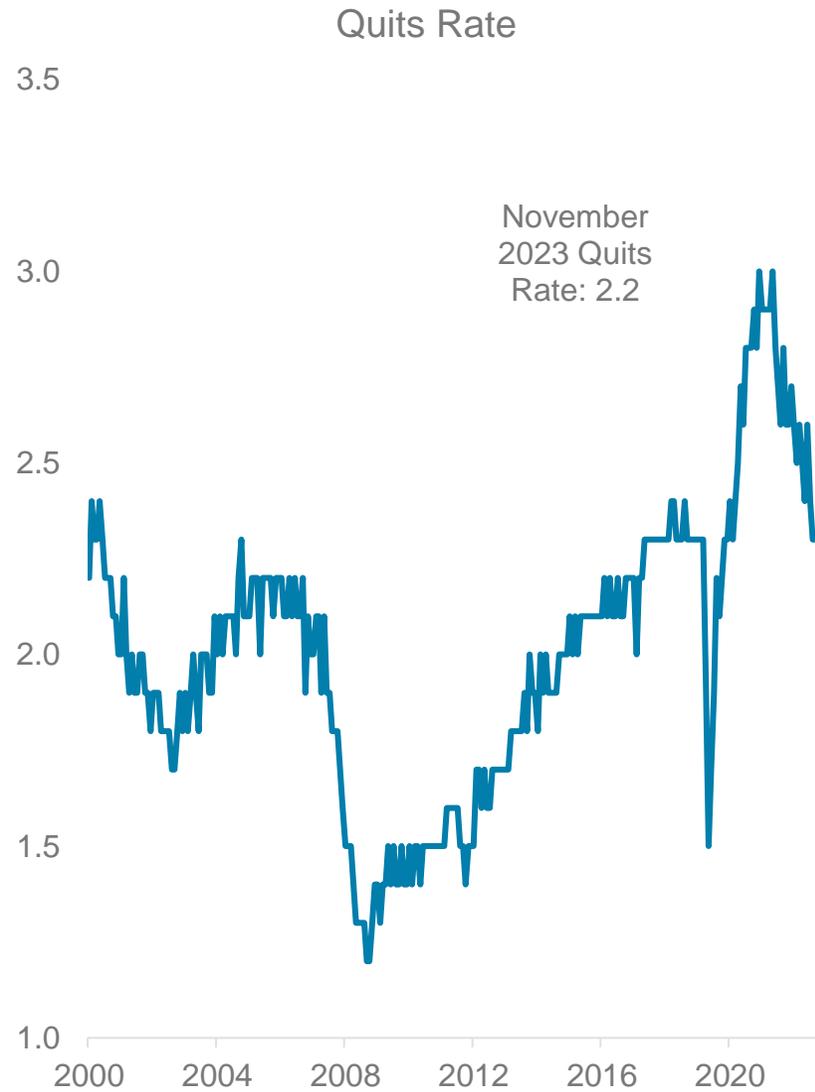
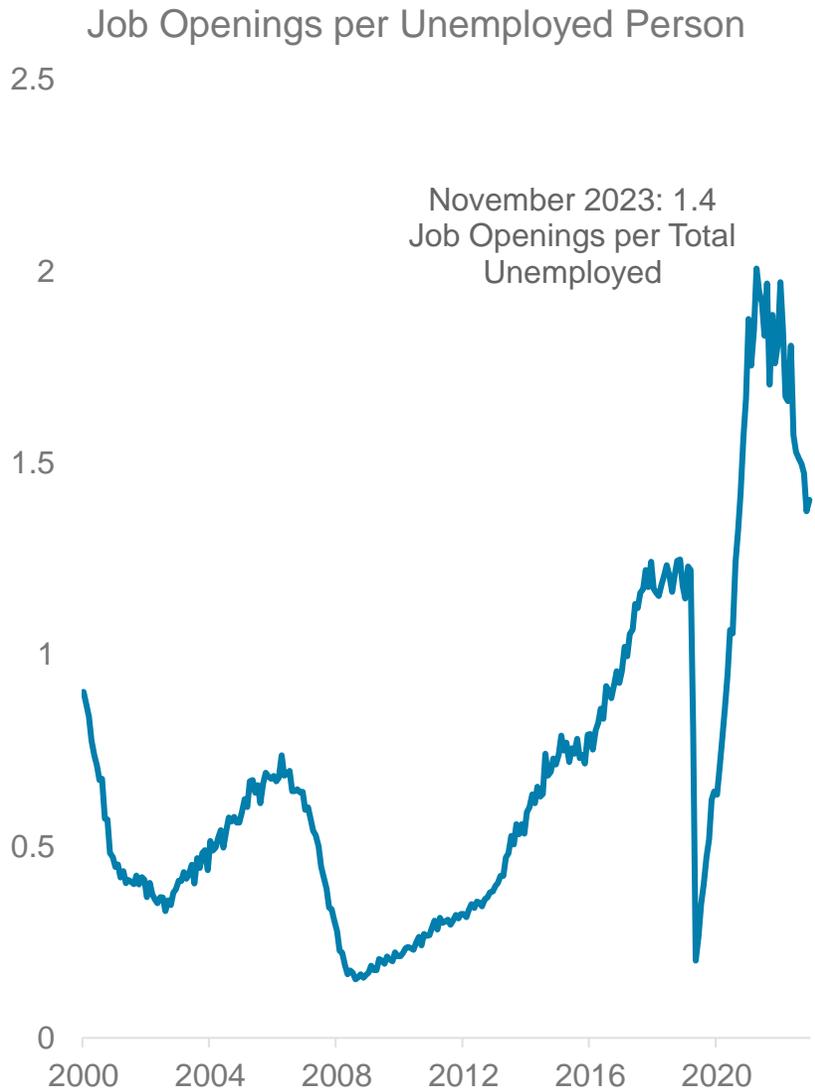
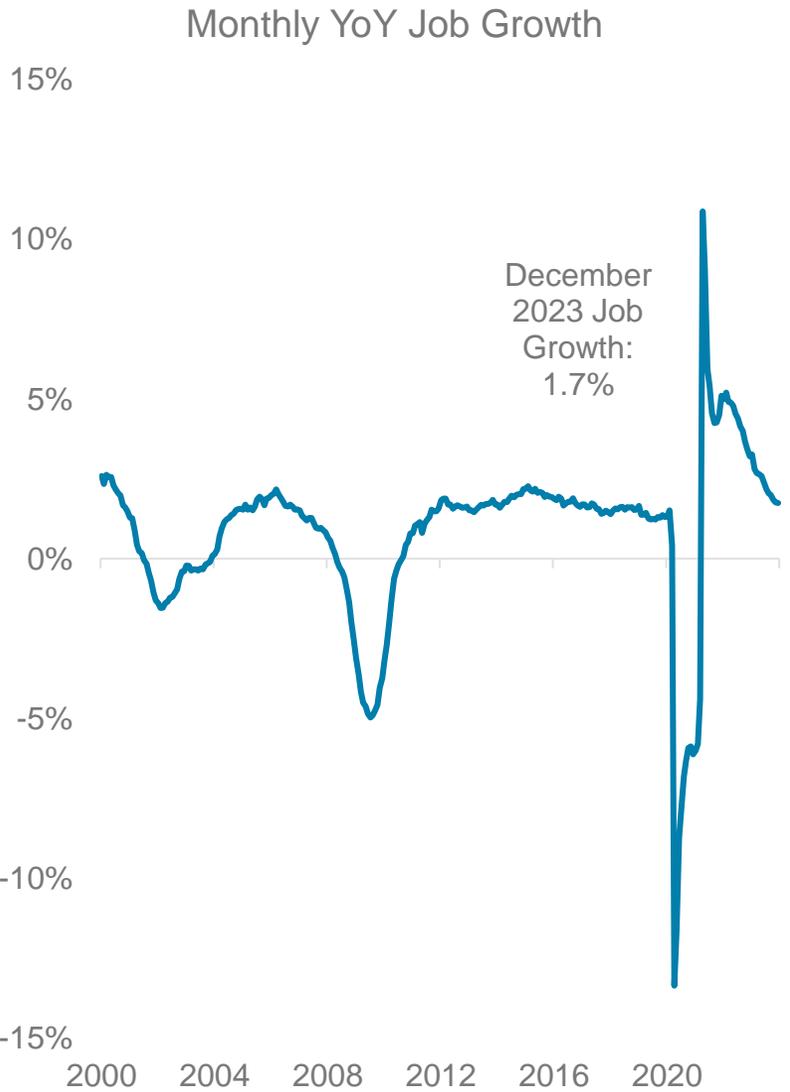
Q123	2.2%
Q223	2.0%
Q323	4.9%
Q423	3.3%

Labor Market Remains Tight; Unemployment Rate at 3.7%



Source: BLS
Note: Data as of January 2024

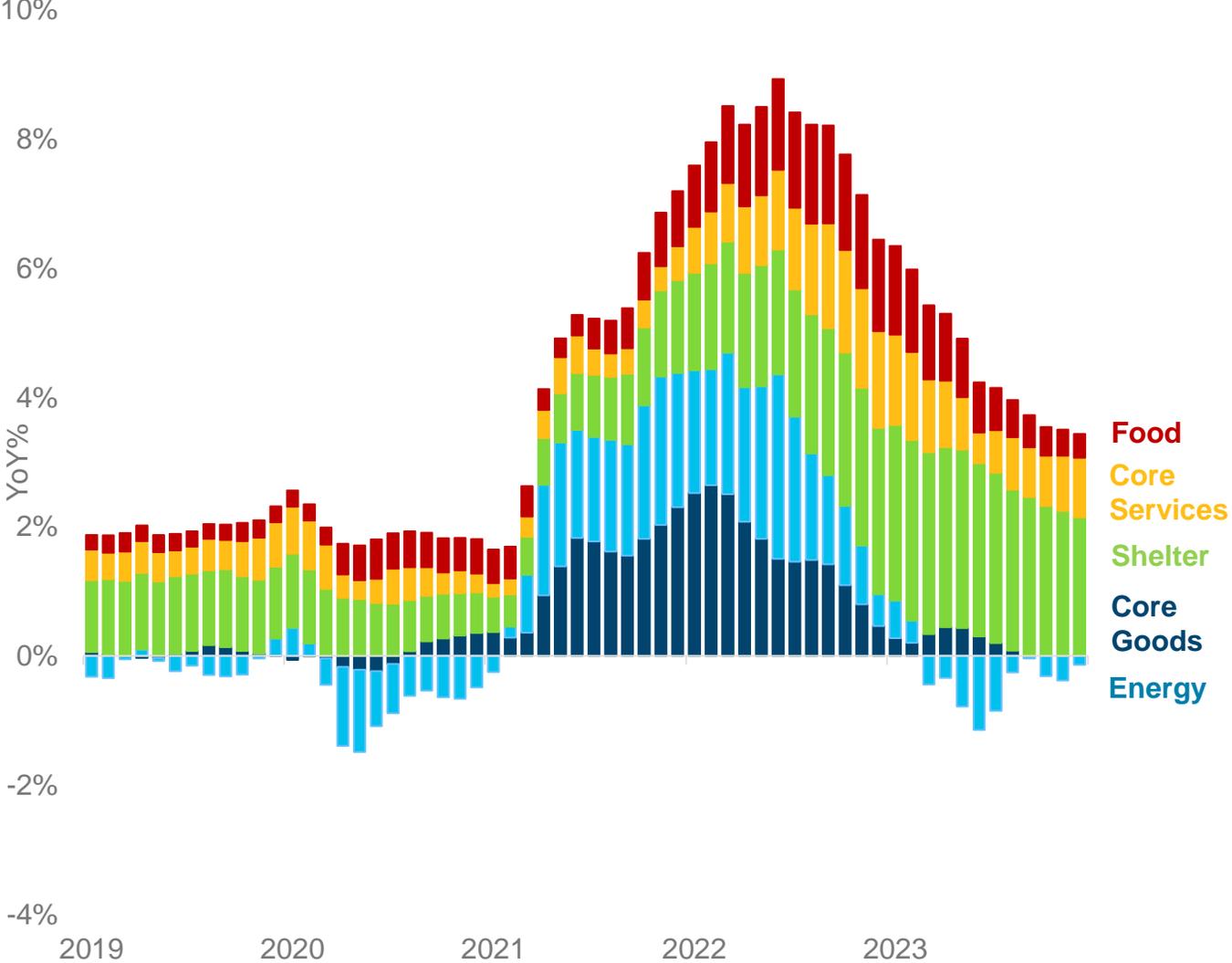
The Labor Market Is Cooling, But Remains Tight Compared to Prior Decades



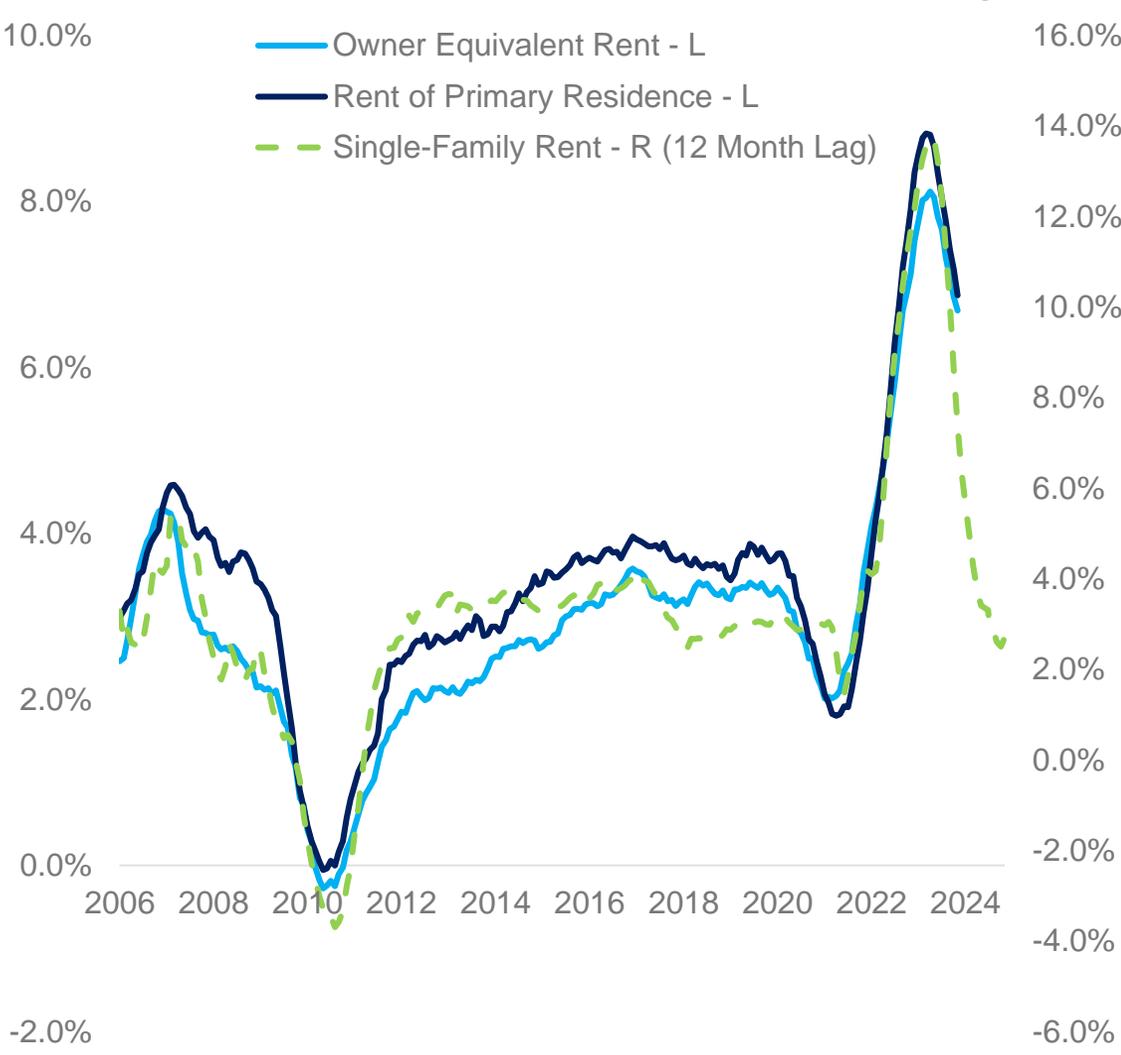
Source: BLS

Services Inflation Expected to Moderate

Contribution to Headline CPI Inflation

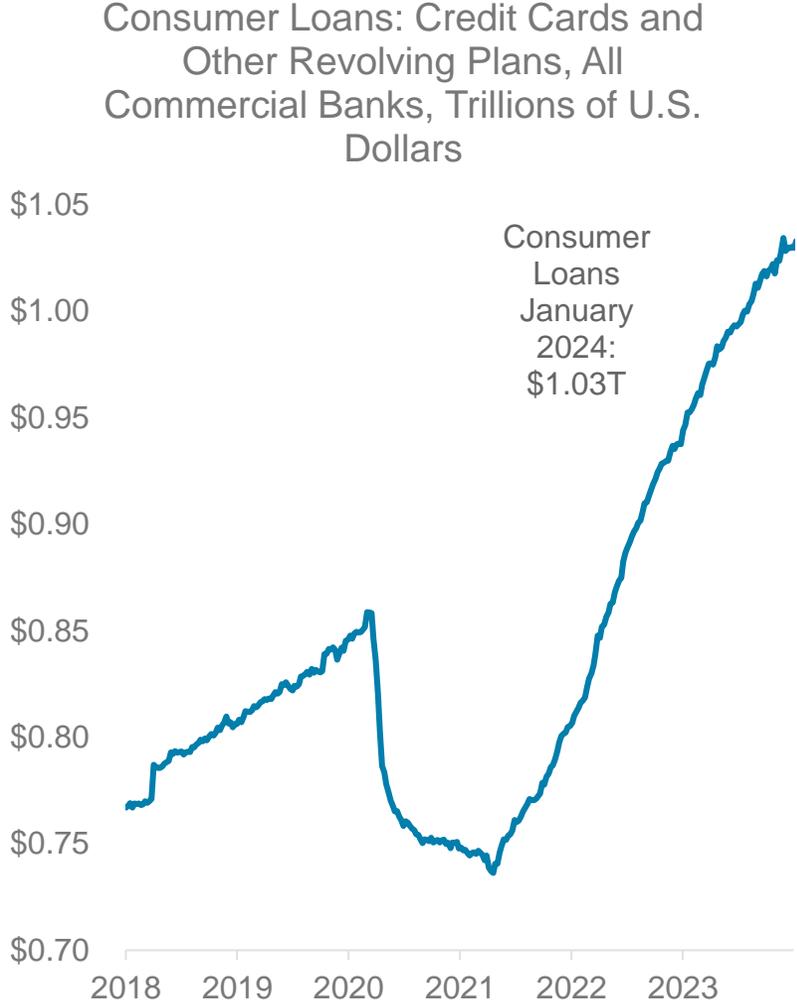
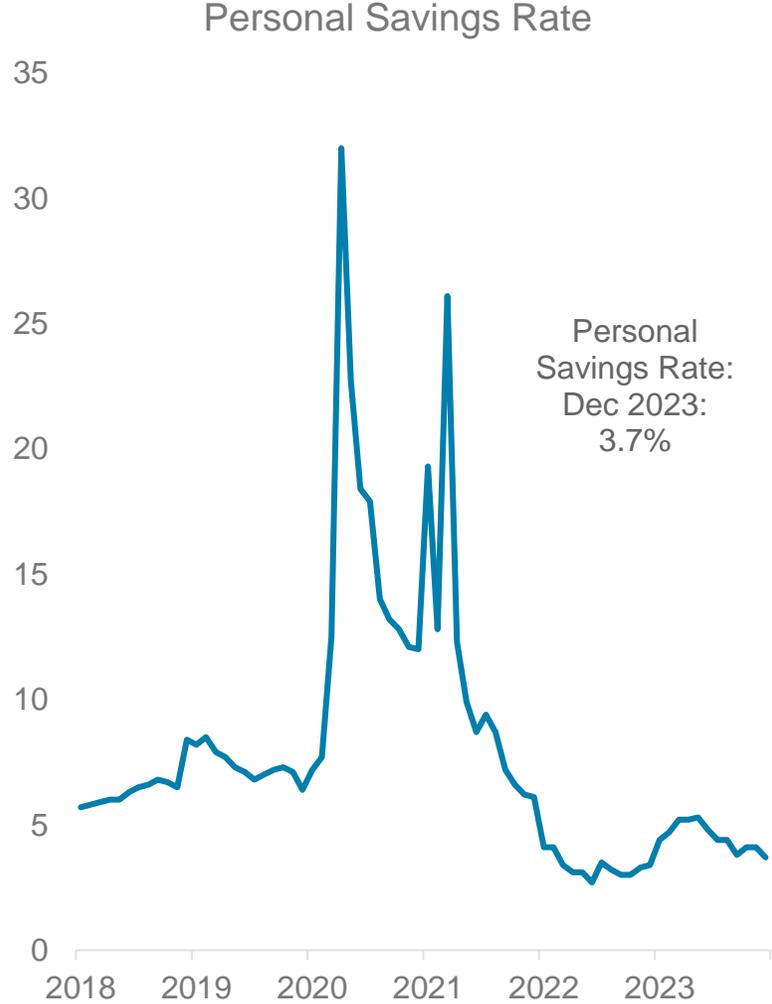
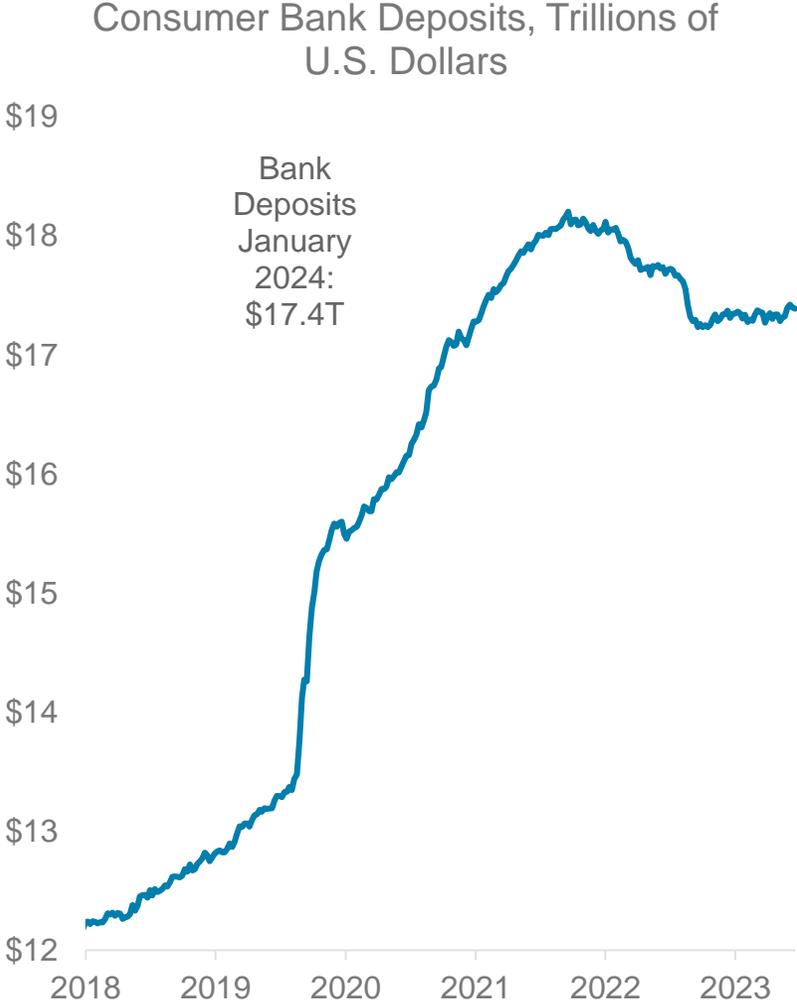


Rents Impact Shelter Inflation With A One-Year Lag



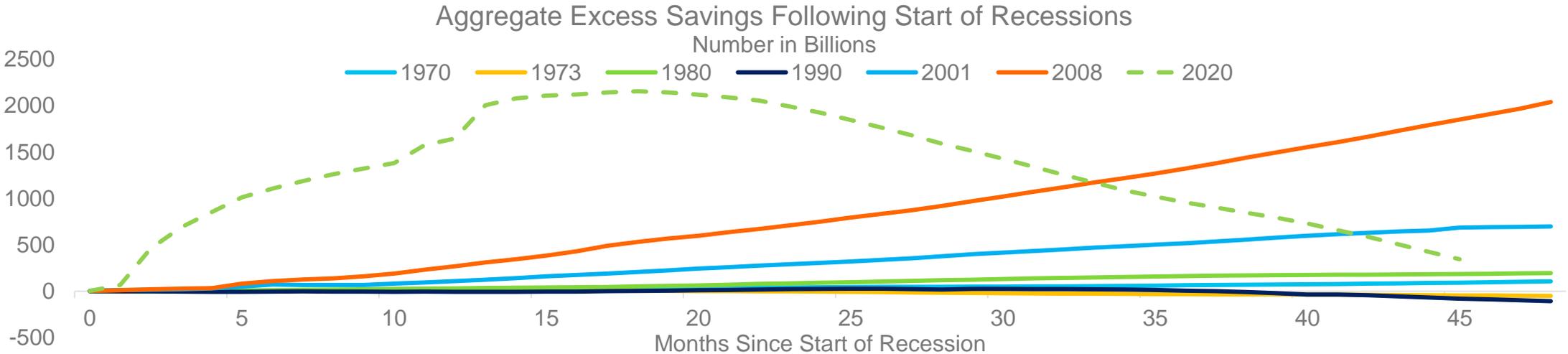
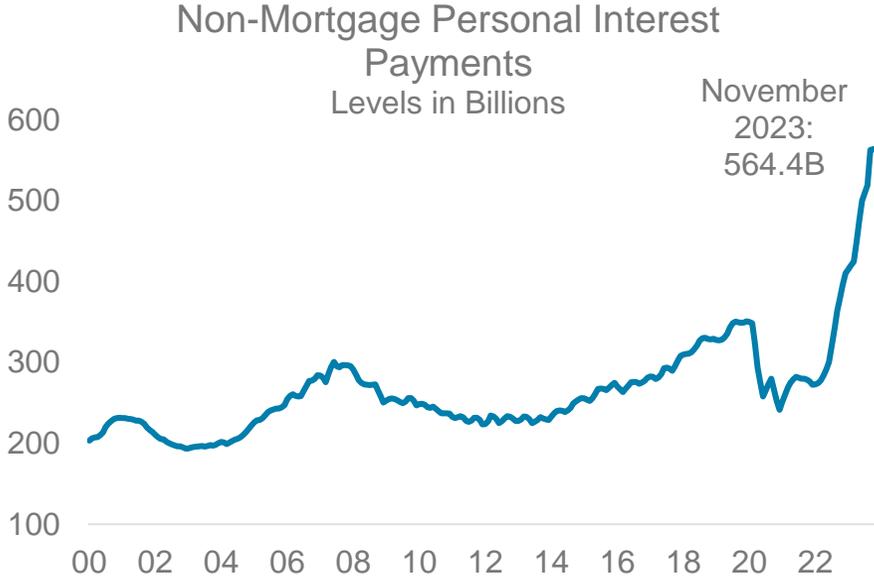
Source: BLS, CoreLogic

Consumer Balance Sheet Improved Significantly Due to Stimulus But Are Now Stabilizing; Credit Demand Surged From Mid 2021



Source: Federal Reserve, Bureau of Economic Analysis.
 Consumer Bank Deposits as of 1/10/2024. Consumer Loans as of 1/10/2024

The Rise in Rates Led to a Boom in Non-Mortgage Interest Payments, But They Are Slowing Down; Excess Savings Are Dwindling



Source: Federal Reserve, Freddie Mac; Bureau of Economic Analysis
 Note: Excess savings calculated as the accumulated difference between actual personal savings and the trend implied by data for the 48 months leading up to the first month of each recession as defined by the NBER.



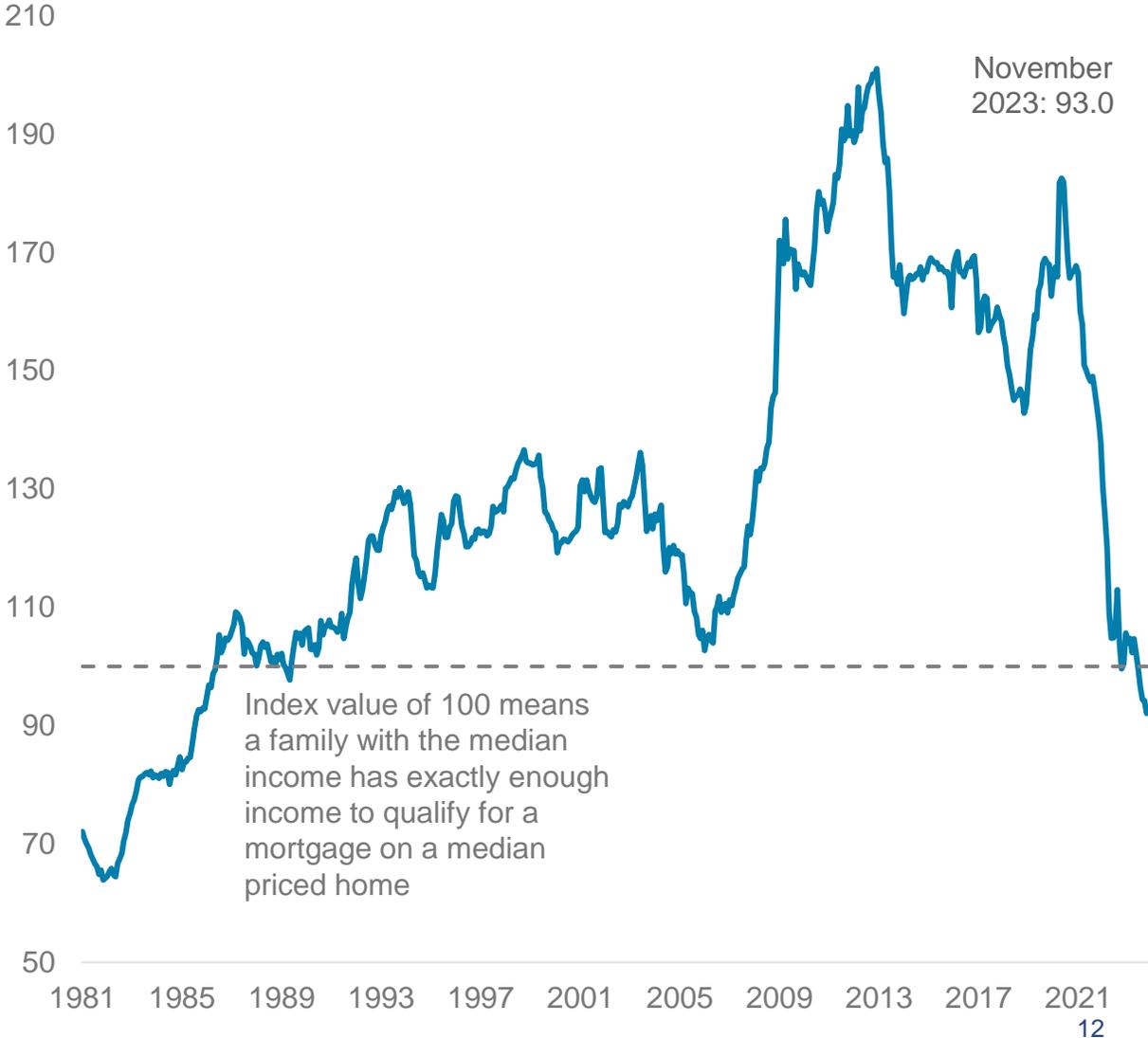
Housing Market: Affordability Challenged by Higher Rates; House Prices Resilient

Despite Decreasing Rates, Housing Affordability Remains a Concern

U.S. Weekly Average 30-Year Fixed Mortgage Rate (%)



NAR Housing Affordability Index

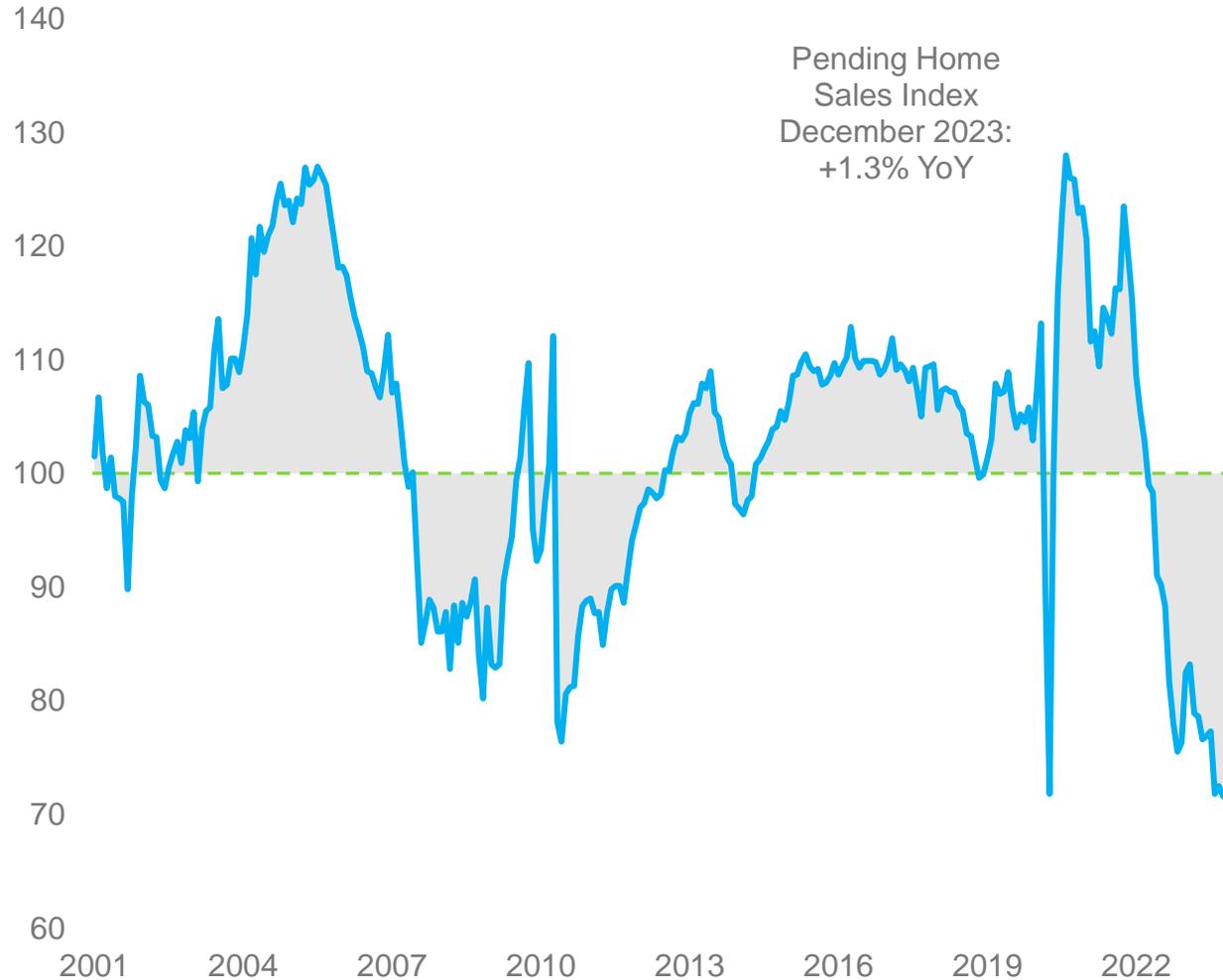


Source: Freddie Mac; National Association of Realtors. Freddie Mac Primary Mortgage Market Survey as of 1/25/2024

Affordability Remains Low But Purchasing Market Rebounding on Declining Rates

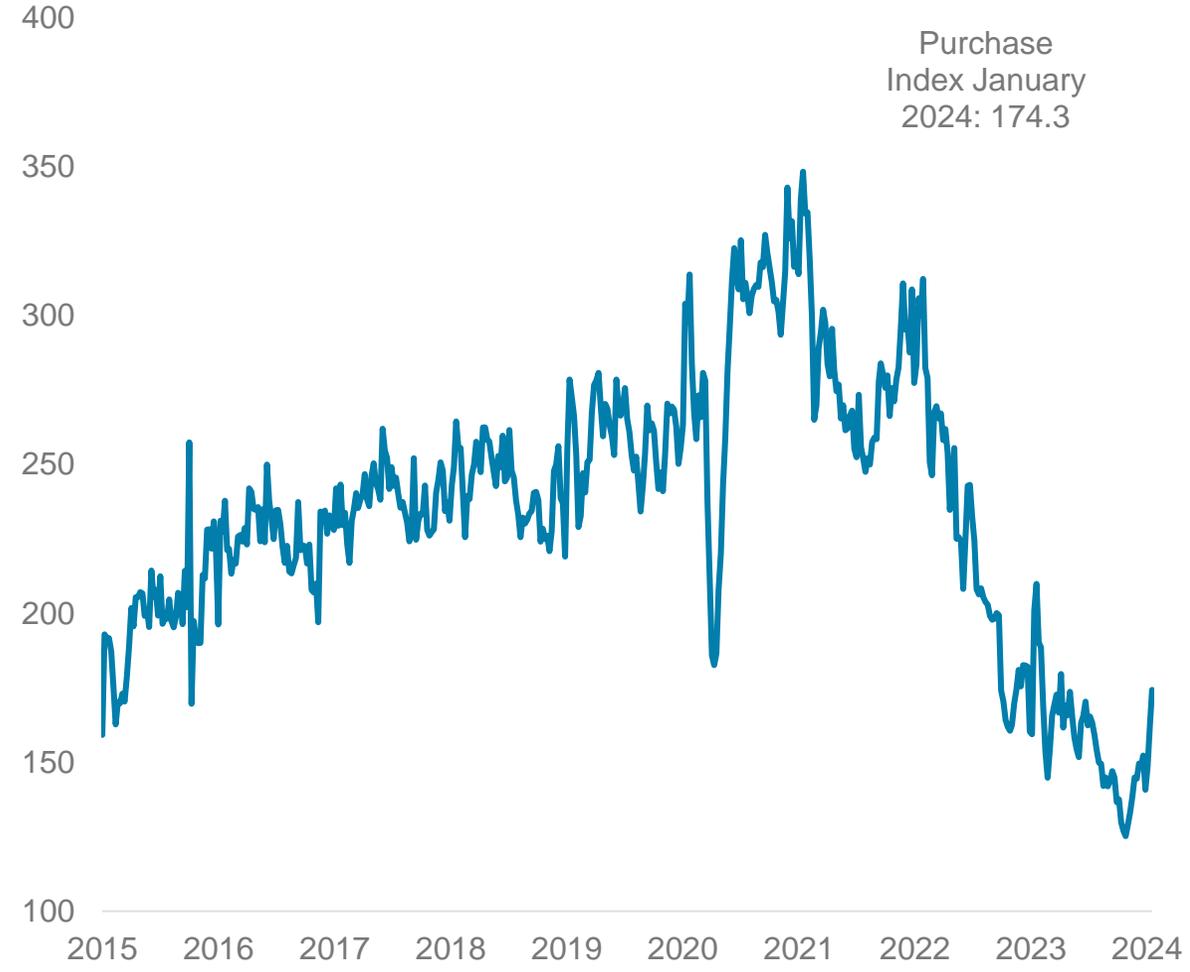


Pending Home Sales Index



MBA Applications Survey Purchase Activity

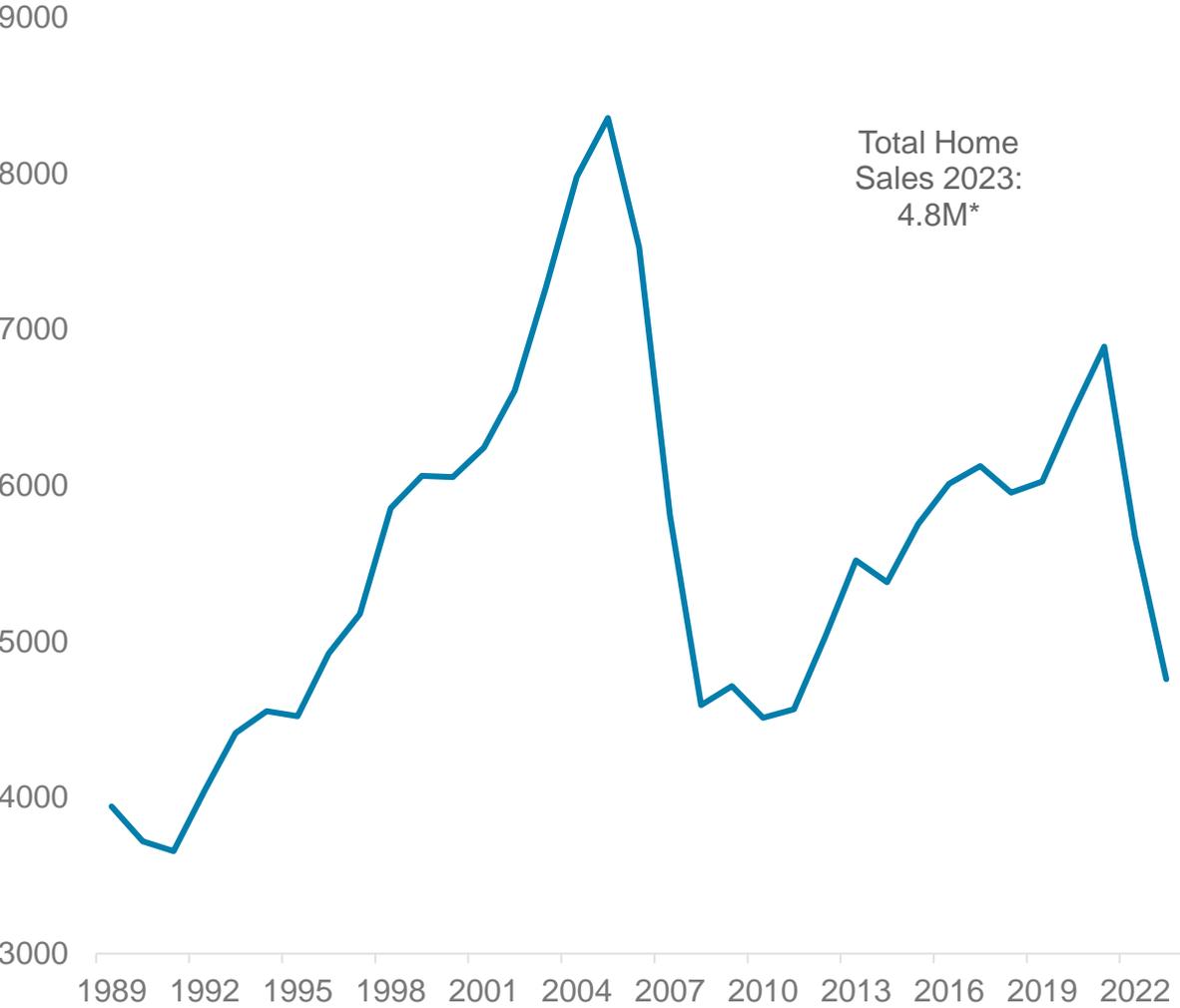
Index March 16, 1990 = 100, SA



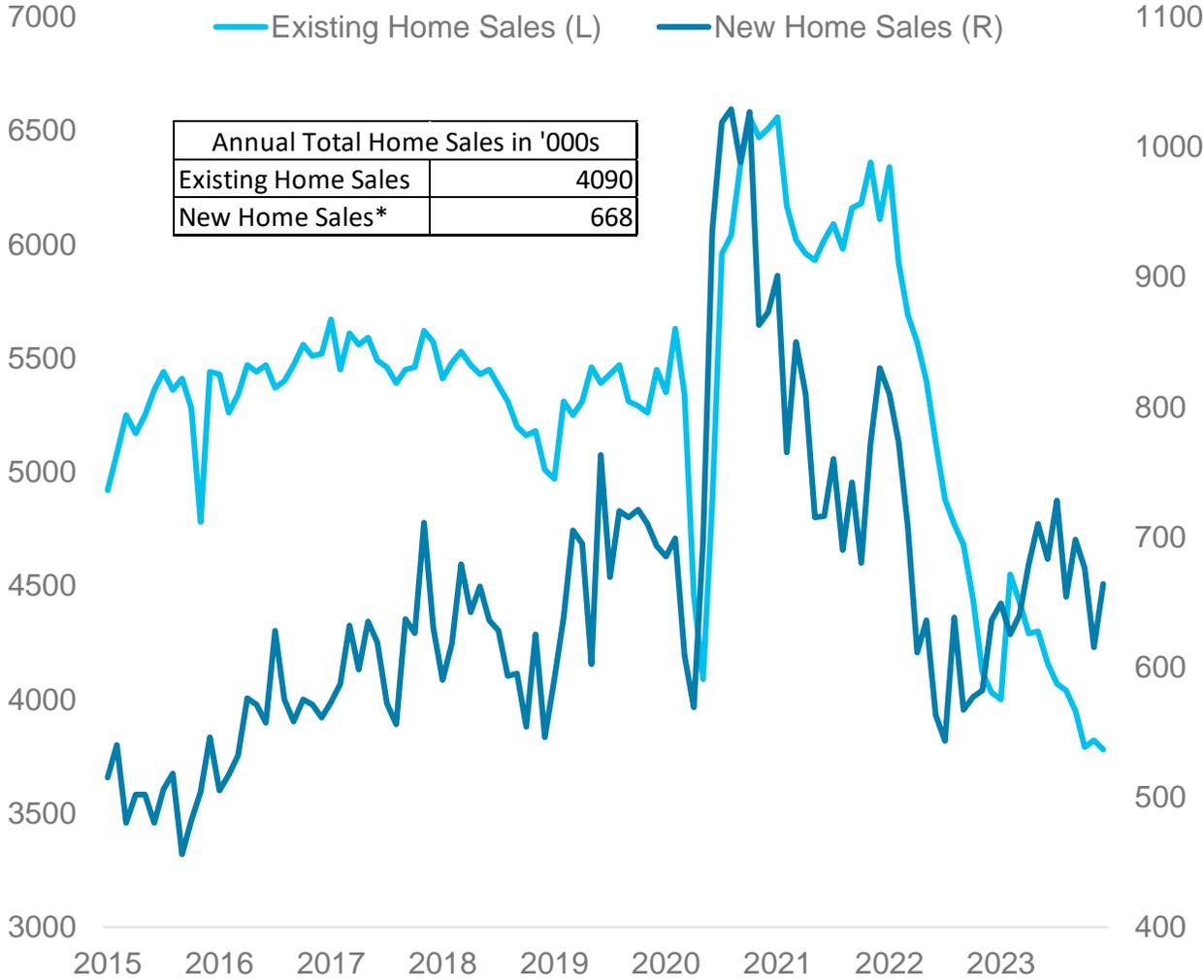
Source: MBA; NAR.
MBA Purchase Activity as of 1/19/2024

Total Home Sales Lowest Since 2011 with Existing Home Sales at Lowest Levels Since 1995 Due to Rate Lock Effect

Annual Total Home Sales ('000s)



Existing Home Sales vs New Home Sales ('000s)

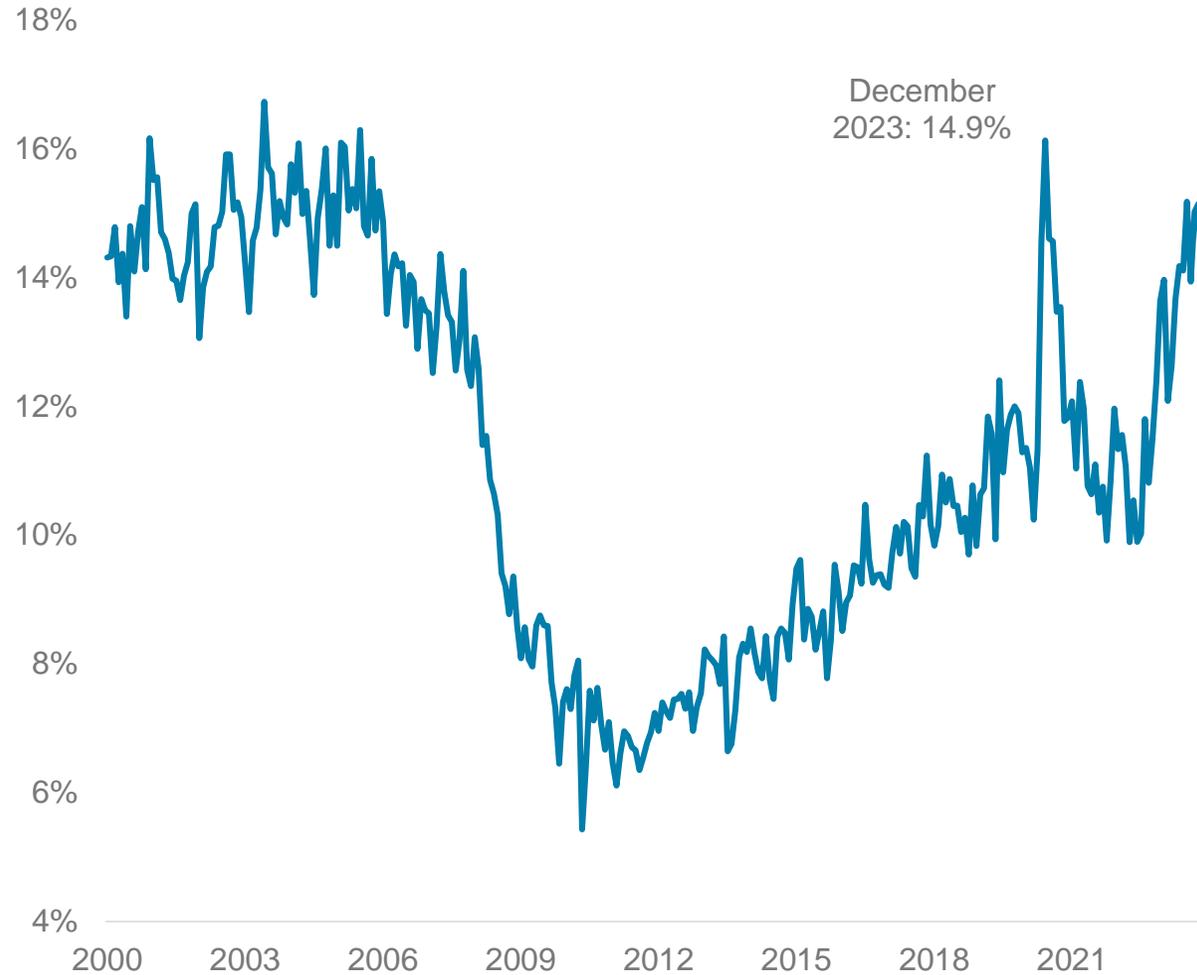


Sources : National Association of Realtors (NAR); U.S. Census Bureau.
 * Annual Data for new home sales is the monthly seasonally adjusted annual rate each year

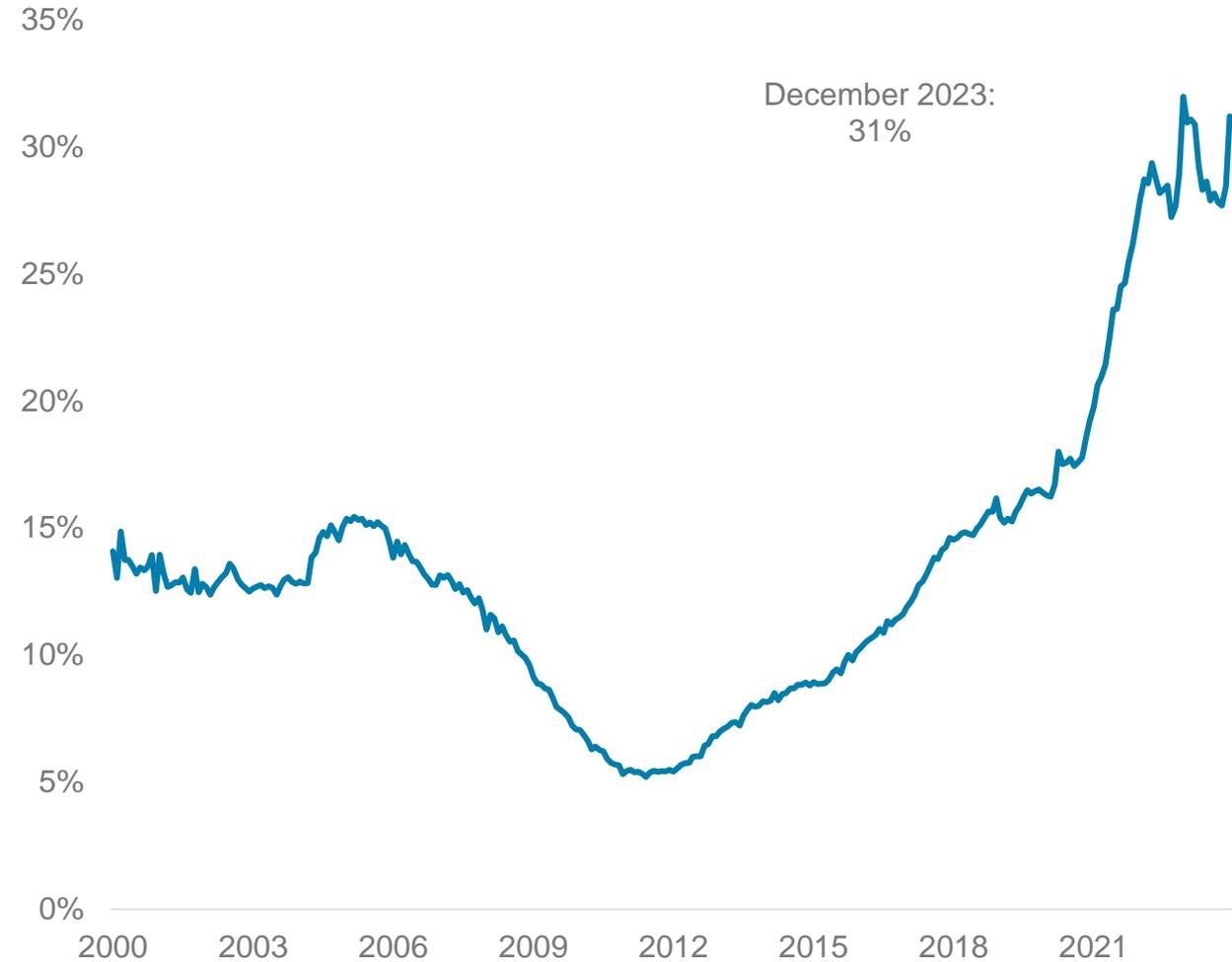
New Home Sales Are Taking A Larger Share of Homes Sold Than in the Past Decade



Share of New Home Sales to Total Home Sales



Share of New Home Inventory to Total Home Inventory

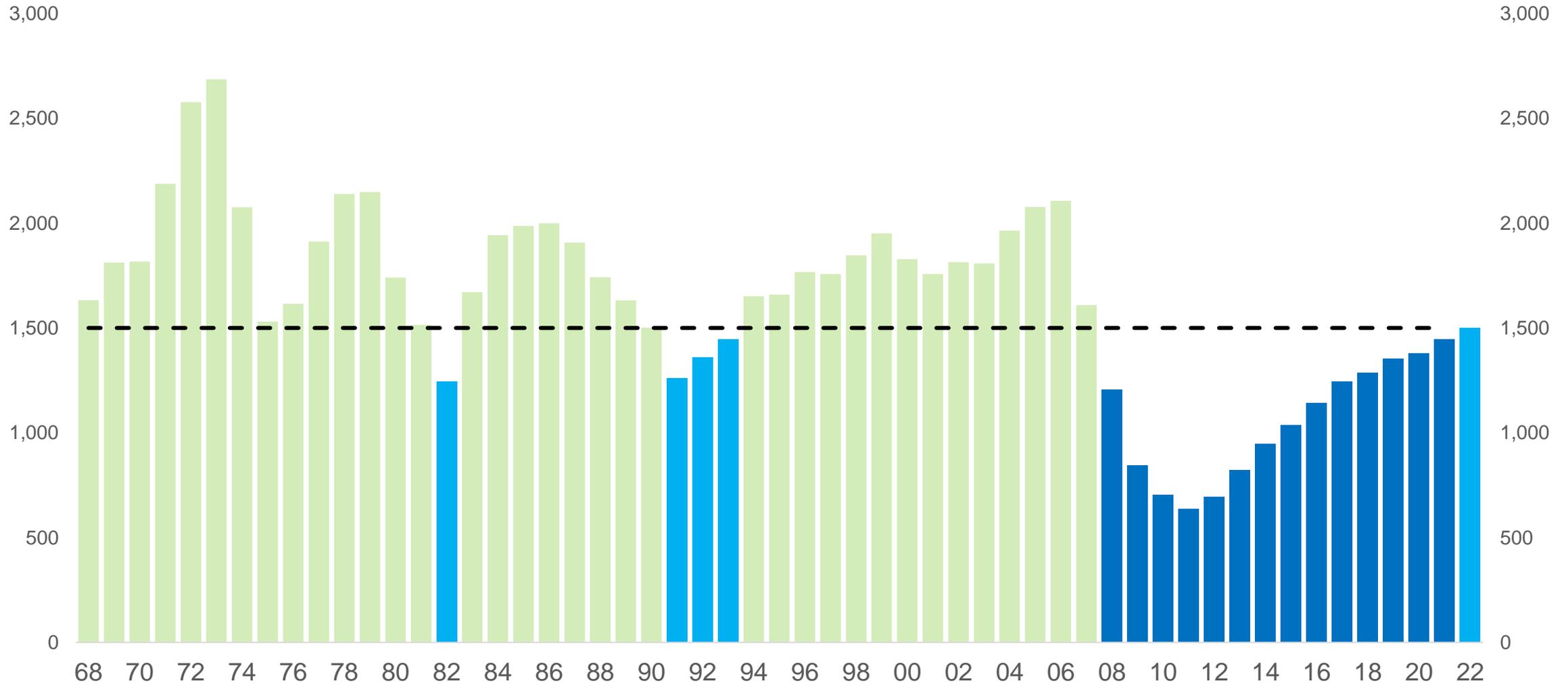


New Housing Completions Improved in 2022, but still Below Pre-GFC Levels...



U.S. New Housing Supply Low Relative to History

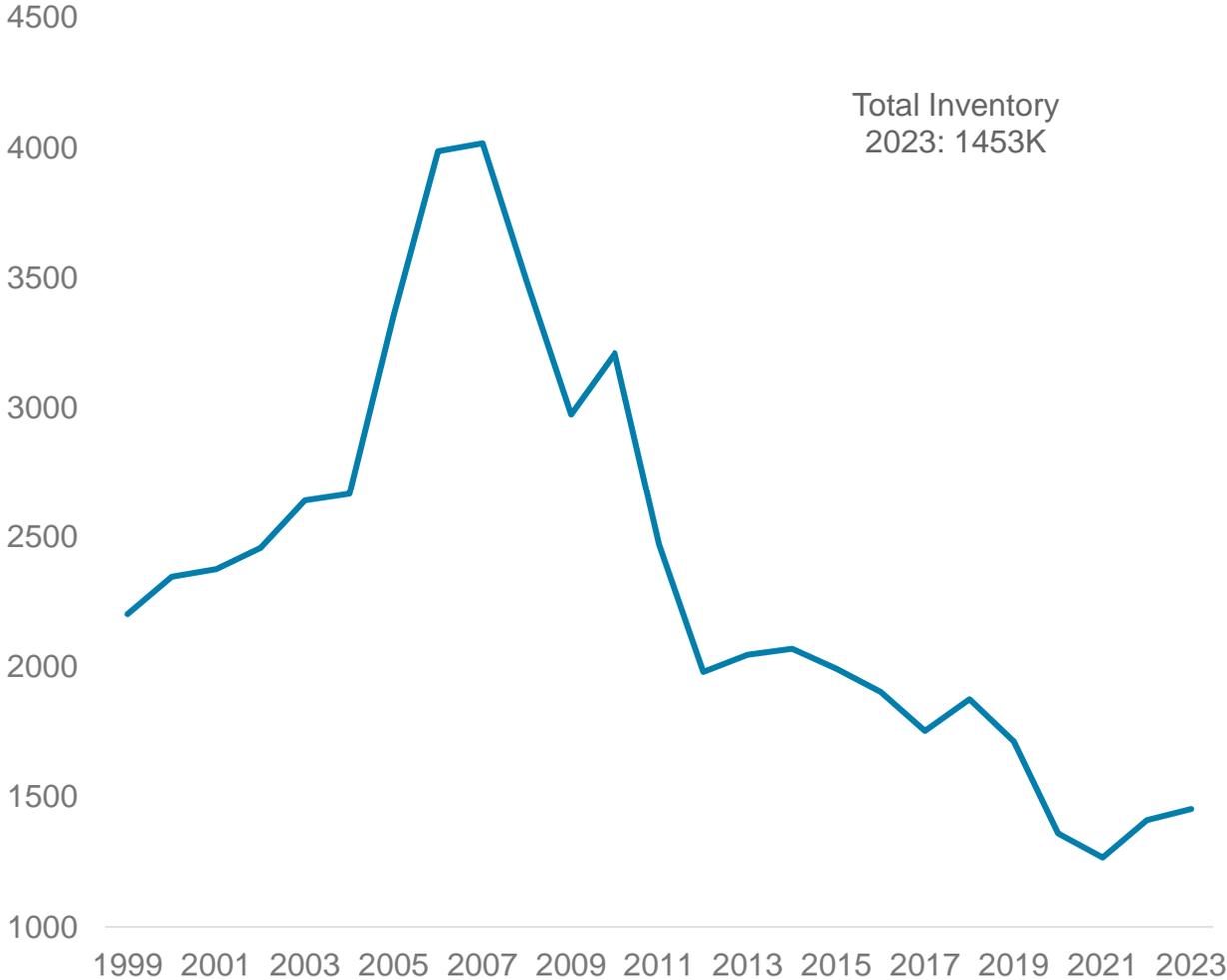
U.S. annual housing completions and manufactured home shipments (1000s)



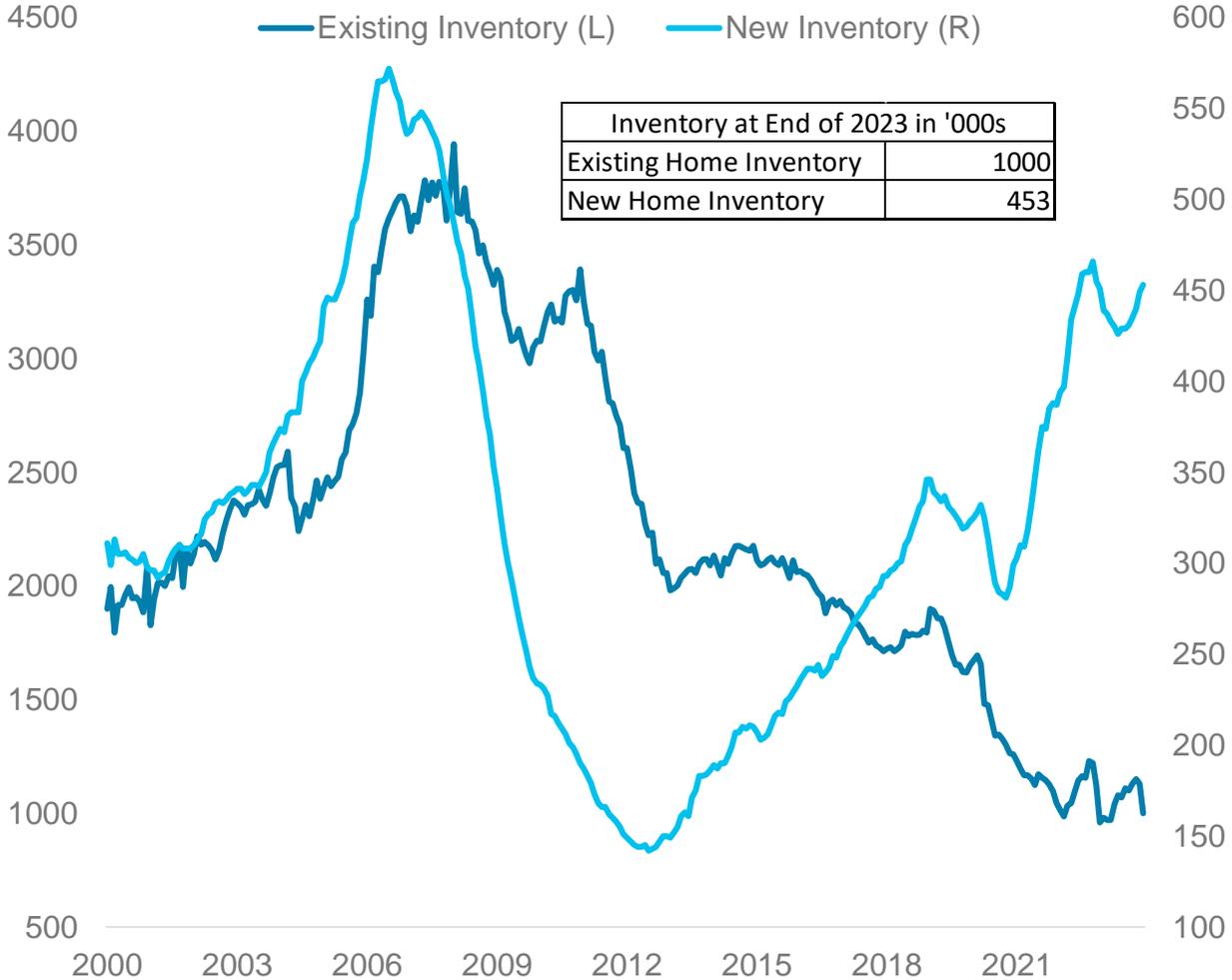
Source: U.S. Census Bureau and Department of Housing and Urban Development, Institute for Building Technology & Safety

Supply Remains Low; New Home Inventory is Up, but Market Dominated by Chronic Undersupply of Resales

Total (New + Existing) Home Inventory in '000s



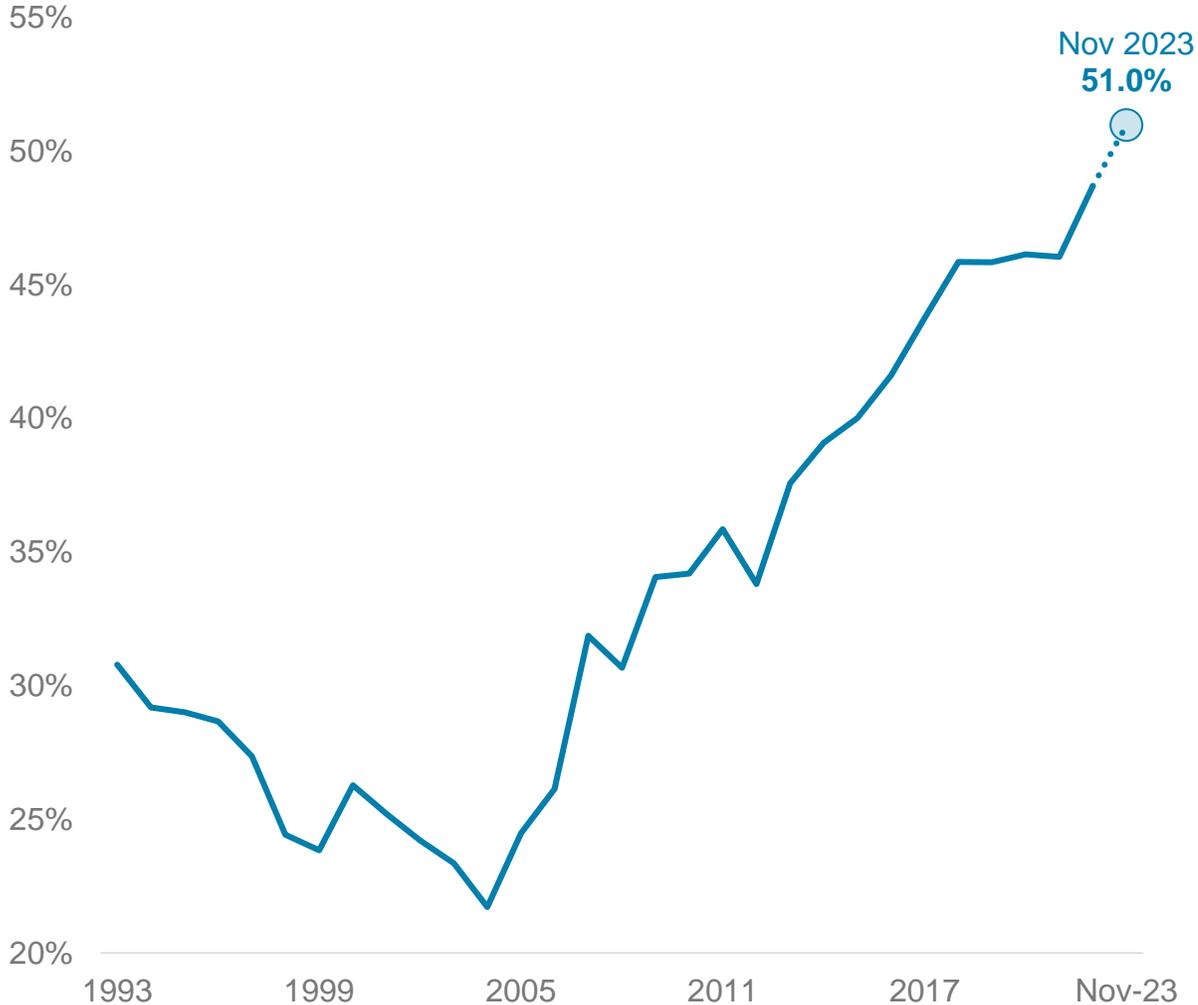
Existing vs New Home Inventory



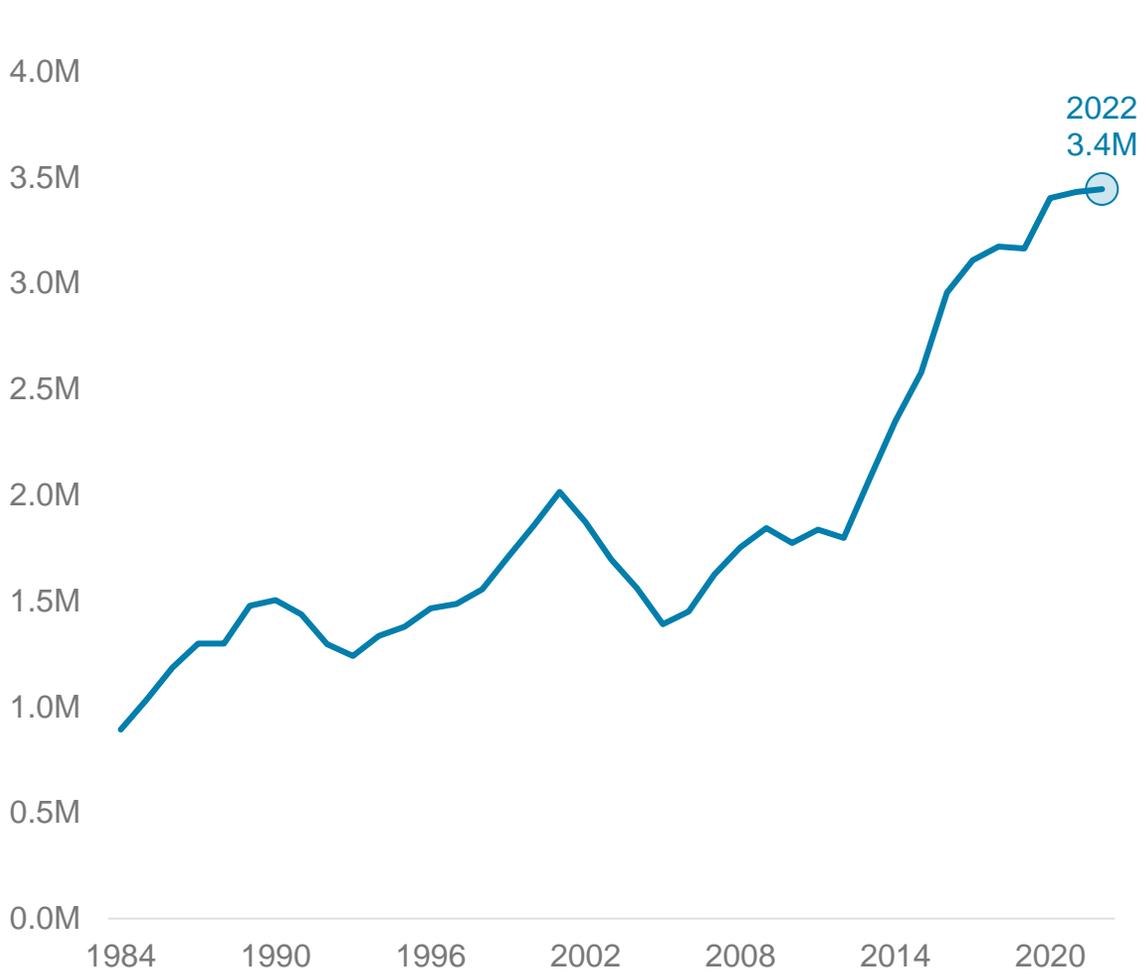
Source: Realtor.com, NAR, Census

While the Overall Purchase Demand Is Weak, Entry-Level Demand Is Elevated Due to Millennials Reaching Prime First-Time Homebuying Age

Freddie Mac Share of First-Time Homebuyers



Renter Households Between 25 and 44 Years of Age Earning \$75,000 or More (Inflation-Adjusted)

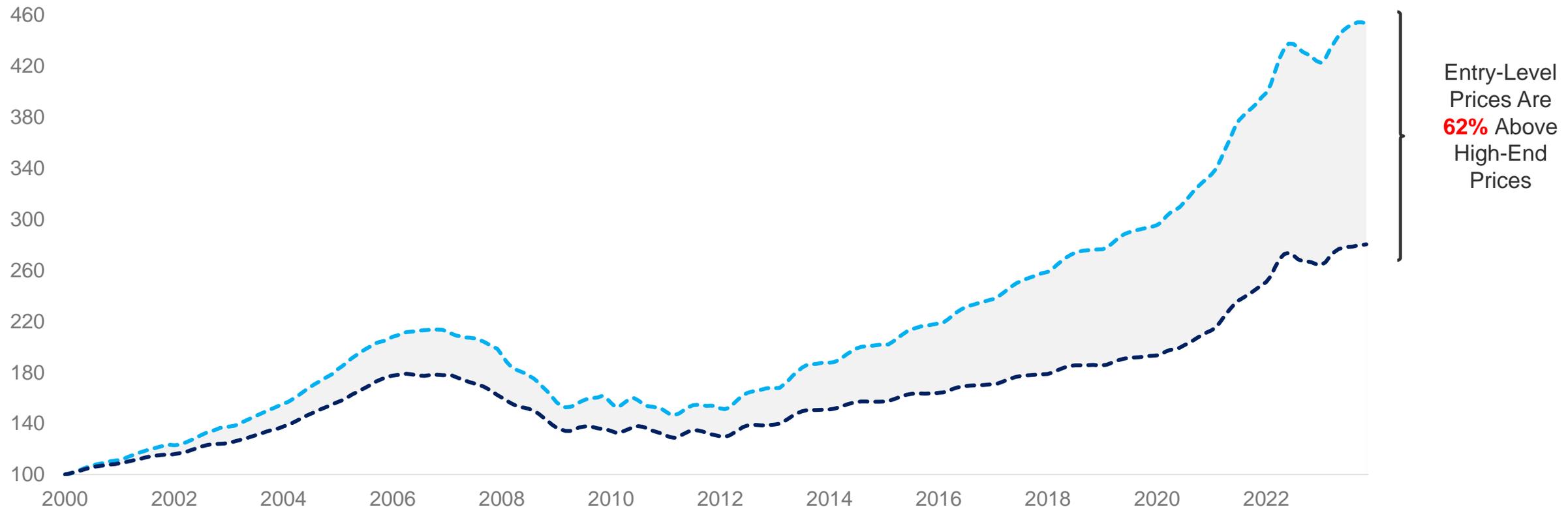


Source: Freddie Mac and Steven Ruggles, Sarah Flood, Matthew Sobek, Danika Brockman, Grace Cooper, Stephanie Richards, and Megan Schouweiler. IPUMS USA: Version 13.0 [dataset]. Minneapolis, MN: IPUMS, 2023
 Note: Freddie Mac purchase loans by funding year (2023 through November).

Strong Demand from Millennials Pushing Up Entry-Level Home Prices



Cumulative Gap Between Entry Level and High End Home Prices
Home Price Index Level (2000 = 100)



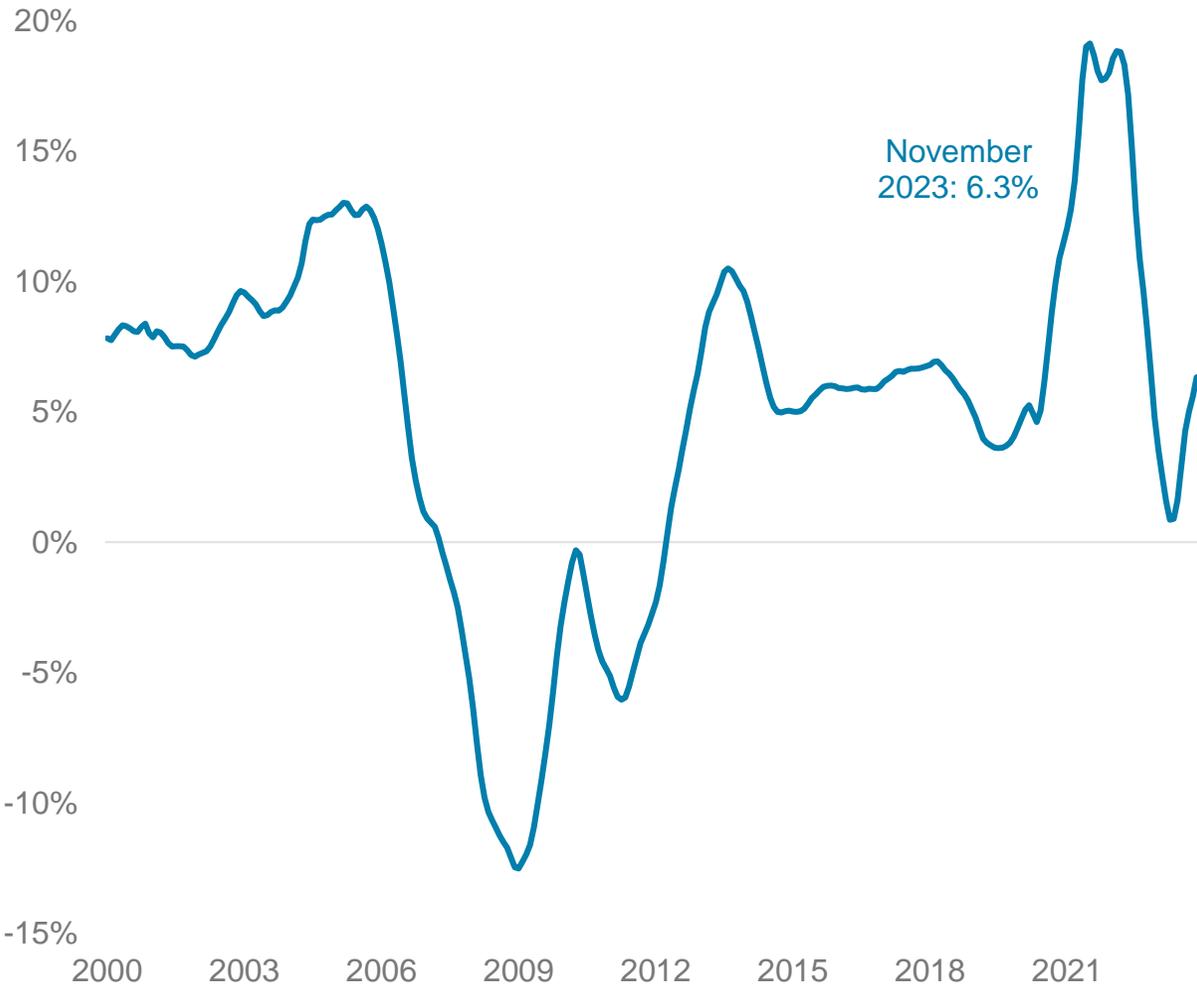
Entry-Level
Prices Are
62% Above
High-End
Prices

Source: Corelogic
Note: Entry level home prices are homes that sell at 75% of the median or below. High end home prices sell at 125% of the median or higher. Last data point November 2023.

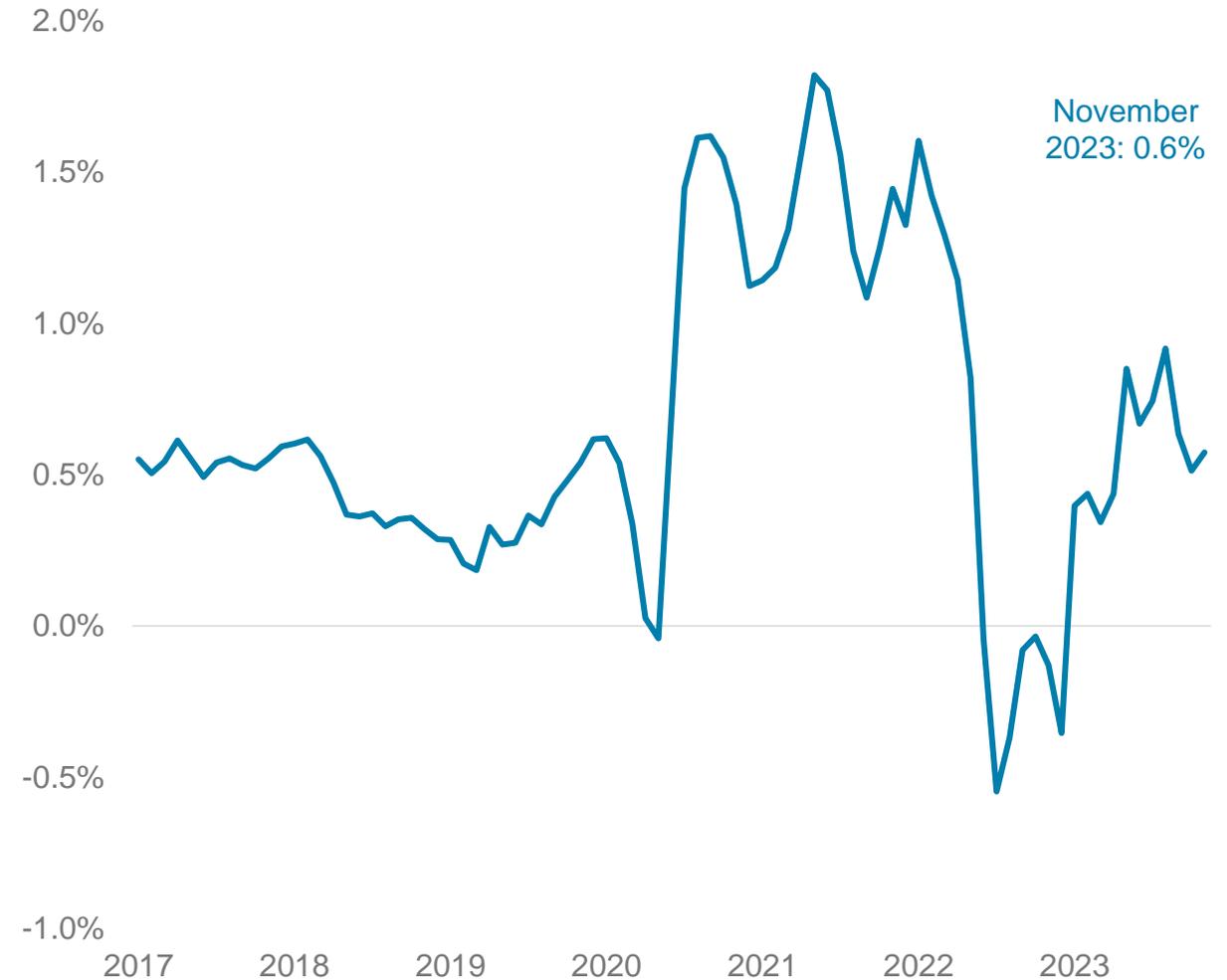
House Prices Rebounded After Declining in the Second Half of 2022



Freddie Mac House Price Index
Percent Change from **Year** Ago, SA - Nov. 2023



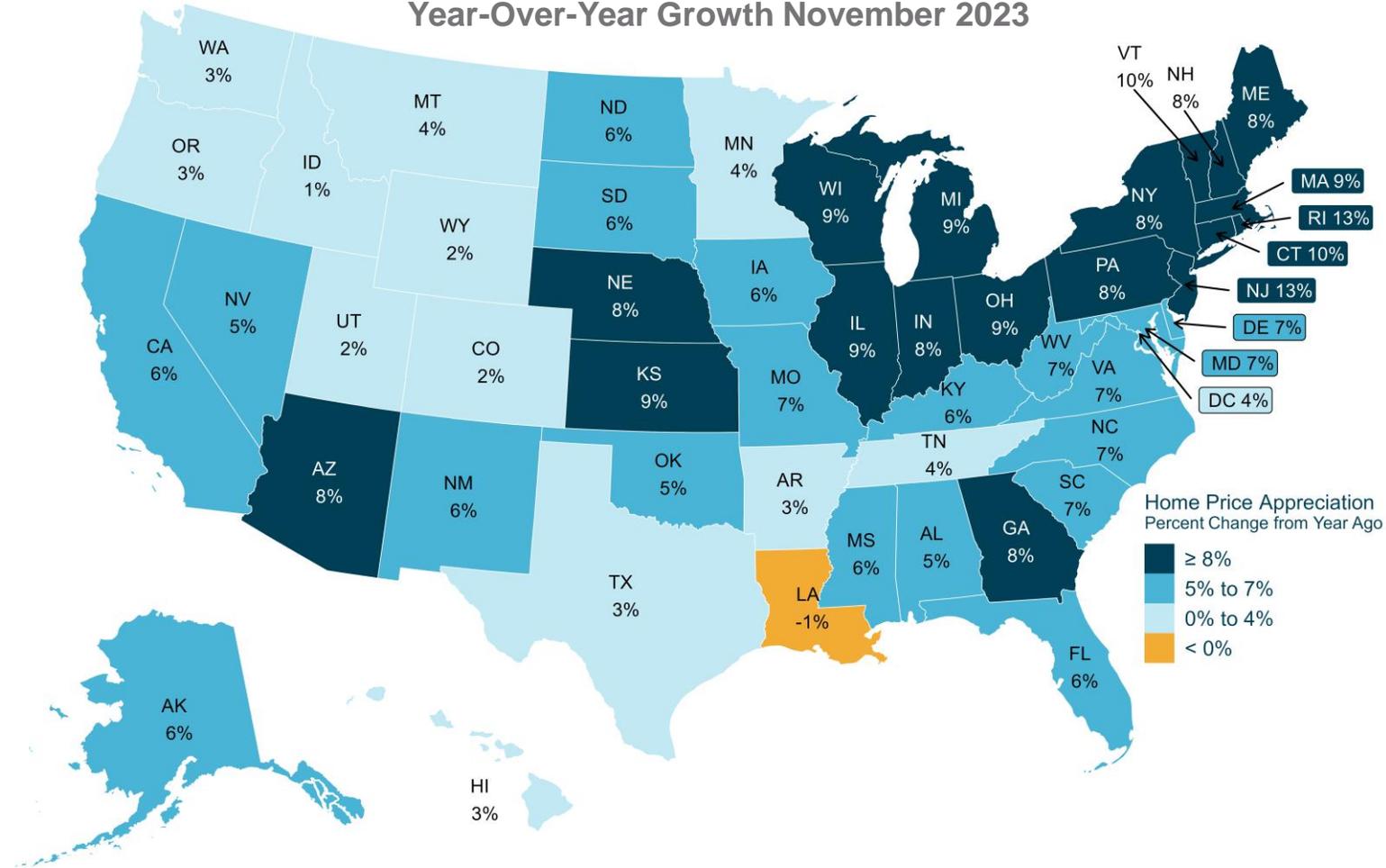
Freddie Mac House Price Index
Percent Change from **Month** Ago, SA - Nov. 2023



Prices Have Risen in All but Louisiana, with the Northeast and Midwest Showing Significant Growth



United States: 6.3%
Year-Over-Year Growth November 2023



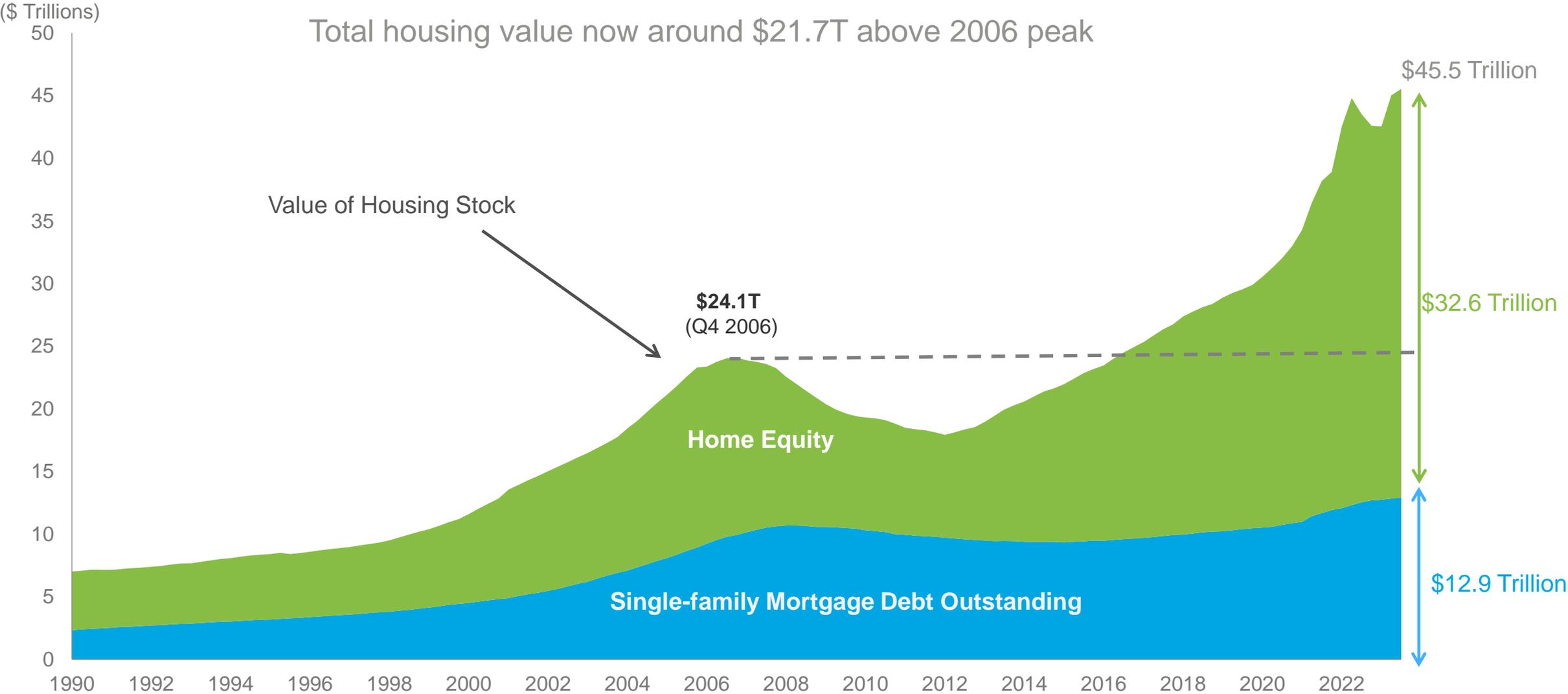
Home Price Appreciation
 Percent Change from Year Ago

- ≥ 8%
- 5% to 7%
- 0% to 4%
- < 0%

¹ The Freddie Mac House Price Index for the U.S. is a value-weighted average of the state indexes where the value weights are based on Freddie Mac's single-family credit guarantee portfolio. Other indices of home prices may have different results, as they are determined using different pools of mortgage loans and calculated under different conventions. The Freddie Mac House Price Index for the U.S. is a seasonally-adjusted monthly series. Percent changes were rounded to nearest whole percentage point

Source: Freddie Mac

Rising Home Prices Help Build Equity for Existing Homeowners



Value of Housing Stock

\$24.1T
(Q4 2006)

Home Equity

Single-family Mortgage Debt Outstanding

\$45.5 Trillion

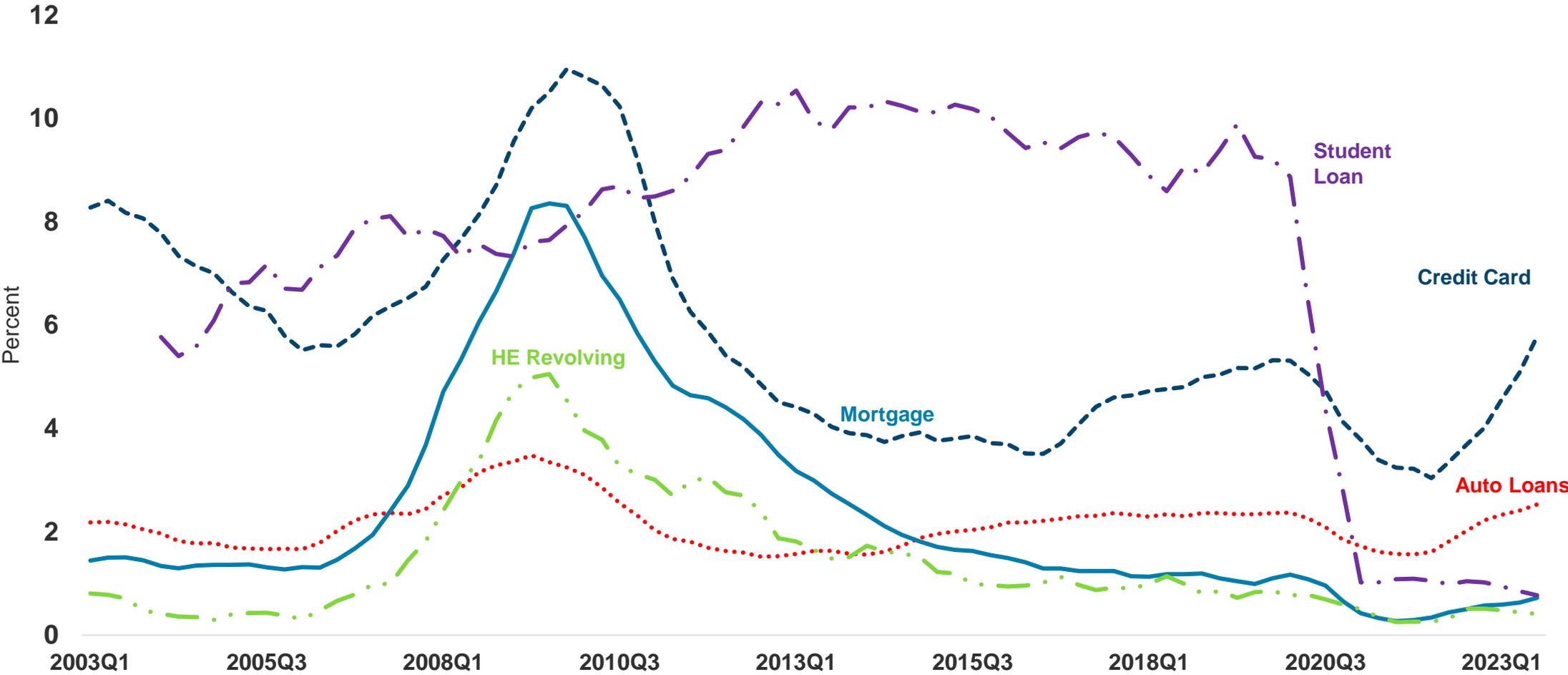
\$32.6 Trillion

\$12.9 Trillion

Note: Value of U.S. housing stock includes homes with and without underlying mortgages. U.S. home equity is the difference between the value of the U.S. housing stock and the amount of U.S. single-family mortgage debt outstanding.

Serious Delinquency Rates are on the Rise for Credit Cards, Autos, Mortgages and HELOC Loans

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

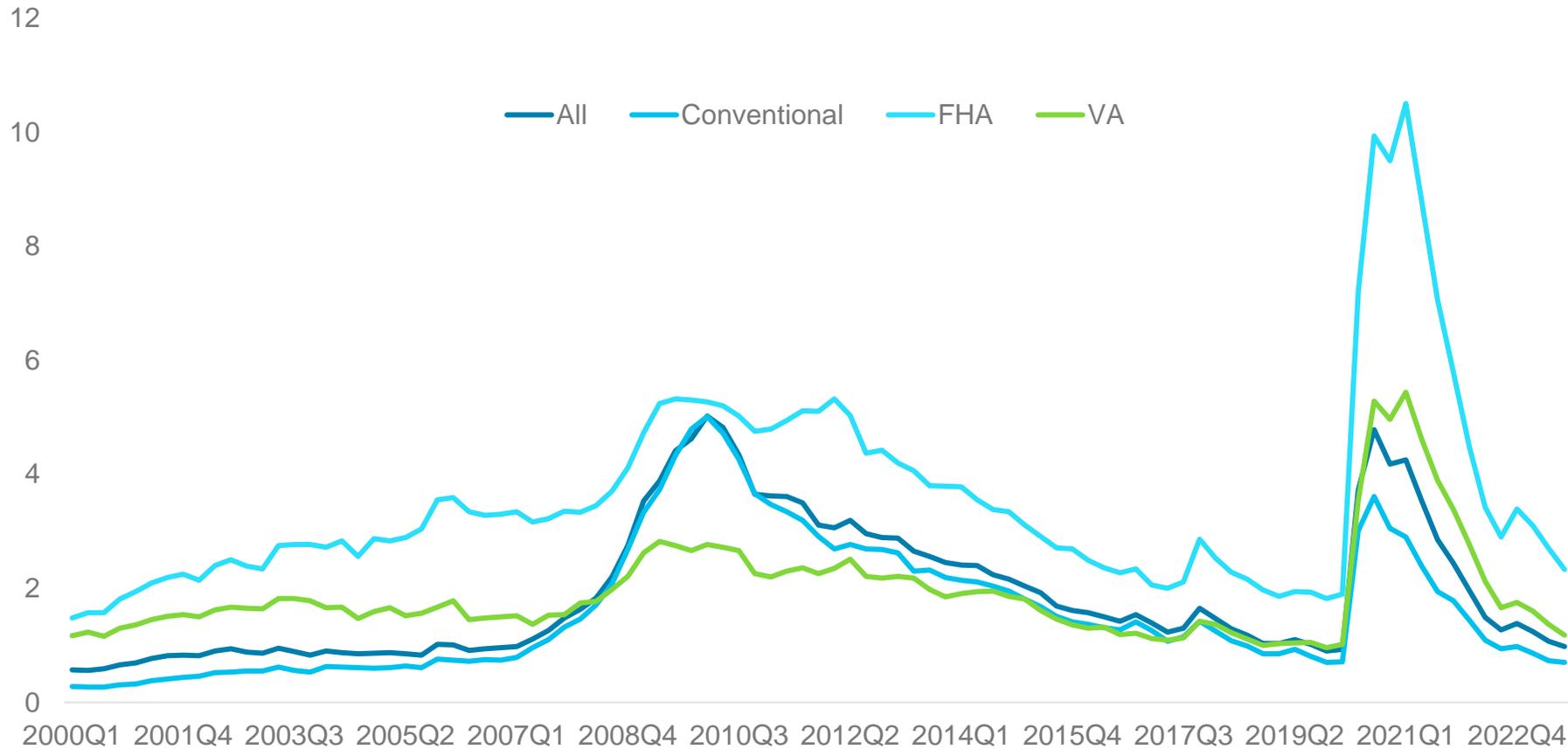


Source: New York Fed Consumer Credit Panel/Equifax; Data as of 2023Q3
*Student loan data are not reported prior to 2004 due to uneven reporting

Delinquency Rates Remain Low Across All Loan Types



Q3 2023 - 90+ DLQ (% of Loans Serviced)



Q3 2023 Compared to Q2 2023

All : -9bps
 Conventional: -3bps
 FHA: -37bps
 VA : -19bps

Q3 2023 Compared to Q3 2022

All : -29bps
 Conventional: -24bps
 FHA: -57bps
 VA : -48bps

Forecast for 2024

- We expect U.S. economic growth to slow in 2024 as consumer spending starts to fade.
- Inflation has been moderating and the expectation of rate cuts by the Fed are on the rise. We expect mortgage rates to ease throughout the year while remaining in the 6% range.
- High mortgage rates have presented many challenges, particularly for homebuyers. Given elevated interest rates, fewer buyers and sellers are likely to step into the housing market, affecting both the demand and supply. The combination of high mortgage rates dragging demand down and tight supply driven by the rate lock in effect will keep sales volume low in 2024.
- We expect house prices to increase 2.8% in 2024 and 2.0% in 2025.
- Mortgage origination volume is expected to pick up from the previous year in 2024. Although we forecast home prices to rise for the next 12 months, the positive impact of prices on origination volumes is offset by low sale volumes. We expect the refinance market to see some activity as rate cuts are expected in 2024. Overall, we forecast total origination volumes to improve this year and into the next.