

Top Market Themes Q4 2021

Market Research and Insights

January 2022





U.S. Macroeconomic Outlook



- COVID-19 cases are at an all-time high.
- The unemployment rate falls below 4%, but the Great Resignation continues.
- Inflation is at levels not seen since the 1980's.

U.S Housing Market Outlook



- Mortgage rates are rising, and affordability still remains high.
- Inventory for available homes are near record lows while demand remains strong.
- Due to the lack of supply and high demand, house prices continue to increase 17% YoY in November 2021.

U.S. Mortgage Market Outlook



- New mortgage borrowers have exceptionally high credit scores contributing to historically low rate of new delinquencies.
- Foreclosures have dropped as a result of forbearance and other policies.
- Refinance activity slowing down due to higher mortgage rates.
- As refinance activity slows, mortgage originations are set to decline from record 2020.



U.S. Macroeconomic Outlook

COVID Case Rates on the Rise as Omicron Sweeps through the U.S.



Epidemiology: COVID-19 - Confirmed and presumptive positive cases, (#, NSA)

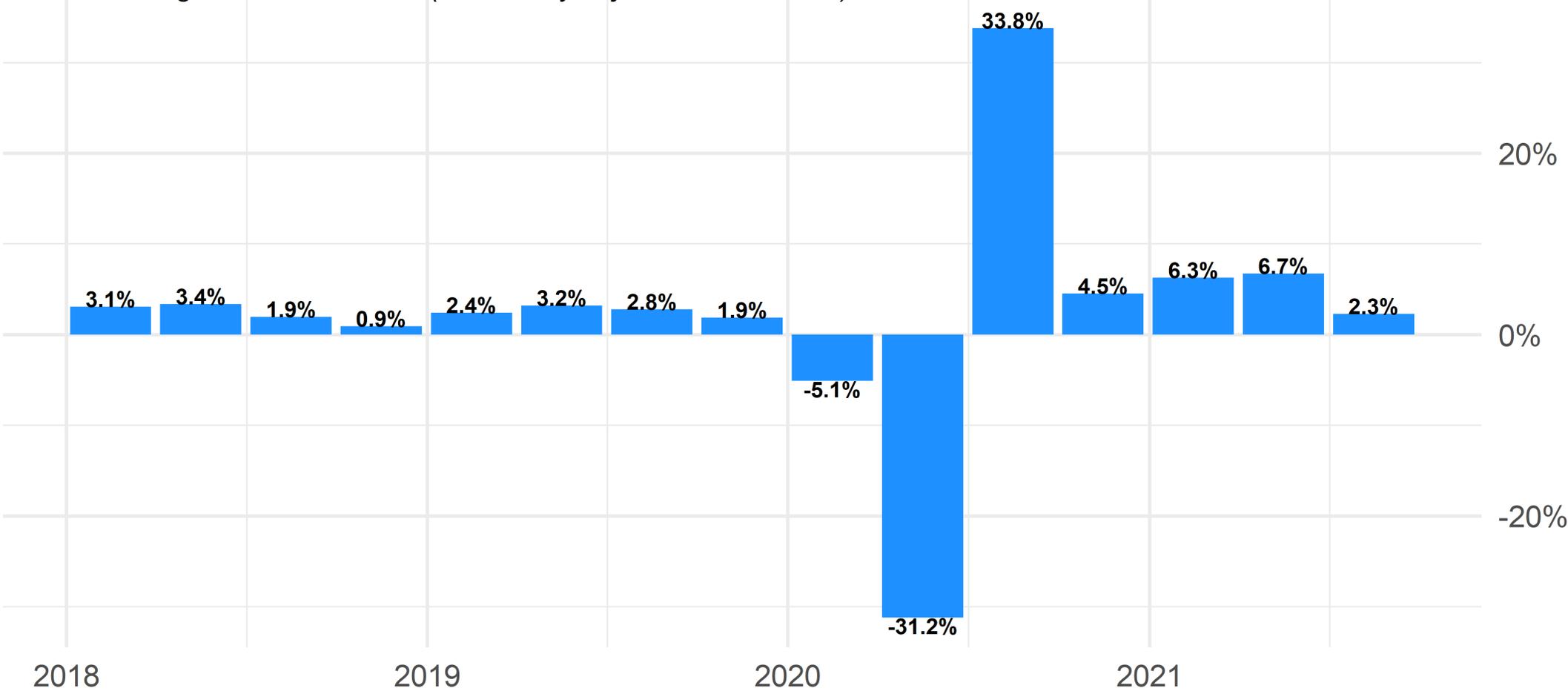


U.S. Centers for Disease Control and Prevention (CDC): COVID-19 Situation Summary (material is otherwise available on the agency website free of charge)

U.S. Economic Growth Decelerates in the 3rd Quarter of 2021



Percent Change in US Real GDP (seasonally adjusted annual rate)

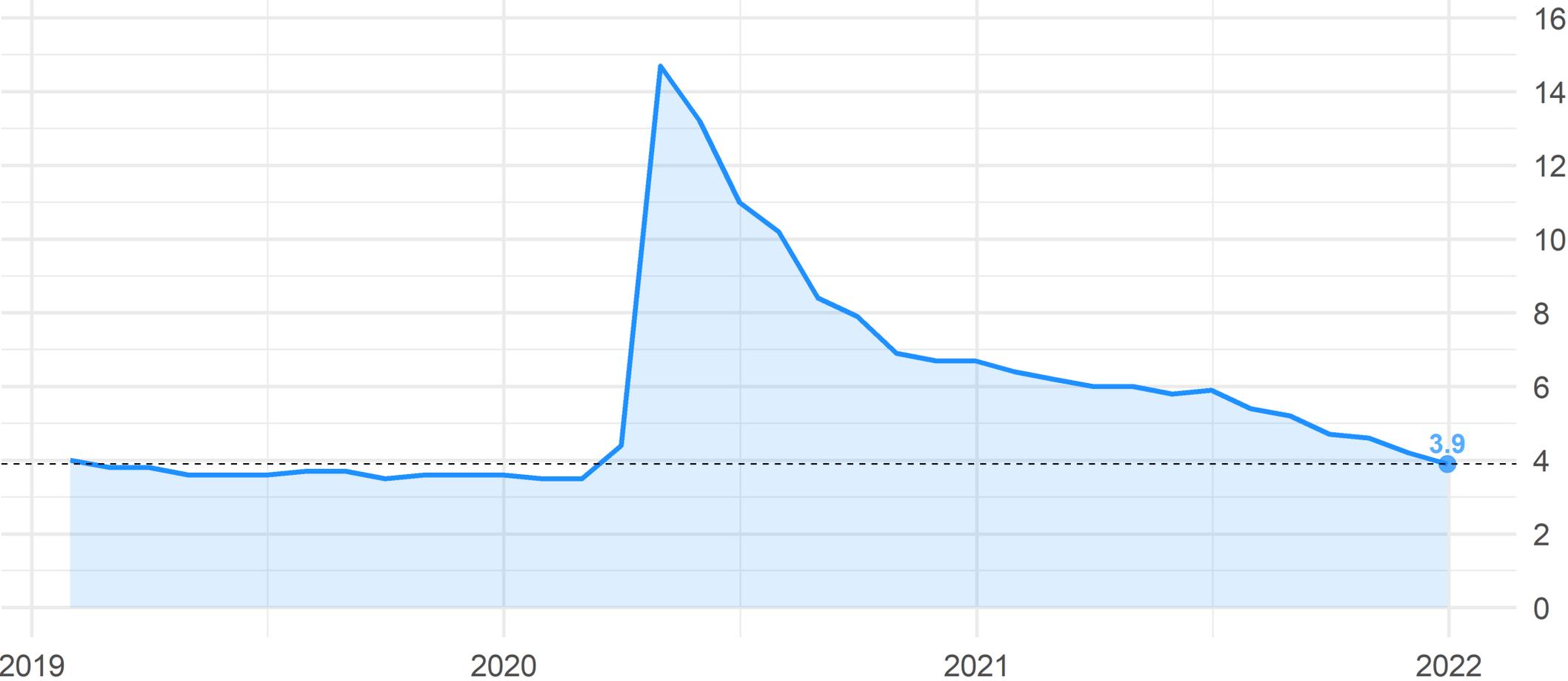


Source: U.S. Bureau of Economic Analysis

Unemployment Rate Falls Below 4% in December 2021



Unemployment rate: Total, (% , SA)



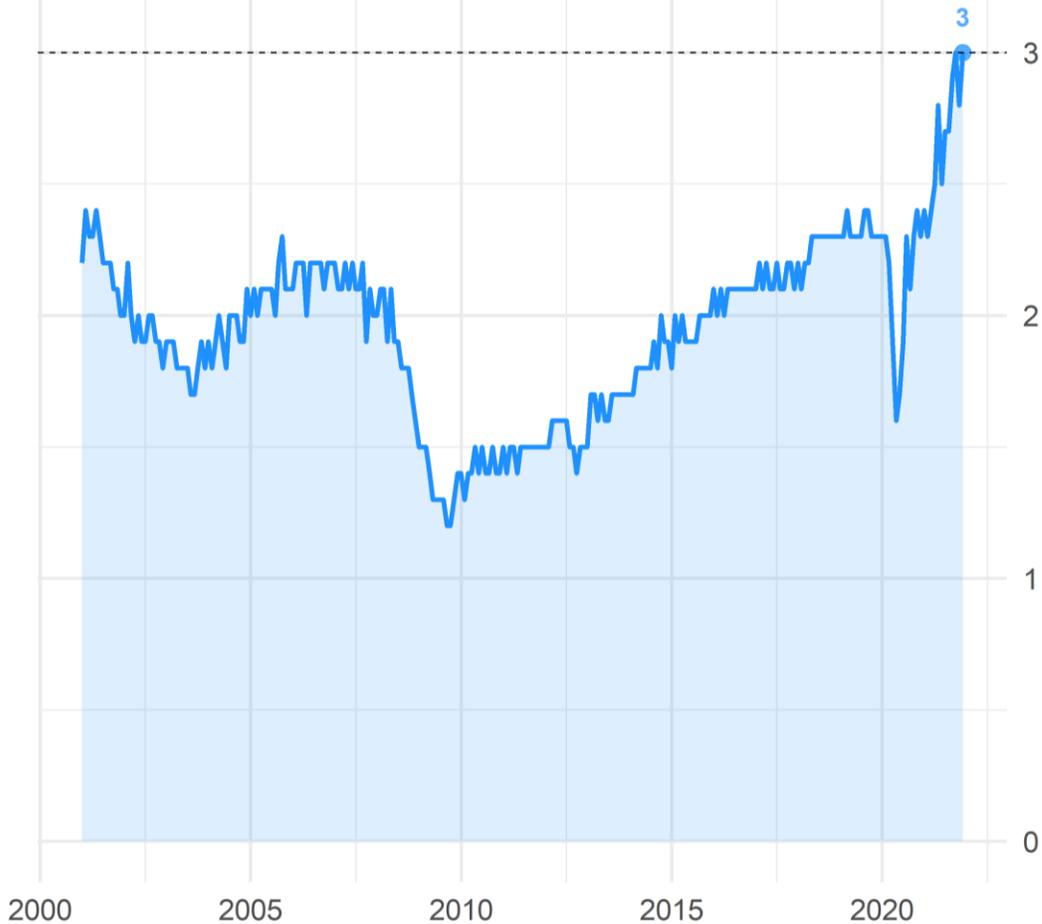
U.S. Bureau of Labor Statistics (BLS): Current Population Survey (CPS) [Household Survey - LNS14000000]

The Great Resignation: Workers Quit and Exit Labor Force



Quits Rate at a Series High

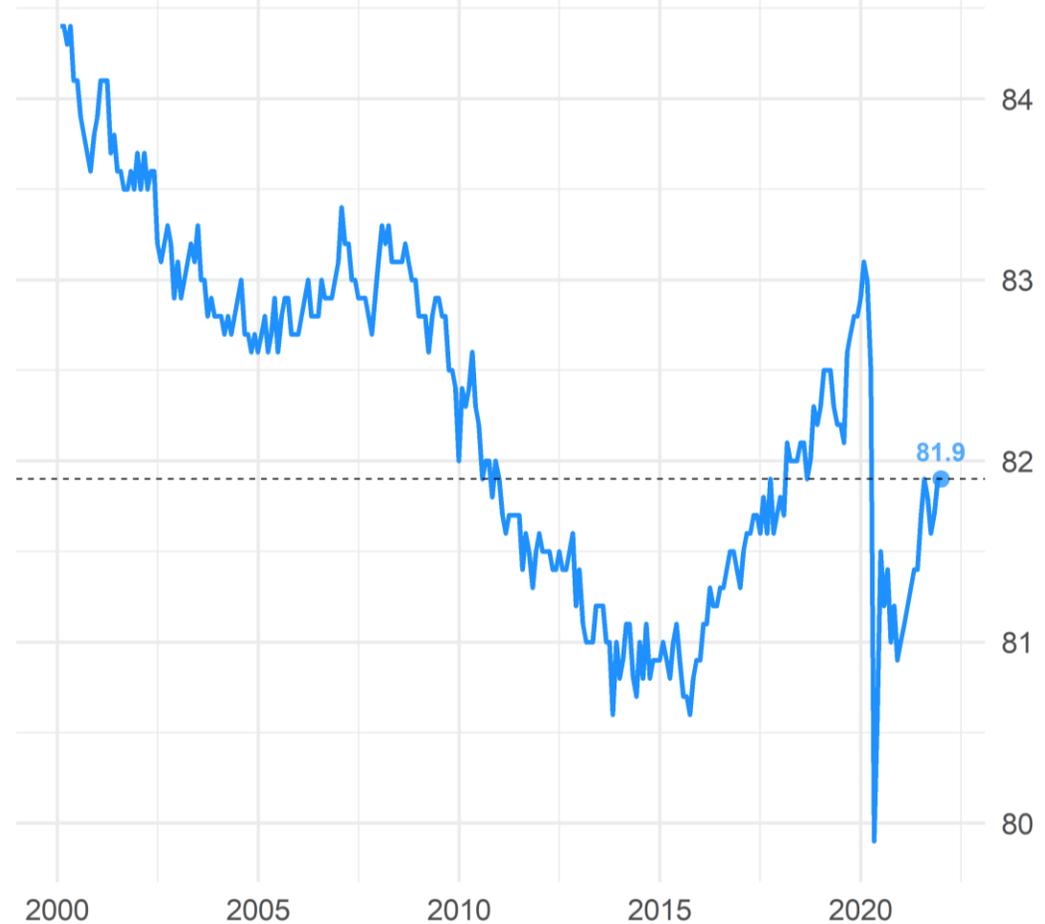
Job Openings and Labor Turnover: Quits rate - Total nonfarm, (% , SA)



U.S. Bureau of Labor Statistics (BLS): Job Openings and Labor Turnover Survey (JOLTS) [Series ID = JTS0000000000QUR]

Labor Force Participation lags pre-COVID rate

Labor force participation rate: Civilian Population 25-54 yrs., (% , SA)



U.S. Bureau of Labor Statistics (BLS): Current Population Survey (CPS) [Household Survey - LNS11300060]

Consumer Price Inflation Heats Up



Annual percent change in CPI: Urban Consumer - All items, (Index 1982-84=100, SA)



U.S. Bureau of Labor Statistics (BLS): Consumer Price Index (CPI) [Series ID = CUSR0000SA0]



U.S. Housing Market Outlook

At the Start of 2022, Mortgage Interest Rates on the Rise

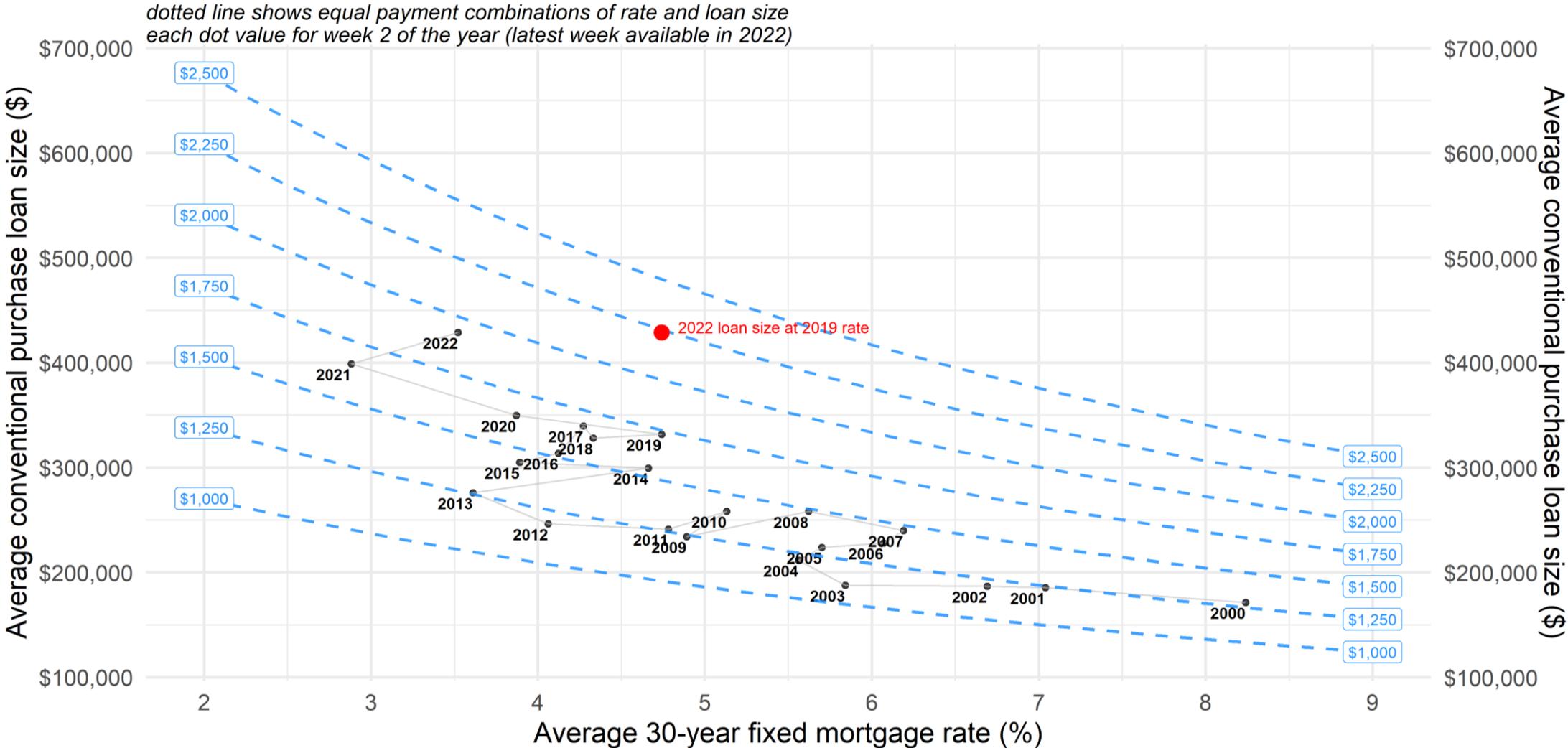


U.S. weekly average 30-year fixed mortgage rate (%)



Source: Freddie Mac Primary Mortgage Market Survey

Higher Mortgage Rates and Home Values Reduce Affordability



Data source: MBA payments principal and interest (P&I) for 30-year fixed mortgage

Inventory of Homes Available for Sale Near Record Low



Existing + New Single-family Houses for Sale (Millions, SA)



Source: National Association of Realtors, U.S. Census Bureau

Housing Demand Remains Strong as Sales Climb



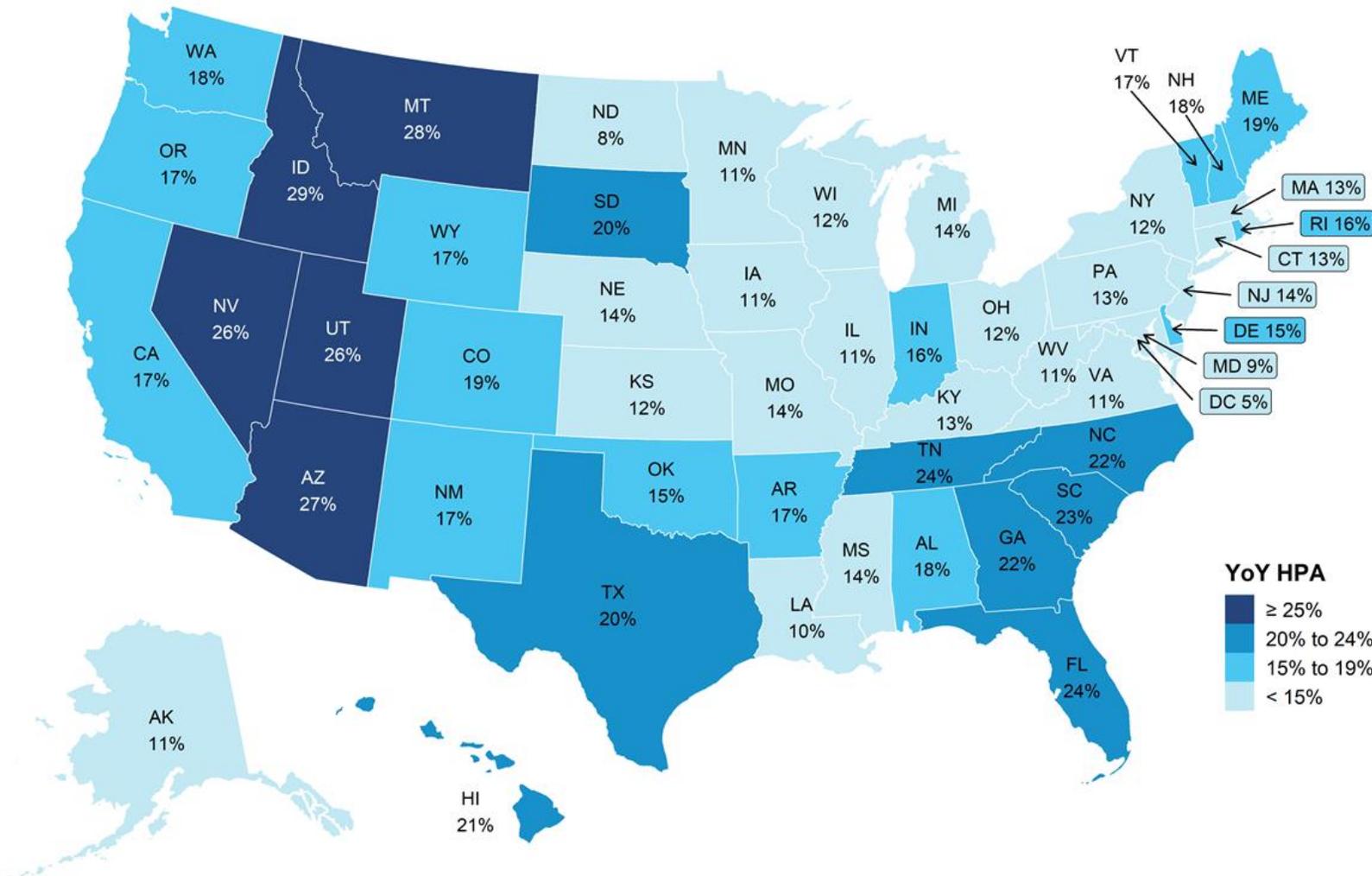
Existing + New Houses Sold (Millions, SA)



Source: National Association of Realtors, U.S. Census Bureau

Robust Demand, Limited Supply Put Intense Pressure on House Prices

U.S. House Prices Increased 17% y/y in November 2021



Source: Freddie Mac House Price Index, November 2021

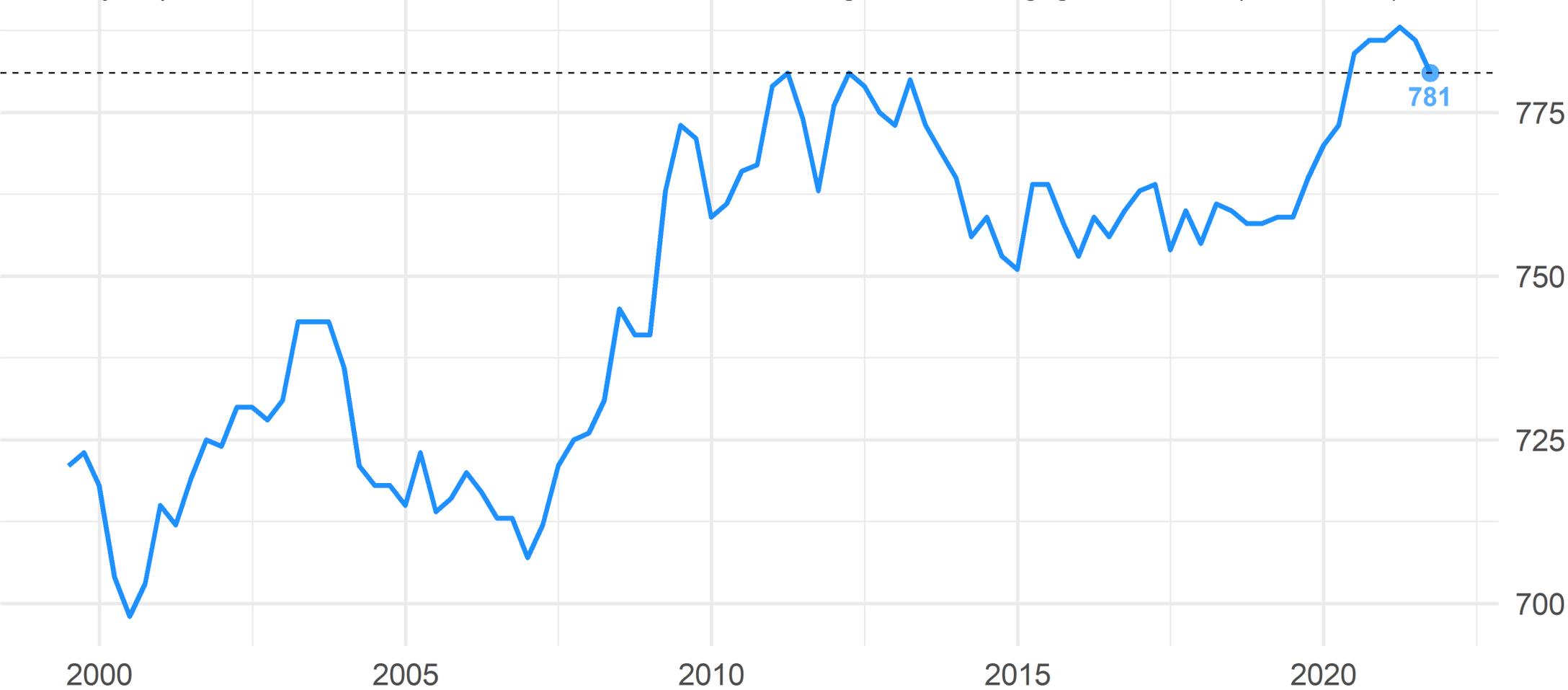


U.S. Mortgage Market Outlook

New Mortgage Borrowers Have Exceptional Credit



Quarterly Report on Household Debt and Credit: Credit score at origination - Mortgages - Median, (Score, NSA)

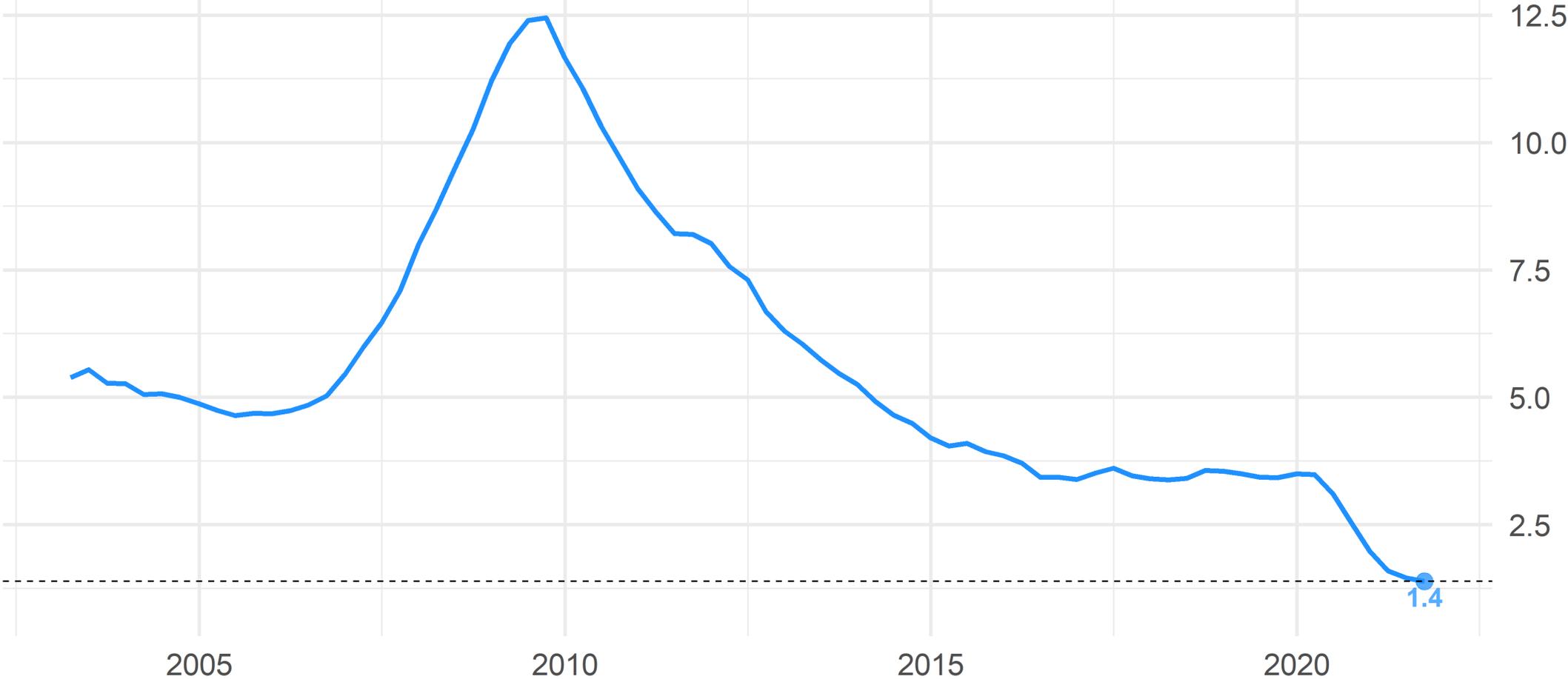


Federal Reserve Bank of New York (FRBNY): Quarterly Report on Household Debt and Credit [HHDC] - Credit Score at Origination - Mortgages

Historically Low Rate of Newly Delinquent Mortgage Borrowers



Quarterly Report on Household Debt and Credit: New delinquent balances by loan type - Mortgage, (% , NSA)

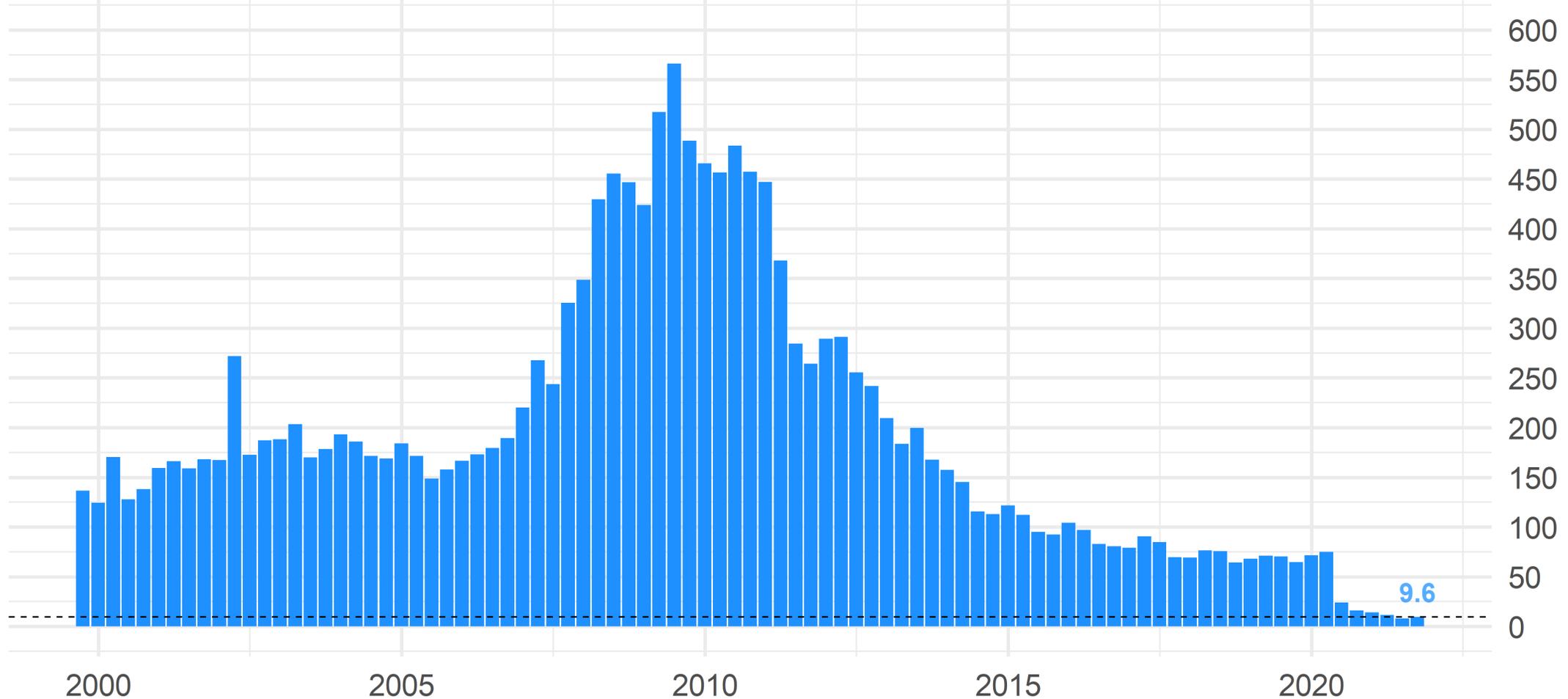


Federal Reserve Bank of New York (FRBNY): Quarterly Report on Household Debt and Credit [HHDC] - New Delinquent Balances by Loan Type

Forbearance and Other Policies Have Nearly Eliminated Foreclosures



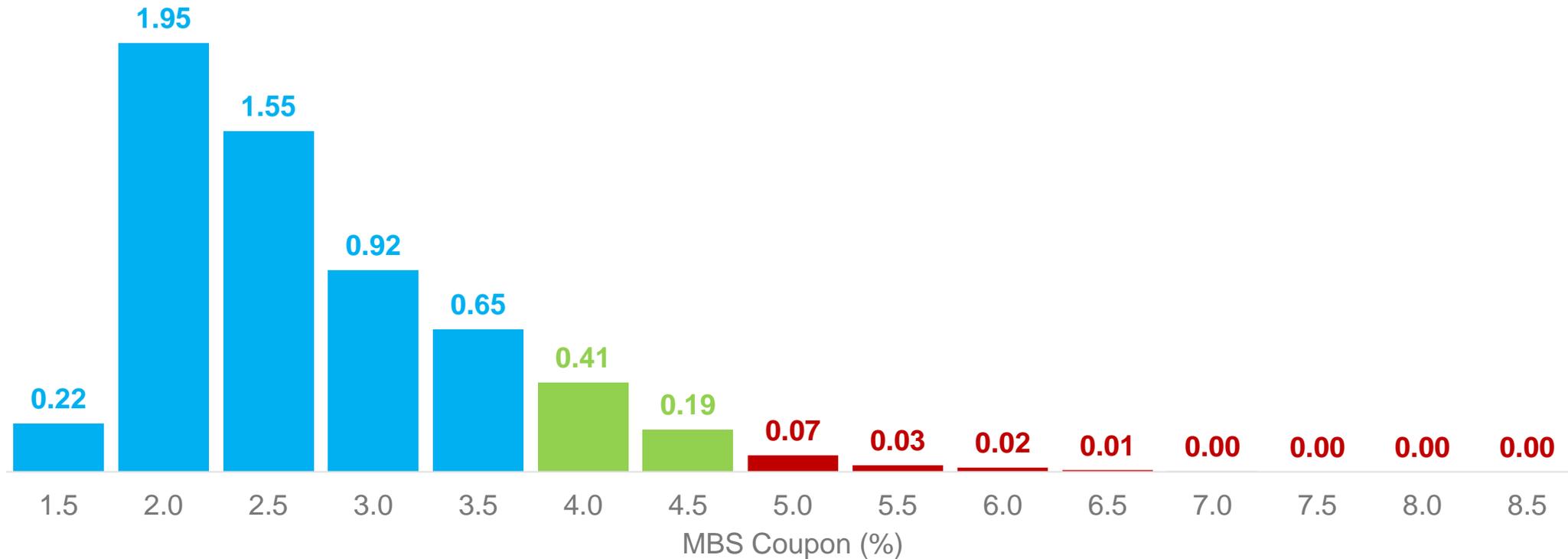
Quarterly Report on Household Debt and Credit: Consumers with new foreclosures and bankruptcies - Foreclosure, (Ths. #, NSA)



Higher Mortgage Rates Will Drive Down Refinance Activity



Outstanding 30-year Conforming Balance by Coupon (\$T's)



Out-of-the-money
 Coupon < 4.0%
 ~ \$5.3 Trillion

Marginally In-the-money
 4.0% <= Coupon < 5.0%
 ~ \$0.6 Trillion

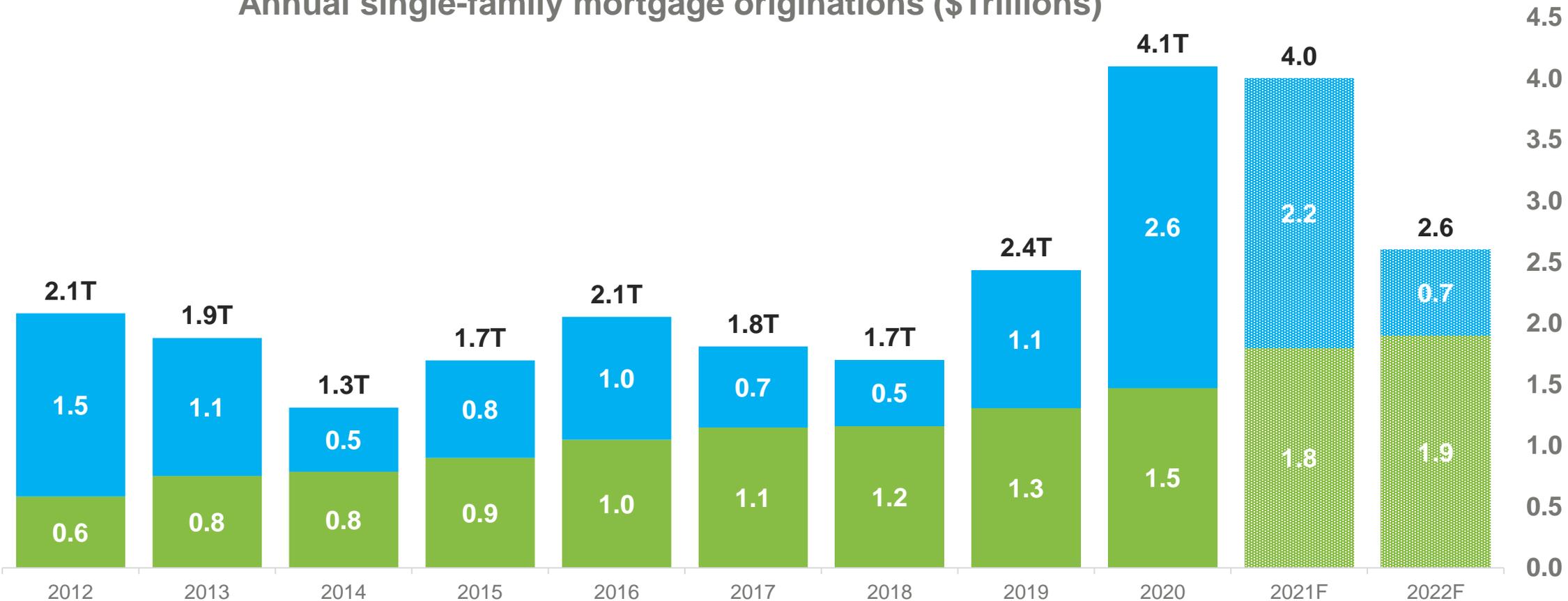
Deep In-the-money
 Coupon >= 4.5%
 ~ \$0.1 Trillion

Source: Bloomberg as of 12/8/2021
 Conforming includes Freddie Mac, Fannie Mae, Ginnie Mae 30-year fixed MBS Outstanding (UMBS, GNMA1, GNMA 2)

Mortgage Originations Hit a Record High in 2020, Set to Decline as Refinances Fade



Annual single-family mortgage originations (\$Trillions)



Source: Freddie Mac Q32021 Economic and Housing Research Outlook
 Note: Totals may not add due to rounding ; * Includes only 1st liens



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