

Quarterly Economic & Housing Market Outlook

Research & Insights: May 2024



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Economy: Economic Growth Moderating but Remains Above Long Run Trend

- Labor market cooling with unemployment rate below 4% for the 26th consecutive month, the longest streak since the 1960s.
- Inflation moderating, but still above the Fed target.

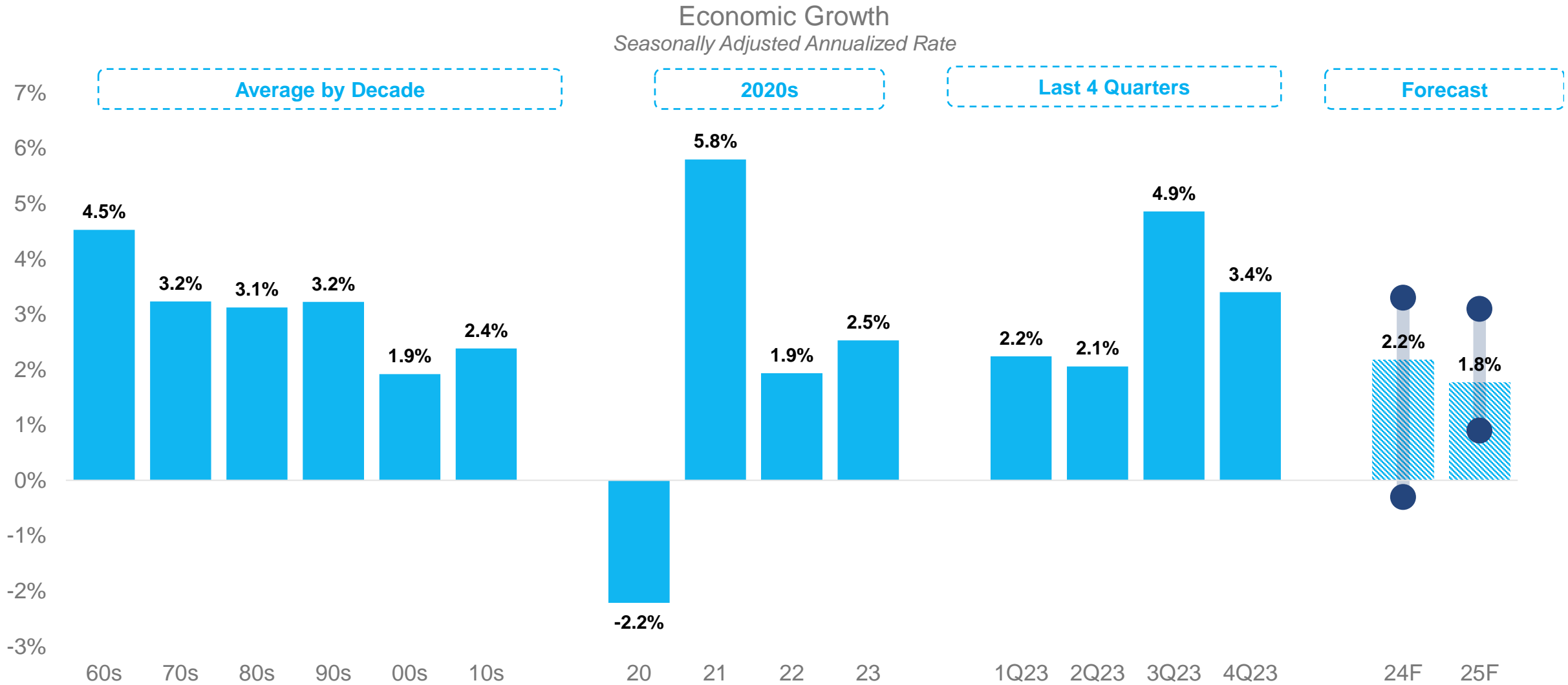
Housing Market: Affordability Challenged by Higher Rates – House Prices Resilient

- Mortgage rates on the rise again with stronger than expected inflation.
- Home sales rebound as we enter the Spring Homebuying season.
- 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 Moderating But Remains Above Long Run Trend

Economic Growth Expanded in 2023 Defying Expectations of a Recession, but is Expected to Cool in 2024

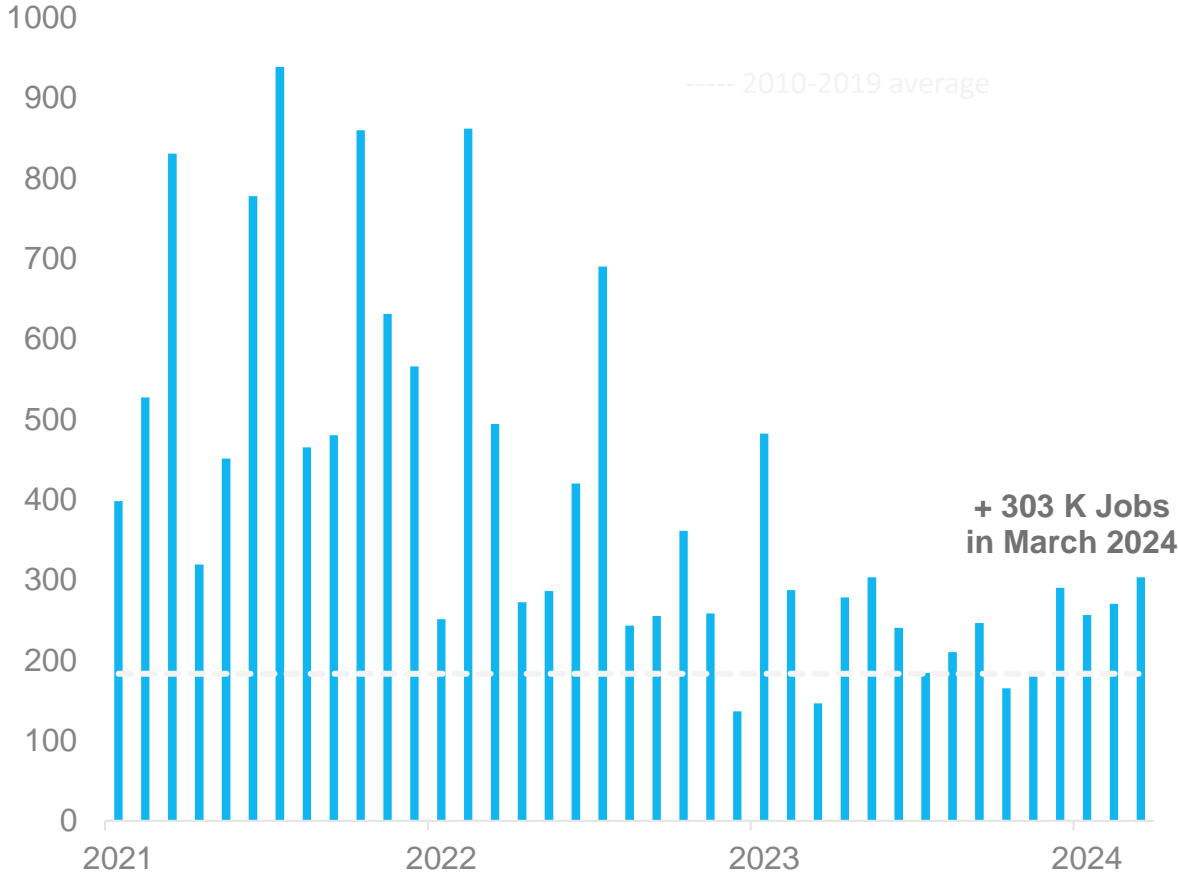


Source: Bureau of Economic Analysis, Moody's Baseline (April 2024), Wall Street Economic Forecasting Survey (April 2024)

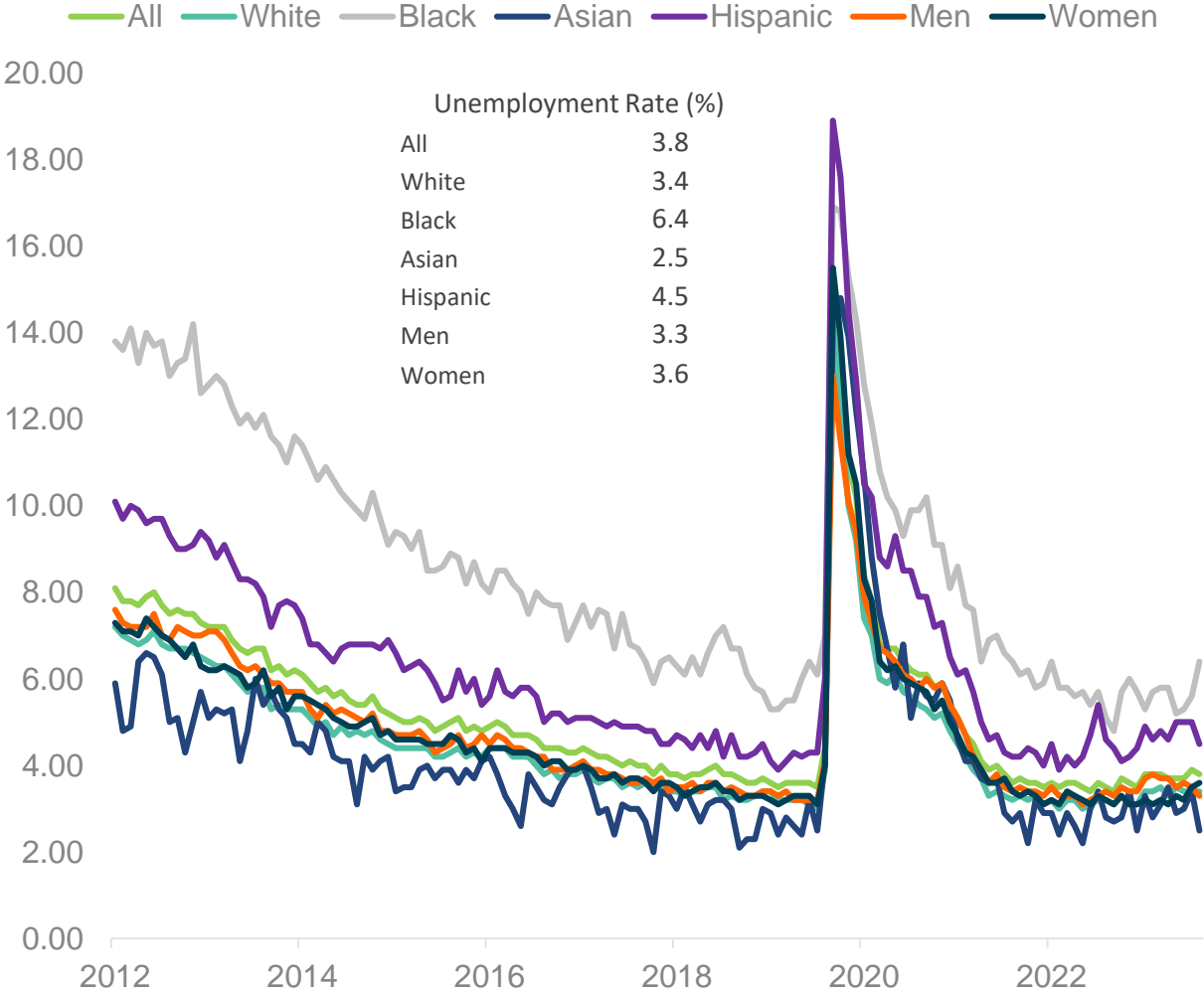
Labor Market is Cooling, but Remains Tight; Unemployment Rate at 3.8%



All Employees, Total Nonfarm, Change, Thousands of Persons, Monthly, Seasonally Adjusted



Unemployment Rate (%)

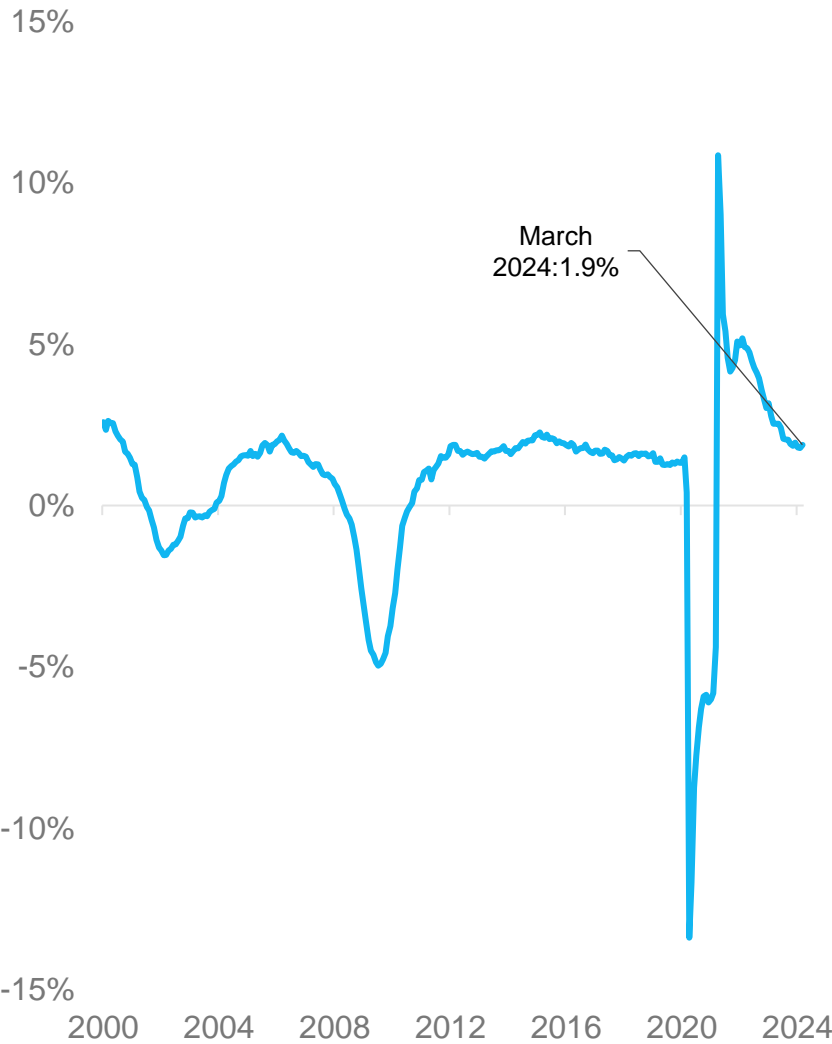


Source: BLS

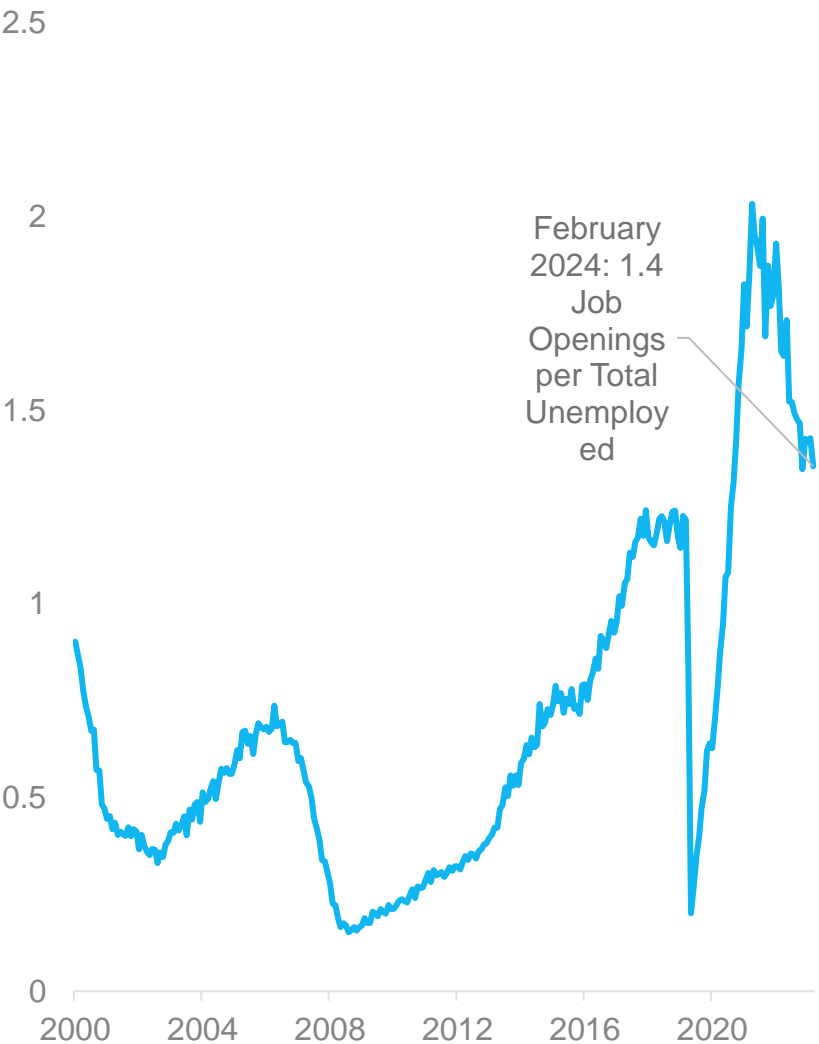
The Labor Market Is Cooling, but Remains Tight Compared to Prior Decades



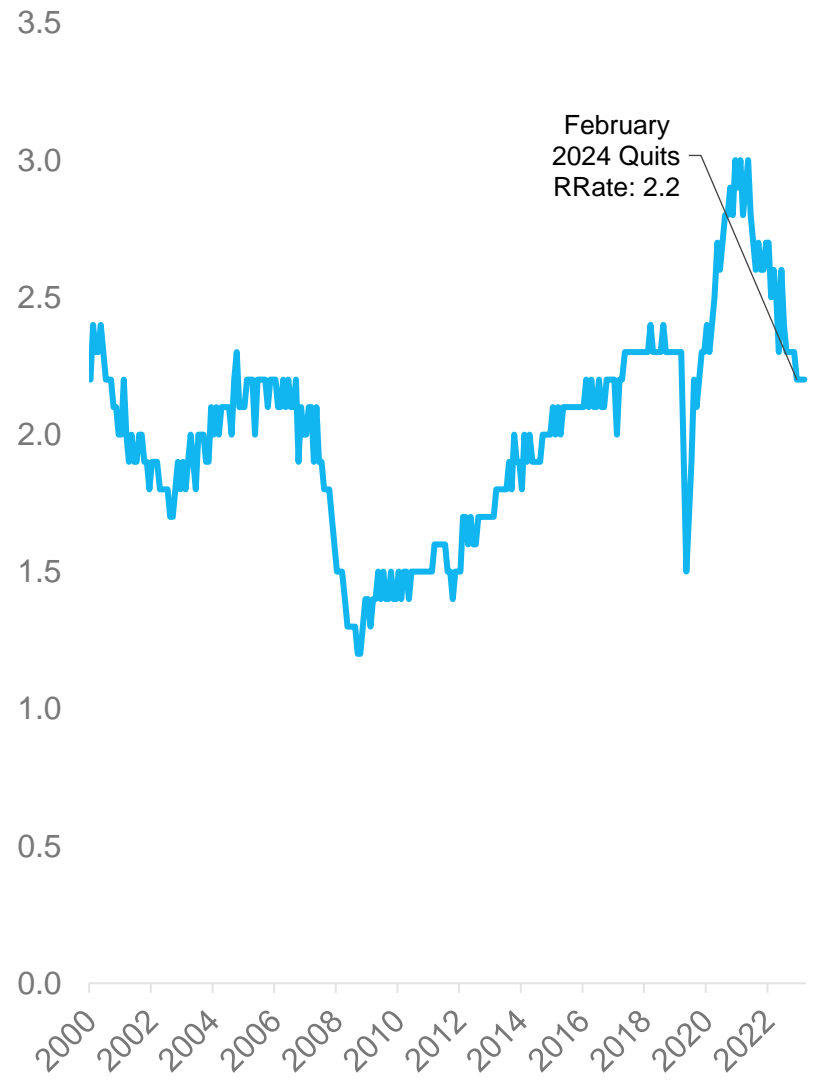
Monthly YoY Job Growth



Job Openings per Unemployed Person



Quits Rate

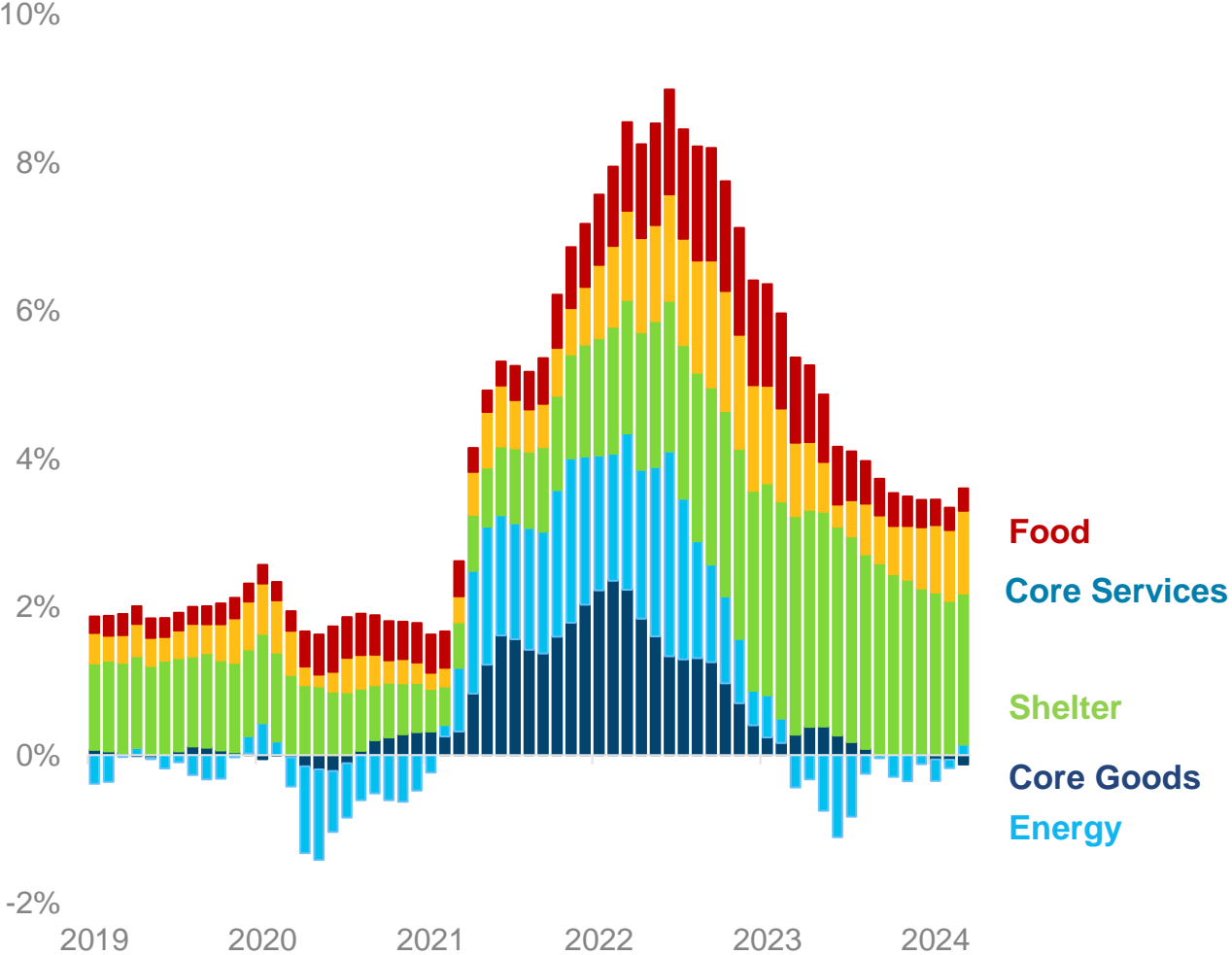


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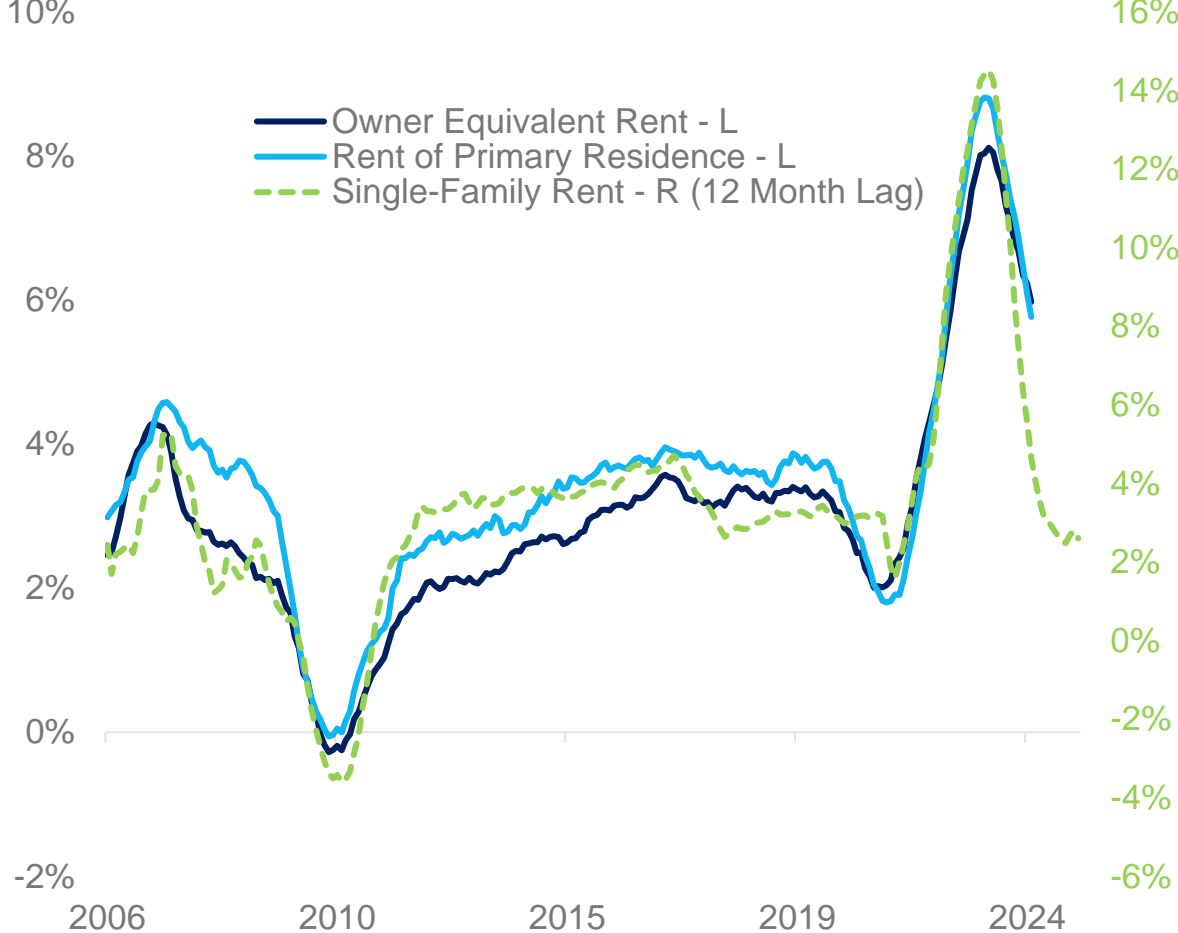
Goods and Energy Inflation Has Normalized and Services Inflation Is Expected to Follow Because Shelter Inflation Will Decline the Rest of This Year



Contribution to Headline CPI Inflation



Rents Impact Shelter Inflation With One-Year Lag
Percent Change from Year Ago

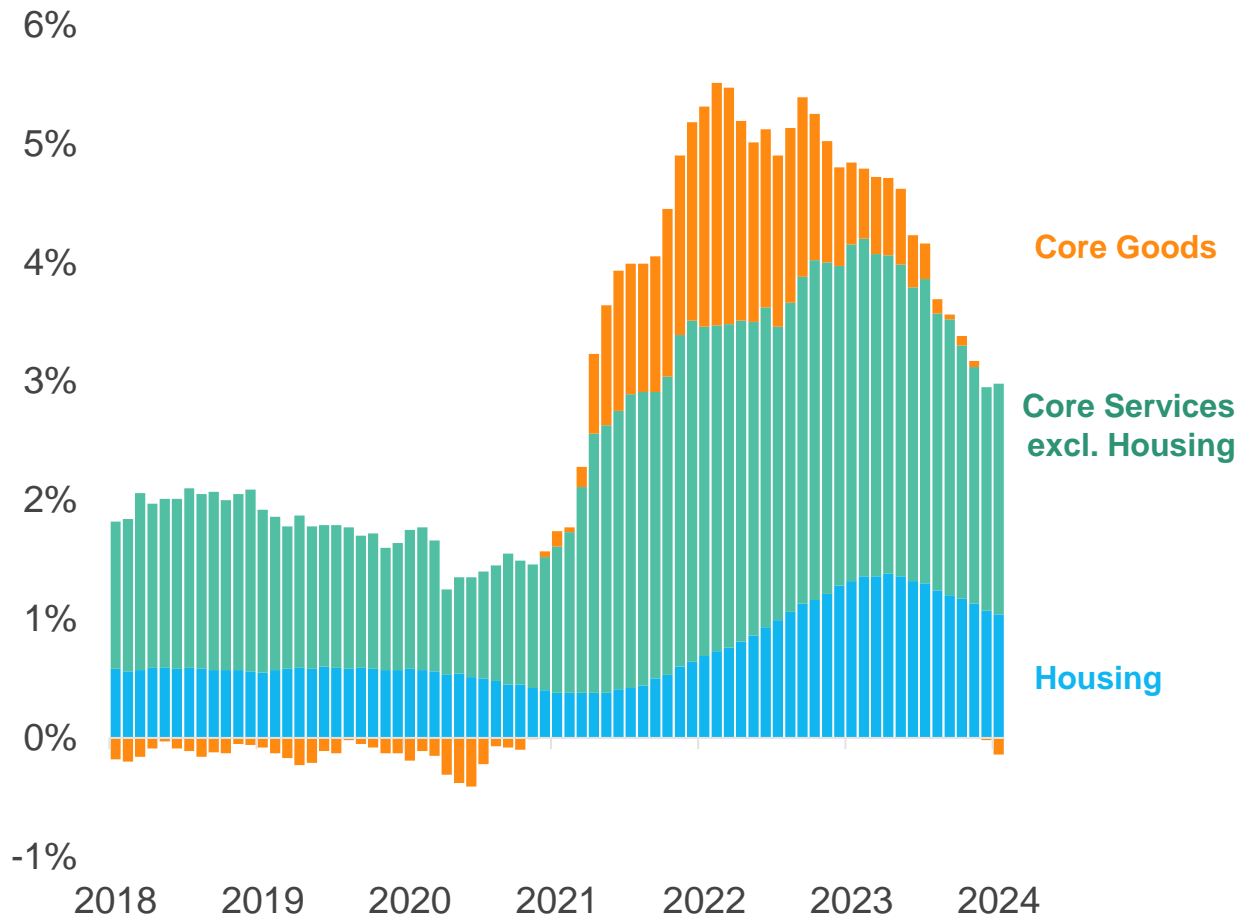


Source: Bureau of Labor Statistics, CoreLogic

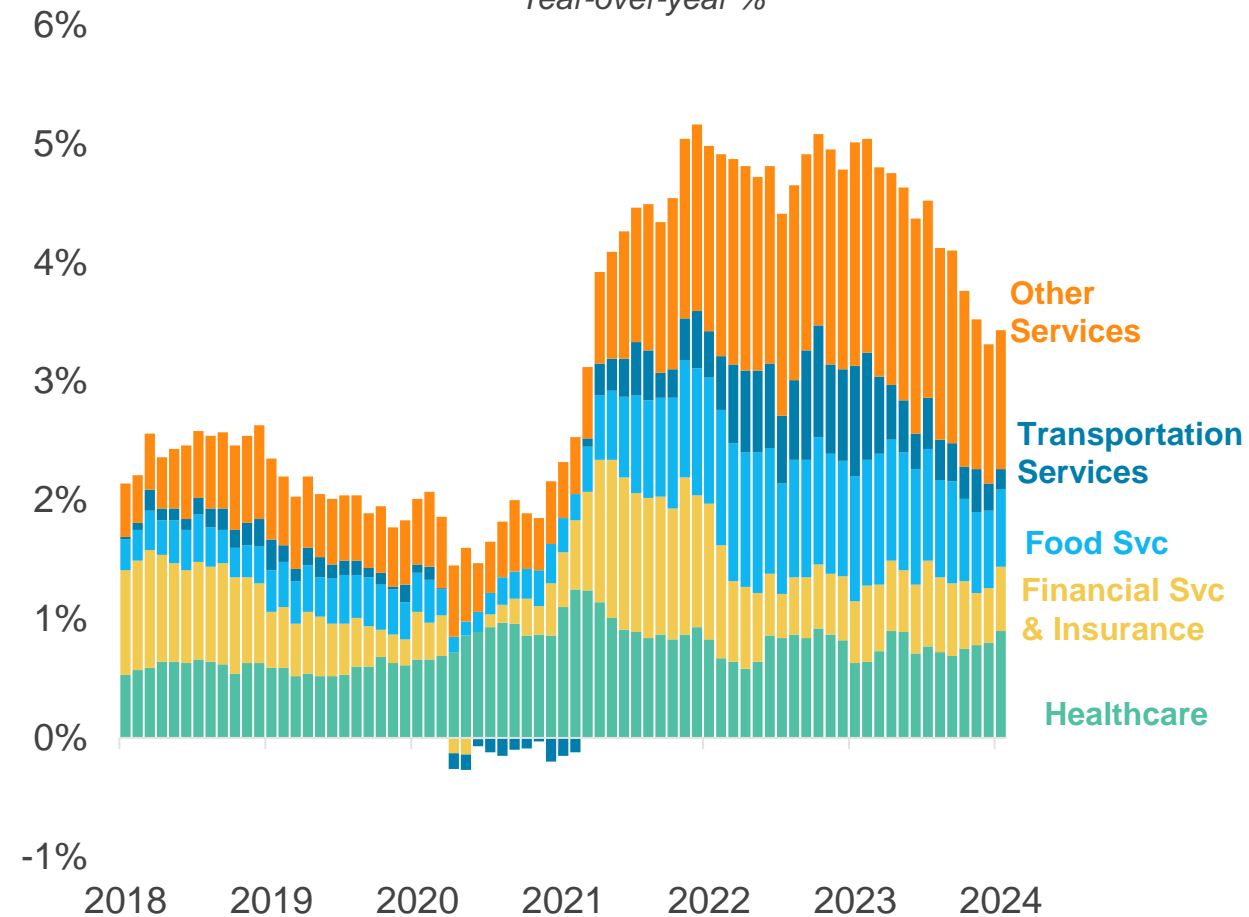
Fed's New Favorite Measure: "Supercore" Inflation



Contribution to 12-Month Core PCE Inflation
Year-over-year %



Contribution to 12-Month "Supercore" Services PCE Inflation
Year-over-year %

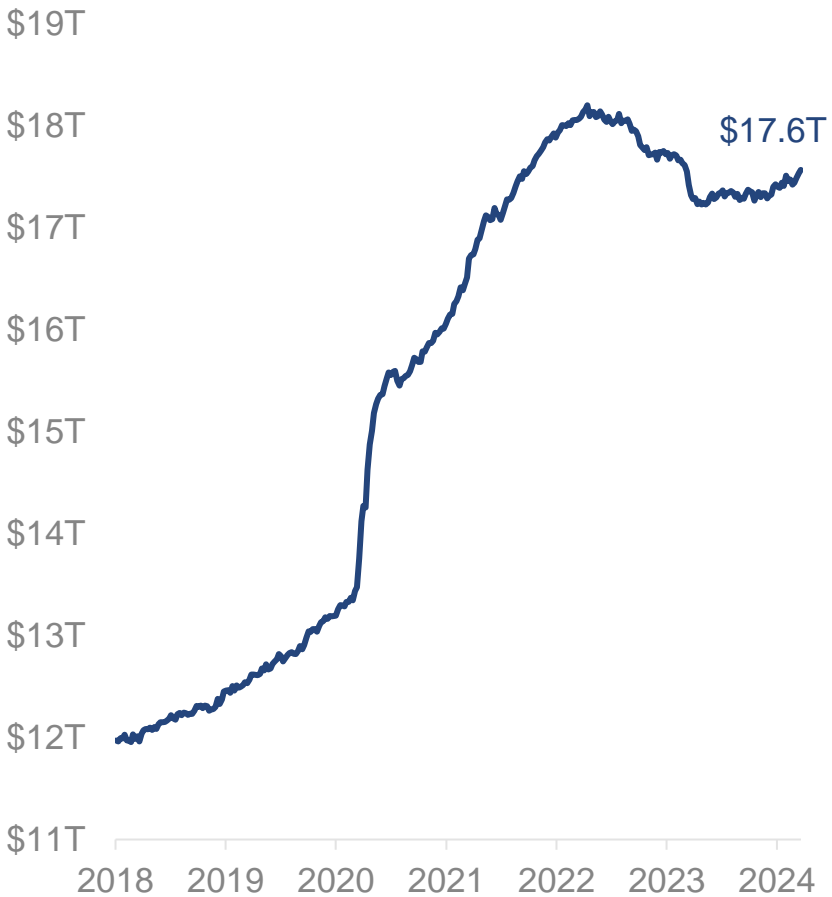


Source: Federal Reserve Bank of San Francisco

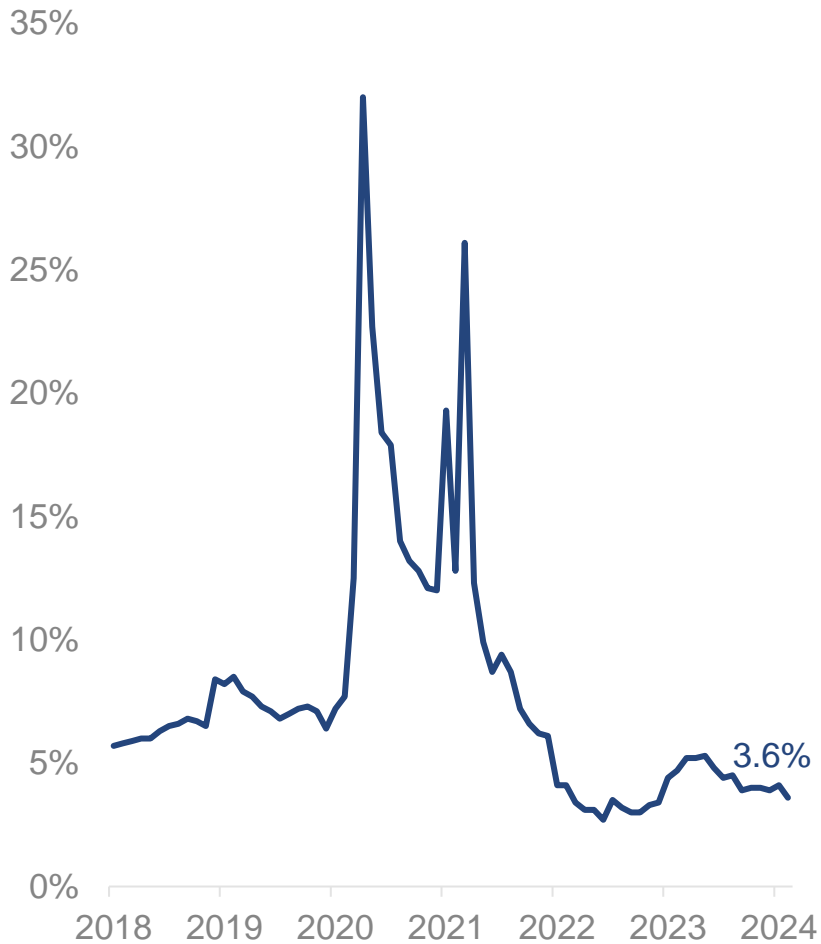
Consumer Balance Sheet Improved Significantly Due to Stimulus, but They Have Weakened as Credit Demand Surged During the Last 18 Months



Consumer Bank Deposits
\$Trillions



Personal Savings Rate



Consumer Loans
Credit Cards and Other Revolving Plans,
All Commercial Banks
\$Billions

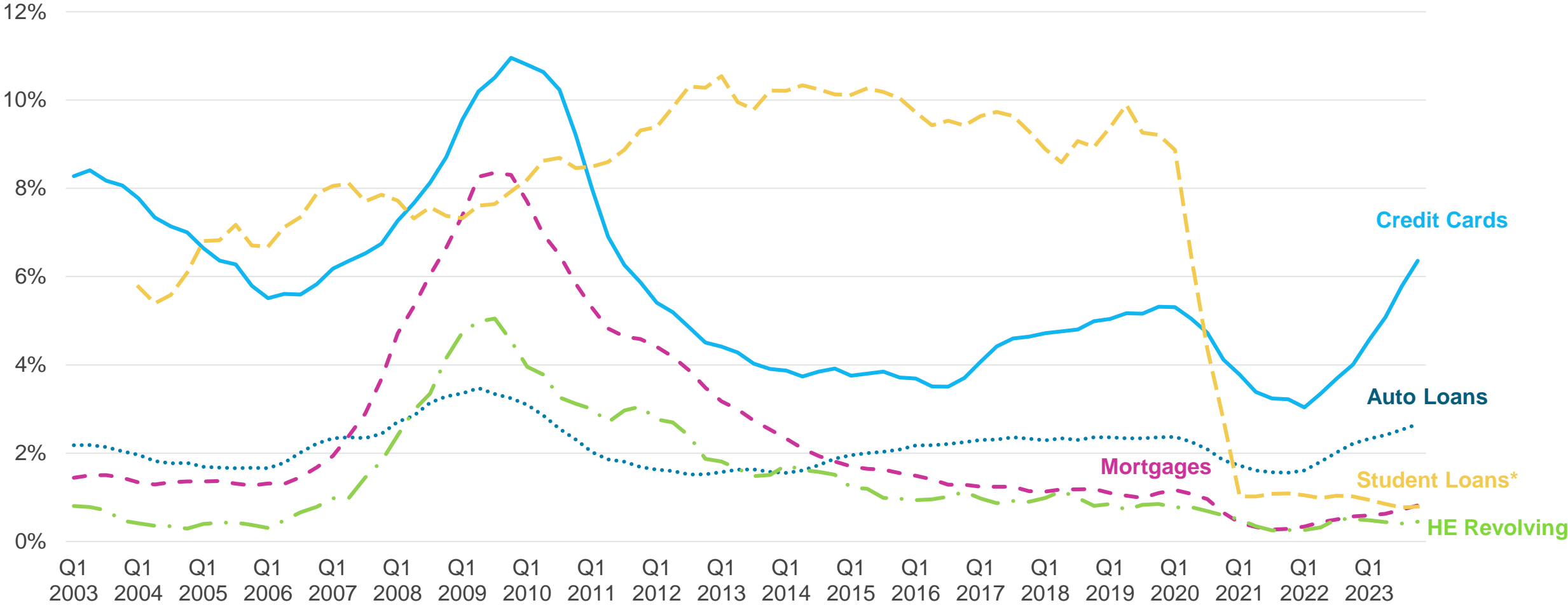


Source: Federal Reserve, Bureau of Economic Analysis.

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

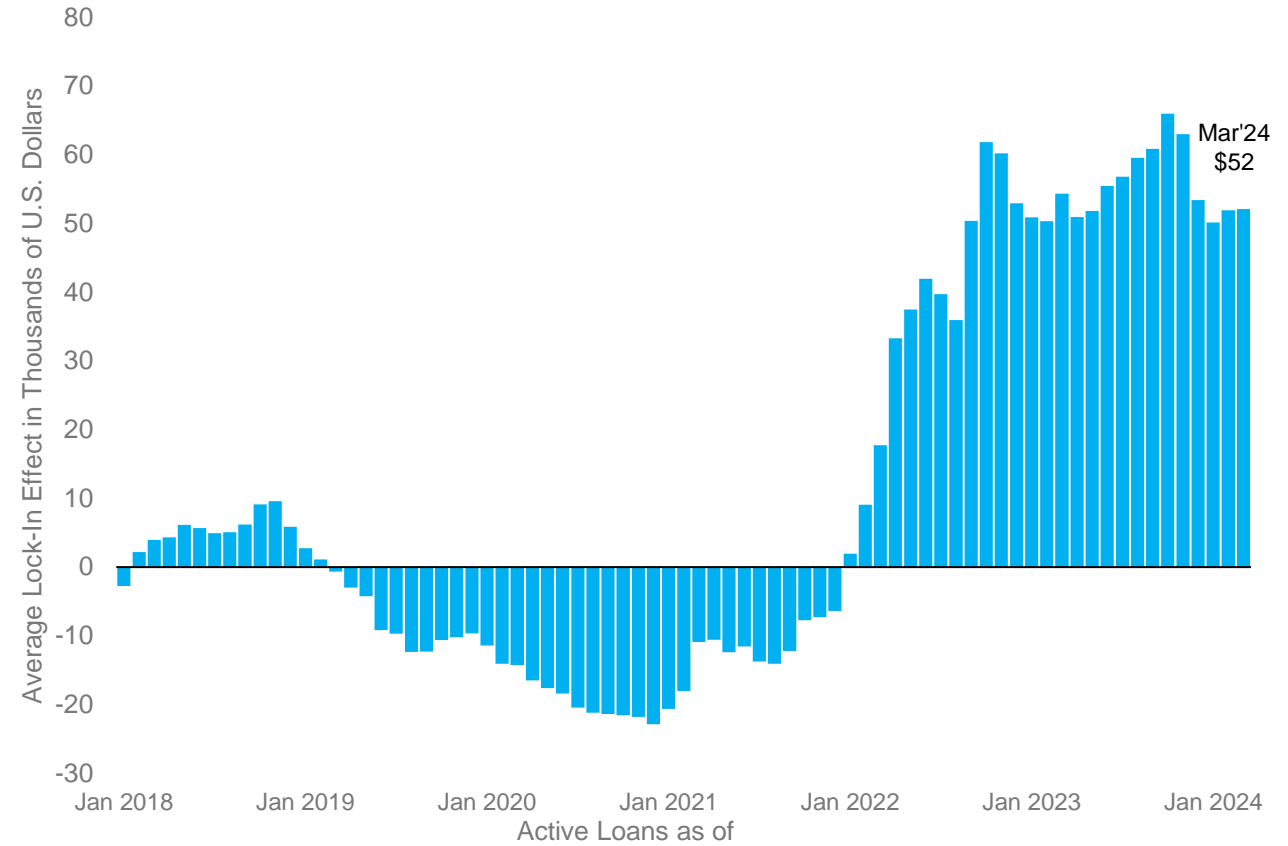
Spike In Mortgage Rates Has Made It Very Expensive for Homeowners to Move



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



Average Mortgage Rate Lock-In Effect
\$Ths., Freddie Mac active 30-year and 15-year fixed mortgages



Lock-in computed by the formula $V = B - \sum_{i=1}^n \frac{P}{(1+r)^i} - \frac{F}{(1+r)^n}$ 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 rate in the PMMS, n is the remaining months left on the mortgage and F is any partial payment due after n periods due to curtailment.

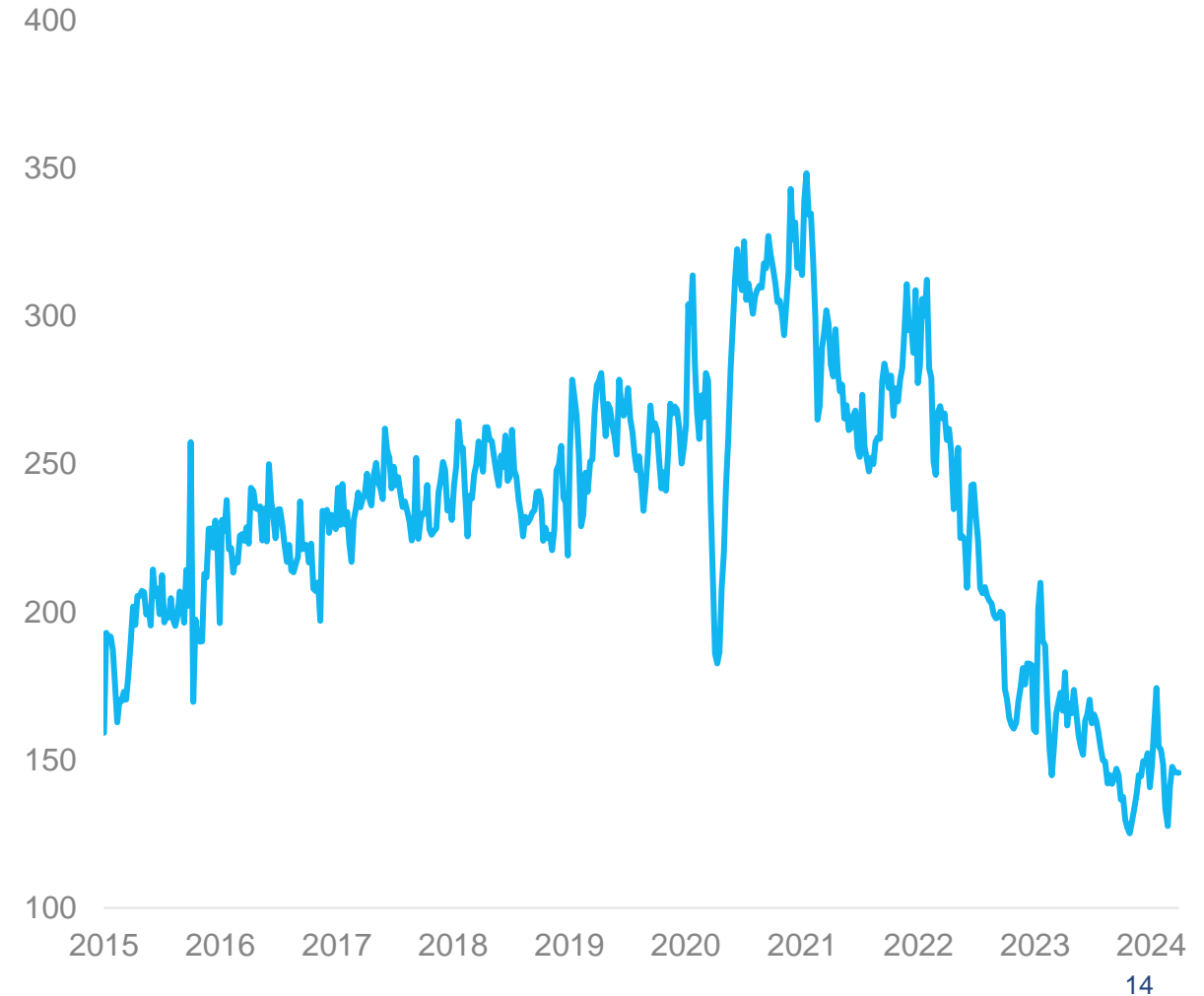
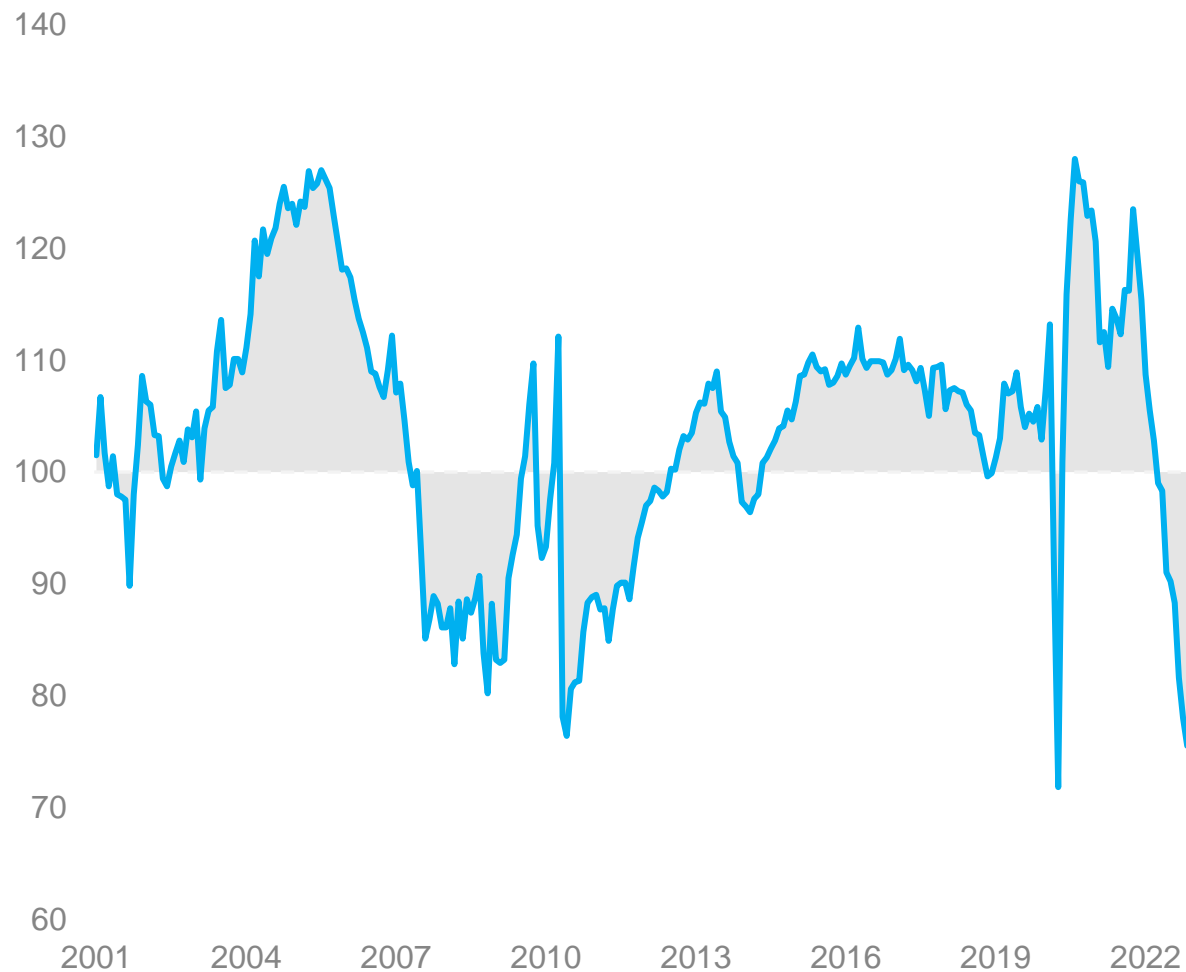
Home Sales Remain at Multi-Decade Lows, but Existing Home Sales are Rebounding



Pending Home Sales Index

MBA Applications Survey Purchase Activity

Index March 16, 1990 = 100, SA

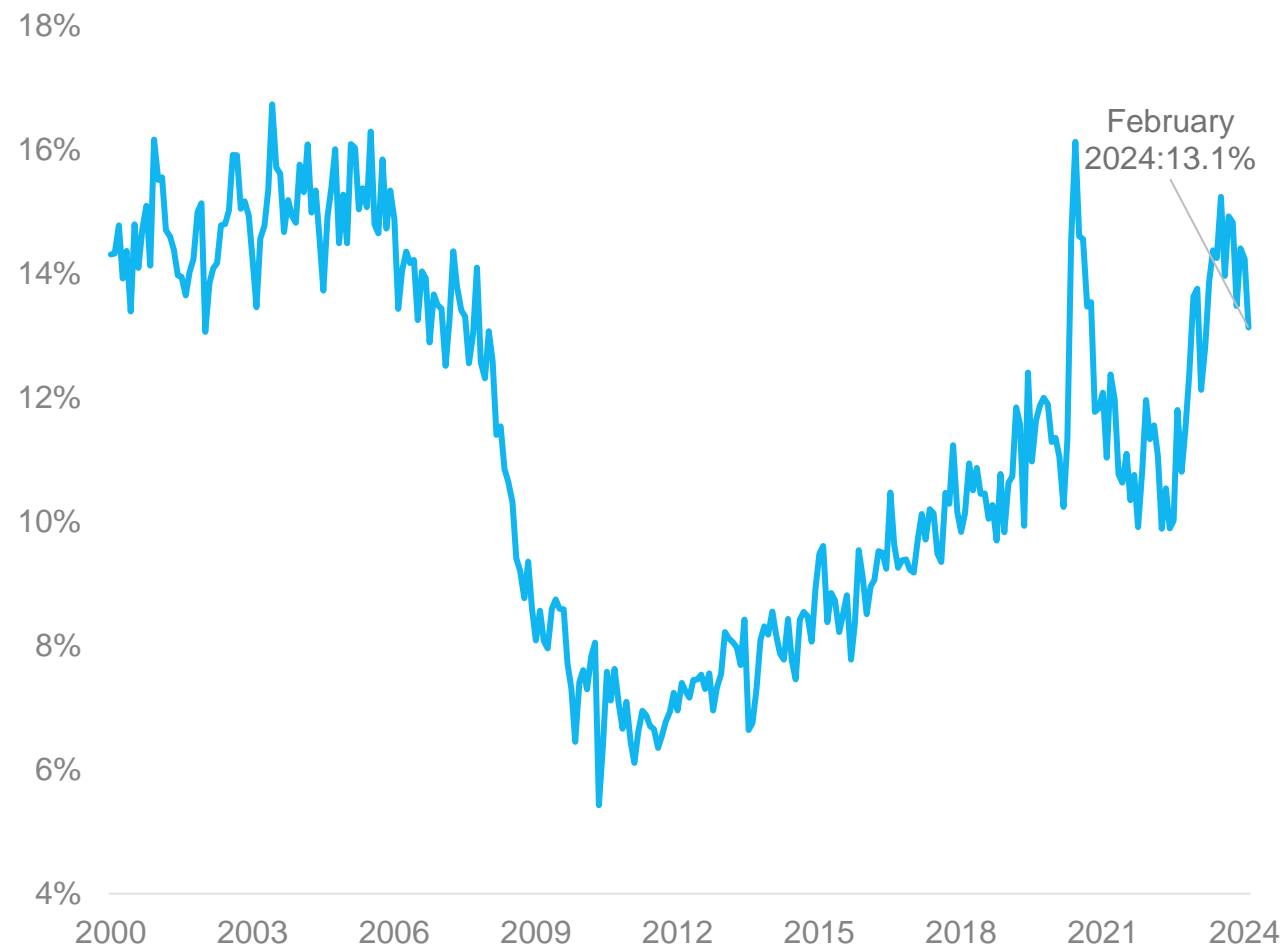


Source: MBA; NAR.
MBA Purchase Activity as of 3/29/2024

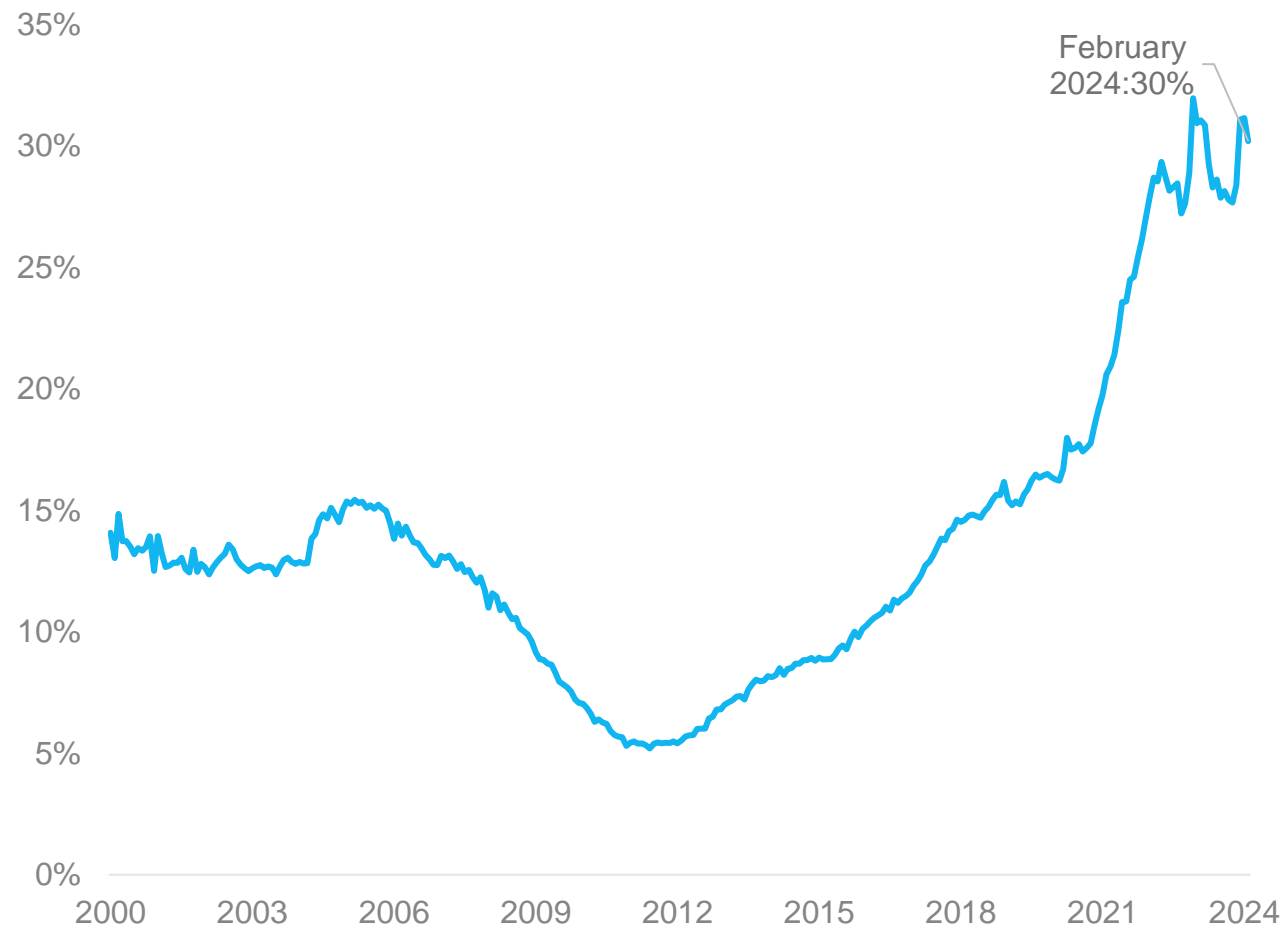
New Home Sales Are Taking A Large Share of Homes Sold Than in the Past Decade



Share of New Home Sales to Total Home Sales



Share of New Home Inventory to Total Home Inventory

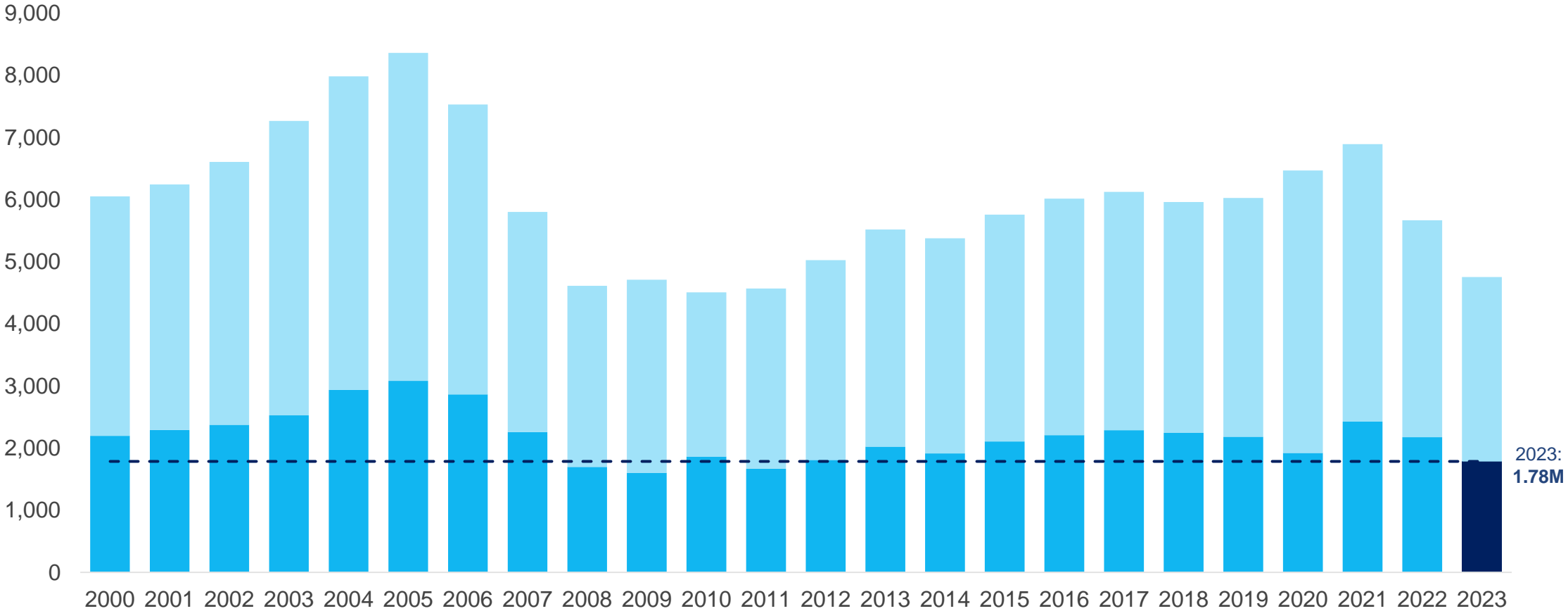


2023 Had the Lowest Total Home Sales for the Spring Season Since 2011.... Will Spring 2024 Be Any Better?



Total Home Sales
Thousands, NSA

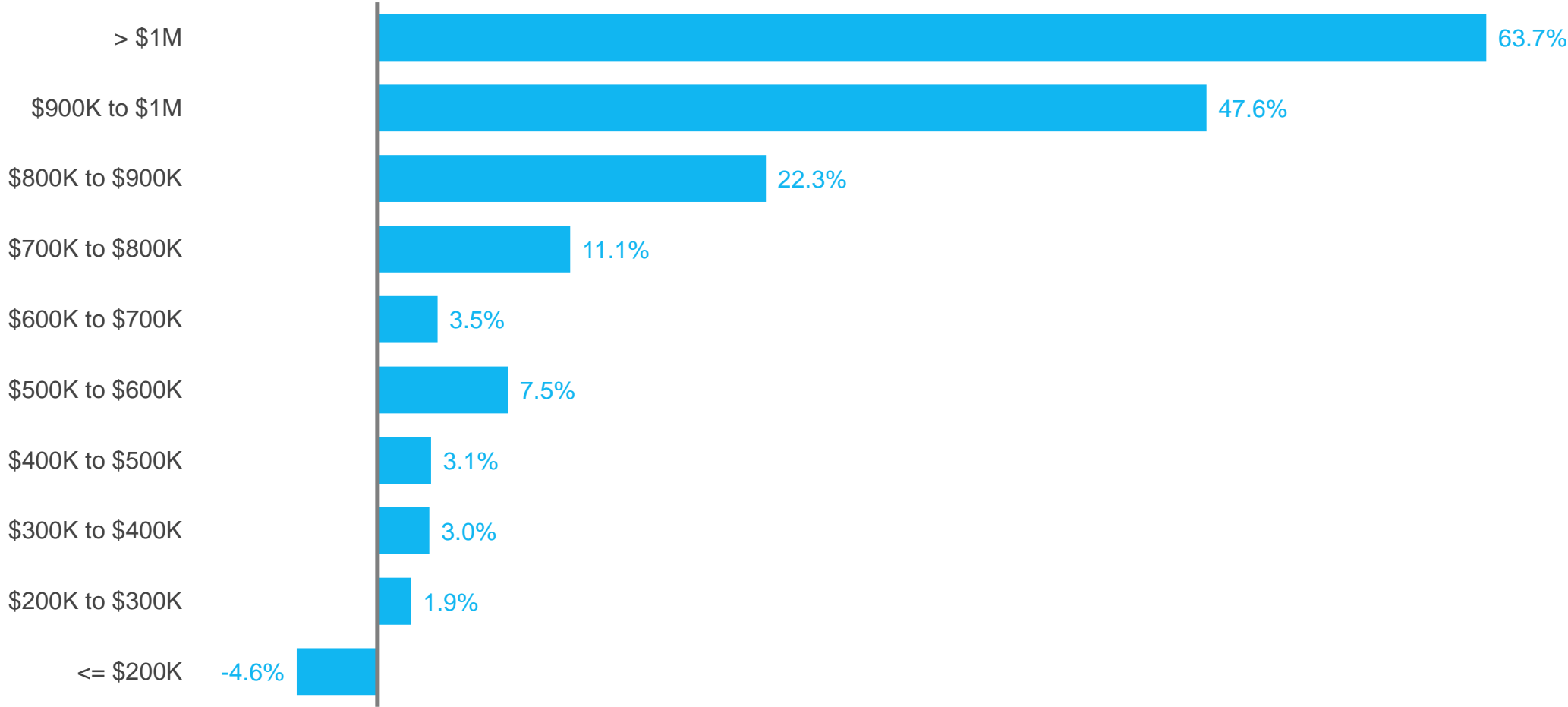
■ Spring (March through June) ■ Rest of year



Purchase Applications for Higher-Priced Homes Have Rebounded More in 2024 than Lower-Priced Homes from the Same Period Last Year



Purchase Application Growth by Price Tier
Year-to-date 2024 vs Year-to-date 2023



Purchase Application Year-to-Date Summary Table: First-time homebuyers continue to carry demand so far this year as they make up almost 6 out of 10 purchases



Metric	YTD 2017	YTD 2018	YTD 2019	YTD 2020	YTD 2021	YTD 2022	YTD 2023	YTD 2024
Purchase Applications (YoY Growth)	4%	-6%	17%	17%	57%	2%	-13%	8%
Median Mortgage Rate	4.38%	4.50%	4.50%	3.63%	2.99%	3.99%	6.38%	6.63%
Median Sales Price	\$260,000	\$267,000	\$280,000	\$302,500	\$355,000	\$400,000	\$390,000	\$400,000
Median Payment	\$1,121	\$1,177	\$1,232	\$1,194	\$1,275	\$1,609	\$2,021	\$2,163
First-time Homebuyer Share	56.4%	57.6%	55.1%	54.6%	56.5%	58.4%	58.5%	58.2%

* YTD = Jan 1 to Mar 31

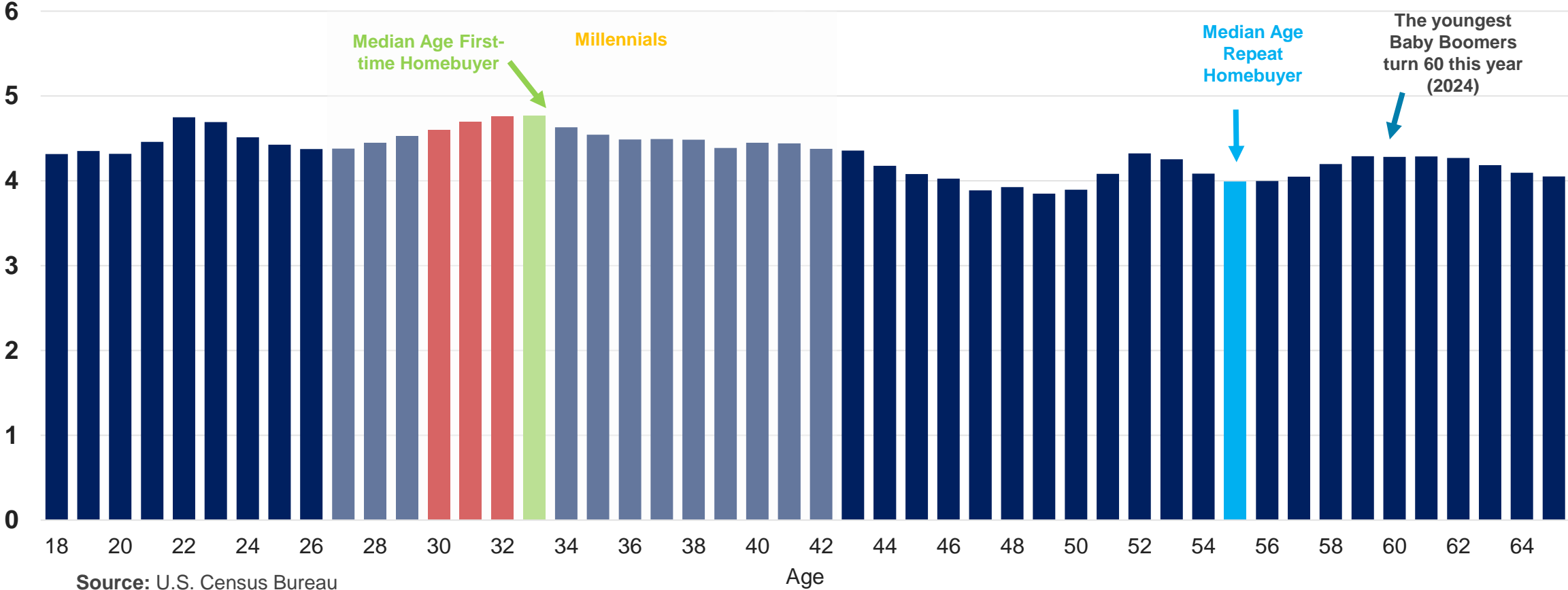
F30, Purchase, Owner-occupied, Excludes 'CAUTION' Credit Risk Rating

Housing Demand Robust on Favorable Age Demographics of FTHBs



2023 U.S. Population (Millions)

Peak Purchase Demand Between 30 to 40yrs



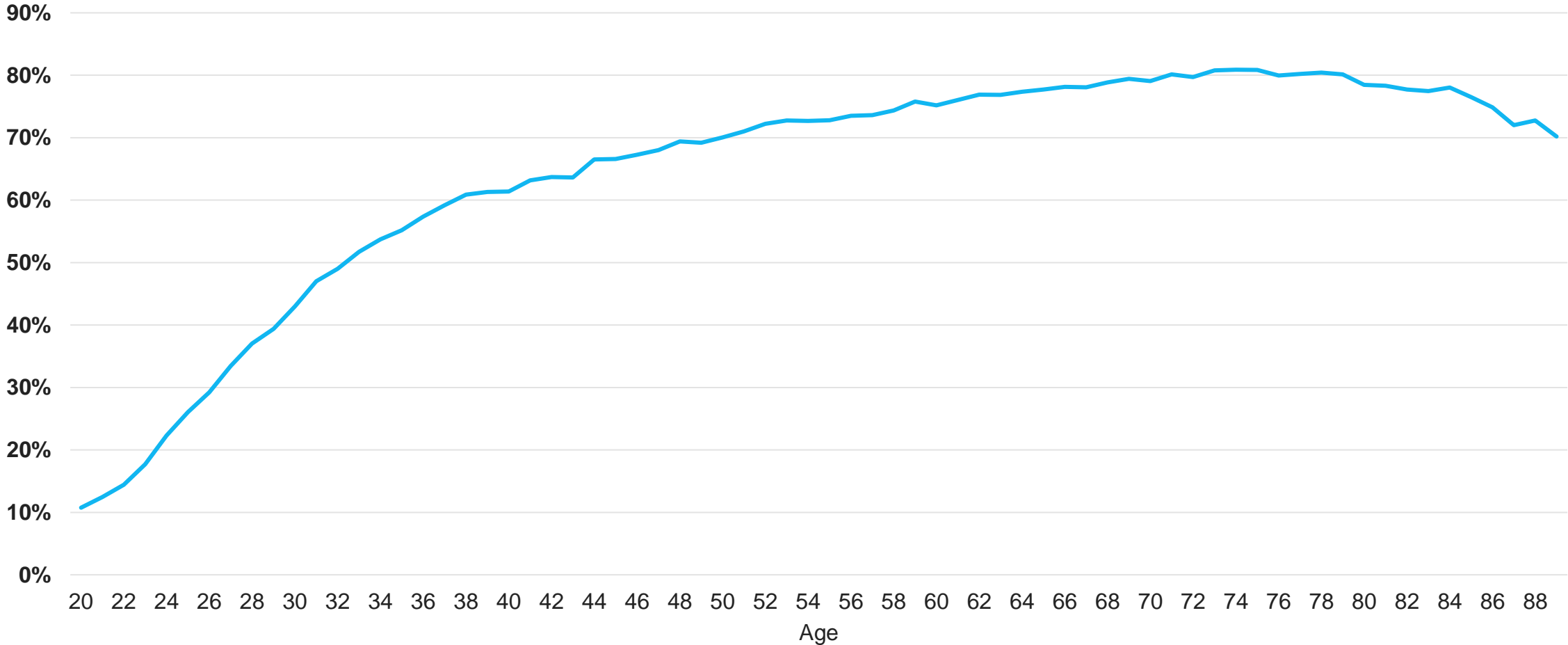
Source: U.S. Census Bureau

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

Population Demographics Play a Key Role in U.S. Housing Demand

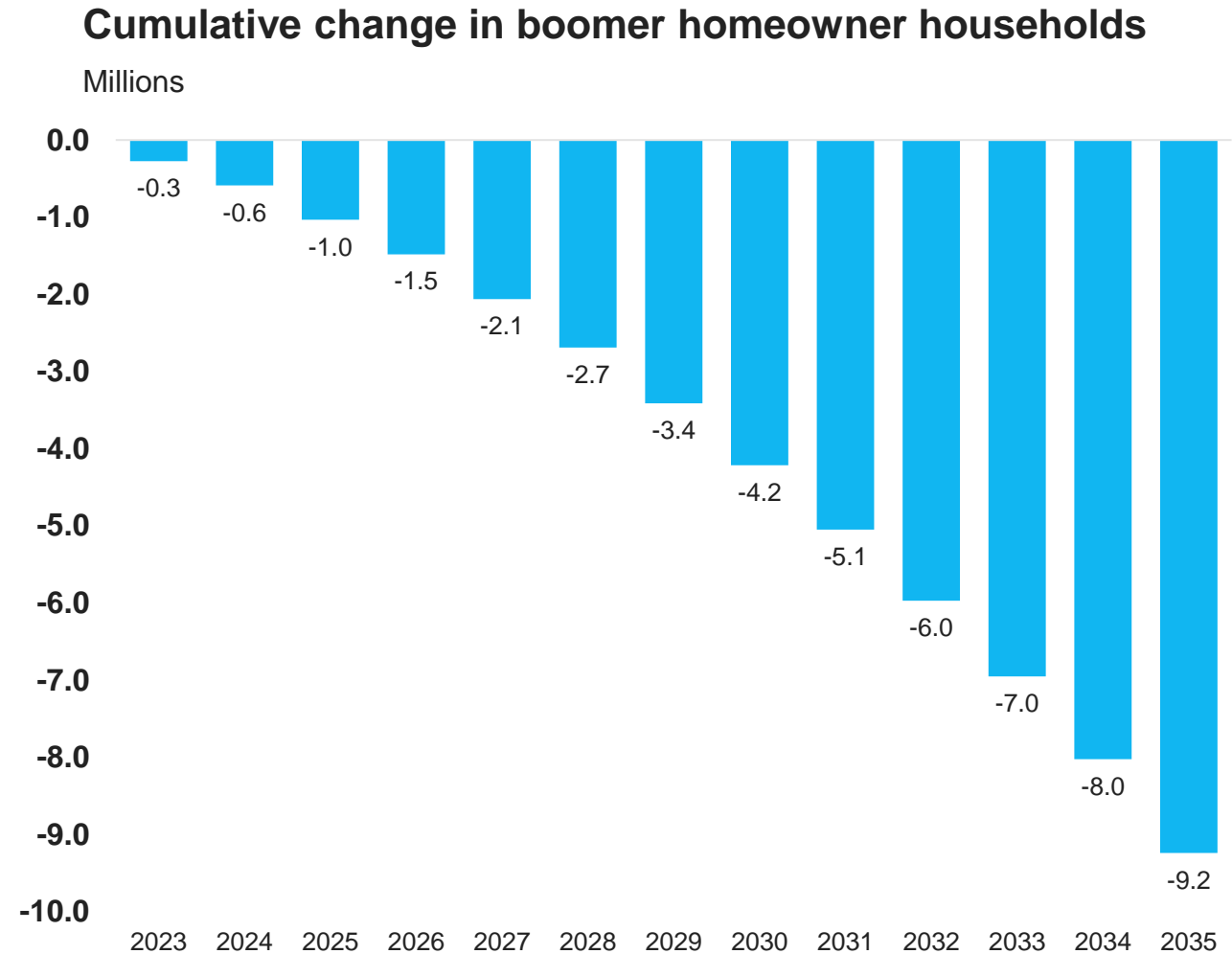
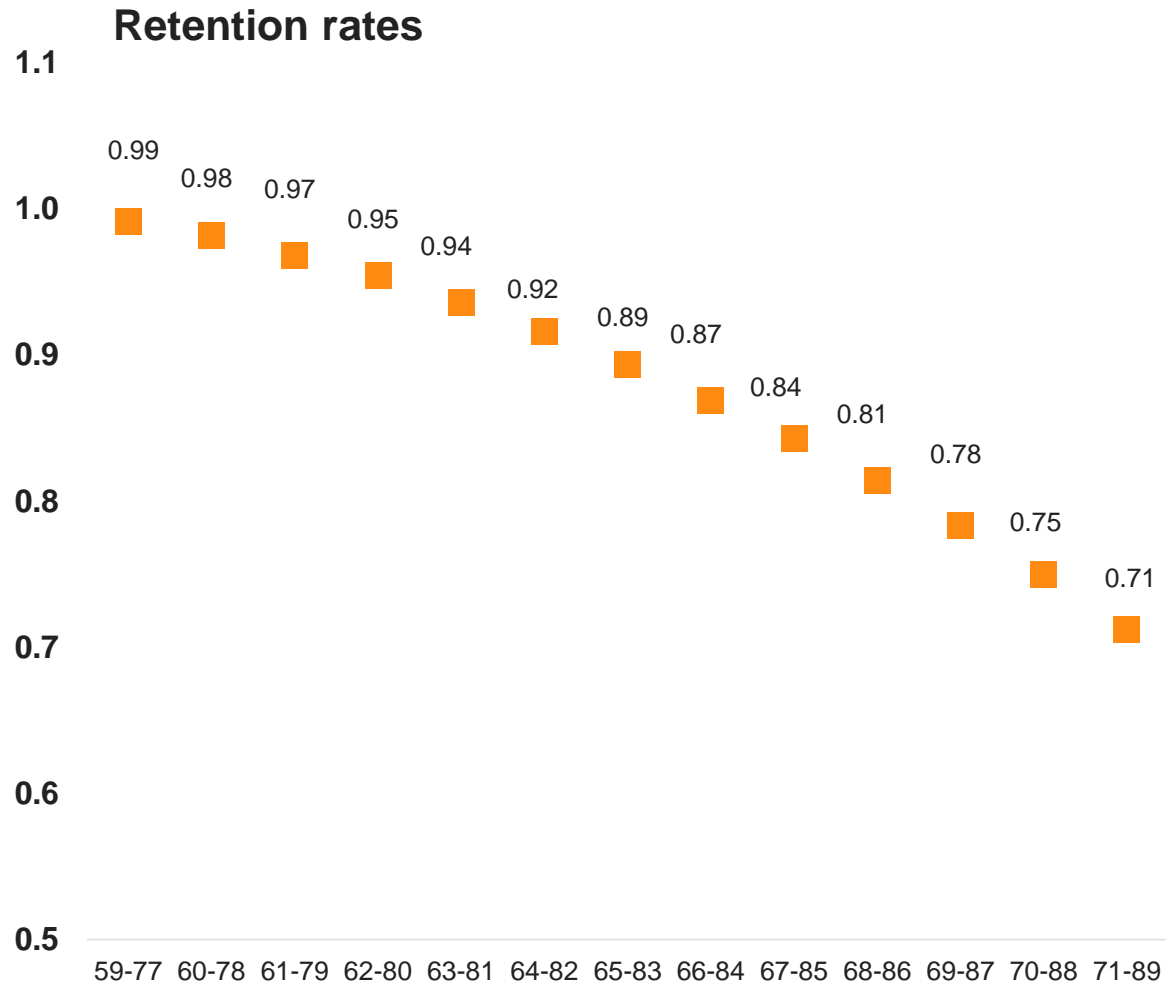


Homeownership rate by age as of 2022



Source: Authors' calculation using ACS 2022, IPUMS SUSA, University of Minnesota, www.ipums.org

As Baby Boomers Age They Are Expected to Exit the Housing Market

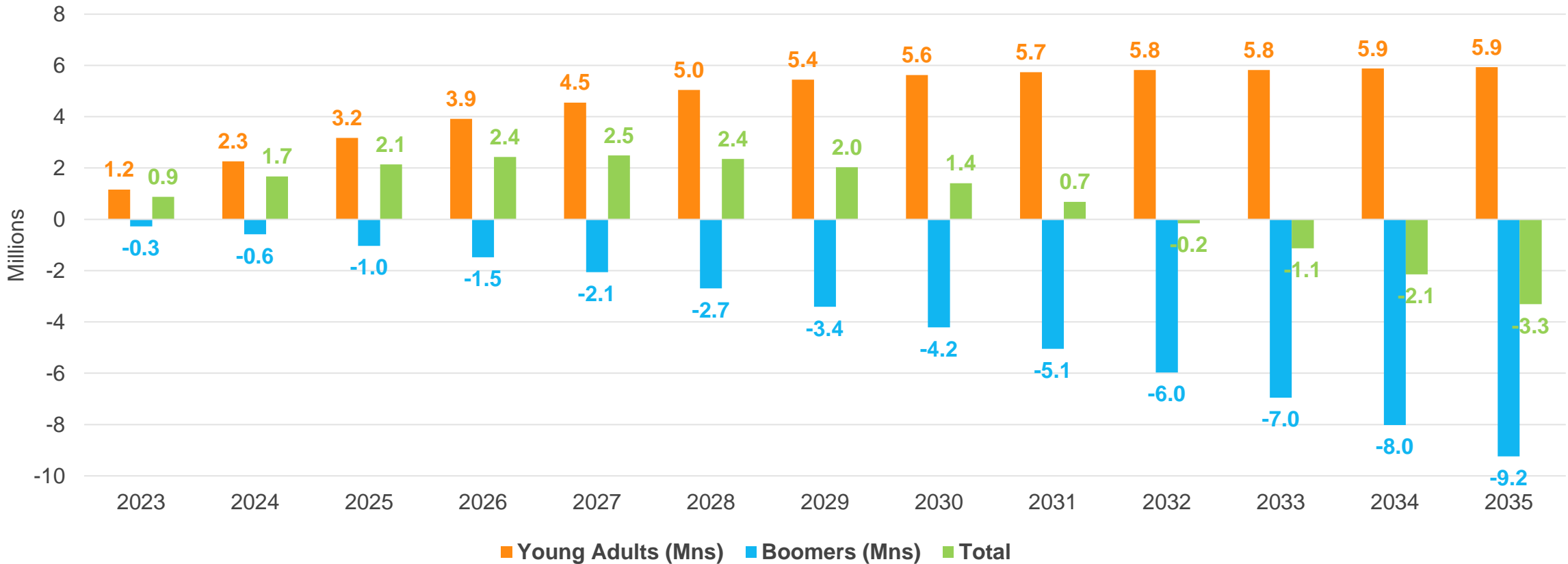


Source: Authors' calculation using ACS 2022, IPUMS SUSA, University of Minnesota, www.ipums.org

Over the Next Few Years, Growth from Young Adult Households is likely to Offset Declines from the Boomers



Cumulative Change in the Homeowner Households by Age Cohort

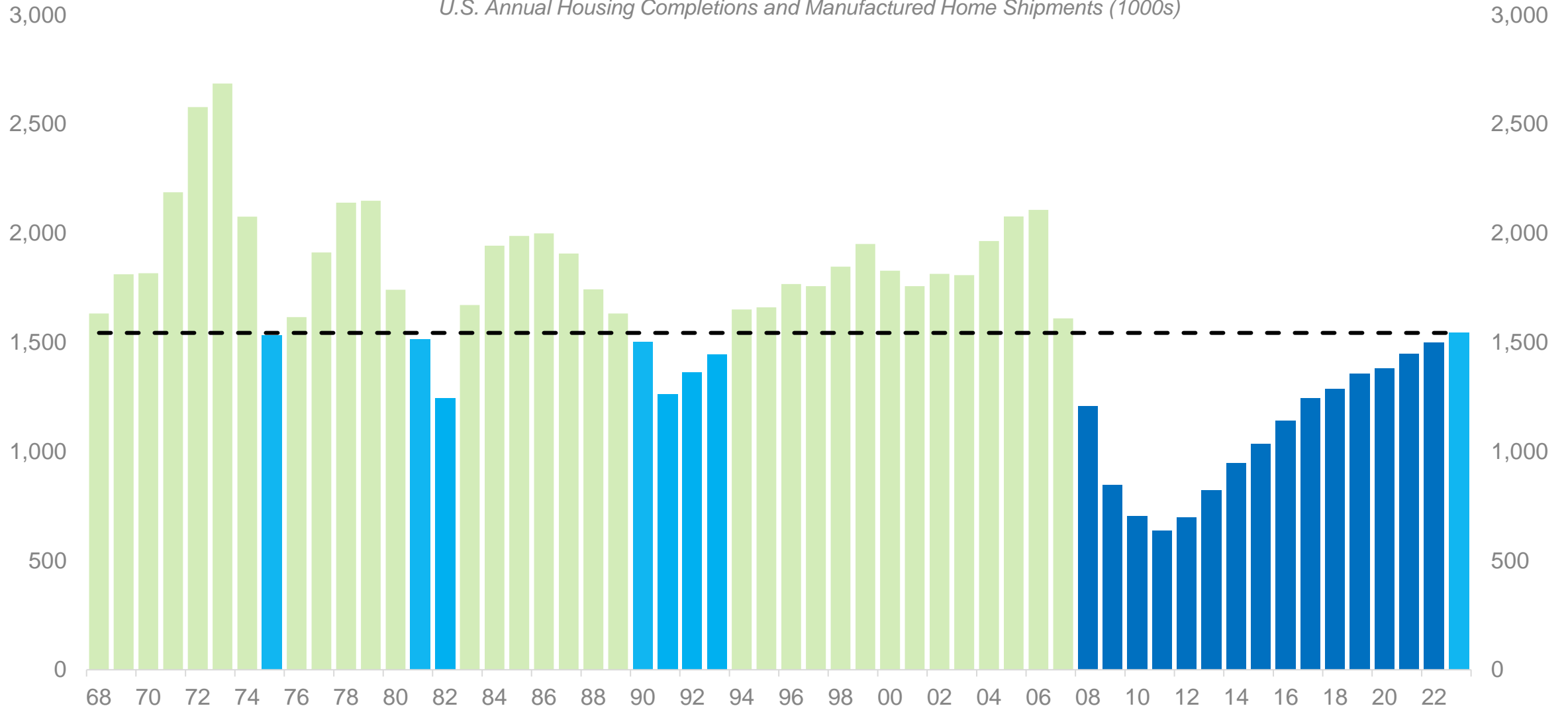


Source: American Community Survey and Freddie Mac E&HR calculations. Young adults are aged 25-43 in 2022 while Boomers were 57-75. Total is the sum.

New Housing Completions Improved in 2023, 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)



Despite Very Weak Sales, Supply Remains at Near-Record Lows; New Home Inventory is Up, but Market Dominated by Chronic Undersupply of Resales

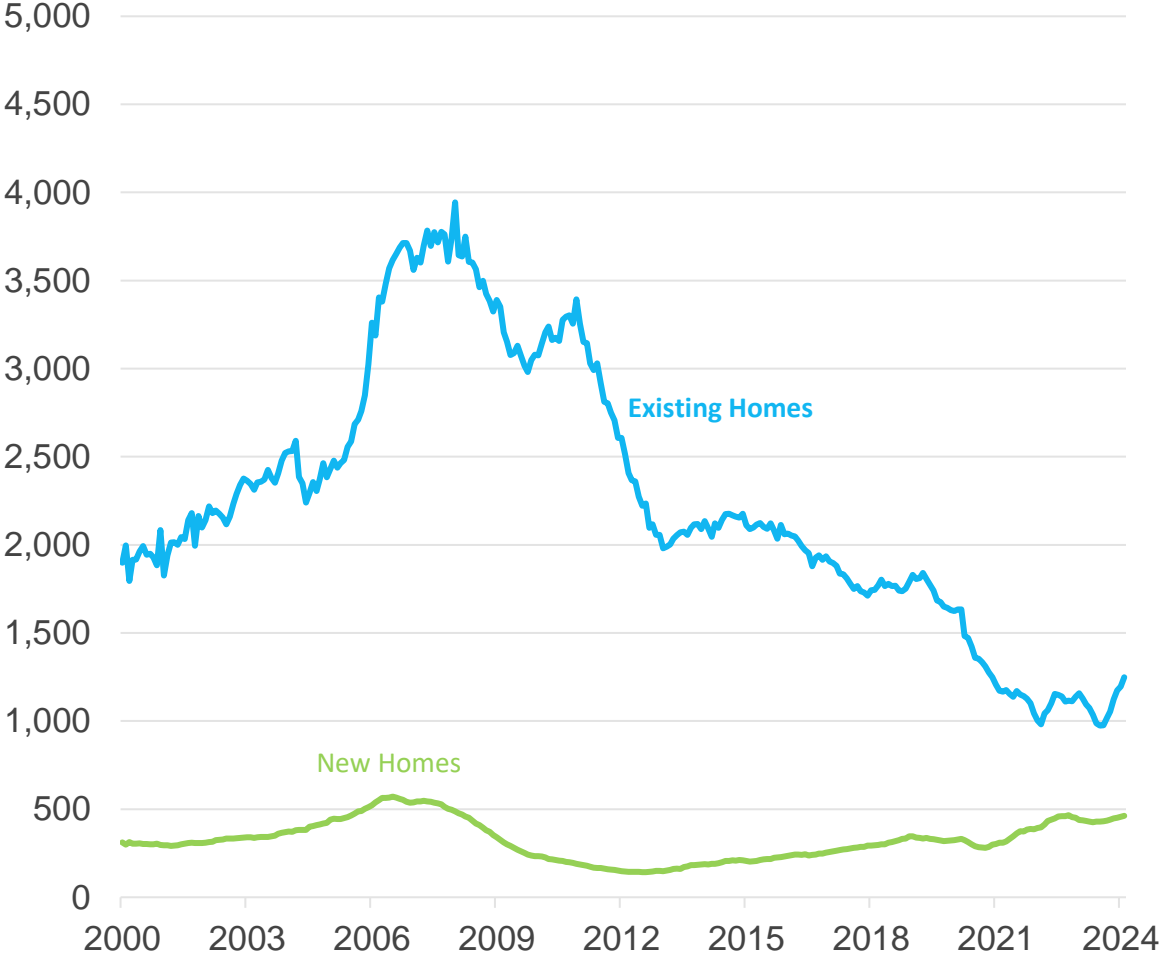


Total (New + Existing) Homes Inventory

Ths. #, SA



Existing vs New Home Inventory

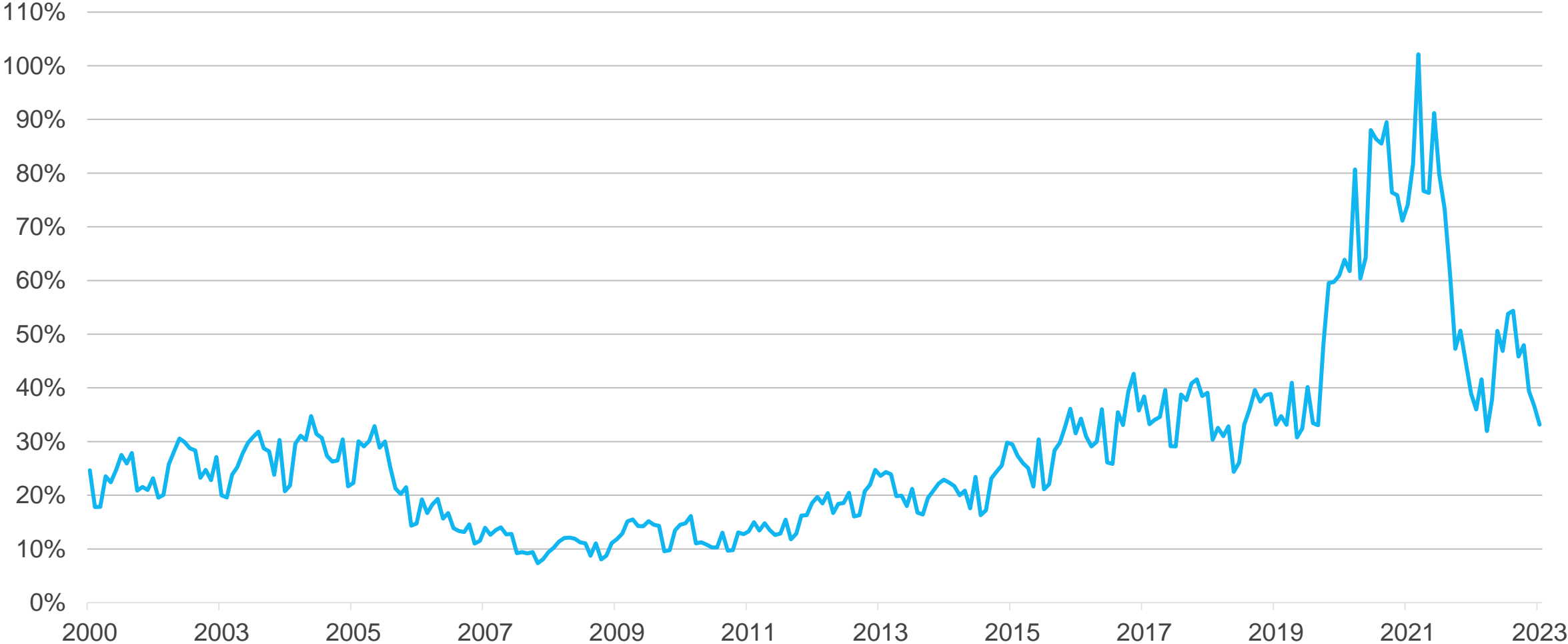


Source: NAR, Census

Chronic Undersupply Has Led to Elevated Absorption Rates

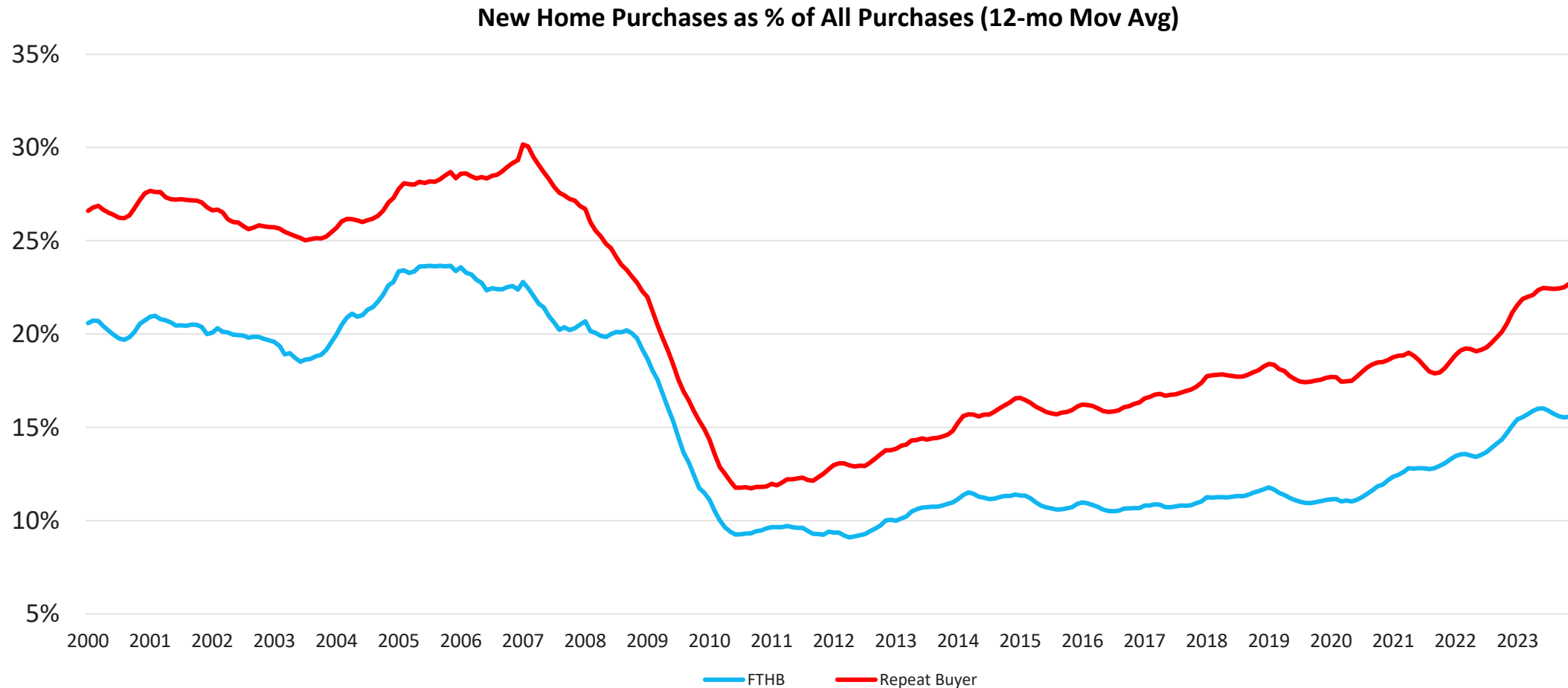


Absorption Rate of For-Sale Inventory



Source: CoreLogic MLS data on 145 markets through February 2024
Note: Absorption rate compares the number of homes sold in the month to the total number of available homes on the market.

With Existing Inventory Squeezed, an Increasing Share of Home Purchases are for New Homes

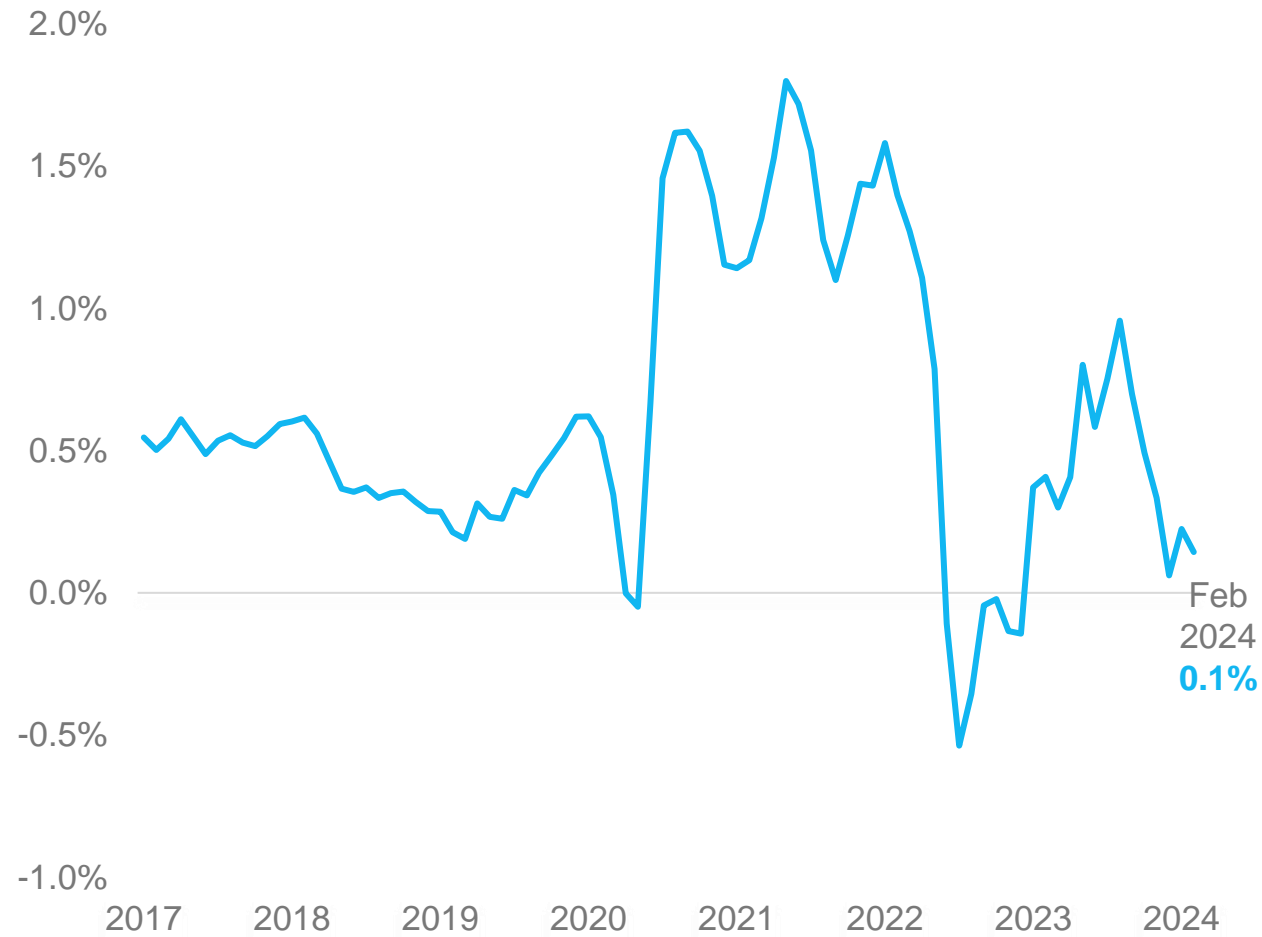


Source: Freddie Mac Purchase Loans, 12-month trailing moving average covering January 2000-December 2023

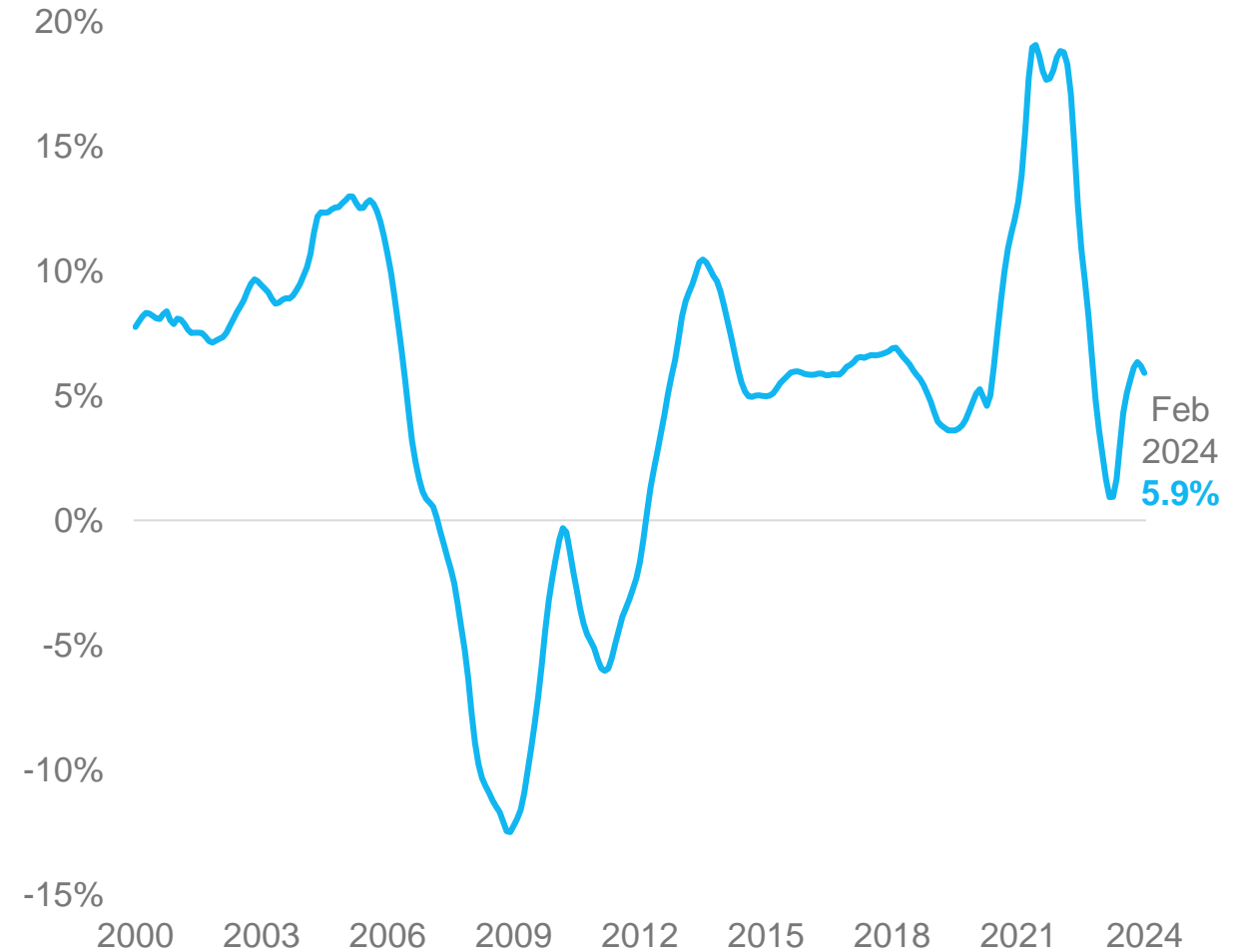
Home Prices Have Stabilized Over Last 3 Months



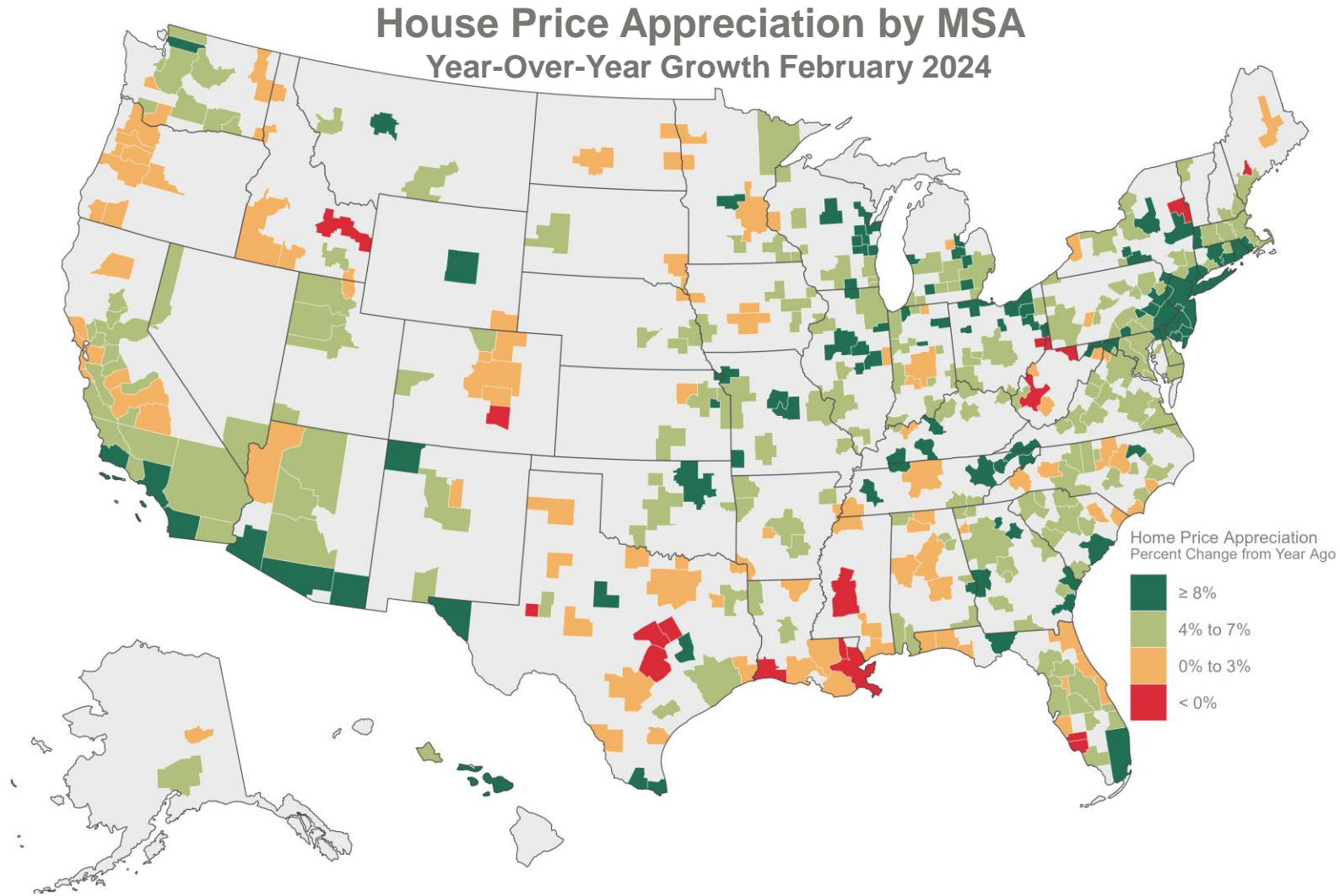
Freddie Mac House Price Index
Percent Change from **Month** Ago, SA



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



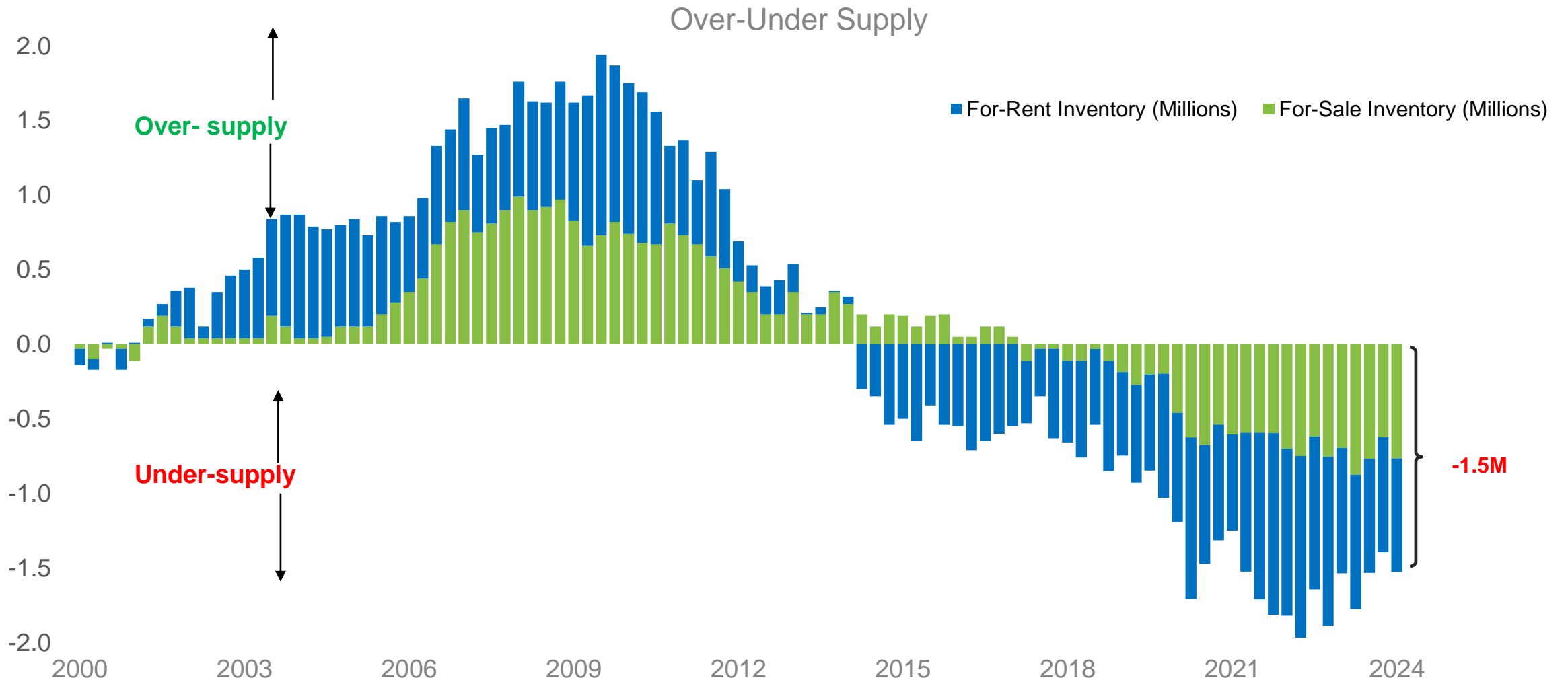
House Prices Rebounding Across Majority of Metro Areas



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 House Price Index, SA

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

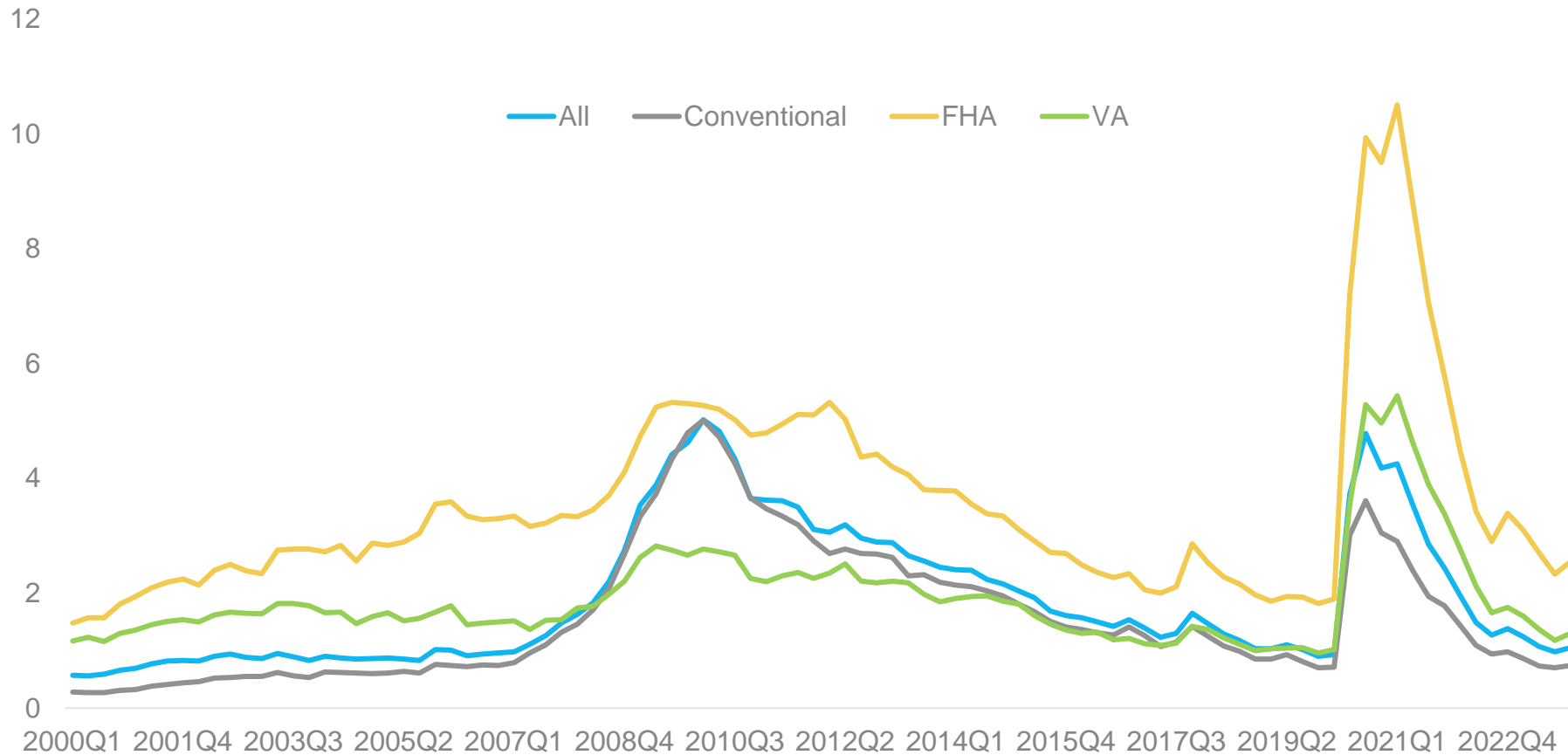


Source: Freddie Mac calculations using US Census Bureau data. Negative values reflect undersupply. The under/oversupply of vacant housing was estimated based on the average vacancy rate from 1994 Q1 to 2003 Q4

Delinquency Rates Remain Low Across All Loan Types



Q4 2023 - 90+ DLQ (% of Loans Serviced)



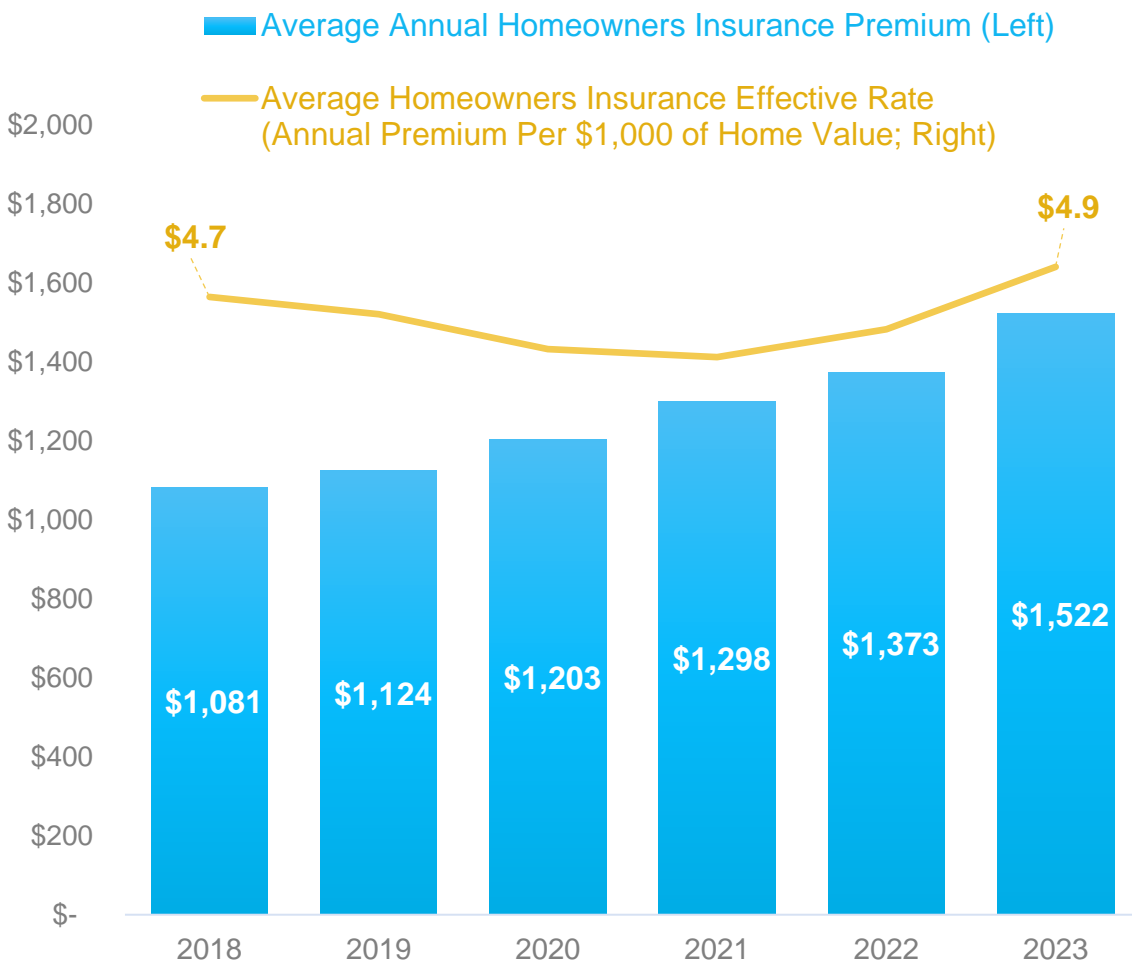
Q4 2023 Compared to Q3 2023

All : -7bps
 Conventional: -4bps
 FHA: -22bps
 VA : -12bps

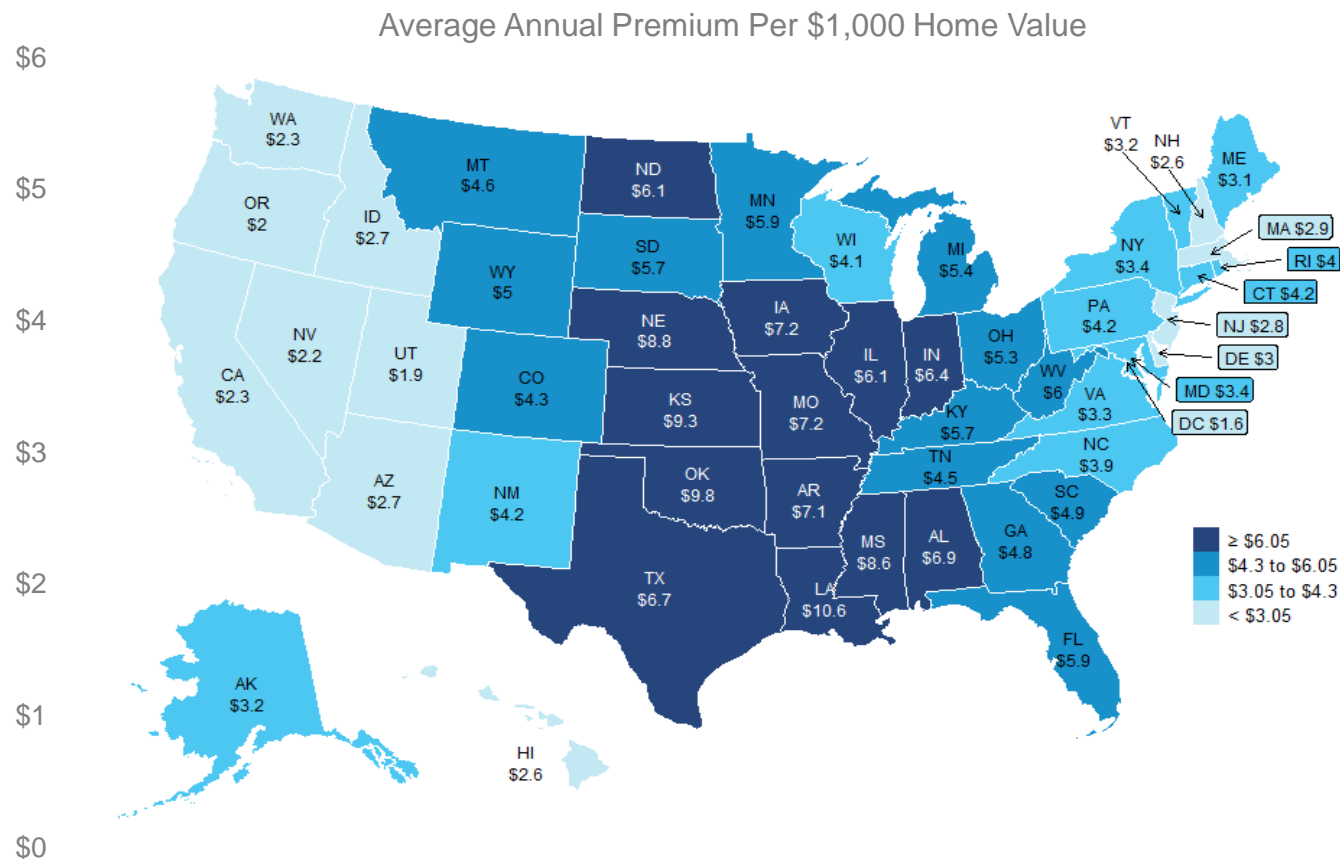
Q4 2023 Compared to Q4 2022

All : -33bps
 Conventional: -24bps
 FHA: -84bps
 VA : -45bps

Homeowners Insurance Cost Has Increased For the Average Borrower With Variation Across Different States



2023 Homeowners Insurance Effective Rate by State



Source: Authors' calculation using Uniform Closing Database (UCD). Note: Single-family owner-occupied property with a fully amortizing 30-year fixed-rate mortgage funded by Freddie Mac.

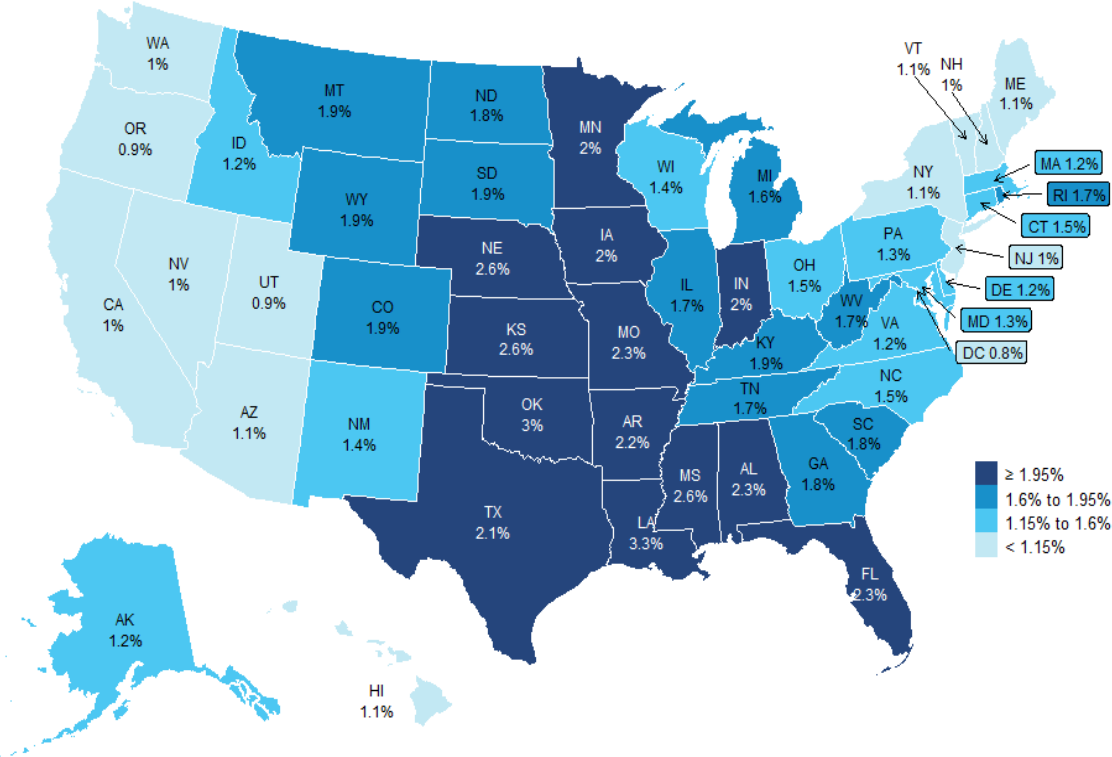
In 2023, the average borrower paid an annual homeowners insurance premium of \$1,522, which was **10.8% higher than in 2022**, and **40.8% higher than in 2018**.



While Insurance Costs Have Added to Cost Burdens, the Net Impact is Much Smaller Than the Impact of Higher Mortgage P&I Payments

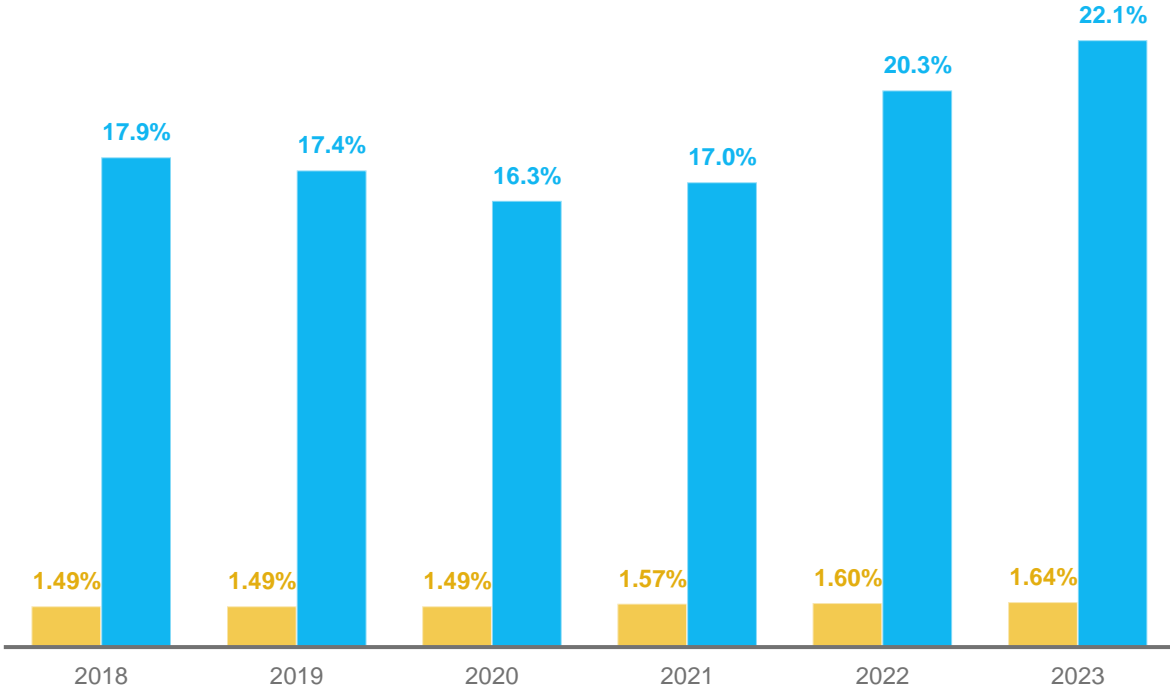
2023 Homeowners Insurance Cost Burden

Percent of a mortgage borrower's monthly income that was paid toward homeowners insurance premiums



Average Housing Cost (% of Monthly Income), 2018-2023

- Monthly Homeowners Insurance Premium
- Monthly Principal and Interest Payment



Source: Authors' calculation using Uniform Closing Database (UCD). Note: Single-family owner-occupied property with a fully amortizing 30-year fixed-rate mortgage funded by Freddie Mac.

In 2023, homeowners insurance premiums accounted for an average of 1.64% of a borrower's income, with substantial variation by state.

Forecast for 2024



- We expect U.S. economic growth to slow in 2024 as consumer spending starts to fade.
- As inflation remains a fundamental piece in halting the Federal Reserve's rate cuts, risks are weighted to the downside. We expect mortgage rates to ease throughout the year while remaining in the 6-7% range.
- Our housing outlook, particularly for home sales, remains subdued. While housing demand is solid due to a large share of Millennial first-time homebuyers looking to buy homes, they are challenged by high mortgage rates and a lack of homes available for sale. We expect these challenges to persist in 2024 mainly in the absence of significant rate cuts, which will keep the rate-lock effect in place and keep total home sales volume below five million in 2024.
- We expect house prices to increase 0.5% in 2024 and 0.5% in 2025.
- We expect to see some increase in dollar volumes of mortgage origination in 2024 largely driven by higher home prices. However, subdued home sales will limit the purchase origination dollar volumes. Additionally, a high share of cash purchases will also impede purchase origination volumes. On the refinance side, unless the mortgage rates drop significantly and unlock rate-locked homeowners, refinance volumes will remain low. Since we do not expect mortgage rates to fall significantly this year, refinance activity will remain constrained, keeping total originations low for 2024.