

Quarterly Economic & Housing Market Outlook

Research & Insight
November 2024



Overview



Economy: The U.S. economy continues to expand though showing signs of slowing consistent with a soft landing

- GDP and GDI for the previous years were revised up
- Labor market cooling with unemployment up and job growth moderating
- Inflationary pressures are abating

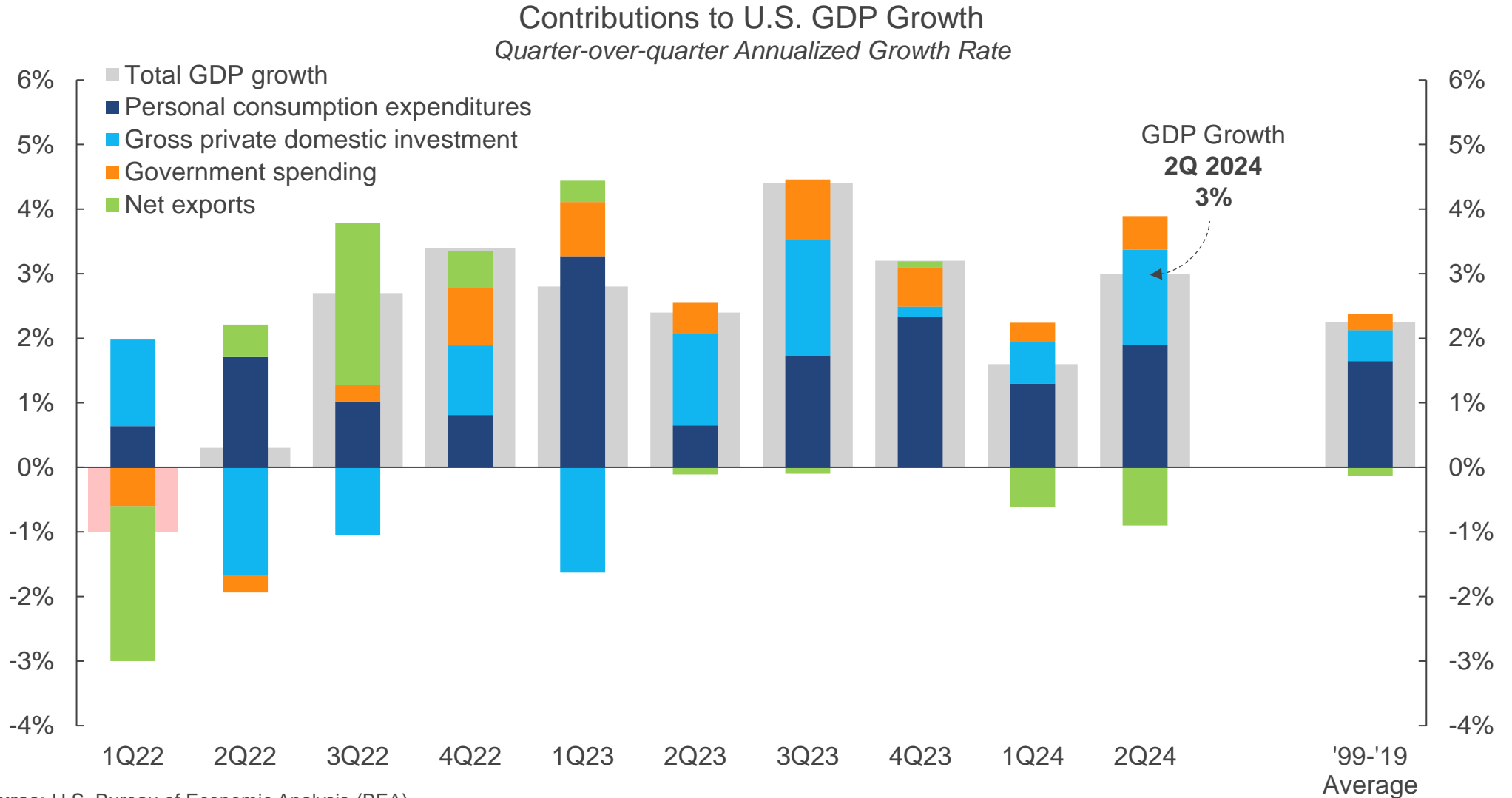
Housing & Mortgage Market: Homebuyers continue to wait for rates to decline further

- Mortgage rates fell to 2-year lows in September but both existing and new home sales fell by 0.2% from August
- Housing construction picked up on lower rates
- House price growth moderated further to 3.7% in August



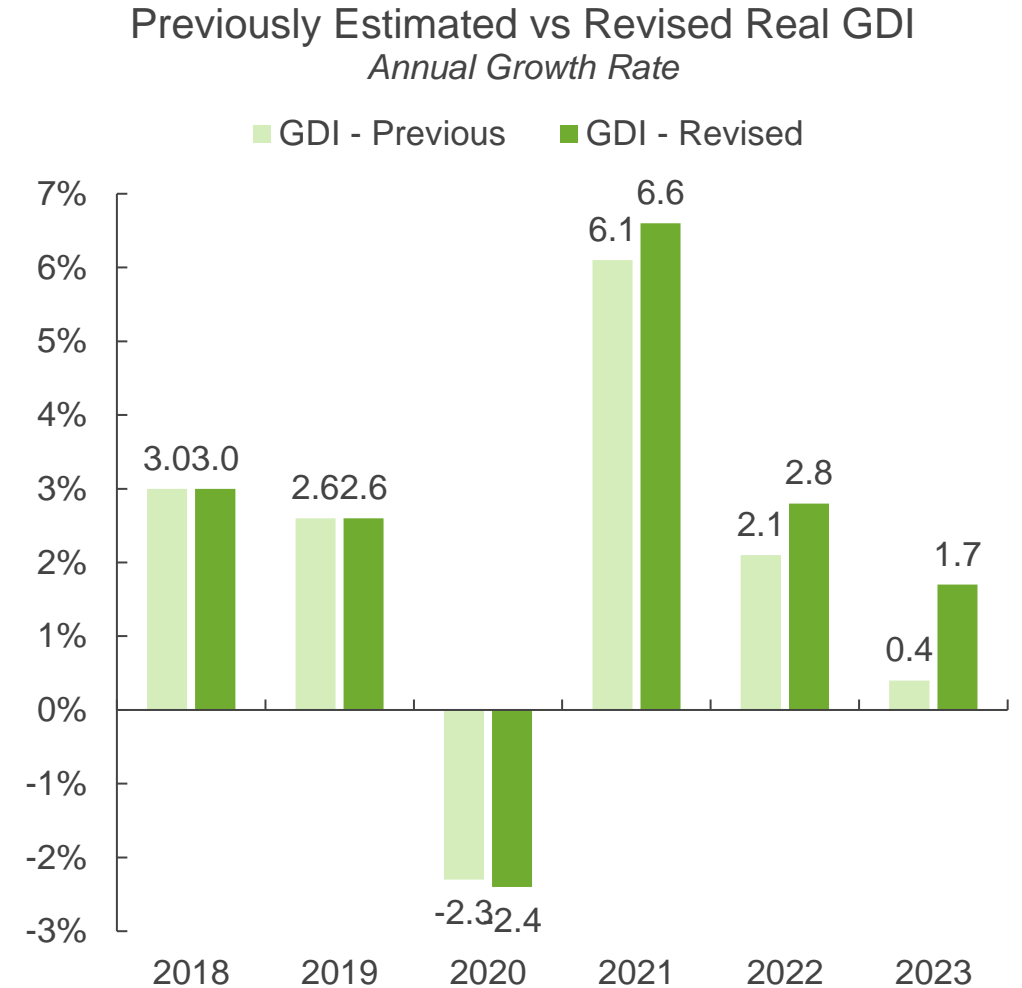
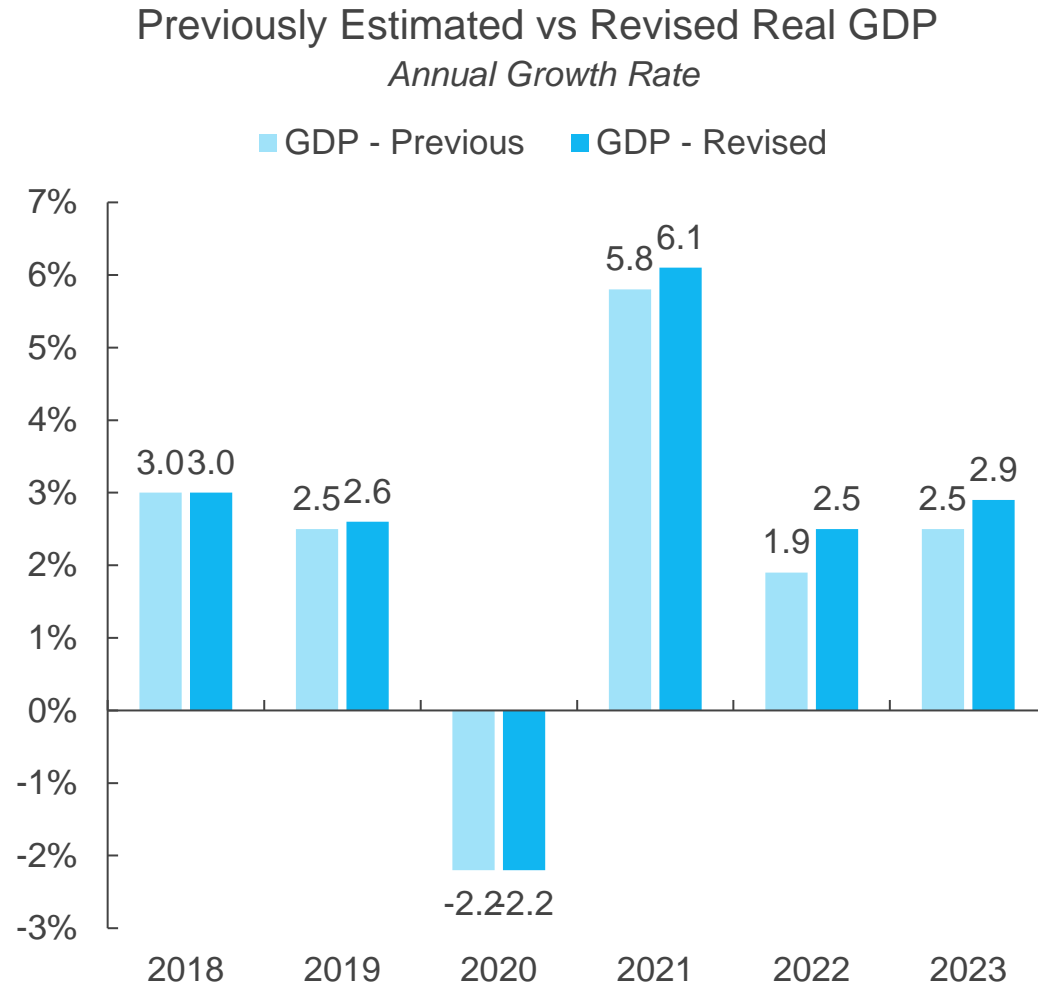
Economy: The U.S. Economy Continues to Grow But at a Slower Pace

GDP Increased at an Annual Rate of 3% in Q2 2024; Growth Driven by Consumer Spending and Investment



Source: U.S. Bureau of Economic Analysis (BEA)
Note: Data through Q2 2024

Annual Revisions to Real Gross Domestic Product (GDP) and Real Gross Domestic Income (GDI) Show Stronger Growth than Previously Reported

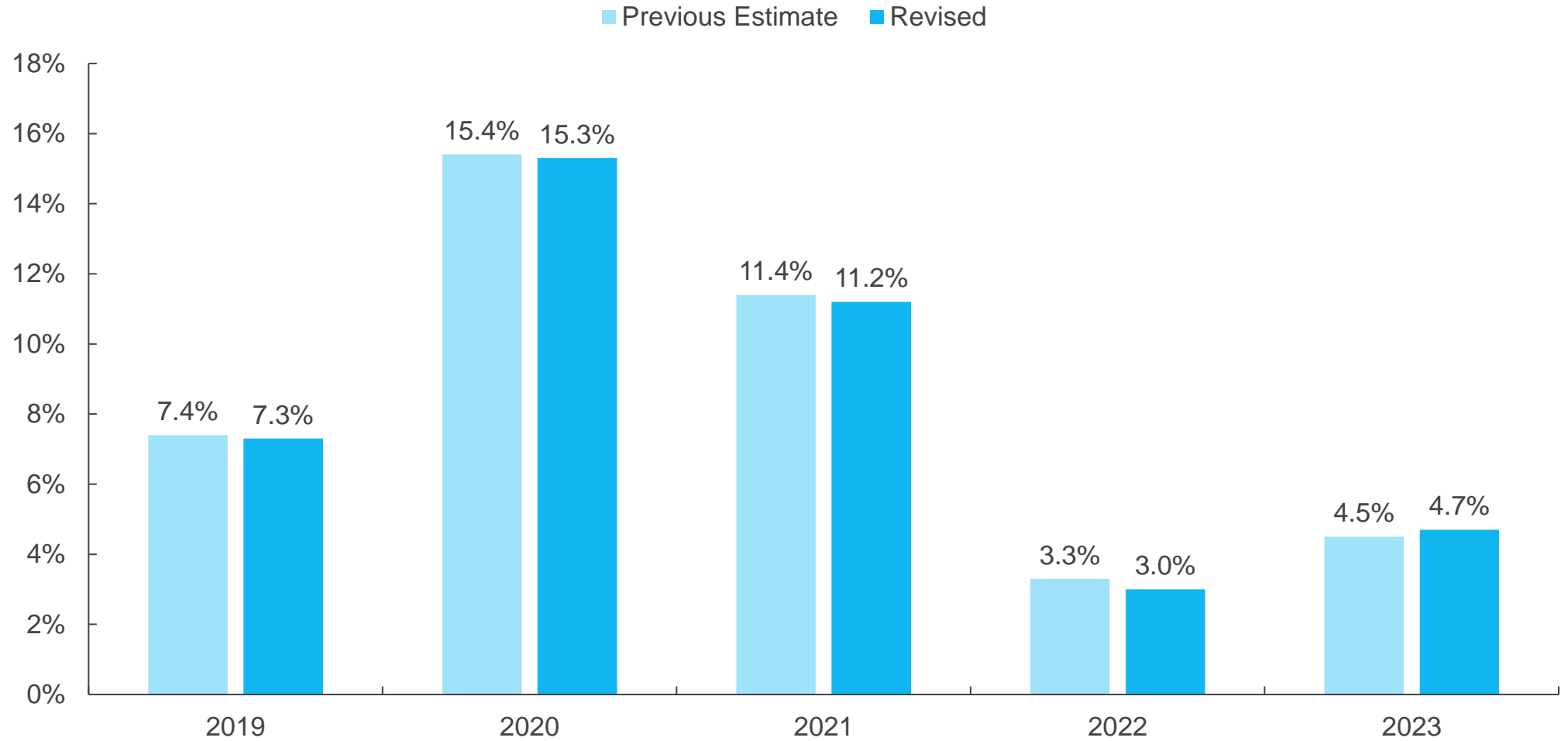


Source: U.S. Bureau of Economic Analysis (BEA)
Note: BEA Annual Revisions Released September 26, 2024

U.S. Personal Savings Rate for 2023 Revised Higher Than Previously Reported

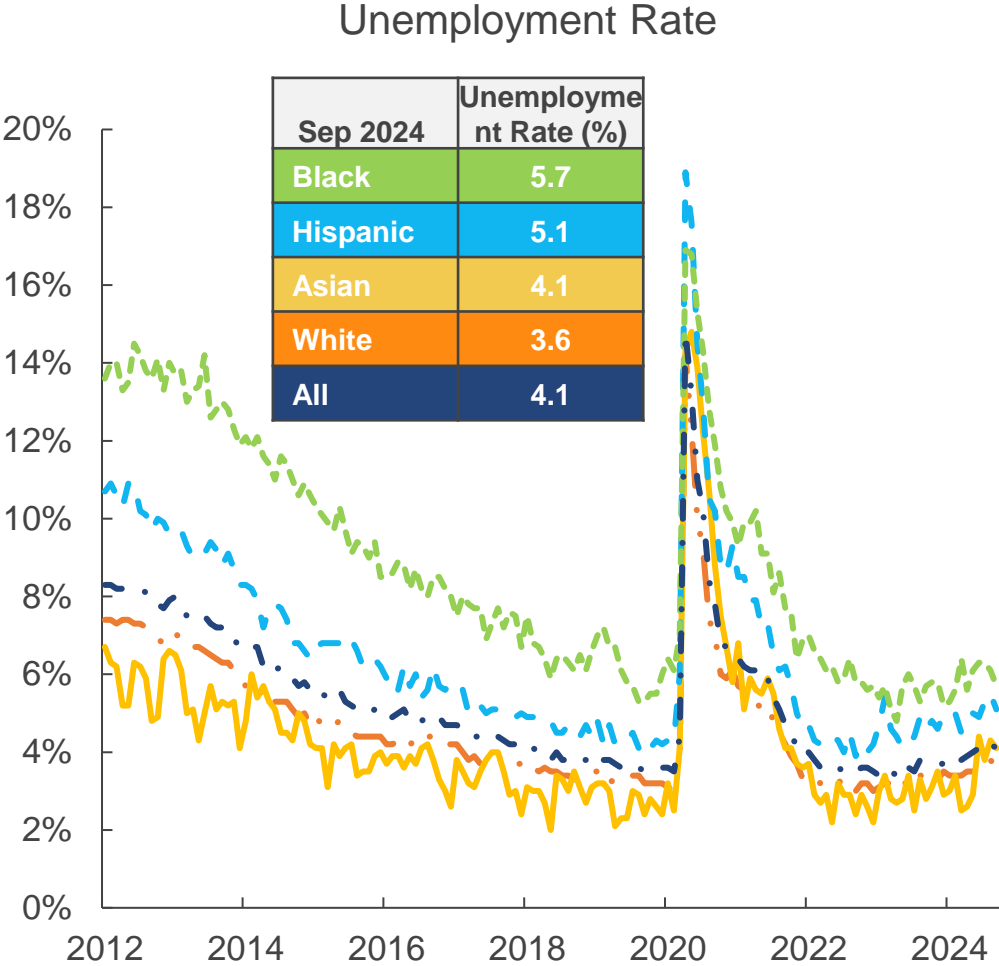
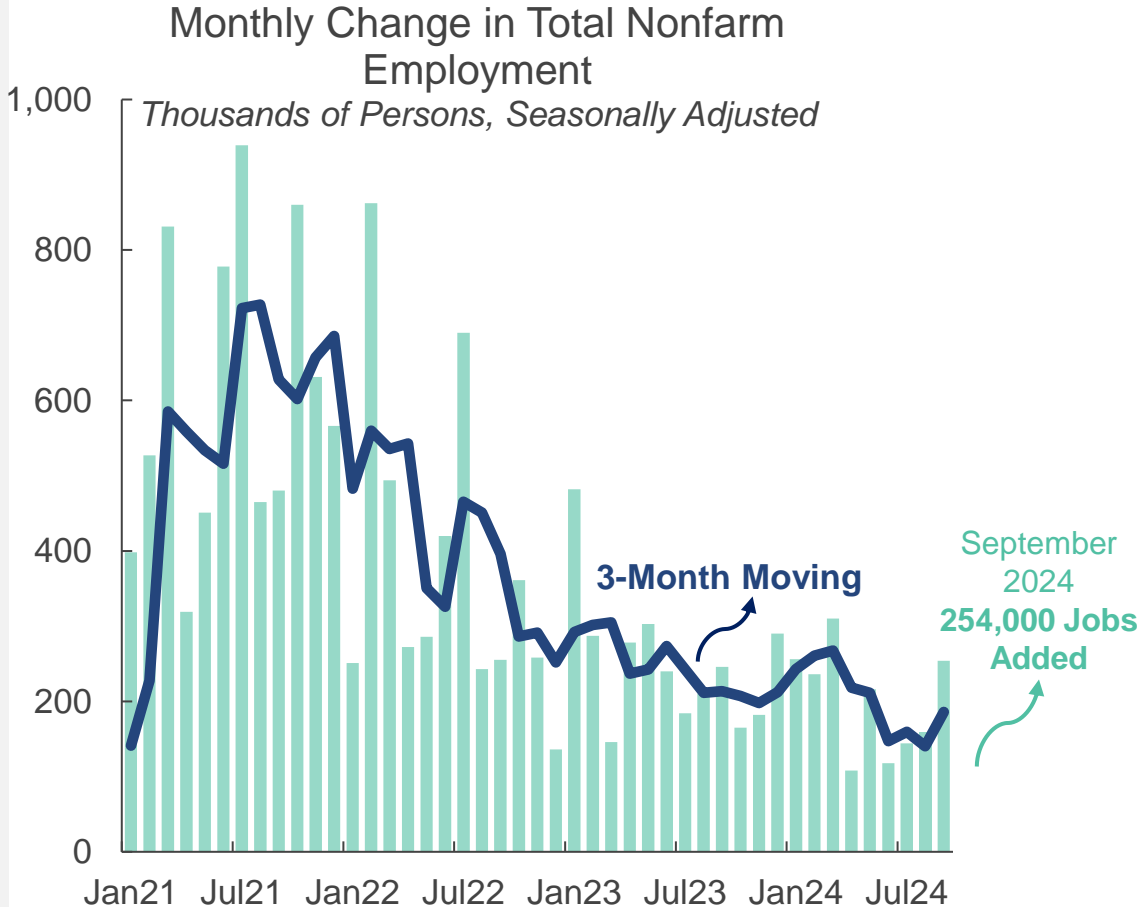


Previously Estimated vs Revised Personal Savings Rate



Source: U.S. Bureau of Economic Analysis (BEA)
Note: BEA Annual Revisions Released September 26, 2024

U.S. Labor Market is Cooling with Unemployment Up and Job Growth Moderating



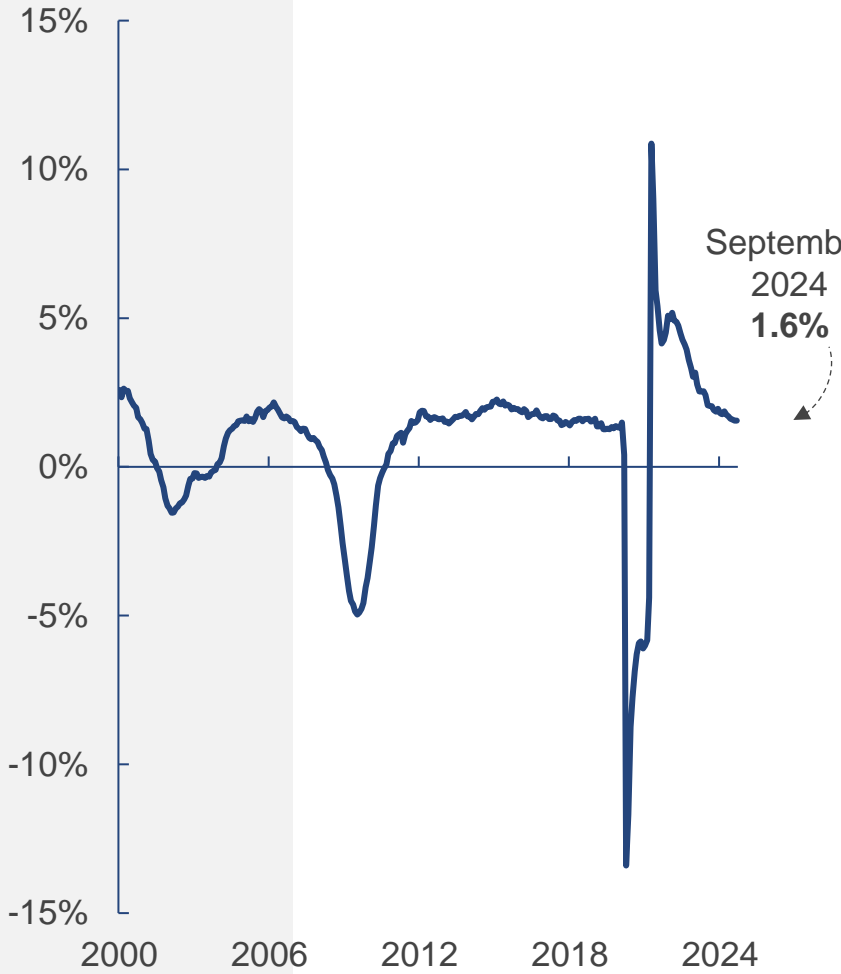
Source: U.S. Bureau of Labor Statistics (BLS)
 Note: Data through September 2024

Even Though U.S. Labor Market Is Cooling, It Remains Tight Compared to Prior Decades

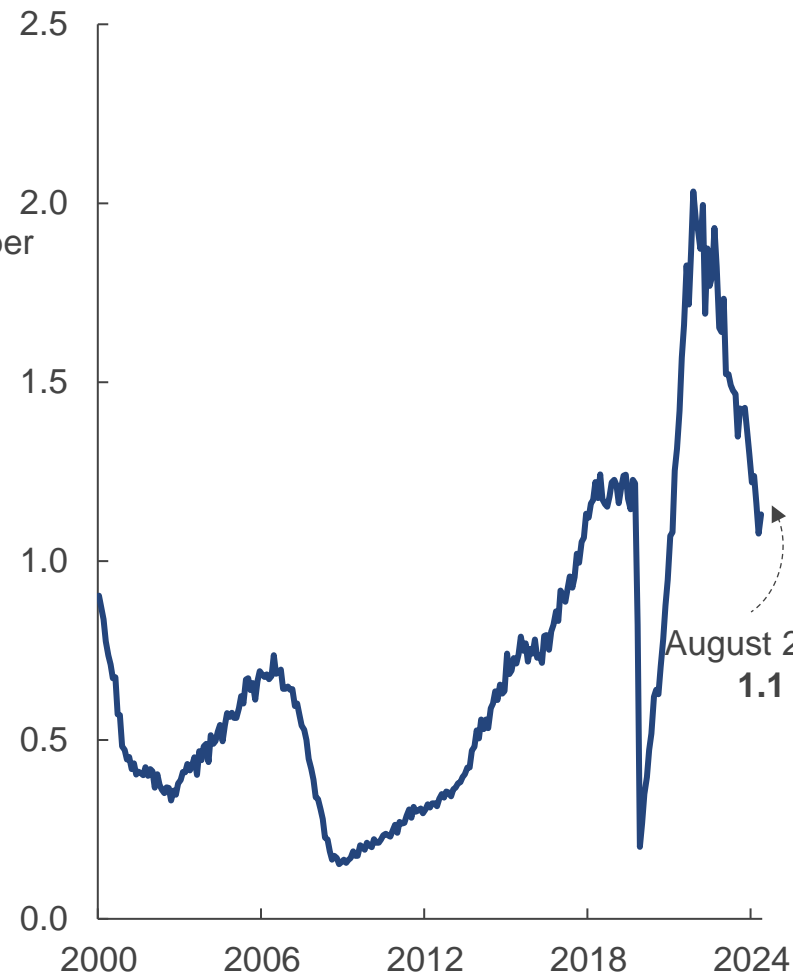


Job Growth

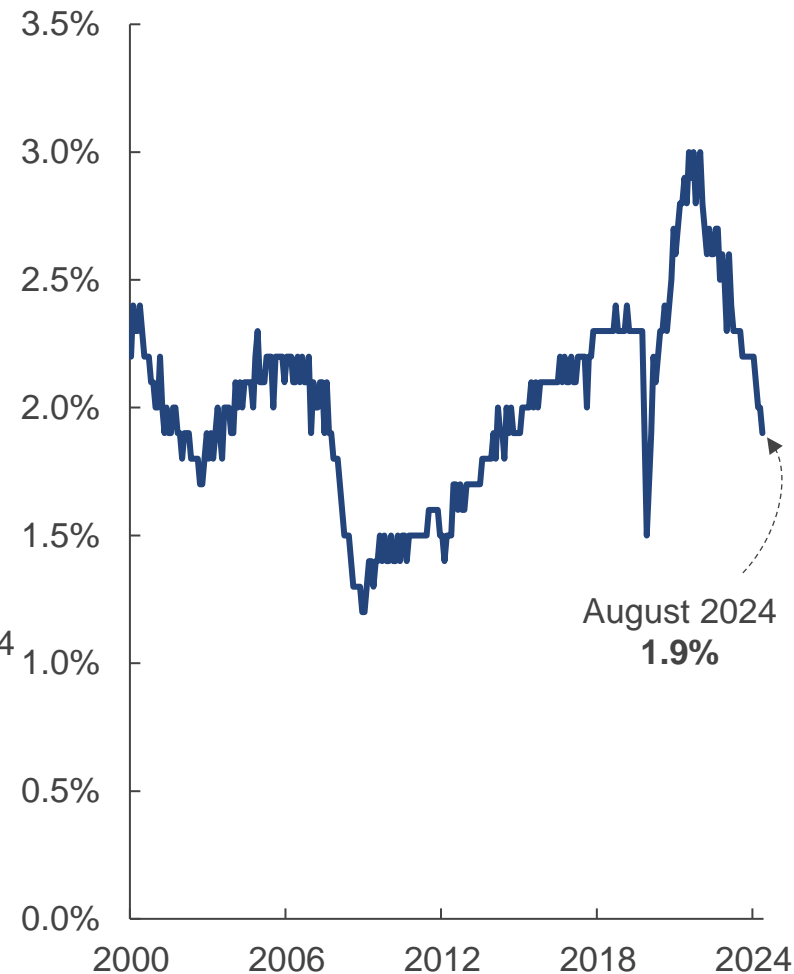
Percent Change from Year Ago



Job Openings per Unemployed Person

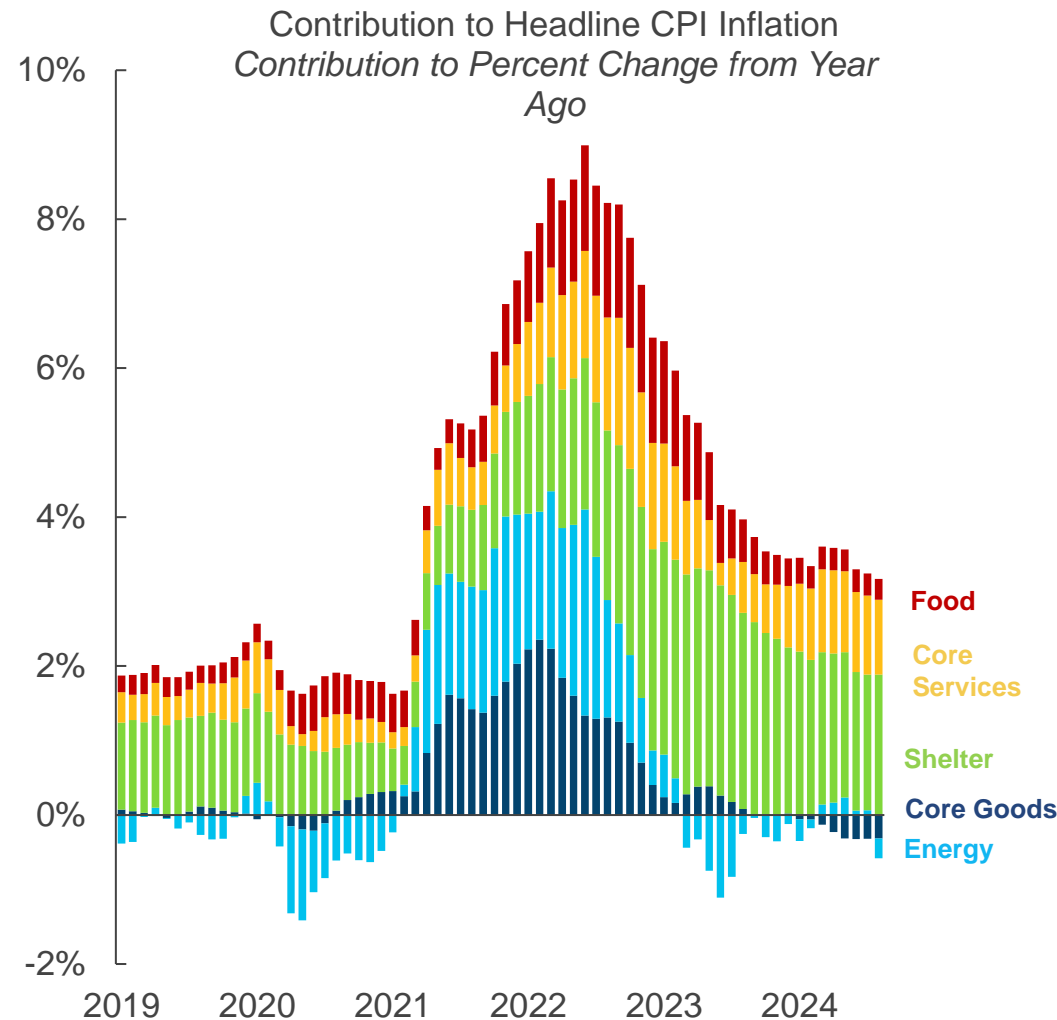
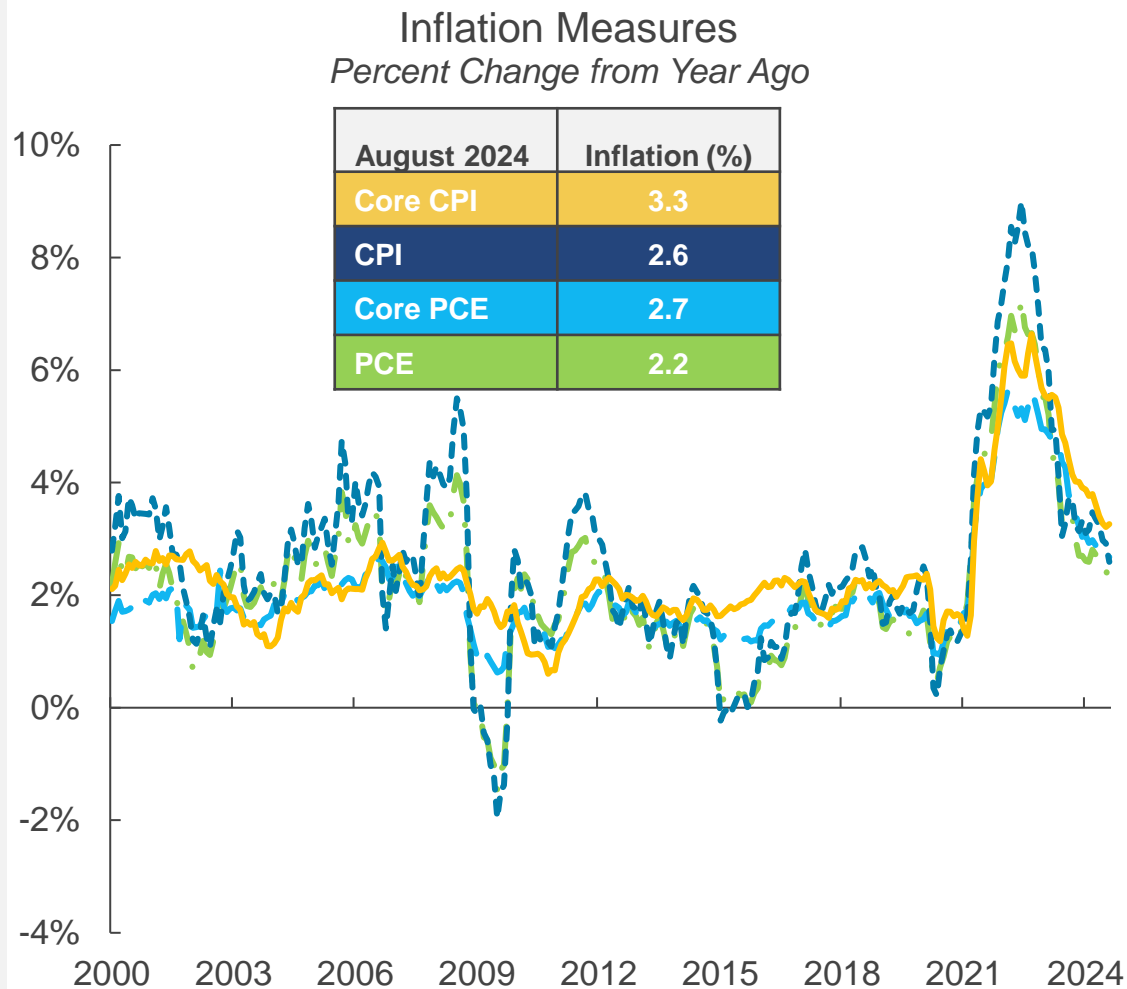


Quits Rate



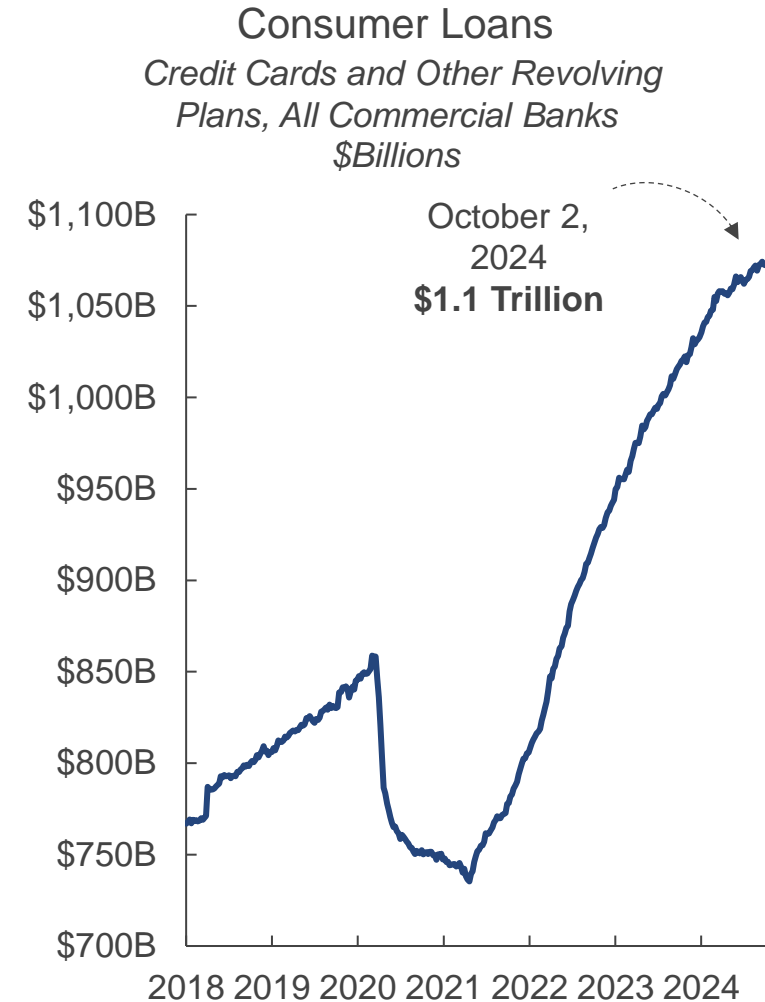
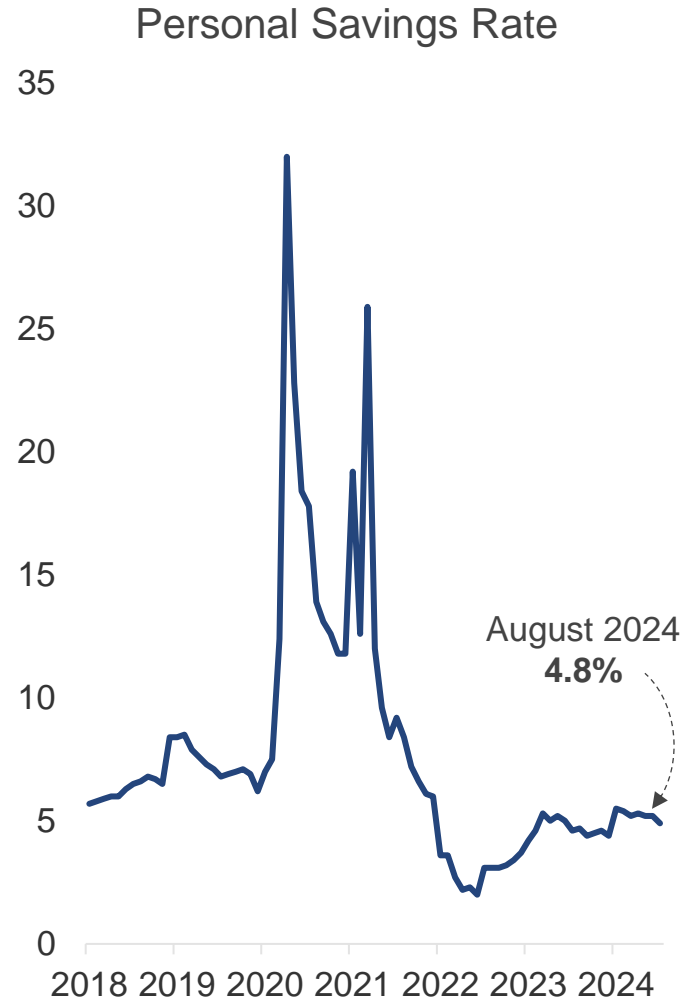
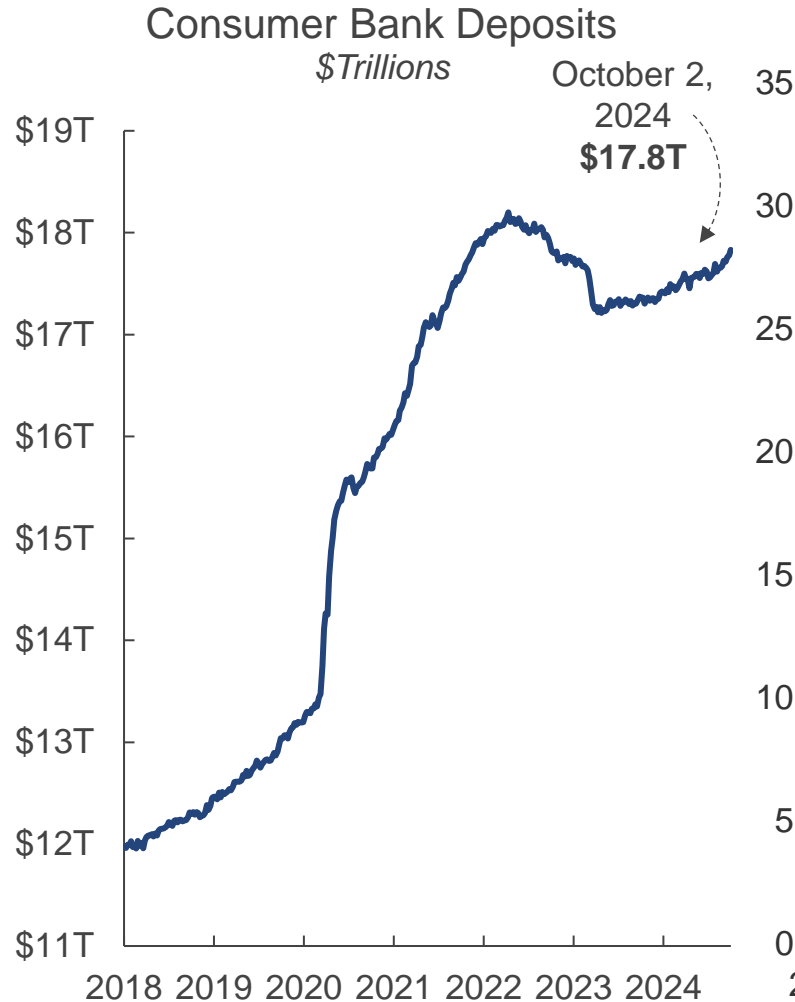
Source: U.S. Bureau of Labor Statistics (BLS)

While Moderating, Inflation in the U.S. Remains Above Federal Reserve's Target



Source: U.S. Bureau of Labor Statistics (BLS), U.S. Bureau of Economic Analysis (BEA)
Note: Data through August 2024

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

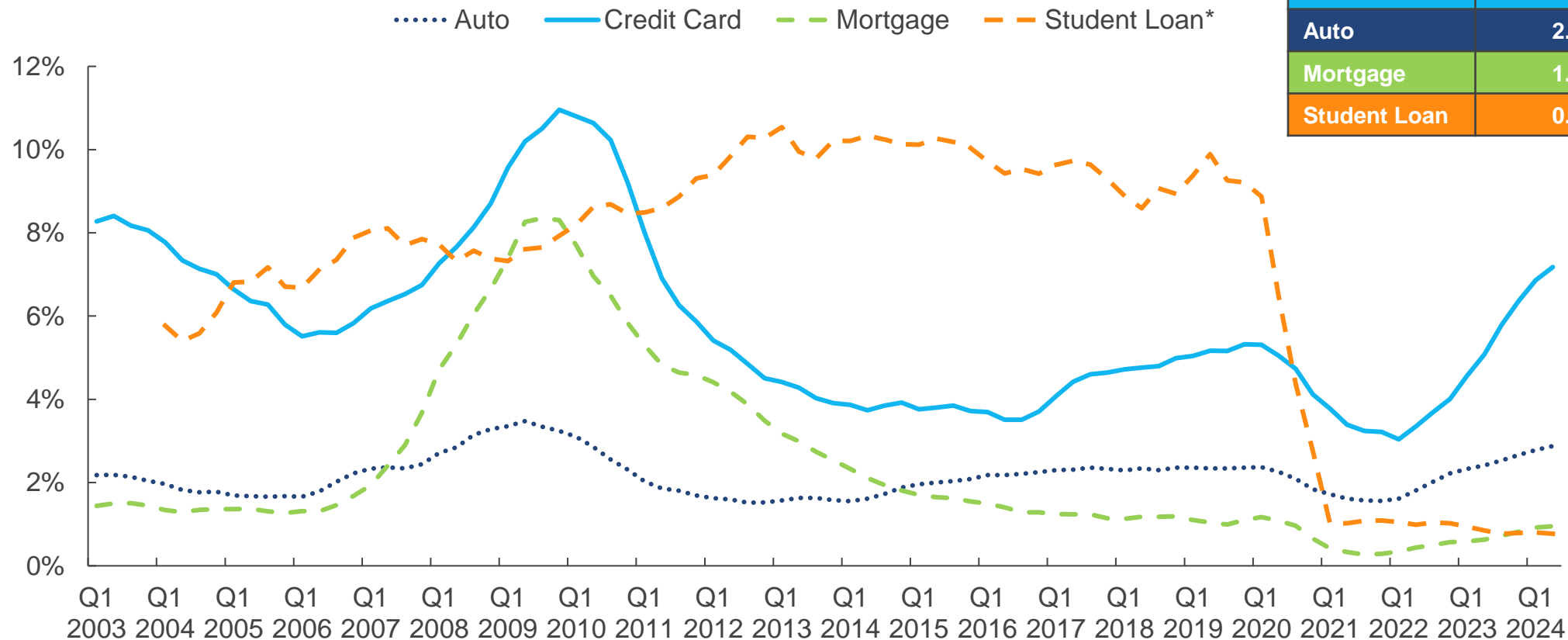


Source: Federal Reserve, Bureau of Economic Analysis.

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

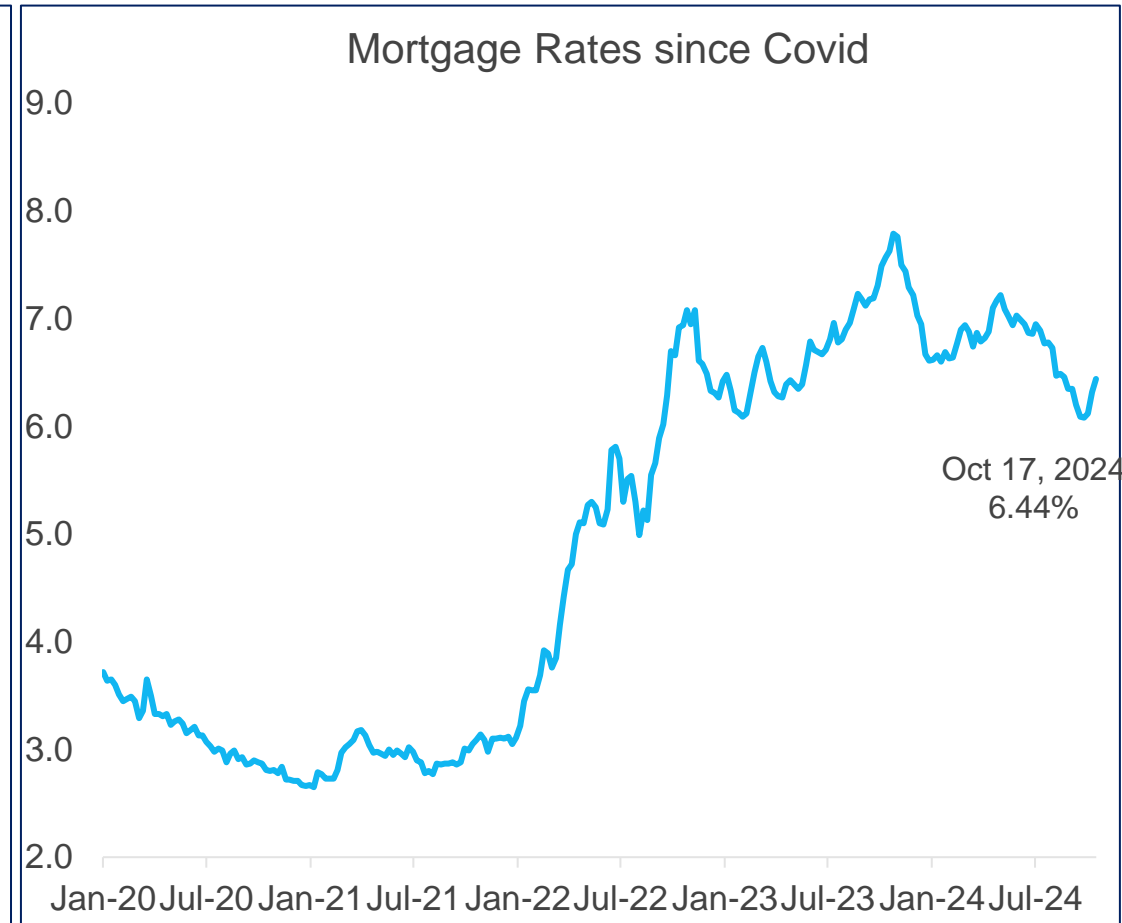
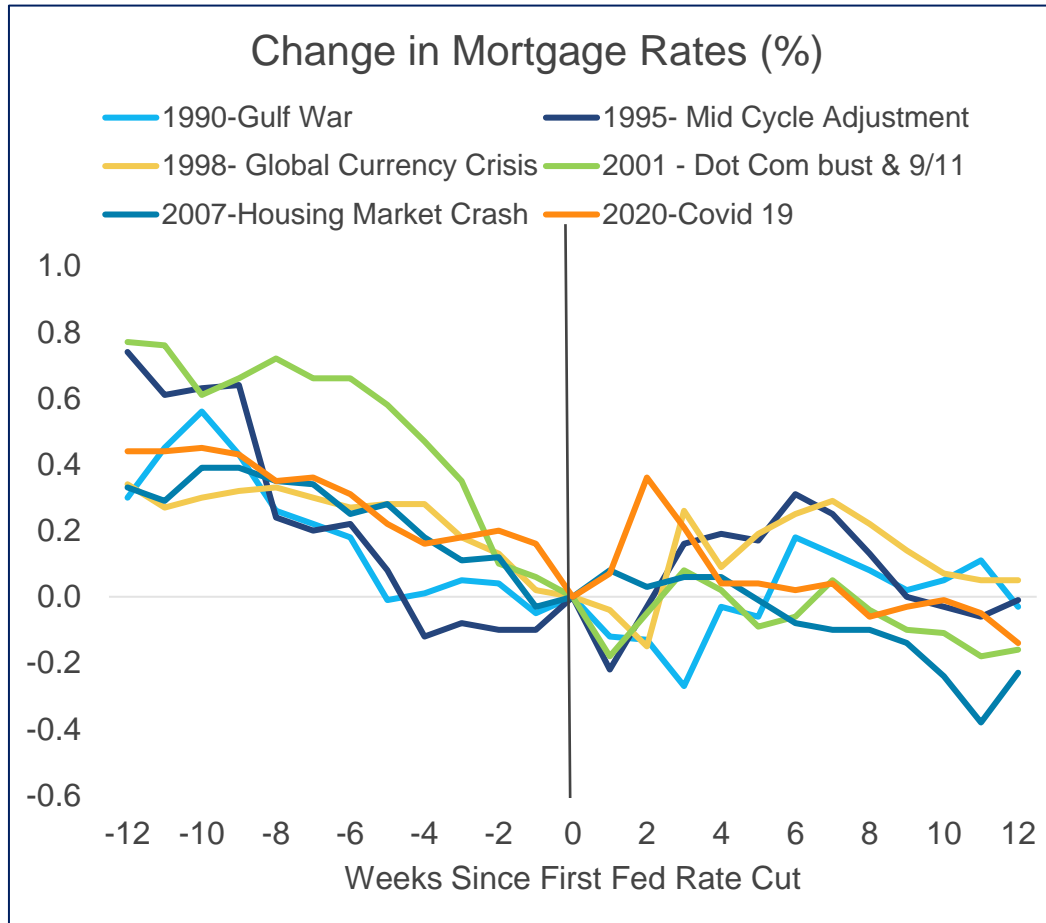


Source: New York Fed Consumer Credit Panel/Equifax;
Note: Data through Q2 2024
 *Student loan data are not reported prior to 2004 due to uneven reporting



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

Mortgage Rates Decline in Anticipation of Fed Rate Cuts

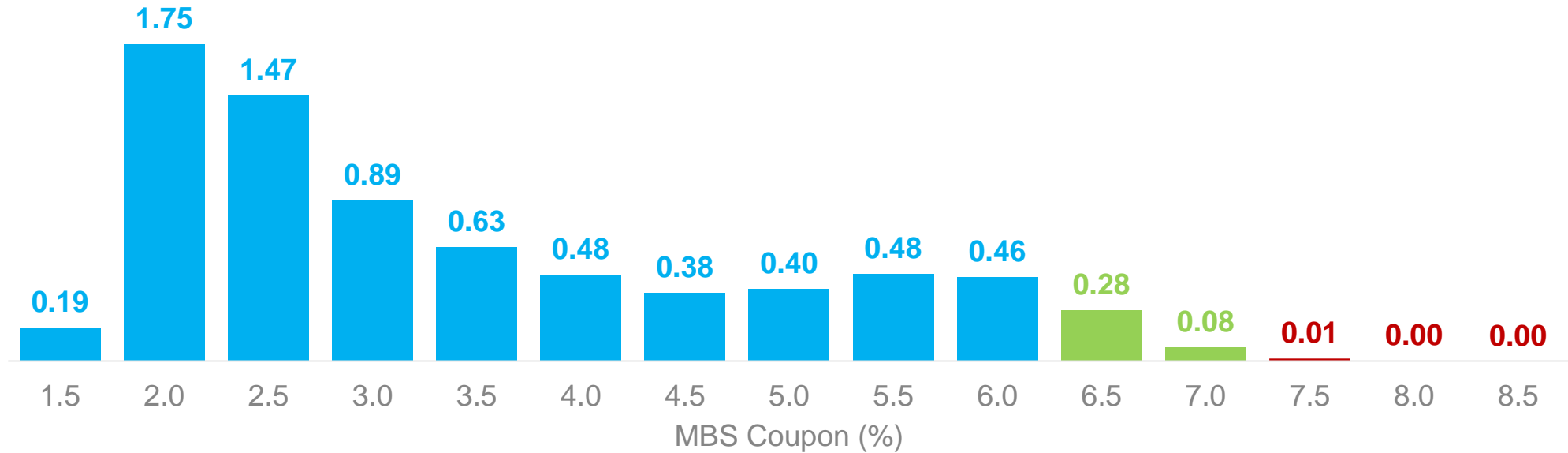


Source: Federal Reserve Board; Freddie Mac Primary Mortgage Market Survey

Historically Low Rates in Previous Years Means There is No Refi Incentive Given Today's Rates



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



Out-of-the-money
 Coupon \leq 6.0%
 ~ \$7.1 Trillion

Marginally In-the-money
 6.0% < Coupon < 7.5%
 ~ \$0.36 Trillion

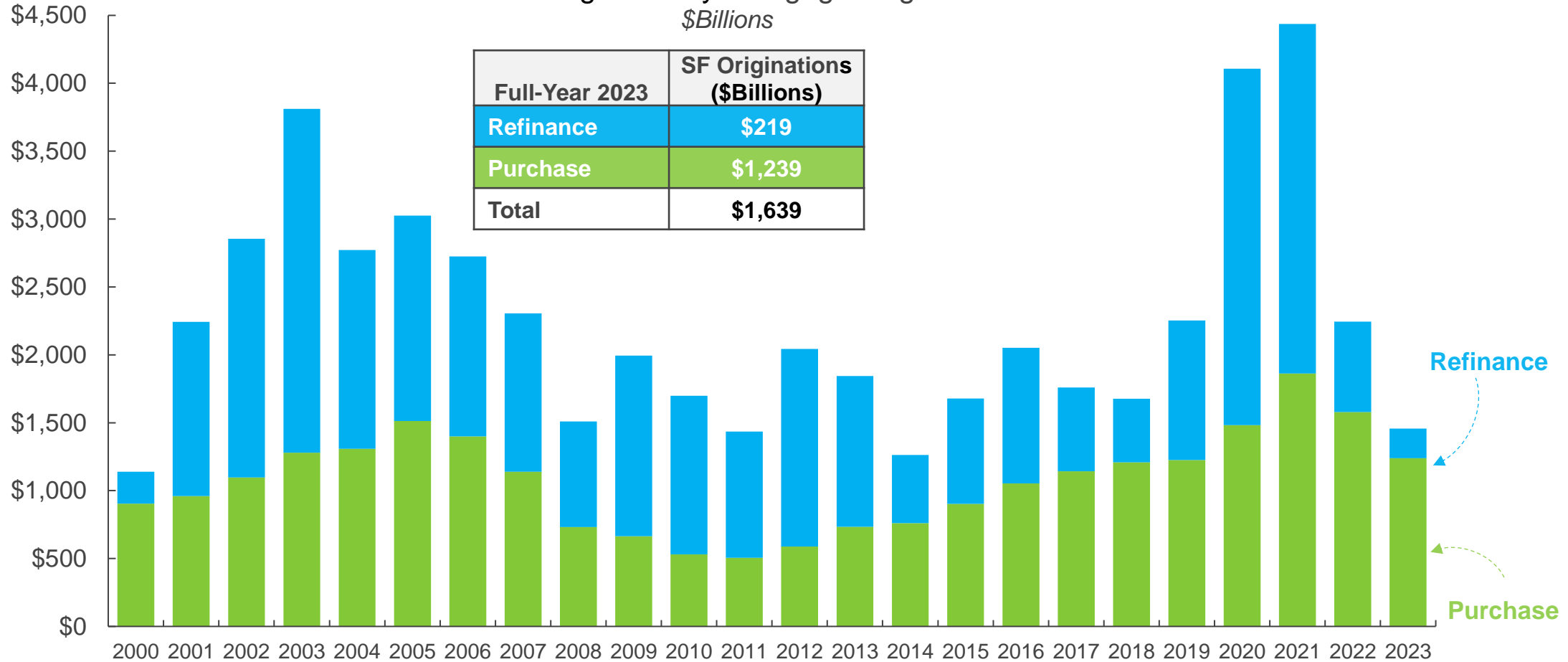
Deep In-the-money
 Coupon \geq 7.5%
 ~ \$0.01 Trillion

Source: Bloomberg as of 10/2/2024
 Conforming includes Freddie Mac, Fannie Mae, Ginnie Mae 30-year fixed MBS Outstanding (UMBS, GNMA1, GNMA 2)

Total U.S. Mortgage Originations for 2023 at Lowest Level Since 2014 Led by Lower Refinance Volumes

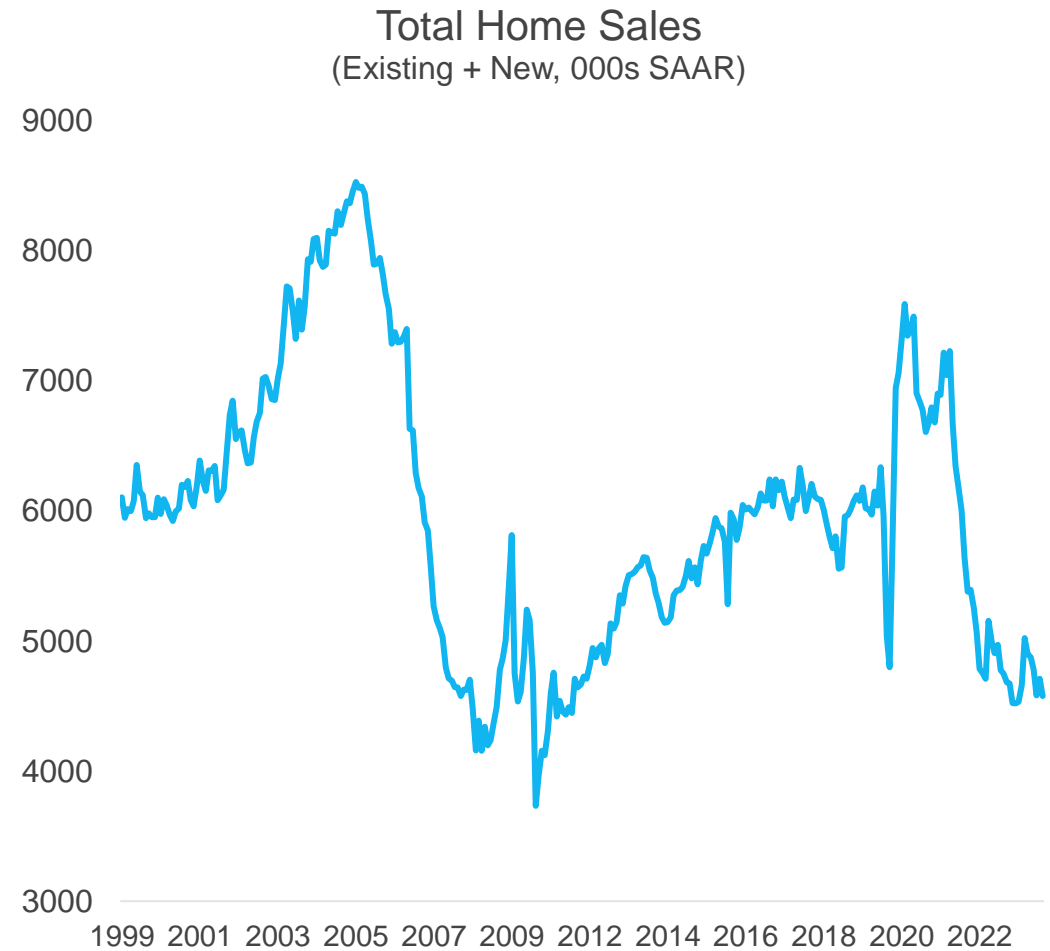
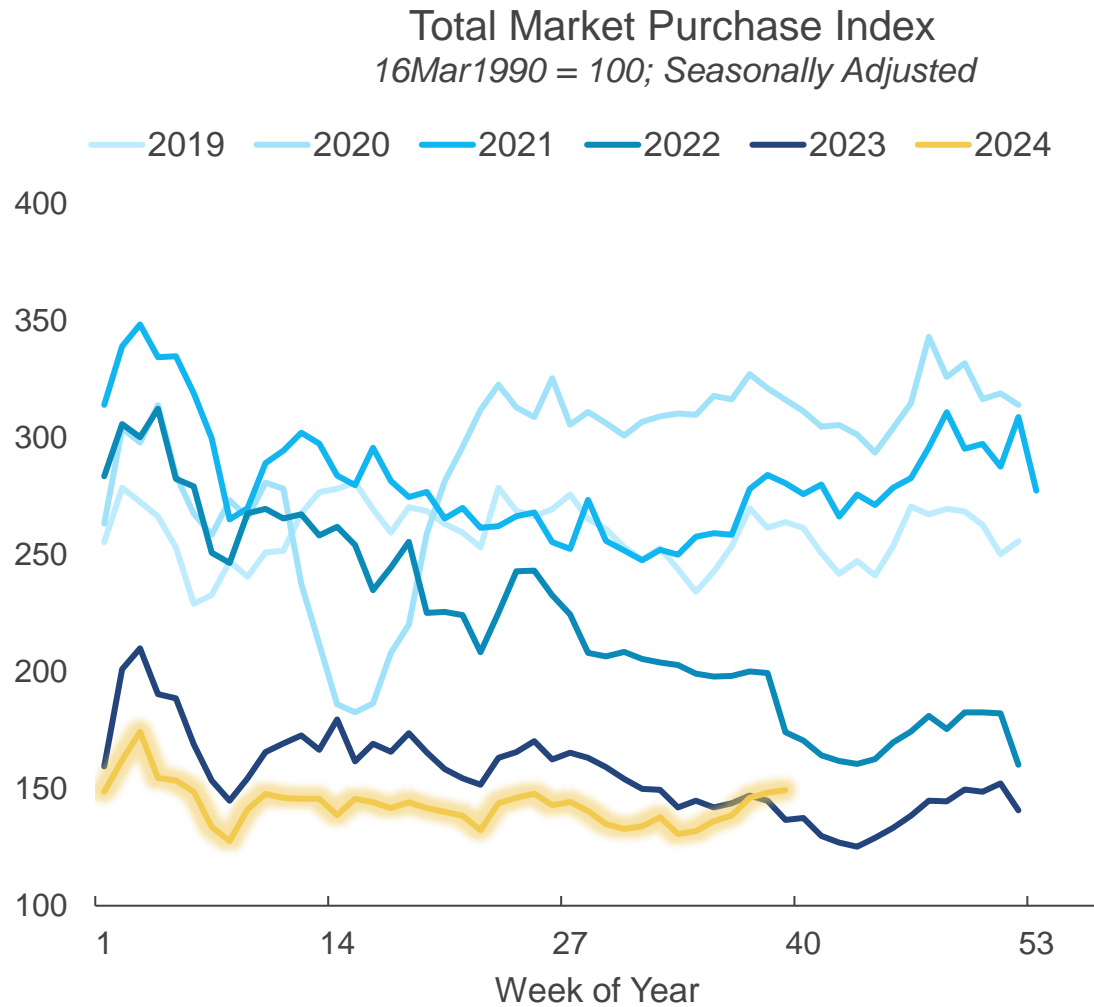


Annual Single-Family Mortgage Originations
\$Billions



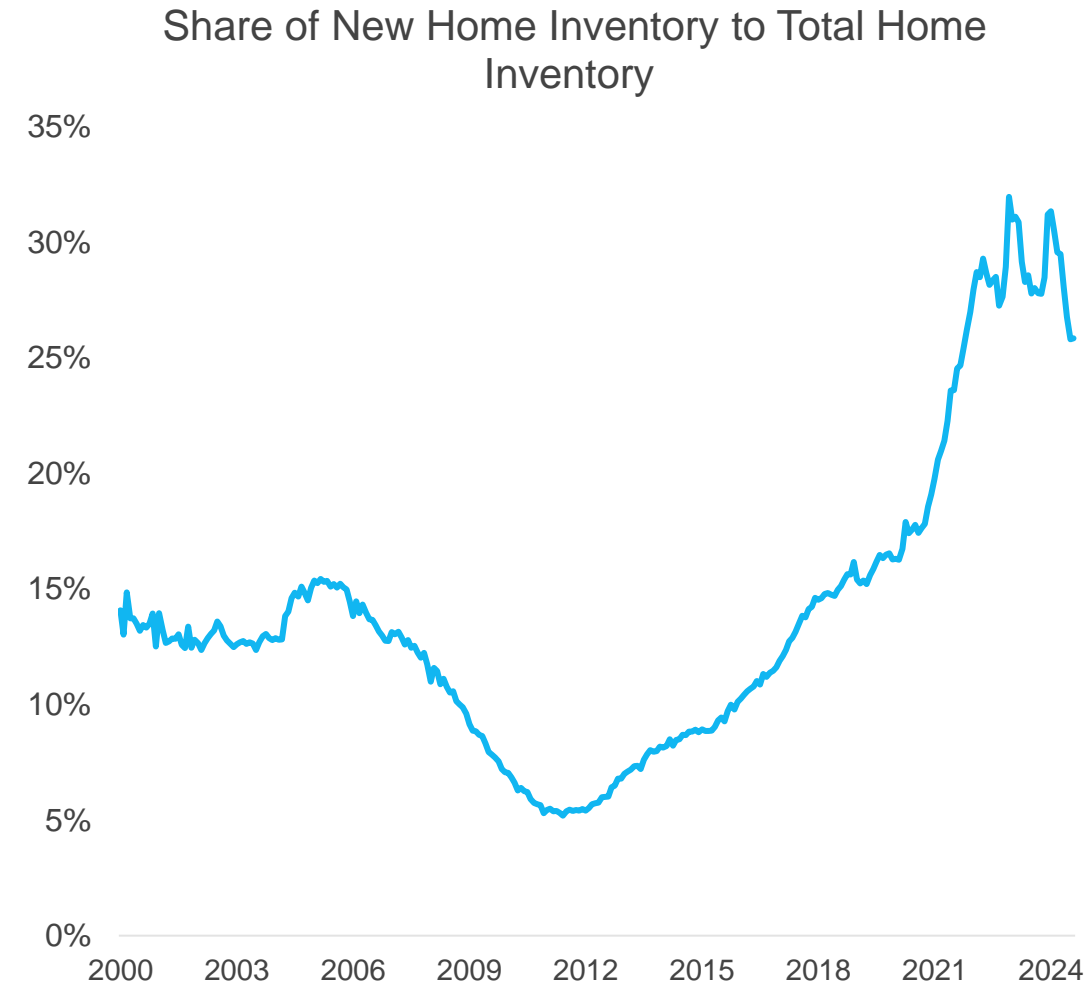
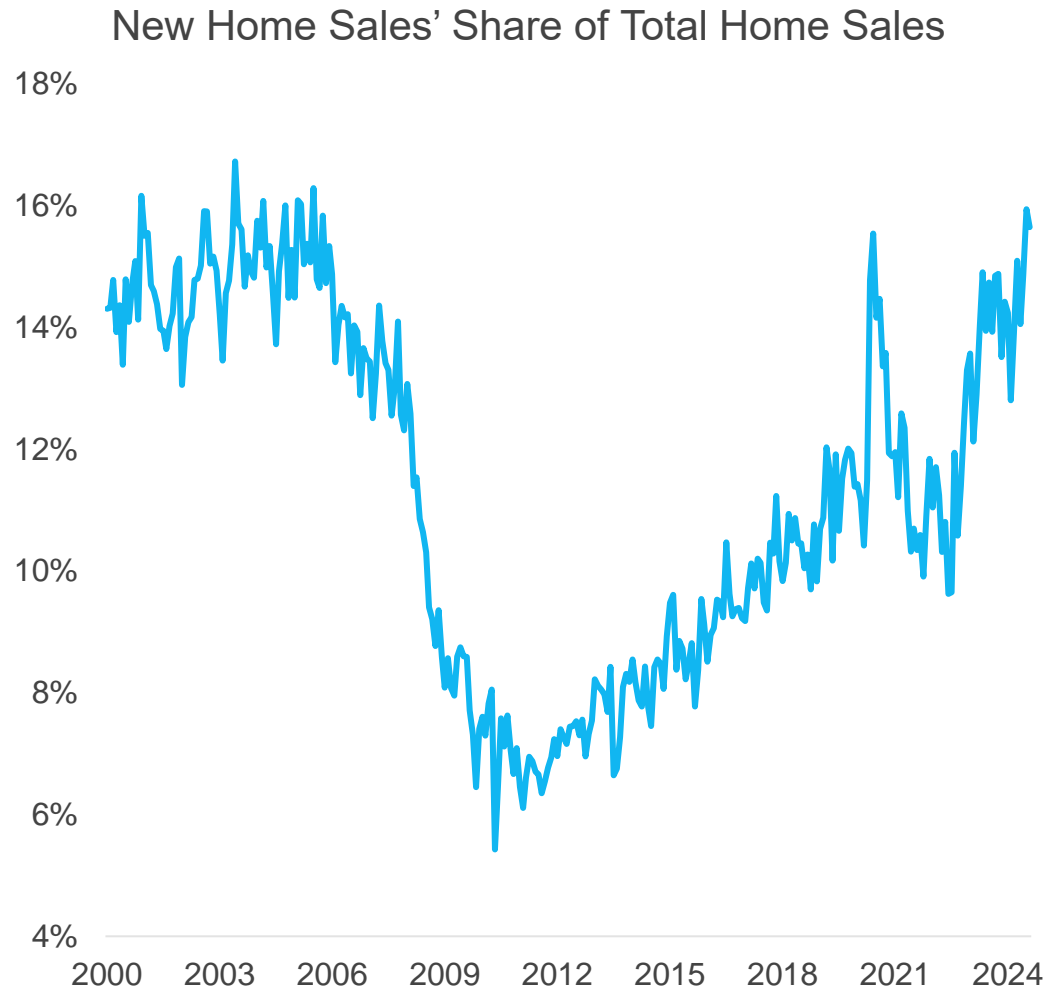
Source: Freddie Mac

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



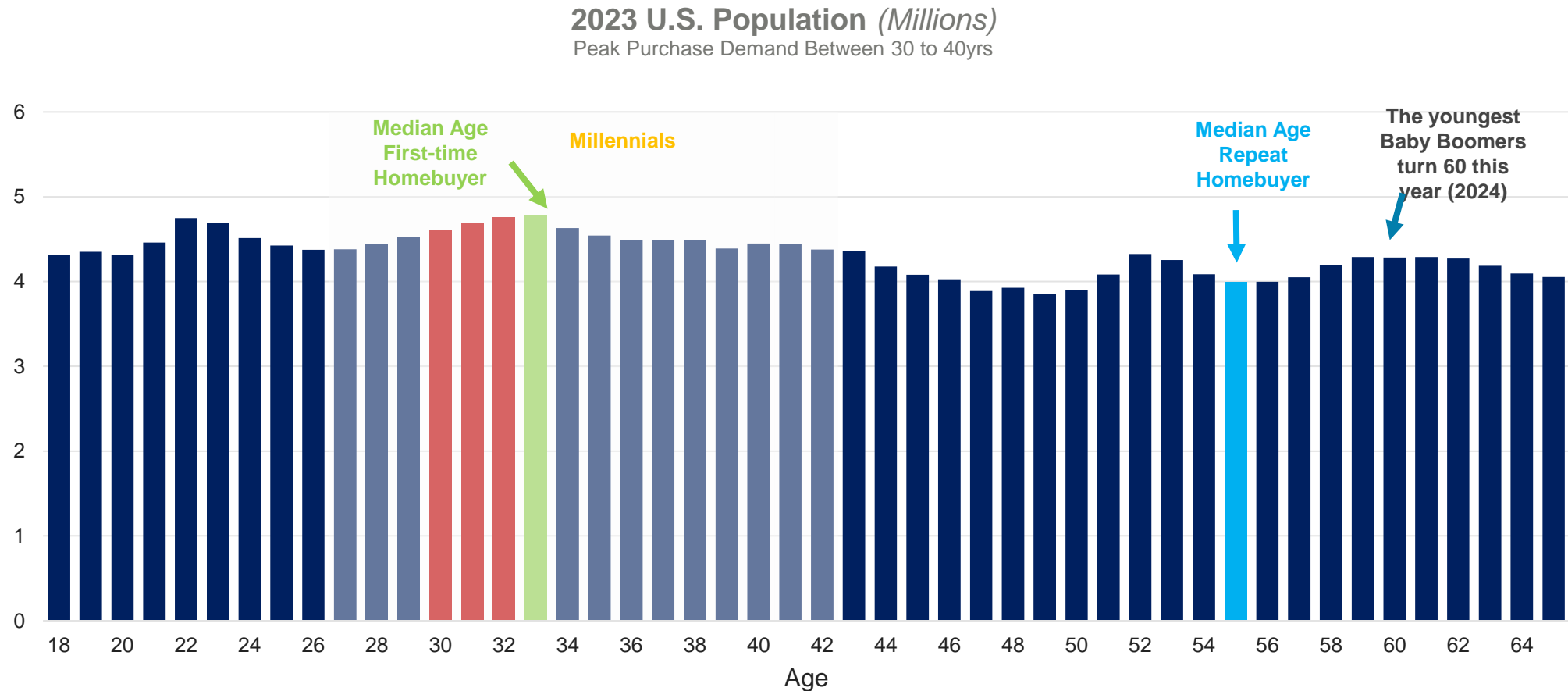
Source: National Association of Realtors (NAR); U.S. Census Bureau, MBA

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



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

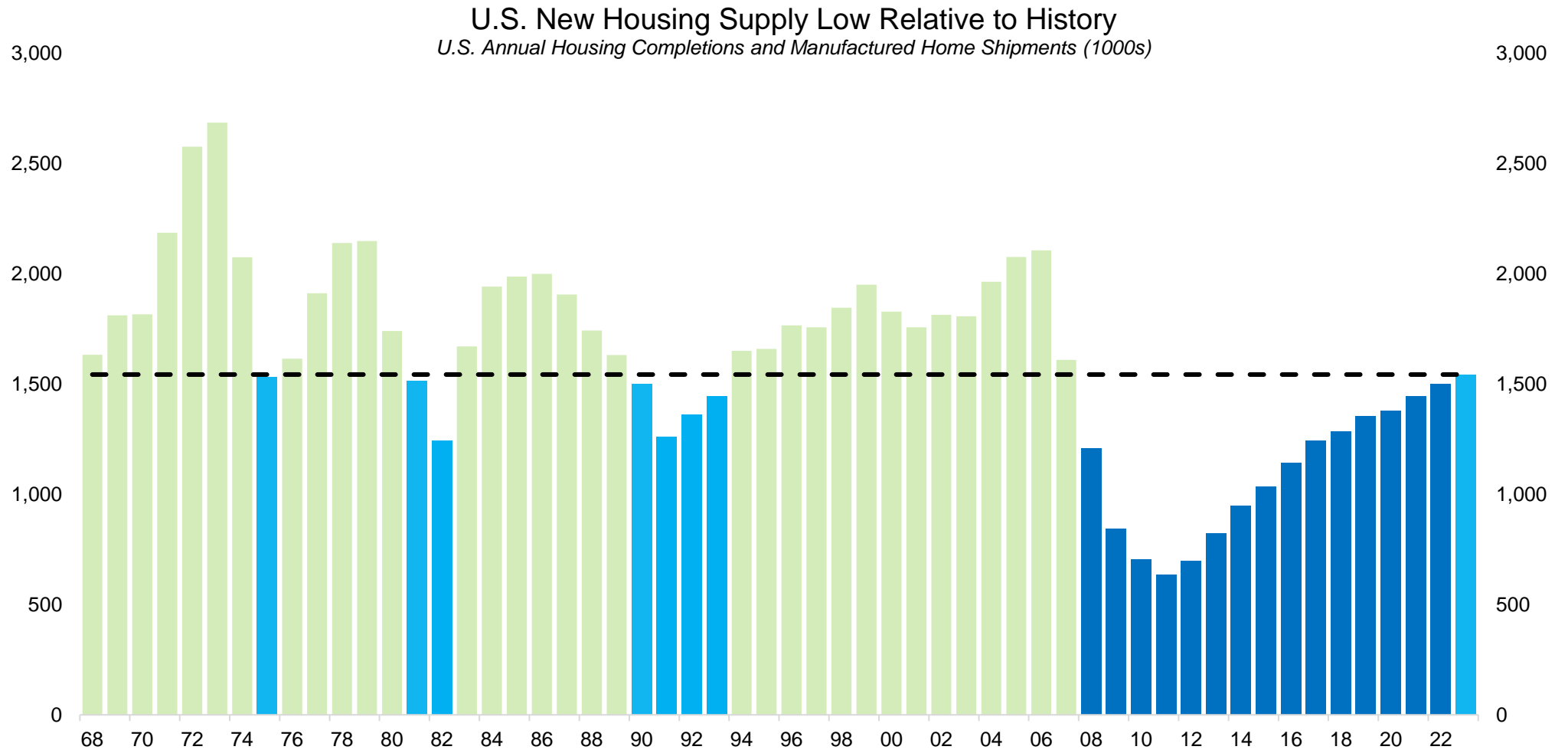
Housing Demand Robust on Favorable Age Demographics of First-time Homebuyers



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

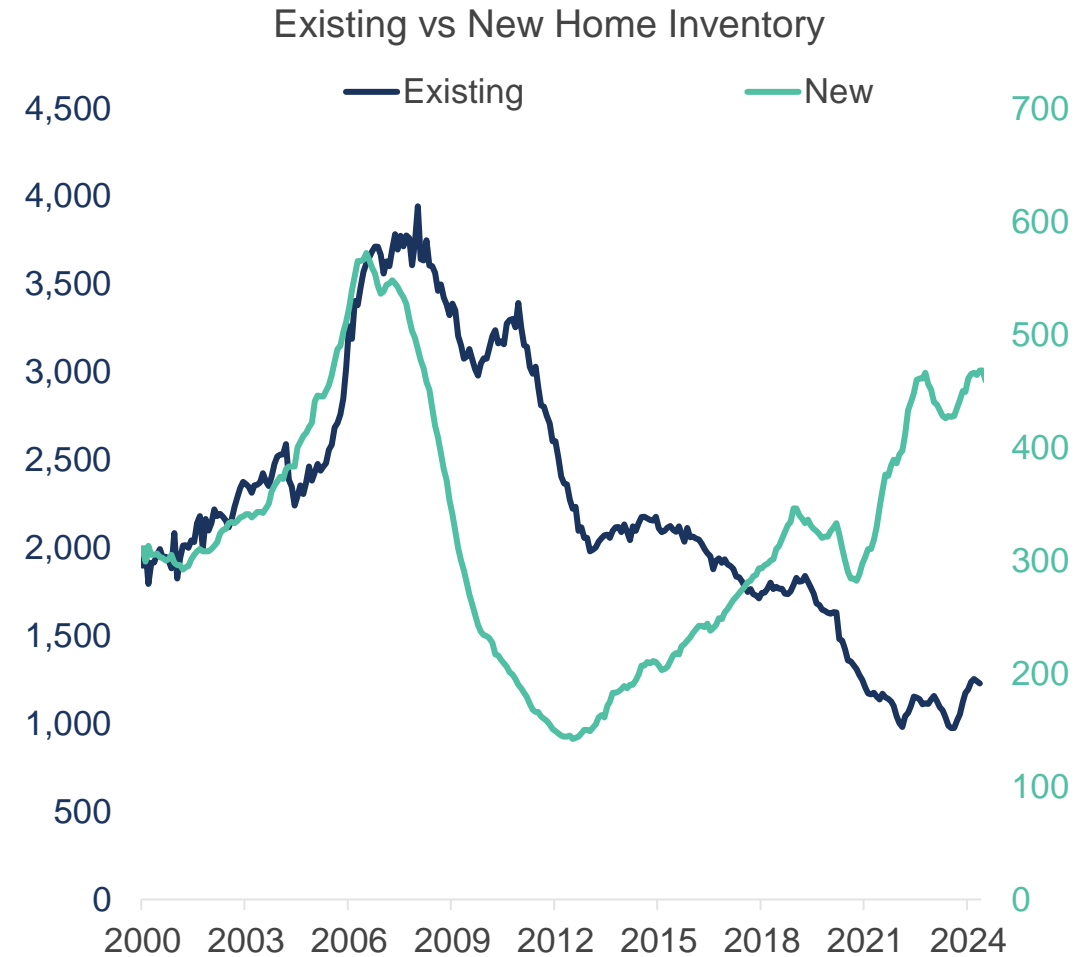
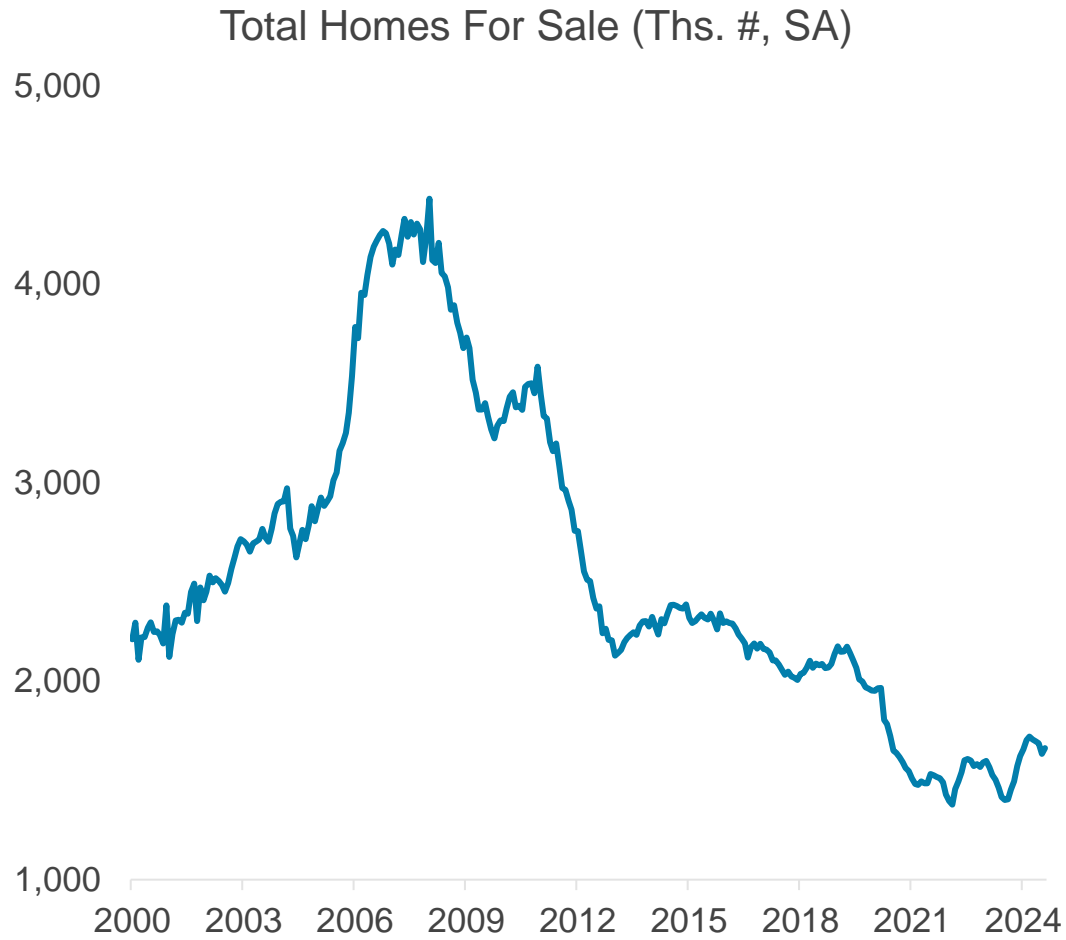
Source: U.S. Census Bureau

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

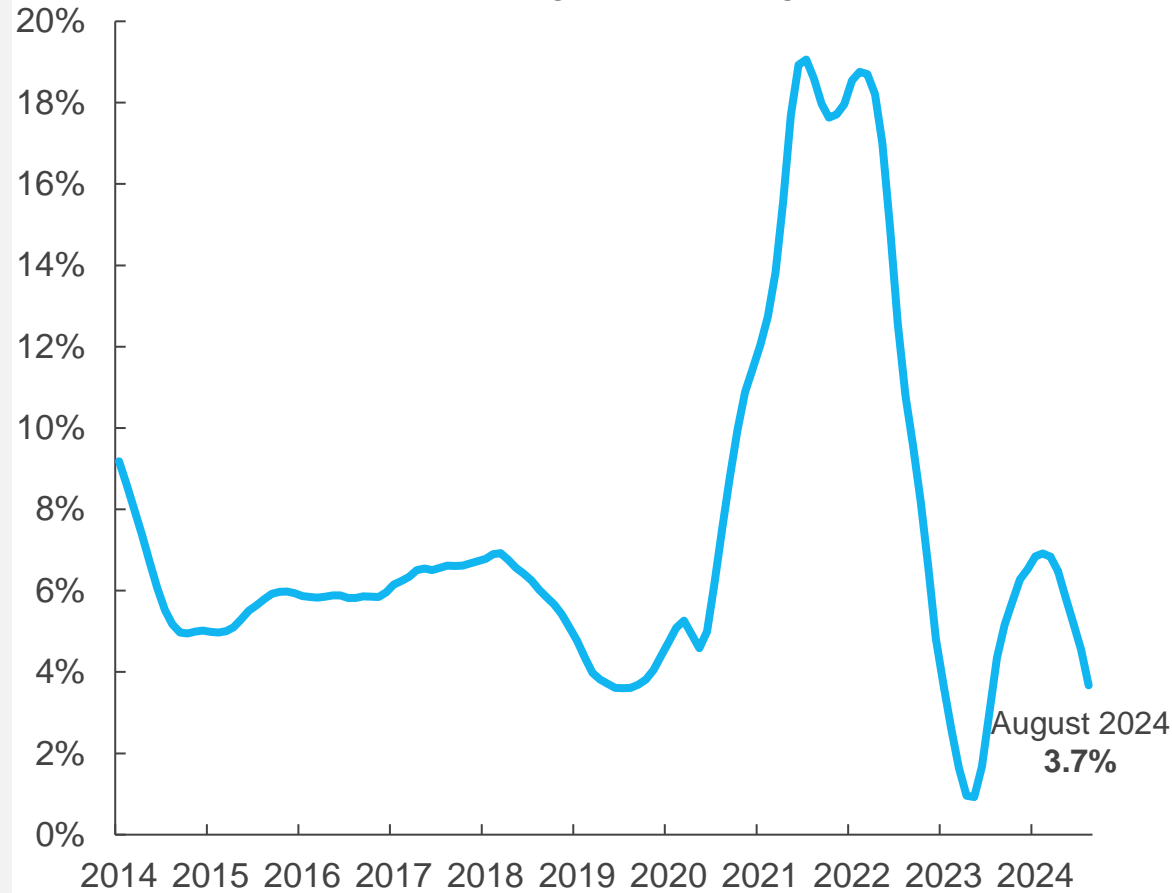


Source: NAR, Census

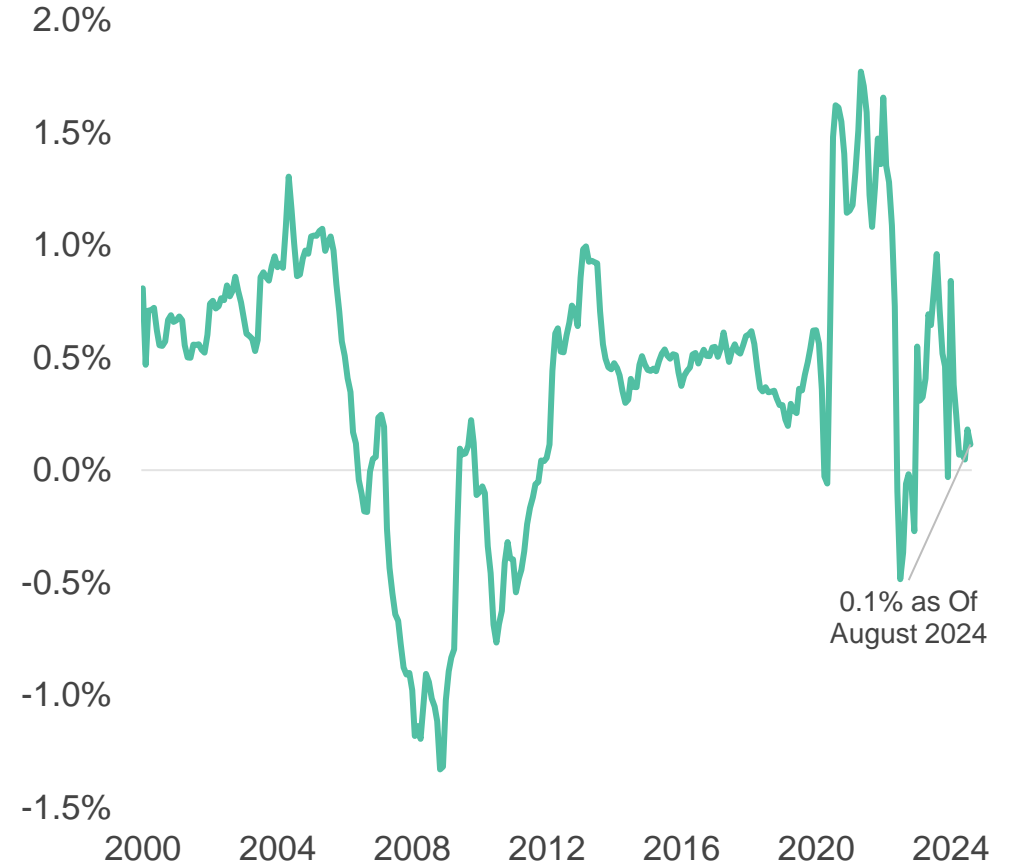
Home Prices have Stabilized Over Last 3 Months



Freddie Mac House Price Index Percent Change from Year Ago

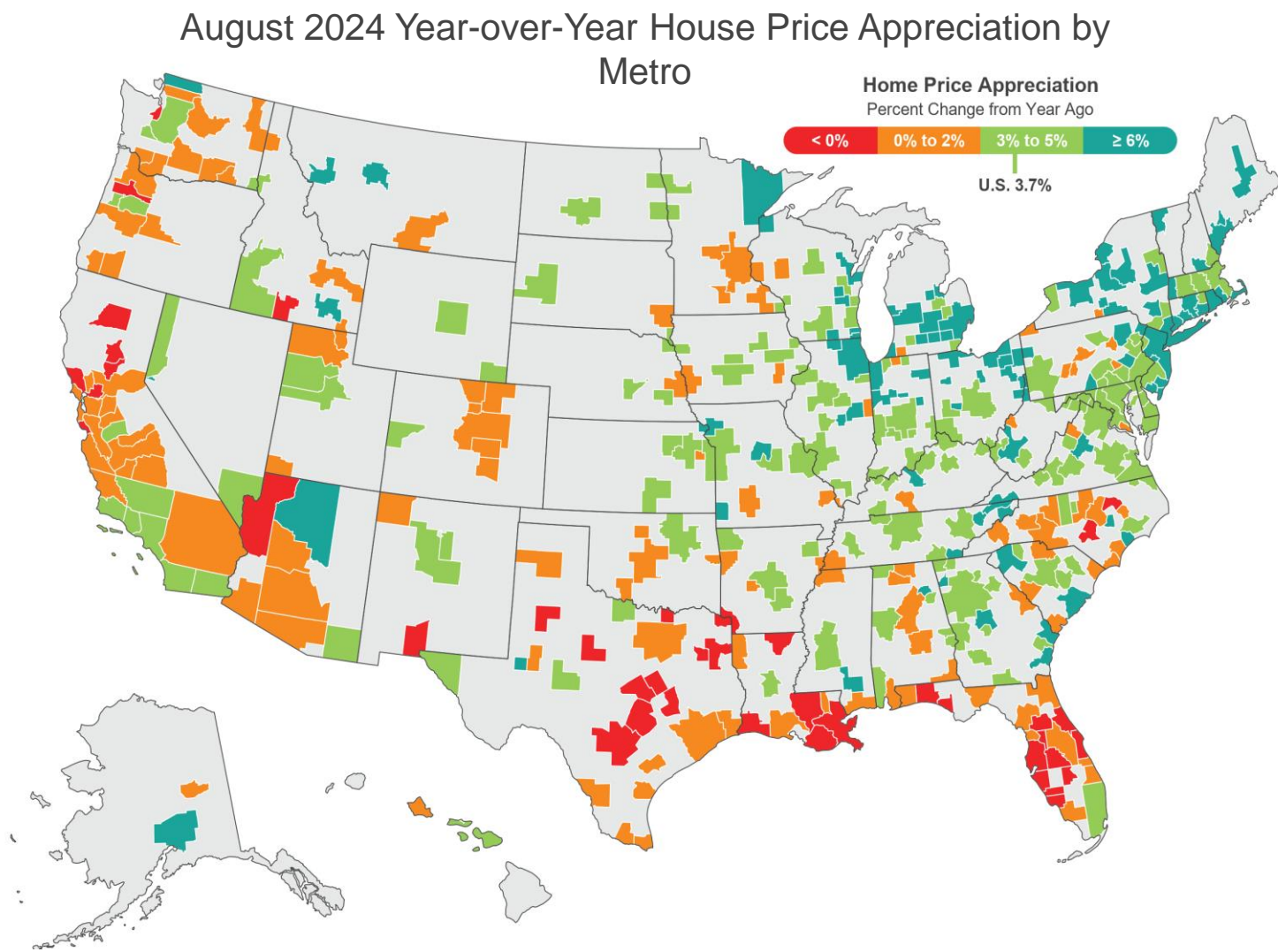


Freddie Mac House Price Index Percent Change from Month Ago



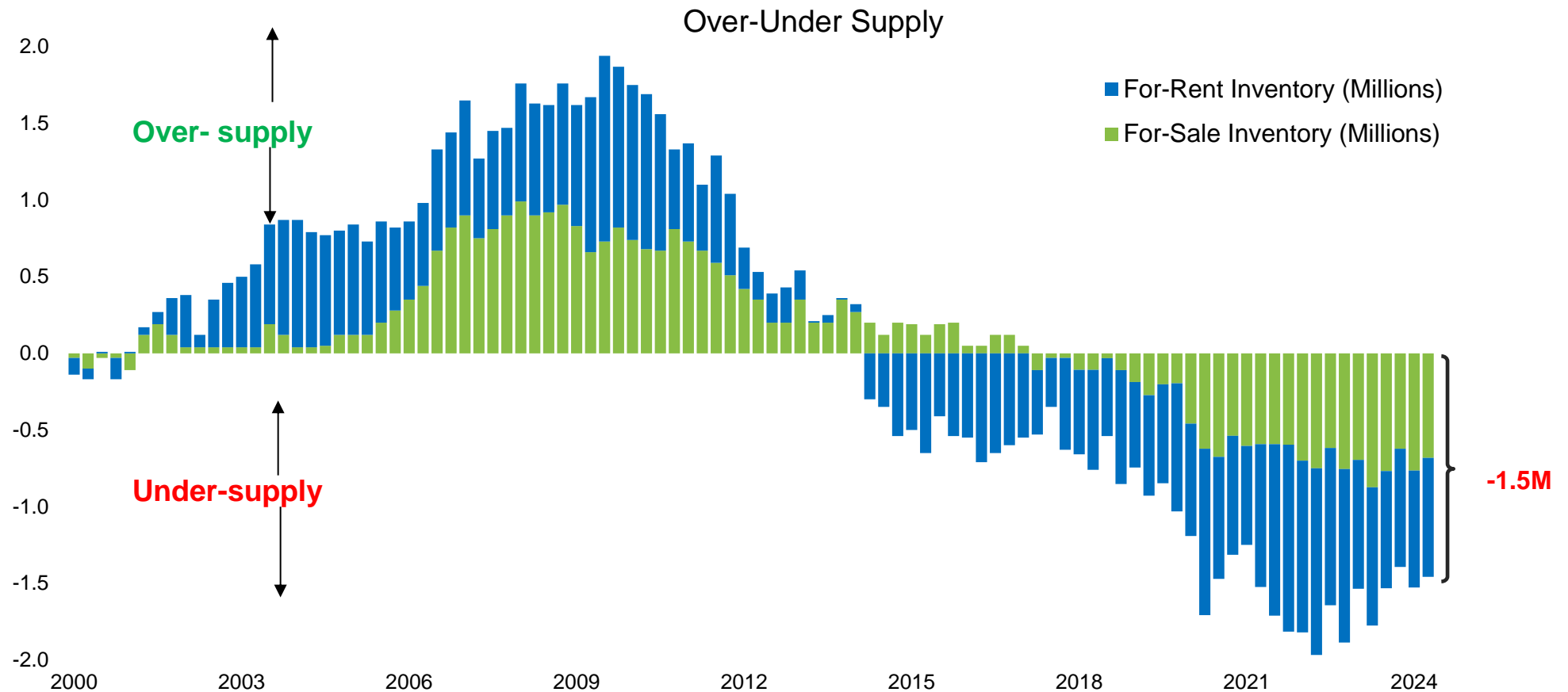
Source: Freddie Mac

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



Source: Freddie Mac

The Undersupply of Housing Remains Large and is Not Improving

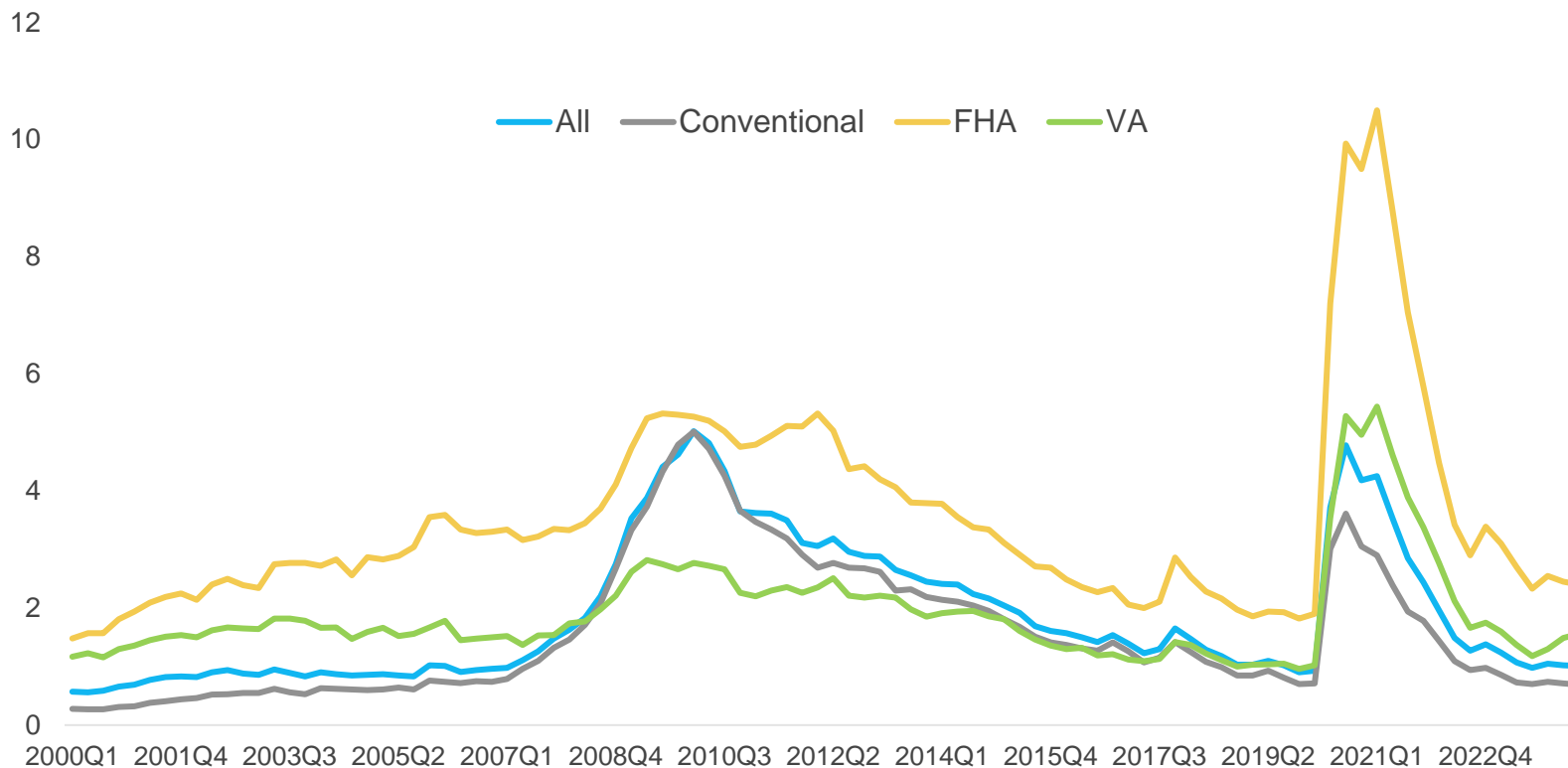


Source: Freddie Mac calculations using US Census Bureau data. Negative values reflect undersupply. The under/oversupply of vacant housing was estimated based on the average vacancy rate from 1994 Q1 to 2003 Q4

Delinquency Rates Remain Low Across All Loan Types



Q1 2024 - 90+ DLQ (% of Loans Serviced)



Q2 2024 Compared to Q1 2024

All : -1bps
 Conventional: -2bps
 FHA: -5bps
 VA : +7bps

Q2 2024 Compared to Q2 2023

All : -6bps
 Conventional: -4bps
 FHA: -30bps
 VA : +19bps

Source: MBA

Forecast for 2025



- The U.S. economy grew at a stronger pace than initially reported per the revisions of the BEA national accounts, mainly on strong consumer spending, and we expect it to continue to grow, though at a slower pace. Under our baseline scenario, we expect inflation to continue to trend lower.
- The Federal Reserve cut the federal funds rate by 0.5 percentage points in September and indicated further cuts of almost one percentage point in 2024 and another percentage point in 2025. Even though mortgage rates moved lower in anticipation of the rate cut, the most recent employment report has pushed rates higher in early October. Our baseline view has rates easing very gradually over time, with potential volatility as economic news may surprise the market.
- Lower mortgage rates are expected to boost the housing market, but the lift will be modest given continued tightness in the existing inventory and homebuyers staying on the sidelines expecting further rate declines. We have seen some loosening in the average mortgage rate lock-in effect. The average rate lock-in effect for Freddie Mac borrowers as of September 2024 is down to \$38,000 per borrower compared to the peak of \$66,000 per borrower as of October 2023. This loosening will likely bring more existing inventory into the housing market, but not enough to accommodate growing demand. Therefore, we expect home sales to remain flat in the remainder of 2024 but pick up slightly in 2025 as rates decline further and more housing inventory comes on the market. However, we expect home prices to grow as the supply-demand imbalance remains a core issue in the housing market.
- We anticipate a slight growth in origination volumes in 2024 and 2025 compared to the low volumes in 2023—which were at the lowest since 2014. We forecast purchase origination volumes to continue to increase at a modest pace consistent with modest increases in home sales and house prices. Lower rates are already stimulating refinance volumes, and we expect this trend to continue, thereby pushing up total origination volumes in 2024 and 2025.



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