

# Economic & Housing Market Outlook

Q1 2023 Research & Insights





## Economy: The U.S. Economy Under Stress

- Economic growth picked up in the second half of 2022; expected to slow down this year.
  - Prospect of a recession in 2023 rising.
- Labor market remains strong with unemployment rate equaling 50-year lows.
- Inflation still above the Fed target.

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

- Mortgage rates rose at fastest pace in 40 years, impacting affordability, purchase apps and home sales
- Housing supply increased, but only modestly; new listings decline due to the rate-lock effect
- Home prices saw the fastest deceleration in over four decades, but the cumulative increase in the last four years remains high.

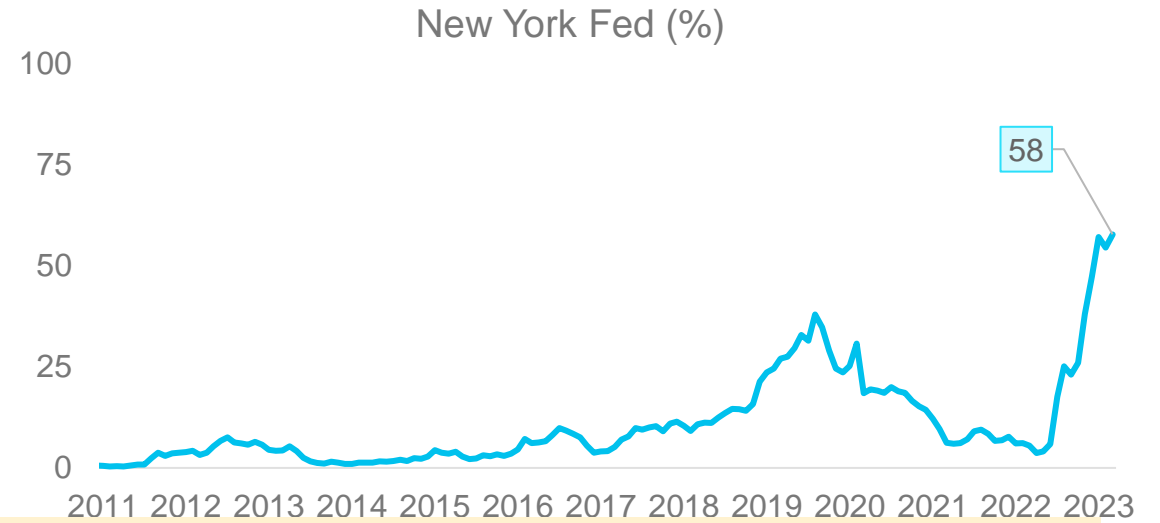
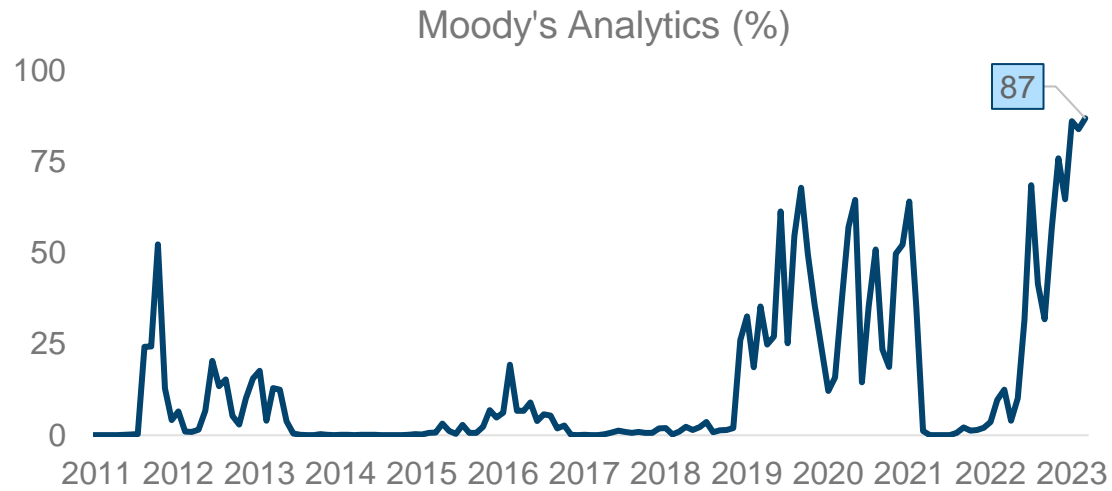


# Economy: The U.S. Economy Under Stress

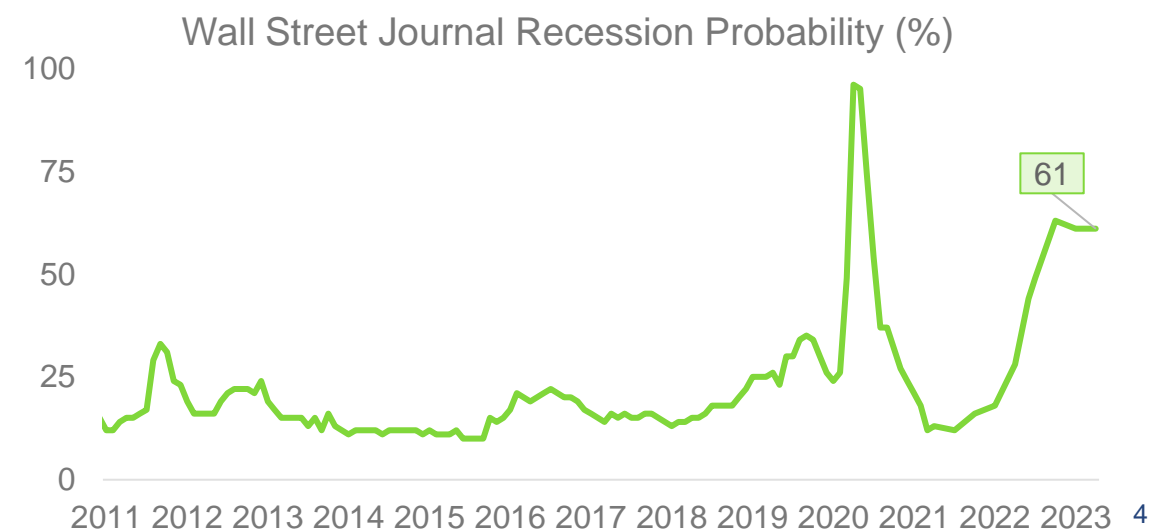
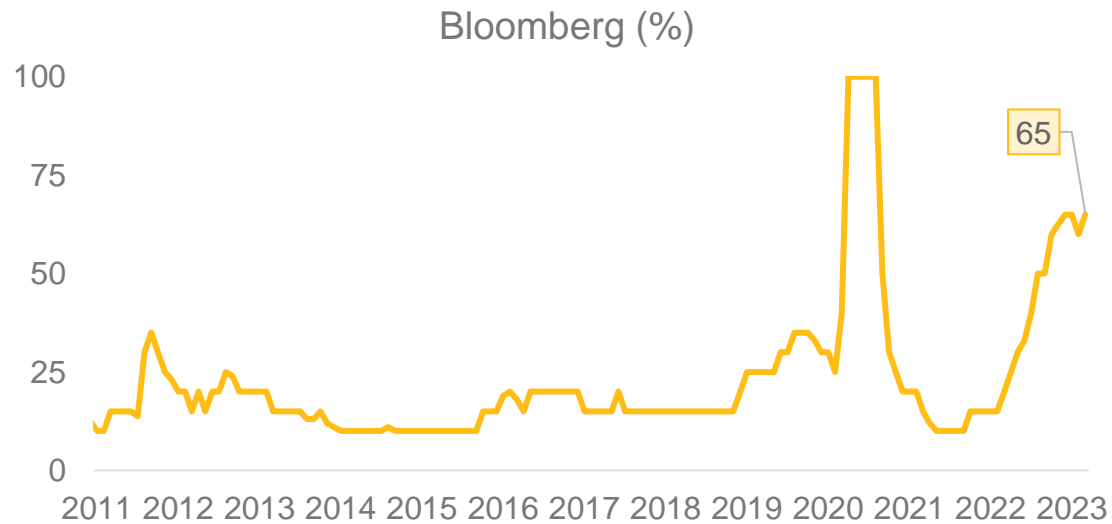
# Probability of a Recession in Next 12 Months is Increasing



## Model Based Measures



## Survey Based Measures



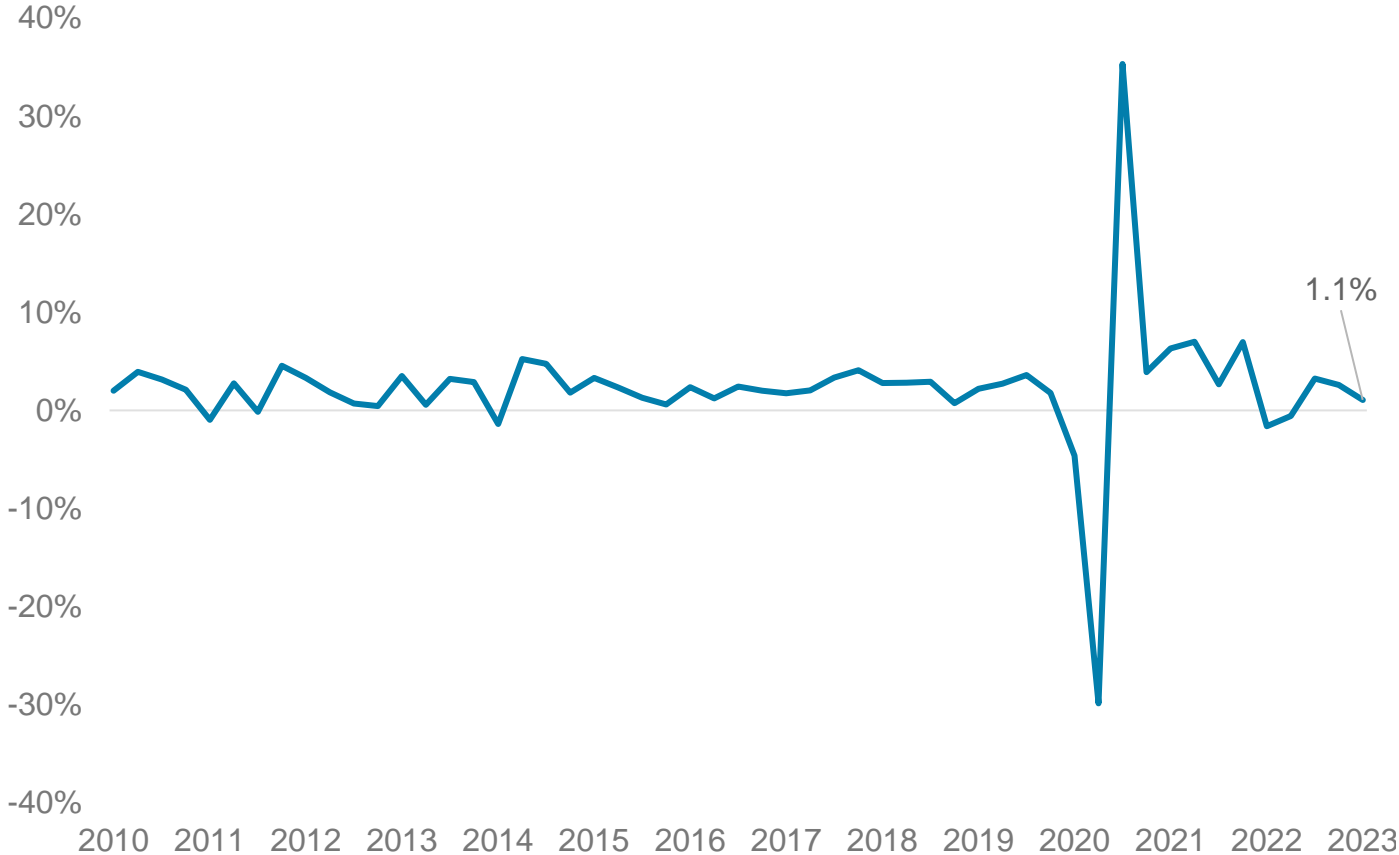
Source: Moody's Analytics, NY Fed, WSJ, Bloomberg  
Note: Data as of April 2023

# GDP Increased at Annual Rate of 1.1% in Q1 2023; Economic Growth Expected to Slow in 2023 & 2024

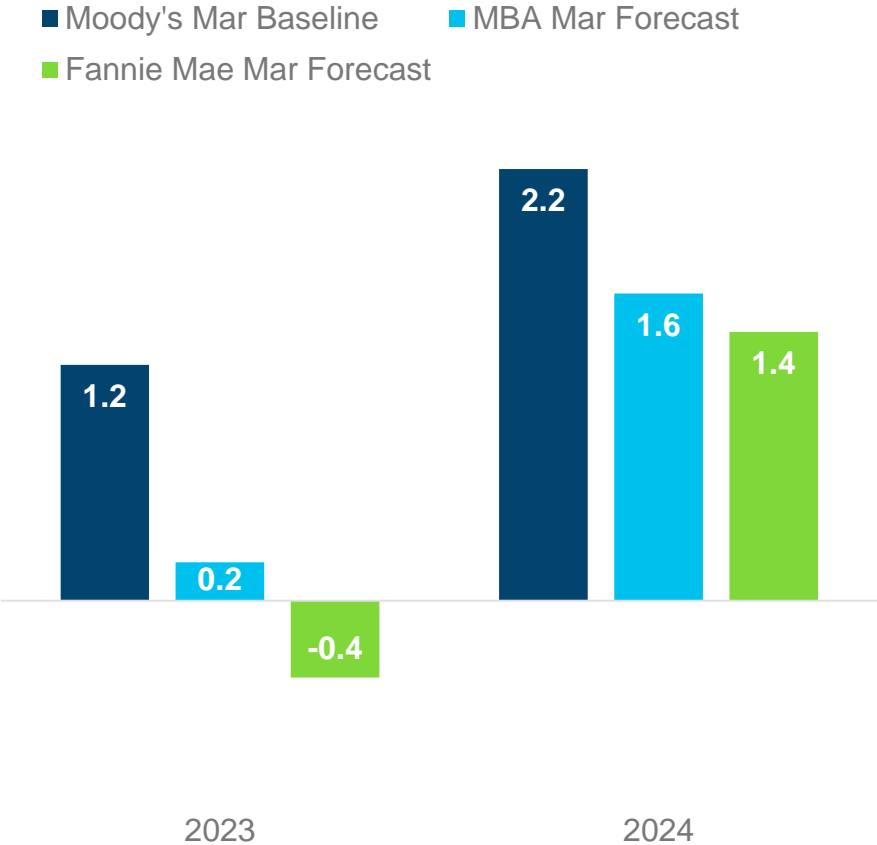


However, not everyone has a recession baked into their forecast...

Real Gross Domestic Product  
Annual Rate of Change, SA, Quarterly



GDP Forecast  
SAAR %



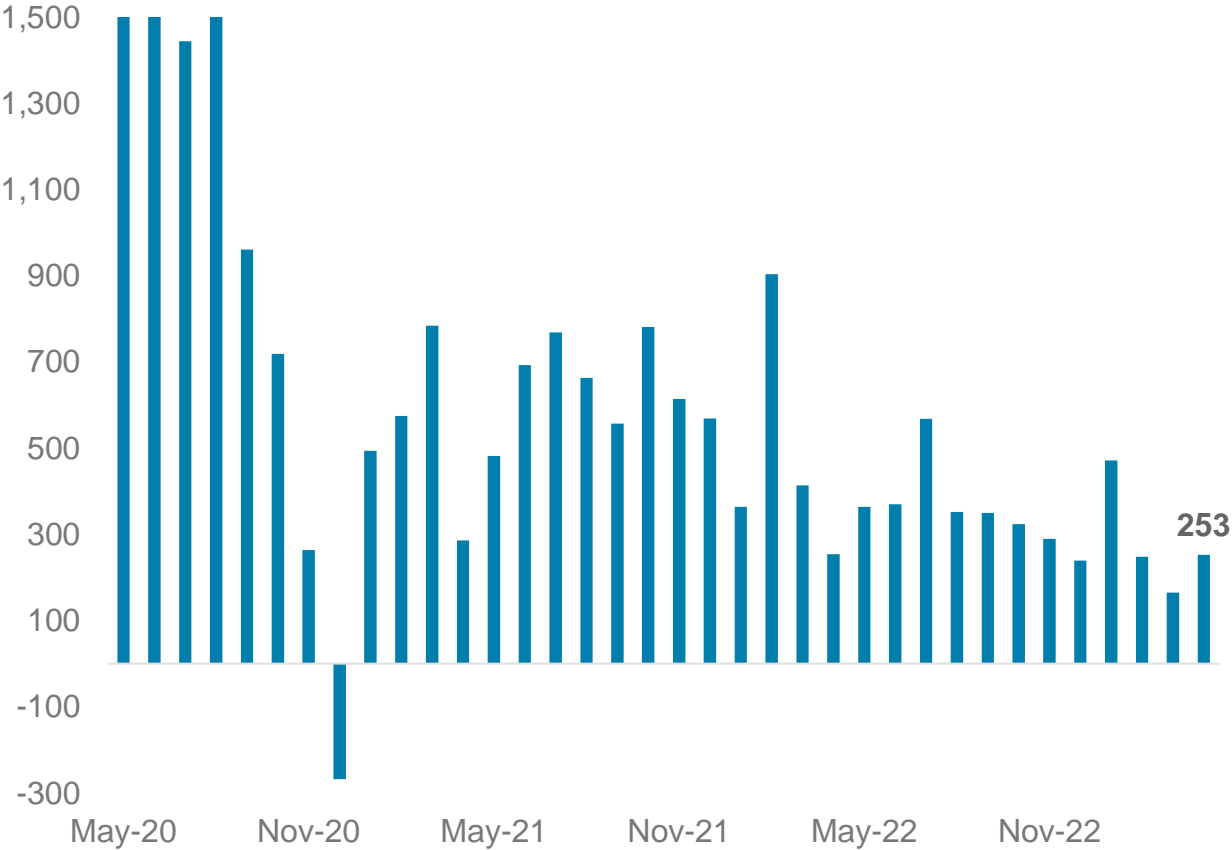
Source: BEA, Moody's, MBA, Fannie Mae  
Note: Data as of Q1 2023

# Labor Market Remains Tight; Unemployment Rate at 3.4%

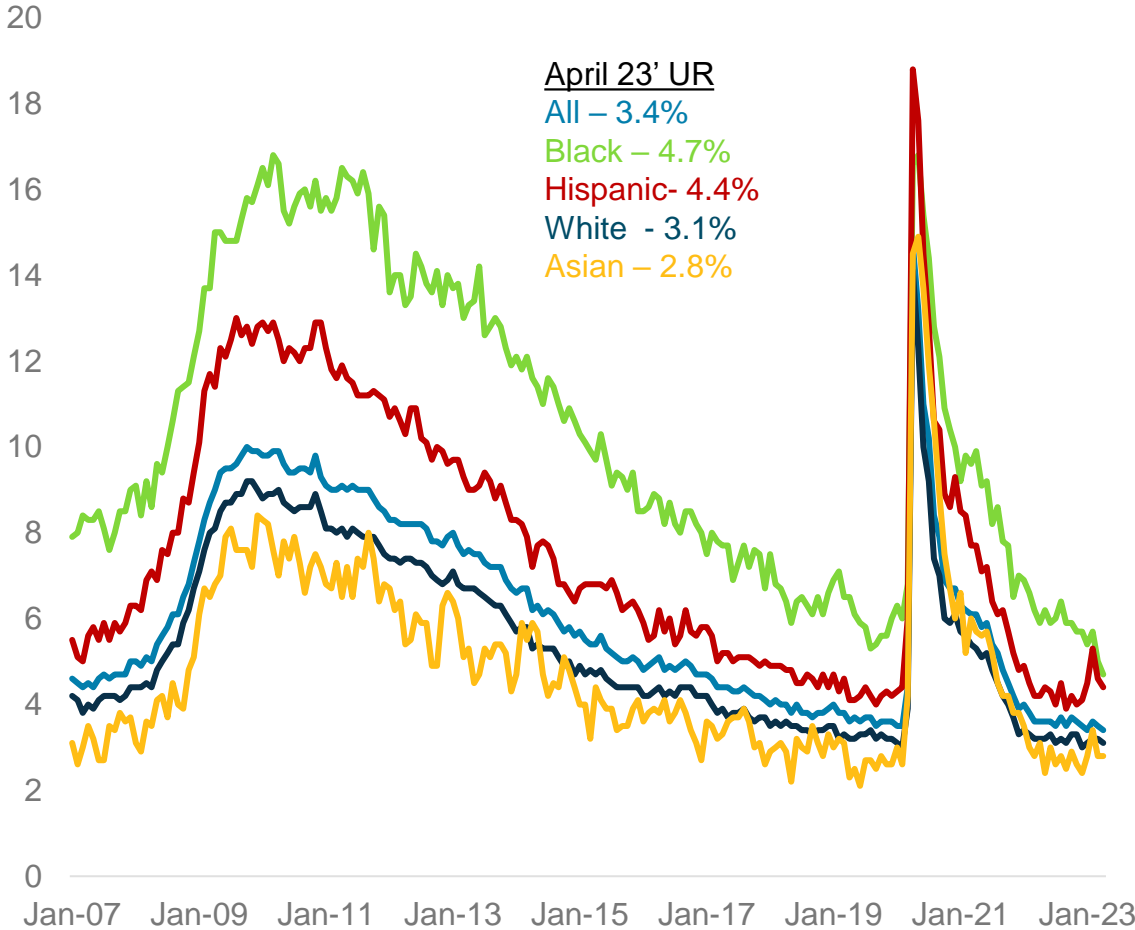


U.S. unemployment rate equals the lowest rate since 1969; black unemployment rate at all-time low

All Employees, Total Nonfarm, Monthly Change  
(Thousands of Persons, SA)



Unemployment Rate (%)



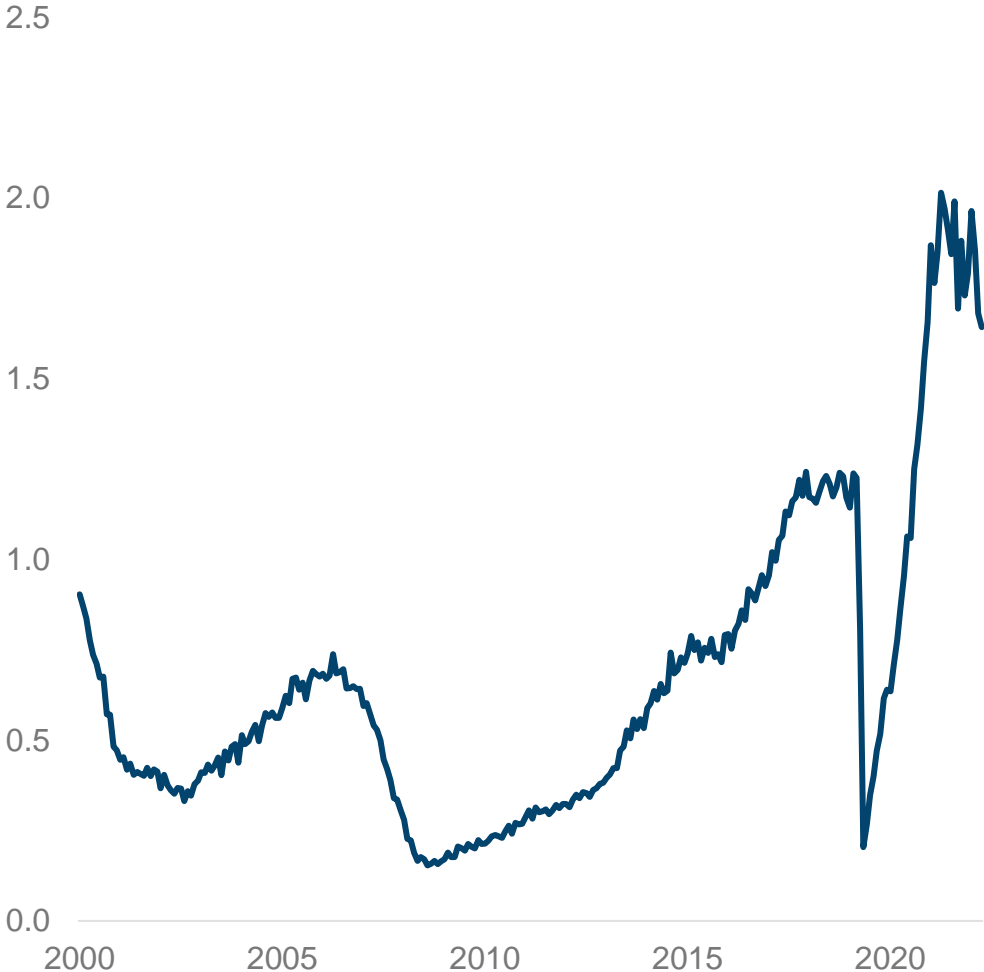
Source: BLS  
Note: Data as of April 2023

# Job Openings Plentiful, but Some Signs of Cooldown are Emerging



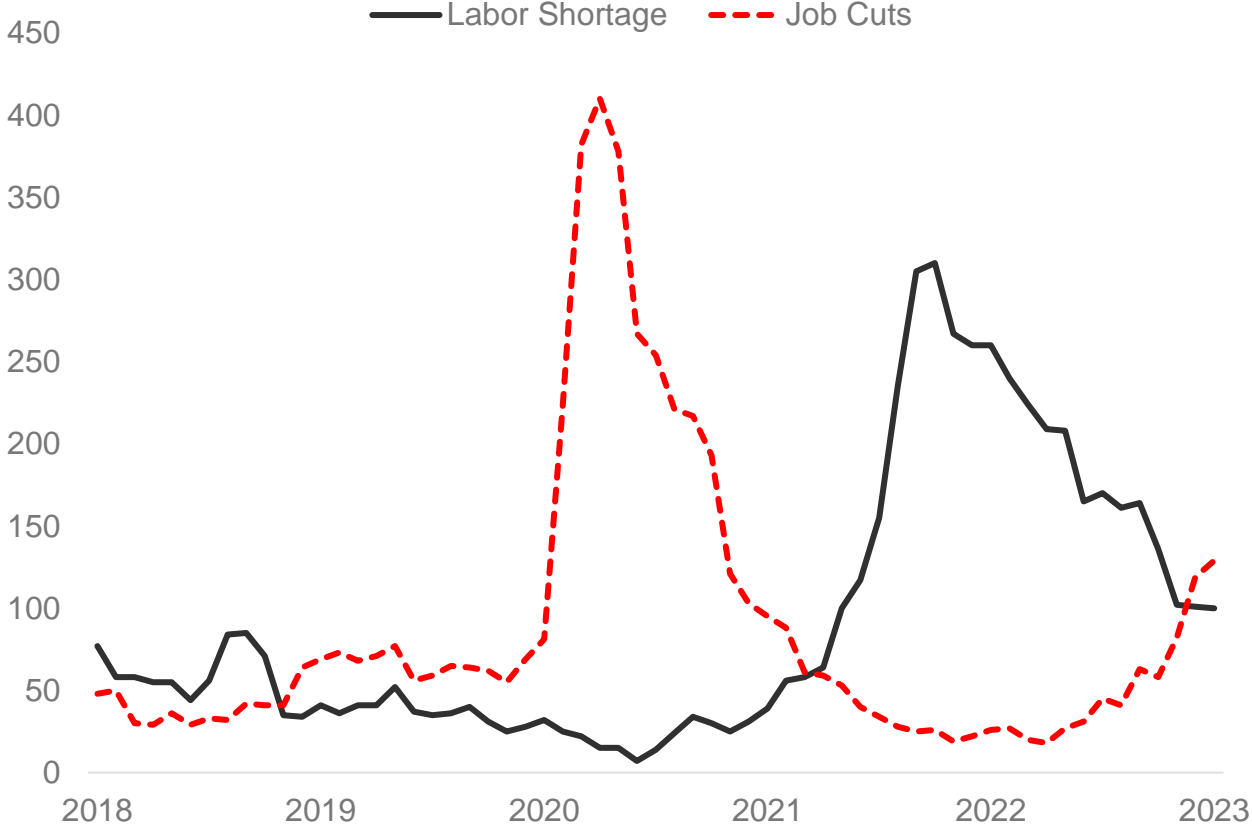
Although there are still more than one job available per unemployed person, talk of job cuts on the rise

### Job Openings per Unemployed Person



Source: BLS  
Note: Data as of March 2023

### 'Labor Shortage' vs. 'Job Cuts' Related Mentions on S&P 500 Company Earnings Calls 3-Month Rolling Sum of Mentions



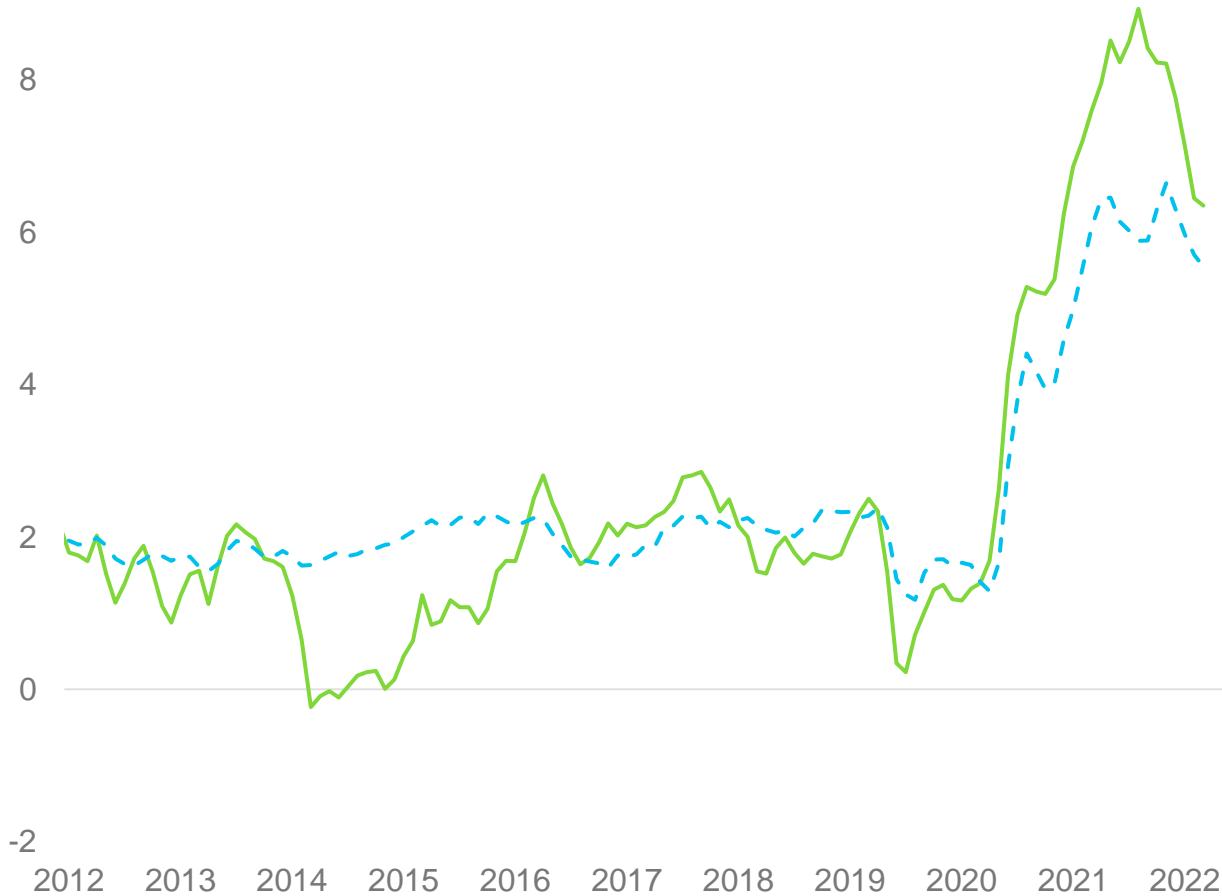
Source: Bloomberg  
Note: List of S&P 500 Companies as of April 27, 2023

# Inflation Remains Above Fed's Target; 'Sticky' Consumer Price Segments Continue Increasing



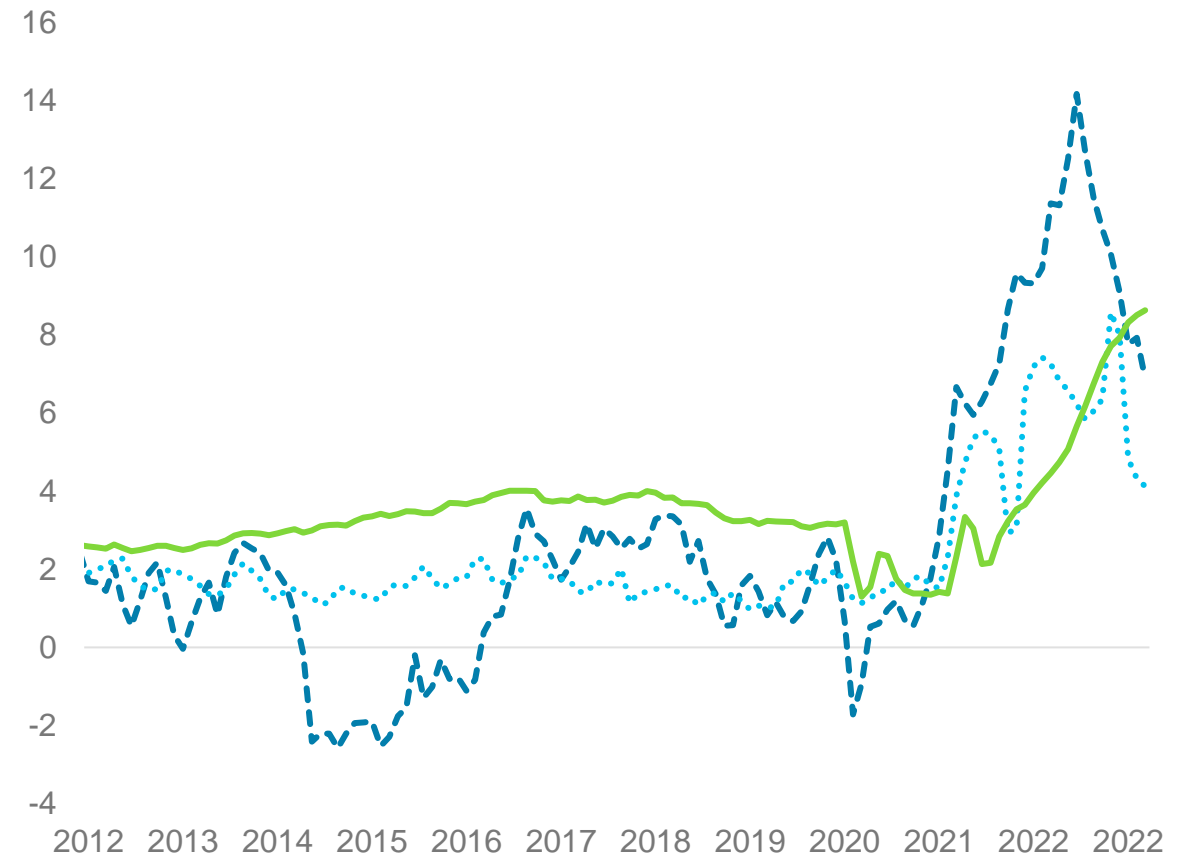
Inflation Measures (YoY %)

— CPI    - - - Core CPI



CPI by Frequency of Purchase (YoY %)

- - - Frequent    ..... Infrequent    — Contractual



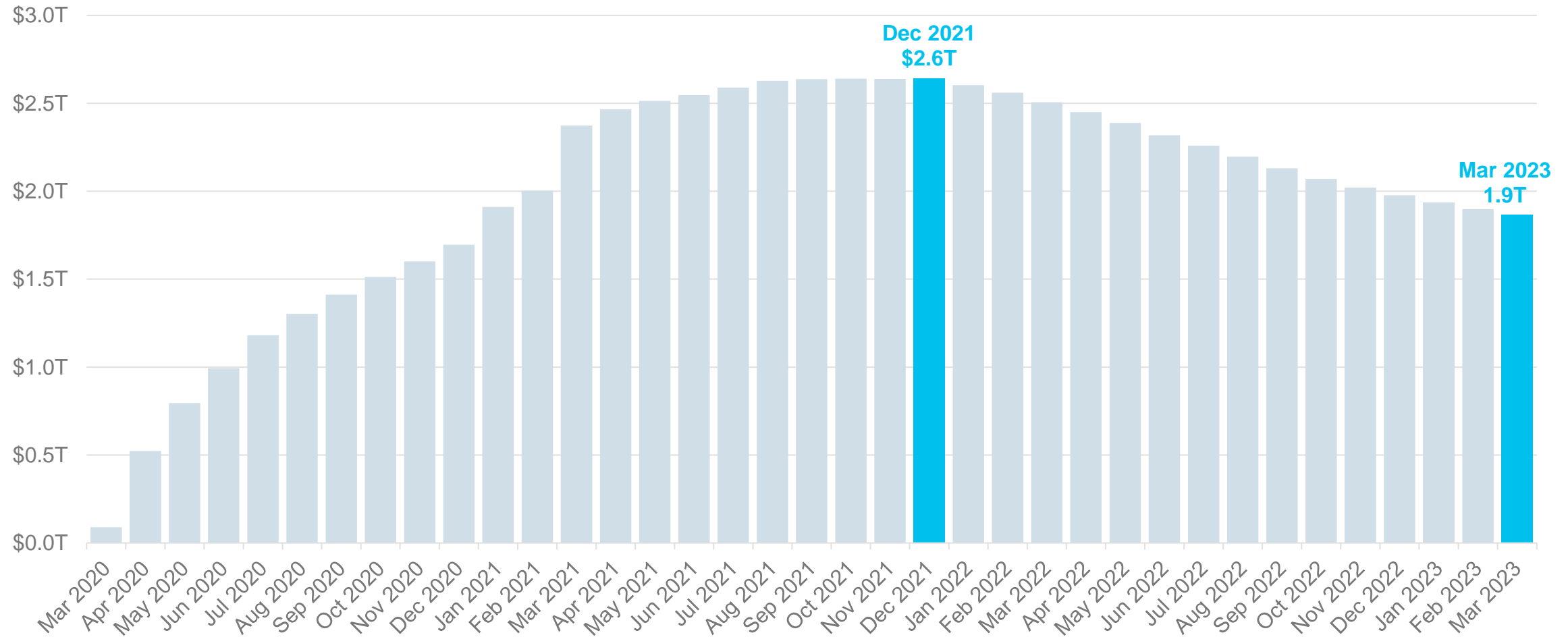
Source: BLS, BEA, Federal Reserve Bank of San Francisco  
 Note: Data as of March 2023



# Consumers have Significant Buffers to Deal with a Negative Hit to Incomes



Cumulative Excess Savings Since March 2020  
\$ Trillions



Source: BEA, NY Fed  
Note: Data as of Mar 2023



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

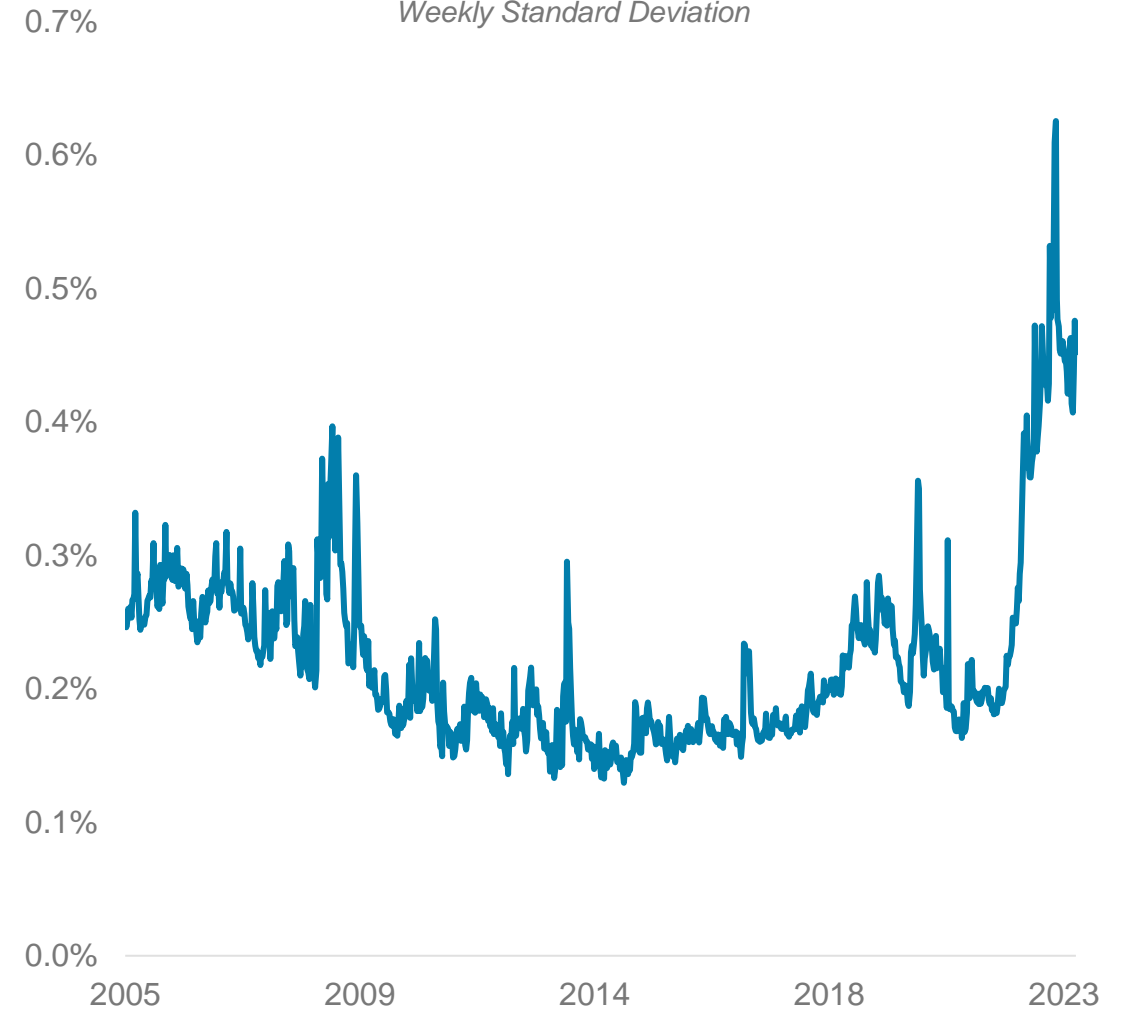
# Mortgage Rates Very Volatile Over Last Year; Dispersion in Mortgage Rates Rose Dramatically



30-Year Fixed Rate Mortgage Rate  
PMMS Weekly Average



30-Year Fixed Rate Mortgage Dispersion  
Weekly Standard Deviation

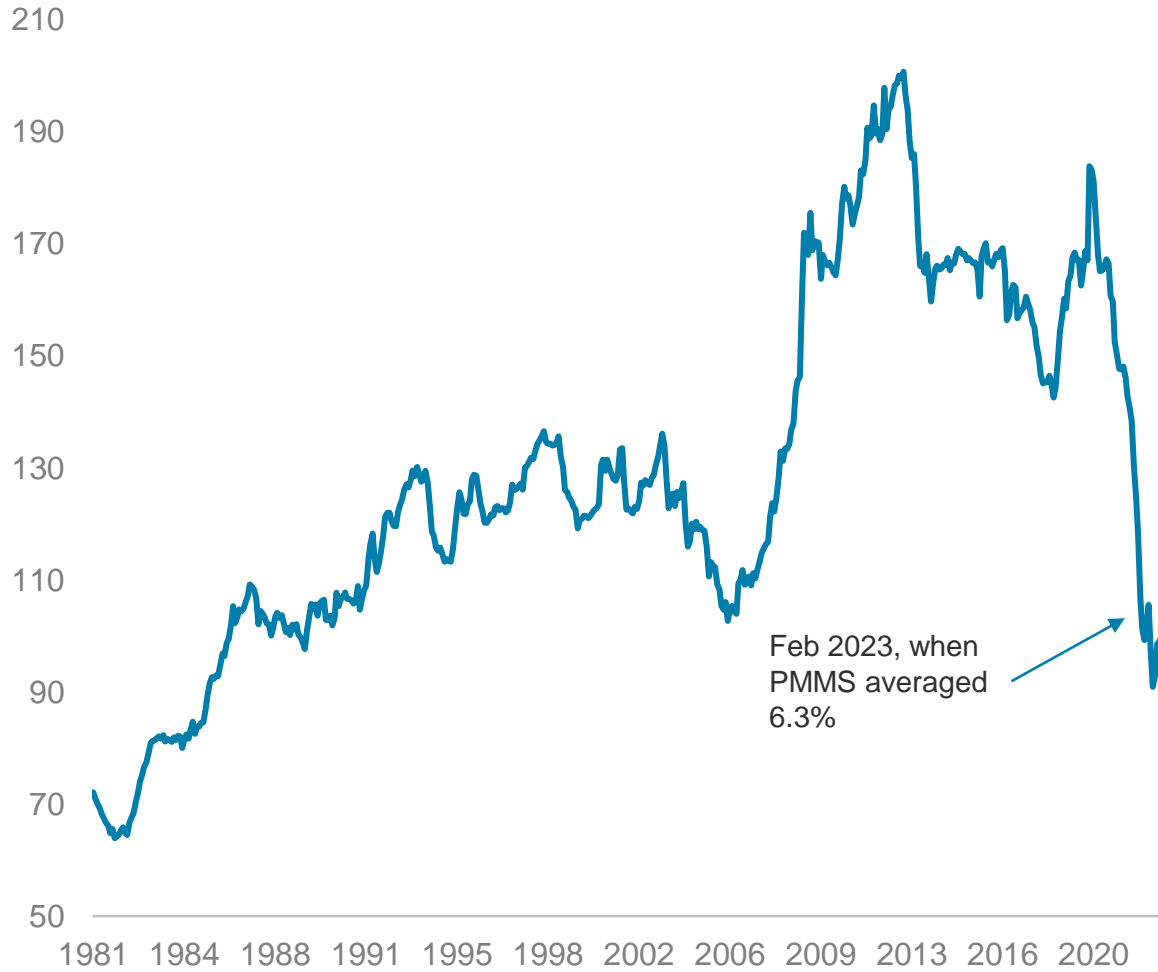


Source: Freddie Mac  
Note: Dispersion is defined as the standard deviation in weekly mortgage rates;  
Data as of May 4, 2023

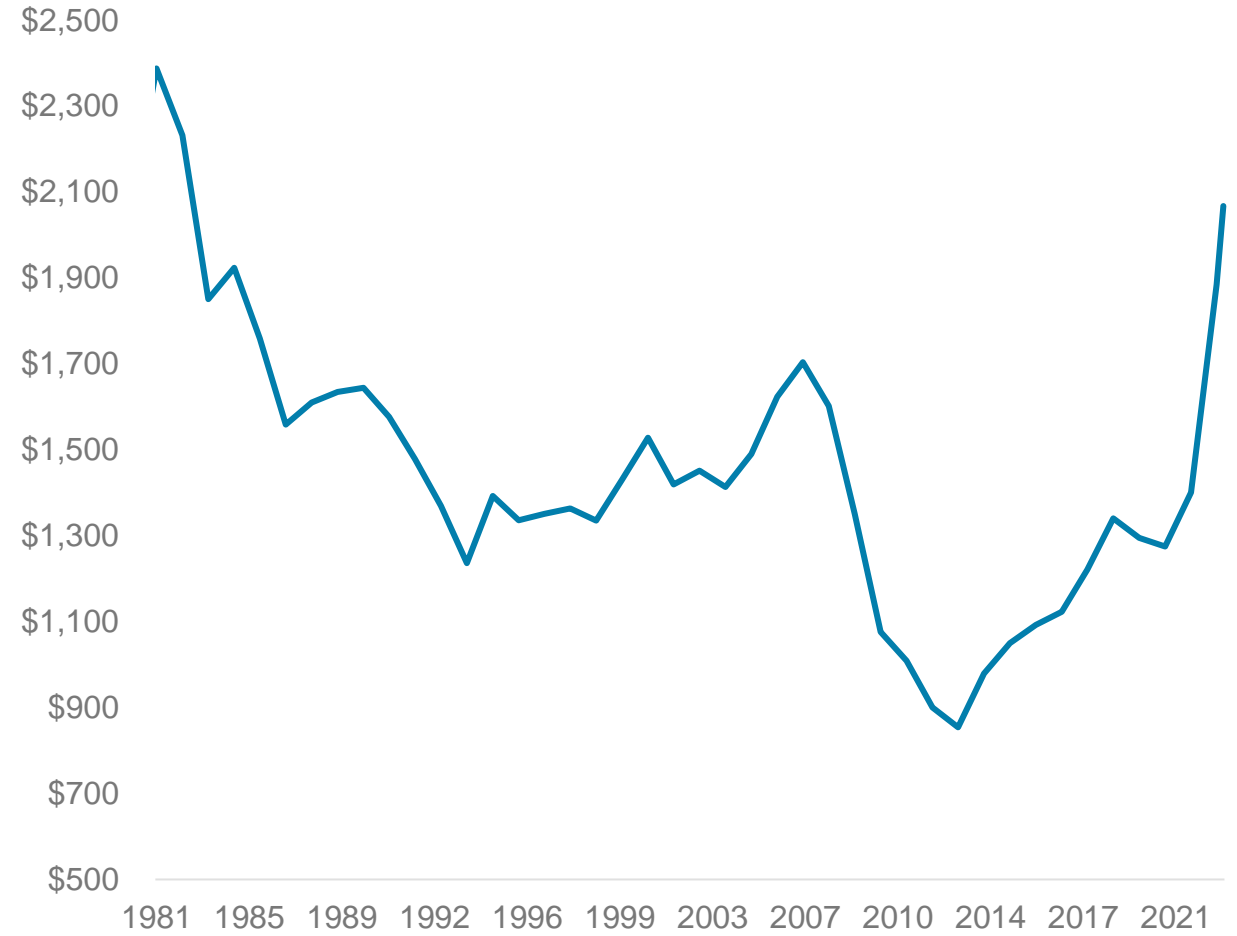
# Housing Affordability Plunged on Rising Rates



NAR Fixed Rate Housing Affordability Index



Monthly P&I Payment Needed for a Median Priced Home  
(inflation adjusted, assuming 30-year fixed rate and 20% down)



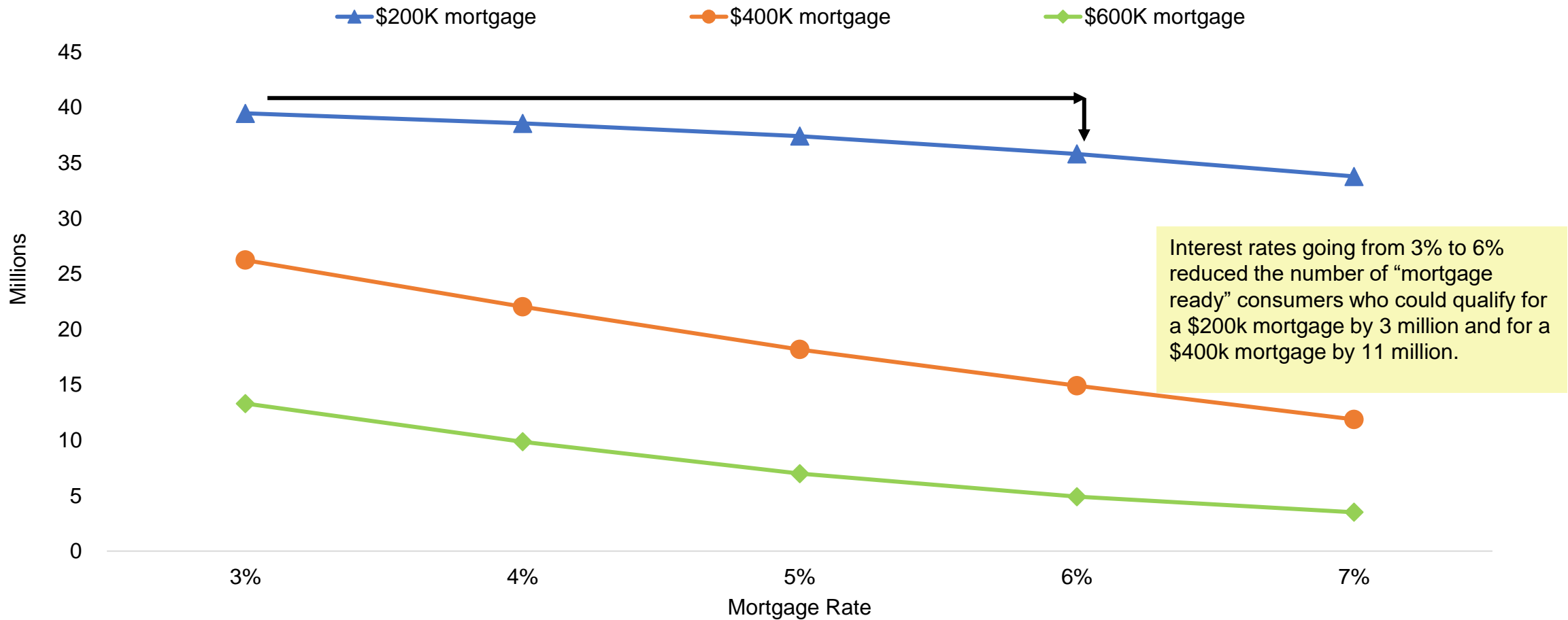
Source: NAR/Freddie Mac

Note: Calculations based on Mortgage Rate as of Feb 2023 – 6.3%. The second chart is annual numbers except the 2023 value, which is based on our current estimate.

# Higher Mortgage Rates & House Prices have Dramatically Reduced Number of Potential Homebuyers



Number of "Mortgage Ready" Consumers Who Can Potentially Qualify for a Mortgage

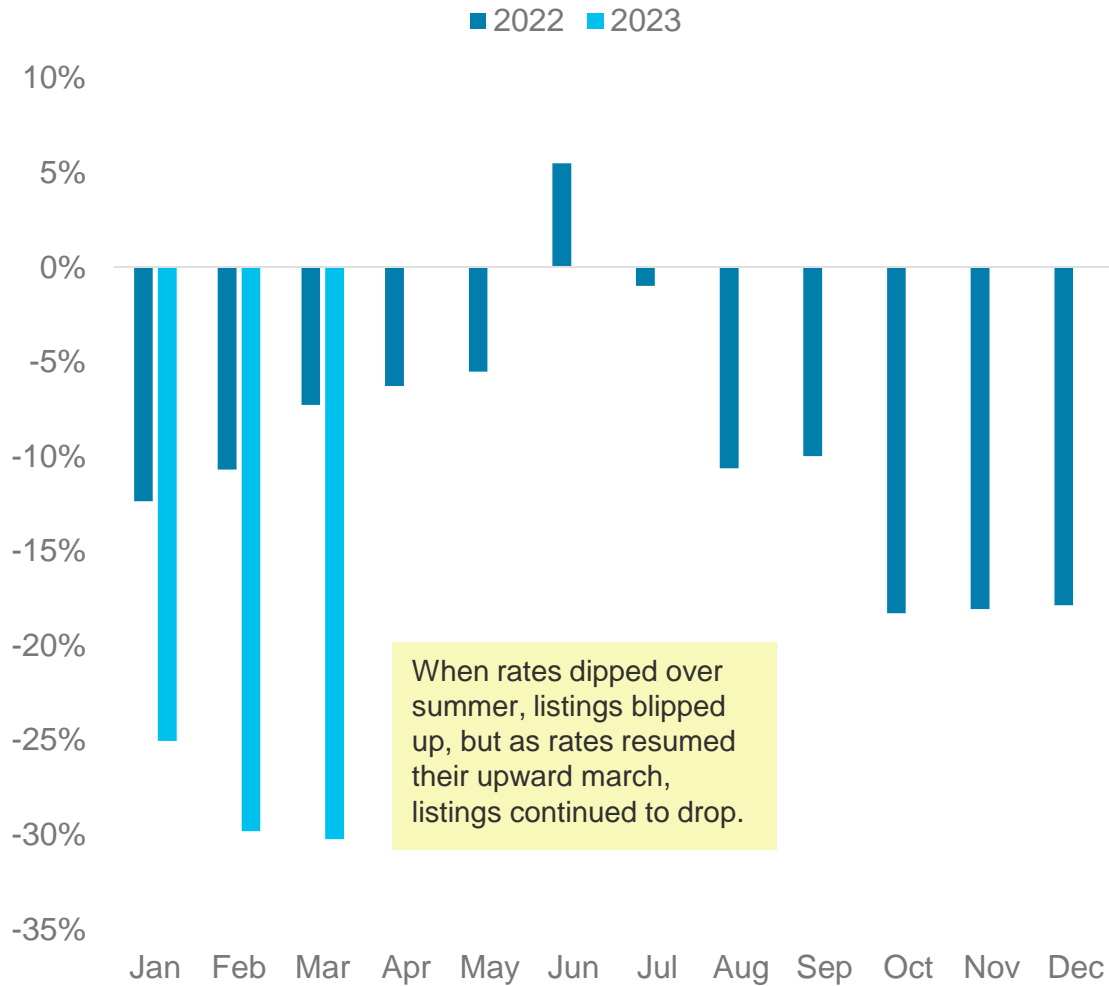


Source: Freddie Mac calculations. "Do Rising Interest Rates Price Out Mortgage-Ready Borrowers?"  
<https://www.freddiemac.com/research/insight/20221121-do-rising-interest-rates-price-out-mortgage-ready>

# New Listings Fall as Rate-Lock Effect Dampens Repeat Buyer Activity

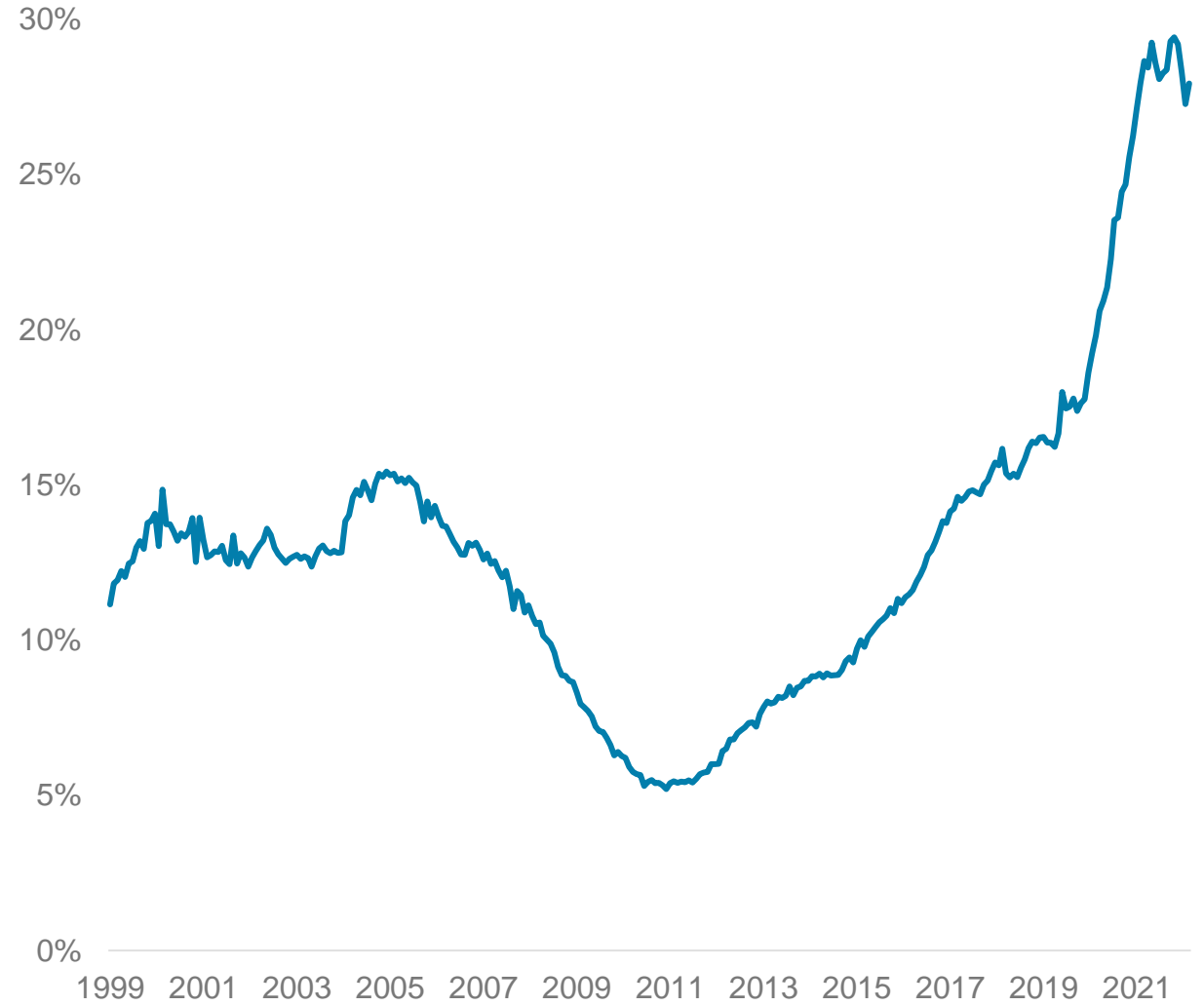


Change in New Listings in 2022/2023 vs. Avg of 2016-2019



When rates dipped over summer, listings blipped up, but as rates resumed their upward march, listings continued to drop.

Share of New Inventory in Total Inventory

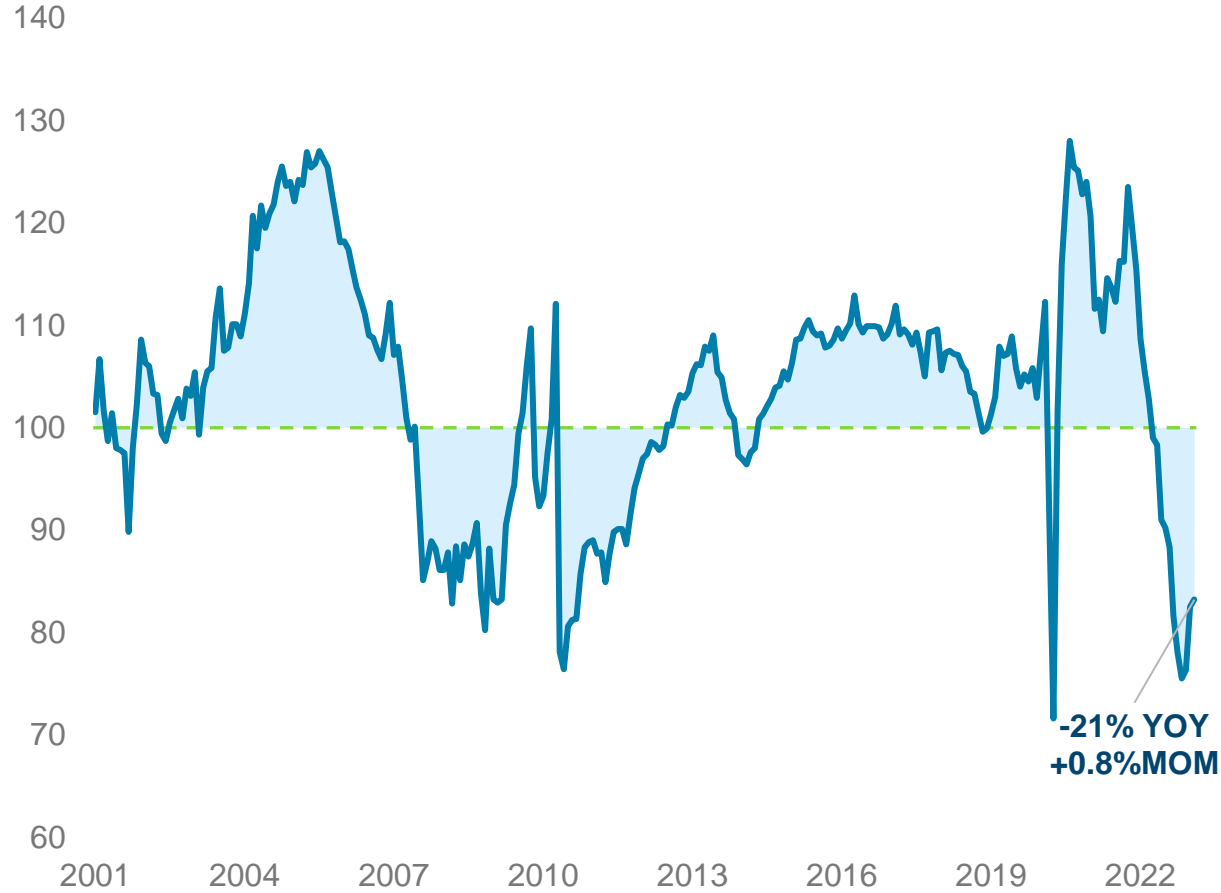


Source: Freddie Mac using CoreLogic MLS data  
 Note: Data as of March 2023

# Rapid Decline in Affordability led to a Contraction in Purchase Market

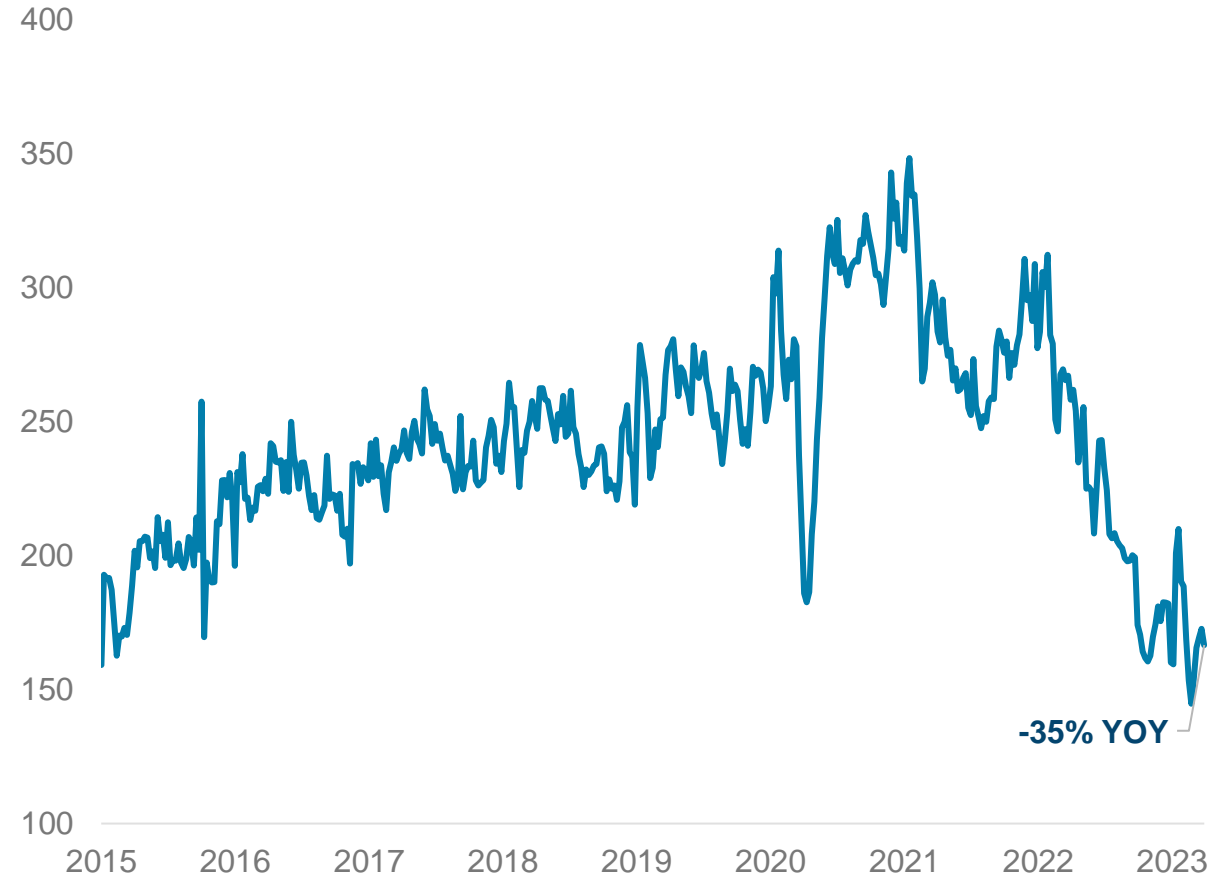


### Pending Home Sales Index (SA)



### MBA Applications Survey: Purchase Activity

*Index 16mar1990=100, SA*

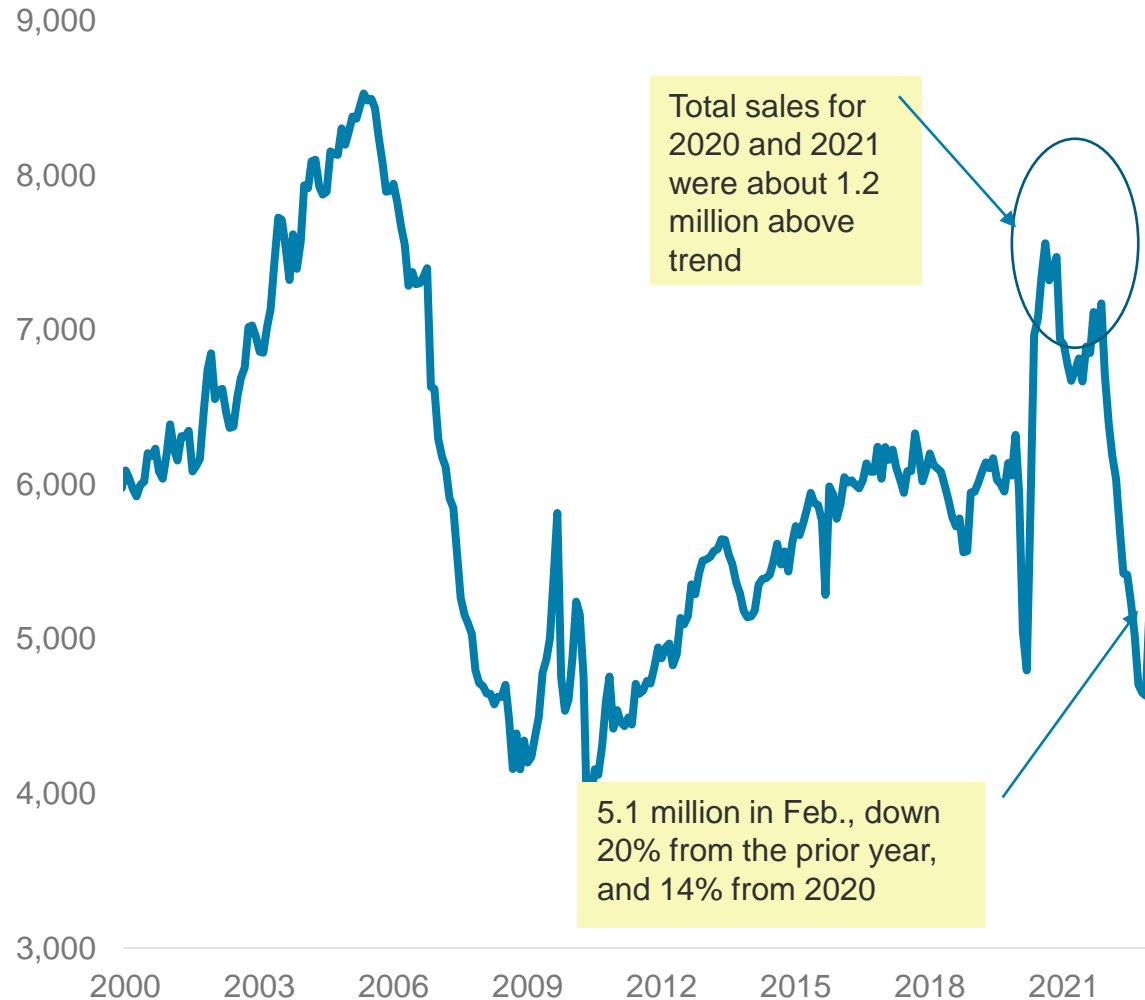


Source: MBA; NAR  
Note: Data as of May 2, 2023

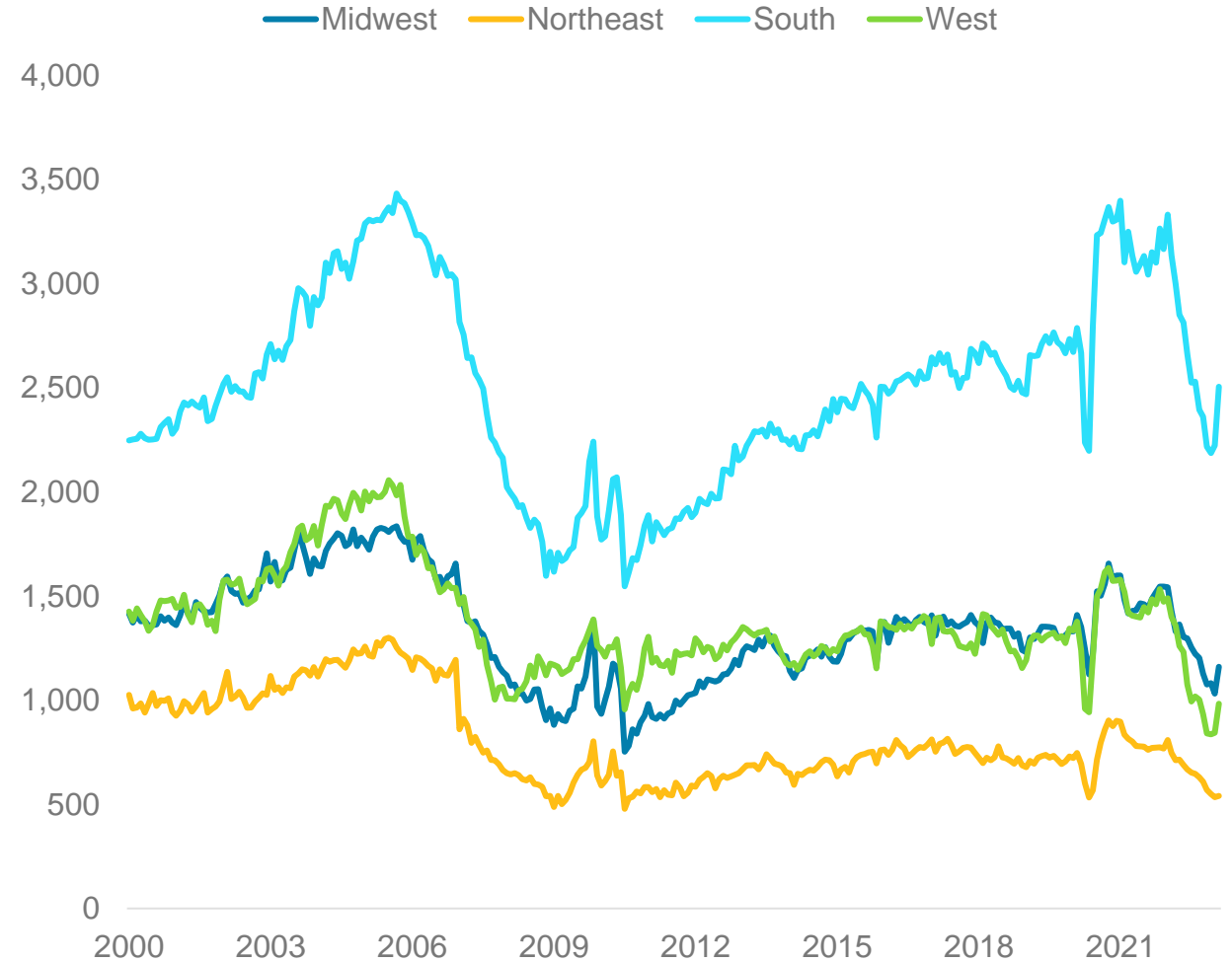
# Home Sales Cooled Due to Rapidly Rising Rates & Deteriorating Affordability



Total Home Sales (Thousands, SAAR)



Home Sales – Region (Thousands, SAAR)



Sources: National Association of Realtors (NAR); U.S. Census Bureau. Total sales includes new and existing SF until 1999, when existing condos and coops are included  
 Note: Data as of March 2023

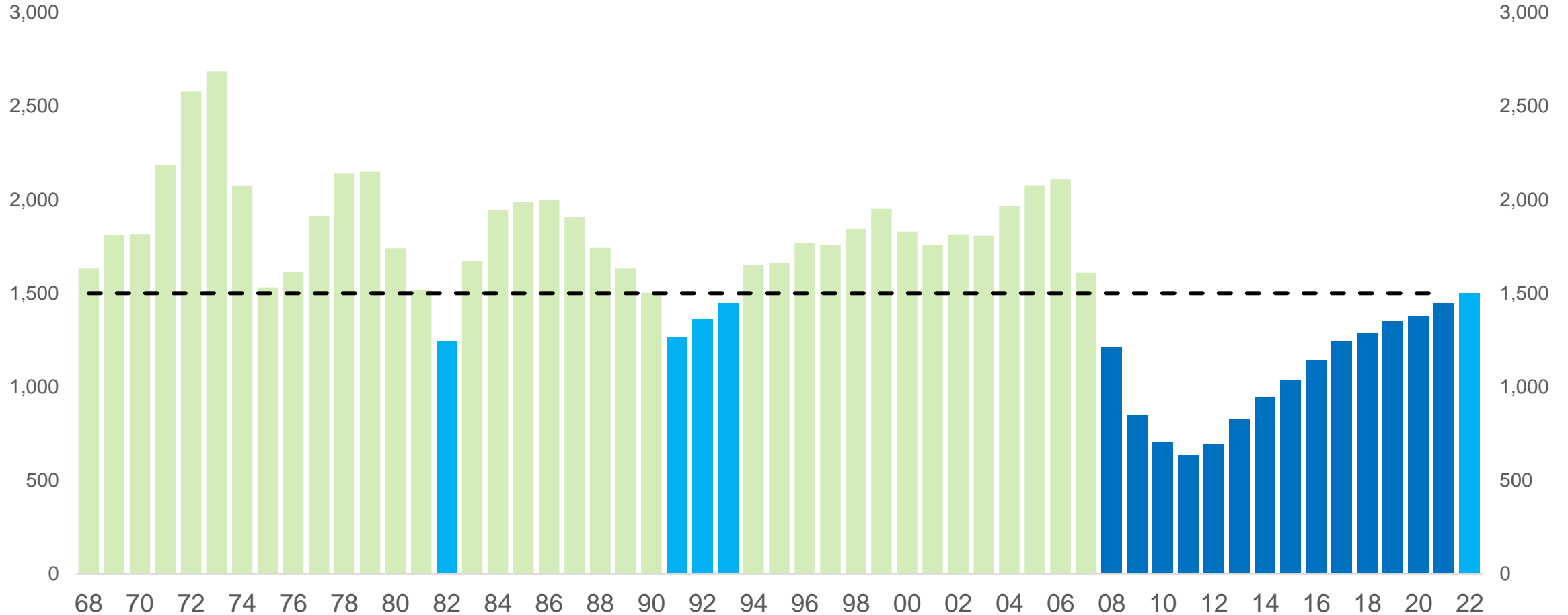


# New Housing Completions Improved in 2022, but still Below Pre-GFC Levels...



## U.S. New Housing Supply Low Relative to History

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

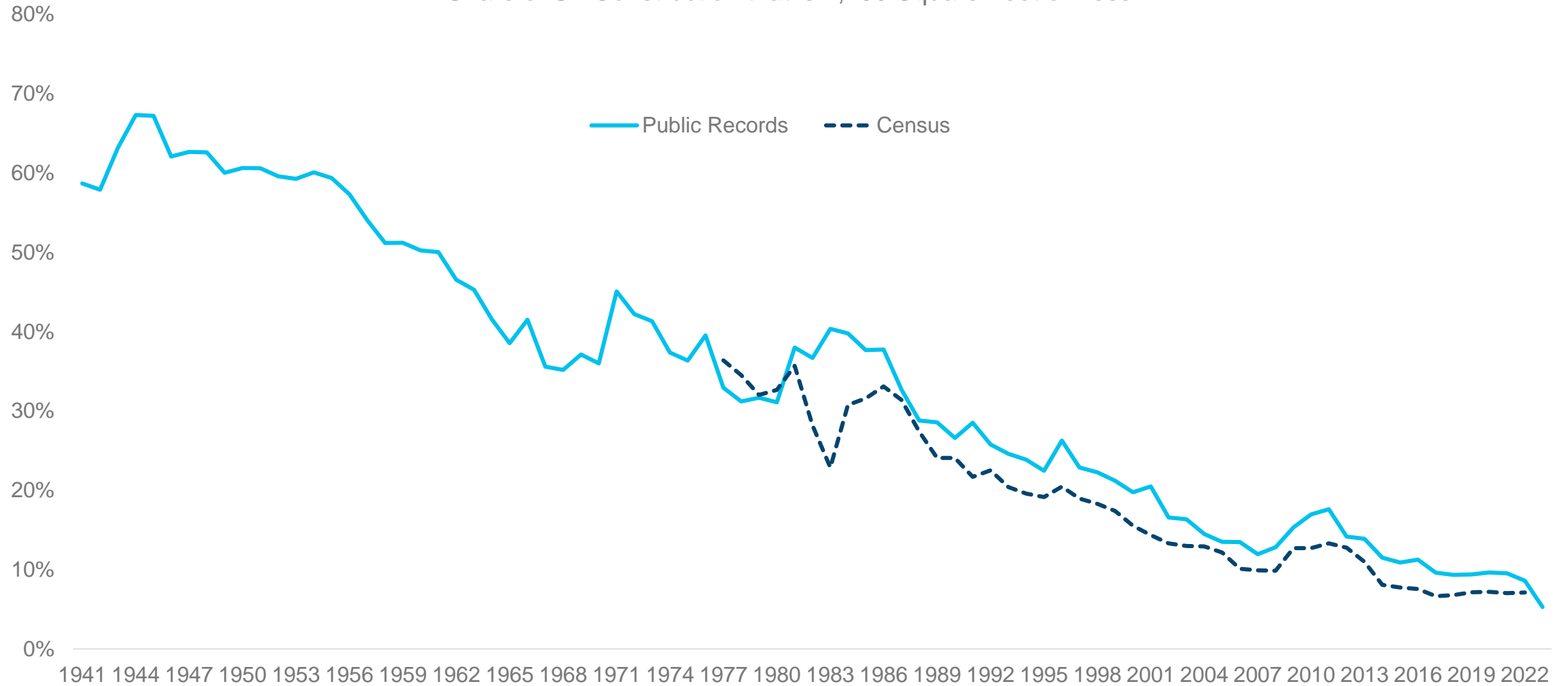


Source: U.S. Census Bureau and Department of Housing and Urban Development, Institute for Building Technology & Safety

# ....& Entry-Level Supply Declining for Decades...



Share of SF Construction that is 1,400 Square Feet or Less



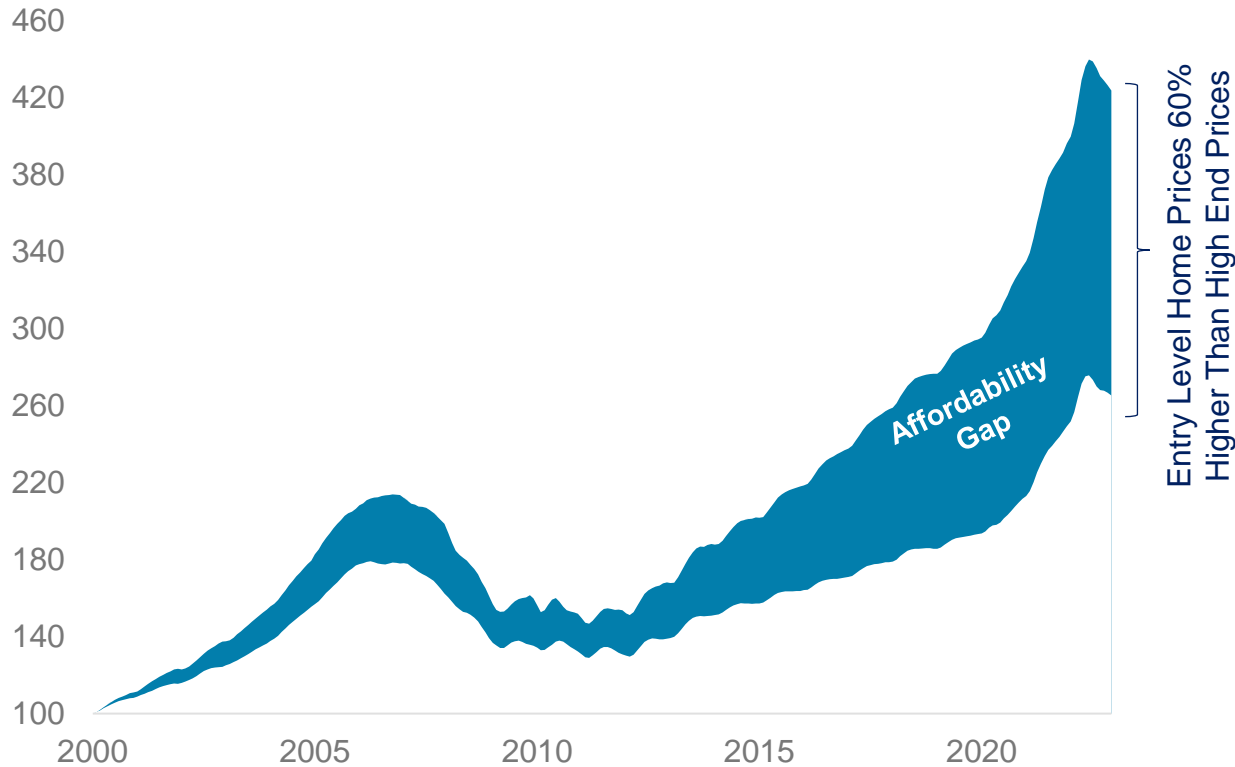
Source: Census and CoreLogic  
Note: Data as of 2022

# Chronic Supply Shortage & High Entry-Level Demand Caused Soaring Entry-Level Prices



## Entry-Level Home Prices Skyrocket

Affordability Gap Rapidly Rising  
 Cumulative Gap Between Entry Level and High End Home Prices –  
 Home Price Index Level



## Renters Scramble For Shrinking Inventory

Number of Renter Household Per Homes For Sale



Source: NAR, Census and CoreLogic. 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 December 2022.

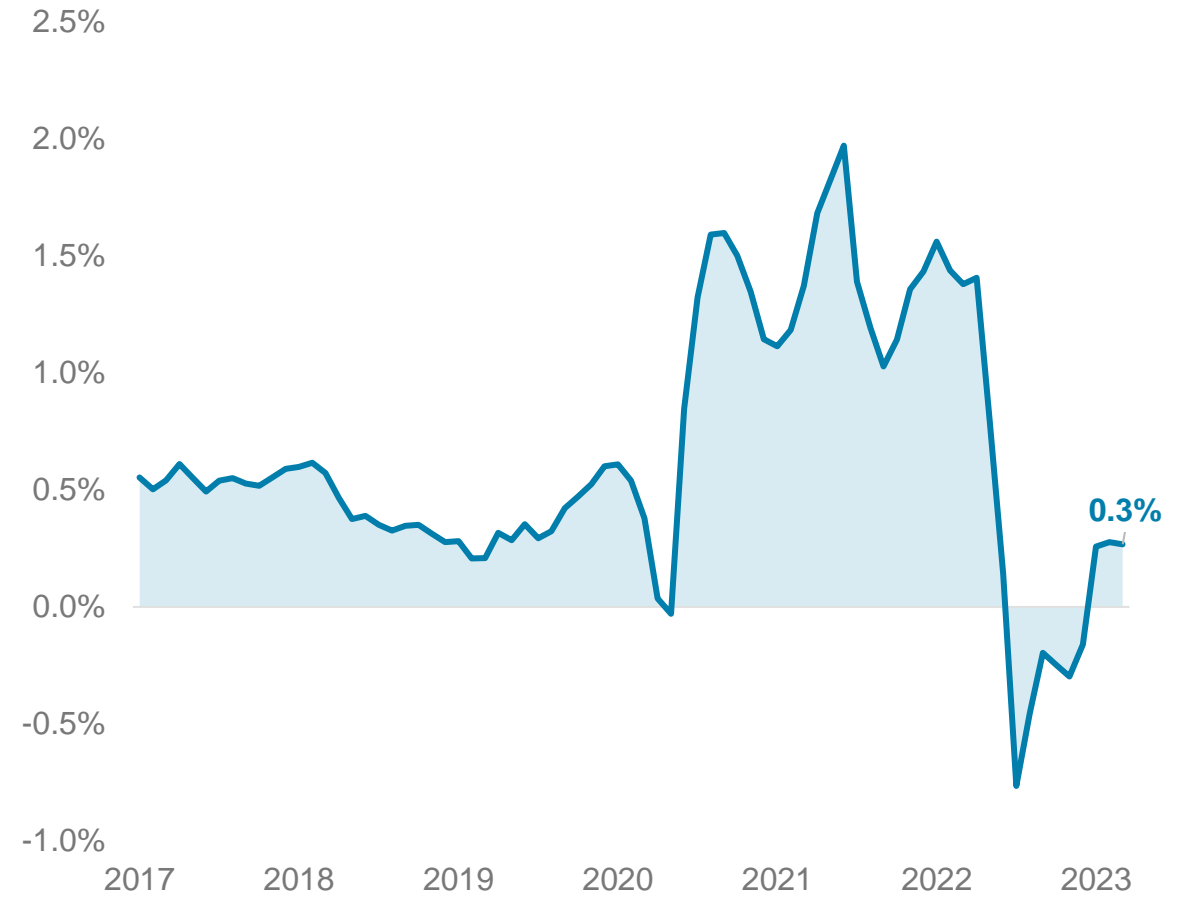
# Home Price Growth Stabilized



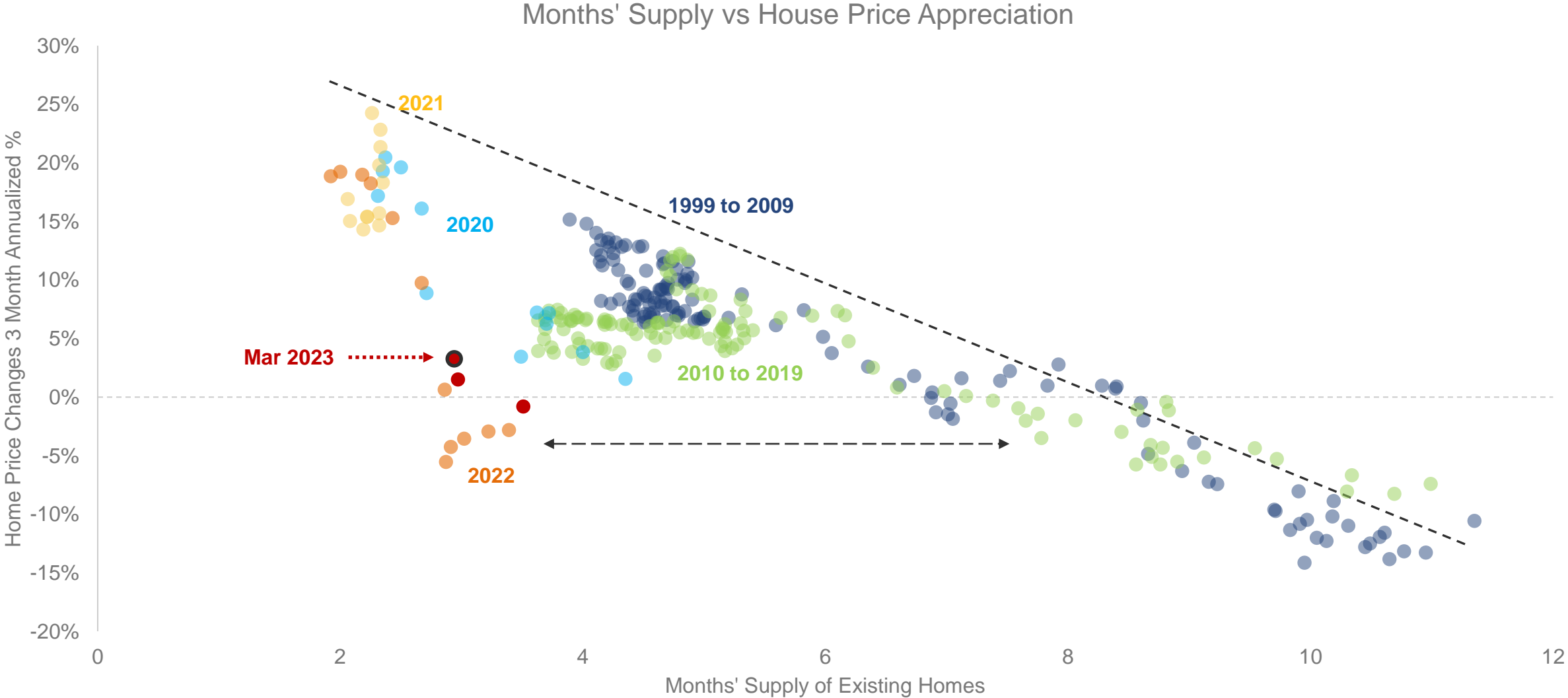
Freddie Mac House Price Index - March 2023 (YoY %, SA)



Freddie Mac House Price Index - March 2023



# Despite Low Supply, Very Large Drop in Demand led to Declining Home Prices

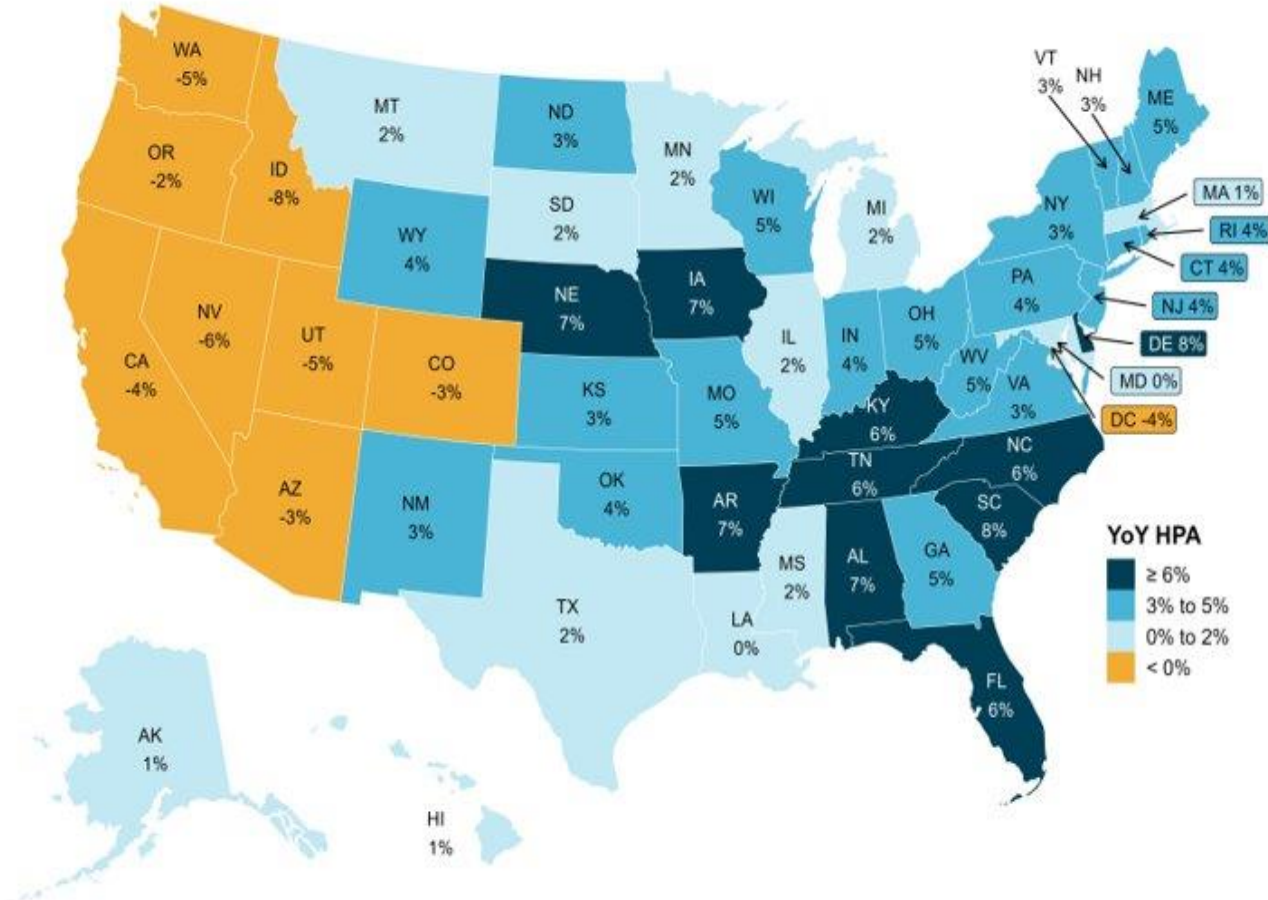


Sources: Freddie Mac and NAR

# Western Markets Prices Declining, while Rest of Country Still Showing Positive Growth; House Prices Forecast to Decline 2.9% Over Next 12 Months

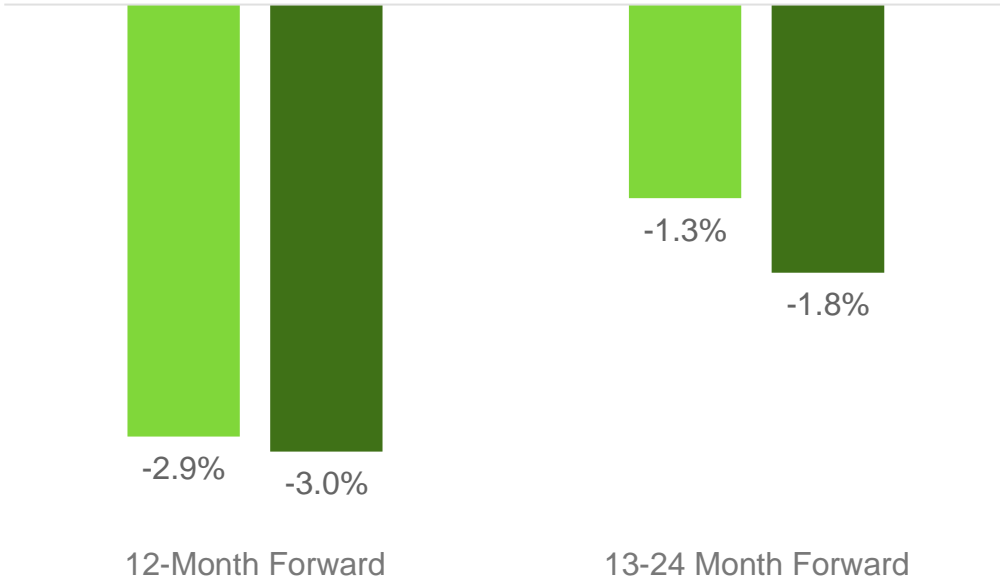


**United States: 1.0%**  
**Year-Over-Year Growth March 2023**



Forecasted House Price Growth

■ 31-Mar-23 ■ 31-Dec-22

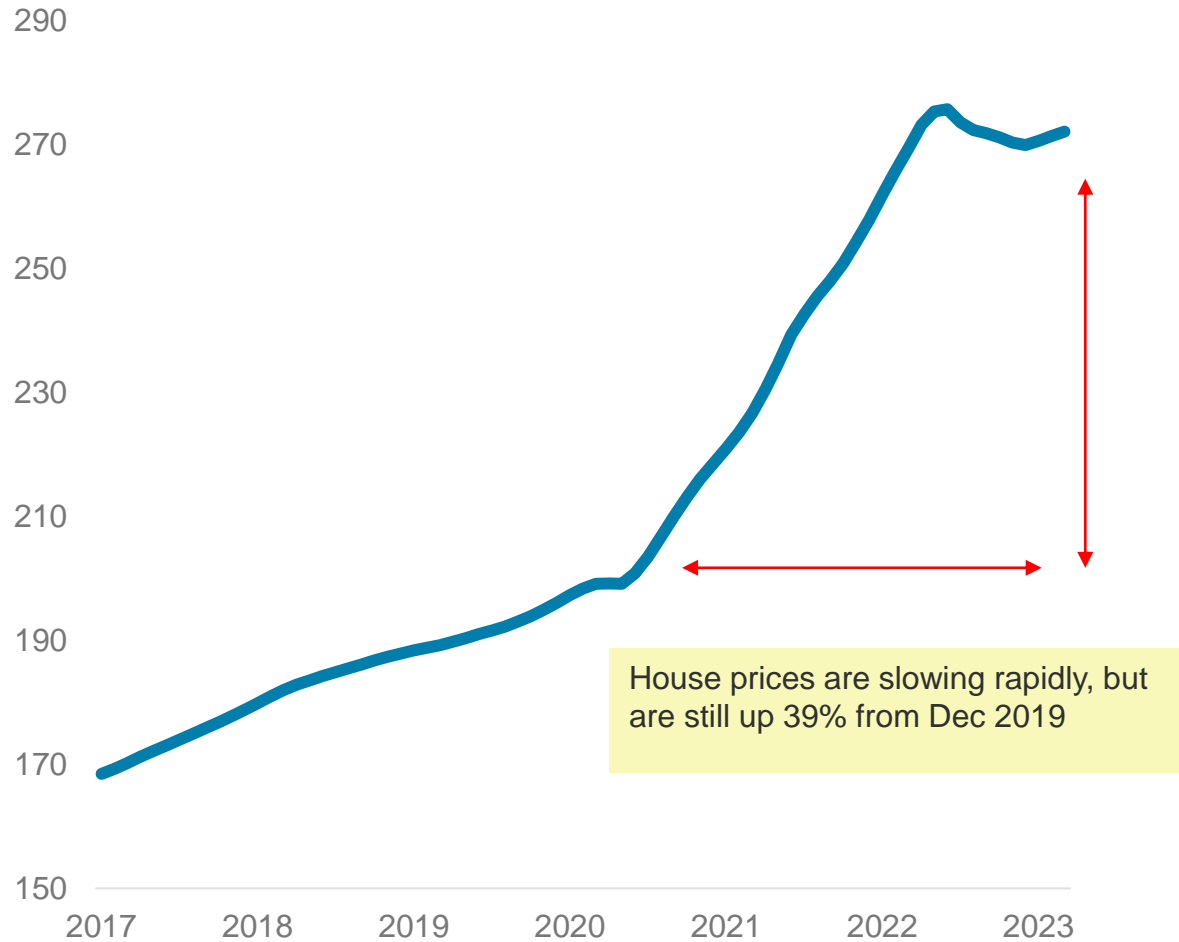


Source: Freddie Mac

# Home Price Boom Going into Slow Reverse



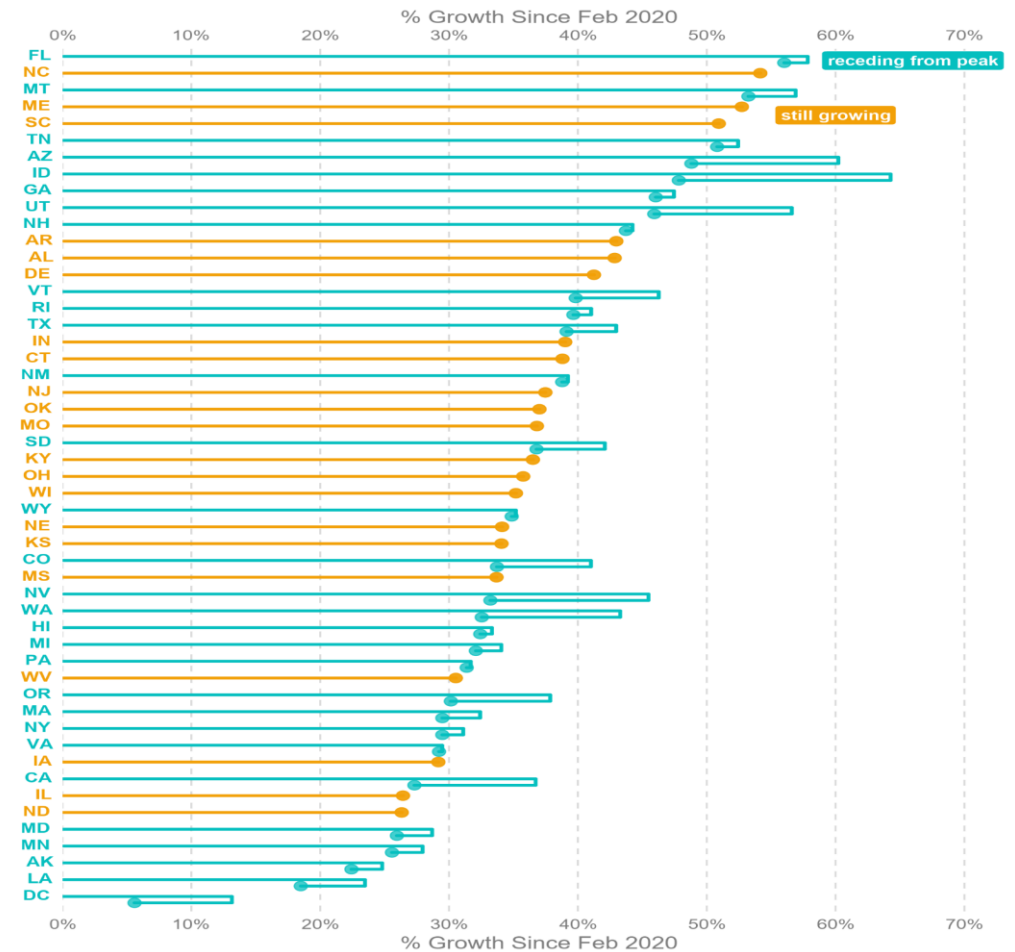
Freddie Mac House Price Index  
U.S. Index Dec 2000 = 100; Seasonally Adjusted



Source: Freddie Mac

## Most States' House Prices Have Begun to Turn From Start of Pandemic

February 2020 to February 2023 Cumulative Growth in House Prices

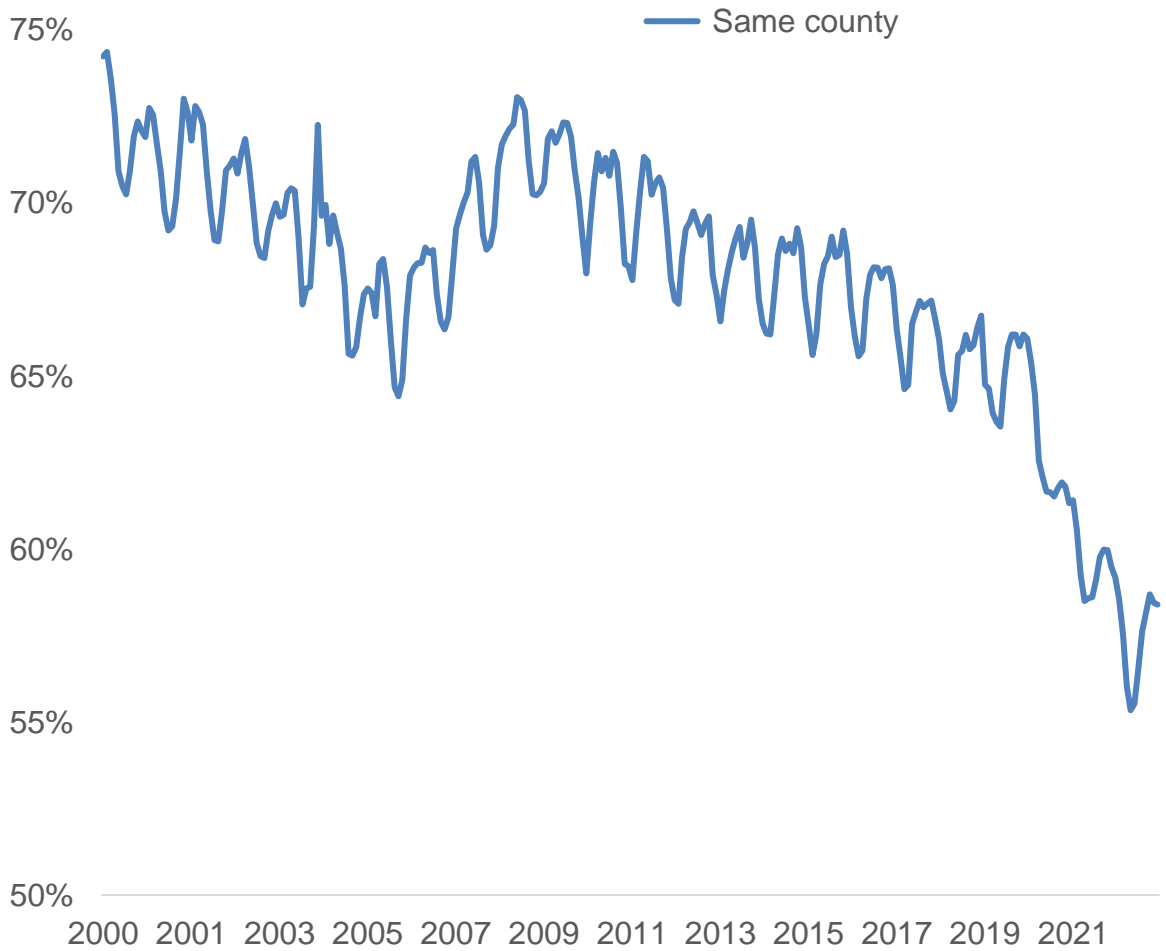


Source: Freddie Mac House Price Index (SA)  
@GenaroVillaJr

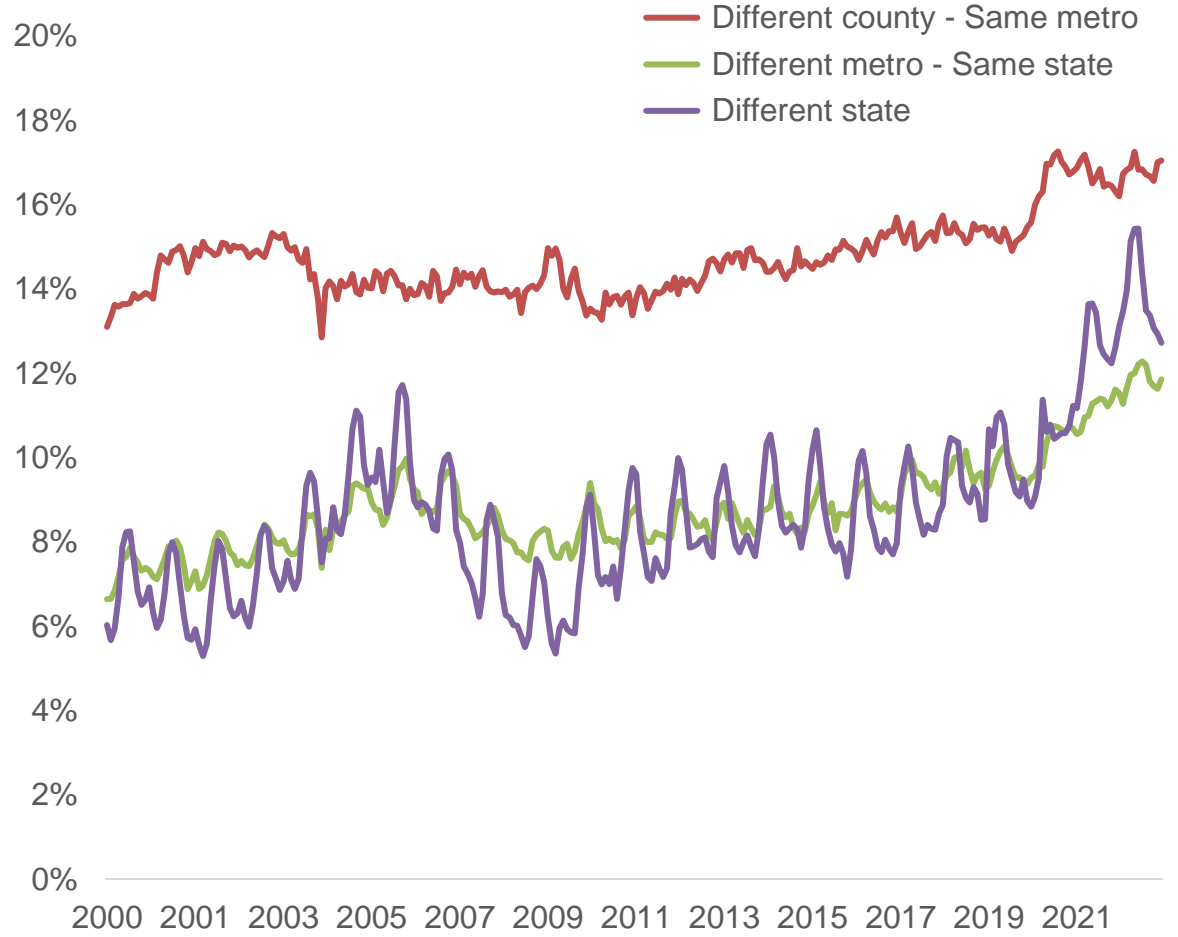
# Increasing Share of Homebuyers Moving Out of Metro & State



Share of Homebuyers by Type of Move



Share of Homebuyers by Type of Move



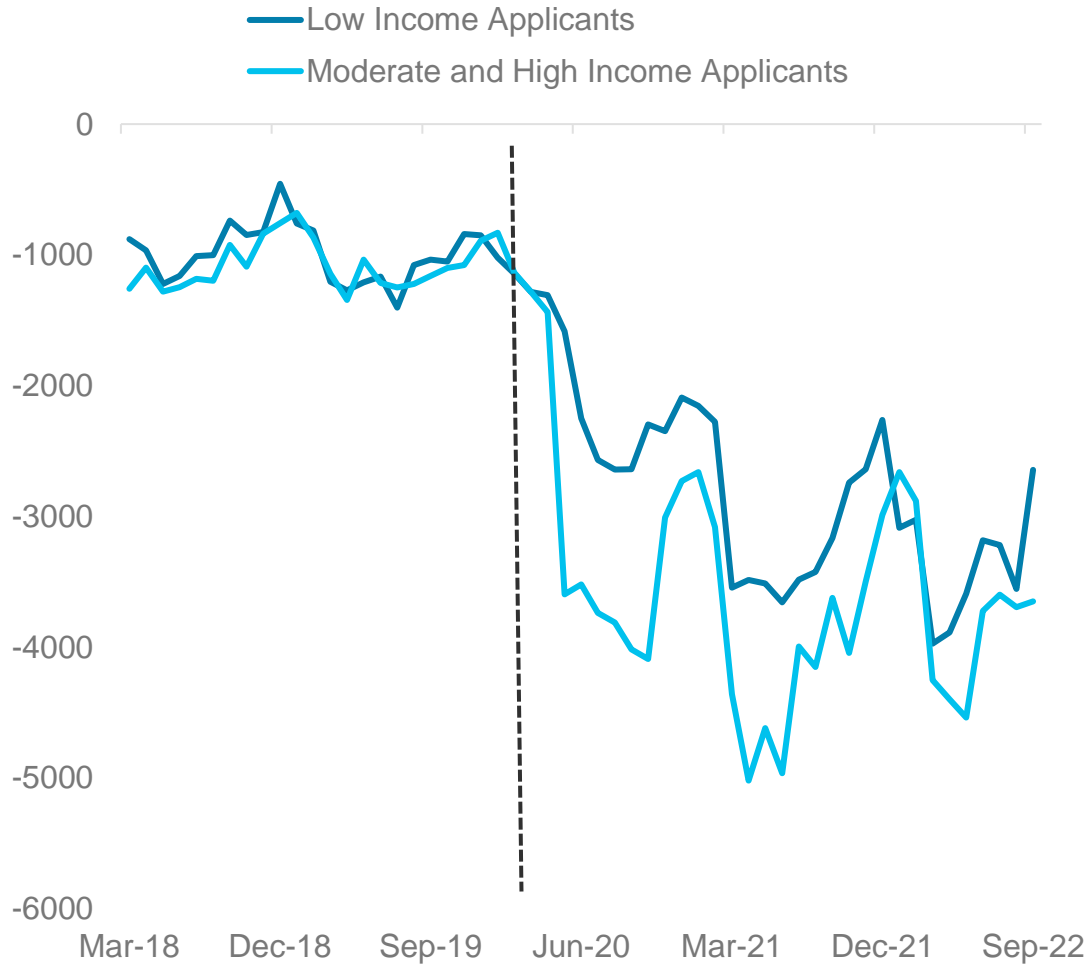
Source: LPA  
Note: Data as of Dec 2022



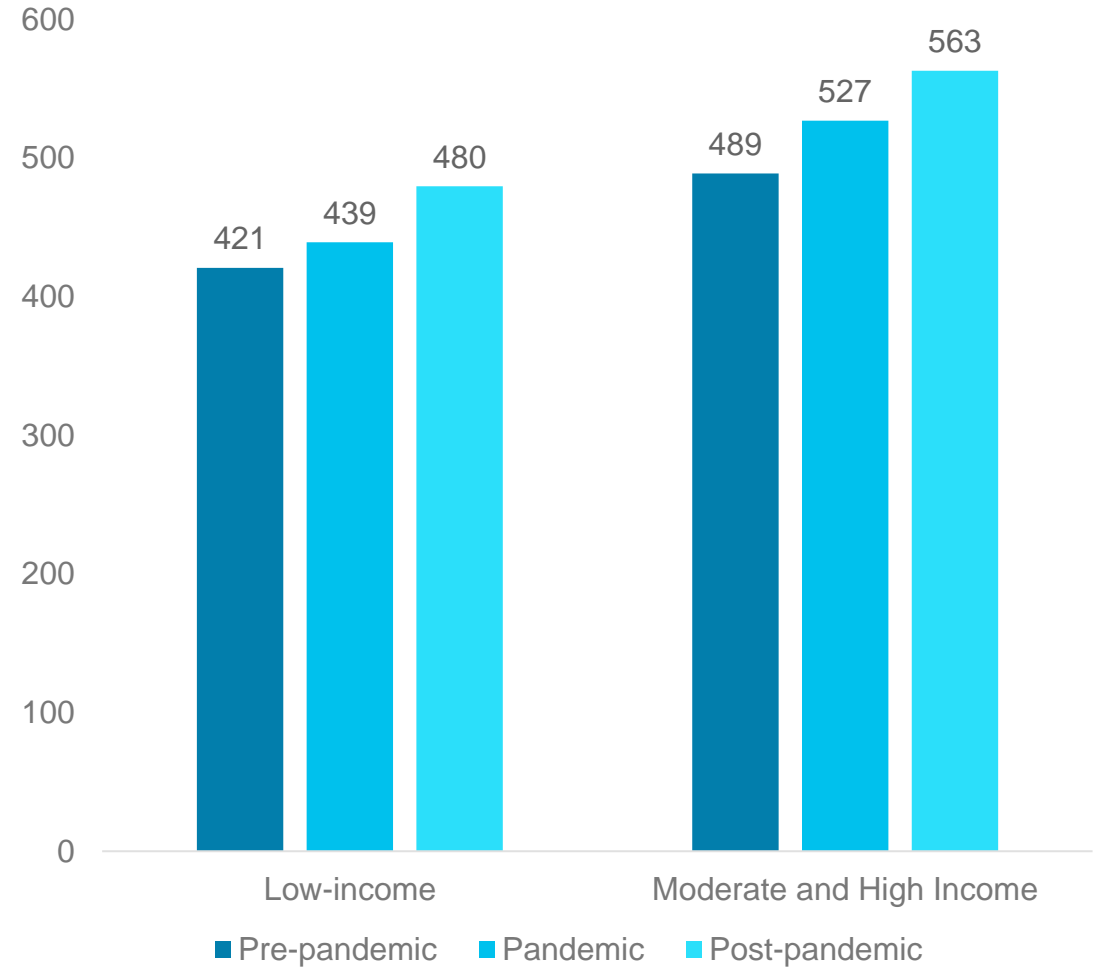
# Low-Income Homebuyers Less Likely to Migrate from Cities, More Likely to Miss Potential Cost Savings



Net Migration: Top 25 Largest Metros

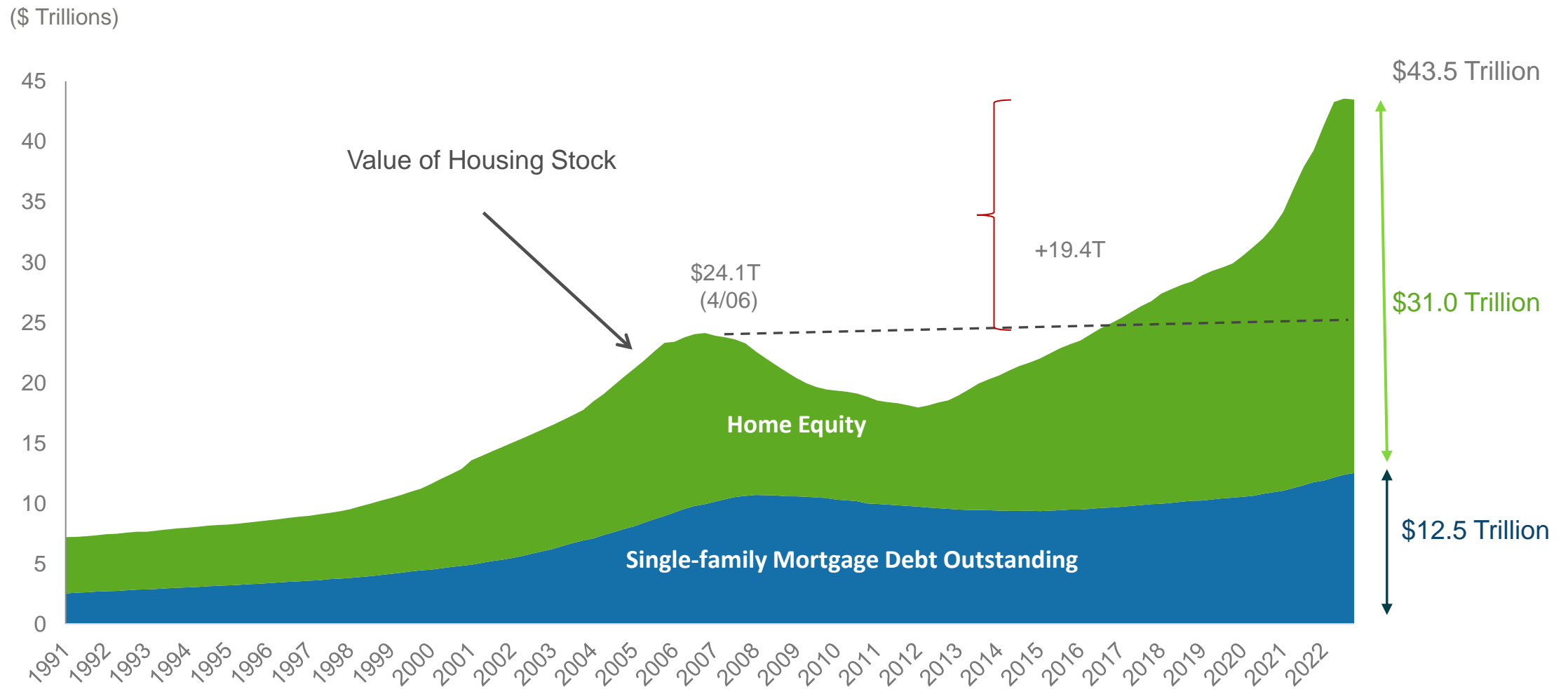


Distance Moved By Income Group



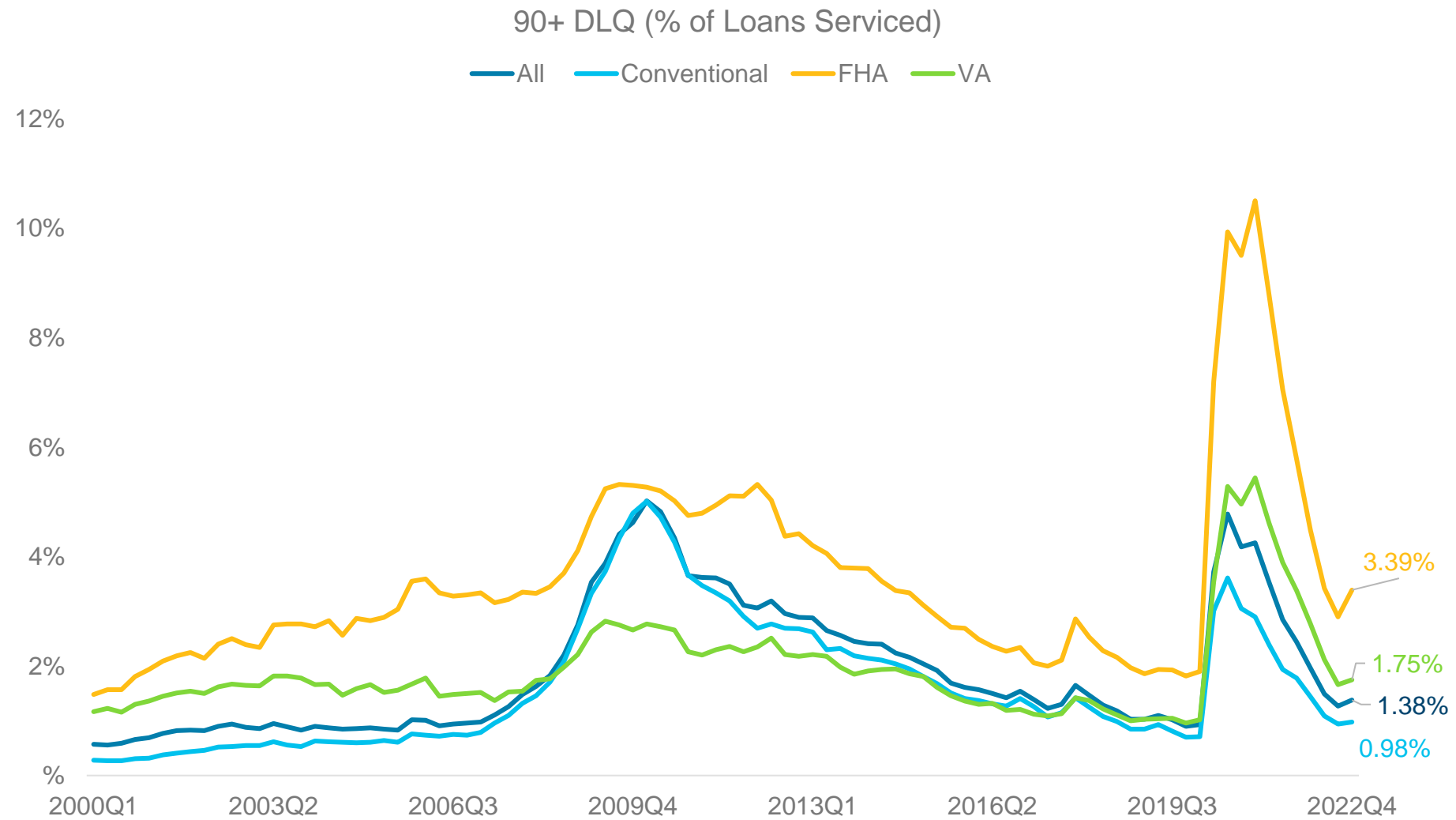
Source: Freddie Mac Research based on LPA data.  
 (<https://www.freddiemac.com/research/insight/low-income-homebuyers-are-less-likely-migrate-cities>)

# Rising Home Prices Help Build Equity for Existing Homeowners



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. Source: Federal Reserve Board's Financial Accounts of the United States, Table B. 101. Data as of Dec 31, 2022

# Delinquency Rates Still Low, but Increased in Q4 2022 Across All Loan Types & All Stages of Delinquency



Compared to Q32022

All : +11bps  
 Conventional: +4bps  
 FHA: +49bps  
 VA : +9bps

Compared to Q42021

All : -106bps  
 Conventional: -80bps  
 FHA: -239 bps  
 VA : -163bps

Source: MBA

# Conclusion



- Our baseline outlook doesn't include a recession. Instead, our view is based on an economy that slows and sees a modest uptick in unemployment, while inflation continues to moderate.
- Higher mortgage interest rates have substantially dampened affordability and will continue to weigh on housing activity.
- While home price growth has been positive in most markets in the most recent data, it's still too early to fully separate the signal from the noise, and employment is likely to weaken, so we maintain a cautious outlook for prices.
- With so few mortgages in the money for a rate refinance, refinance origination volumes will remain extremely low. On the purchase side, low levels of home sales coupled with falling national house prices will likely keep home purchase originations flat this year. But, as home price growth turns positive and home sales gradually rise, purchase originations will resume modest growth in the second half of this year and into the next.

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