

Economic & Housing Market Themes and Outlook

Q2 2022 Research and Insights



Macroeconomic Outlook

- Economic outlook weakening; output declined in Q1 2022 and continue declining in Q2
- Recession risks on the rise
- Labor market remains strong with an almost 50-year low unemployment rate
- Inflation lessens consumer confidence; food and energy costs could continue to worsen

Housing and Mortgage Market Outlook

- Rates up 2.7% over the last one year; had largest one year increase this century
- Slow housing market with softer purchase applications, declining home sales and housing starts
- Refinance has almost dried up
- Home prices are high and housing inventory shortage continues

Distress Supply, Delinquencies and Foreclosures

- Mortgages in forbearances low; loans that exited forbearance are performing or paid off
- Foreclosures tick up slightly
- Low level distress sales when compared to historical average
- FHA EPDs performance is declining

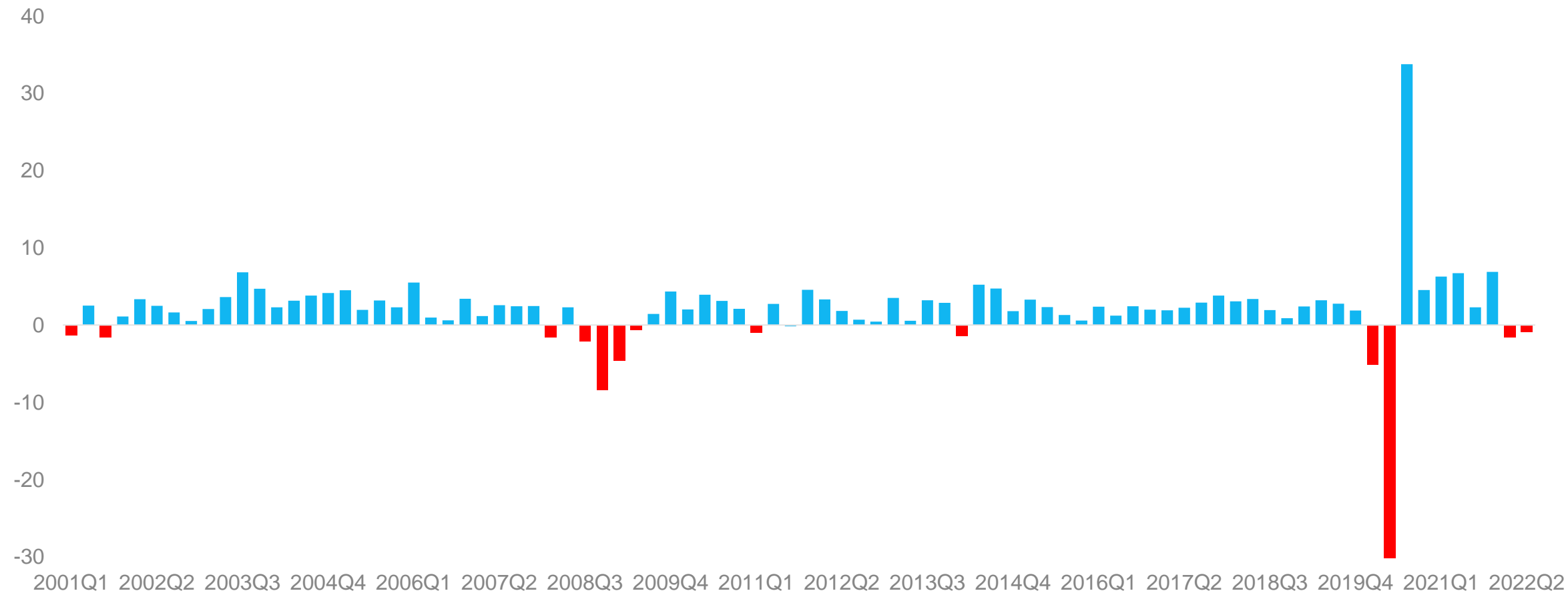


U.S. Macroeconomic Outlook

GDP Declined 1.6% in Q1 and 0.9% in Q2 2022



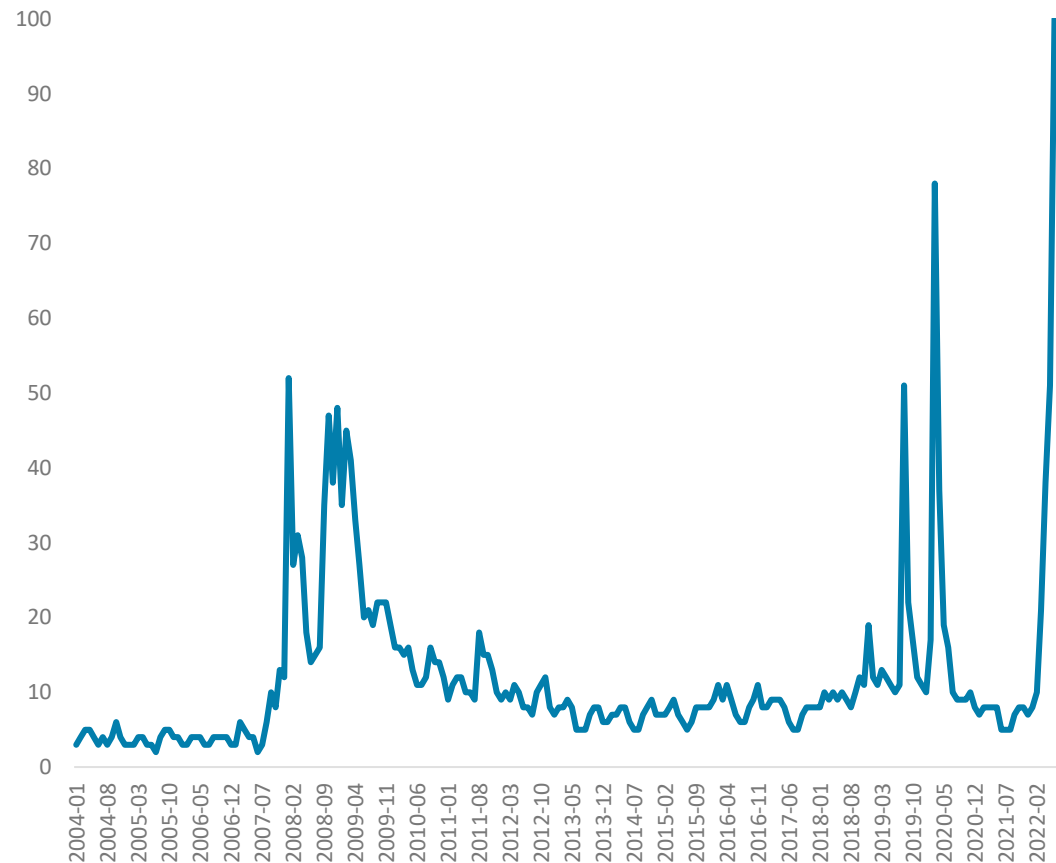
GDP (Annualized Growth %)



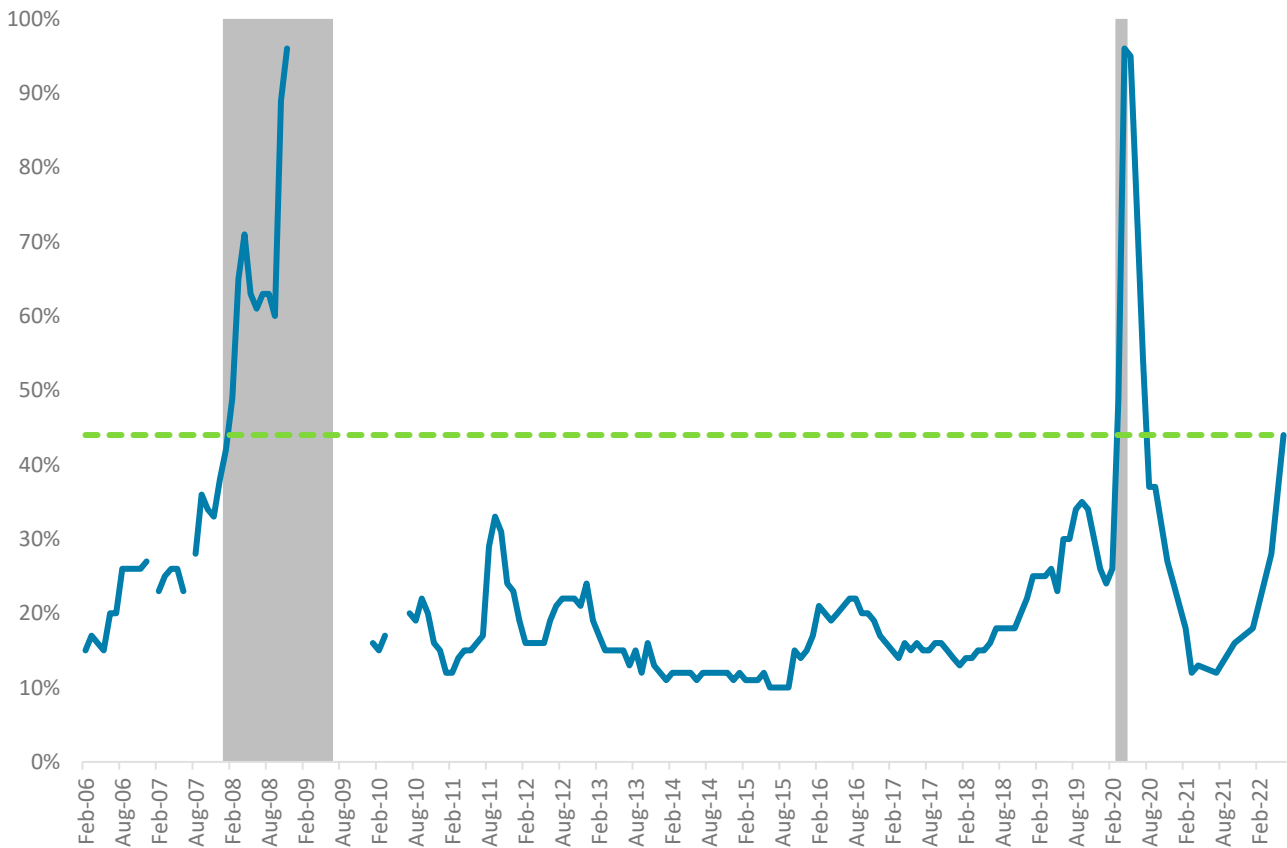
Recession Risks Rising



Google Trends - Recession

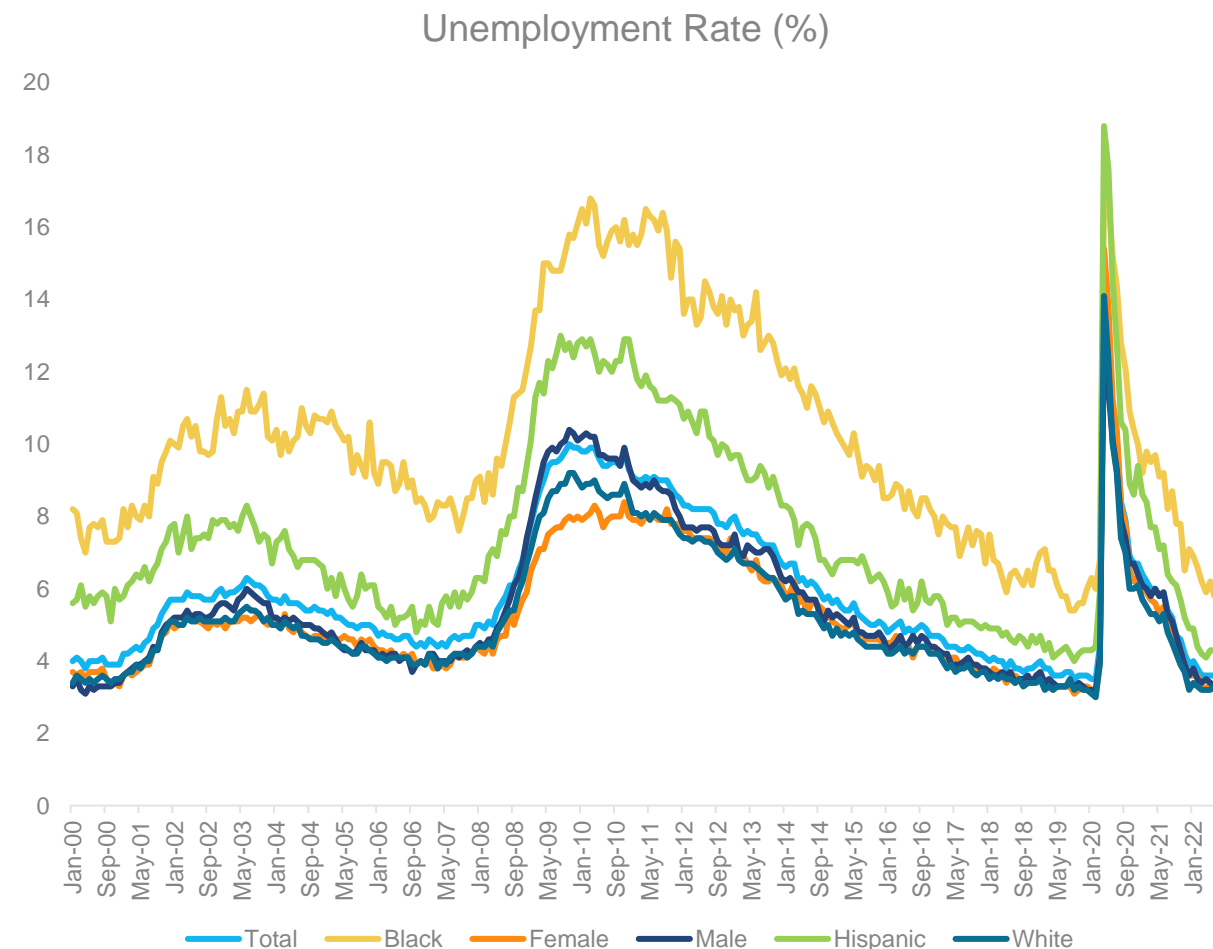
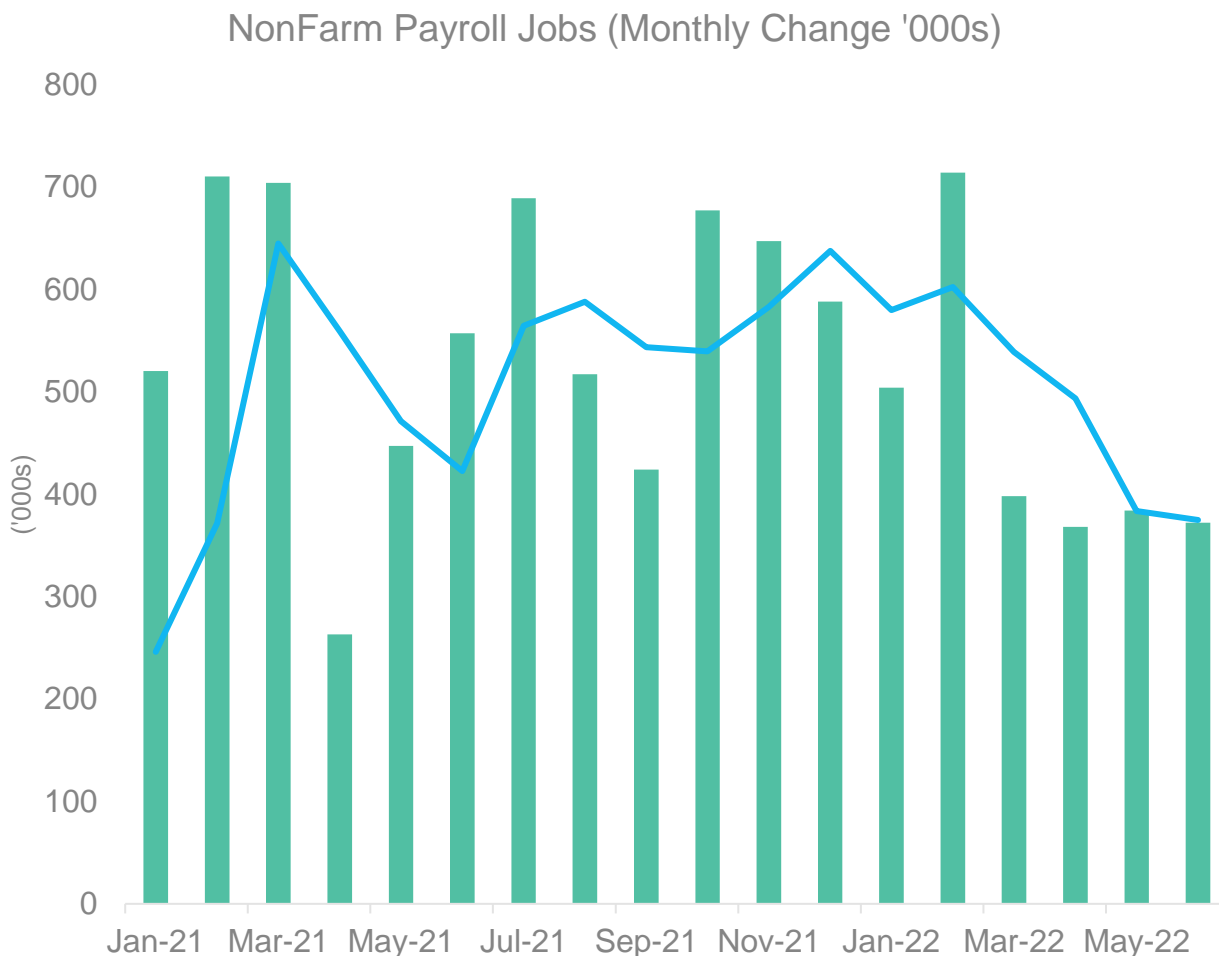


Wall Street Journal Recession Probability



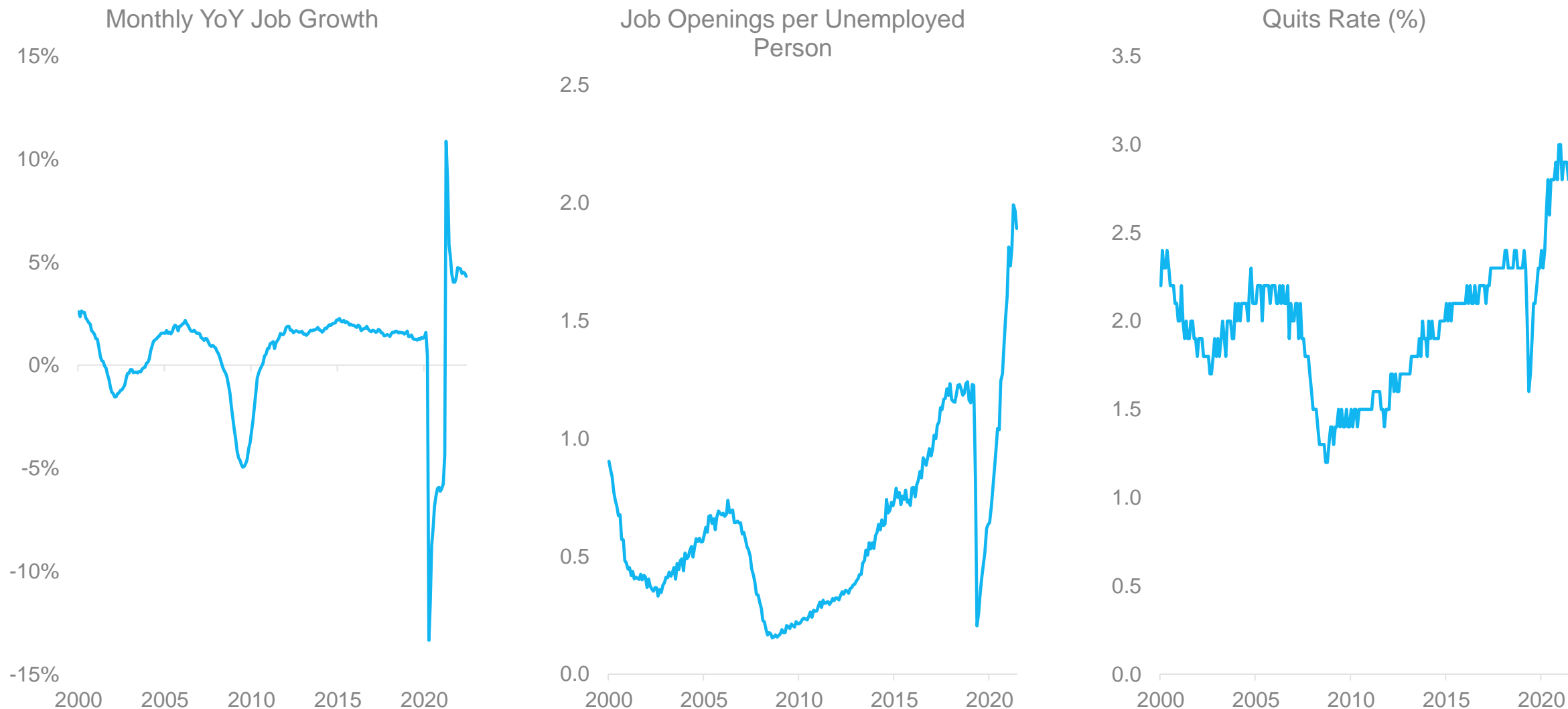
Source: Google, WSJ
Note: Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A value of 50 means that the term is half as popular. A score of 0 means there was not enough data for this term.

Labor Market Recovery Strong; Unemployment Rate at 3.6%



Source: BLS

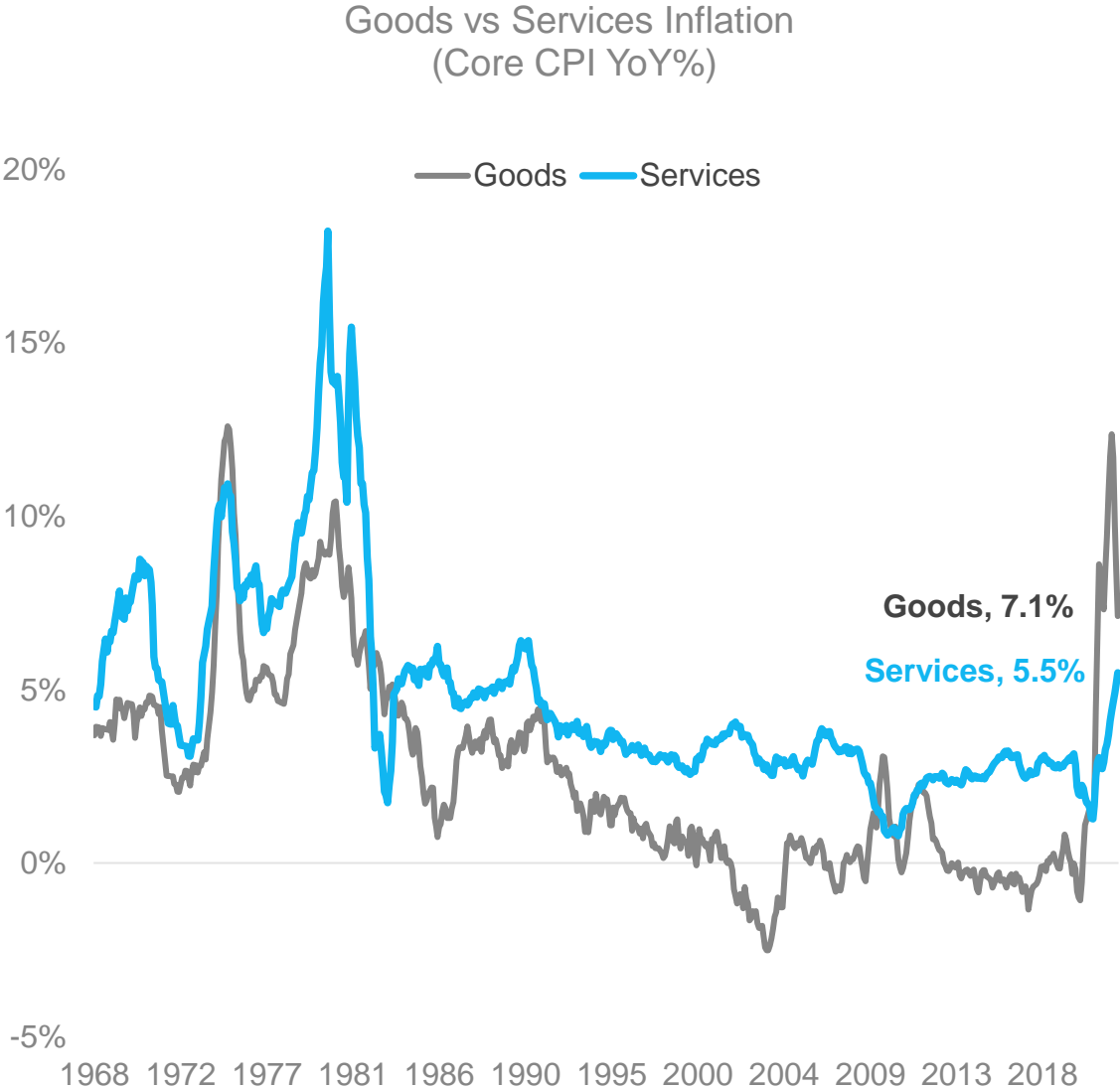
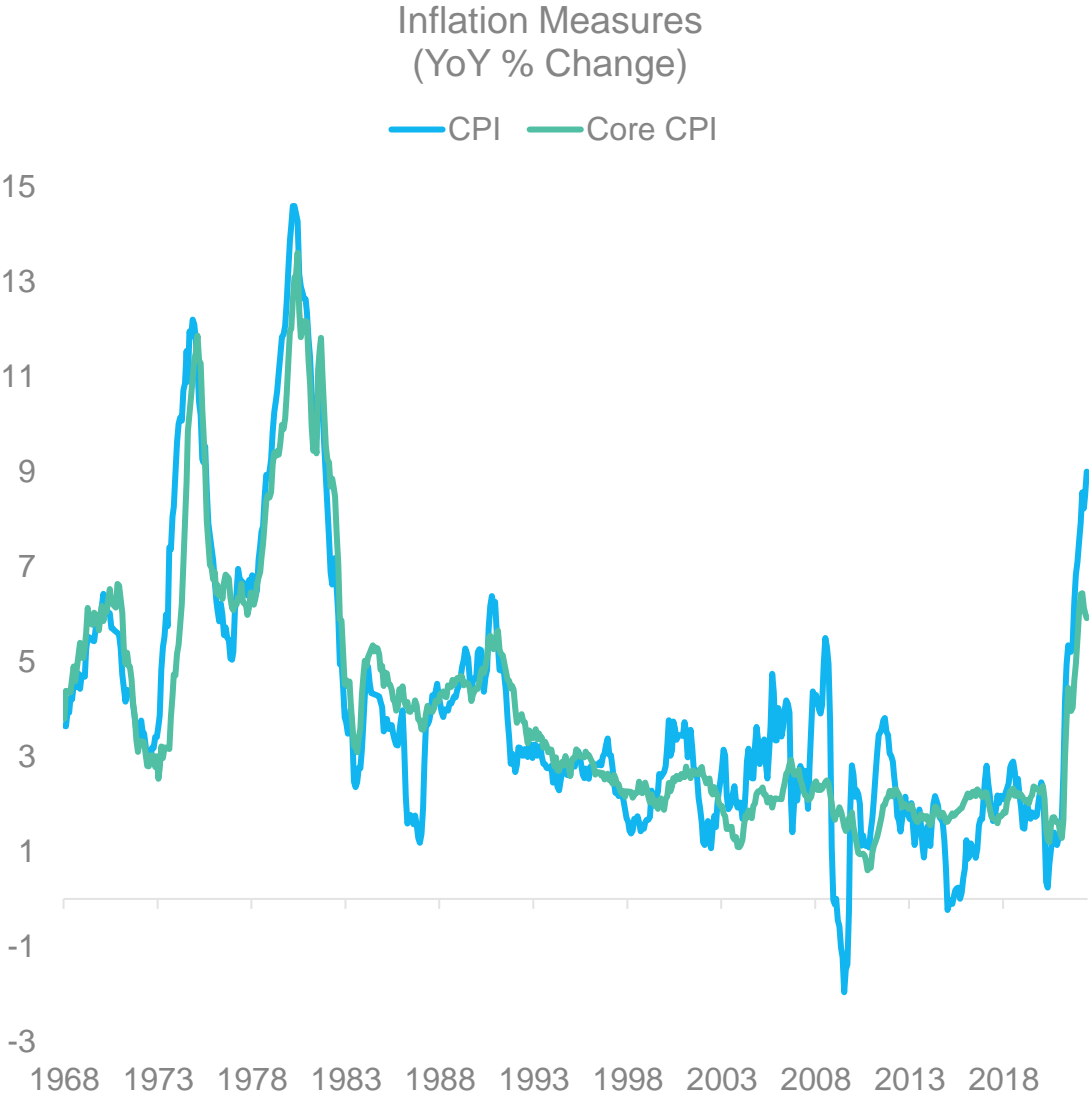
Historical Labor Market Recovery due to Strong Consumption



Source: BLS

Note: Quits rate is the number of quits during the entire month as a percent of total employment.

Inflation Remains at a 40-year High

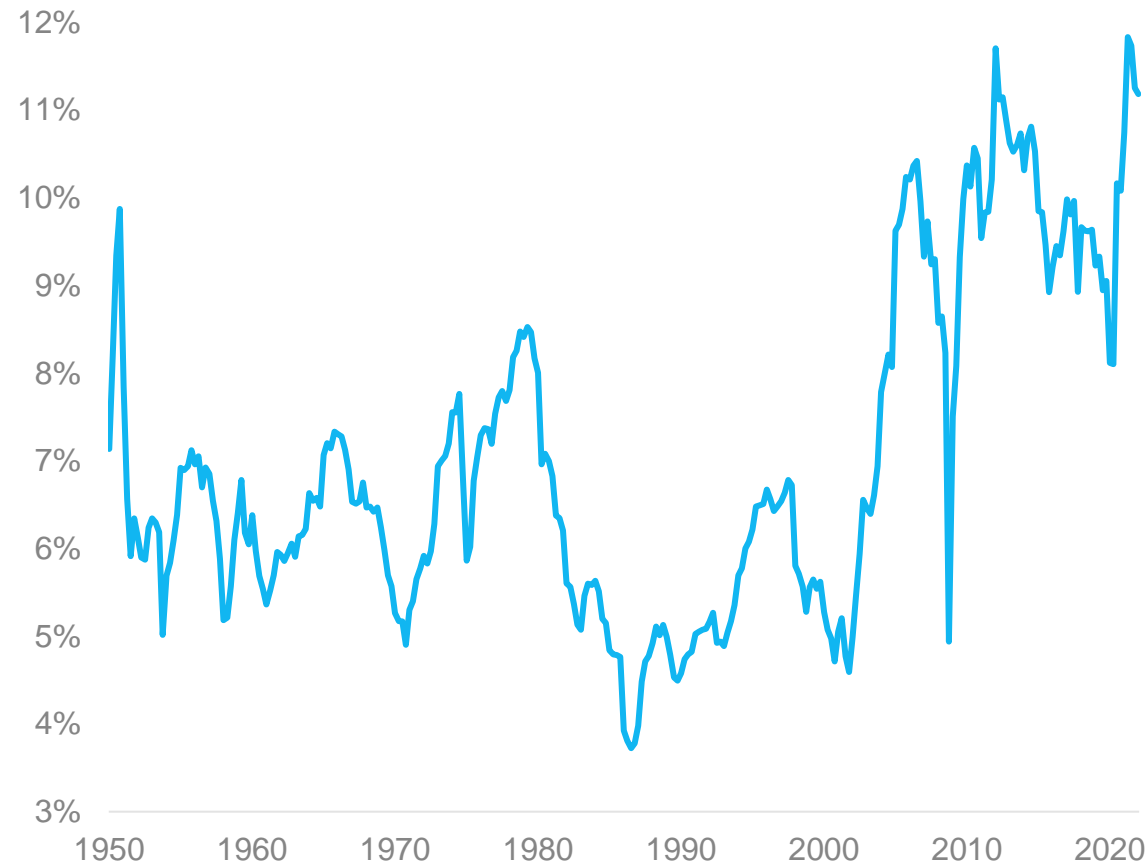


Source: BLS: Consumer Price Index for All Urban Consumers

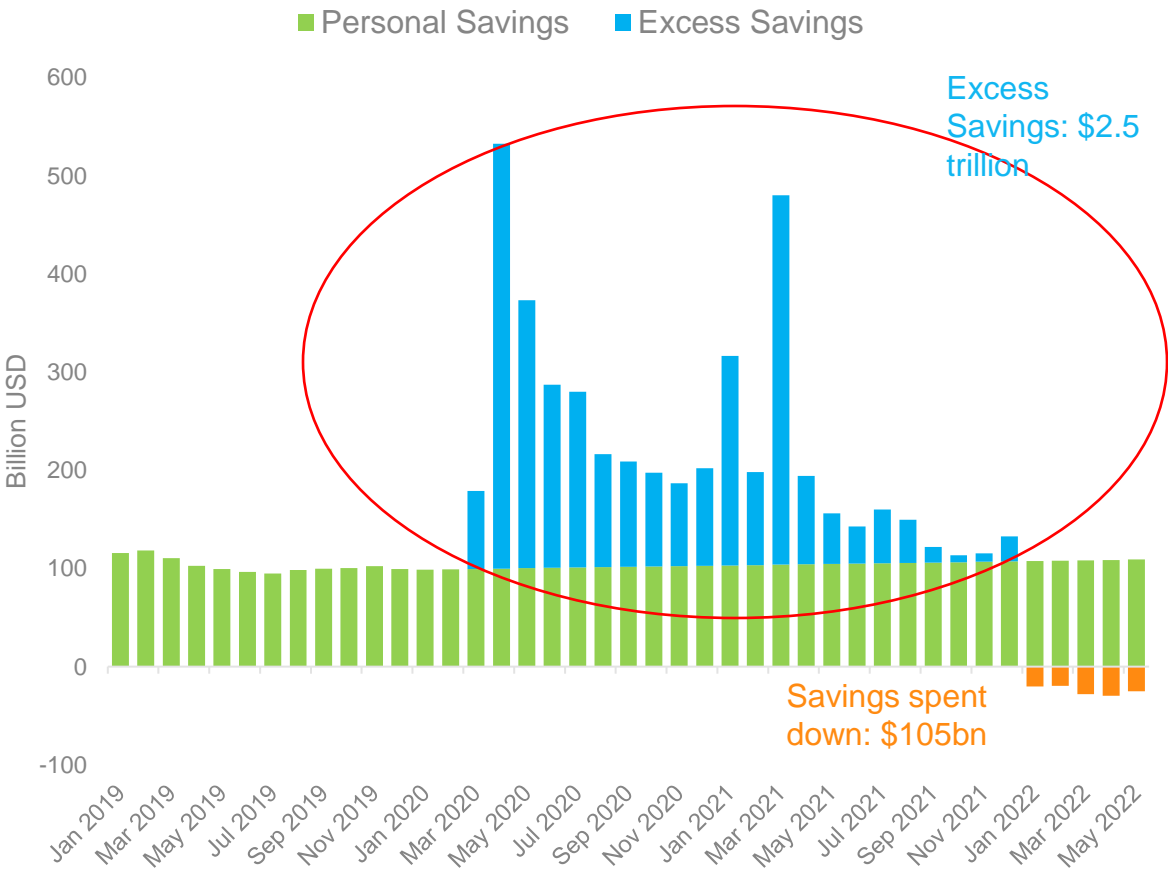
Buffers in Place to Manage Negative Hit to Demand and Incomes



Corporate Profits as a % of GDP



Personal Savings



Source: BEA



U.S. Housing and Mortgage Market Outlook

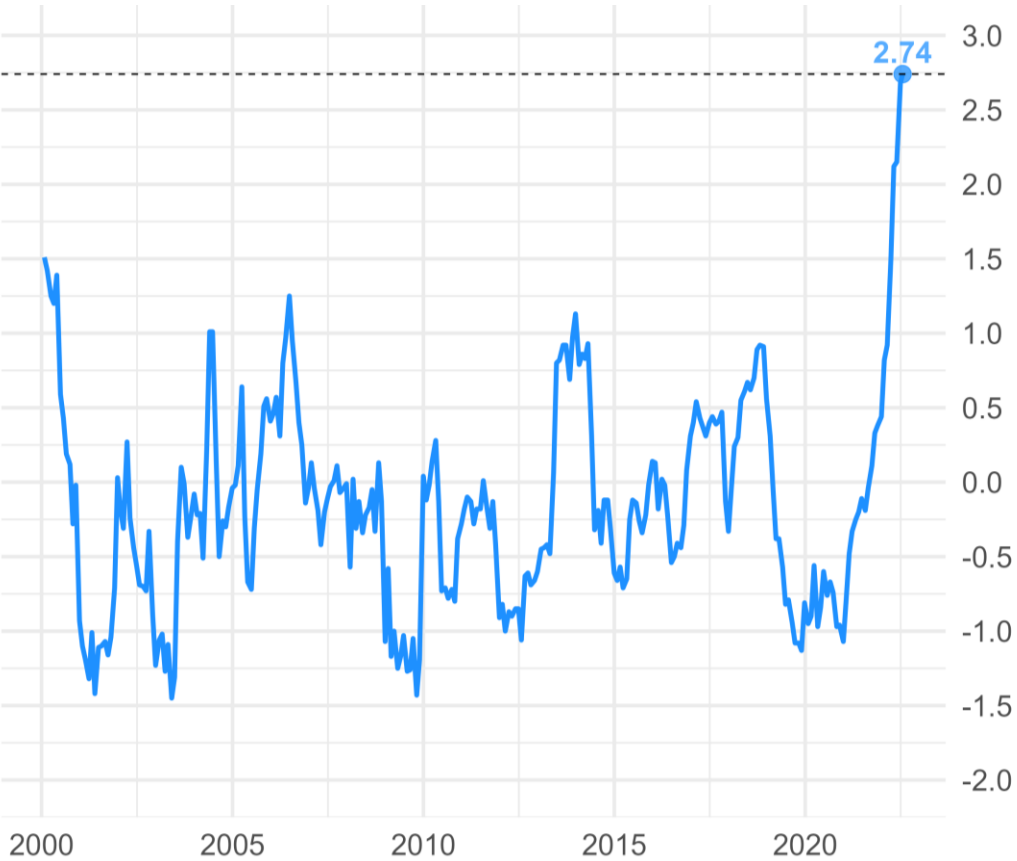
Mortgage Rates Up 2.7% Points; Biggest 1-year Rise in Century



Recent Mortgage Rates Very Volatile
U.S. weekly average 30-year fixed mortgage rate (%)



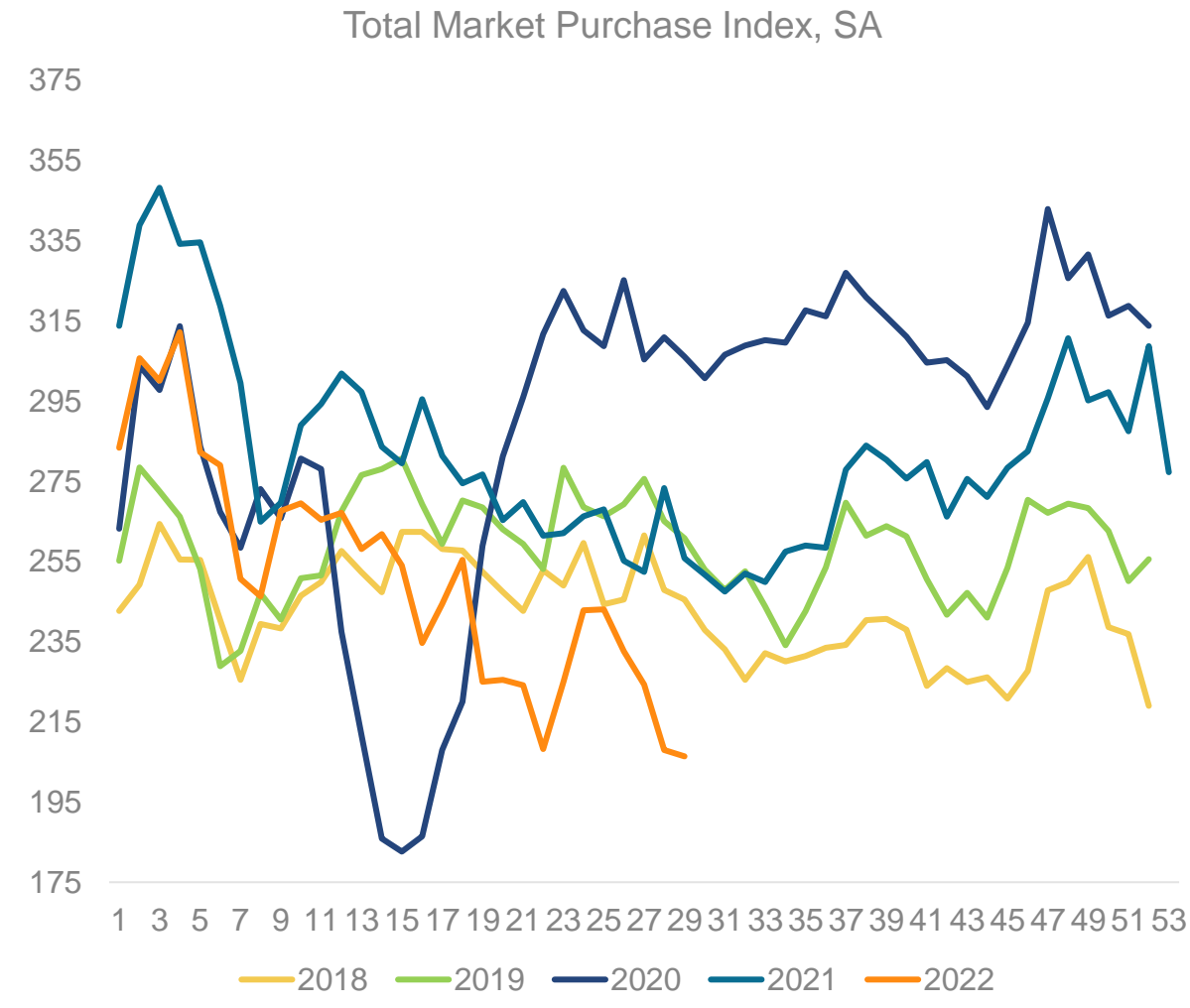
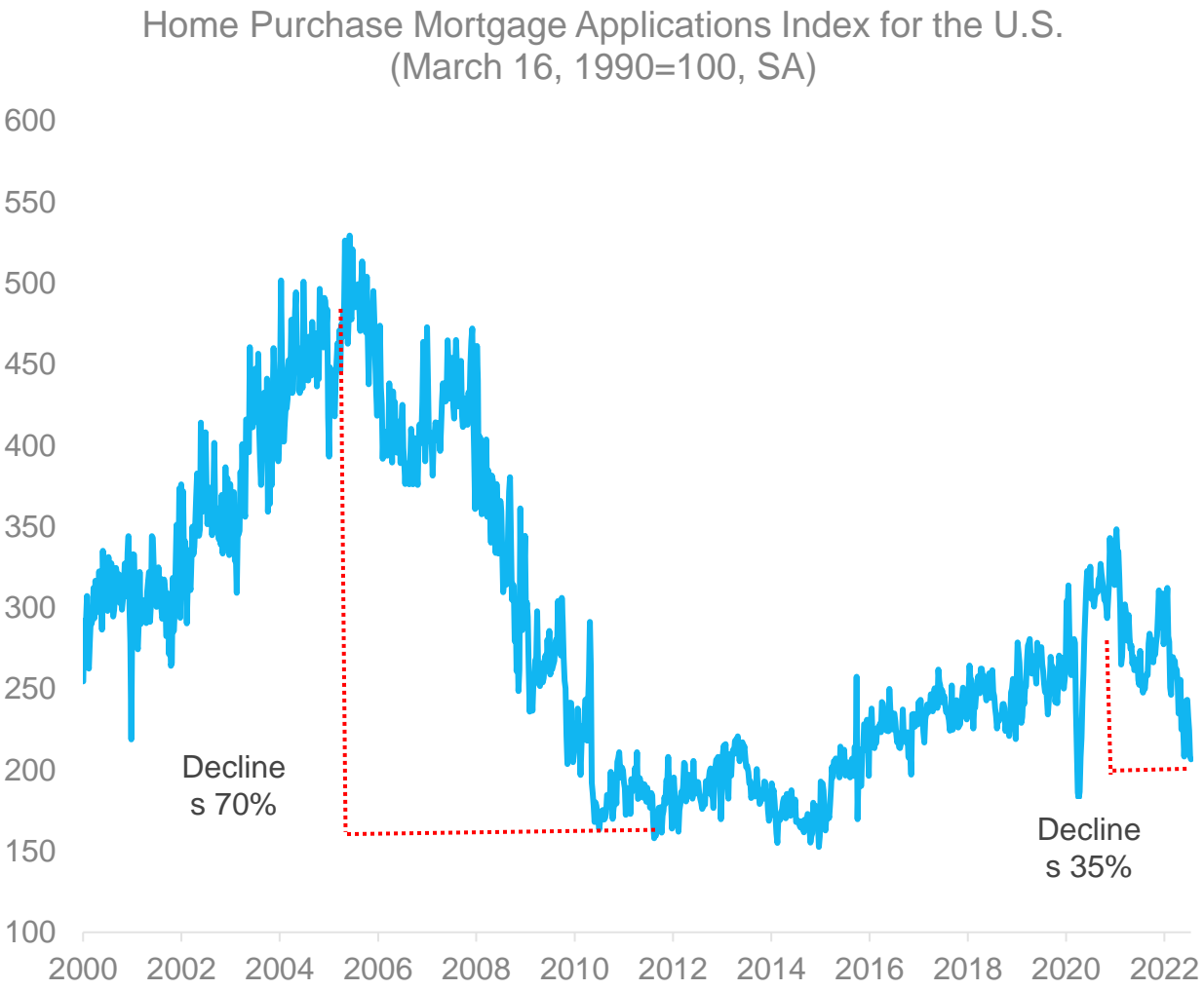
Mortgage Rates Up Almost 3% Points
12-month change in U.S. 30-year fixed mortgage rates (%)



Source: Freddie Mac Primary Mortgage Survey

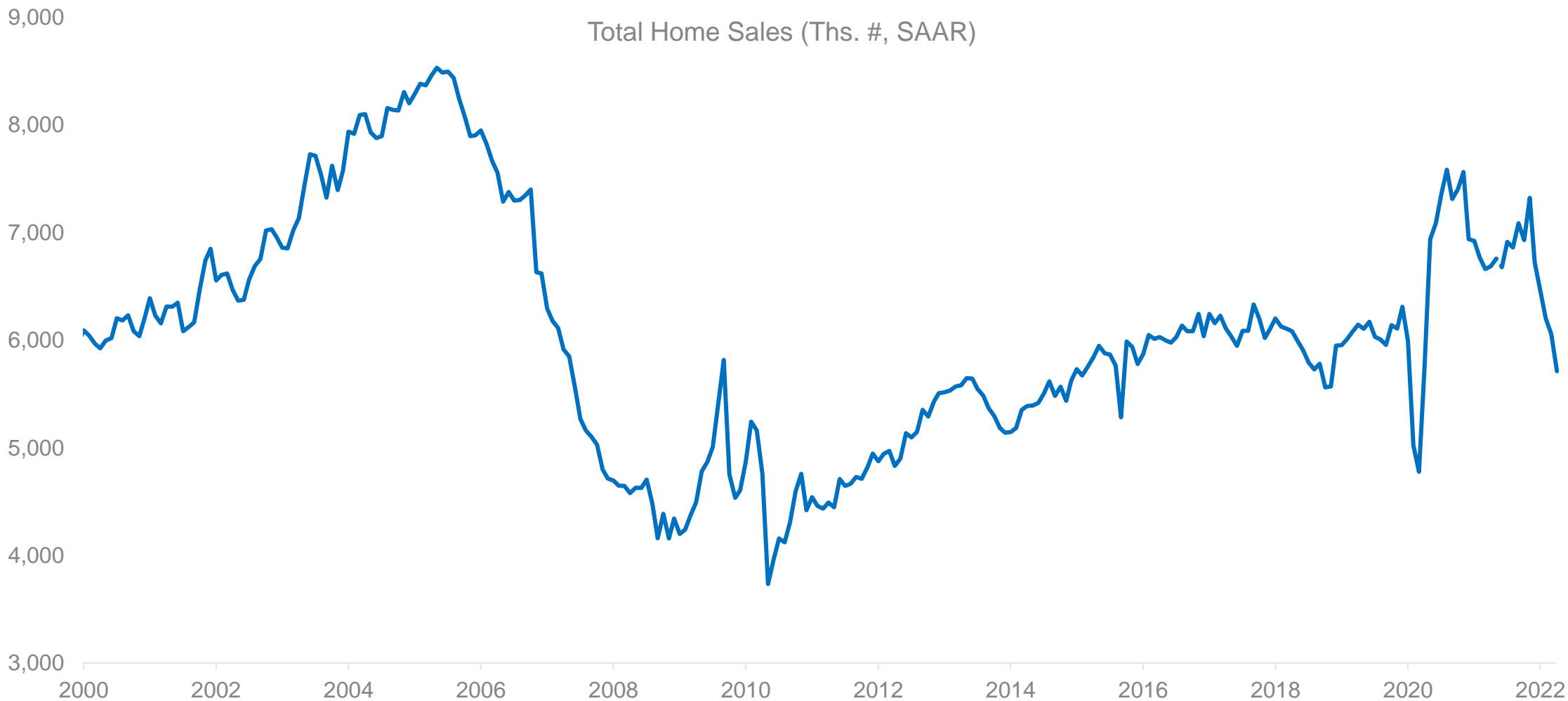
Source: Freddie Mac Primary Mortgage Survey
Note: Change computed using last observed weekly value in each month.

High Mortgage Rates and Home Prices From Softer Purchase Apps



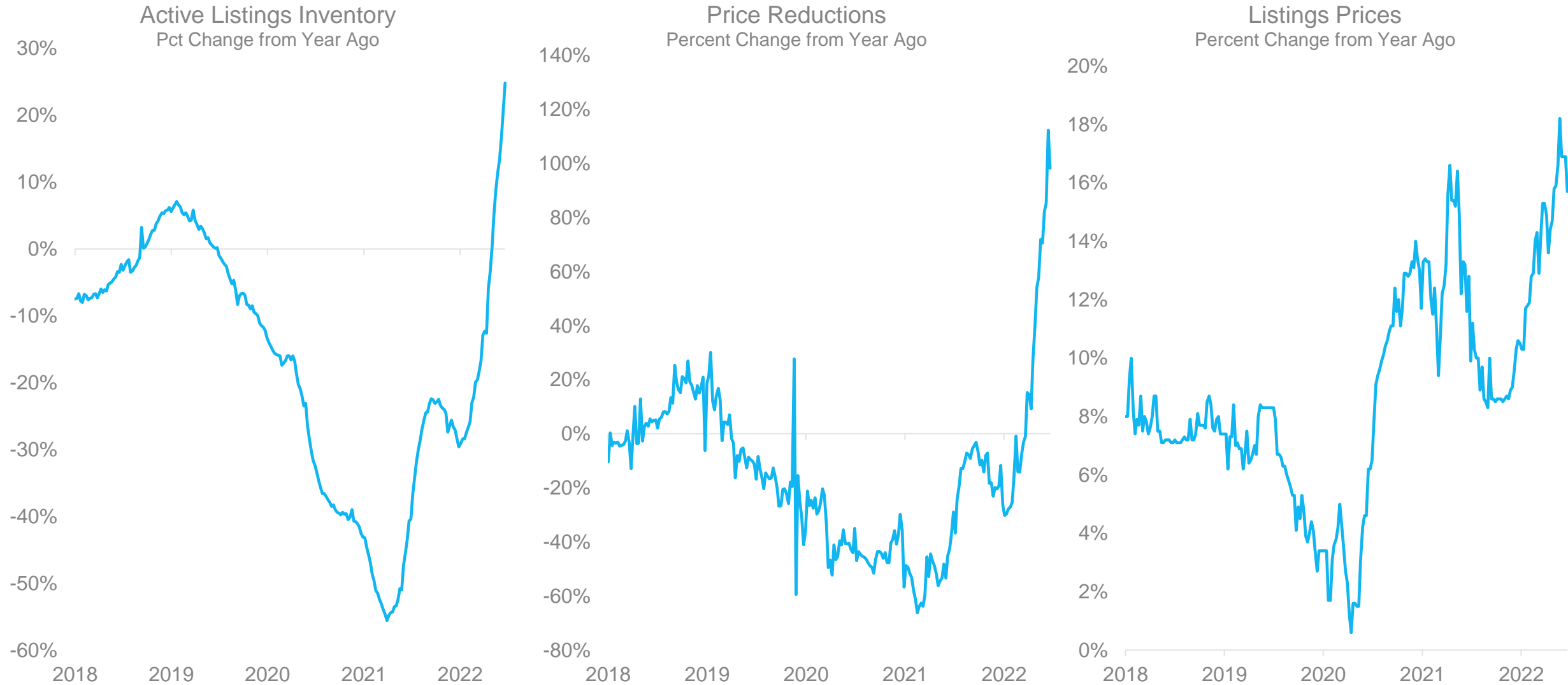
Source: MBA, Purchase Mortgage Application Survey

Home Sales Cooled Due to Rising Rates and Declining Affordability



Sources: National Association of Realtors (NAR); U.S. Census Bureau

Softer Demand Led to Unsold Inventory Rise, Unsold Listings' Price Cuts, Not Impacting List Prices

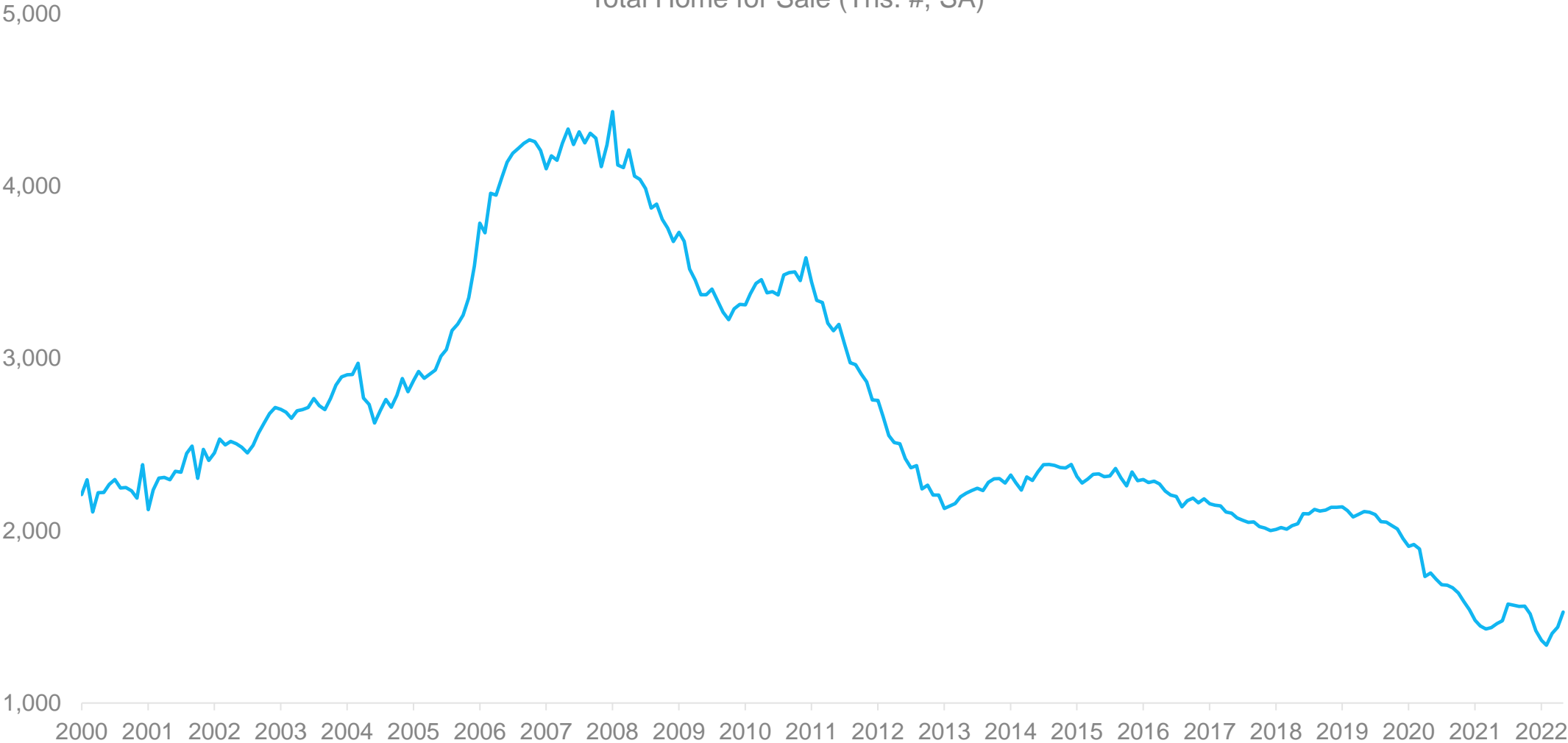


Source: Realtor.com

Despite Recent Increases, Inventory Remains Low

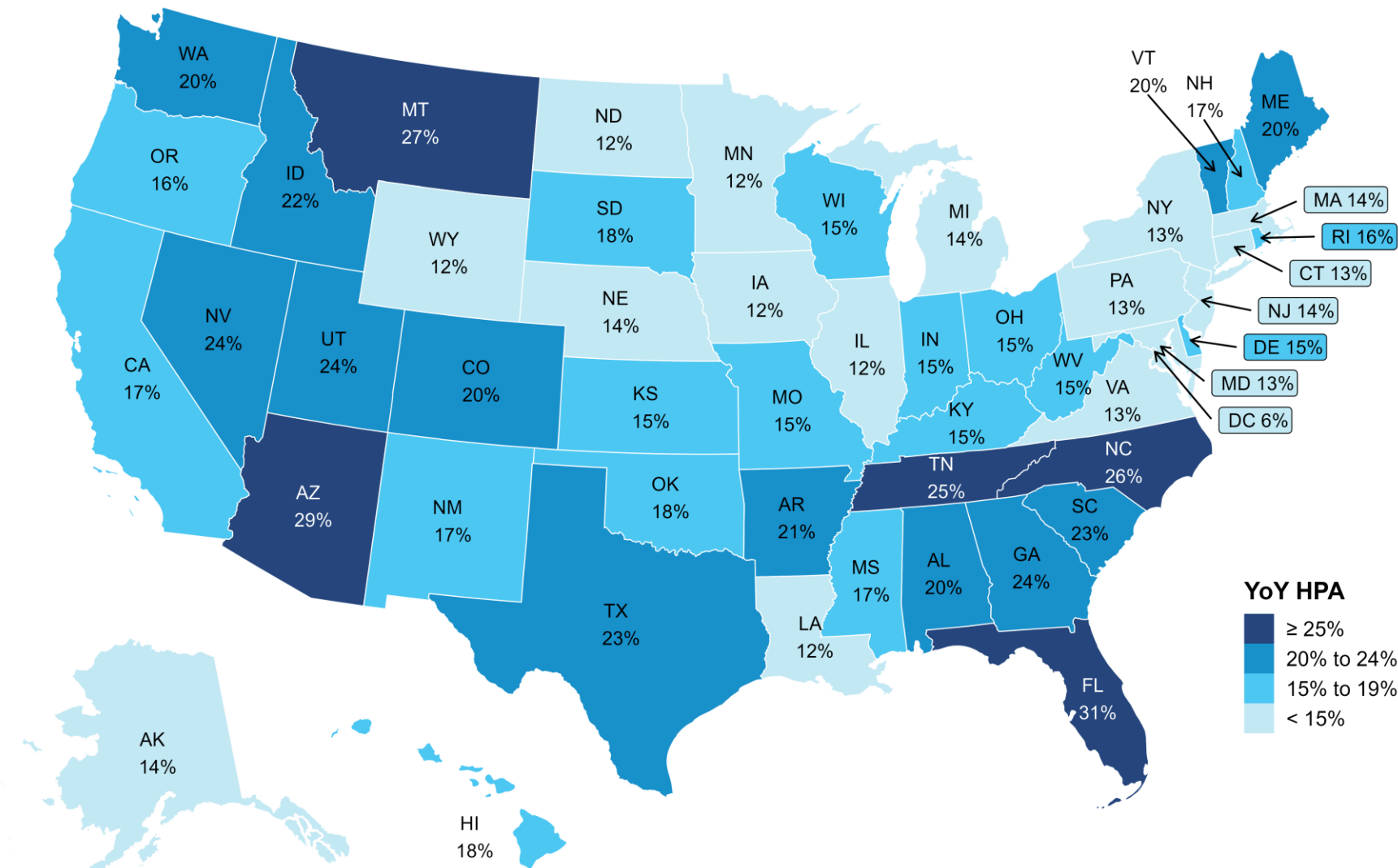


Total Home for Sale (Ths. #, SA)



Source: US Census Bureau, NAR

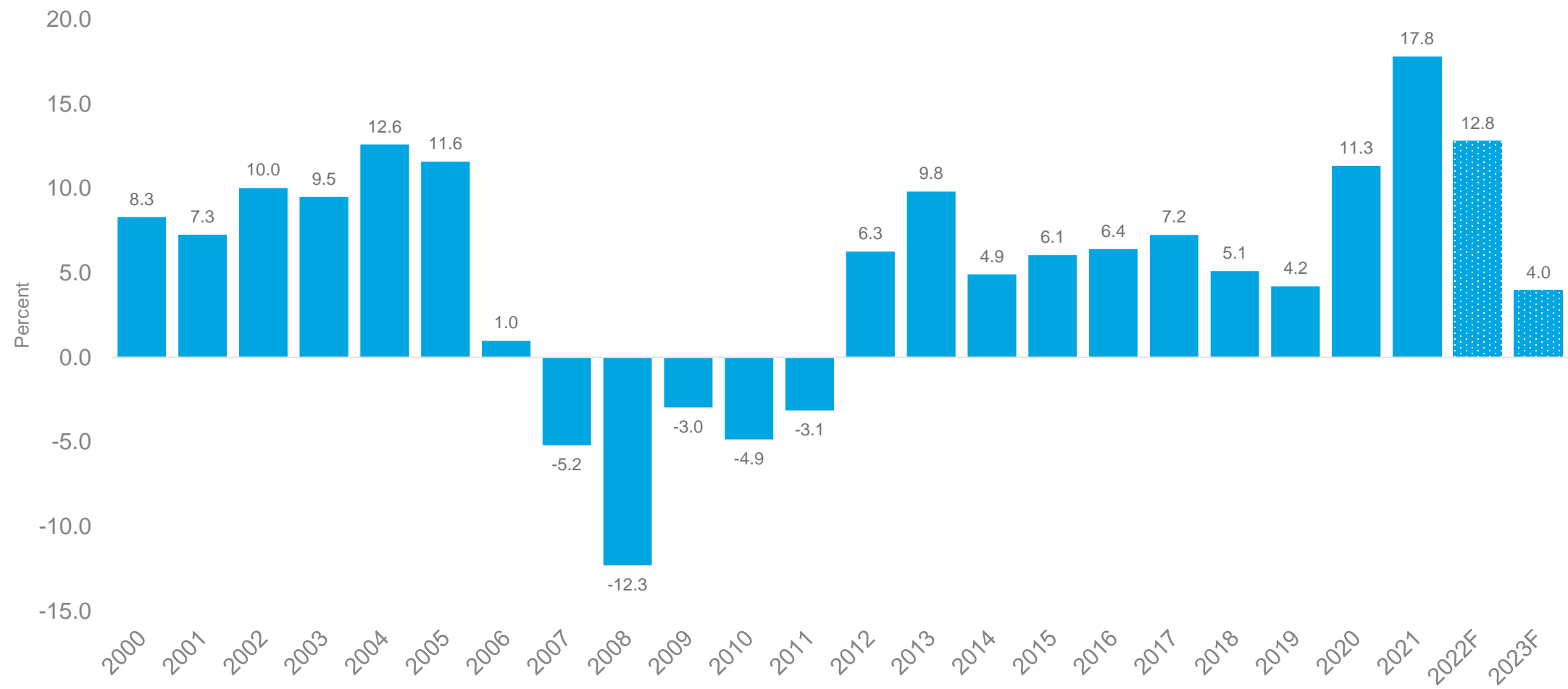
High Demand and Limited Supply Pressured House Prices and Increased 18% in May 2022



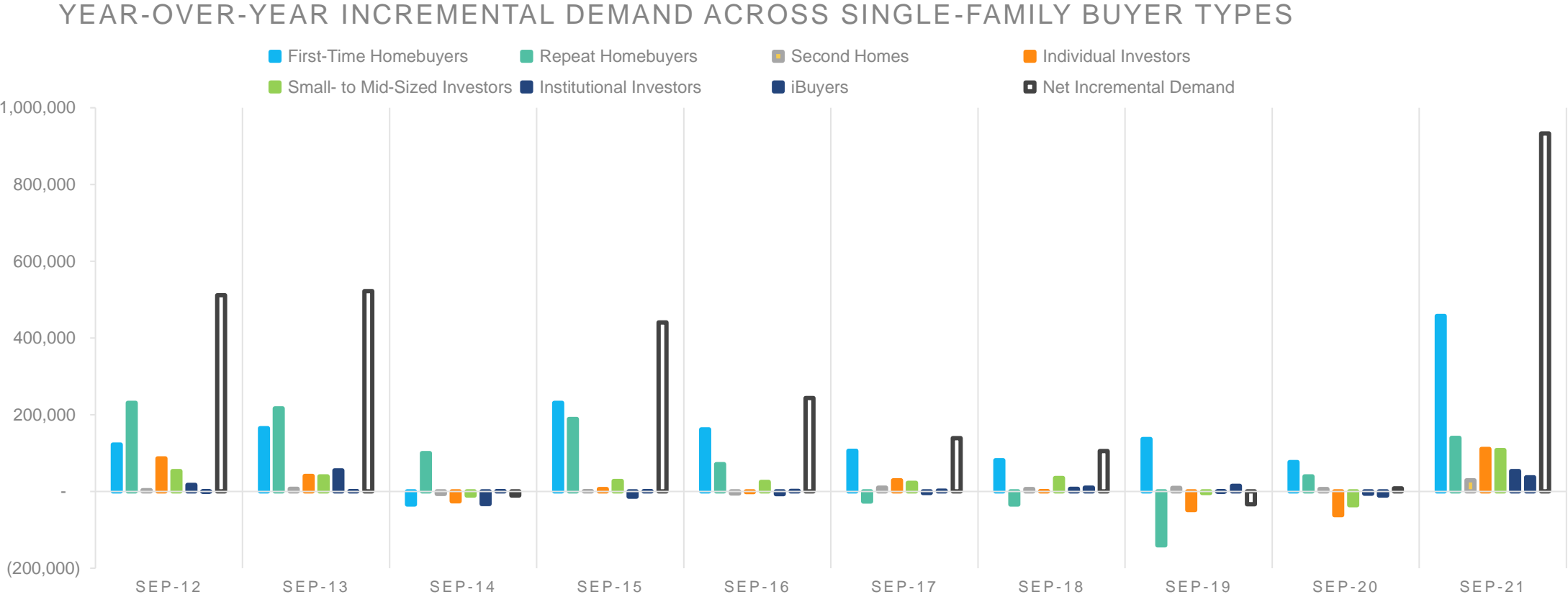
House Prices Expected to Moderate This Year and Next



Annual Percent Change in Freddie Mac House Price Index

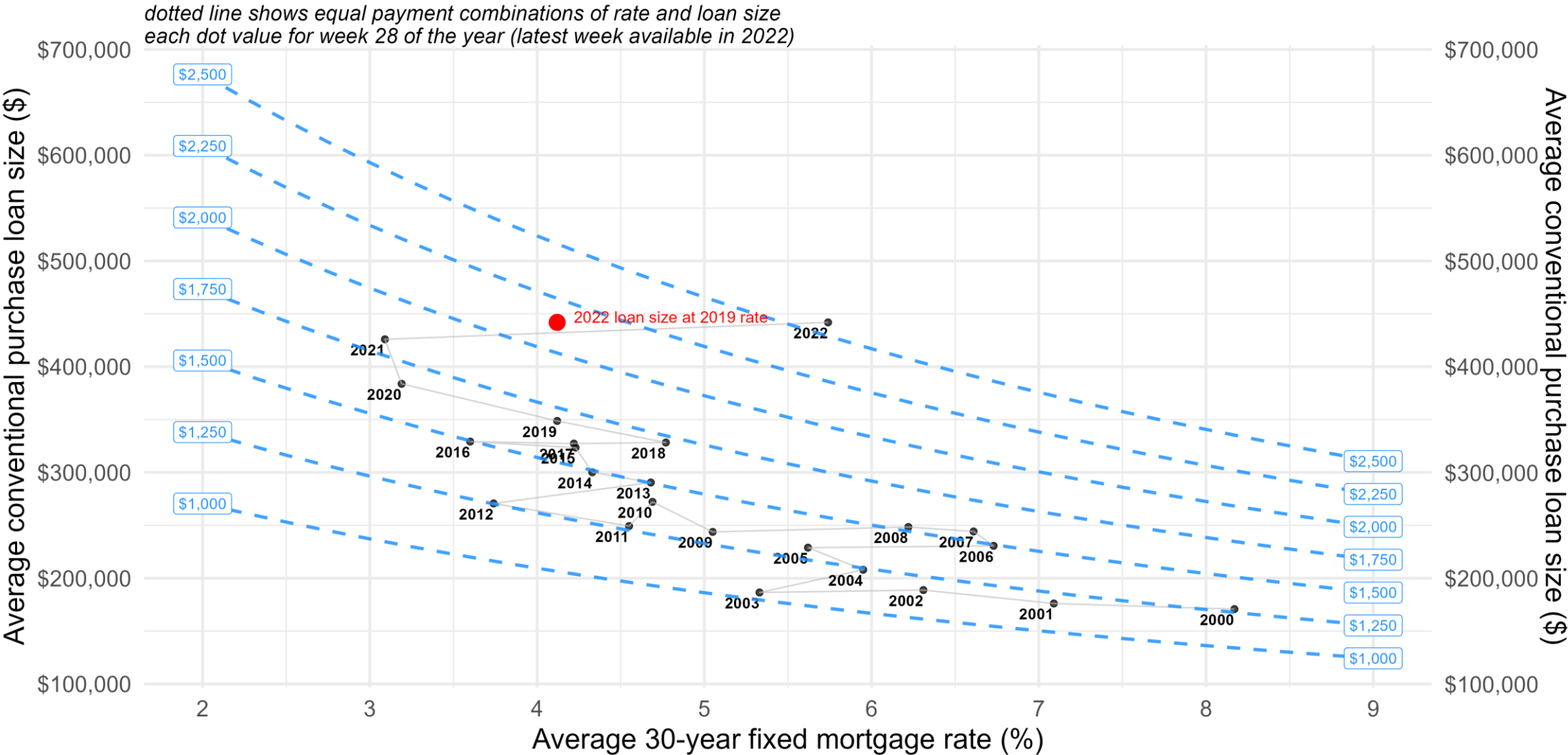


Incremental Demand Supports High House Prices



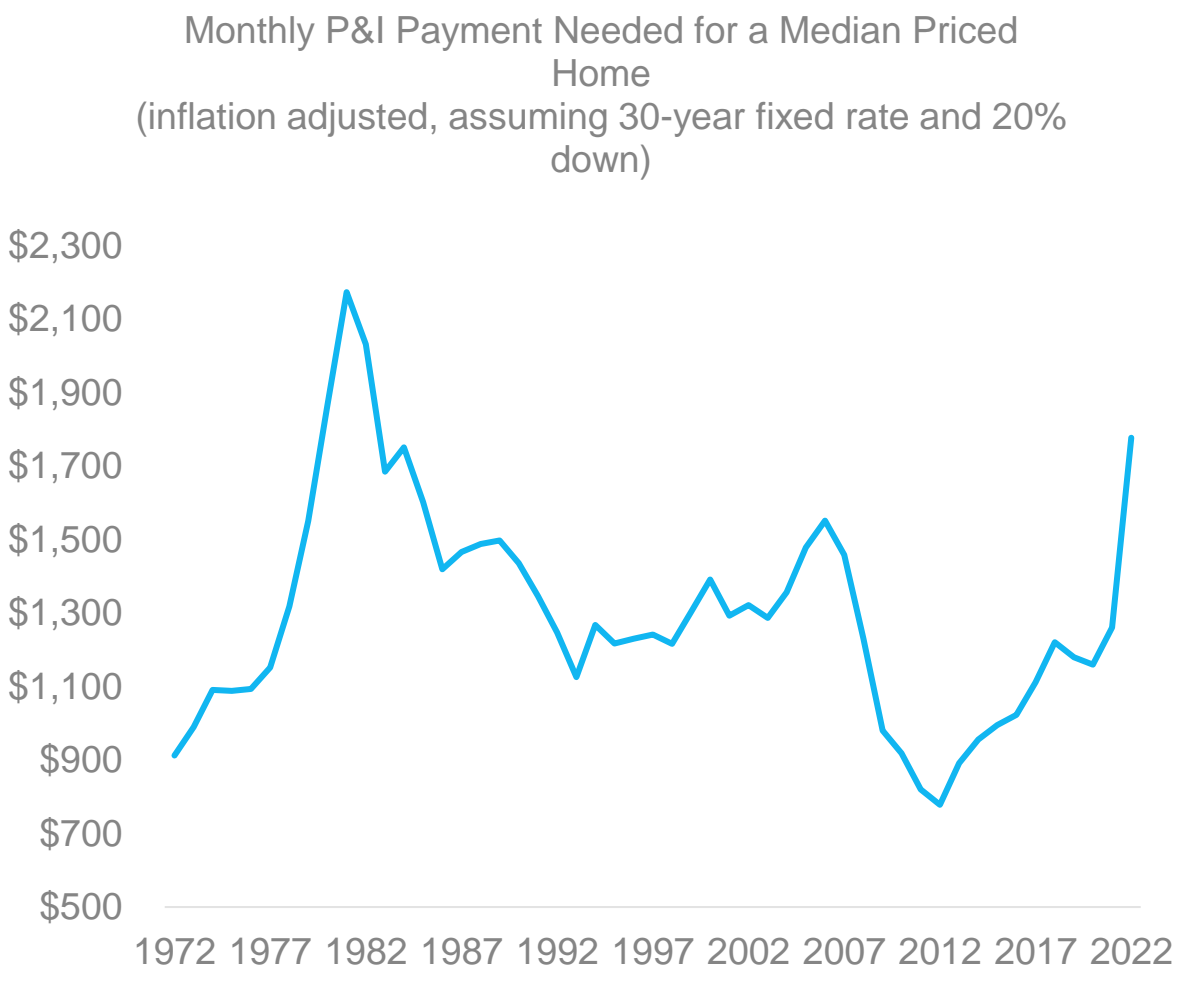
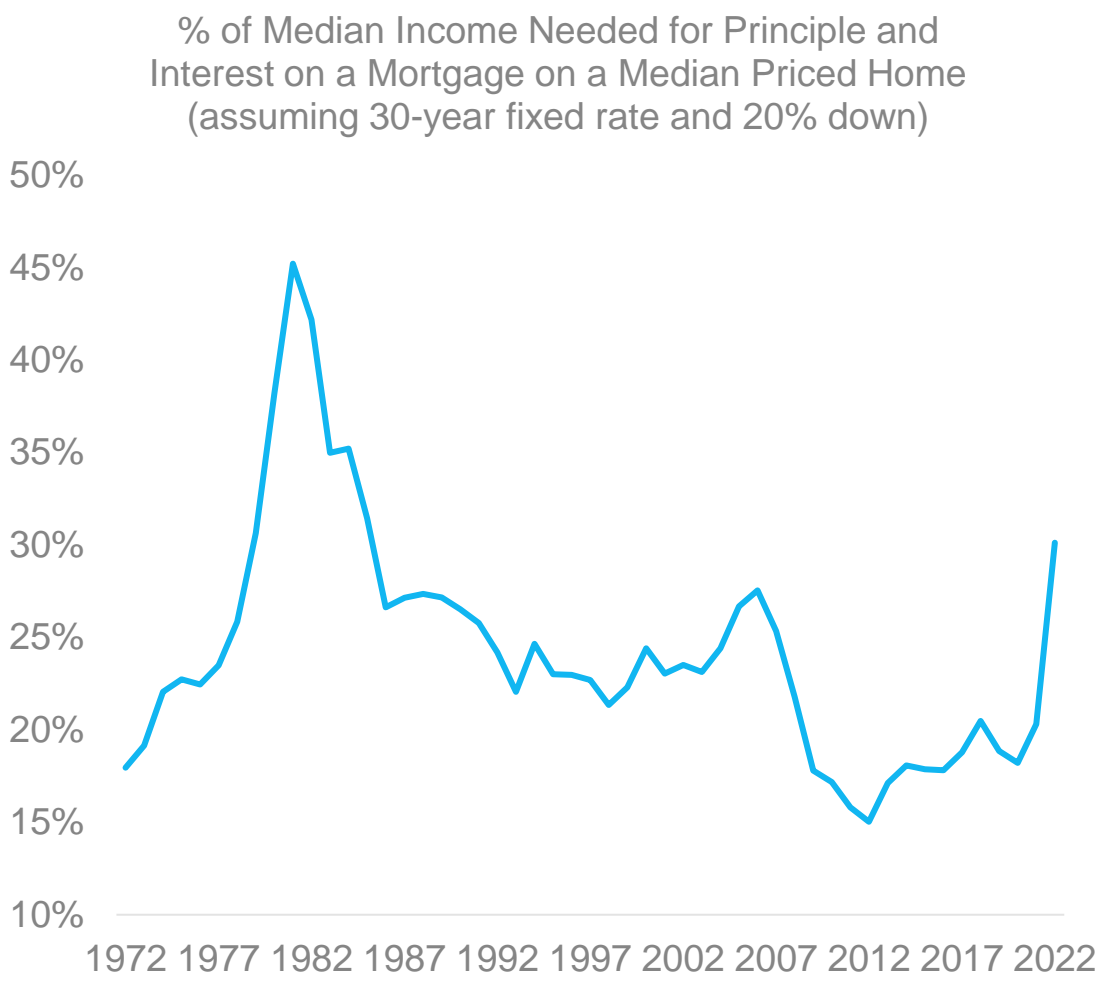
Source: CoreLogic, Black Knight, FHFA, National Mortgage Database (NMDB®)
Note: Column heights denote the difference in the number of homes purchased in a rolling 12-month period from the same period in the prior year across buyer types. The number of first-time homebuyer mortgages are reported in NMDB which we used to back out the number of repeat homebuyers from total owner-occupied purchases. Our estimates likely understate first-time homebuyers and overstate repeat homebuyers due to a small share of first-time homebuyers purchasing with cash.

Higher Mortgage Rates and Home Values Reduce Affordability



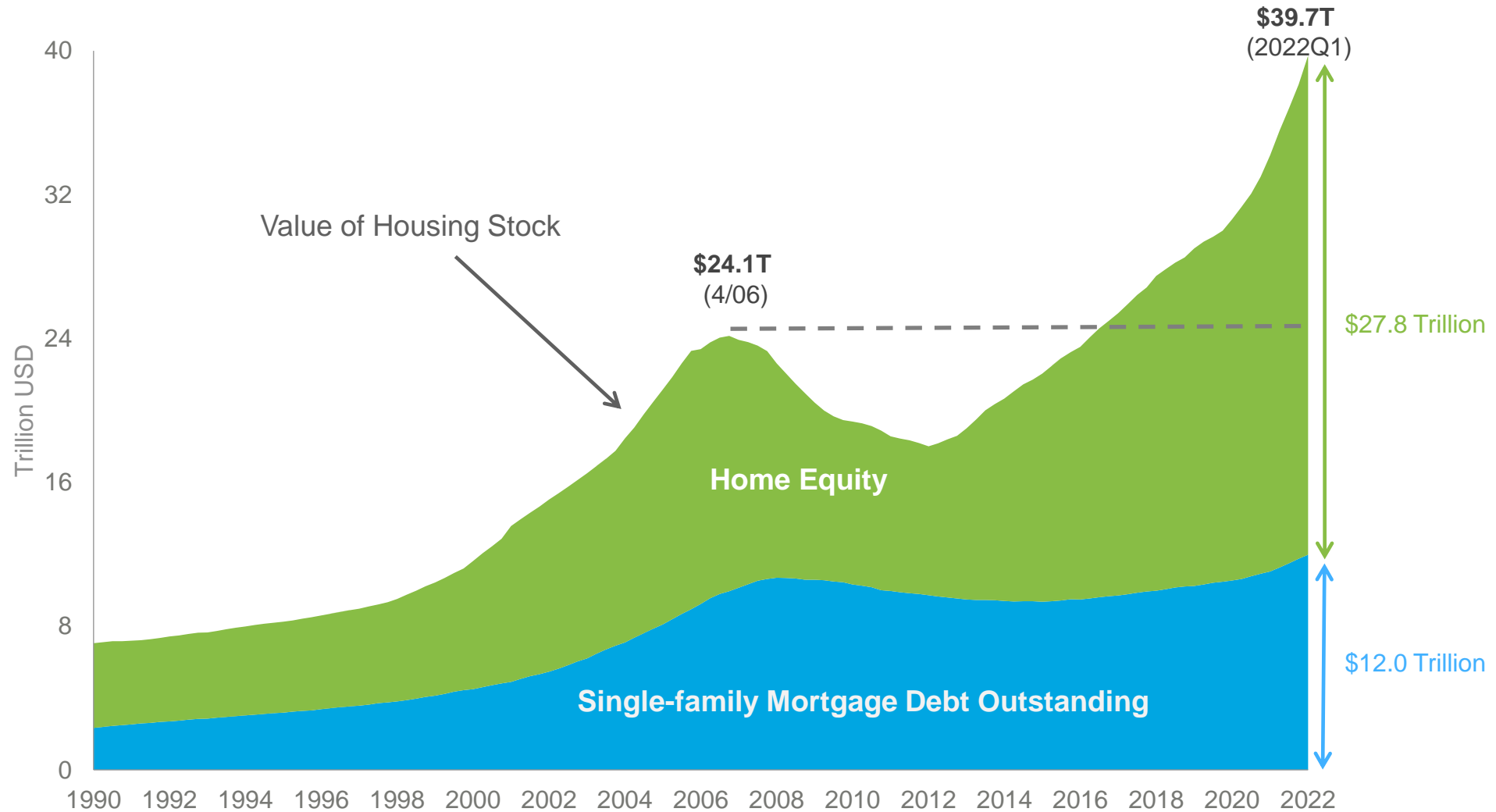
Data source: MBA
payments principal and interest (P&I) for 30-year fixed mortgage

Housing Affordability Plunged due to Rising Rates and House Prices



Source: Freddie Mac, Annual data except for the last point which uses a PMMS = 5.54% and omits taxes and insurance, which has a median value between 9 and 10% in recent years, which is just below median borrower non-mortgage debt obligations

Rising Home Prices Help Build Equity for Existing Homeowners

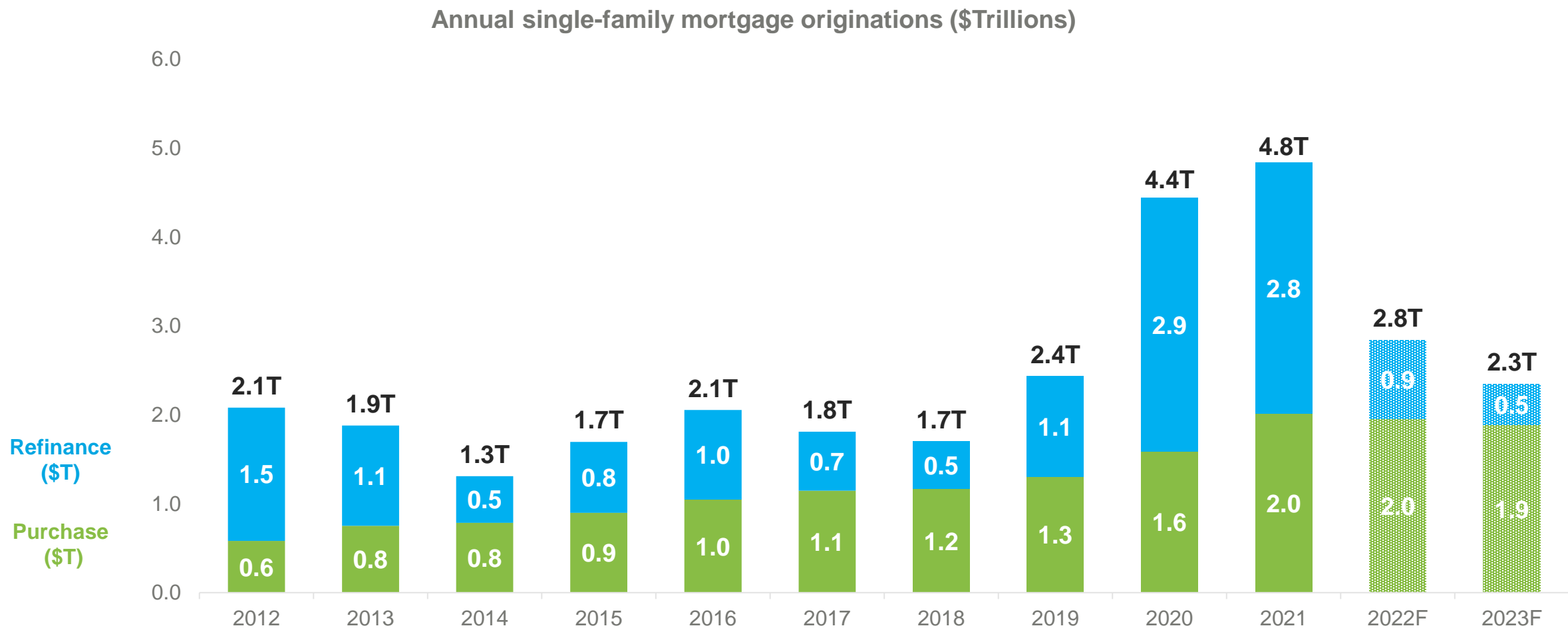


Source: Federal Reserve Board's Financial Accounts of the United States, Table B. 101. Data as of Jun 9, 2022
Note: Value of U.S. housing stock includes homes with and without underlying mortgages. U.S. home equity is the difference between the value of the U.S. housing stock and the amount of U.S. single-family mortgage debt outstanding.



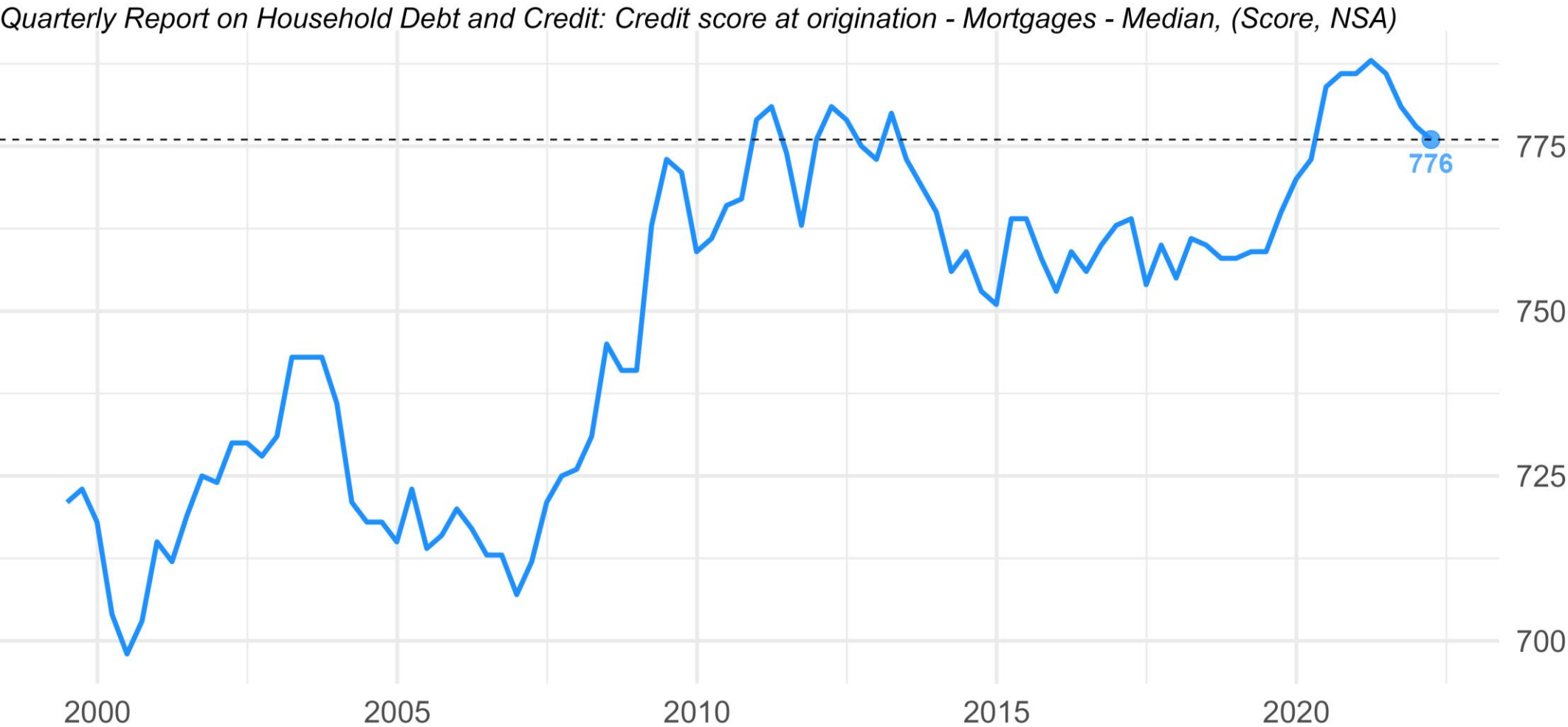
U.S. Mortgage Market Outlook

Mortgage Originations Set to Decline as Refinances Fade



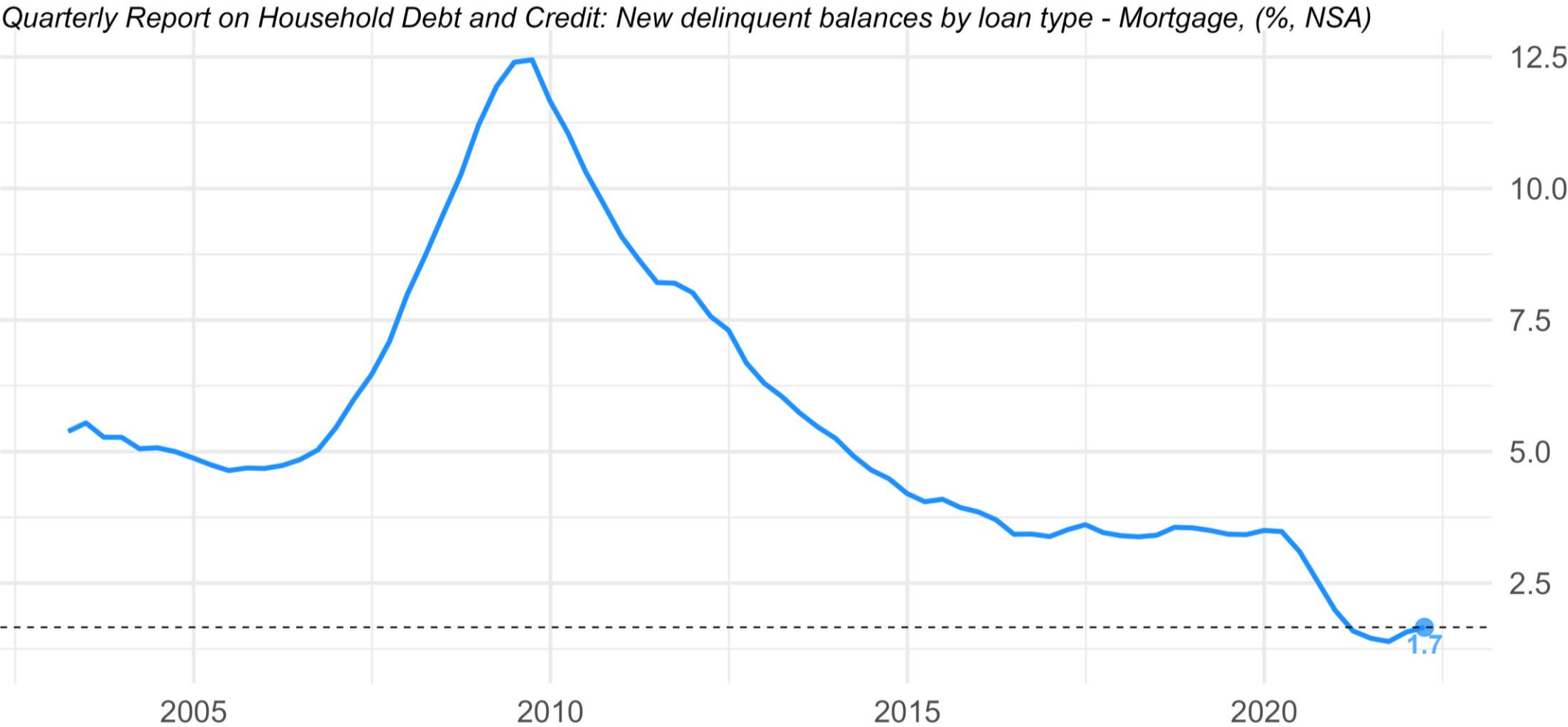
Source: Freddie Mac Q32022 Economic and Housing Research Outlook
Note: Totals may not add due to rounding ; * Includes only 1st liens

New Mortgage Borrowers Have Exceptional Credit



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

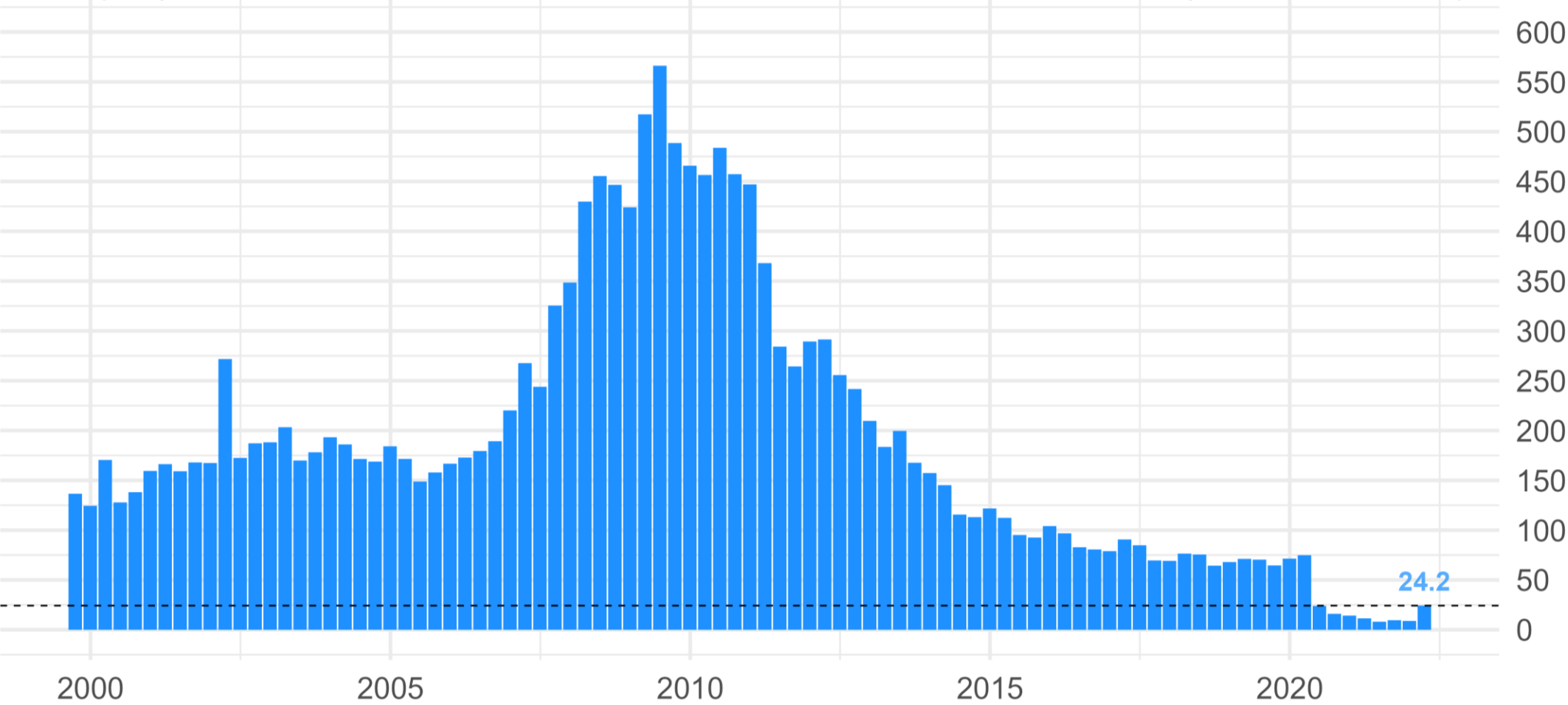


Federal Reserve Bank of New York (FRBNY): Quarterly Report on Household Debt and Credit [HHDC] - New Delinquent Balances by Loan Type

Forbearance and Other Policies Have Nearly Eliminated Foreclosures



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

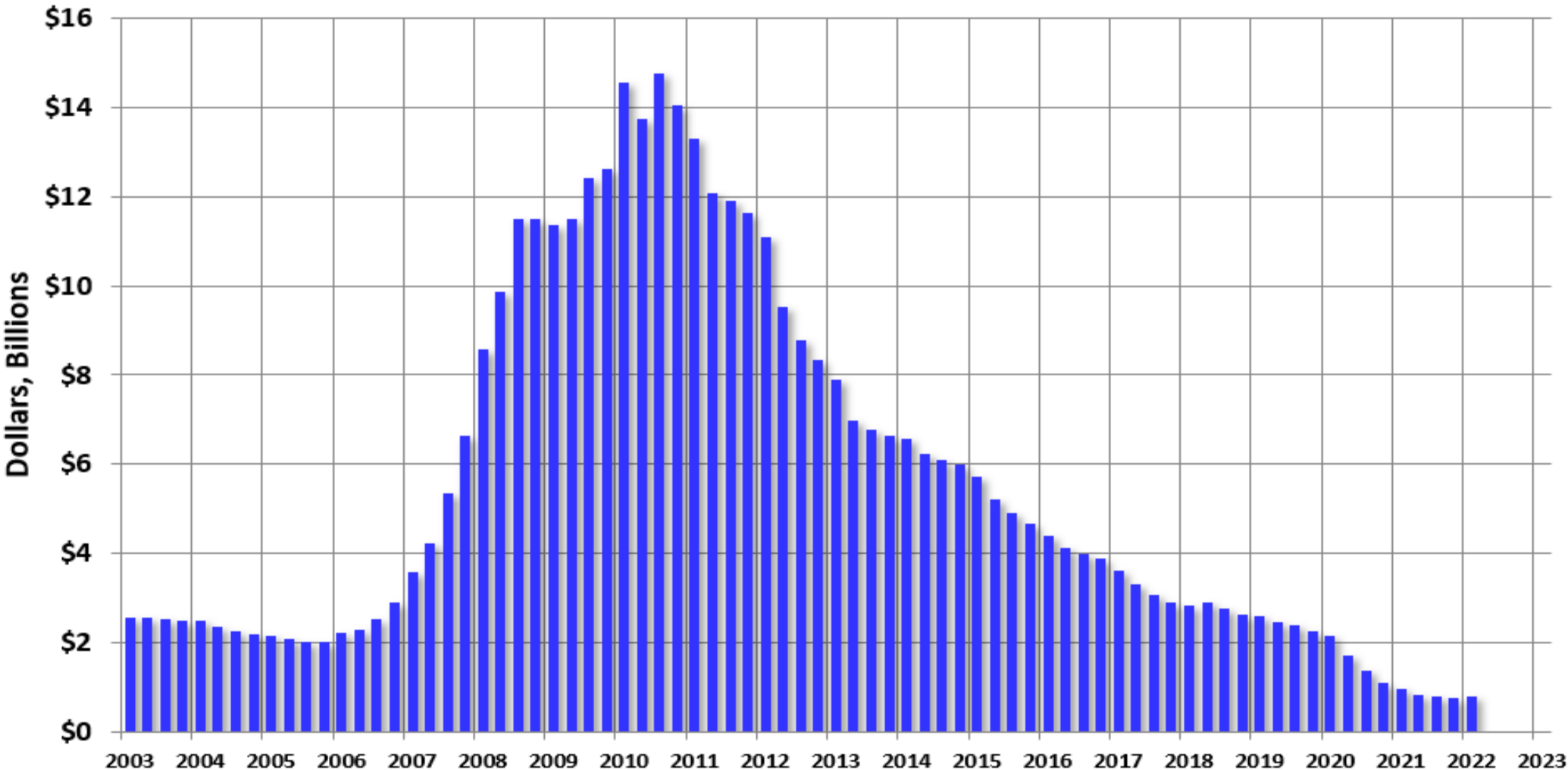


Federal Reserve Bank of New York (FRBNY): Quarterly Report on Household Debt and Credit [HHDC] - Number of Consumers with New Foreclosures and Bankruptcies

Real Estate Owned Properties Low



Real Estate Owned: 1-4 Family Residential, FDIC Insured Institutions

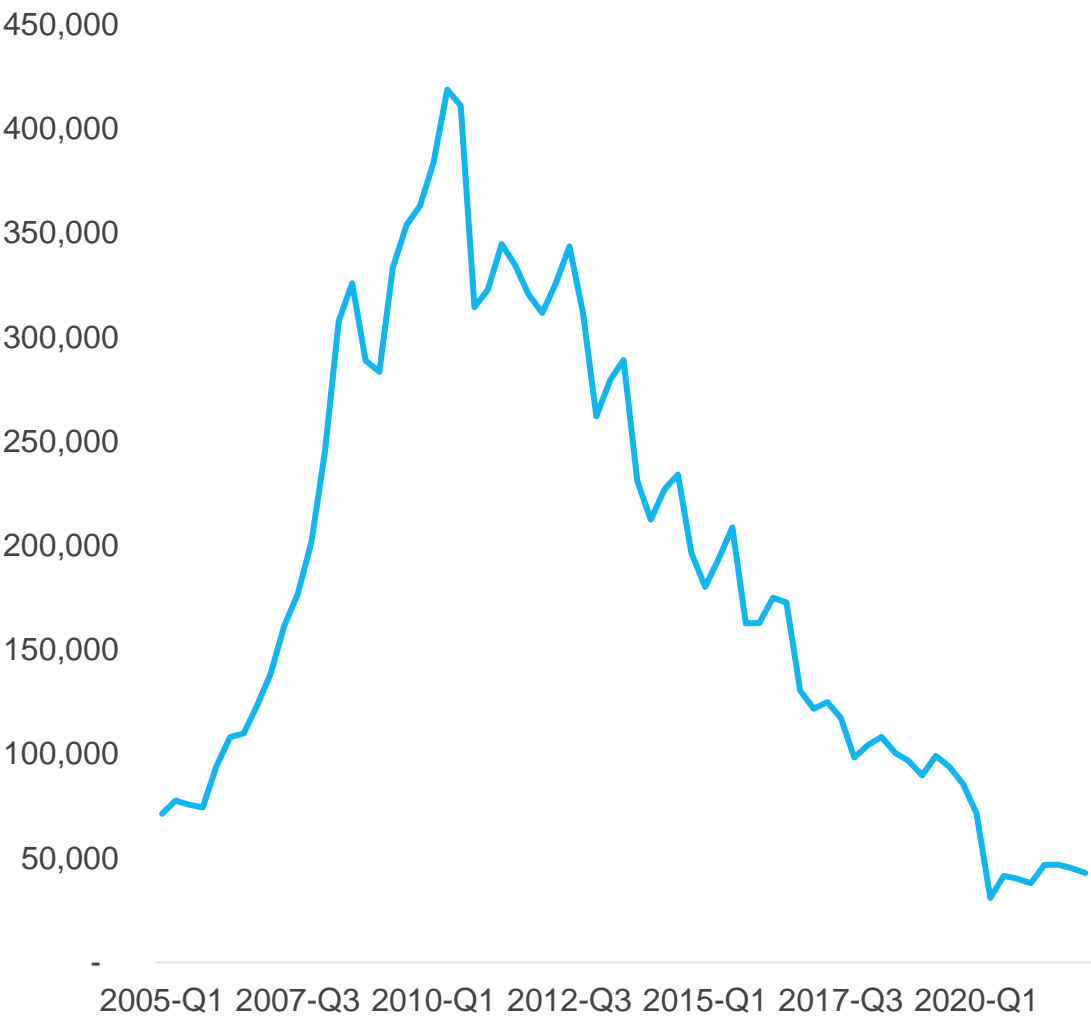


Source: FDIC

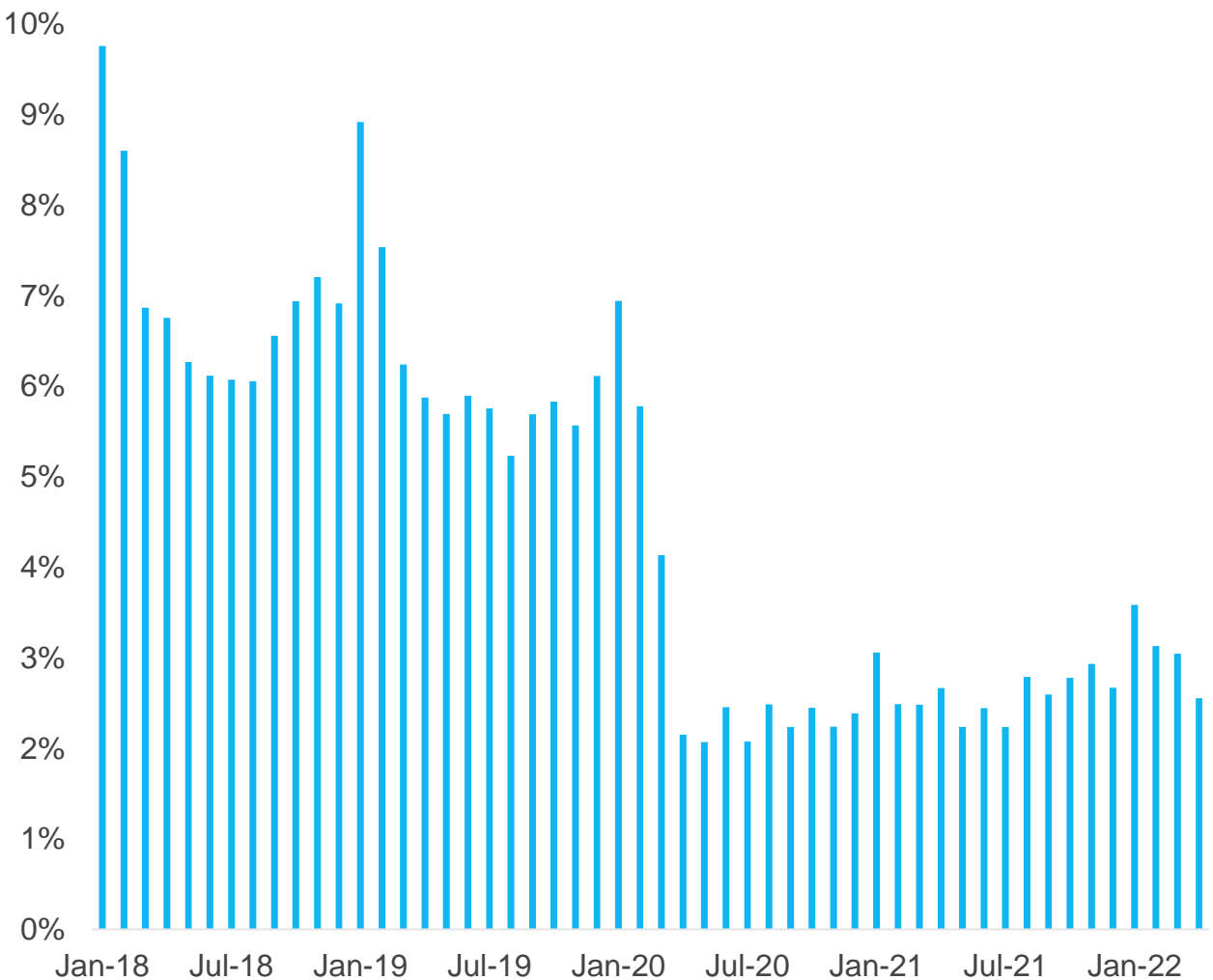
Low Level Distress Sales Compared to Historical Average



Distress Sales



Distress Supply Share of Total Home Sales



Source: NAR, Corelogic, US Census Bureau
Note: Distress Sales includes Foreclosures and Short Sales

FHA EPD Performance is Deteriorating



Source: HUD

Closing Thoughts



- Economic growth is slowing due to the increase in fiscal, interest rate, and inflation headwinds.
- Risk of a recession is rising due to the Federal Reserve's commitment to slow down the rate of inflation, which will have persistence.
- Lack of housing supply is a long-term threat to the health of the U.S. economy and is driving migration to affordable and less productive locations.
- The supply/demand imbalance has led to a market that is chronically overvalued and is sensitive to changes in mortgage rates.
- Overvaluation of expensive markets is leading to a migration out and it is driving growth in other more affordable markets, which can lead to climate risk implications.
- While serious delinquent rates and foreclosures remain low, FHA EPDs are on the rise.



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