

Quarterly Economic & Housing Market Outlook

Research & Insights: September 2023





Economy: Economic Growth Resilient Amidst Rising Rates

- Economic growth remains resilient and expected to remain stable in second half of 2023.
- Labor market cooling, but still tighter than pre-pandemic levels with unemployment rate equaling 50-year lows.
- Inflation moderating, but still above the Fed target.

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

- Mortgage rates on the rise again as Fed continues to raise short-term rates.
- High rates and high house prices continue to impact affordability, purchase applications and home sales.
- Existing home sales decline, while new home sales increase; new listings decline due to the rate-lock effect.
- Home prices rebound on low supply.

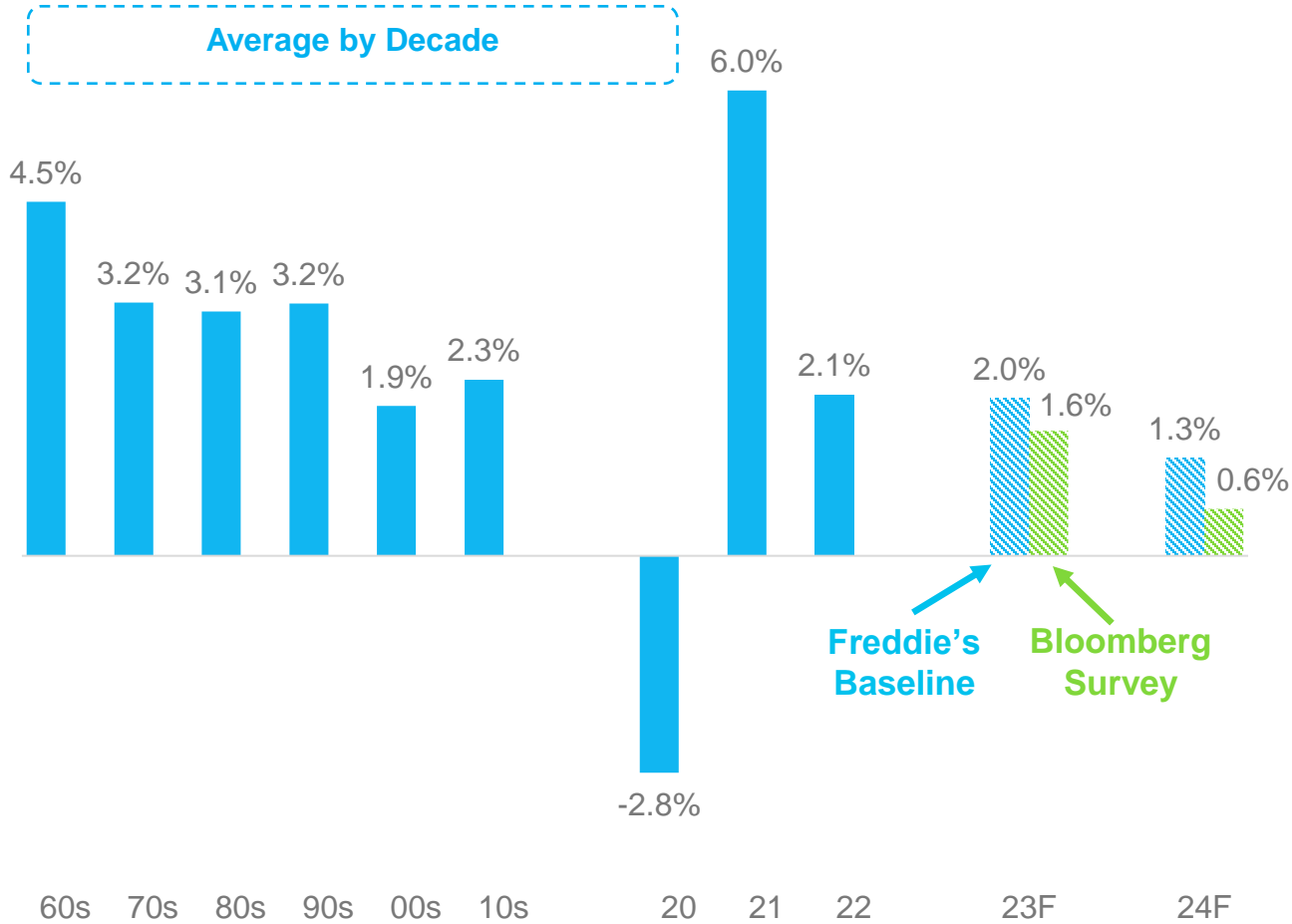


Economy: Economic Growth Resilient Amidst Rising Interest Rates

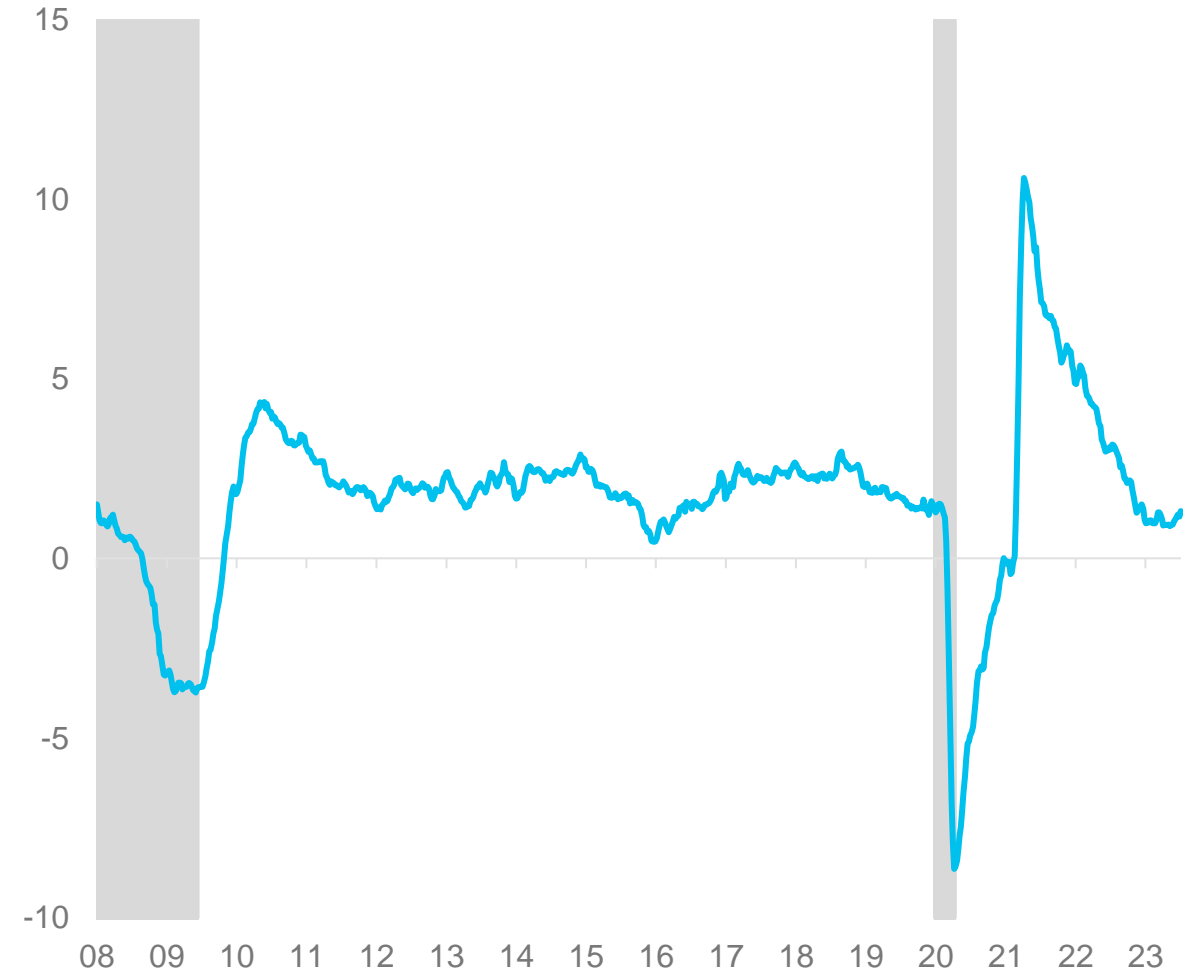
Economic Growth Resilient & Expected to Remain Stable in the Second Half of 2023



GDP Annualized Growth

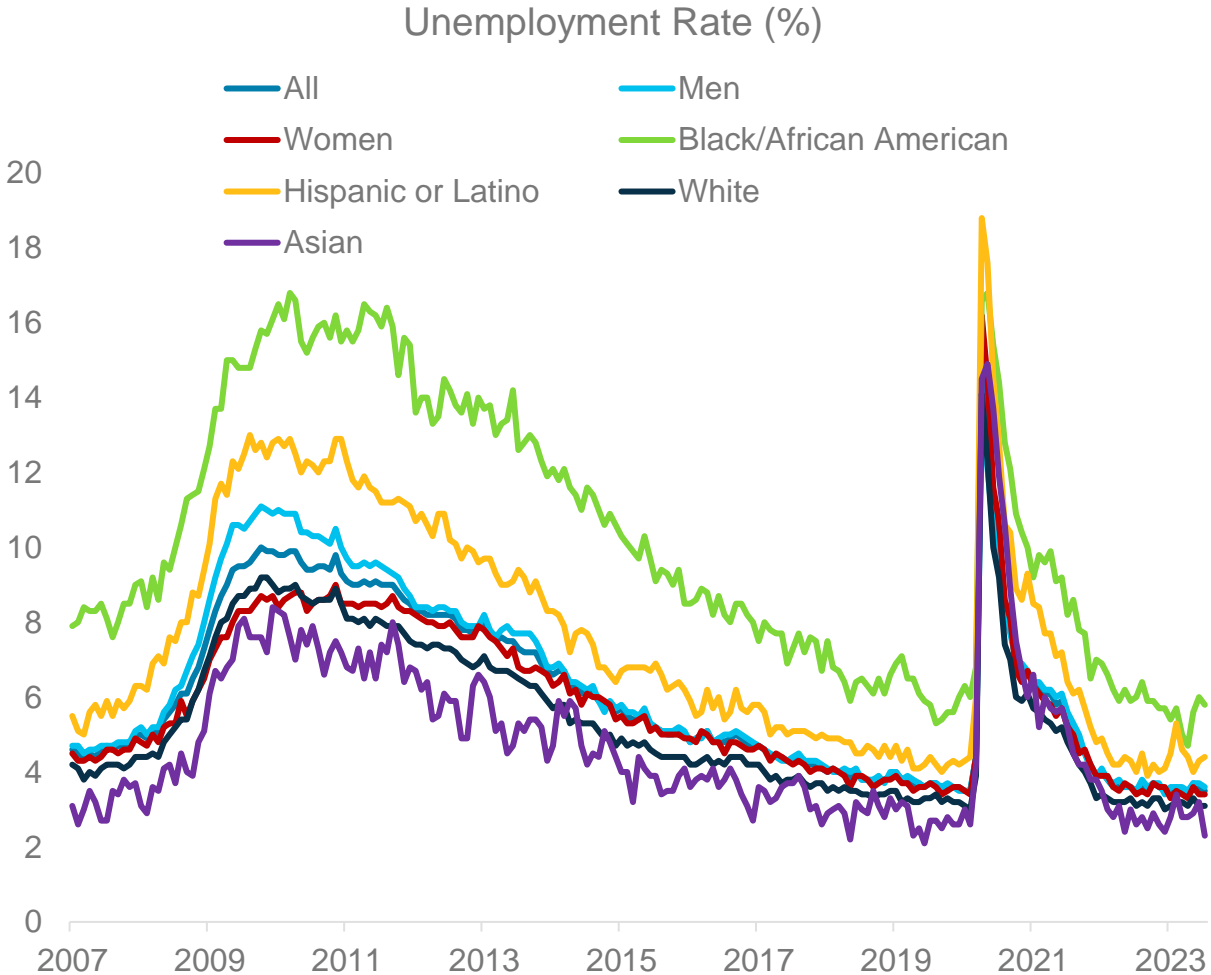
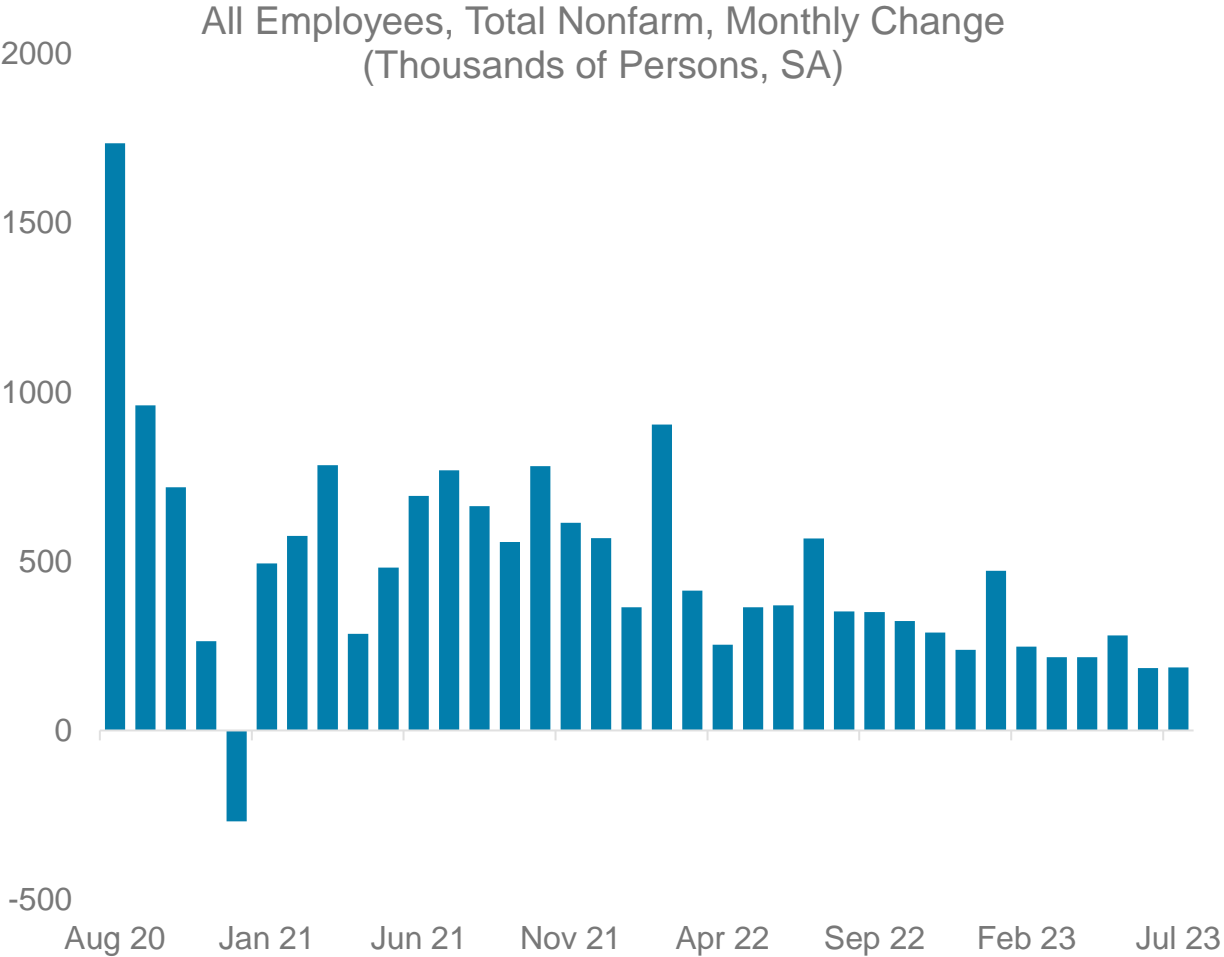


Weekly Economic Index 4-week Moving Average



Source: BEA, Moody's Baseline (August 2023), Bloomberg; Lewis, Daniel J., Mertens, Karel, Stock, James H.

Labor Market Remains Tight; Unemployment Rate at 3.5%



Source: BLS
Note: Data as of July 2023

Job Openings Plentiful, but Signs of Cooldown are Emerging



Job Openings per Unemployed Person



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

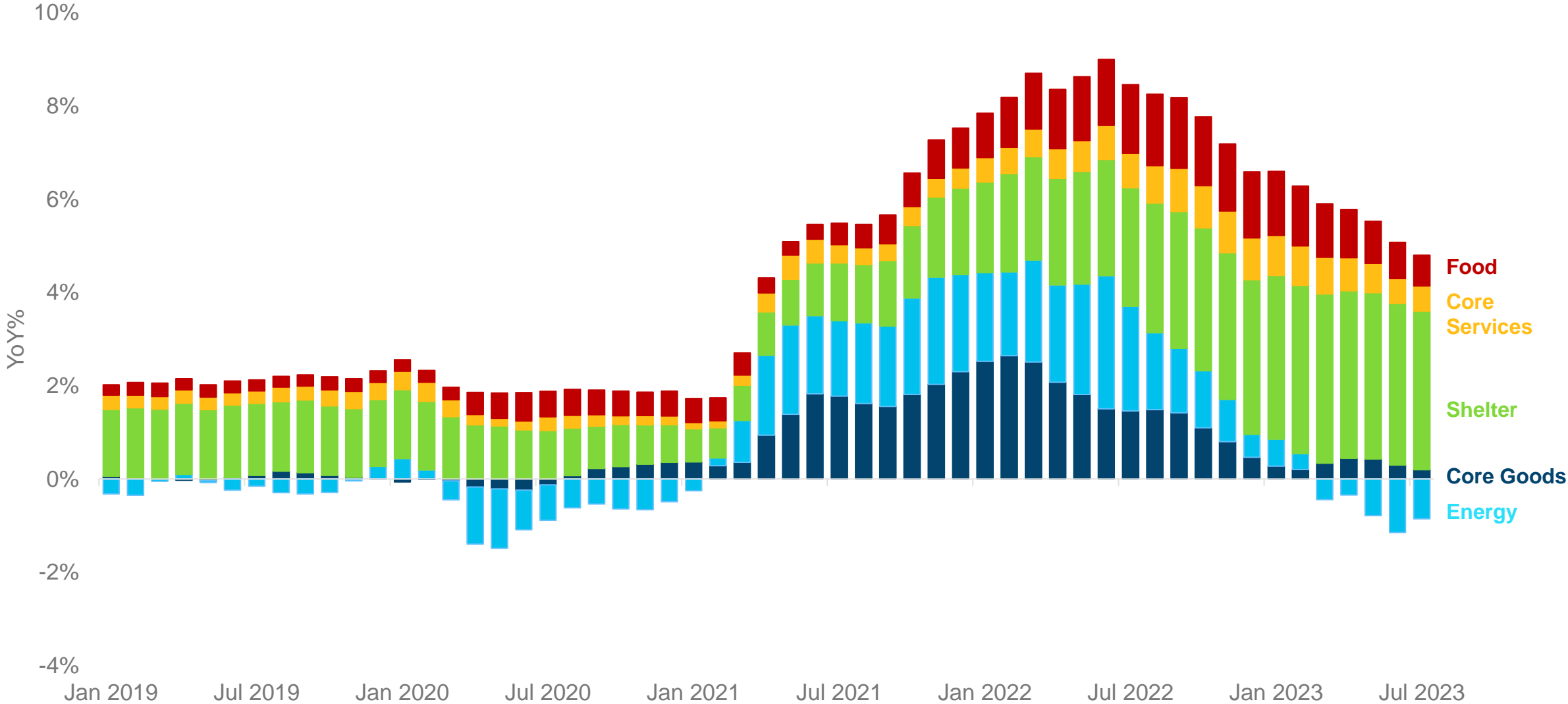


Source: BLS
Note: Data as of July 2023; List of S&P 500 Companies as of August 9, 2023

Goods & Energy Inflation Normalized, but Services Inflation High Due to Shelter Inflation



Contribution to Headline CPI Inflation



Source: Freddie Mac calculation based on July 2023 CPI data from BLS

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 June 2023



Market: Affordability Challenged by Higher Rates; House Prices Resilient

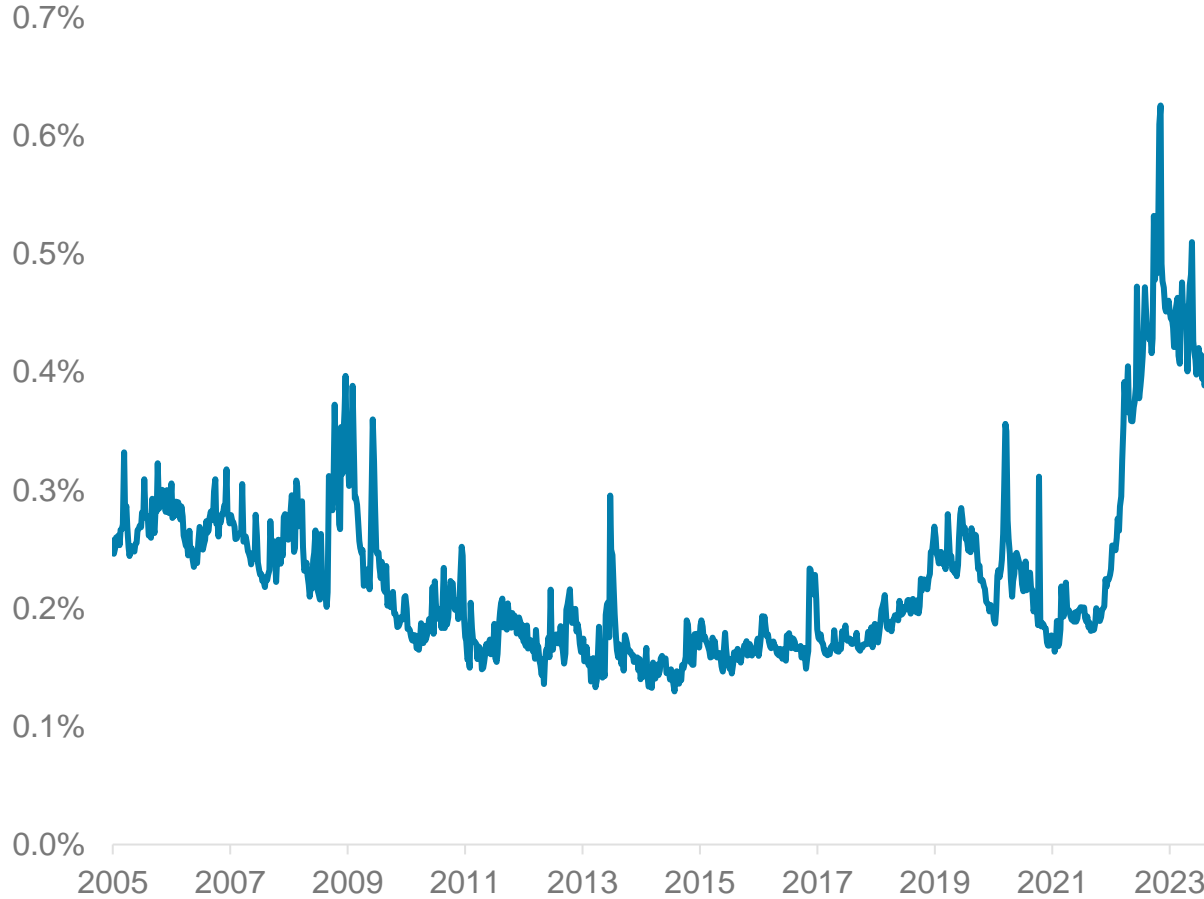
Mortgage Rates Rise After Declining at the Beginning of 2023; Dispersion in Mortgage Rates Decline



30-Year Fixed Rate Mortgage Rate
U.S Weekly Average



30-year Fixed Mortgage Rate Dispersion
Weekly Standard Deviation

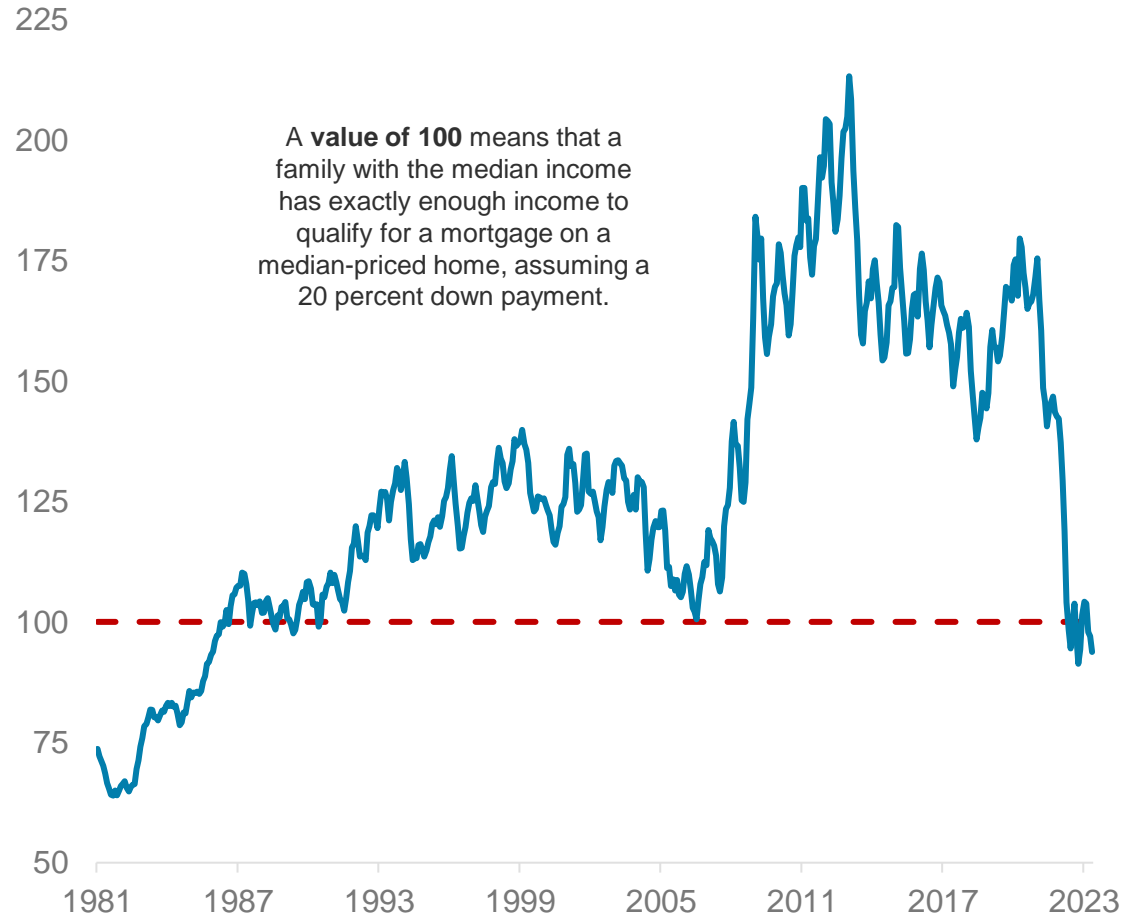


Source: Freddie Mac
Note: Dispersion is defined as the standard deviation in weekly mortgage rates

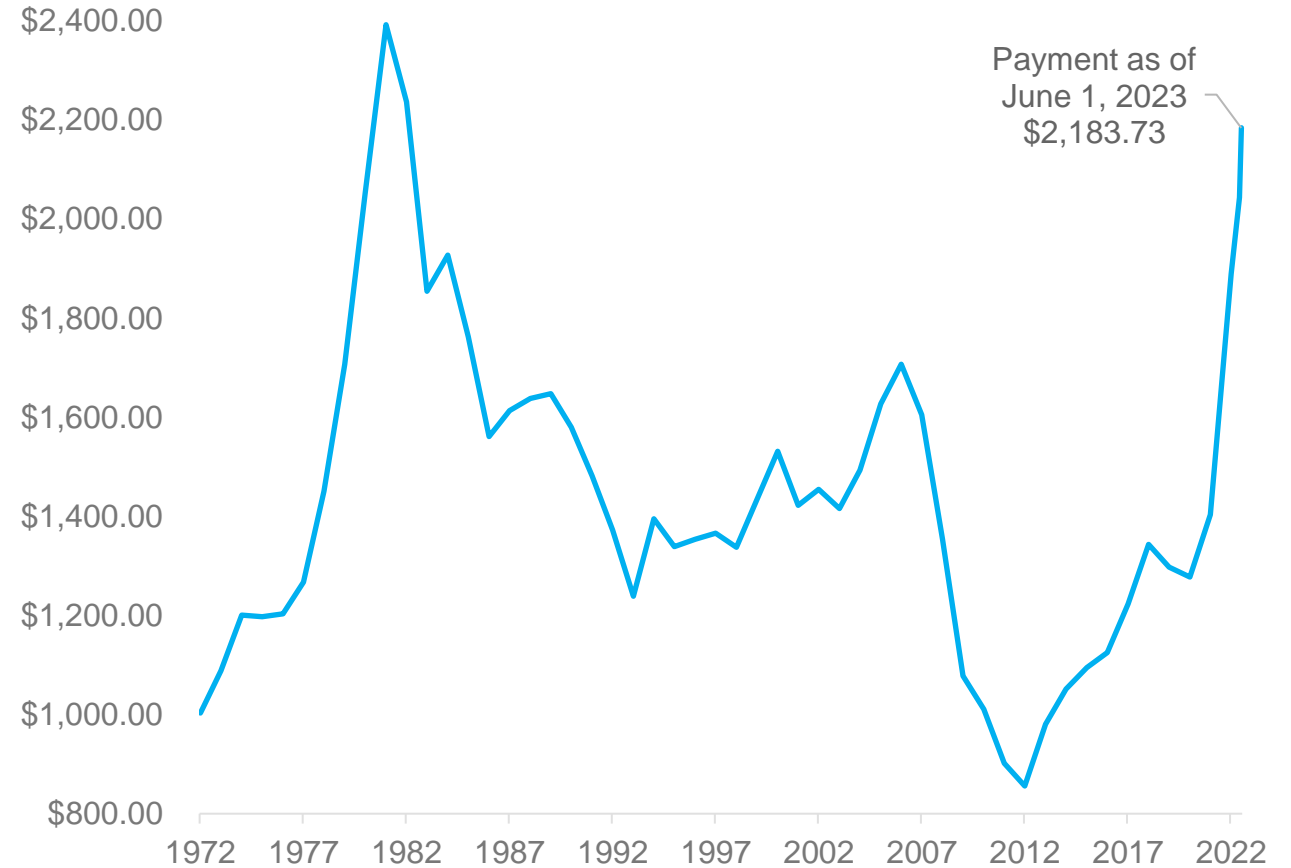
Housing Affordability Plunged on Rising Rates



NAR Fixed Rate Housing Affordability Index
Index, NSA



Monthly P&I Payment Needed for a Median Priced Home
(inflation adjusted, assuming 30-year fixed rate and 15% down)

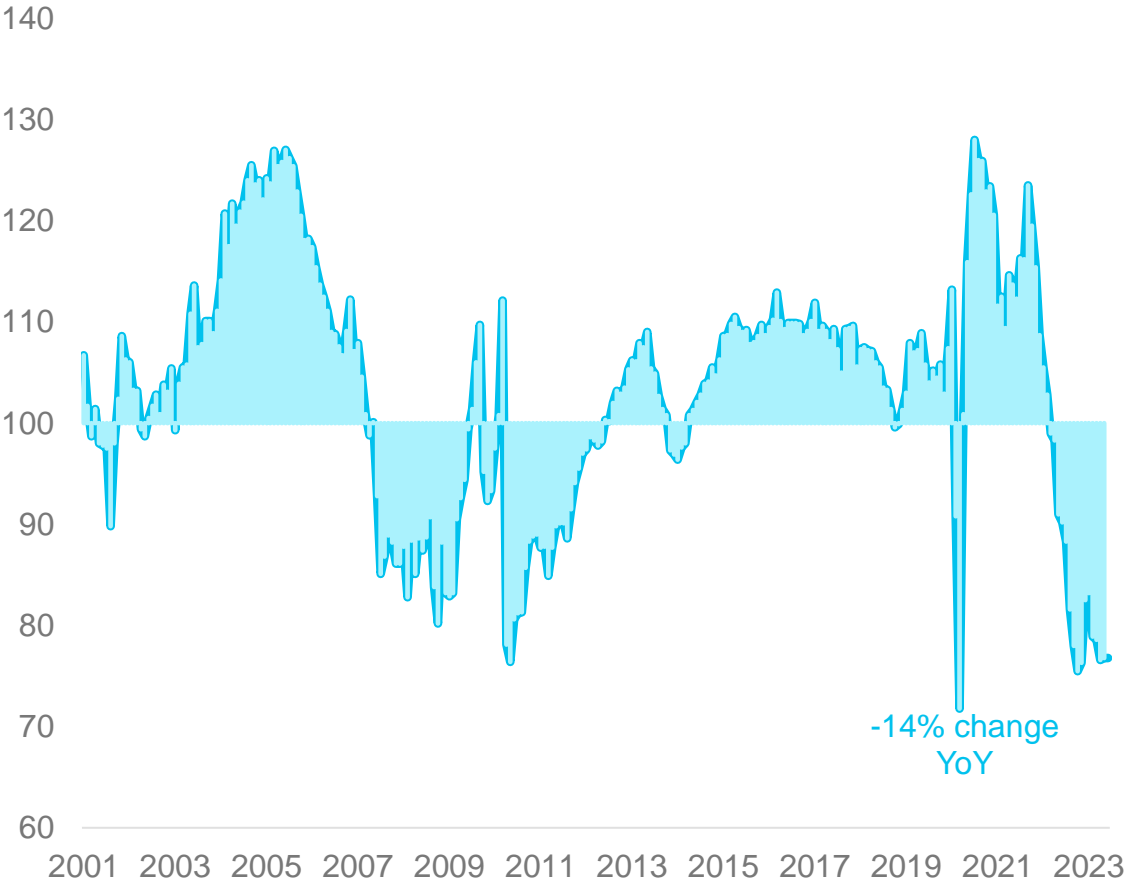


Source: NAR/Freddie Mac
Note: Calculations on the right hand chart based on Mortgage Rate as of June 2023 – 6.4%. The second chart is annual numbers except the 2023 value, which is based on our current estimate.

Affordability Remains Low – Extending the Contraction in the Purchase Market

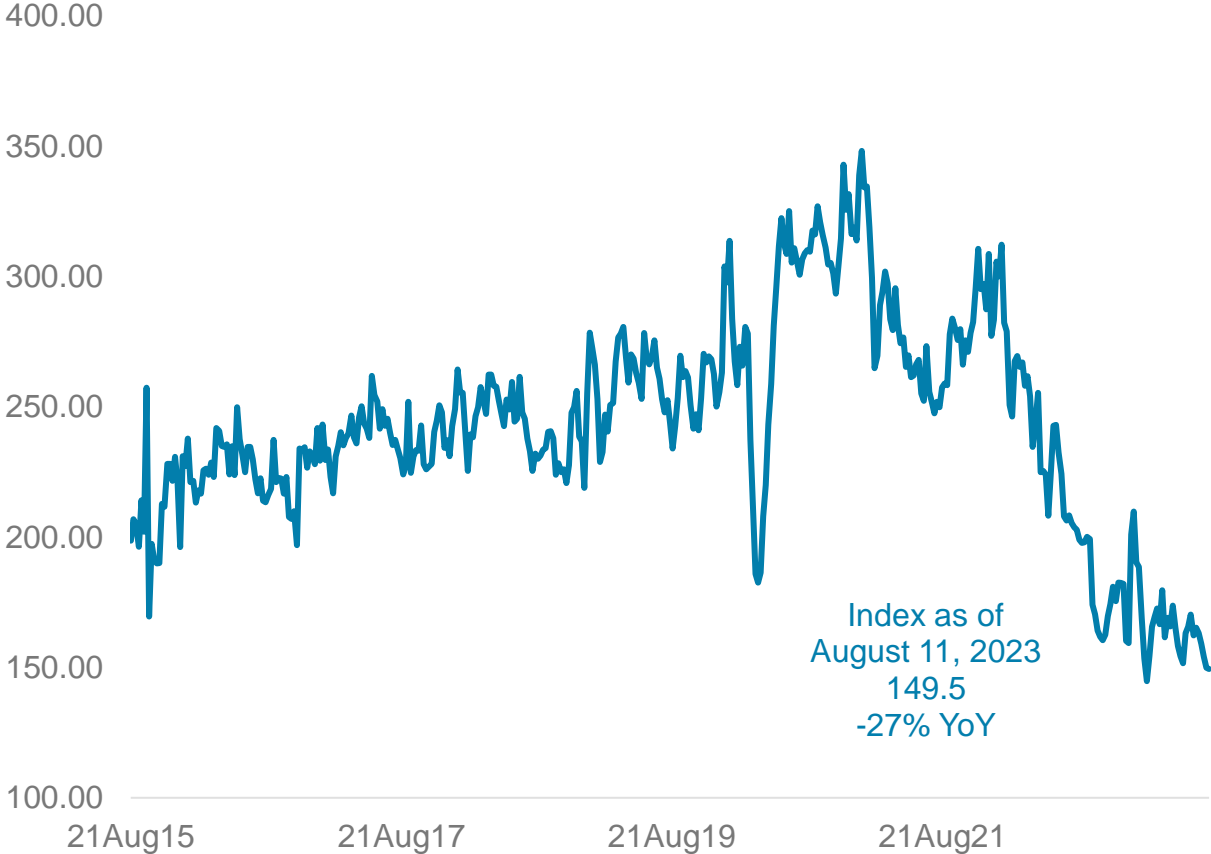


Pending Home Sales Index (SA)



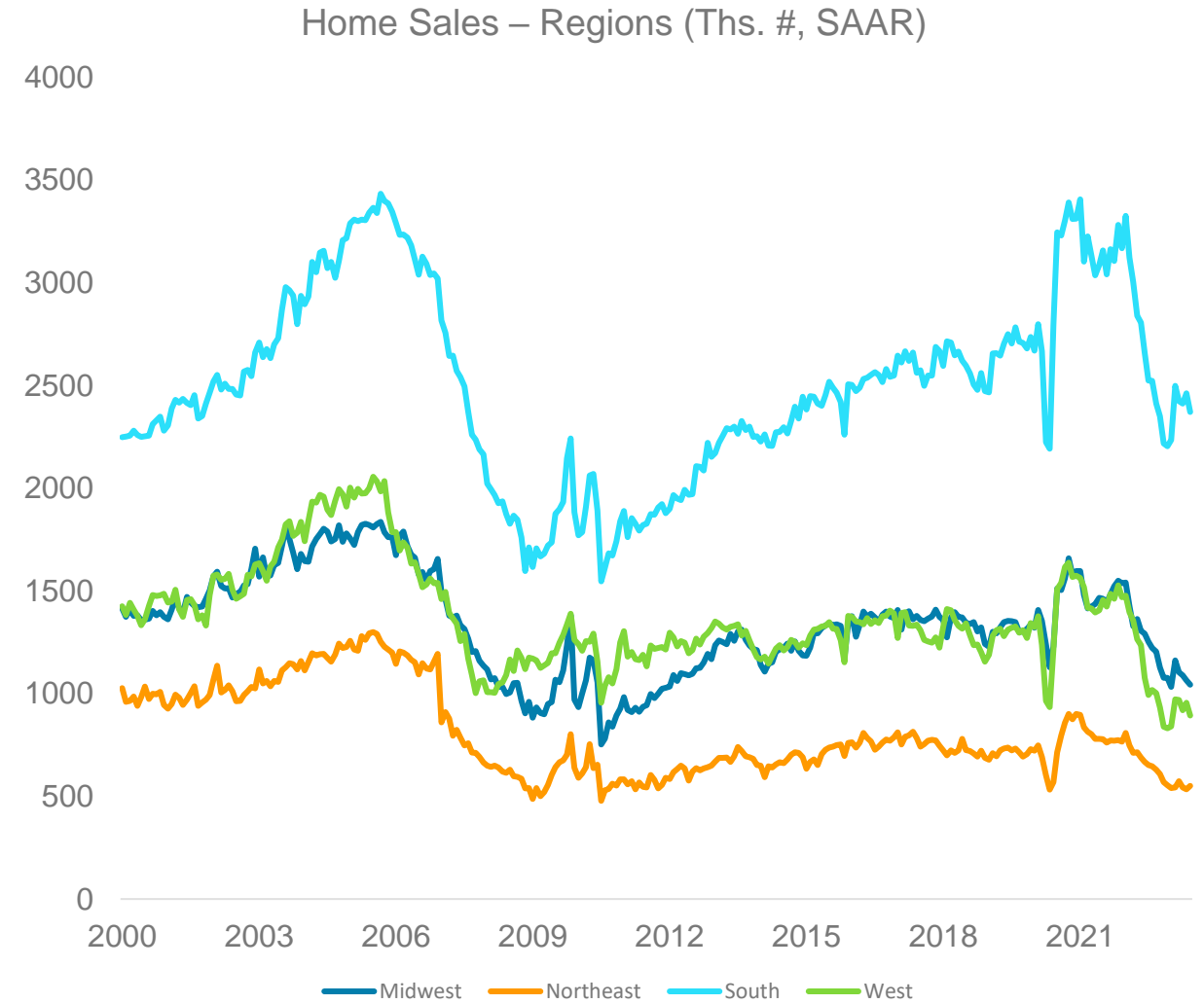
MBA Applications Survey Purchase Activity

Index 16mar1990=100, SA



Source: MBA; NAR

Home Sales Remain Low

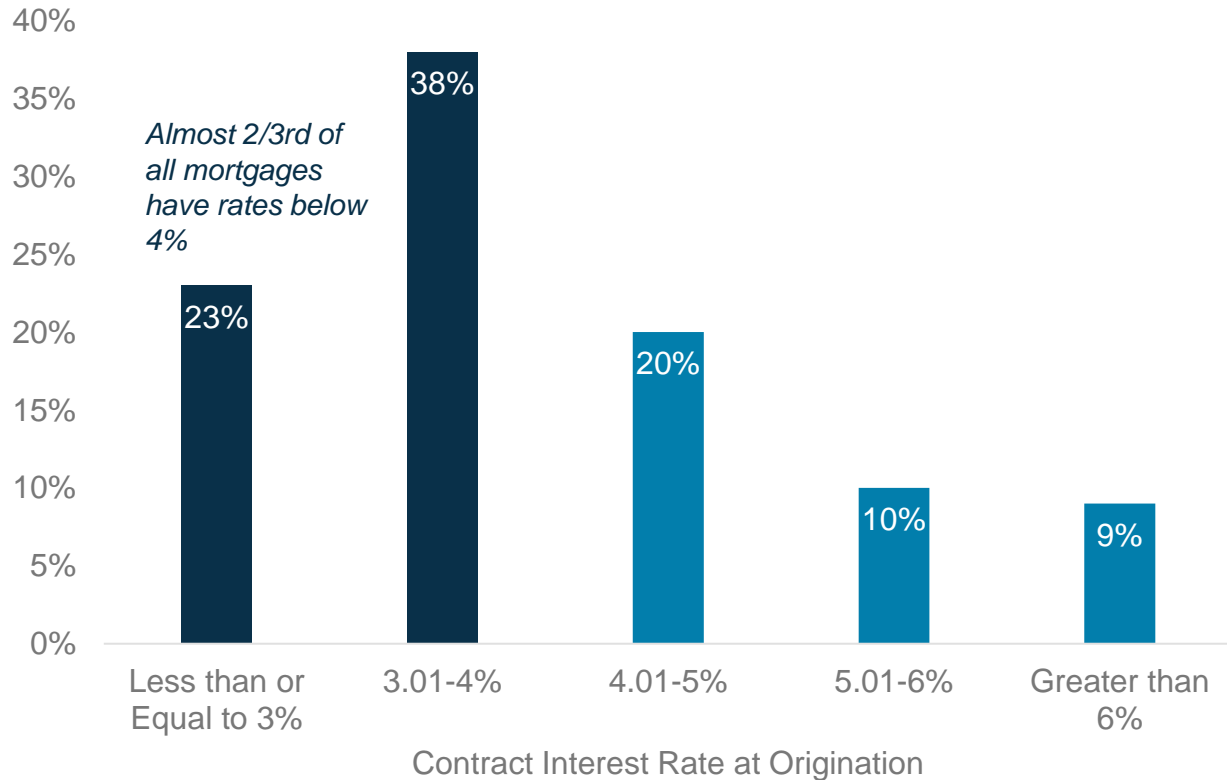


Sources: National Association of Realtors (NAR); U.S. Census Bureau. Total sales includes new and existing SF until 1999, when existing condos and coops are included
 Note: Data as of June 2023

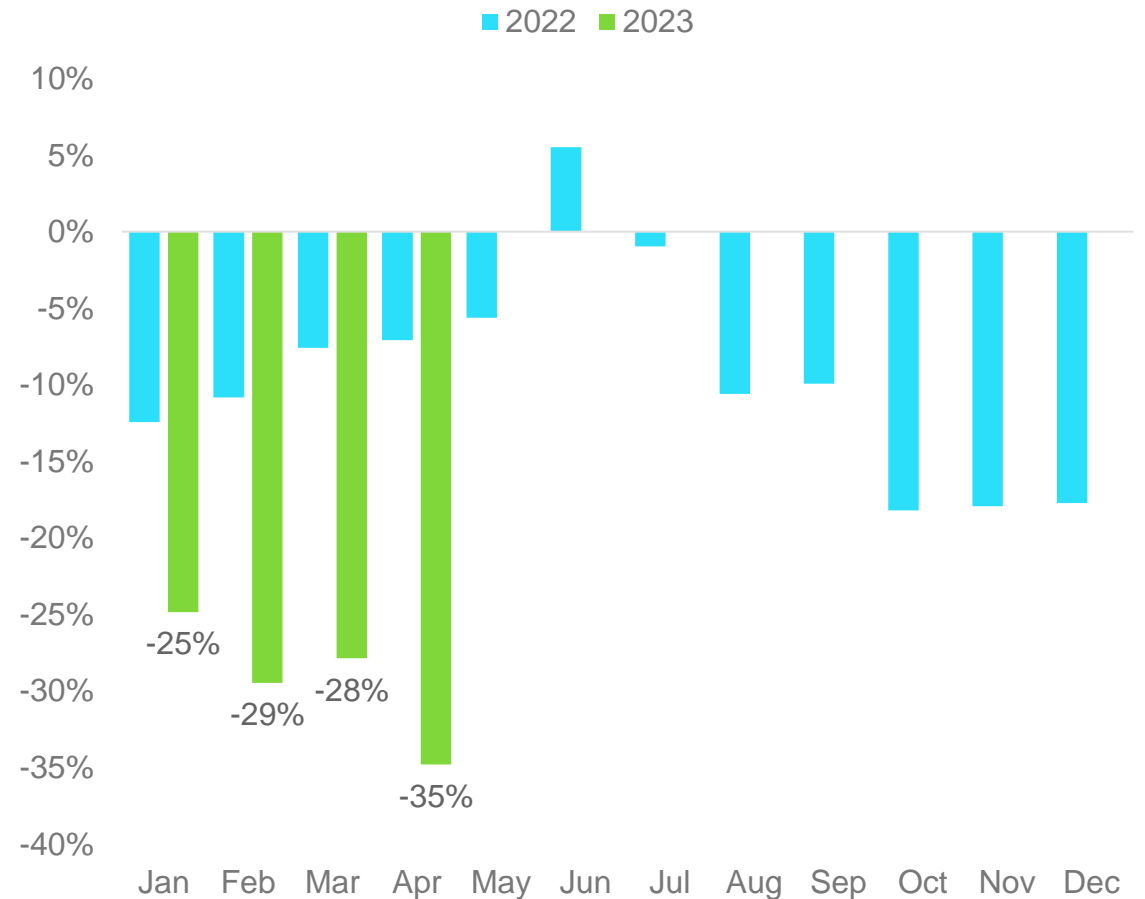
Rate-Lock Effect Means Few Existing Homes are Being Listed for Sale...



Percent Share of Outstanding Mortgages by Interest Rate- 2023Q1



Change in New Listings vs Avg of 2016-19

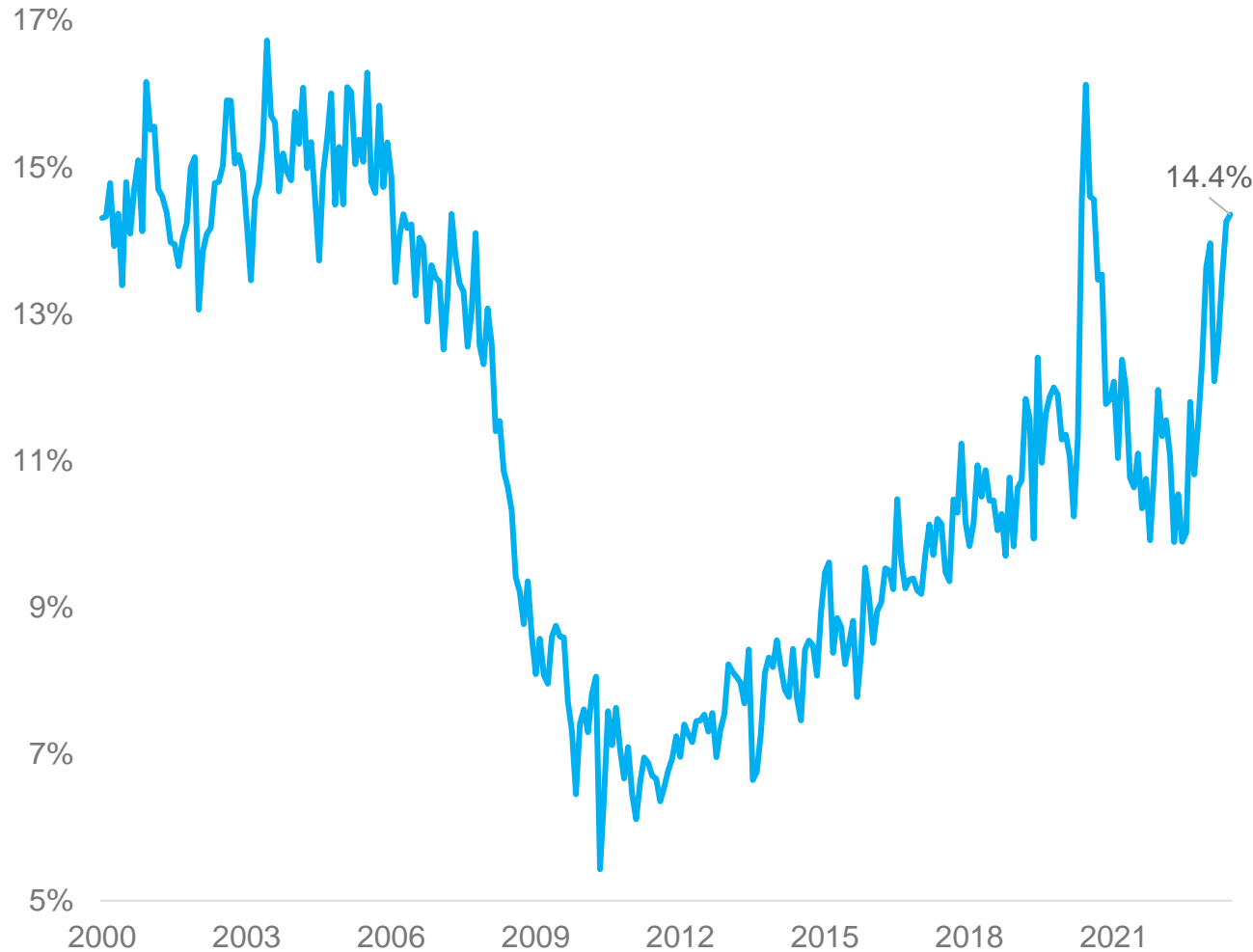


Source: NMDB, MLS

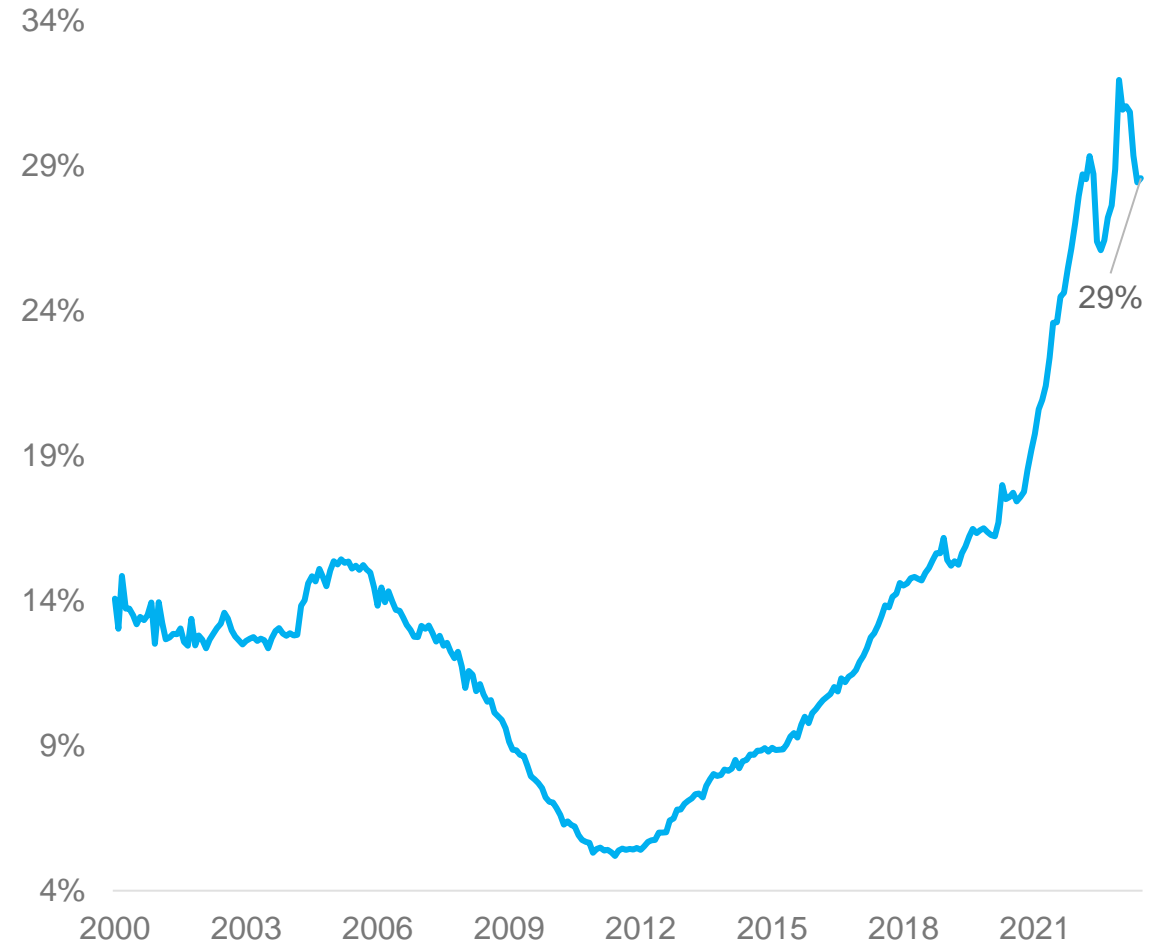
...Contributing to Increase in the Share of New Home Sales



New Home Sales as a Share of Total Home Sales



New Home Inventory as a Share of Total Available Inventory



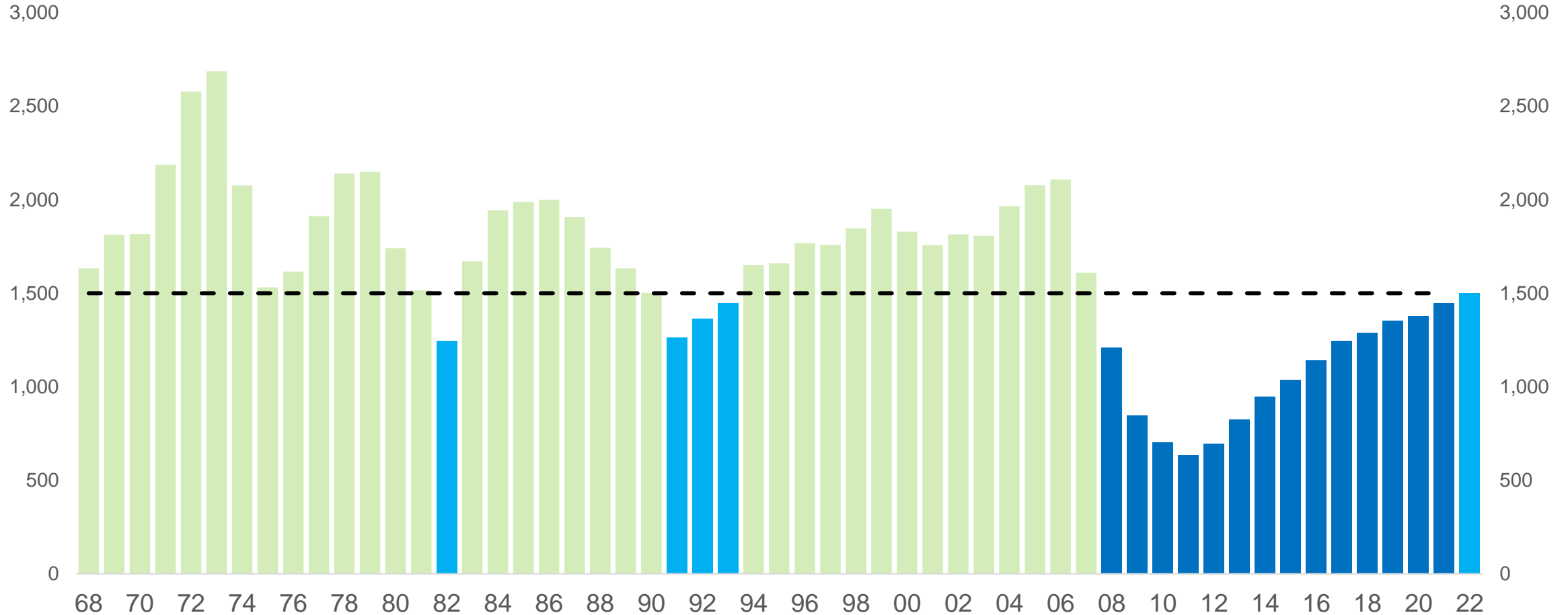
Source: U.S. Census Bureau; HUD

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)

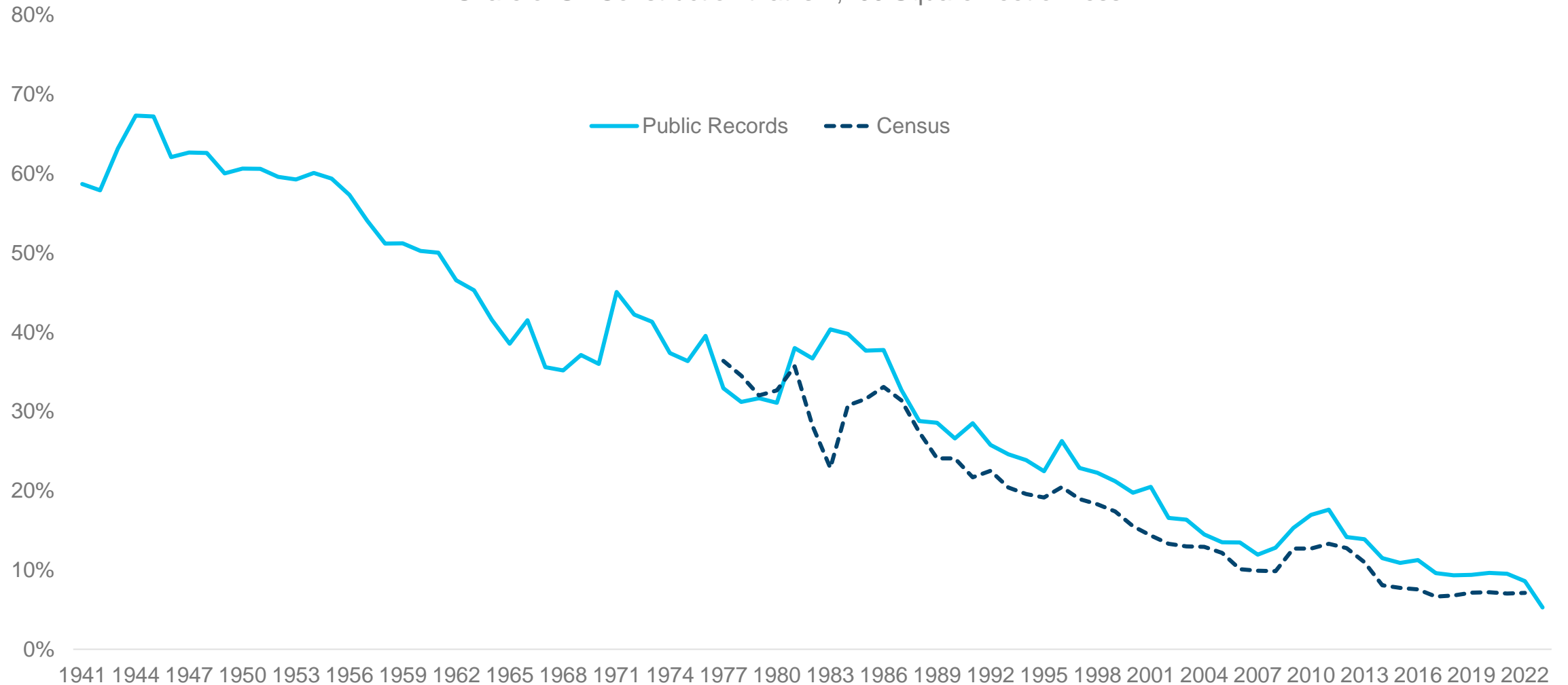


Source: U.S. Census Bureau and Department of Housing and Urban Development, Institute for Building Technology & Safety

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

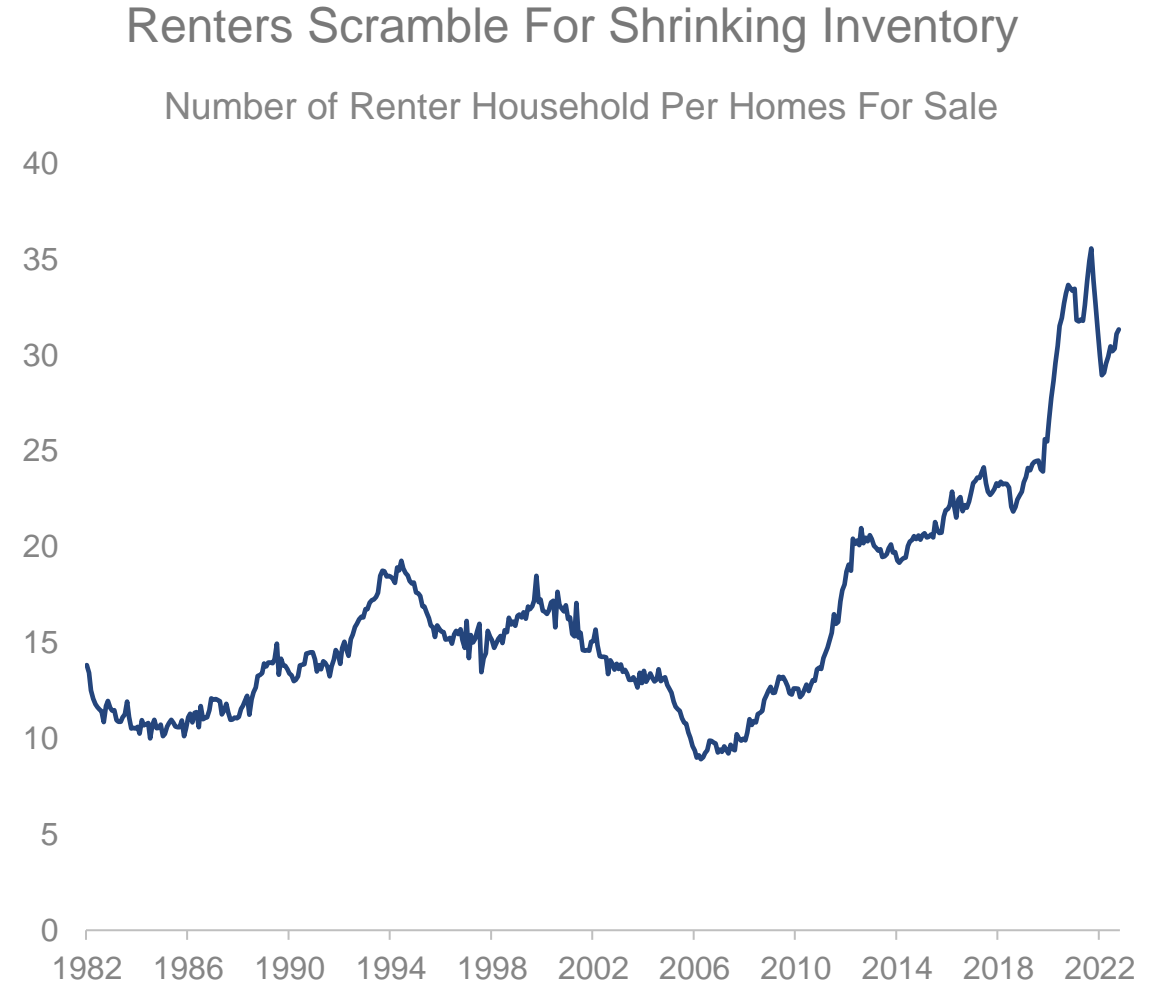
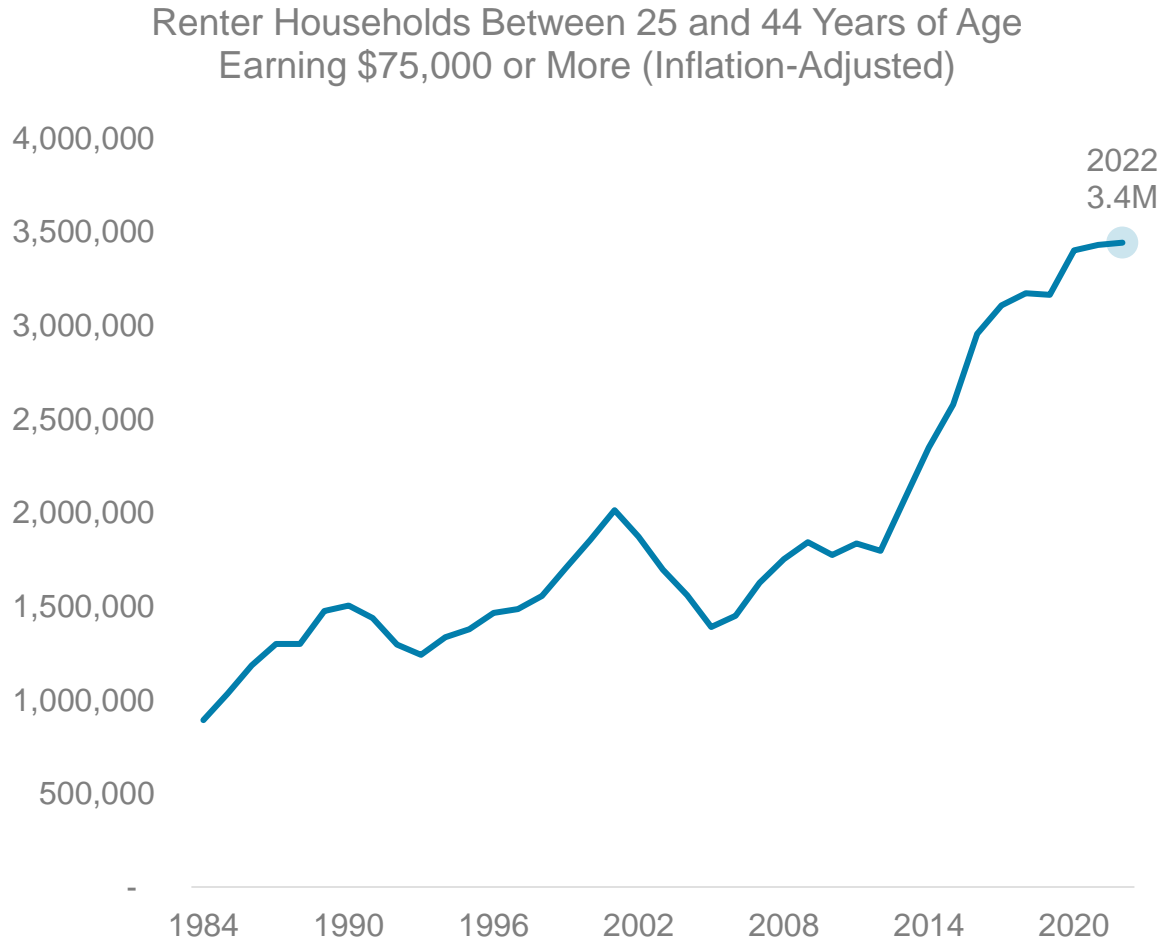


Share of SF Construction that is 1,400 Square Feet or Less



Source: Census and CoreLogic
Note: Data as of 2022

First-time Homebuyers Demonstrate Resiliency of Home Prices & Higher Interest Rates.

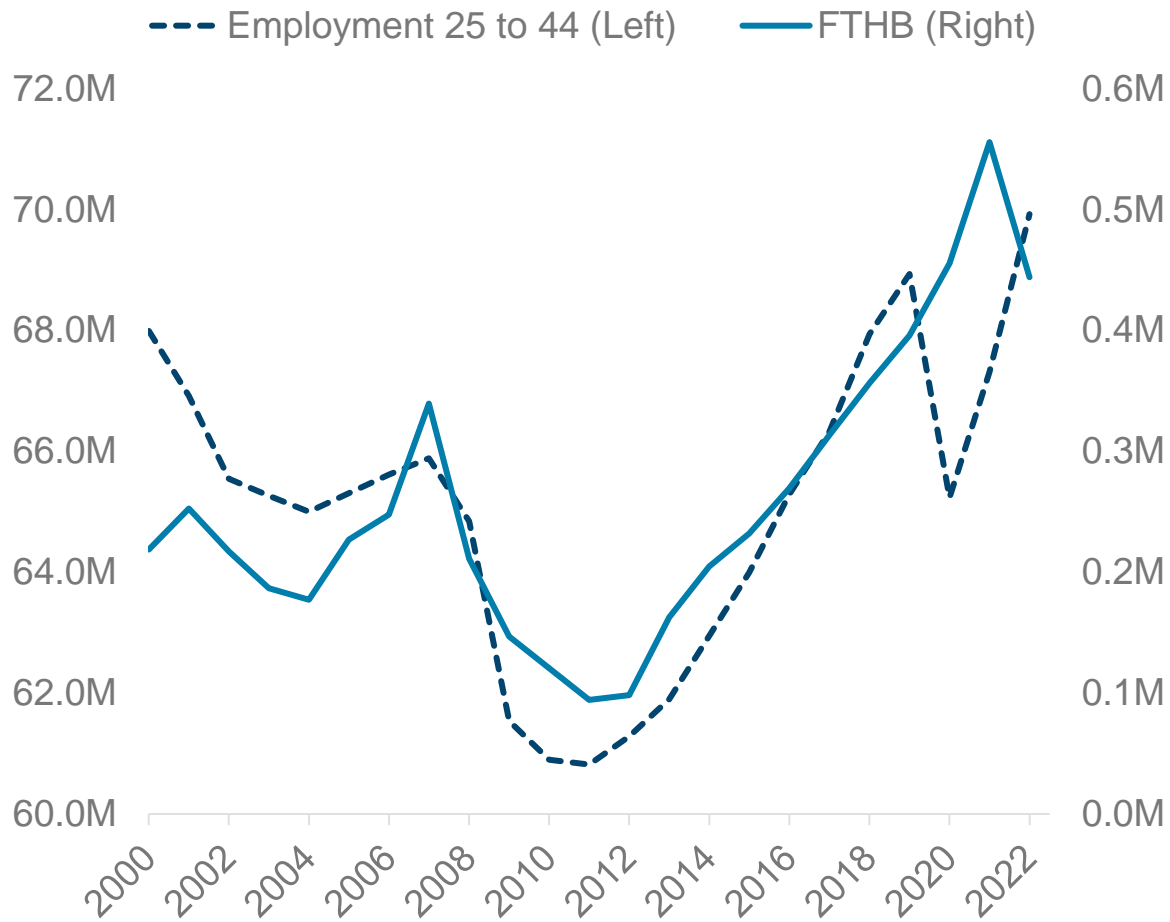


Source: Freddie Mac Funded Purchase Loan Data through 2023Q1 and Census. Non-FTHB counts include unknown FTHB status.

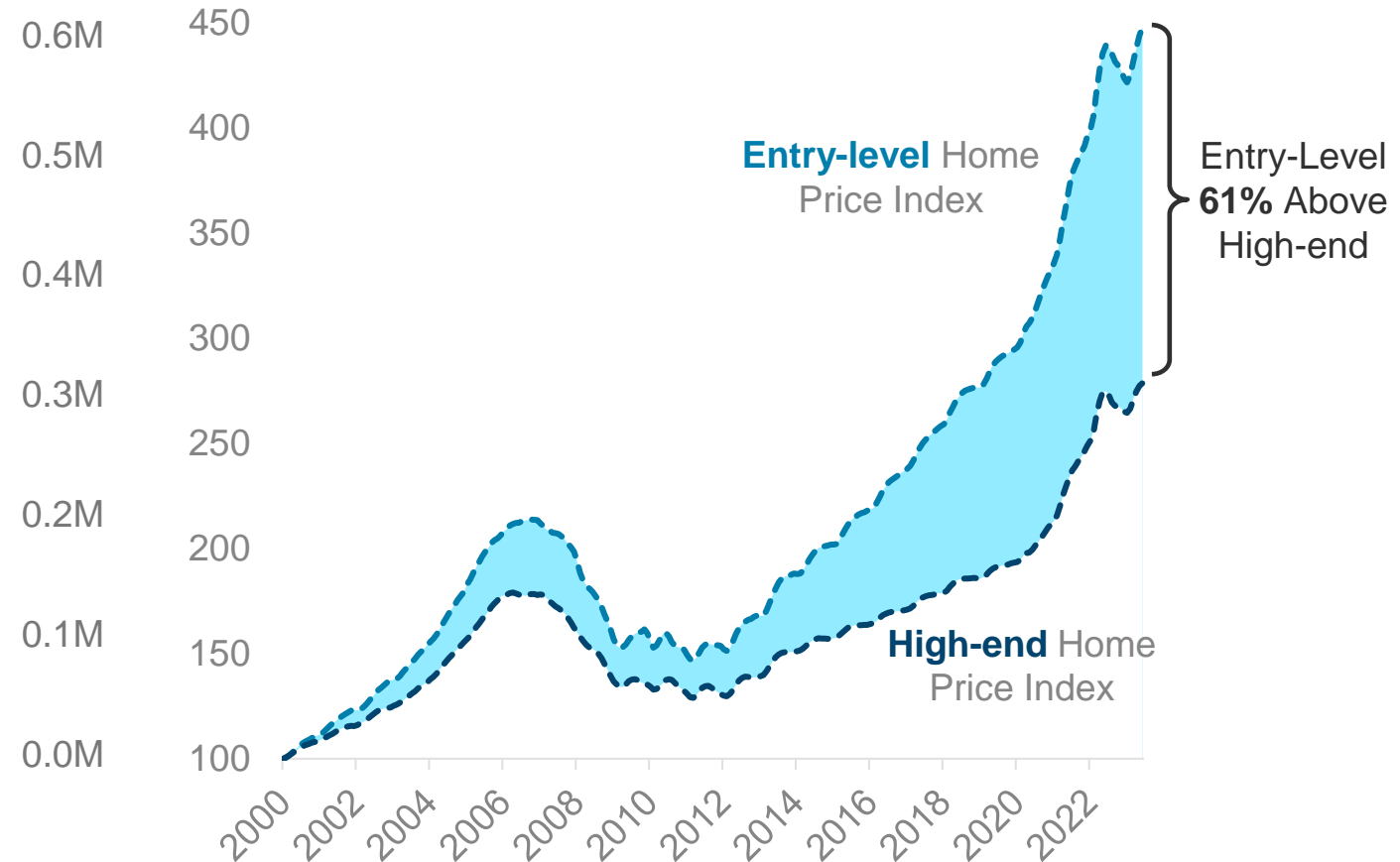
Strong Demand from Millennials Pushing Up Entry-Level Home Prices



Freddie Mac First-time Homebuyers vs 25-44 Employment (in Millions)



Cumulative Gap Between Entry Level and High End Home Prices – Home Price Index Level (2000=100)

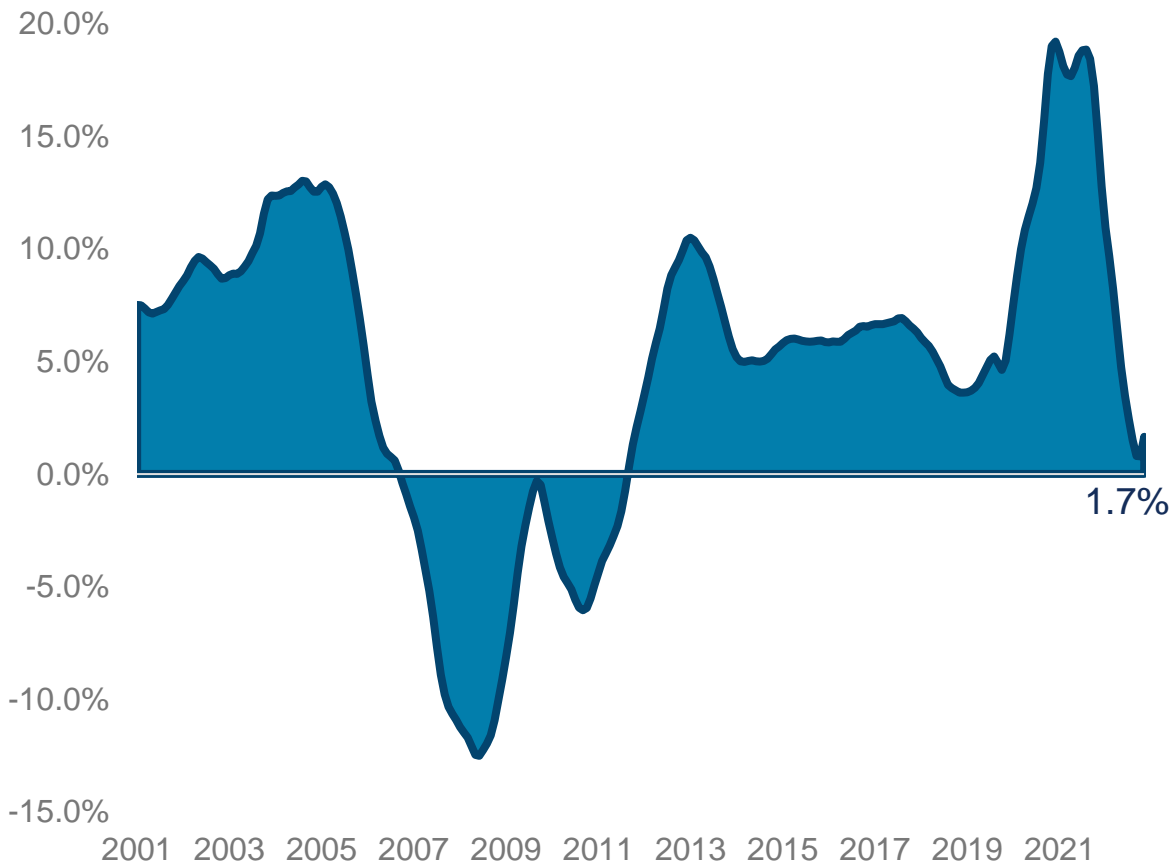


Source: Freddie Mac, BLS, Corelogic

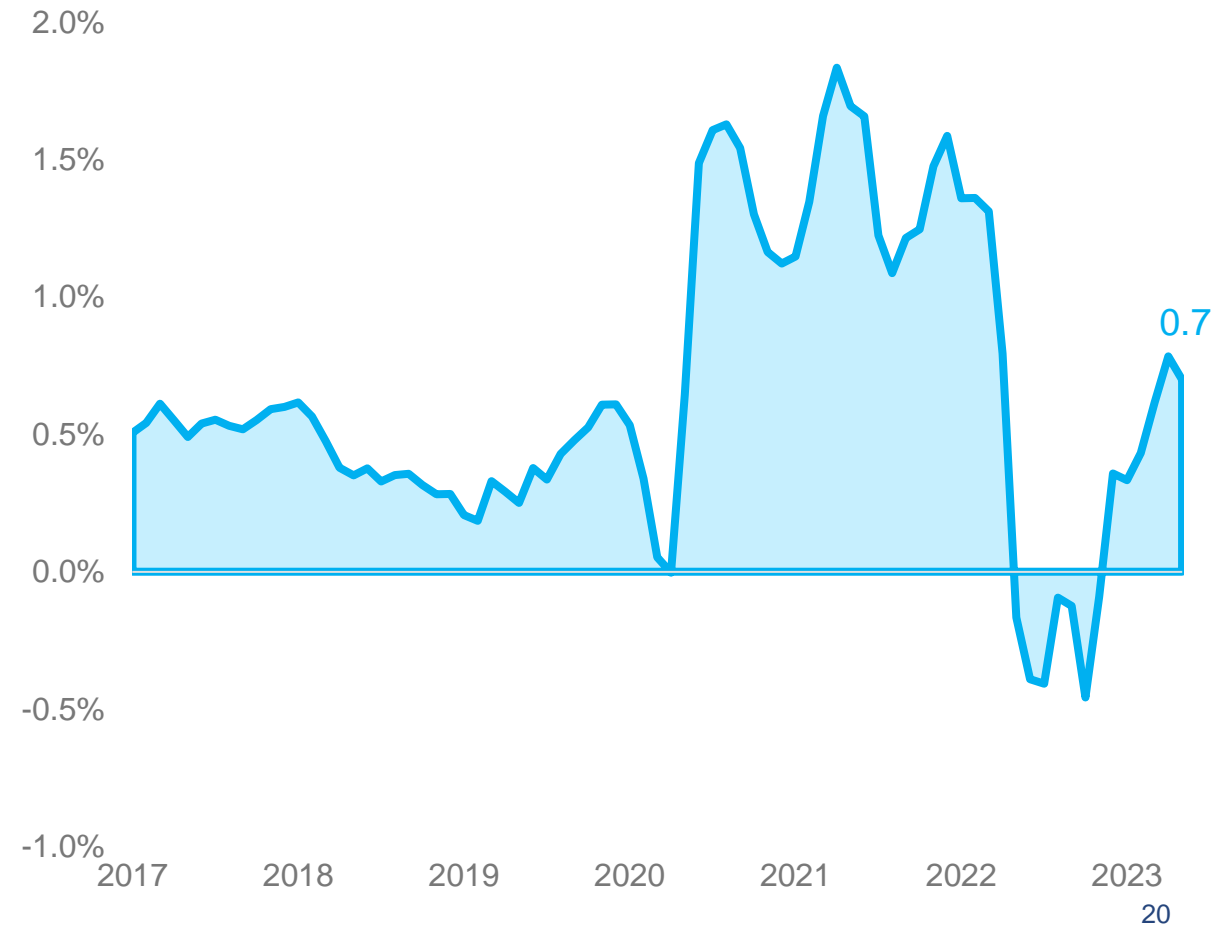
House Prices Are Rebounding After Declining in the Second Half of 2022



Freddie Mac House Price Index - June 2023
(Percent Change from Year Ago)



Freddie Mac House Price Index - June 2023
Percent Change from Month Ago, SA

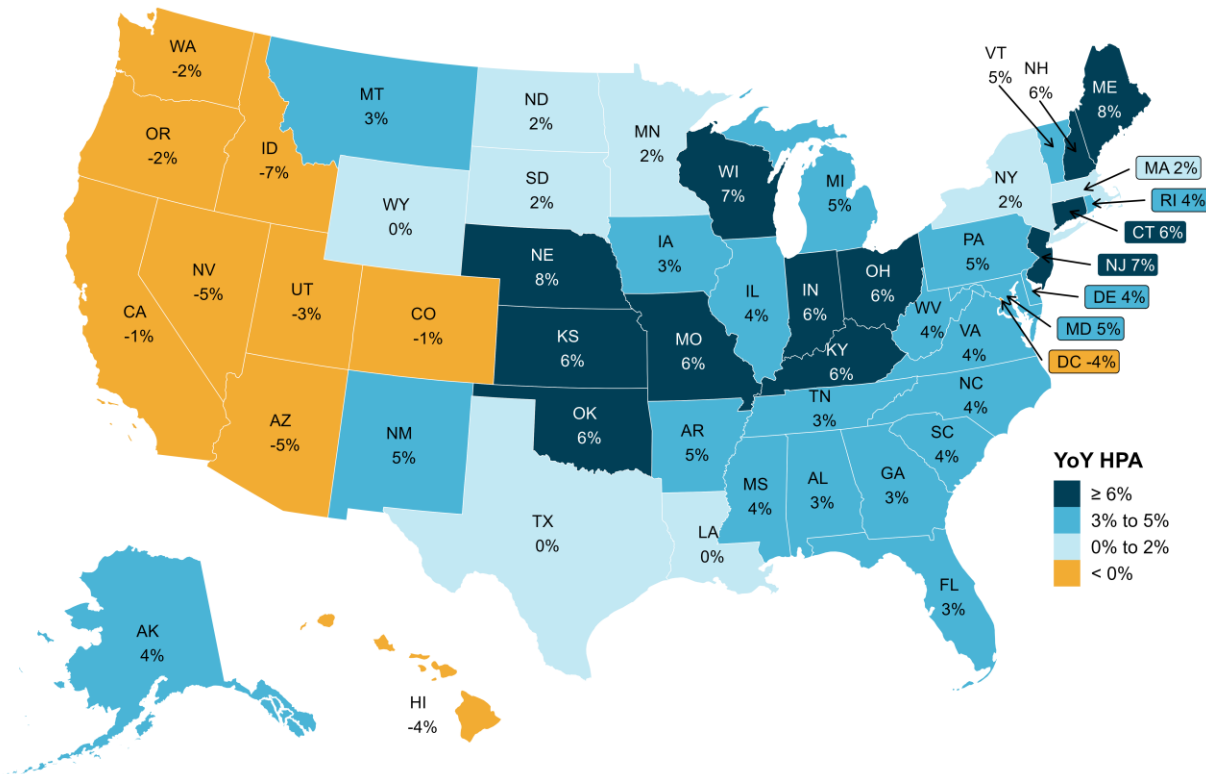


Source: Freddie Mac

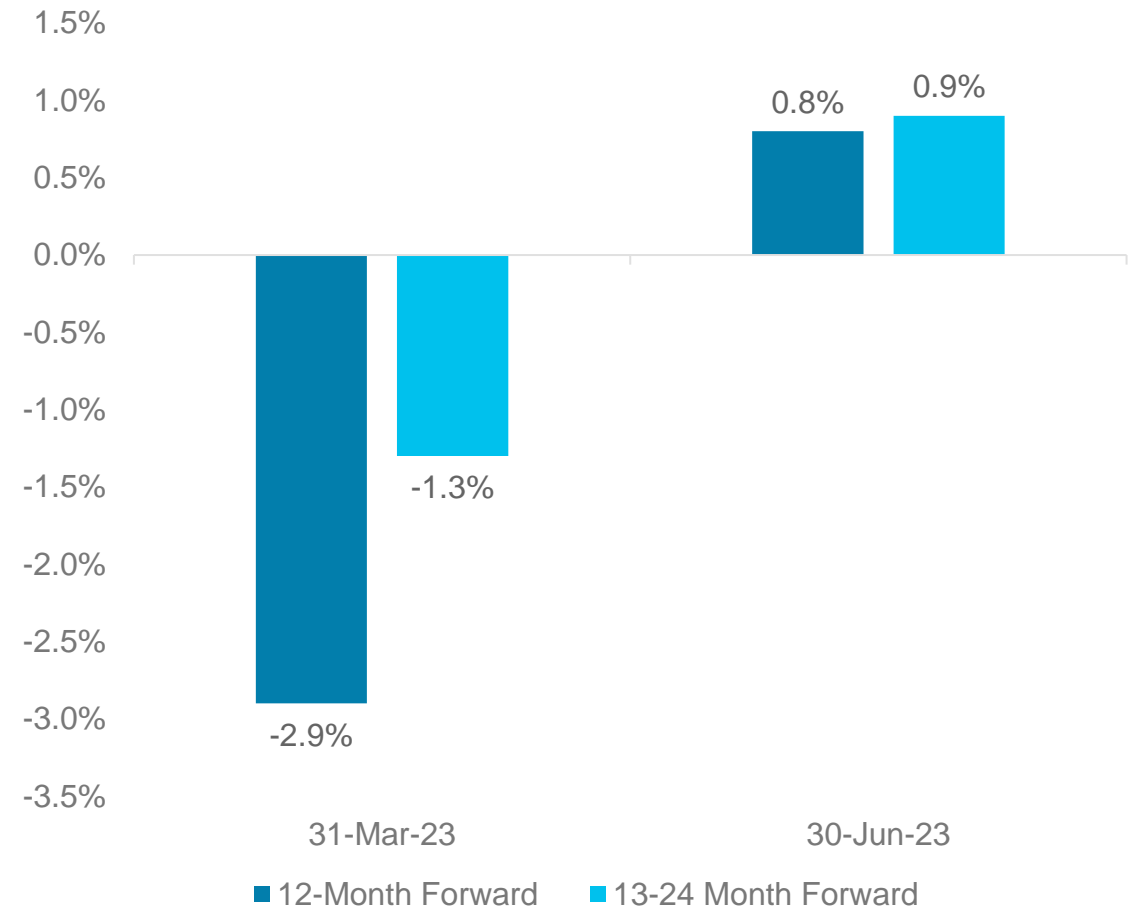
Prices in Western Markets Decline, but Most of U.S. Showing Positive Growth; House Prices to Increase 0.8% Over Next 12 Months



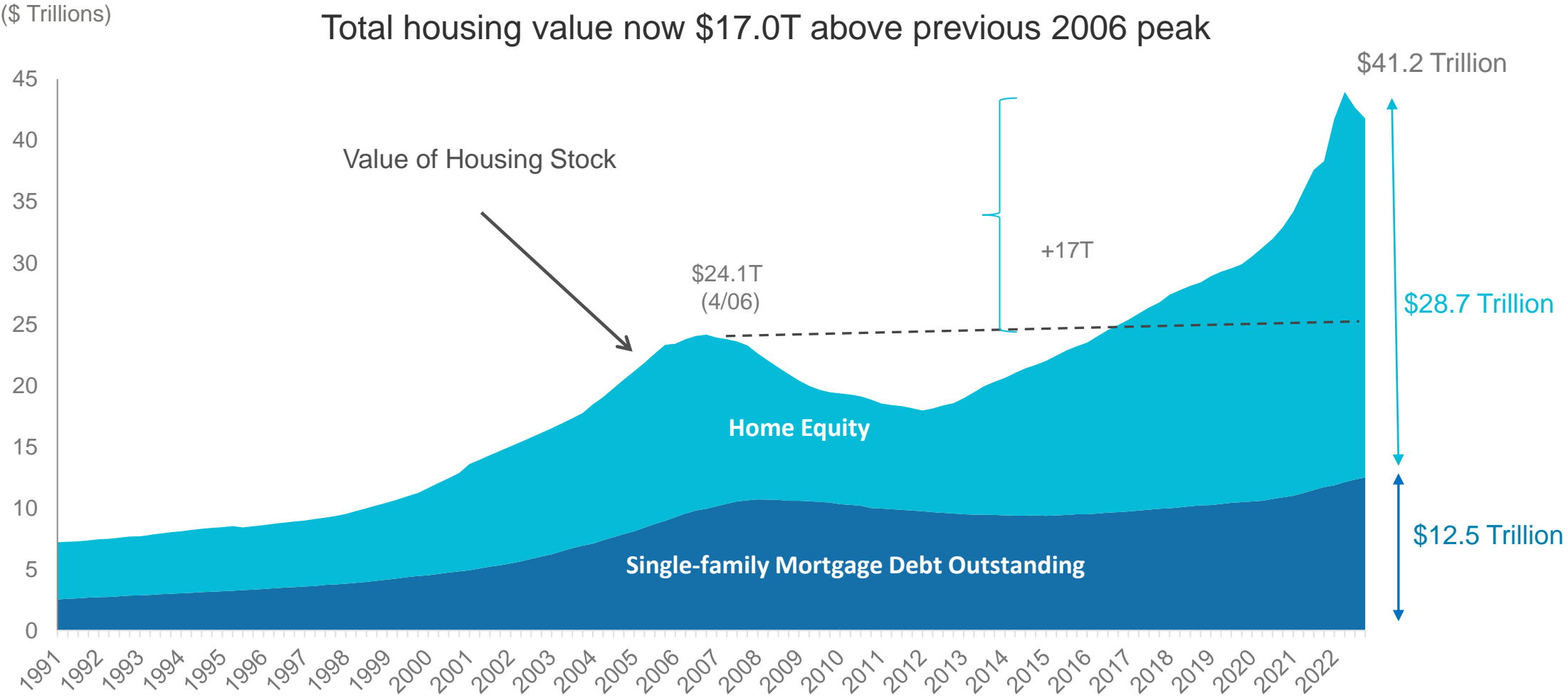
United States: 1.7%
Year-Over-Year Growth June 2023



Forecasted House Price Growth



Rising Home Prices Help Build Equity for Existing Homeowners



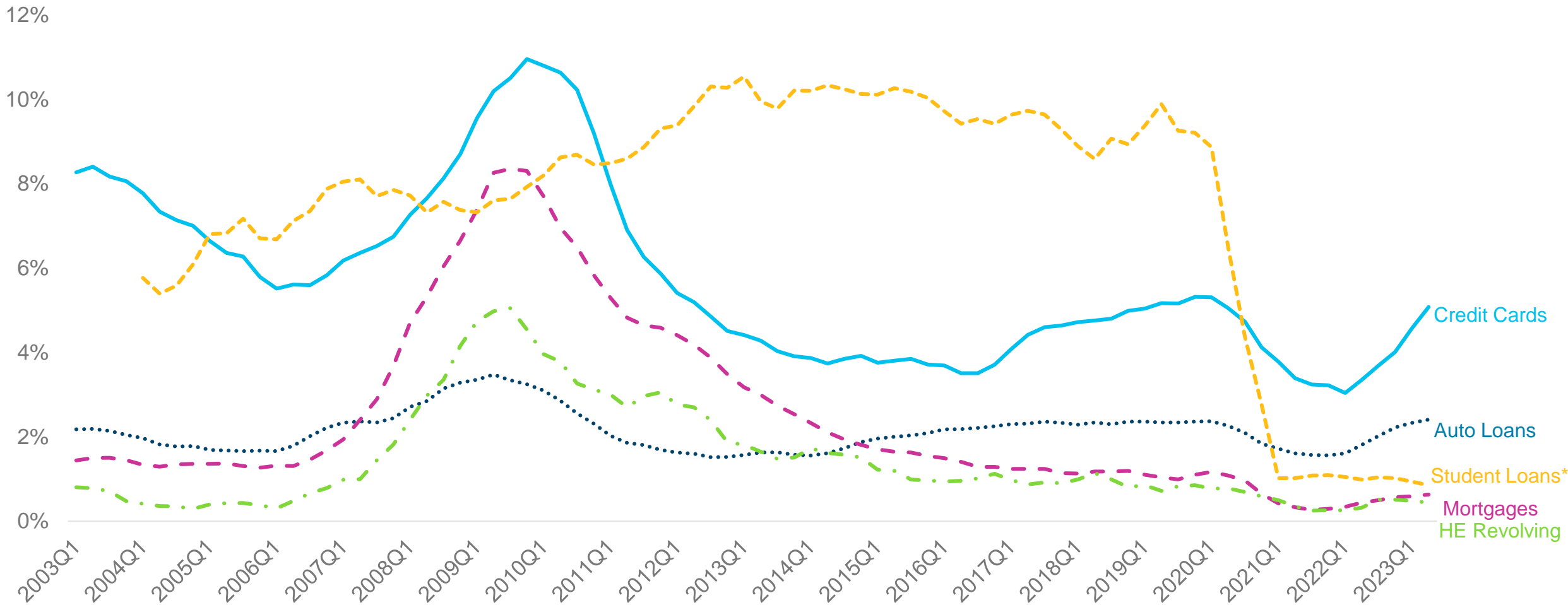
Note: Value of U.S. housing stock includes homes with and without underlying mortgages. U.S. home equity is the difference between the value of the U.S. housing stock and the amount of U.S. single-family mortgage debt outstanding.

Source: Federal Reserve Board's Financial Accounts of the United States, Table B. 101. Data as of March 31, 2023

Serious Delinquency Rate for Credit Cards & Autos Rise; Mortgage Performance Solid

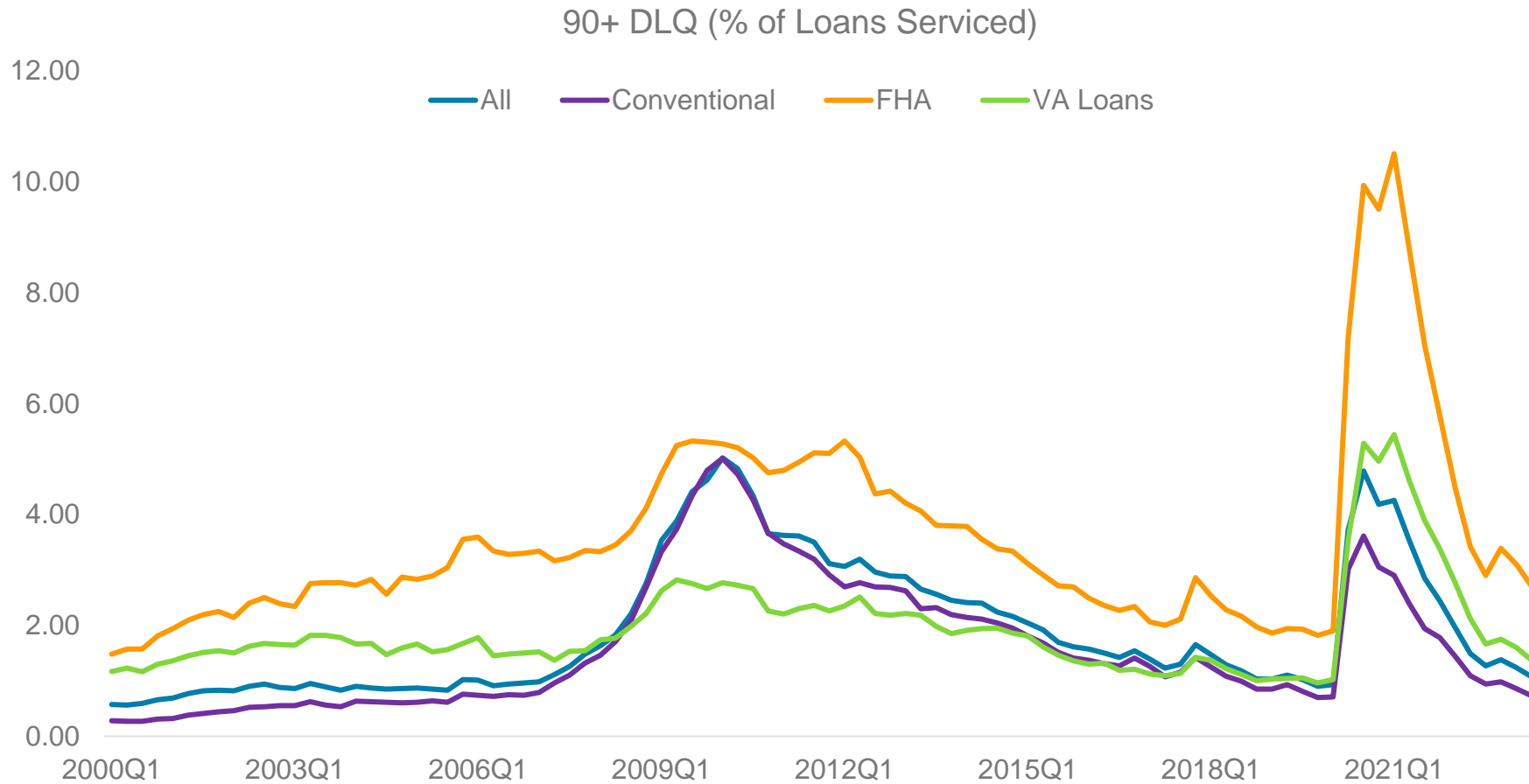


Transition Into Serious Delinquency (90+) by Loan Type
4 Quarter Moving Sum



Source: New York Fed Consumer Credit Panel/Equifax
*Student loan data are not reported prior to 2004 due to uneven reporting

Delinquency Rates Remain Low Across All Loan Types



Compared to Q1 2023

All : -17bps

Conventional: -13bps

FHA: -40bps

VA : -23bps

Compared to Q2 2022

All : -42bps

Conventional: -36bps

FHA: -72bps

VA : -75bps

Conclusion



- Under our baseline scenario, we expect inflation to continue cooling as the long and variable lags of monetary policy work through the economy.
- The mortgage rate lock-in effect continues to impact the listings of existing homes, which are down 35% as of April 2023, compared to the pre-pandemic average between 2016-19.
- Our official corporate forecast for the next 12 months has house prices increasing by 0.8% and an additional 0.9% over the subsequent twelve months. We expect tight inventory to keep the pressure on house prices.
- Due to lower home sales, purchase origination volumes are expected to remain muted this year, while high mortgage rates keep refinance activity low. As homebuyers get accustomed to the new normal in terms of mortgage rates, we expect home sales to pick up and purchase originations to resume modest growth in 2024.

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