

Economic & Housing Market Themes and Outlook

Q3 2022 Research and Insights



Overview



Macroeconomic Outlook

- Rapid economic growth in 2021, but growth now slowing due to fiscal, monetary and inflationary drags with high prospect of a recession in 2023.
- Labor market starting to moderate even as unemployment rate is close to 50-year low.
- Inflation surges with the rotation of consumer spending into services aiding in inflation broadening and becoming more persistent.

Housing & Mortgage Market Outlook

- Housing demand hit hard by worsening affordability; risks remain on downside as buyers choosing to wait and see.
- Mortgage rates increase at the fastest pace in 40 years.
- Sales of existing homes are plunging and down 24% from a year ago and down 14% compared to pre-pandemic in August 2019.
- Mortgage applications are down around 50% from their peak, and 33% compared to 2019's average, suggesting further softening in sales coming.
- While inventory has increased, it remains low by historical standards.
- Month-over-month home price growth appears to be slightly negative overall, with pronounced weakness out West.

Distress Supply, Delinquencies & Foreclosures

- Mortgage delinquencies and foreclosures ticking up slightly.

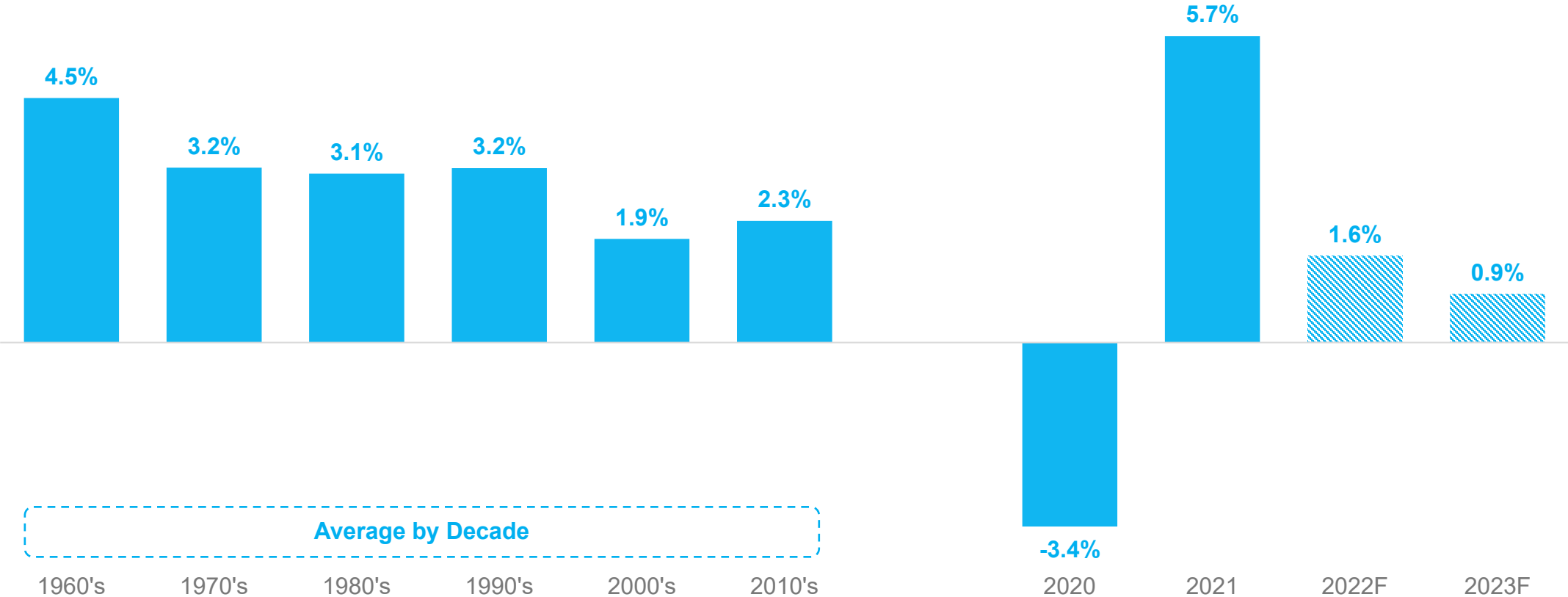


U.S. Macroeconomic Outlook

Economic Growth for 2021 Highest Since 1984; Expected to Moderate in 2022 & 2023



GDP (Annualized Growth)



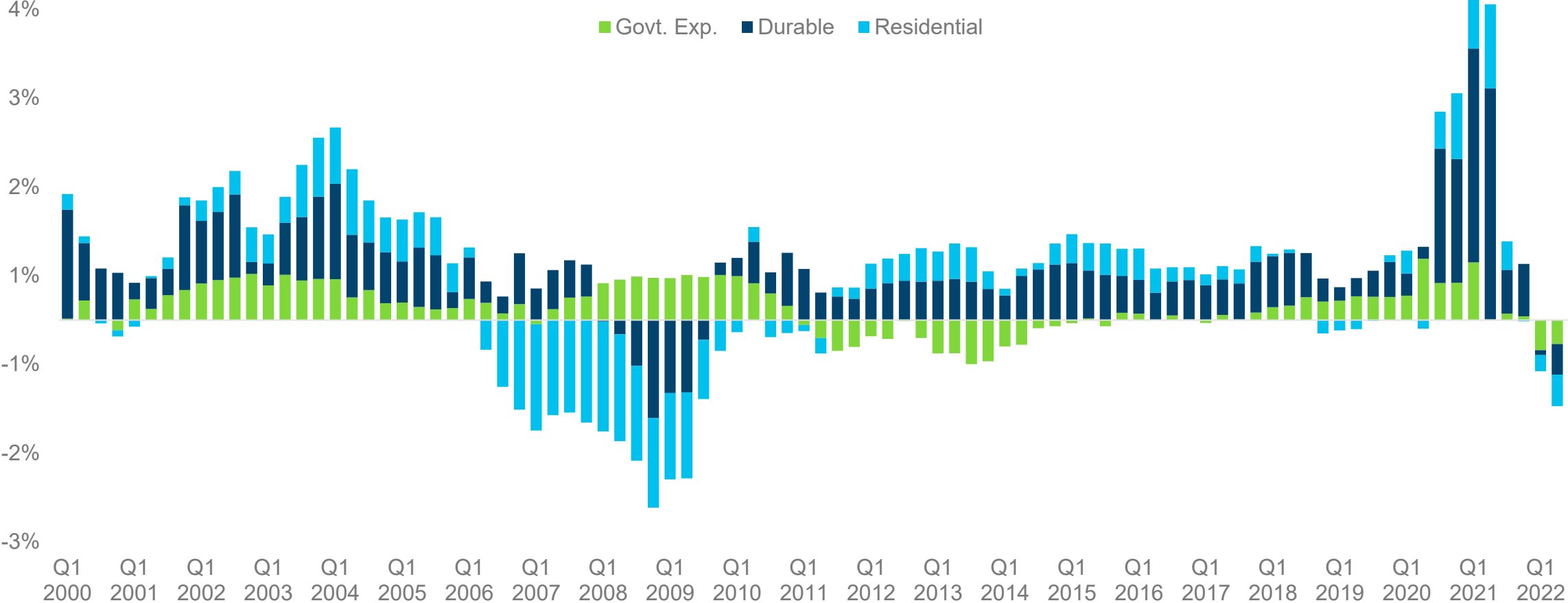
Average by Decade

Note: Shaded areas are forecast
Source: BEA, Bloomberg Survey Median Forecast

Fiscal, Monetary Policy and Interest Rate Drags Leading to Declines in Government Spending and Residential Investment



Four Quarter Moving Average of Percentage Point Contribution to GDP

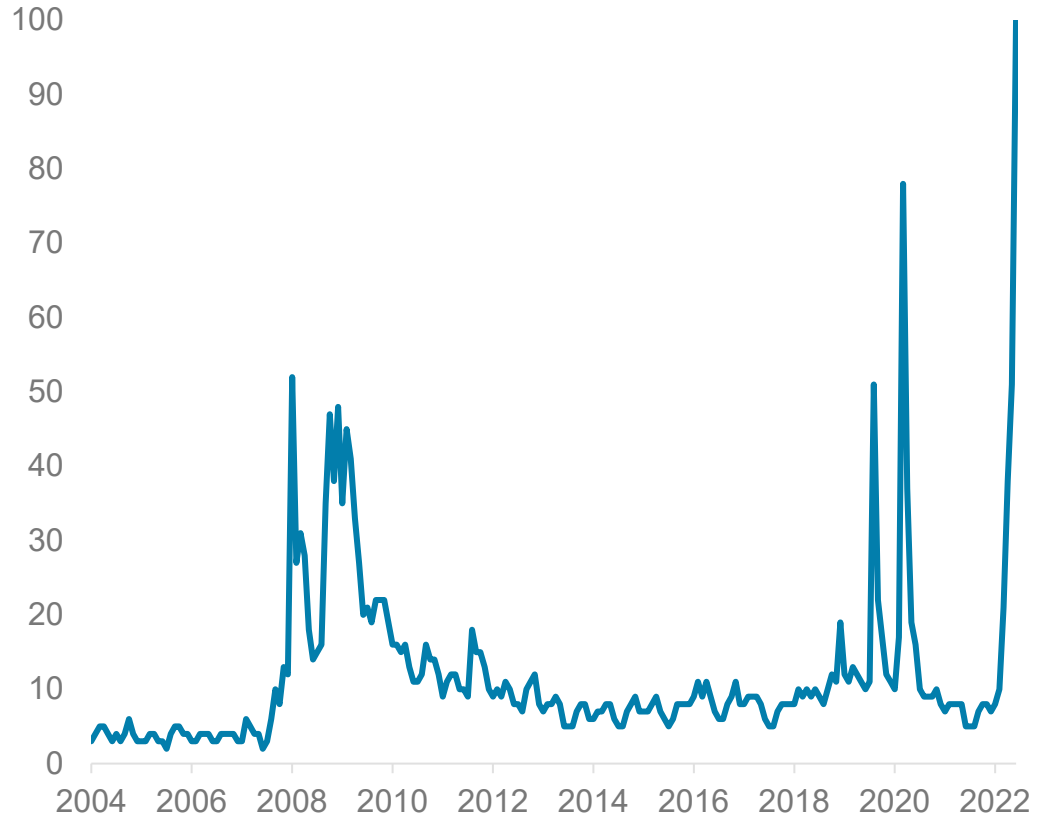


Source: BEA

Recession Probability Next 12 Months



Google Trends - Recession



Wall Street Journal Recession Probability

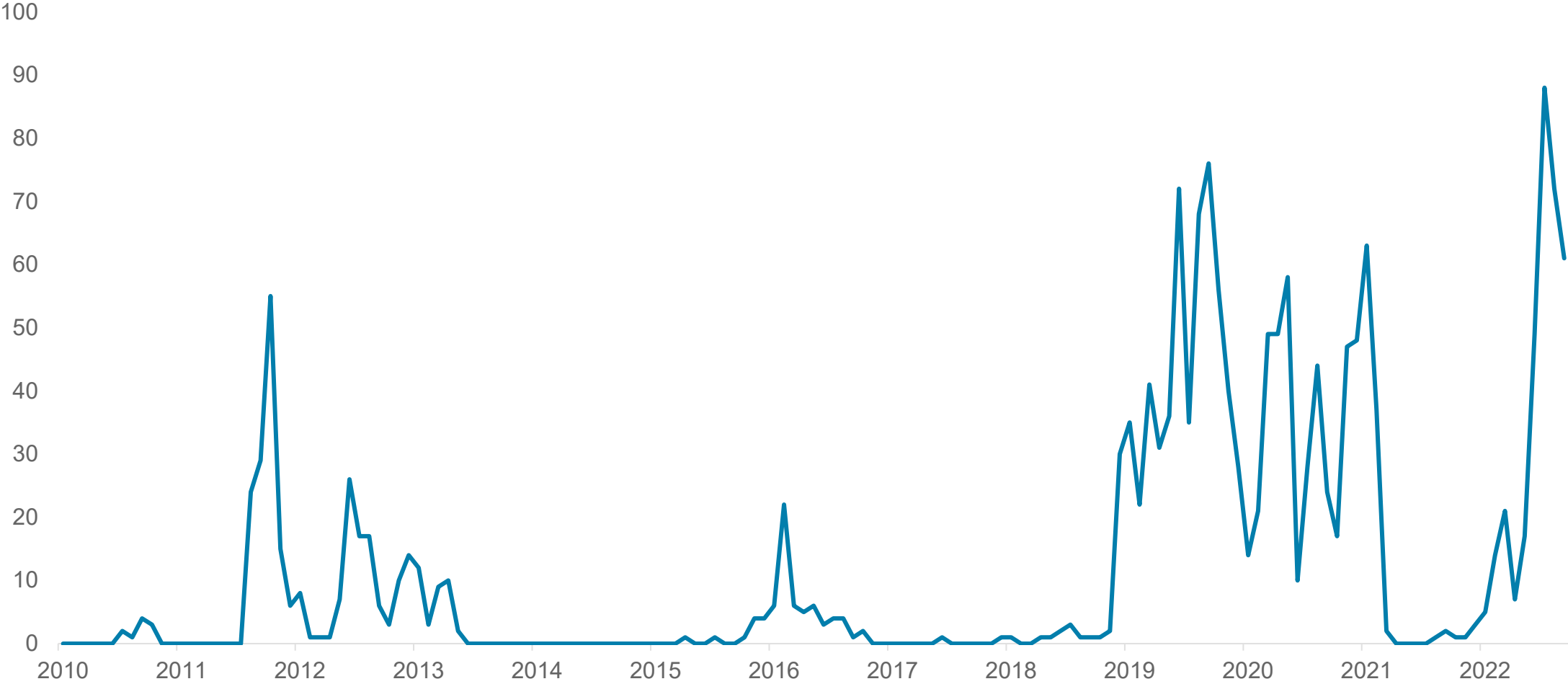


Source: Google Trends, WSJ Economic Survey

Probability of Recession Based on Economic and Financial Variables



Recession Probability (Based on Economic and Financial Data)

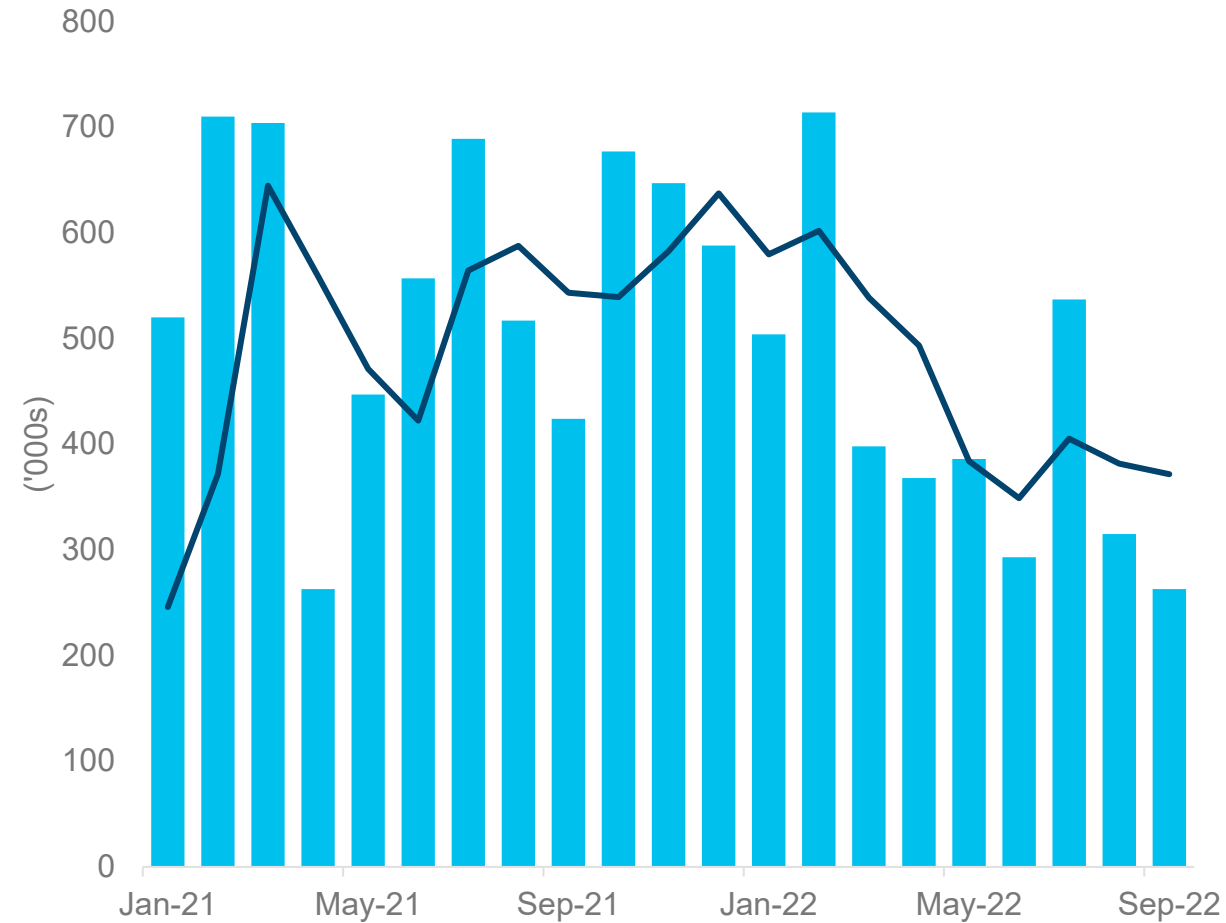


Source: Moodys Analytics

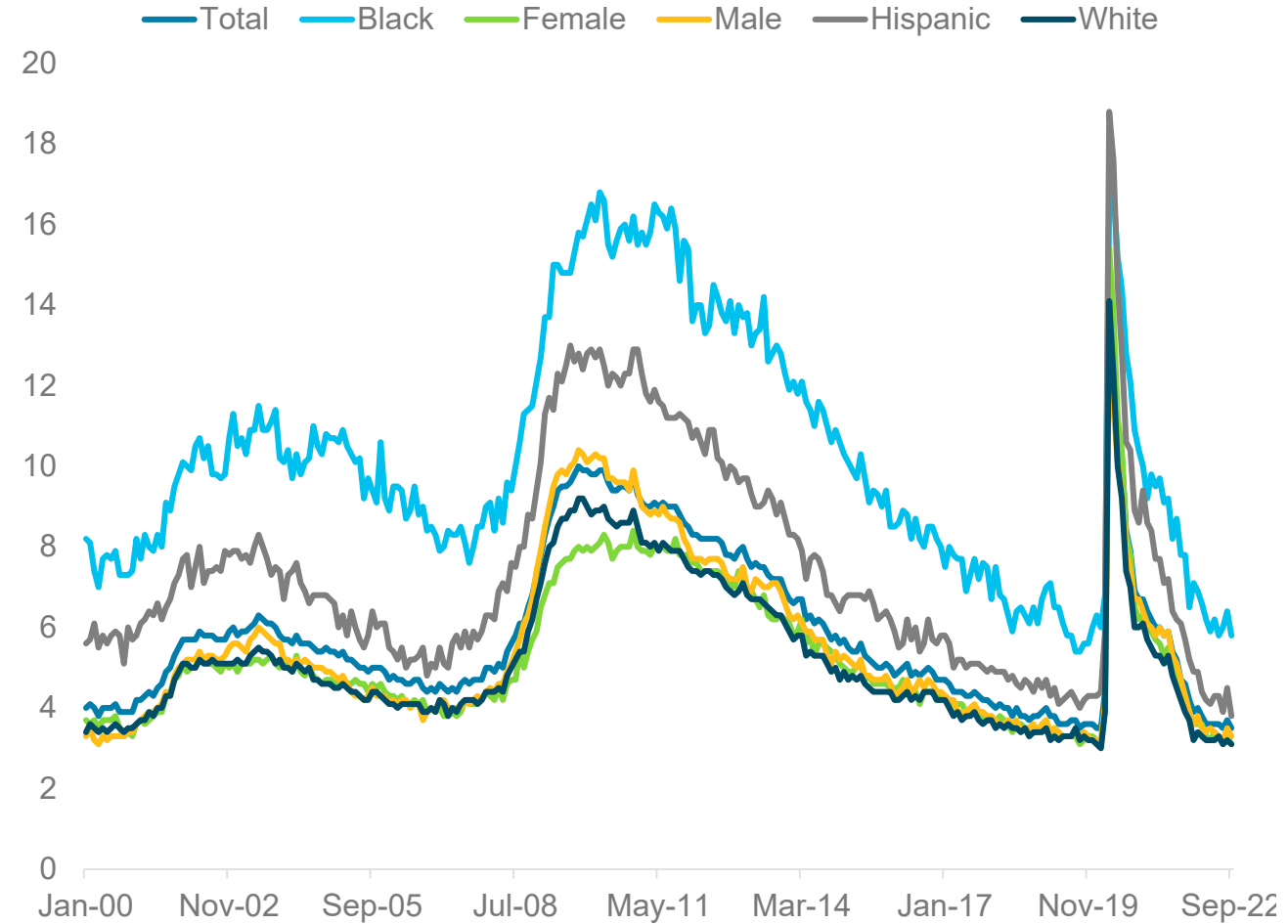
Labor Market Recovery Strong But Moderating; Unemployment Rate at 3.5%



NonFarm Payroll Jobs (Monthly Change '000s)

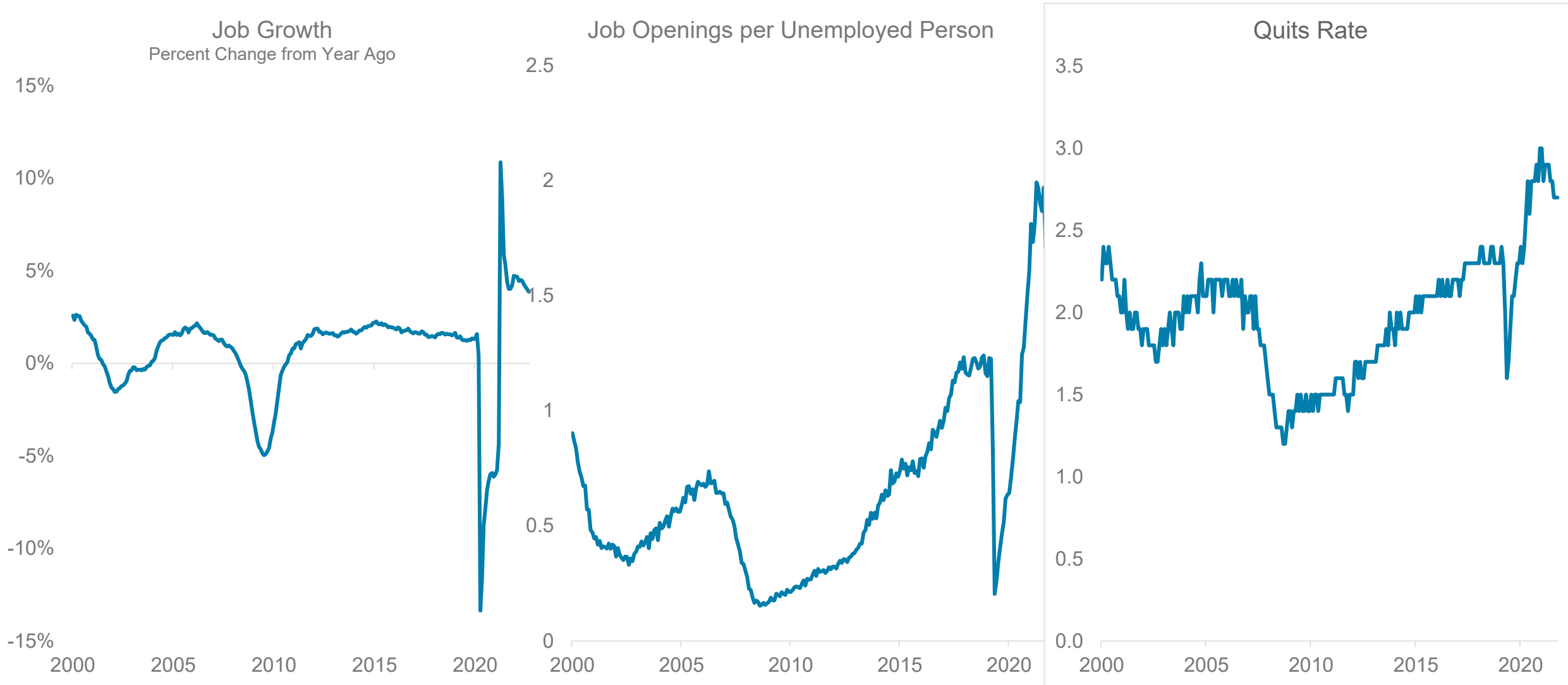


Unemployment Rate (%)



Source: BLS

The Labor Market Remains Very Active, but Beginning to Weaken



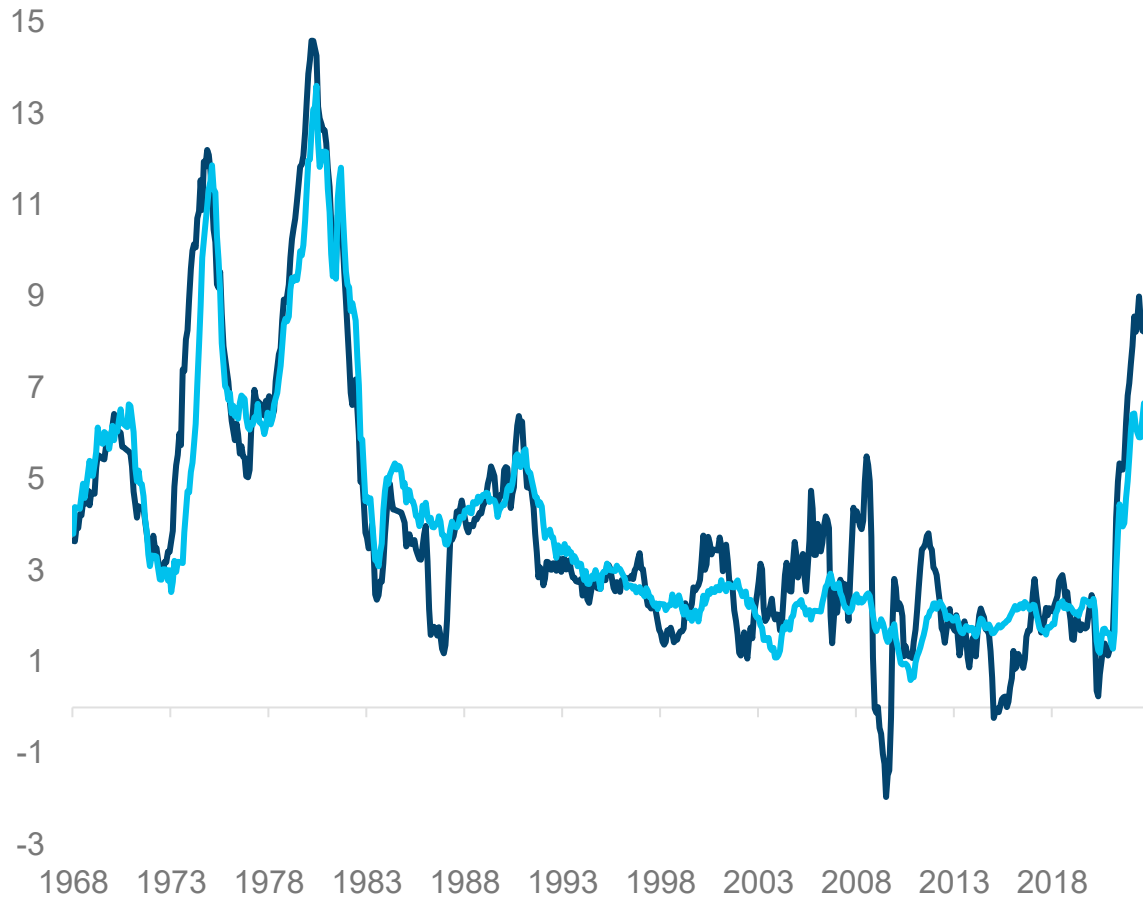
Source: BLS

Inflation Remains at a 40-year High and is Broadening



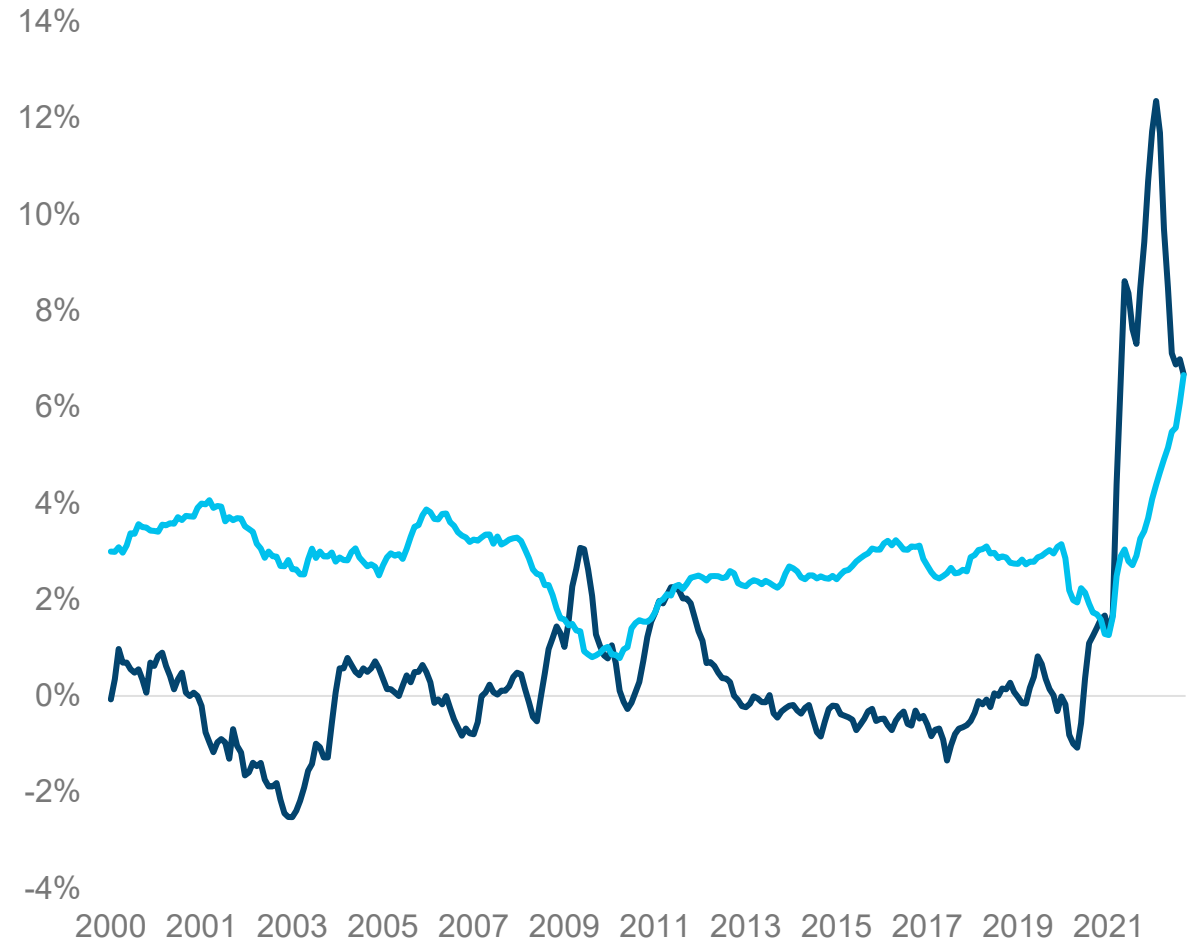
Inflation Measures
(YoY % Change)

— CPI — Core CPI



Goods vs Services Inflation (Core CPI yoy%)

— Goods — Services



Source: BLS: Consumer Price Index for All Urban Consumers



U.S. Housing and Mortgage Market Outlook

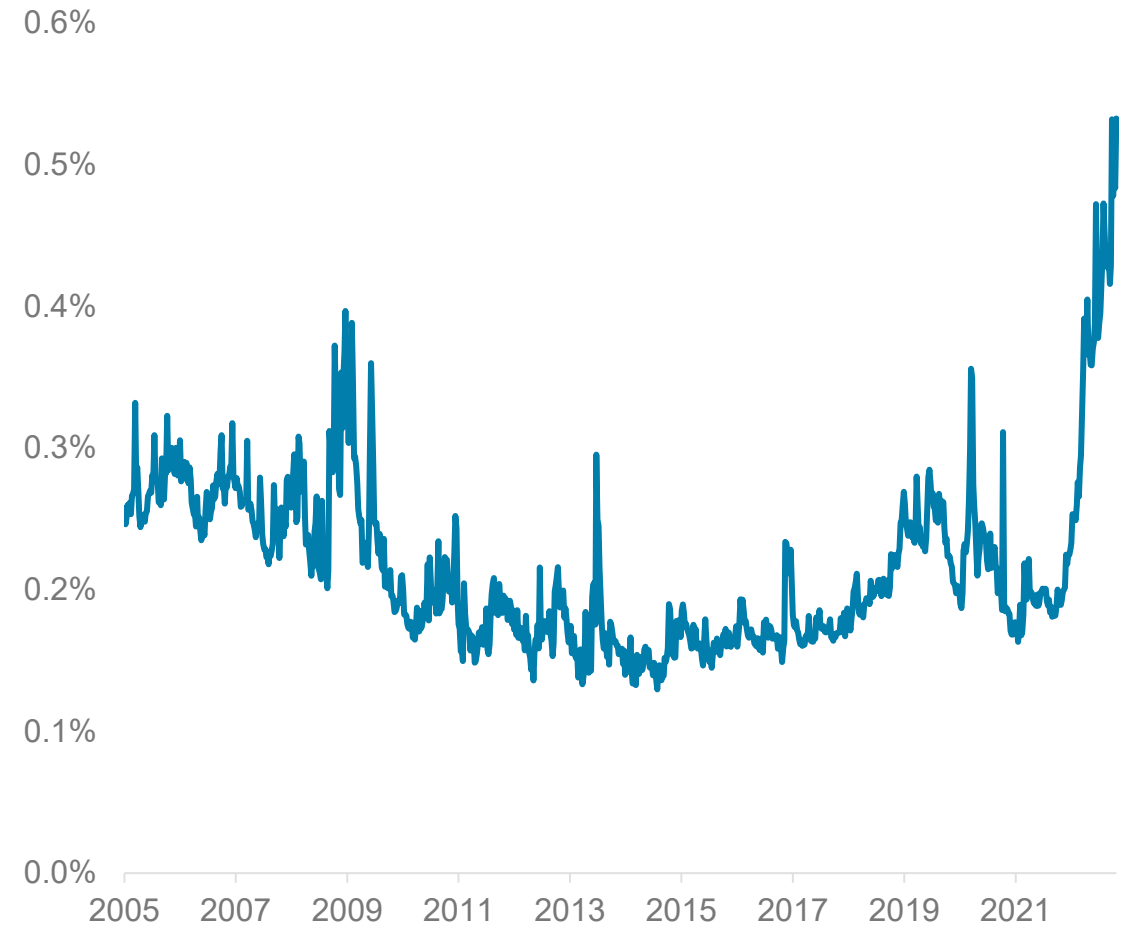
Mortgage Rate Rising at Fastest Rate in 40 Years and Dispersion is Very High



Mortgage Rate- 30-Year FRM



30-Year Fixed Rate Mortgage Dispersion



Source: Freddie Mac

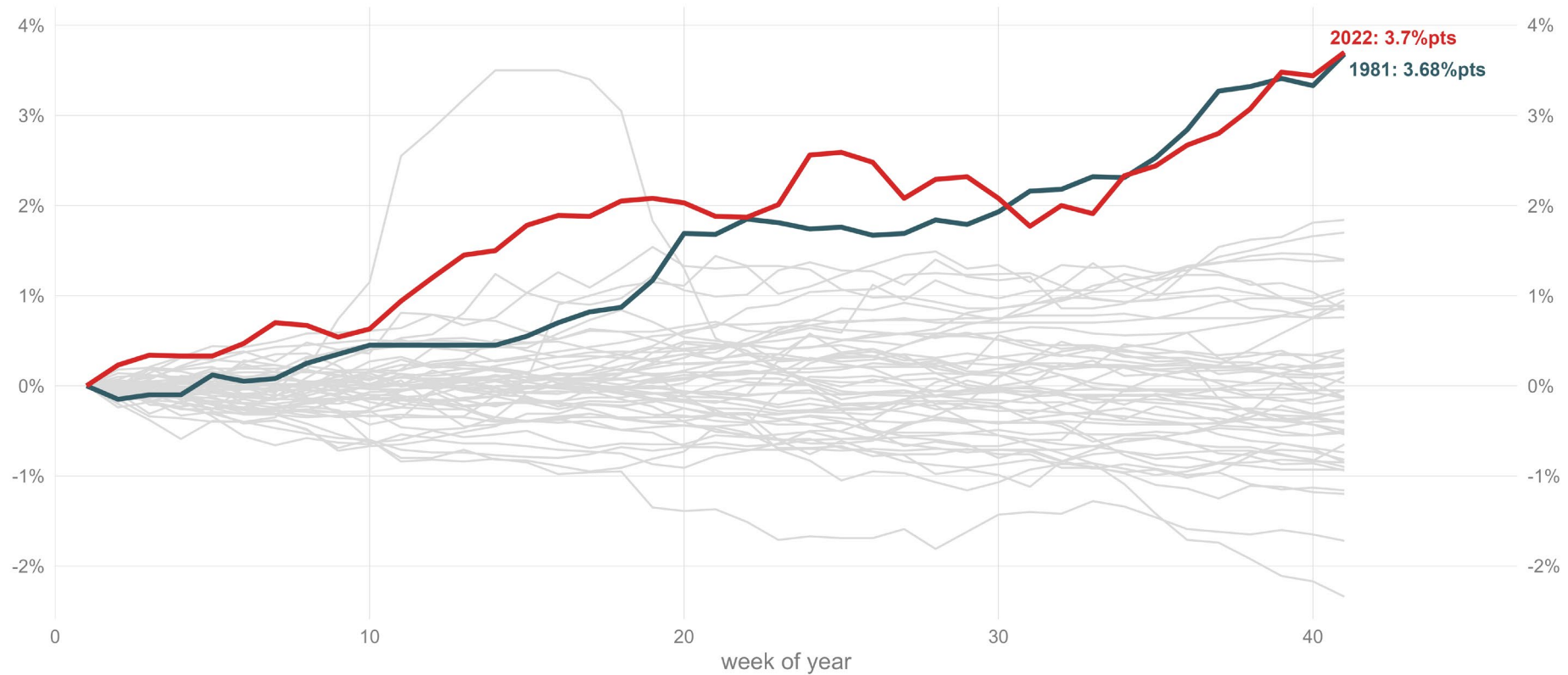
Note: Dispersion is defined as the standard deviation in weekly mortgage rates, in basis points

Largest Year To Date Mortgage Rate Increase



2022's January to October YTD Mortgage Rate Increase is Largest Ever

percentage point change in PMMS rate from first week of the year to 43rd week
gray lines, all other years (1971-2022)



source: Freddie Mac Primary Mortgage Market Survey

Housing Affordability is Almost the Same as Mid-2000s Level



Ratio of Mortgage Payment to Loan Applicant's Actual Rent on a Single-Family Rental



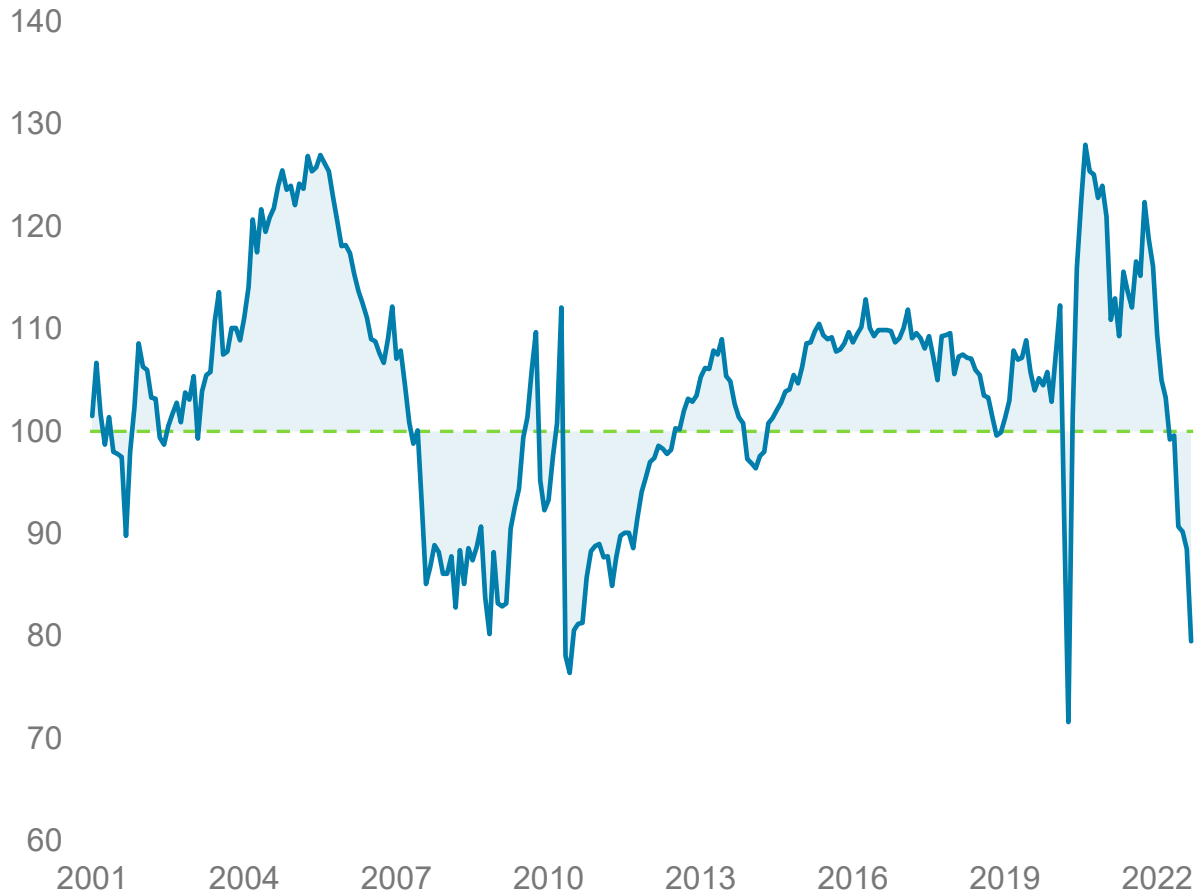
Note: For rents, we use actual rents on addresses listed on LPA loan apps. For the mortgage payment, we estimate what the mortgage would be on that exact house by matching the rental address to our automated home value estimates and assuming a typical purchase LTV, tax, and insurance, and the FRM30.

Source: Freddie Mac. Data as of the end of August 2022

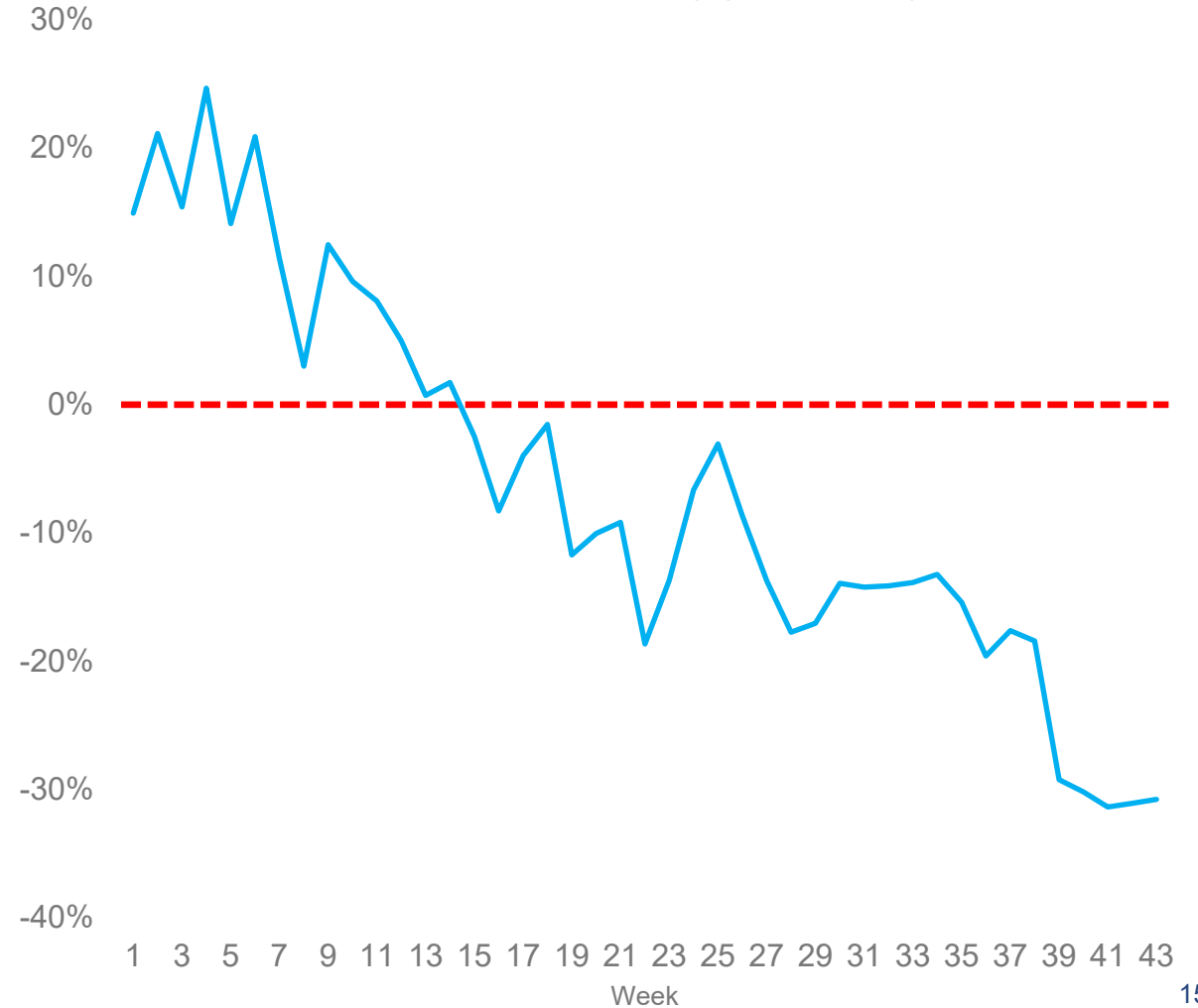
Rapid Decline in Affordability Has Led to a Contraction in the Purchase Market



Pending Home Sales Index (SA)

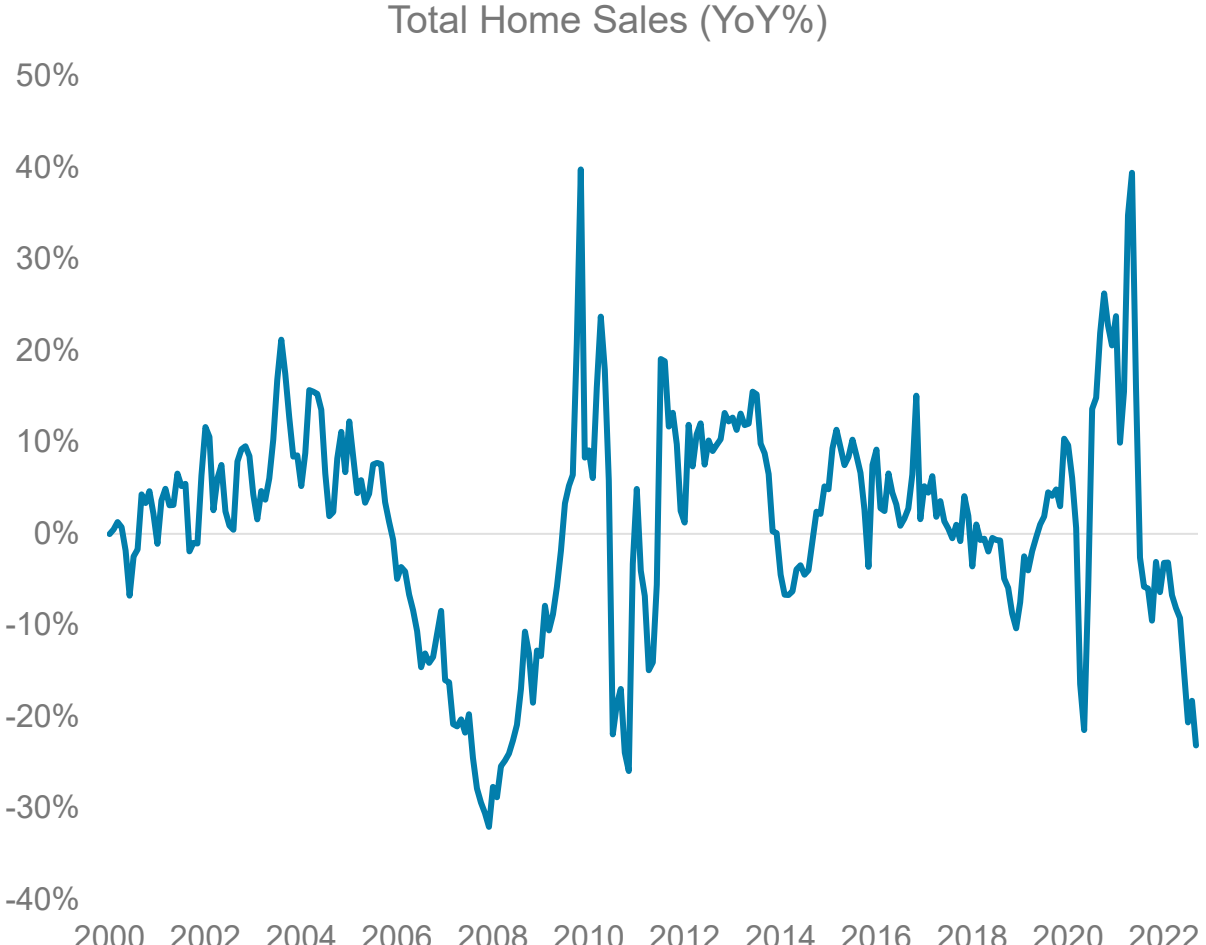
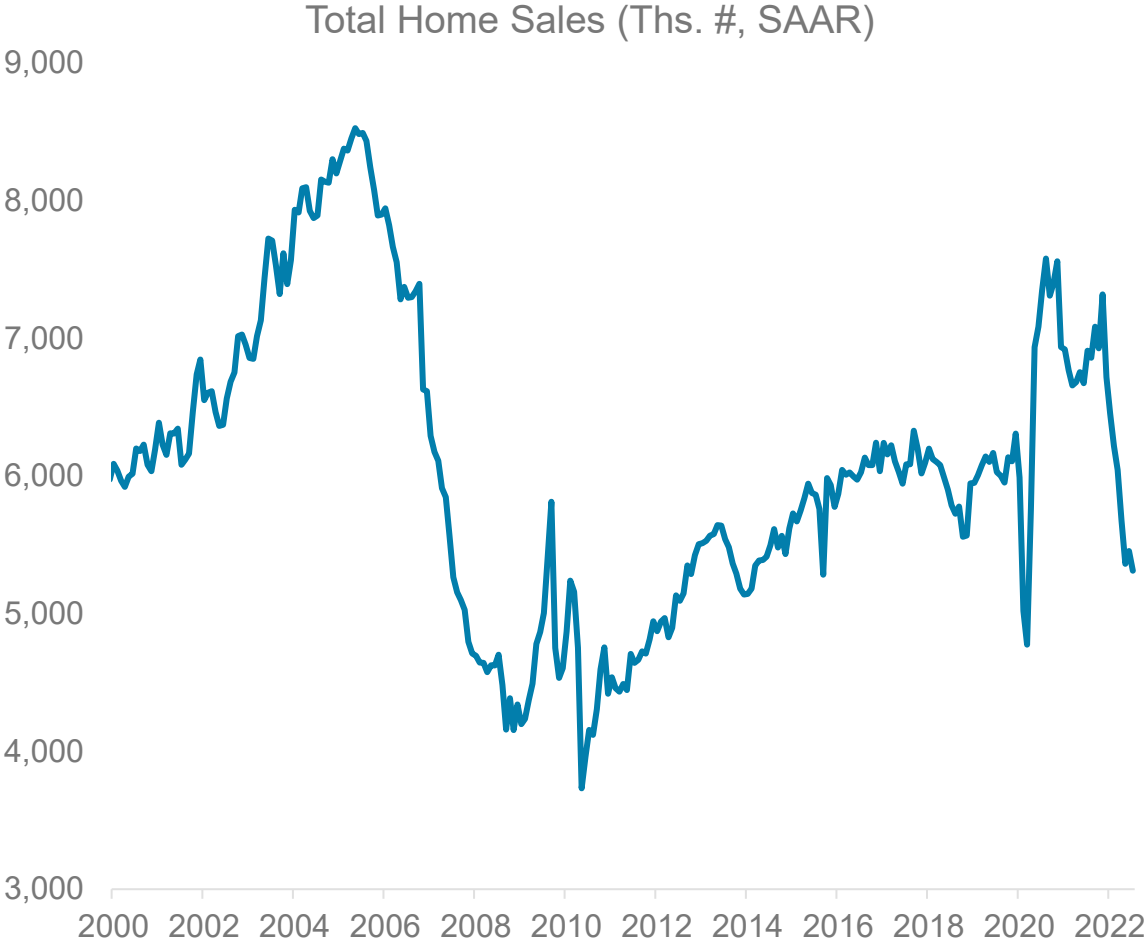


Percent Change in 2022 Purchase Applications from Pre-Pandemic 3-Year Avg (2017-2019)



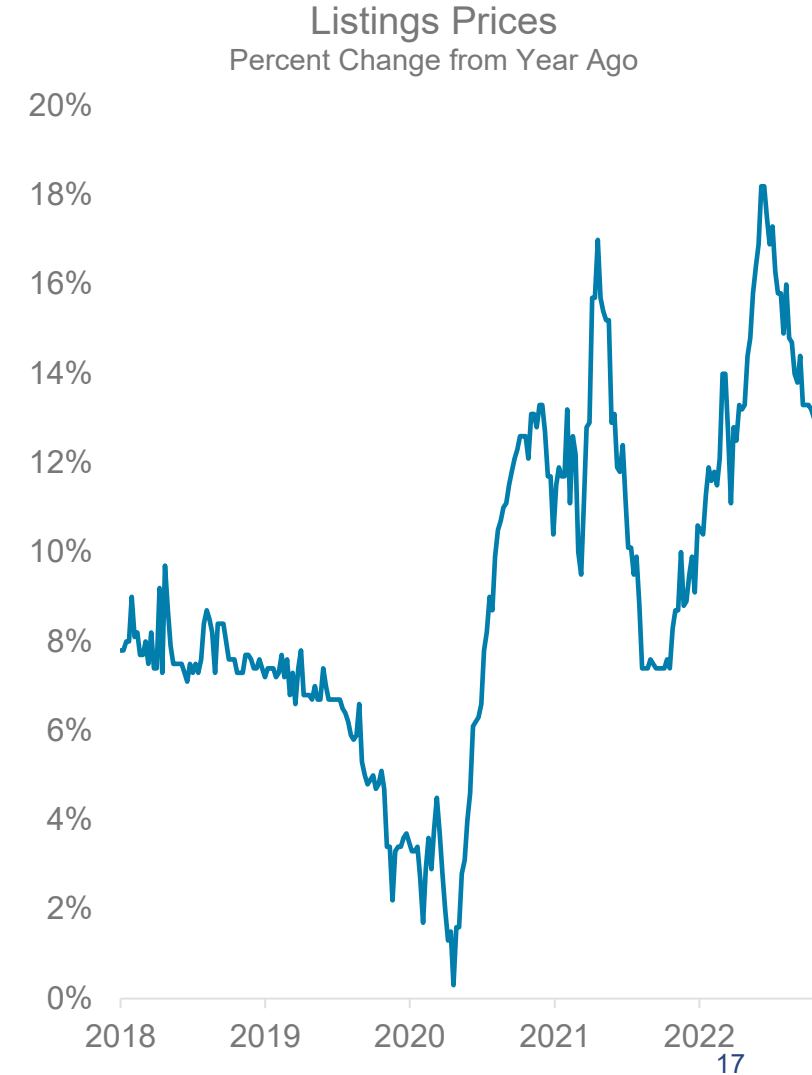
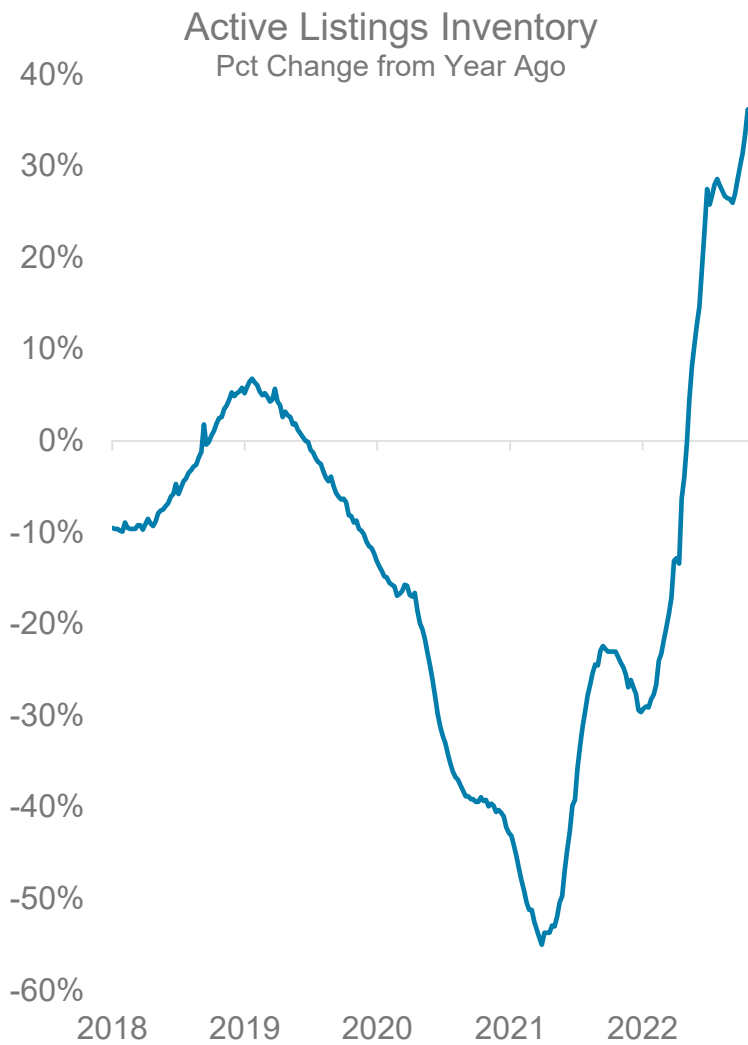
Source: MBA;NAR

Home Sales Cooled Due to Rapidly Rising Rates and Deteriorating Affordability



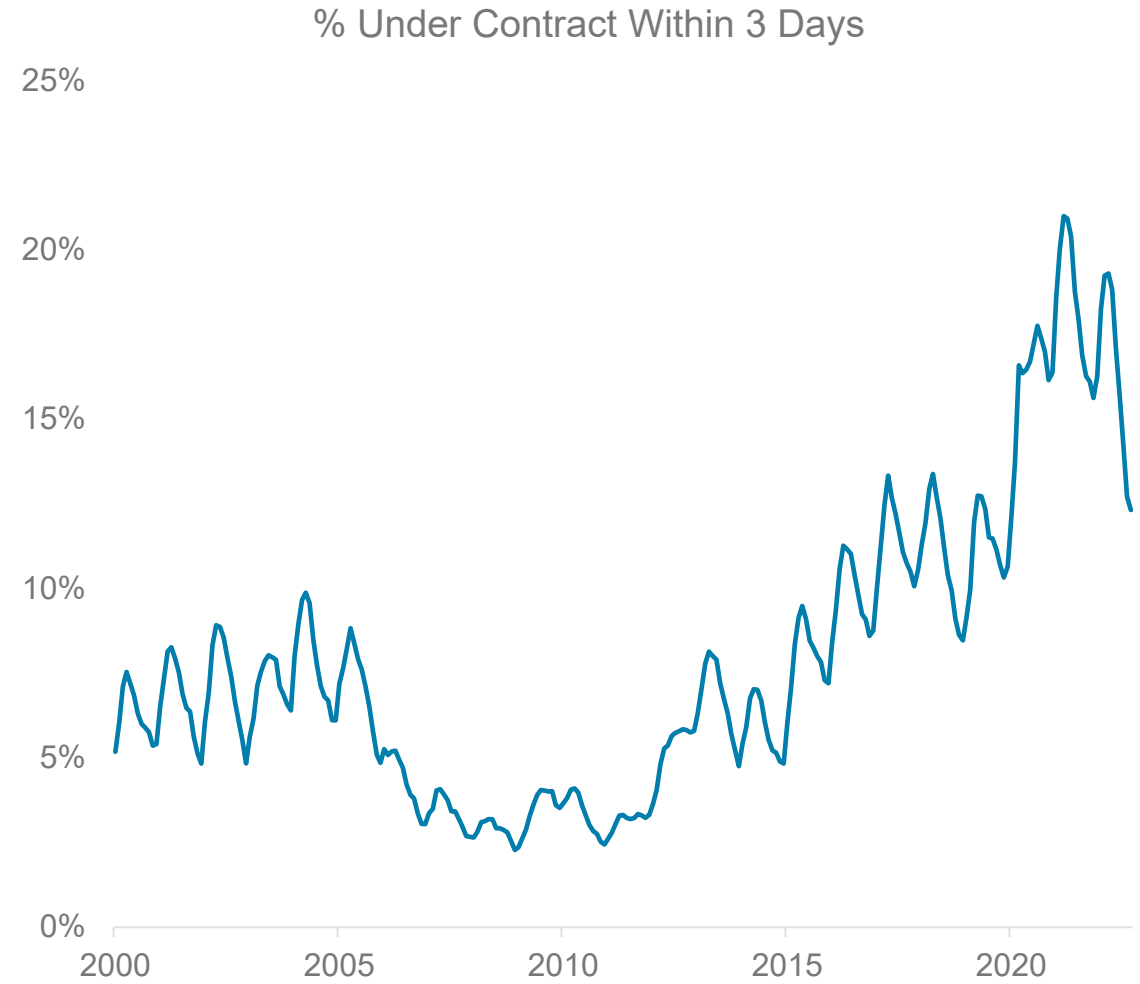
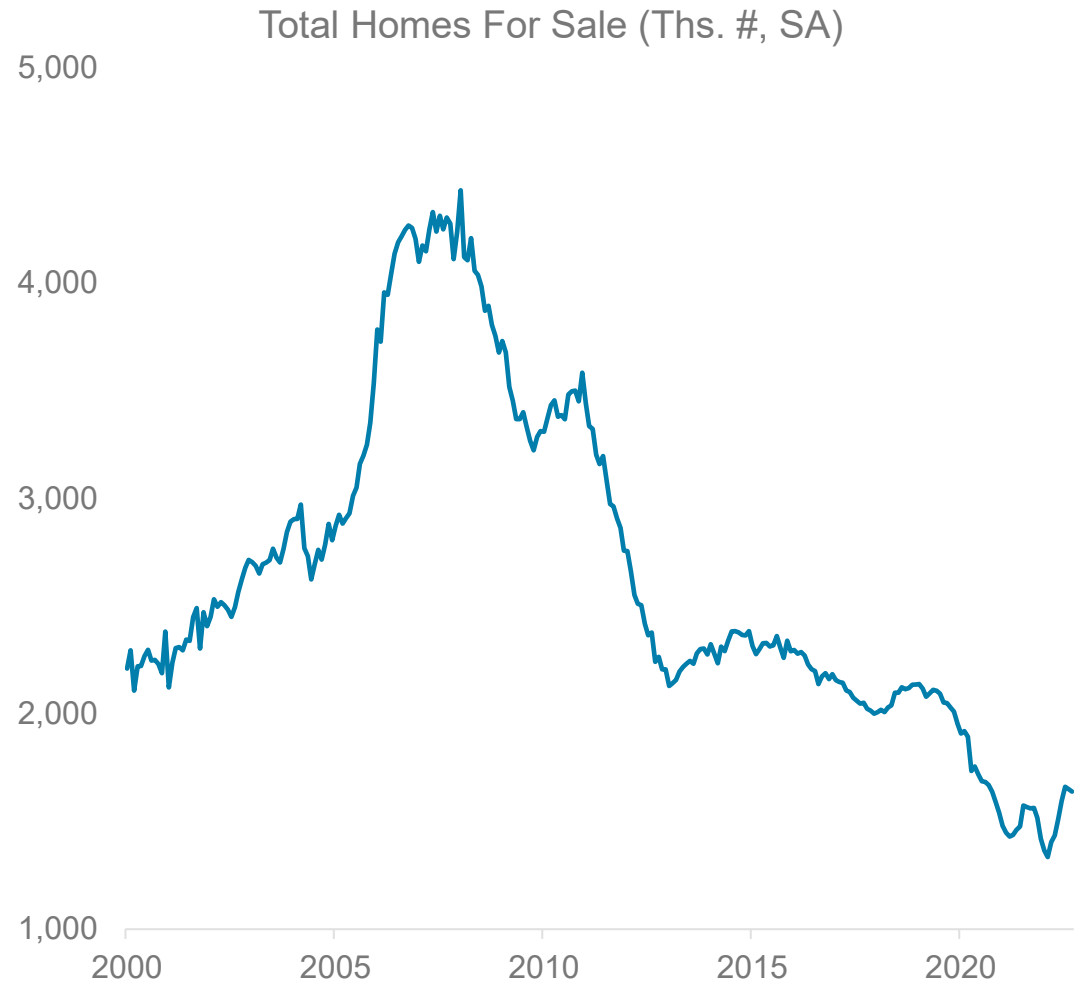
Source: NAR, US Census Bureau

Softer Demand Has Led to a Rise in Unsold Inventory, Price Cuts for Unsold Listings, and is Impacting List Prices



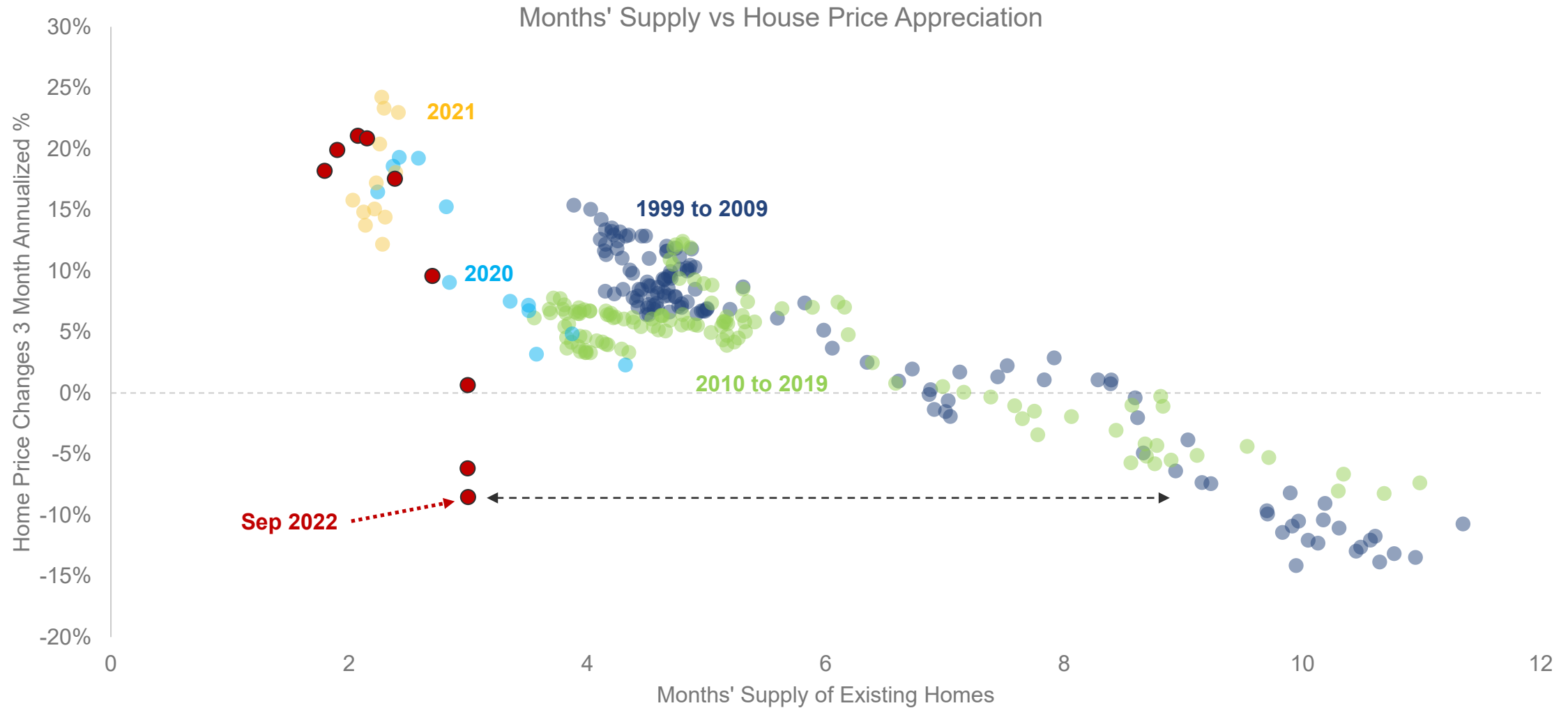
Source: Realtor.com, Corelogic

Despite Recent Increases, Inventory Remains Low Relative to Last Two Decades



Source: NAR, U.S. Census Bureau, Corelogic

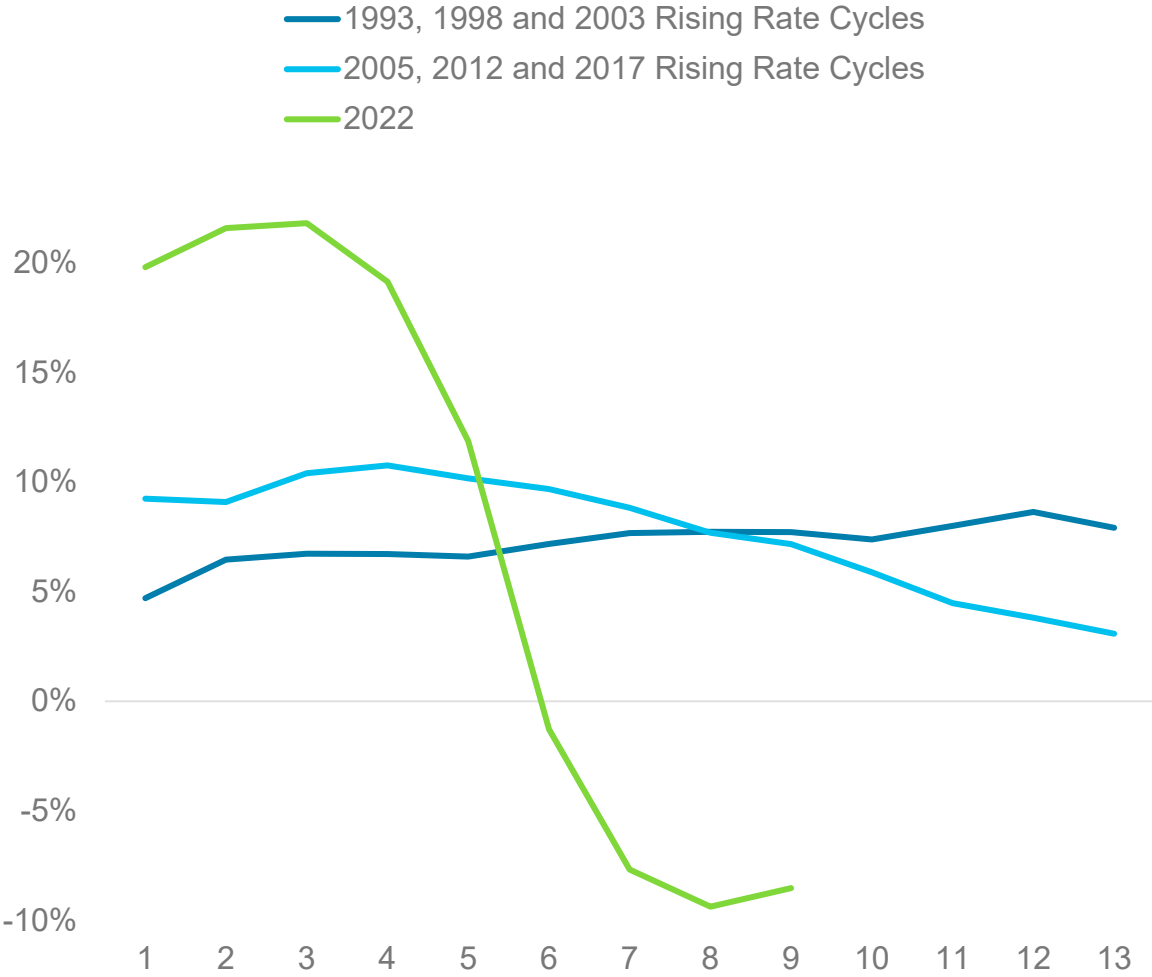
Despite Still Low Supply, Very Large Drop in Demand Led to Decline in Home Prices



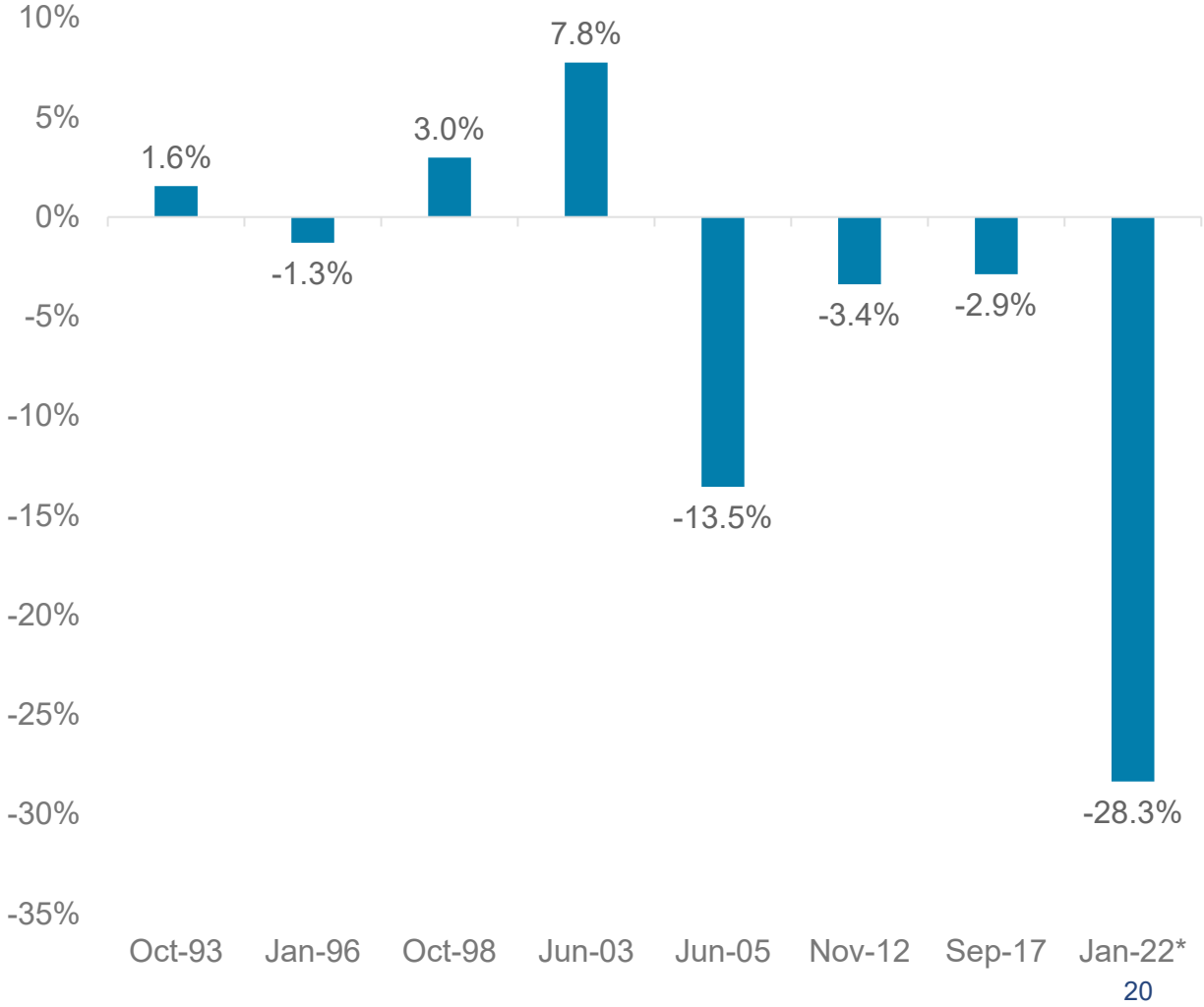
Home Prices Became More Sensitive to Rate Increases During the 2000s



Change in Home Price Growth During Last Two Decades



Change in Home Prices Growth from First Month to Terminal Month During Rate Rise Cycle



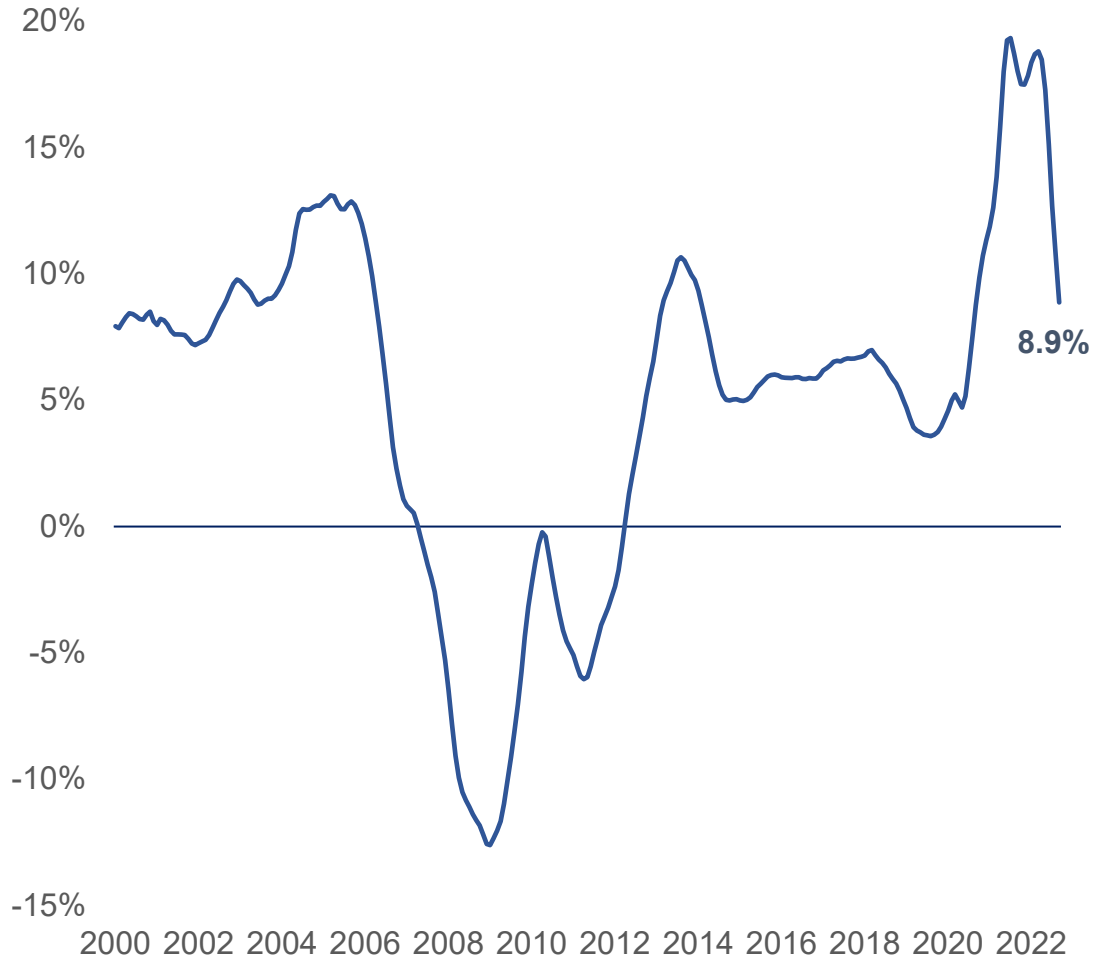
Source: Freddie Mac

Note: Rising Rate Periods = rates increased by more than 1 percentage point from trough to peak

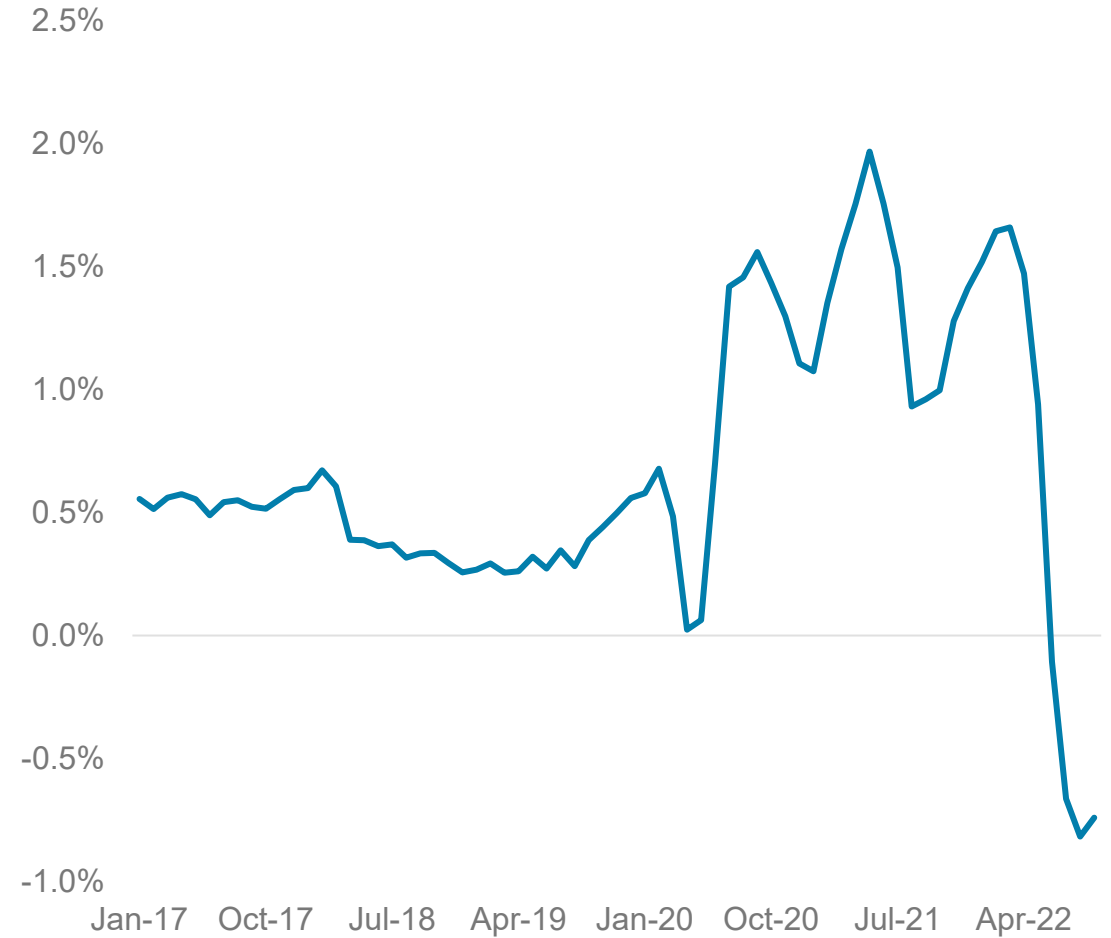


Home Price Growth Slowing at a Fast Pace

Freddie Mac House Price Index - Sep 2022
(Percent Change from Year Ago)



Freddie Mac House Price Index- Sep 2022
(Percent Change from Month Ago)

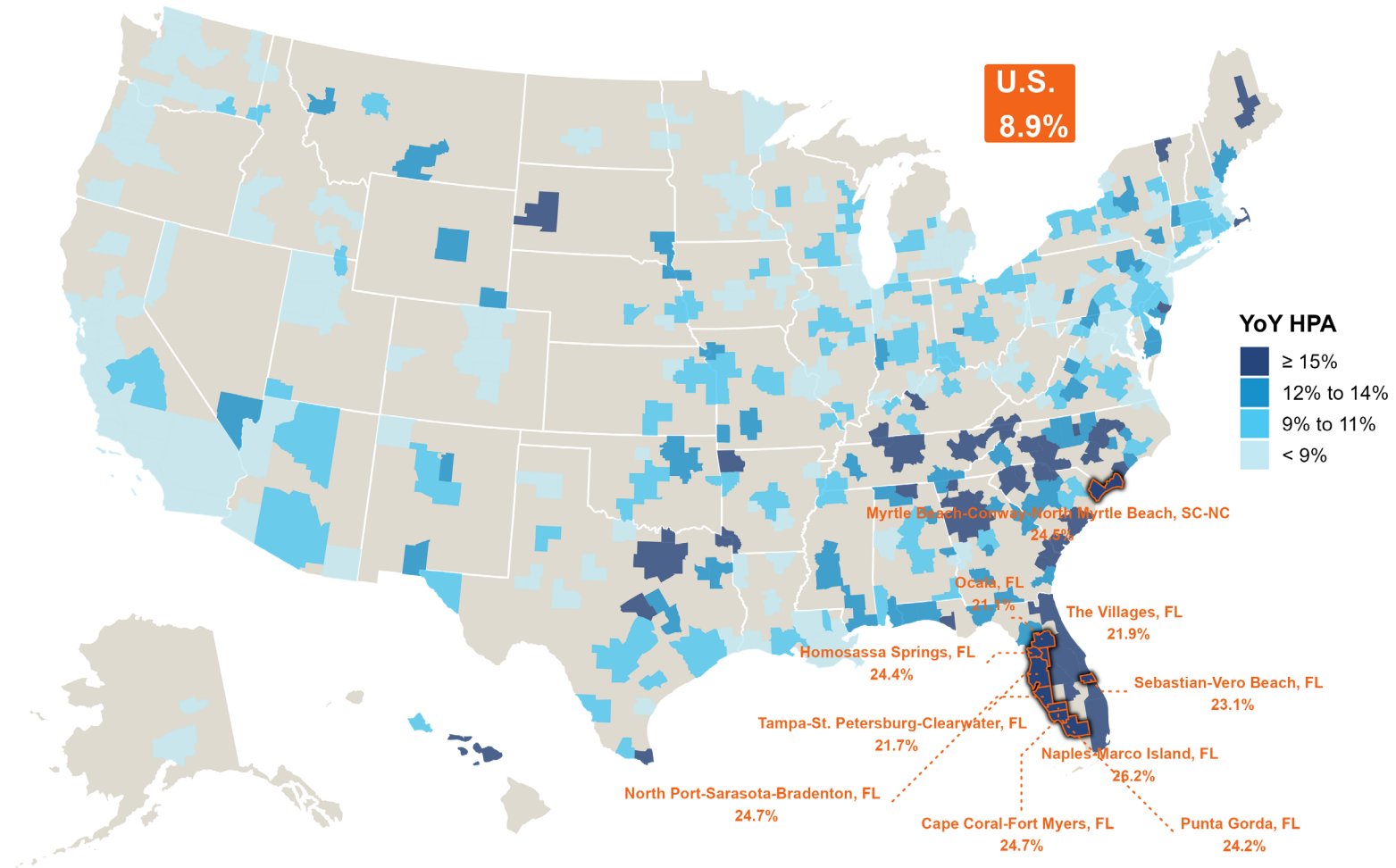


Markets in Florida and Southeast Continue to Appreciate at a Rapid Pace...



MSA YoY House Price Growth for September 2022

Top 10 Fastest Growing MSAs Labeled

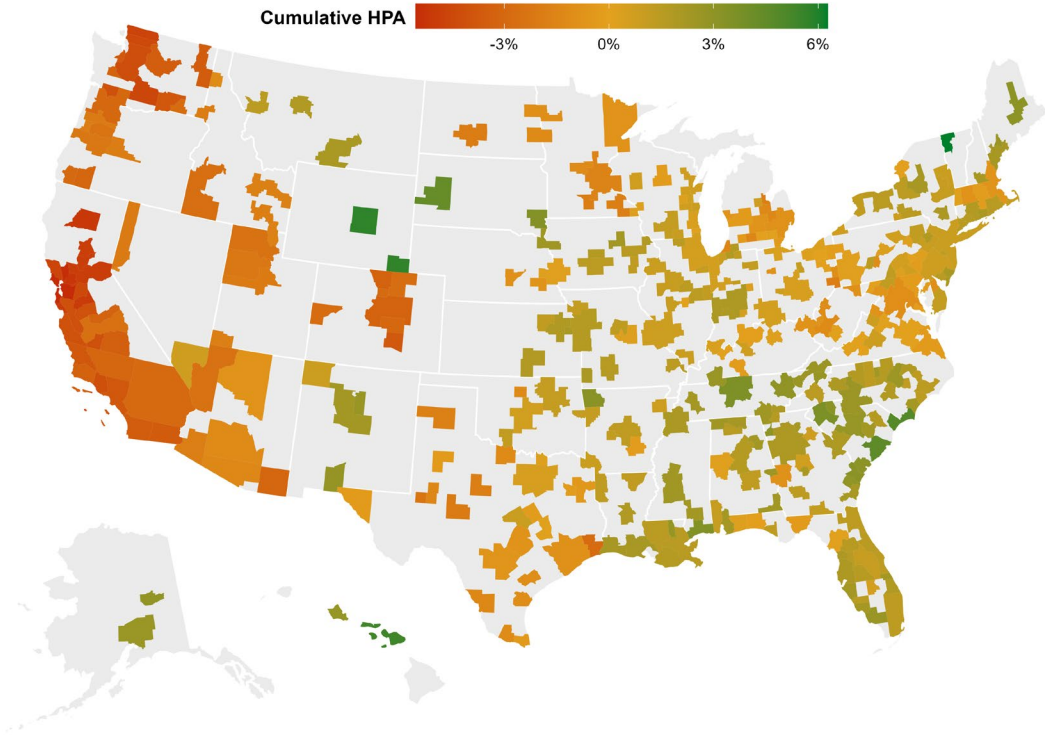


Source: Freddie Mac House Price Index, SA

...Even as Prices in Western Markets are Rapidly Declining

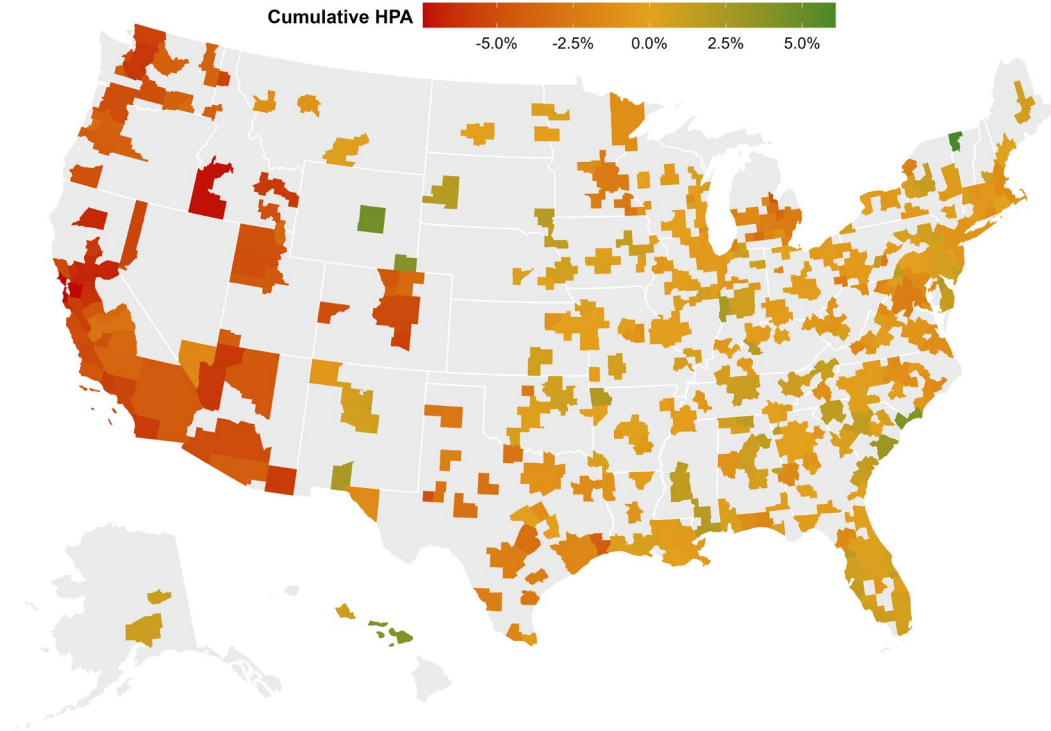


Cumulative MSA House Price Appreciation from May 2022 to August 2022



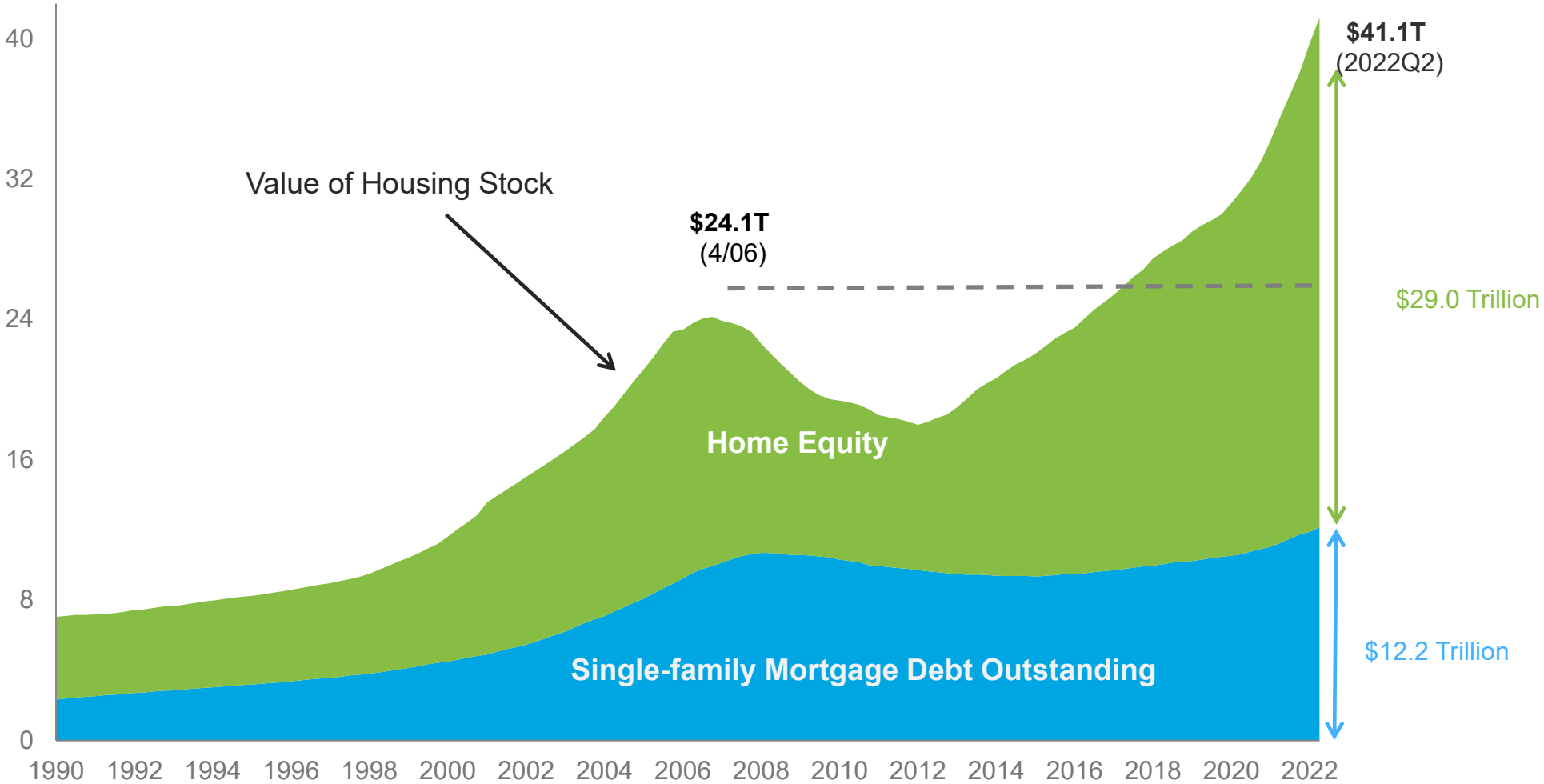
Source: Freddie Mac House Price Index, SA

Cumulative MSA House Price Appreciation from May 2022 to September 2022



Source: Freddie Mac House Price Index, SA

Rising Home Prices Help Build Equity for Existing Homeowners



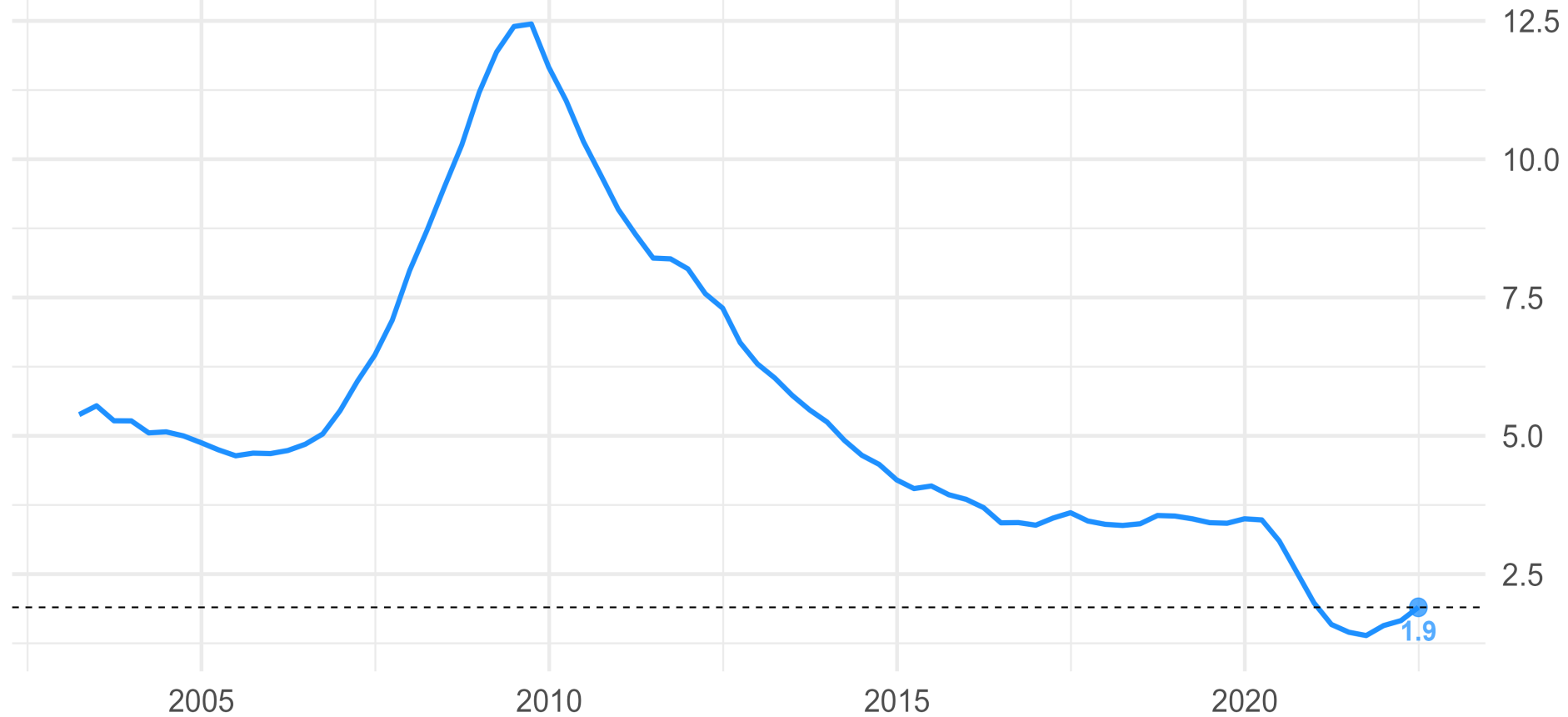
Note: Value of U.S. housing stock includes homes with and without underlying mortgages. U.S. home equity is the difference between the value of the U.S. housing stock and the amount of U.S. single-family mortgage debt outstanding.

Source: Federal Reserve Board's Financial Accounts of the United States, Table B. 101. Data as of Sep 9, 2022

Mortgage Delinquencies Ticking Up Slightly



Quarterly Report on Household Debt and Credit: New delinquent balances by loan type - Mortgage, (% , NSA)

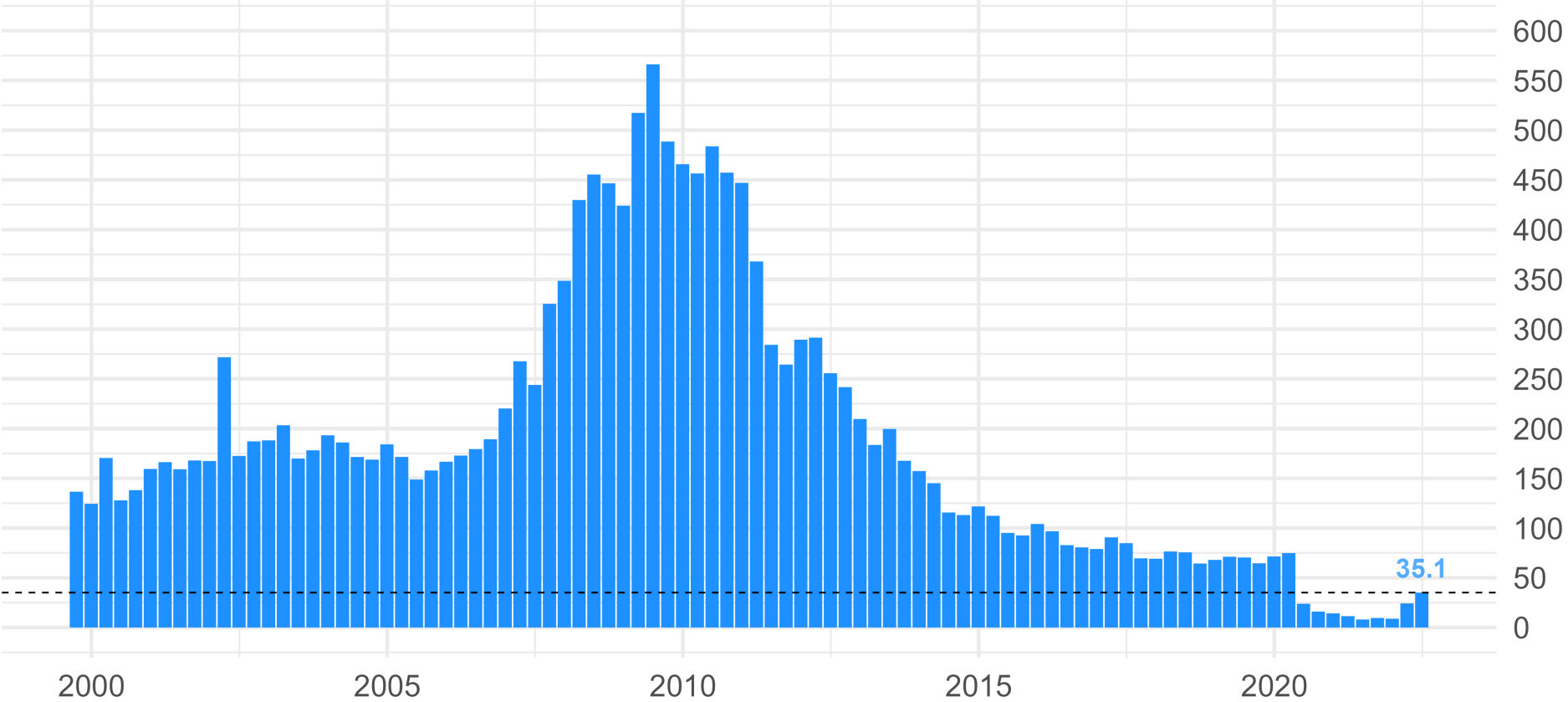


Federal Reserve Bank of New York (FRBNY): Quarterly Report on Household Debt and Credit [HHDC] - New Delinquent Balances by Loan Type

Foreclosures on the Rise After Remaining at Historic Lows



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

Closing Thoughts



- Economic growth is slowing due to the increase in fiscal, interest rate and inflation headwinds.
- The risk of a recession is rising due to the Federal Reserve's commitment to slow down the rate of inflation, which is exhibiting downward rigidity.
- Despite short-term turbulence, there is a fundamental revamp of the economy occurring with more investment, reshoring of supply closer to home, more resilience, etc. that should lead to higher long-term growth.
- 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 of changes in mortgage rates.



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