



Freddie Mac

# RURAL RESEARCH SYMPOSIUM

Collaboration Through  
Insights-Driven Solutions

## Market Watch: Housing Trends Economic and Housing Market Update

Sam Khater

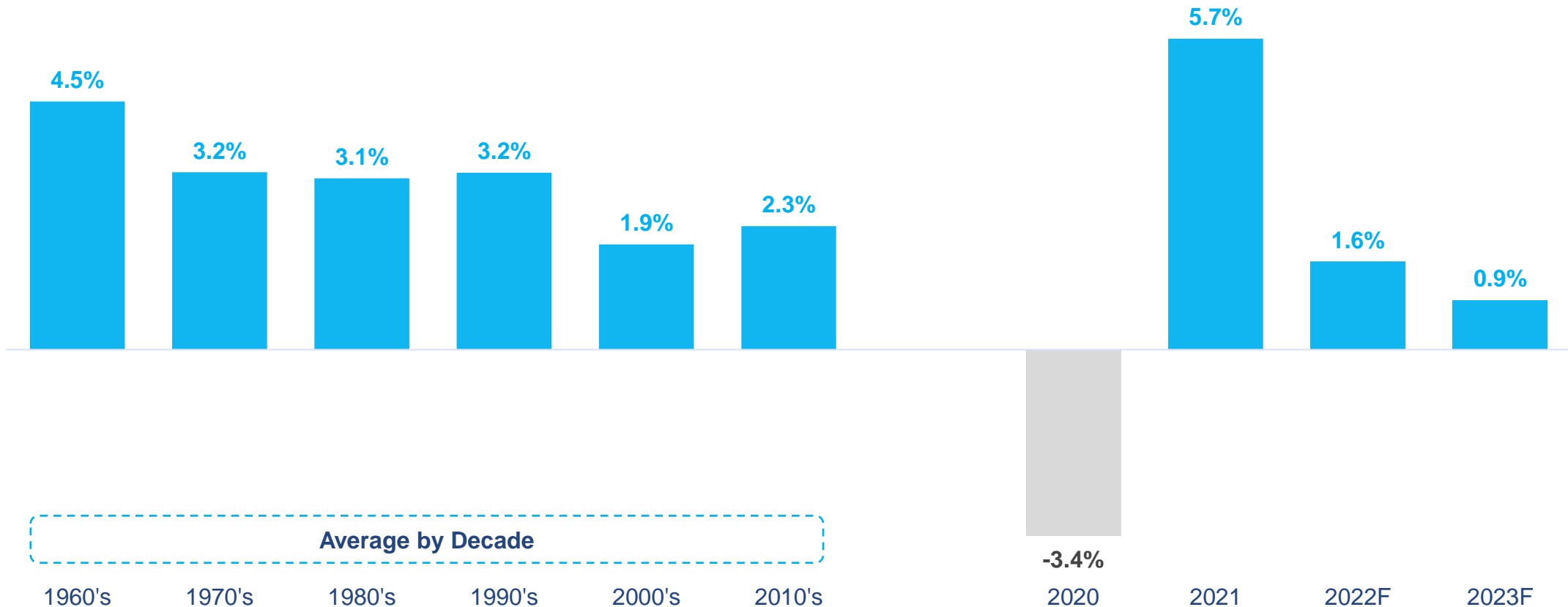


AN **ALL FOR HOME** EVENT

- Economic growth is rapidly slowing due to fiscal, monetary and inflationary drags and the prospect of a recession in 2023 is rising
- The trajectory of the current expansion had been lopsided with much faster goods spending than services spending, but over the last year, spending has rotated much more back to services
- Inflation continues to surge and with the rotation of consumer spending into services, inflation is broadening and becoming more persistent
- The large increase in mortgage rates in 2022, led to a historic drop in affordability and led to the fastest deceleration in home prices in over four decades
- Migration out of large coastal expensive areas remains high. Most of the migration has been driven by homebuyers leaving unaffordable large coastal markets and moving to interior markets, which helped drive migration into rural markets

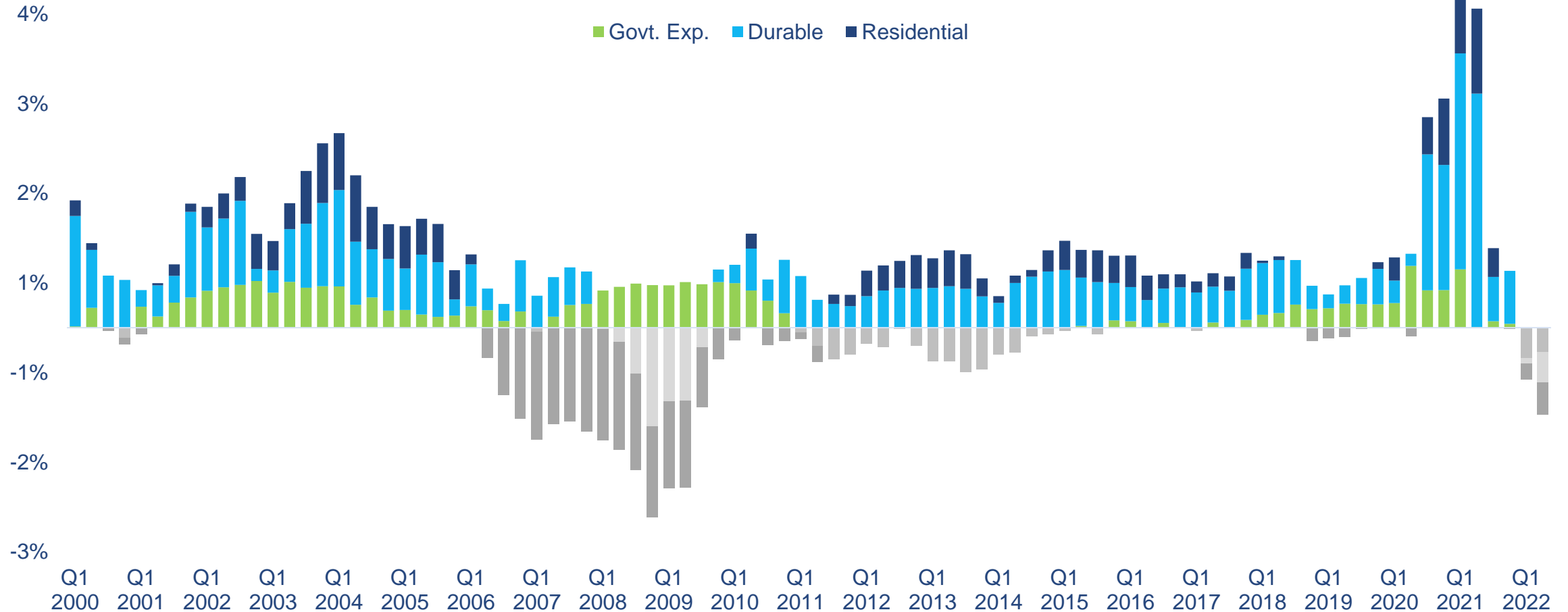
# Economic Growth for 2021 Highest Since 1984, but Growth is Rapidly Decelerating in 2022 and Chances of a Recession are Rising

GDP (Annualized Growth)



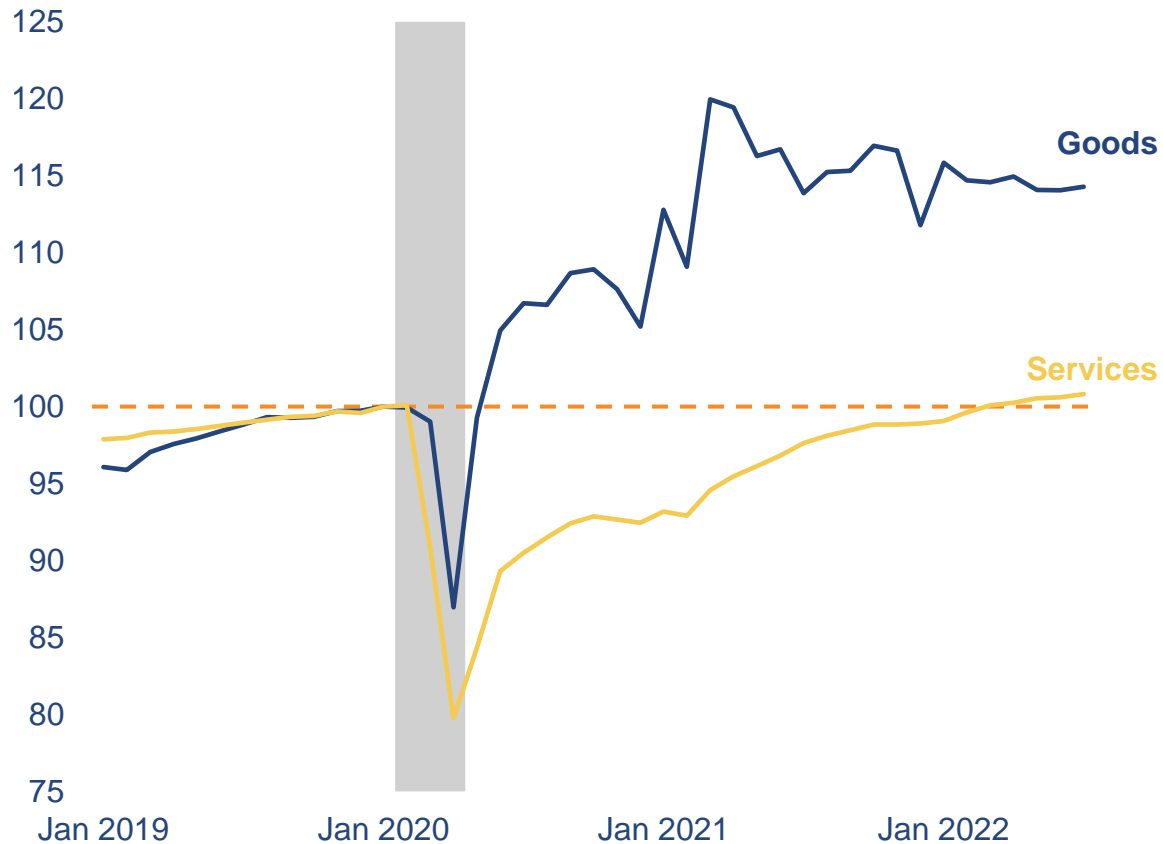
# Fiscal, Monetary Policy and Interest Rate Drags are Leading to Declines in Government Spending, Consumer Durables and Residential Investment

Four Quarter Moving Average of Percentage Point Contribution to GDP

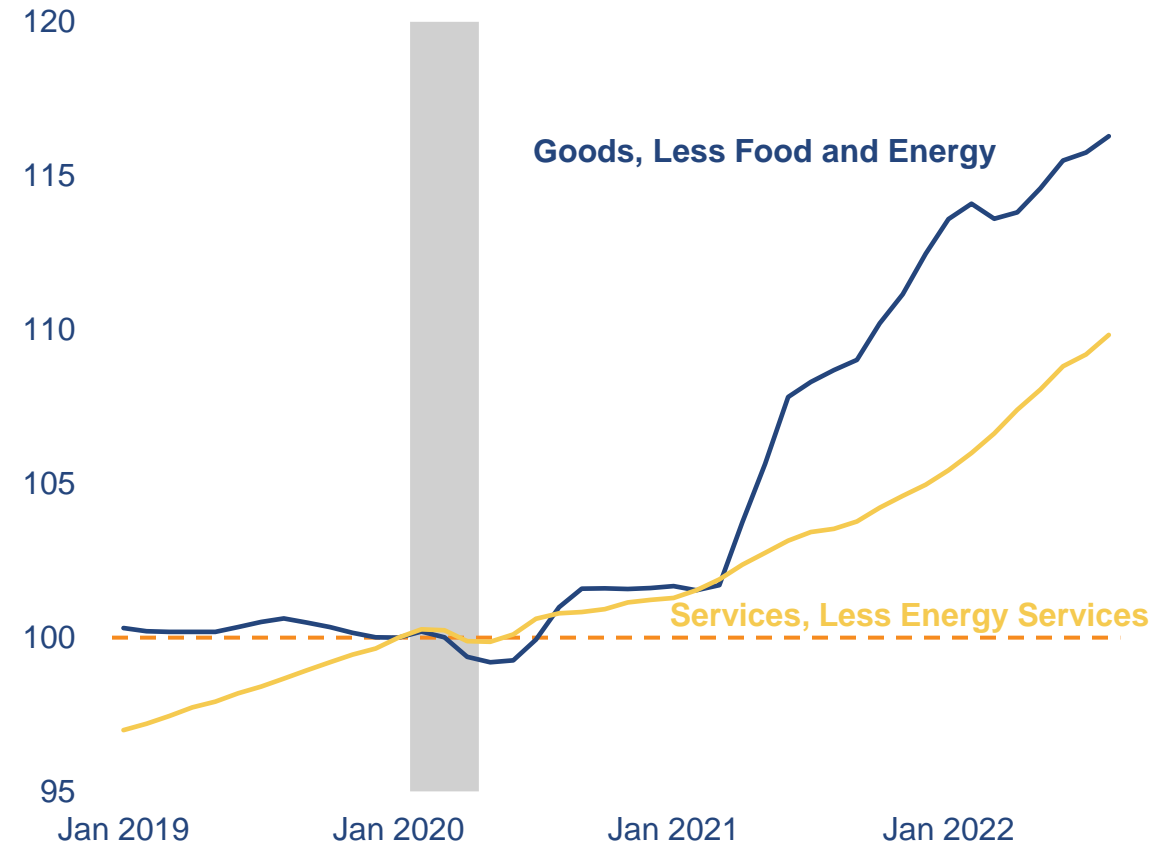


# Stimulus and Lock Down Consumption Led to a Boom in Goods Sales, but Services Took Two Years to Recover

Real Goods and Services Consumption  
Indexed, Jan 2020=100

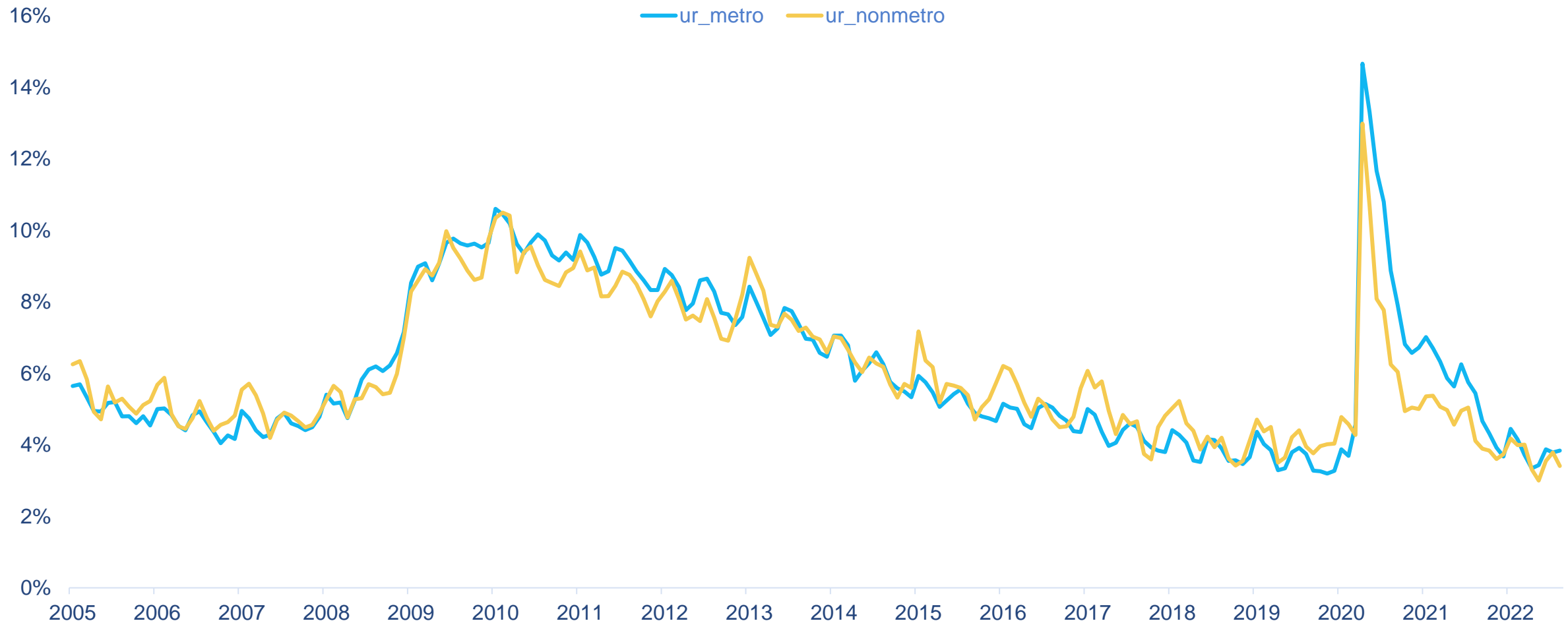


Core Goods and Services Inflation  
Indexed, Jan 2020=100



# The Strong Labor Market Led to Very Low Unemployment Rates and Faster Recovery in Rural Markets

### Unemployment Rate for Metros vs Non-metros

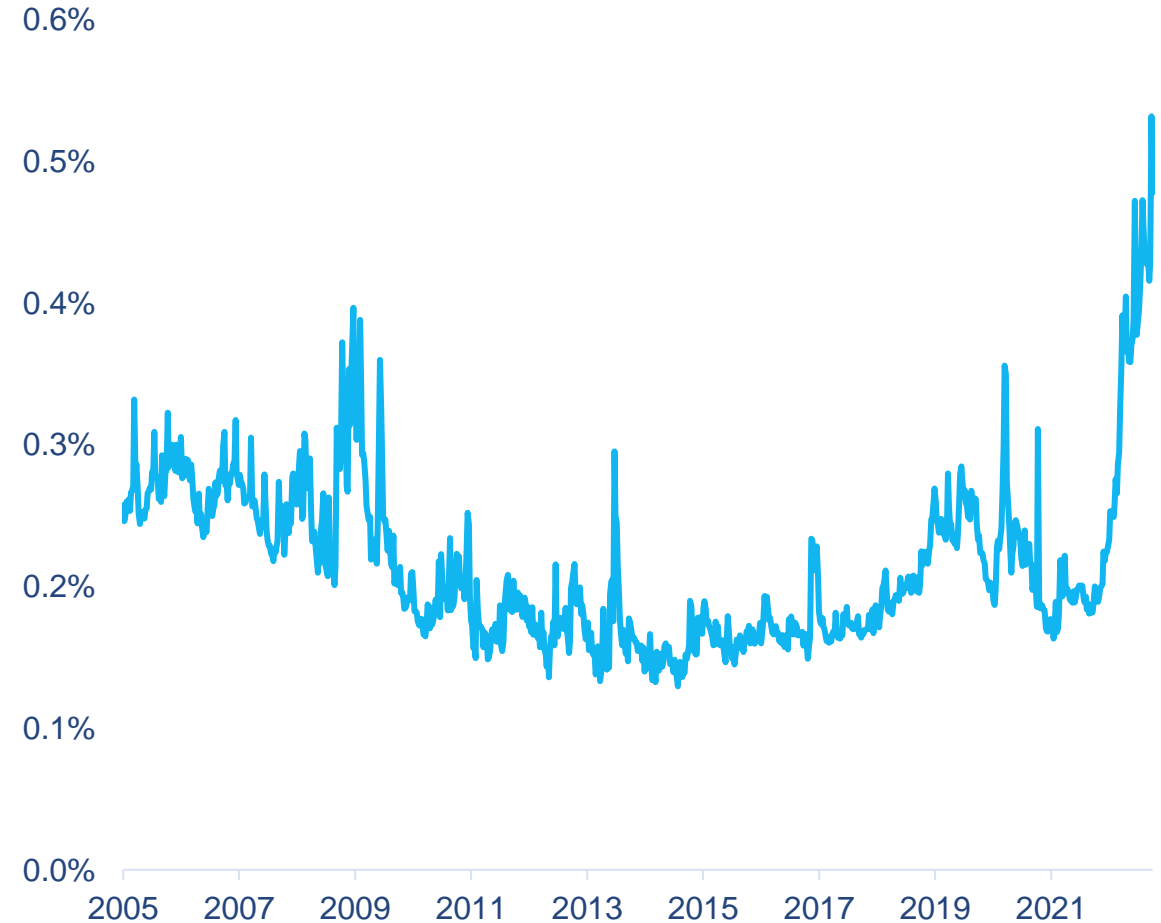


# Mortgage Rates are Rising at Fastest Rate in 40 Years and the Dispersion of Rates is Very High

### Mortgage Rate- 30-Year FRM

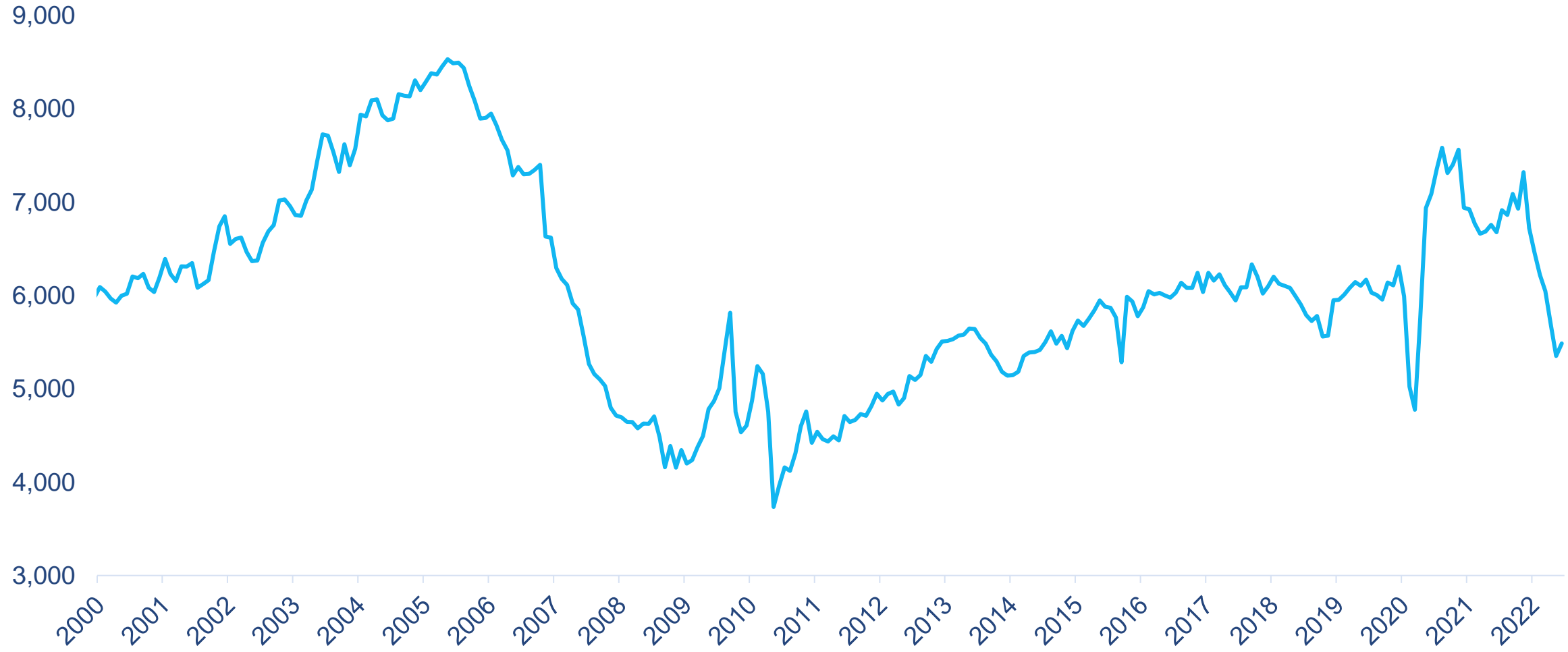


### 30-Year Fixed Rate Mortgage Dispersion



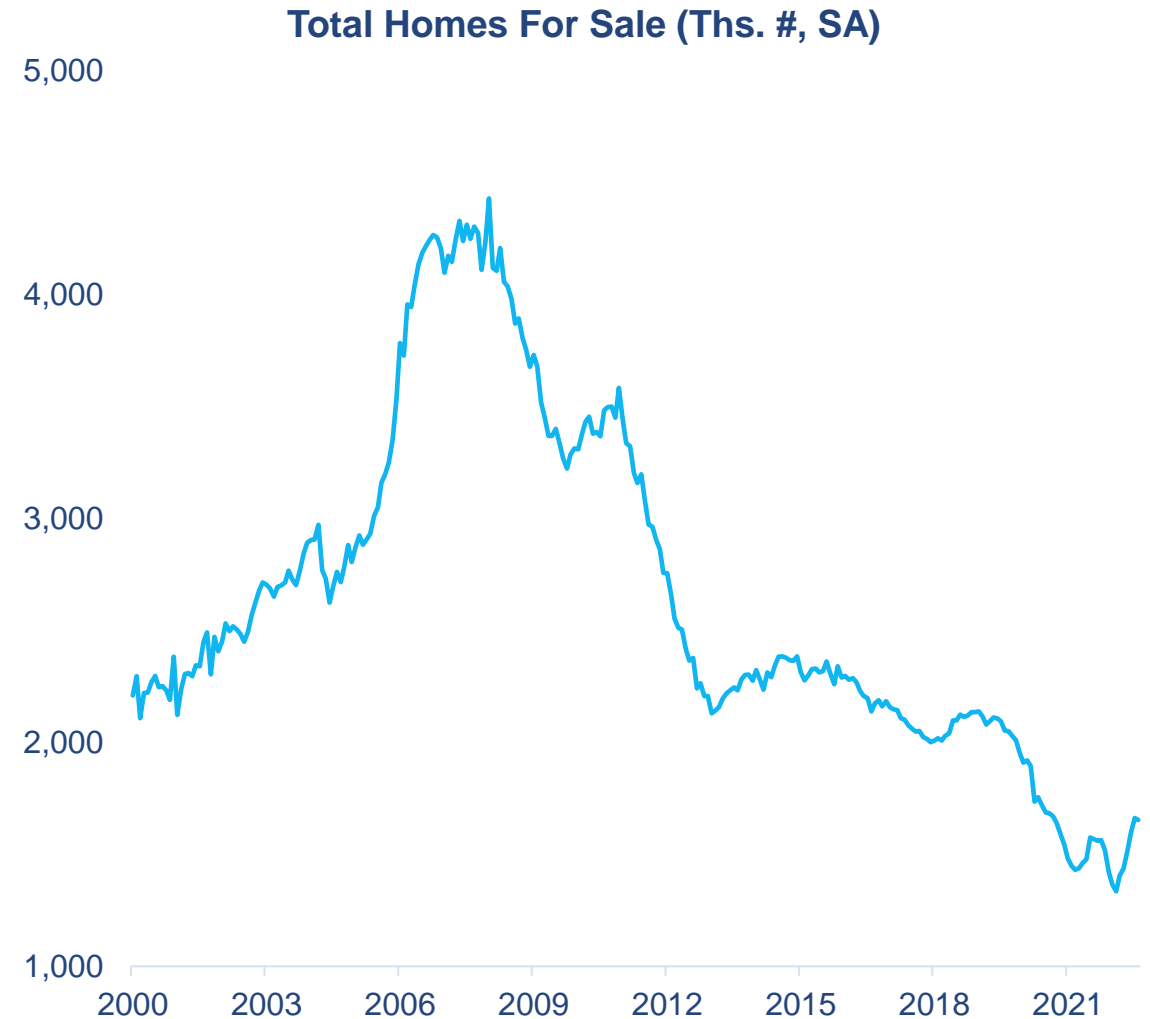
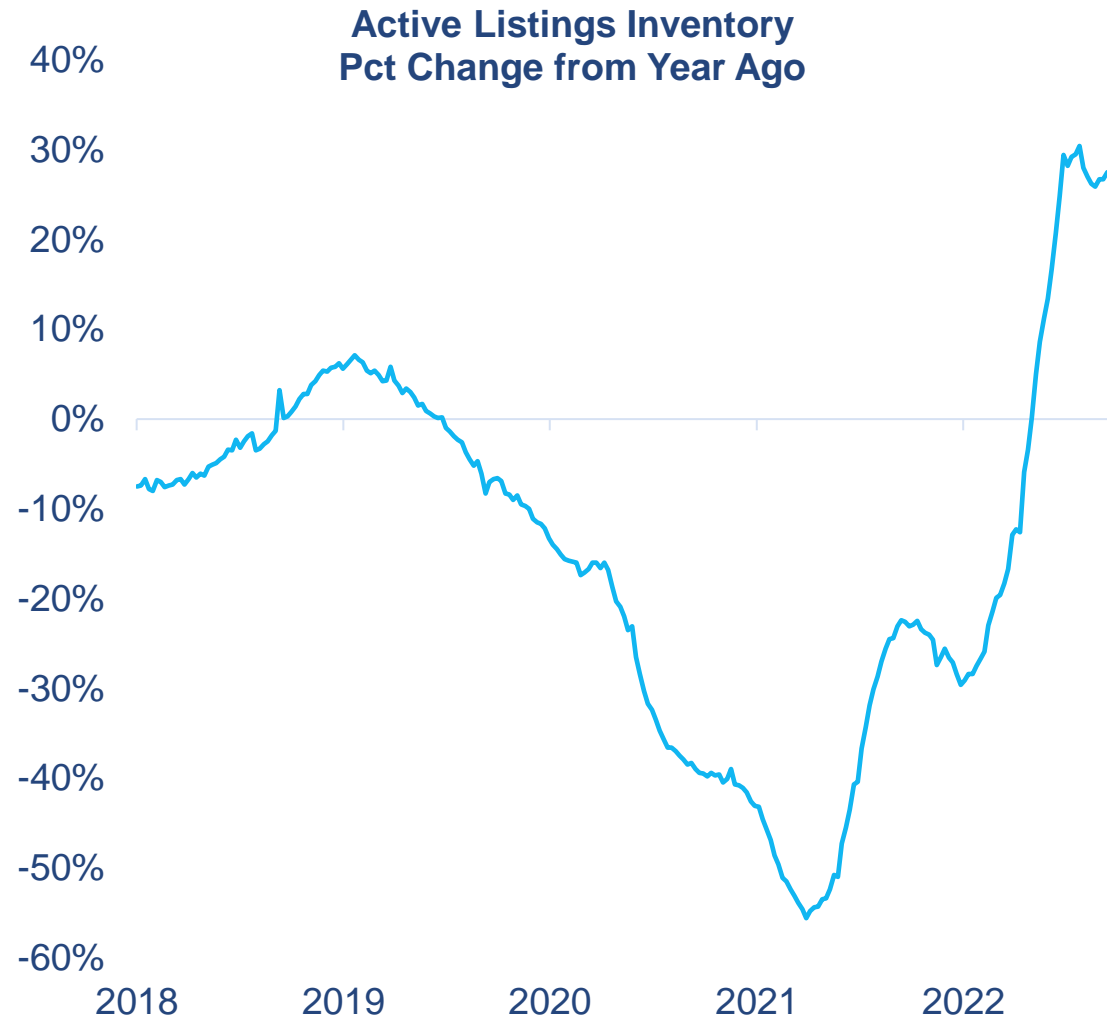
# Home Sales Cooled Due to Rapidly Rising Rates and Deteriorating Affordability

Total Home Sales (Ths. #, SAAR)



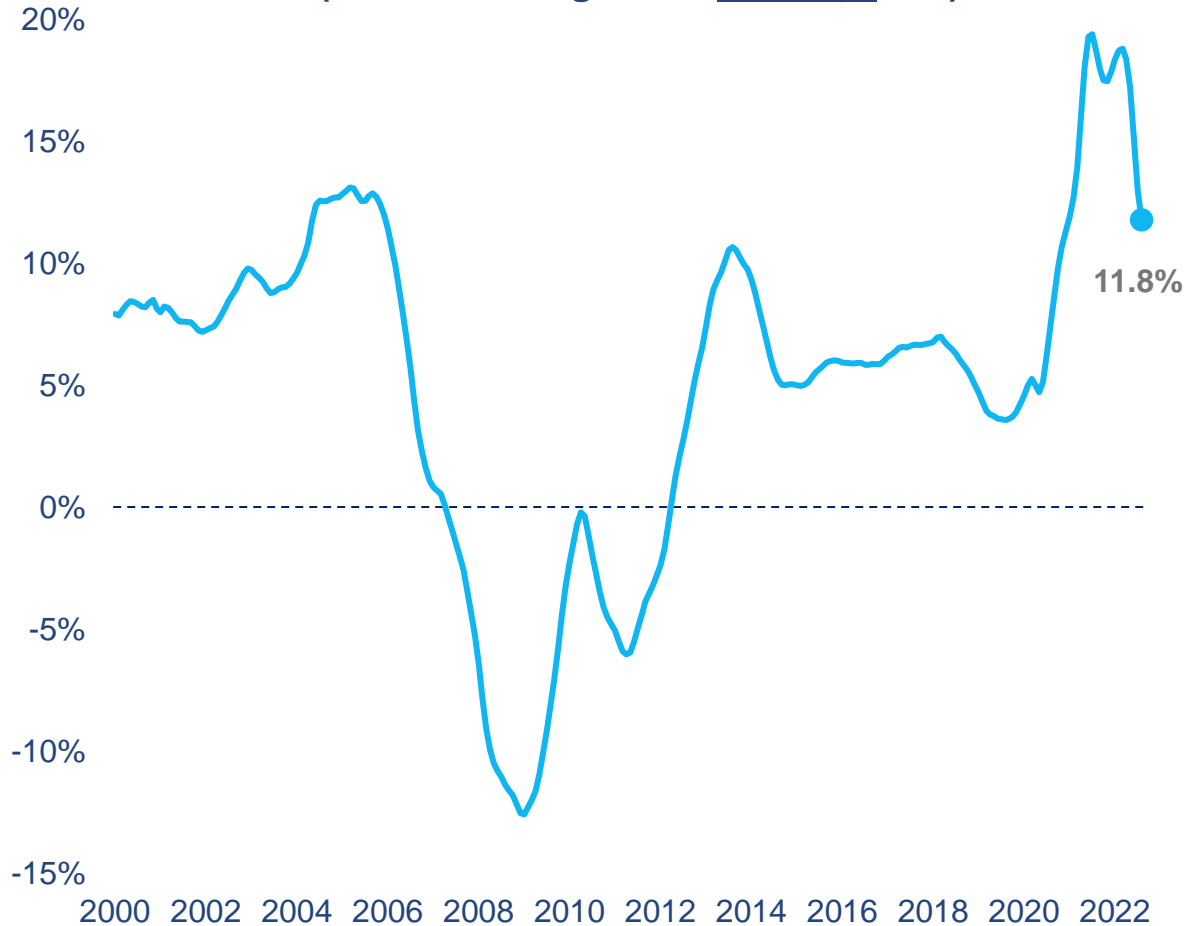


# Large Drop in Home Sales Has Led to Higher Inventory, but Relative to the Last Two Decades Inventory Remains Low



# Home Price Growth Slowing at the Fastest Pace in Four Decades

Freddie Mac House Price Index - August 2022  
(Percent Change from Year Ago, SA)

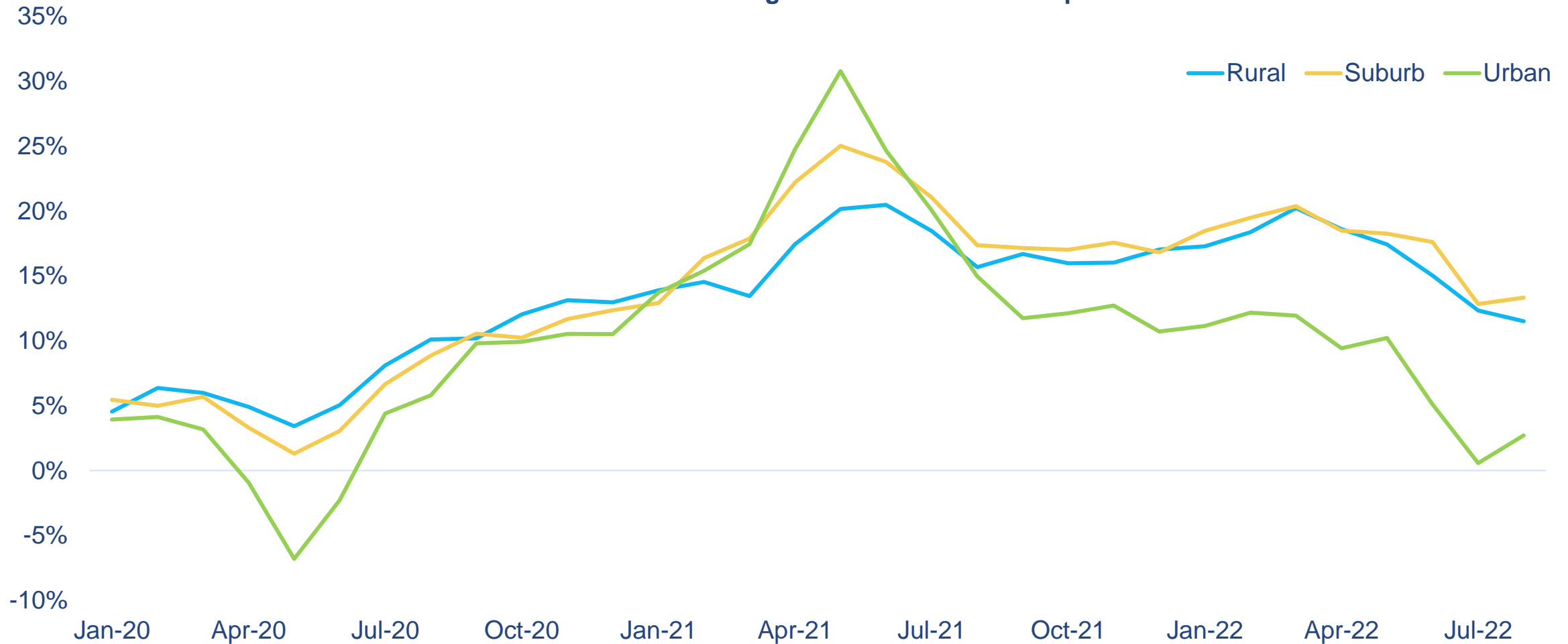


Freddie Mac House Price Index - August 2022  
(Percent Change from Month Ago, SA)



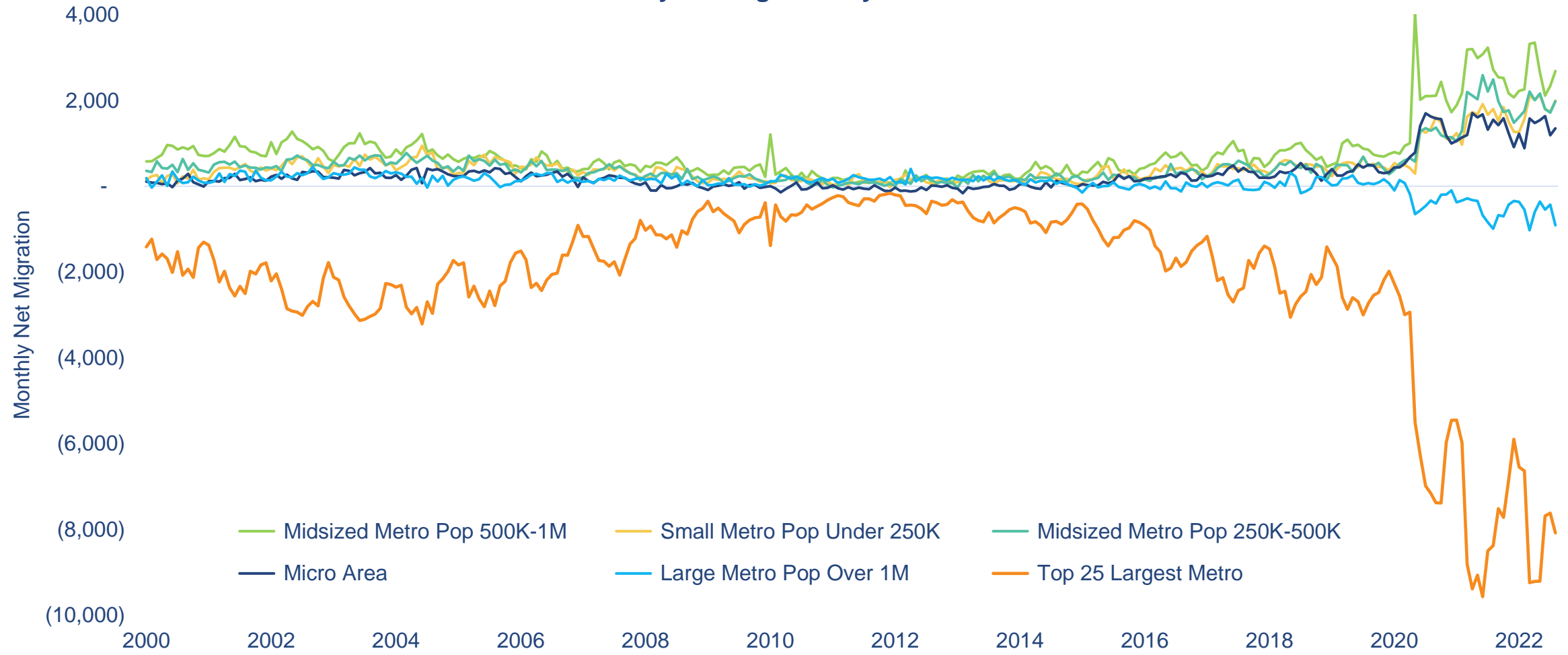
# Home Prices in Rural and Suburban Markets are Holding Up Much Better than Less Affordable Urban Markets

### Year-Over-Year Percent Change in Median Price Per Square Foot

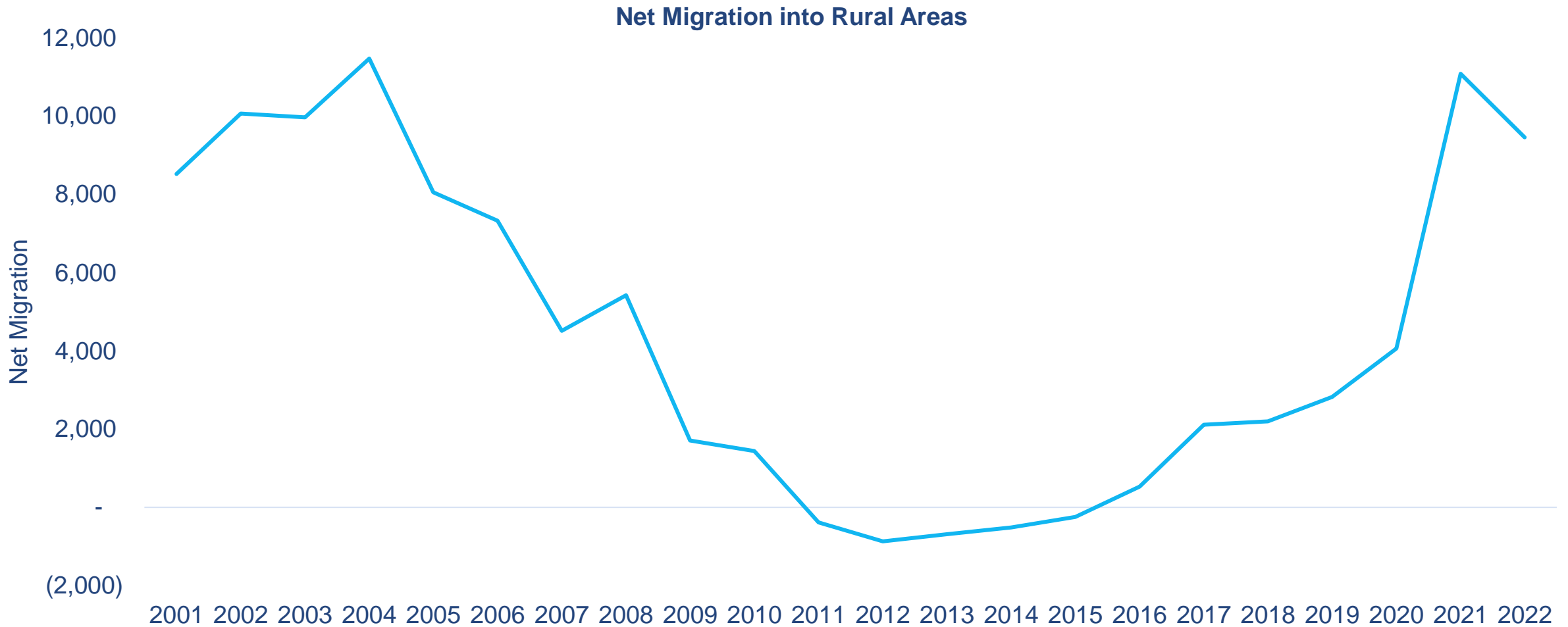


# Migration to More Affordable Markets is a Large Countervailing Force to Housing Affordability Pressures in Expensive Markets

### Monthly Net Migration by Metro Size



# Migration into Rural Non-Metro Areas was Increasing Prior to the Pandemic and Accelerated During the Pandemic



Source: Freddie Mac and Census.

Note: Each period represents rolling 12-months ending in March. Rural areas defined as places outside of Census metropolitan and micropolitan statistical areas.



Questions?





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## Economic and Housing Market Update

Selma Hepp, PhD

Interim Lead of the Office of the Chief Economist, Core Logic

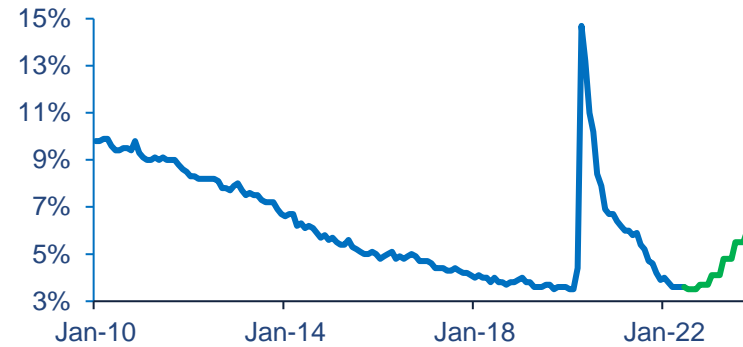
A high-angle, top-down photograph of a person with long dark hair sitting at a dark wooden desk. The person is wearing a light-colored long-sleeved shirt and is looking at a laptop. On the desk, there is a silver calculator on a blue clipboard, a white laptop with a blue pen resting on it, and a white coffee cup on a saucer. A green rectangular box highlights the laptop and the person's hands. The background shows a tiled floor and a window with a grid pattern.

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# Fed Chancing Recession to Bring Down Inflation

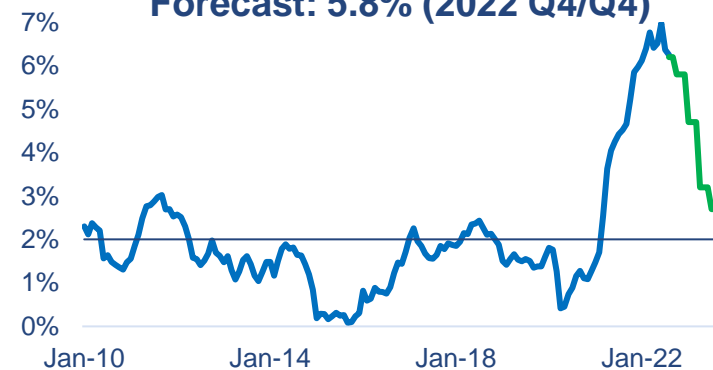
- Congressional dual mandate:
  - Maximum employment
  - **Price stability**
- U.S. Unemployment rate 50-year low
  - “Full employment”: 4.0-4.4%
- Fed’s “price stability” definition:
  - 2% annual avg. (PCE)
- Fed funds target now 3.00-3.50%
  - More hikes ahead
  - By end of 2022: target 4.6%

**September 2022 Unemployment 3.5%**  
**Forecast: 3.7% (2022 Q4 average)**



**2023 Q4**  
**6.0%**

**August 2022 Inflation 6.2% (PCE YOY)**  
**Forecast: 5.8% (2022 Q4/Q4)**



**2022Q4**  
**5.8%**

**2023Q4**  
**2.4%**

Source: BLS (unemployment rate), BEA (PCE price index), IHS Global Markit (October 11, 2022, unemployment and PCE inflation forecast)

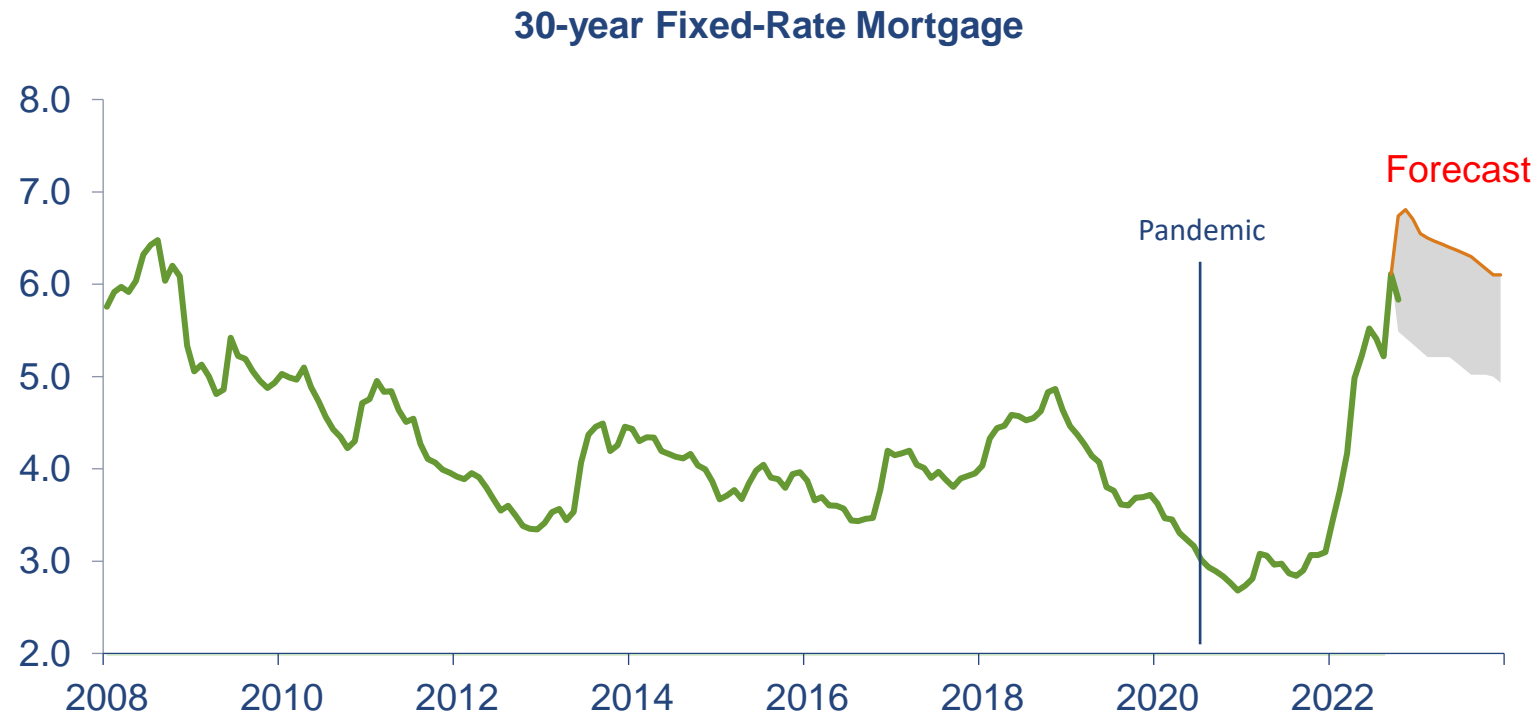
Note: “Full employment” estimate from Federal Reserve Board (March 16, 2022, Median ‘Longer run’ projections of FRB members and Bank presidents) and Congressional Budget Office (July 2021, Noncyclical Rate of Unemployment).





# Mortgage Rates in 2021 Fell to Historical Lows

Increase in 2022 was the largest since 1980s, expected to stay in the 6% range

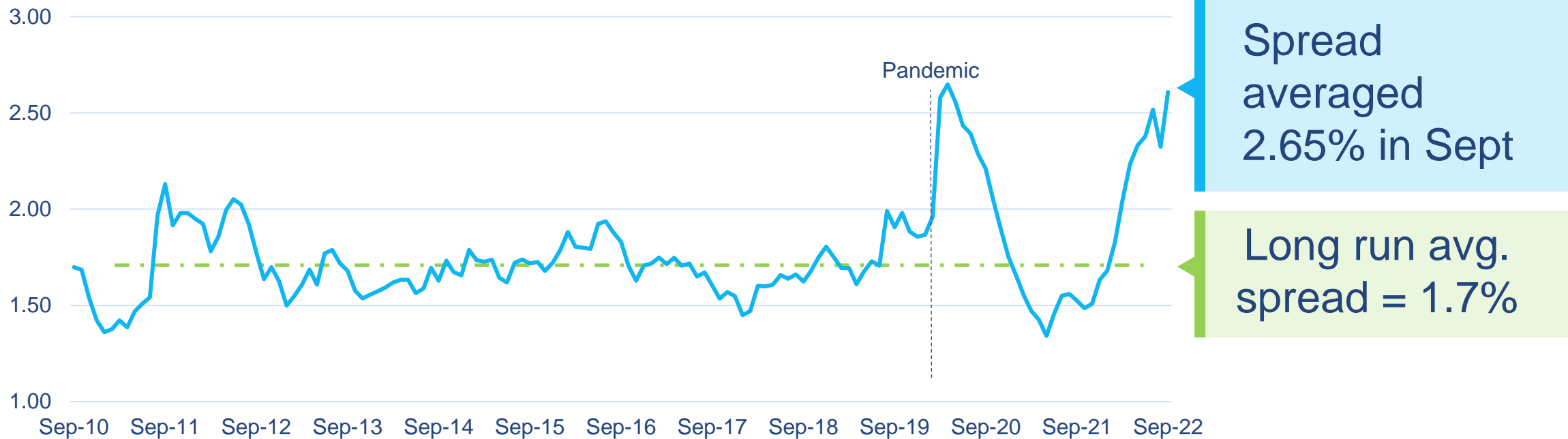


Source: Freddie Mac Primary Mortgage Market Survey®, forecast is consensus of five external forecasts

# Mortgage Rate Spread Widening

2022 has already showed the most volatility since 1982, approaching 300pbs late September. Expected policy reversal front loads jump in yields; spreads widen, esp mortgage rate; differential monetary policies, growth risks boost dollar.

### 30-year Fixed-Rate Mortgage – 10-year Treasury



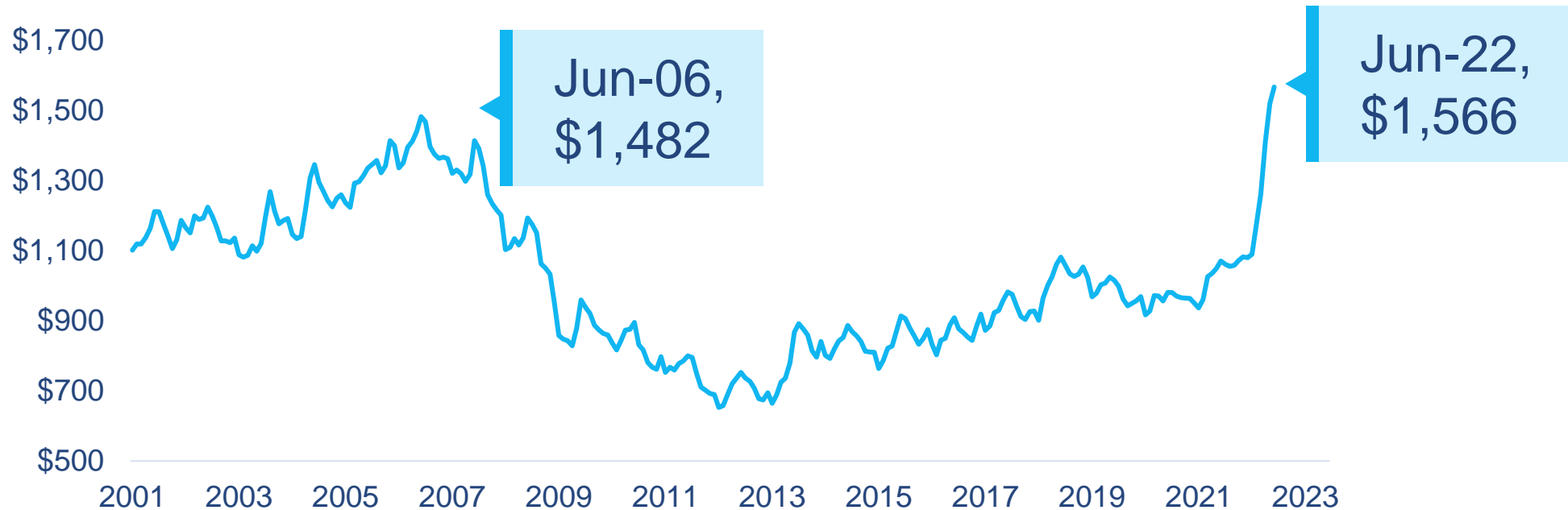
Source: Freddie Mac Primary Mortgage Market Survey®, Board of Governors of the Federal Reserve System (US), Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis [DGS10], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DGS10>, October 3, 2022.



# Jump in Mortgage Rates and Home Prices Erode Buyer Affordability

June 2022 real P&I payment was 46% higher than a year earlier; the highest on record

### Inflation-Adjusted Typical Mortgage Payment



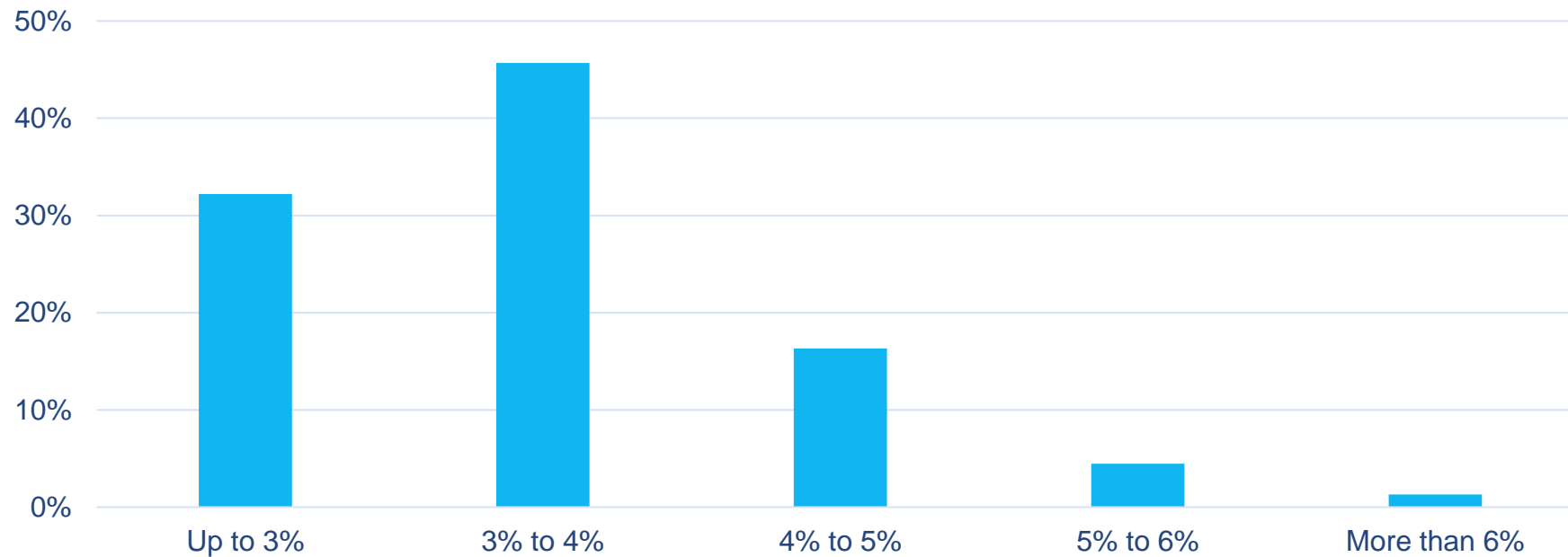
Source: CoreLogic MarketTrends, Bureau of Labor Statistics CPI, Freddie Mac PMMS, IHS Markit  
Note: Typical mortgage payment is the calculated monthly principal and interest payment on a median-priced home with 20% down payment and 30-year fixed-rate mortgage. CPI All Urban Consumers is used for the inflation adjustment. Forecast for 30-year fixed-rate mortgage is consensus of five external forecasts (5.5% for August 2023) and prices are CoreLogic HPI Forecast (September 6, 2022 release).



# Higher Mortgage Rate Lead to Strong Lock-In Effect

At over 6% current mortgage rate, 99% of mortgage debt outstanding has locked-in lower mortgage rates

Share of Home Mortgage Loan \$ by Interest Rate

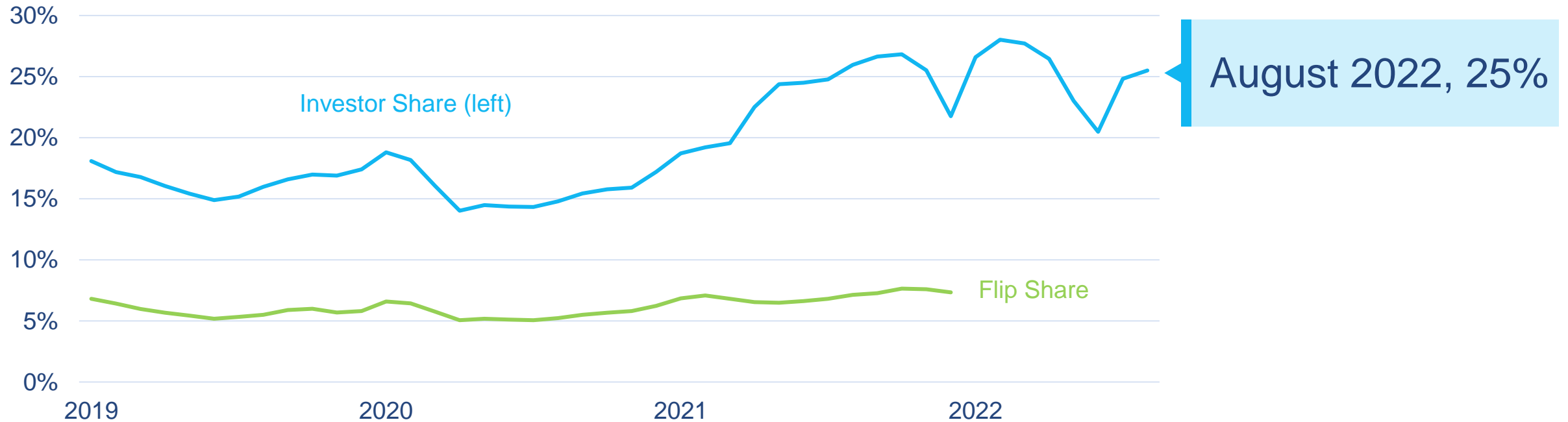


Source: CoreLogic TrueStandings Servicing, all loan terms (July 2022); Federal Reserve Board (Z.1, L.218 Home Mortgages, \$12.6 trillion first-lien as of June 30, 2022); Census Bureau (2018 ACS and 2018 RHFS); Freddie Mac PMMS.

# Single-Family Investor Share Increases in Q3 2022

Low share of flips implies many investors are landlords. Total monthly purchases average 108K in 2022.

### Investor Share/Purchases of Single-Family Homes

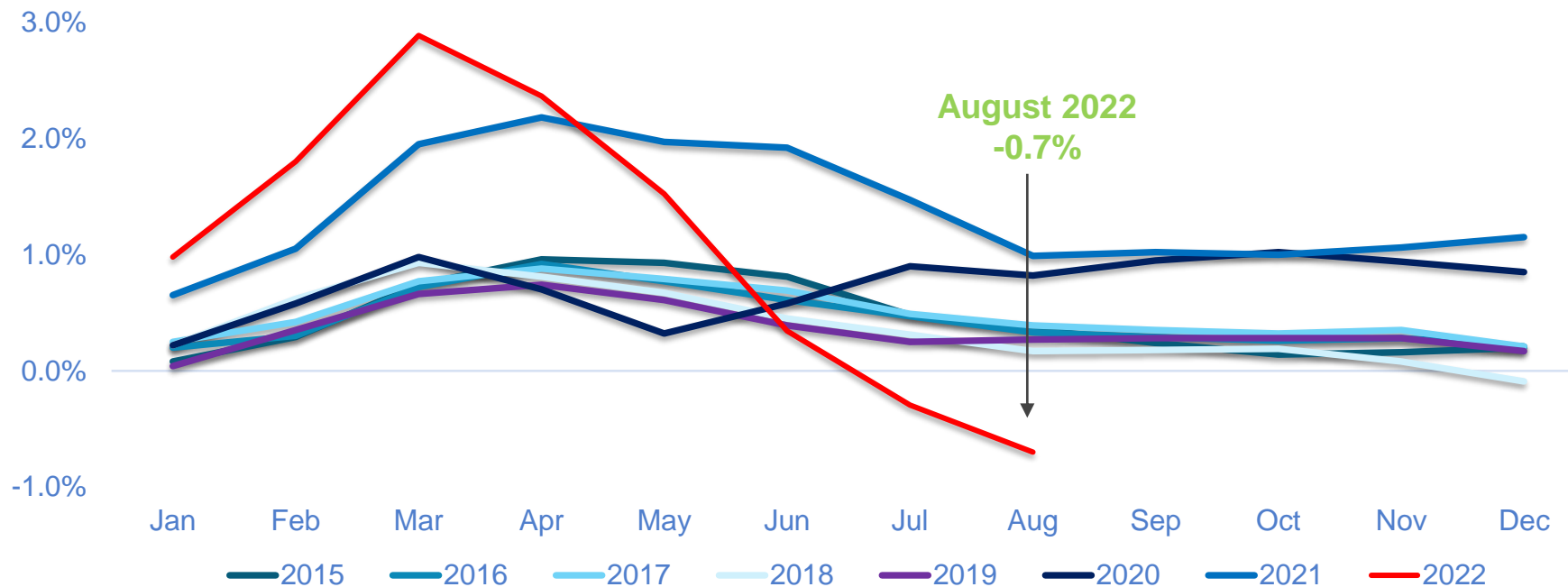


Source: CoreLogic public records. 'Flip' is calculated as an Investor that sells home within 6 months.

# Month-Month HPI Growth Takes a Rapid Turn in Q2 2022

August 2022 MOM growth was down 0.7%, July MOM average for 2015-2019 was up 0.3%.

CoreLogic U.S. HPI Month-Over-Month percent Change

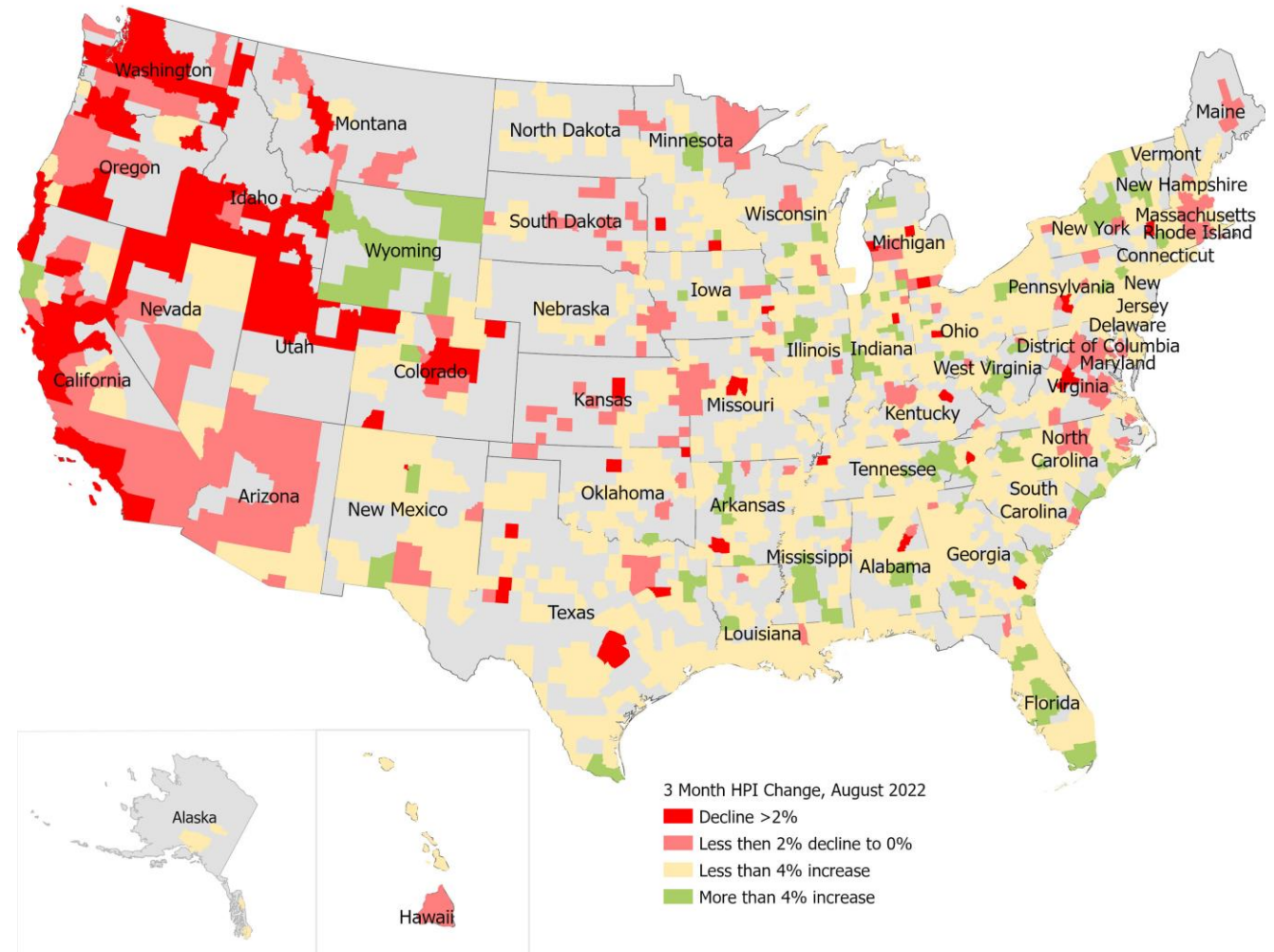


Source: CoreLogic Home Price Index (October 4, 2022)

# About 1/4 of Places Saw Price Declines from 2022 Peak

Monthly price declines concentrated in:

- West
- Mid-Atlantic
- Lower Midwest



Source: CoreLogic Home Price Index (October 4, 2022)

Look for regular updates  
to our housing forecast,  
commentary and data at:

 <https://www.corelogic.com/intelligence/>

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