U.S. Housing & Mortgage Market Outlook

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U.S. Economy Rebounds

• Economic growth strengthens in 2004
  – GDP growth should exceed 3.8% in 2H 2004
  – Unemployment slowly declines to 5.4% by 4th quarter
  – Accommodative fiscal and monetary policy continues

• Tame inflation will keep interest rates low
  – Strong labor productivity growth
  – Fed funds will likely rise in 0.25% increments for next several FOMC meetings if economic growth is sustained

• Mortgage Markets will be busy
  – Loan originations: 33% lower than 2003 because of refi drop, but purchase-money volume will be up
  – ARMs will account for 3-of-8 loans in second half
Economic Growth Should Hit 3.9% in 2005

Real Gross Domestic Product (Annual Percentage Change)

Sources: Department of Commerce, Freddie Mac

Economic Acceleration Creates Jobs

Change in Non-Farm Payroll Employment (U.S. in thousands)

"Jobless" Recovery

"Jobloss" Recovery

Change in Mortgage Related Employment (U.S. in thousands)

Source: Bureau of Labor Statistics
Productivity Surge Reduces Inflation Concern

Annual Percent Change

Core CPI

Unit Labor Cost

Source: U.S. Department of Labor

Oil Prices Are at All-time Nominal, but Not Real, Highs

Nominal Oil Prices (Dollars per Bbl)  Real Oil Prices (Dollars per Bbl)

Source: BLS, Federal Reserve Bank of St. Louis
Mortgage Rates Remain Near 46-year Low

Source: American Council of Life Insurers (ACLI), Freddie Mac (PMMS), Federal Reserve

Single-family Building Hits a Record in 2004

Source: Bureau of Census
Loan Applications Confirm Record Home Sales

Home Sales (Millions)  Home Purchase Application Index (Lagged 2 Months)

Home Sales Left Scale
Mortgage Applications Index for Home Purchase Right Scale

Source: Federal Housing Finance Board, Freddie Mac

Fewer Than 1-in-7 Mortgages Have a Coupon of 7% or Higher

Percent of Conventional Fixed-Rate Mortgages Outstanding by Coupon, June 2004

Source: Freddie Mac estimates
Refinance Boom Is Over

![Graph showing the share of refinance applications in 1992-93, 1998, and 2001-04 boom periods with a forecast. Source: Freddie Mac Primary Mortgage Market Survey.]

Fewer Refis Mean a 33% Drop in Mortgage Originations

![Bar chart illustrating total single-family mortgage originations (Billions of Dollars) from 1990 to 2006 with a forecast. Home Purchase Originations and Refi Originations are differentiated. Source: HUD, Freddie Mac.]

### Drivers of Single-family Mortgage Debt Growth

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<tbody>
<tr>
<td>Household growth</td>
<td>1.3%</td>
<td>1.25%</td>
<td>1.1-1.4%</td>
</tr>
<tr>
<td>Ownership growth</td>
<td>0.6%</td>
<td>0.50%</td>
<td>0.3-0.6%</td>
</tr>
<tr>
<td>Price appreciation</td>
<td>5.3%</td>
<td>5.00%</td>
<td>4.0-6.0%</td>
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<tr>
<td>Leverage growth</td>
<td>1.5%</td>
<td>1.50%</td>
<td>1.4-1.6%</td>
</tr>
<tr>
<td>Single-family mortgage debt growth</td>
<td>8.6%</td>
<td>8.25%</td>
<td>7.0-9.5%</td>
</tr>
</tbody>
</table>

Note: For 1993-2003, the sum of the first four rows is 8.7%; the difference between this and the single-family mortgage debt growth rate of 8.6% reflects other factors that affect debt growth over time. The projected range of single-family mortgage debt growth was rounded to the nearest one-half percent.

Source of 1993-2003 data: Census Bureau, Freddie Mac, Federal Reserve Board

### Residential Mortgage Debt More Than Doubles by 2013

- **High End:** 9.5%
- **Low End:** 7.0%
- **Forecast:** 8.25%
- **2013 Estimate:** $7.8 trillion
- **1990 Estimate:** $3.2 trillion

Source of 1990-2003 data: Federal Reserve Board
Are Home Values About to Crash?

• Home value growth has been strong
  – Up in all states, and large metropolitan areas
  – Up 8.5% in 2003, nationally
  – Up 10.0% nationally and up 17.1% in Pacific states in second quarter
  – Values will grow about 8.5% in 2004
    • Markets with extensive manufacturing (un)employment at greatest risk
  – Expect national appreciation near 5-7% per year in 2005-06

• “Bubble” talk is still around and very popular in media

Recent House Price Growth Has Been Strongest on the Coasts

Source: Freddie Mac CMHPI Annual House-Price Growth Q2 2003 – Q2 2004
Inventories of Homes-For-Sale Are Very Low

Income and Home Prices Have Grown At Almost the Same Pace
Office of the Chief Economist

**U.S. Home Prices Have Grown Every Year Since 1950**

![Graph showing annual growth in U.S. home prices from 1950 to 2004.](image)

- **Annual Growth (Percent)**
  - **5.0%: 1950-2003 Growth Rate**
  - **Forecast**


Office of the Chief Economist

**U.S. Economy Rebounds**

- Economic growth strengthens in 2004
  - GDP growth should exceed 3.8% in 2H 2004
  - Accomodative fiscal and monetary policy continues
  - Inflation, interest rates will remain low: 30-year, fixed mortgage rates to average around 5.9% in 2H 2004
  - Unemployment rate slowly declines to 5.4% by fourth quarter
- Mortgage markets will have a big year in 2004
  - Originations down 33% because of drop in refinance
  - Refi shares down from 2003, ARM shares up
- Low interest rates, family income growth keep housing brisk in 2004
  - Housing starts expected to set new record at 3% higher than 2003 level
  - Home sales likely to set new record in 2004, about 6% higher than 2003 level
  - Home value appreciation remains strong
Where to Get More Information

• Look for regular updates to our economic forecast, commentary and data at www.freddiemac.com/news/finance
• Contact us at chief_economist@freddiemac.com

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