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Freddie Sees Housing Standing Out Amid Slowing Economy

As Fannie Mae did earlier in its May Economic Summary, Freddie Mac today **downgraded its outlook** for economic growth for the remainder of 2016. And like its sister GSE, Freddie called housing a "bright spot" in the economic outlook and one that should propel the economy forward for the balance of the year. The analysis was published in the Freddie Mac's monthly Economic and Housing Research Outlook.

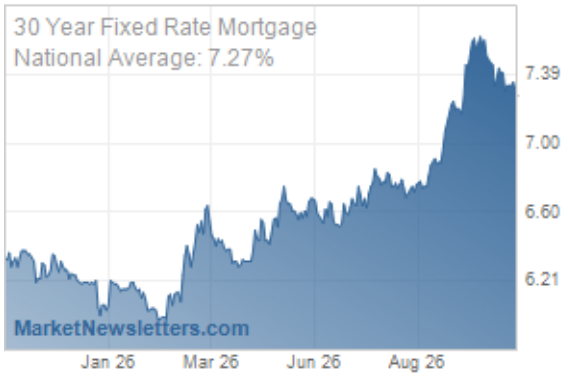
For the third year in a row the economy "has **sputtered out of the gate** with the GDP growing only 0.5 percent in the first quarter. Freddie Mac's economists say the weakness can be attributed to nonresidential fixed investment, which dropped 5.9 percent on a seasonally adjusted annual basis, the biggest downturn since 2009, and trade and inventory corrections. Housing, however, remains on track for the best year in a decade with residential investment growing at an annual rate of 14.8 percent in the first quarter. Low mortgage interest rates are supporting affordability despite rapidly rising home prices and providing additional opportunity for current homeowners to refinance.

Core personal expenditures, a measures closely watched by the Federal Reserve, rose 1.6 percent year-over-year in March, still well below the Fed's target of 2 percent but the New York Fed's Survey of Consumer Expectations show consumers looking for a 2.6 percent inflation rate one year from now. Freddie says it **doesn't** expect inflation to rise that rapidly although recovering gasoline prices will create upward pressure. It looks for inflation to reach 2.0 percent in the fourth quarter and average 1.9 percent next year.

Given recent developments Freddie's economists have revised their forecast for GDP growth in 2016 from 2.0 percent to 1.8 percent but, again like Fannie, they cite the **second quarter rebound** in each of the previous two years and expect the same this year with the second quarter GDP back up to 2.1 percent followed by 2.3 and 2.4 percent growth in the last two quarters of the year.

There have been a variety of factors contributing to low Treasury yields and mortgage rates. Investors have continued to flock to the safety of government securities by slowing domestic and global growth and foreign central banks' implementation of stimulative monetary policies. Consequently, Treasury rates have oscillated within a 1.65 percent to 2.0 percent range since February. The Federal Open Market Committee (FOMC) April meeting created even more doubt about future hikes in the benchmark

National Average Mortgage Rates



Mortgage News Daily

	Rate	Change	Points
30YR Fixed	7.27%	-0.02	0.00
15YR Fixed	6.92%	-0.03	0.00
30YR FHA	6.90%	-0.01	0.00
30YR Jumbo	7.55%	0.00	0.00
7/6 SOFR	6.78%	-0.10	0.00
30YR VA	6.91%	-0.01	0.00

Rates as of: 10/30

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.84	+0.03
10 YR Treasury	4.9032	-0.0267
30 YR Treasury	5.2719	-0.0363

Pricing as of: 11/2 9:05AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 21	195	+3.39%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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interest rate. All of this has kept mortgage rates down and they reached a **3-year low** during the week of May 12.

Given results so far, Freddie has **lowered expectations for rates** over the remainder of the year, reducing its forecast for second quarter rates by 10 basis points and every quarter thereafter by 20 basis points. The result will bring the 30-year fixed-rate to 4.1 percent by the fourth quarter, 4 basis points higher than the Q1 average rate.

The adjustment to rates affected the company's forecast for single-family mortgage originations as well. The estimate of the refinance share in the quarter has been raised to 52 percent, from 48 percent in April. This translates to about $25 billion more in originations bringing the year's total to $1.725 trillion.

The forecast calls for first quarter **home price appreciation** of 1.4 percent and 4.8 percent for the year. Increases are expected to moderate to a 3.5 percent rate in 2017.

Freddie notes that inventories remain tight and housing starts have been disappointing. They expect the latter will pick up from February's annual estimate of 1.19 million starts to 1.27 million the remainder of the year and 1.51 million in 2017.

Demand for homes continues to surge and existing home sales increased 5.1 percent in March to an annual rate of 5.33 million units. New home sales, however, fell 1.5 percent in March which the company attributes more to supply than demand especially given the decrease in sales in the West which it says suggests supply constraints and rapidly rising home prices are taking a toll.

The *outlook* concludes that even with tight inventories and rising house prices, **2016 should be the best year** for home sales in a decade. The company's latest housing tracker which compares non-seasonally-adjusted year-to-date home sales across years, shows that the first quarter of 2016 was the second fastest first quarter pace of home sales in the past decade, narrowly edging 2015. Home sales typically rise in the spring and summer months. They anticipate an acceleration in home sales that will surpass 2007's pace

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Let our highly experienced reverse mortgage team help your company grow its HECM business.

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