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## ***U.S. Housing & Mortgage Market Outlook***

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**Federation of Tax Administrators Conference  
Burlington, VT  
September 20, 2004**

**Frank E. Nothaft  
Chief Economist**



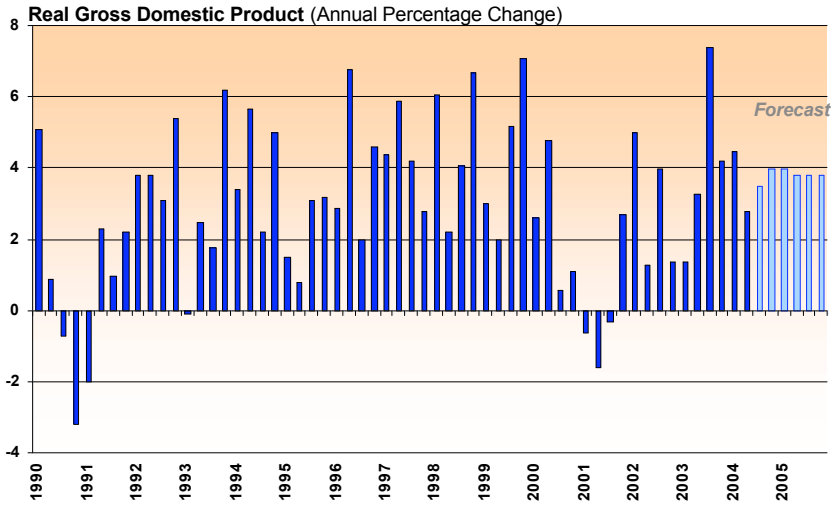
Office of the Chief Economist

### ***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

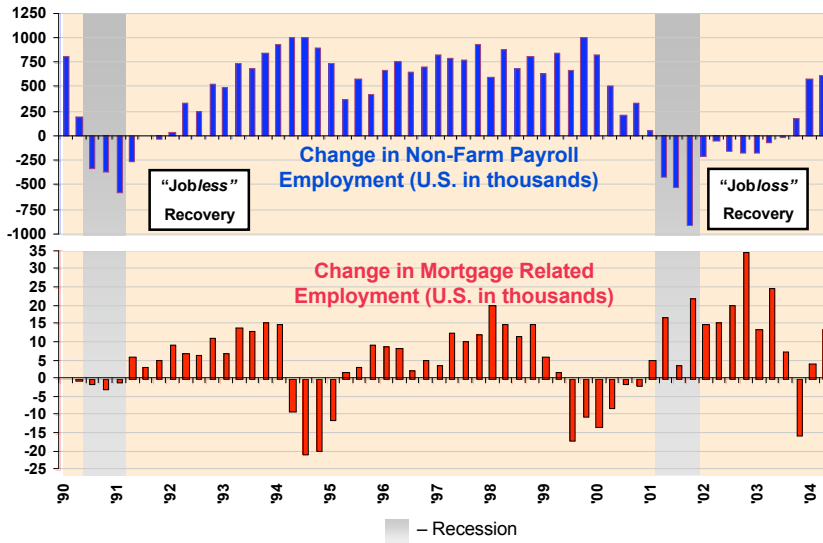


Sources: Department of Commerce, Freddie Mac

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### Economic Acceleration Creates Jobs

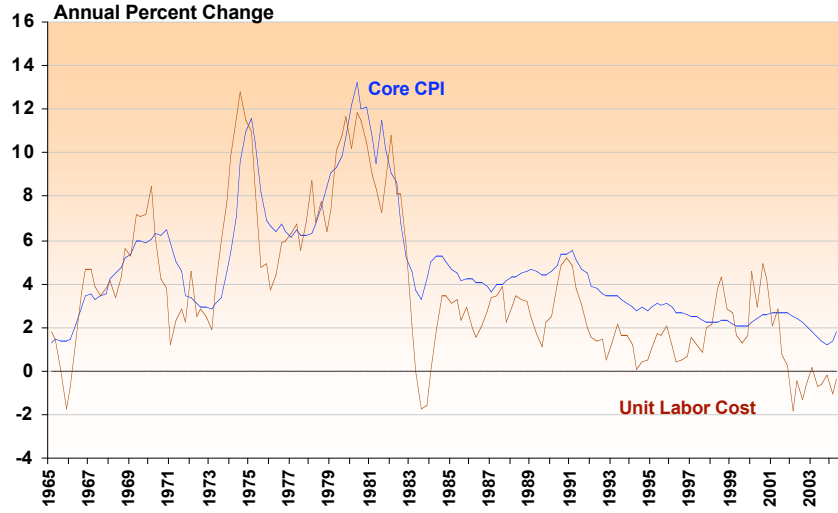


Source: Bureau of Labor Statistics

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## Productivity Surge Reduces Inflation Concern

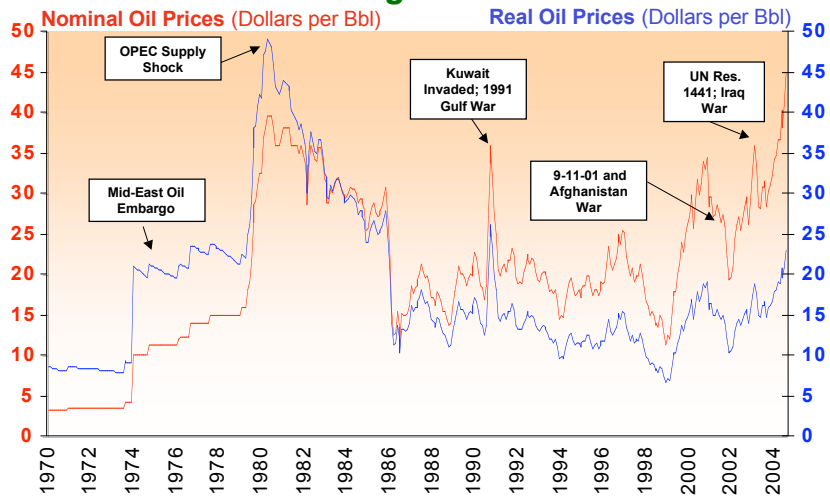


Source: U.S. Department of Labor

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

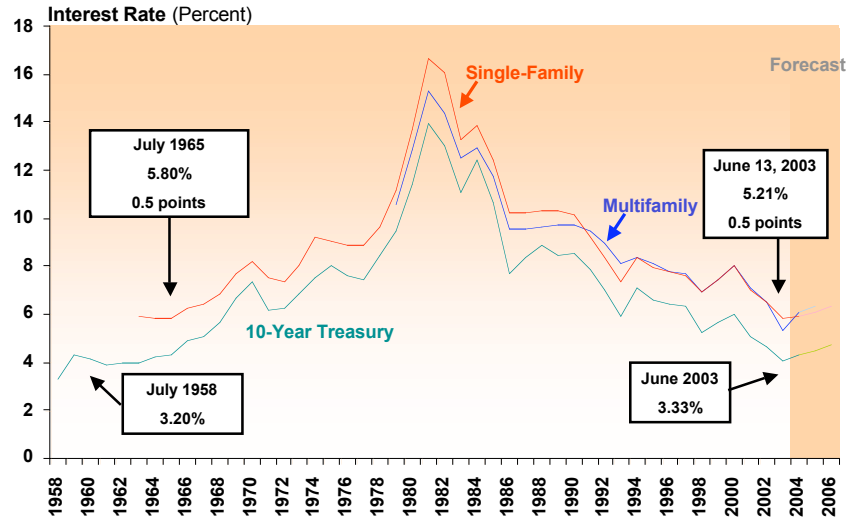


Source: BLS, Federal Reserve Bank of St. Louis

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### Mortgage Rates Remain Near 46-year Low

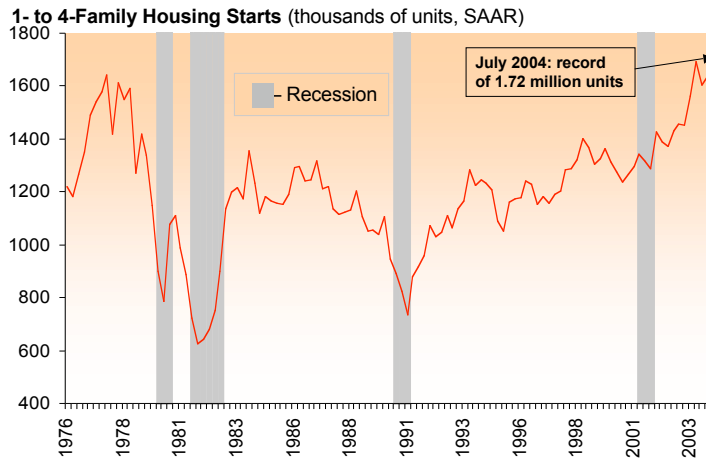


Source: American Council of Life Insurers (ACLI), Freddie Mac (PMMS), Federal Reserve

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### Single-family Building Hits a Record in 2004

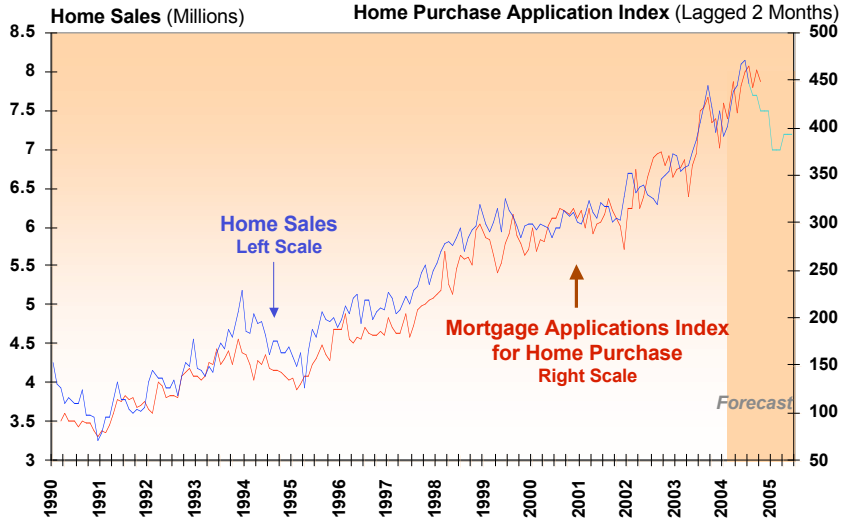


Source: Bureau of Census

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### Loan Applications Confirm Record Home Sales

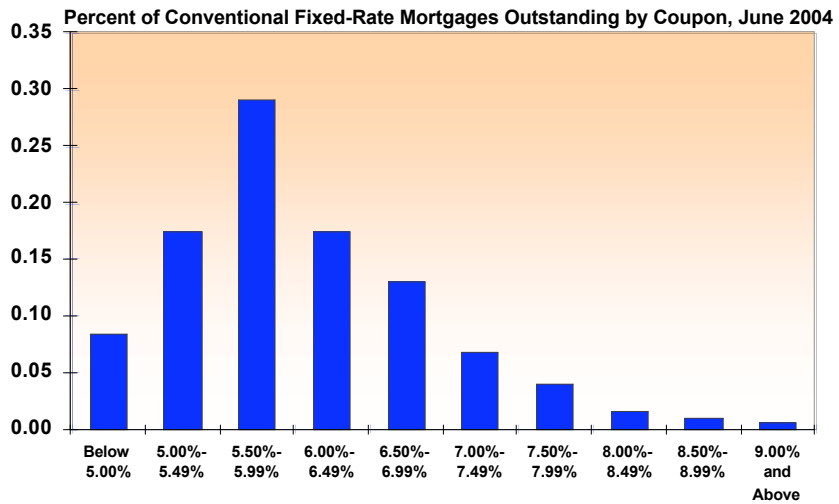


Source: Federal Housing Finance Board, Freddie Mac

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

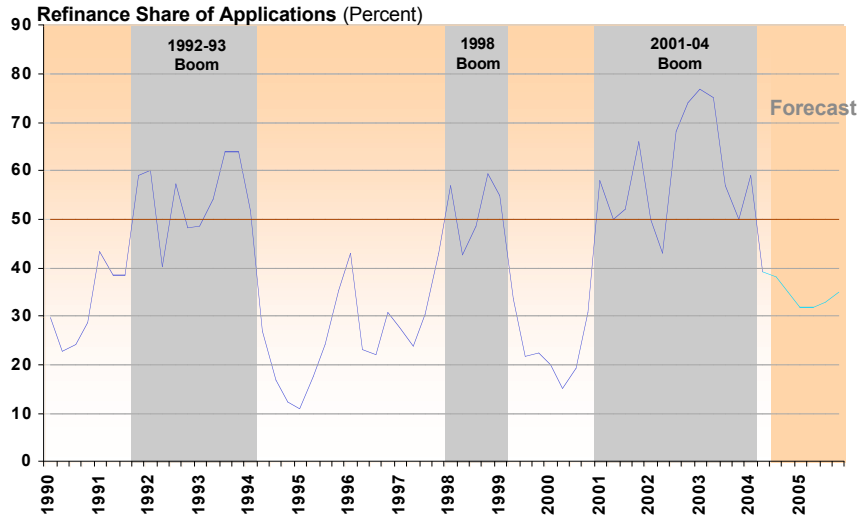


Source: Freddie Mac estimates

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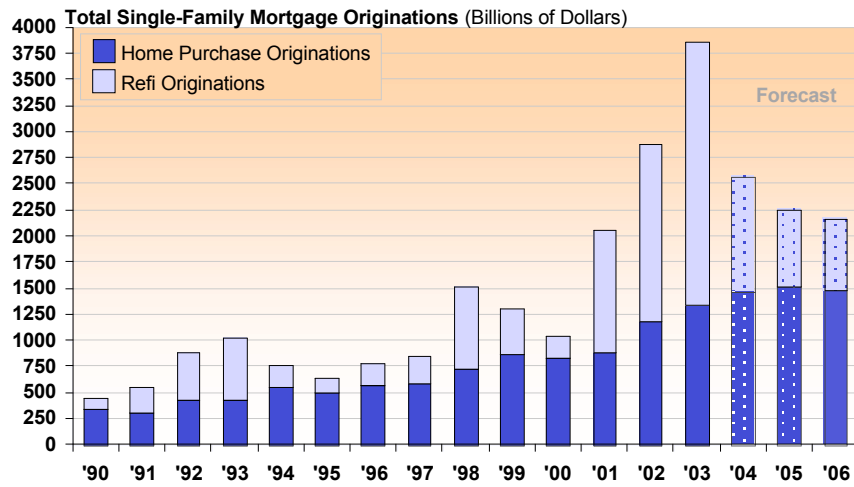
### Refinance Boom Is Over



Source: Freddie Mac Primary Mortgage Market Survey



### Fewer Refis Mean a 33% Drop in Mortgage Originations



Source: HUD, Freddie Mac



### Drivers of Single-family Mortgage Debt Growth

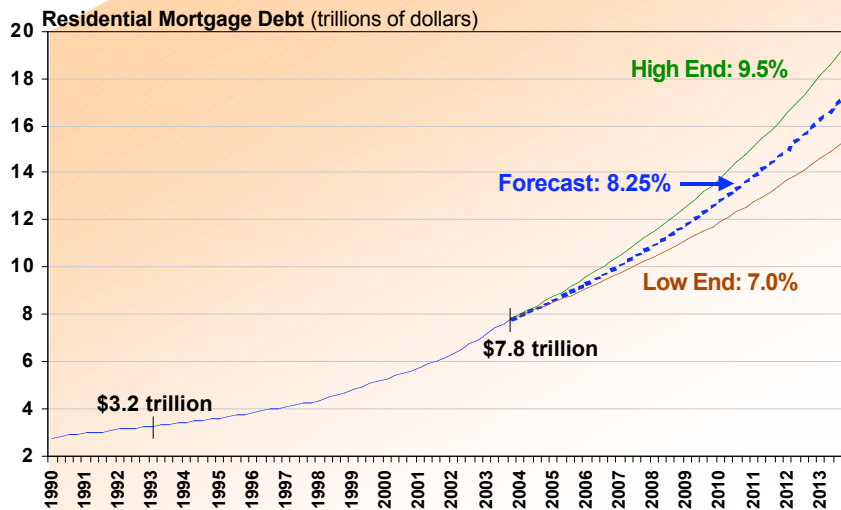
	Actual	Projected, 2004-2013	
	1993-2003	Most Likely	Range
Household growth	1.3%	1.25%	1.1-1.4%
Ownership growth	0.6%	0.50%	0.3-0.6%
Price appreciation	5.3%	5.00%	4.0-6.0%
Leverage growth	1.5%	1.50%	1.4-1.6%
Single-family mortgage debt growth	8.6%	8.25%	7.0-9.5%

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



Source of 1990-2003 data: Federal Reserve Board

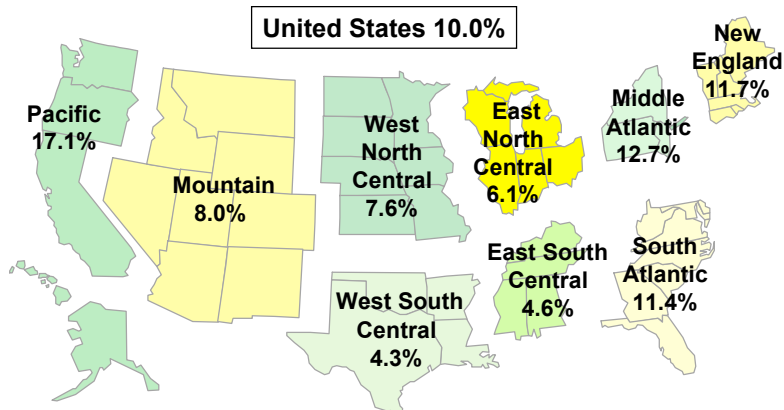


## Are Home Values About to Crash?

- 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



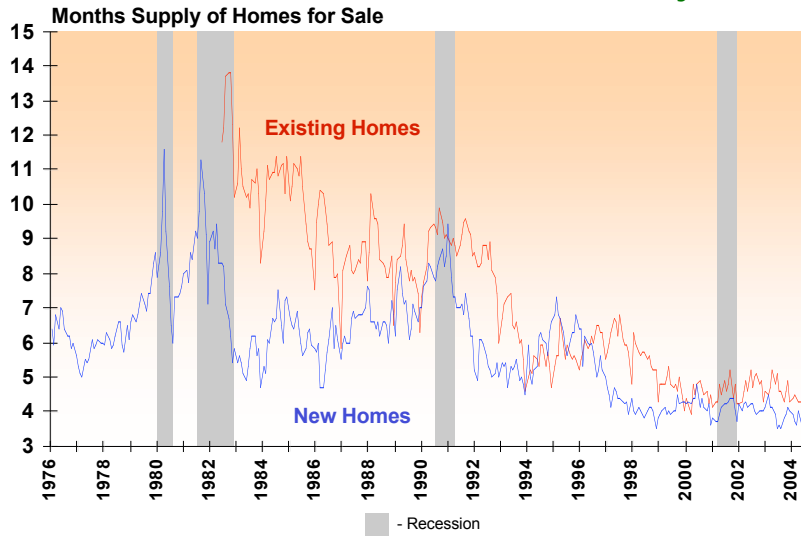
## Recent House Price Growth Has Been Strongest on the Coasts







### Inventories of Homes-For-Sale Are Very Low

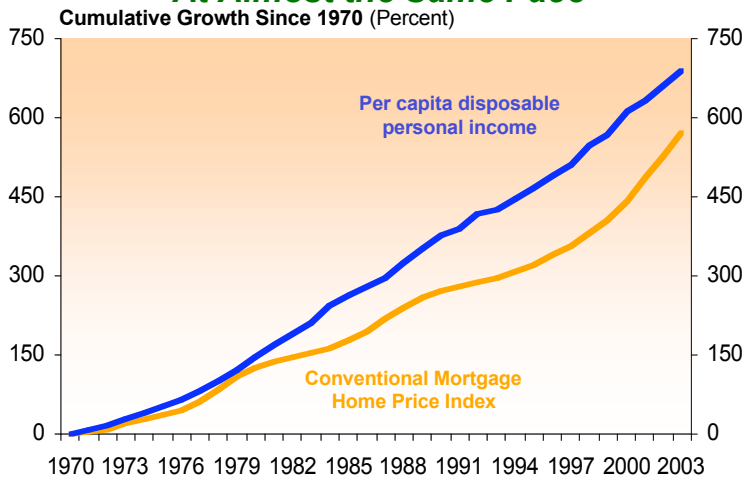


Source: National Association of Realtors, Bureau of Census

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### Income and Home Prices Have Grown At Almost the Same Pace

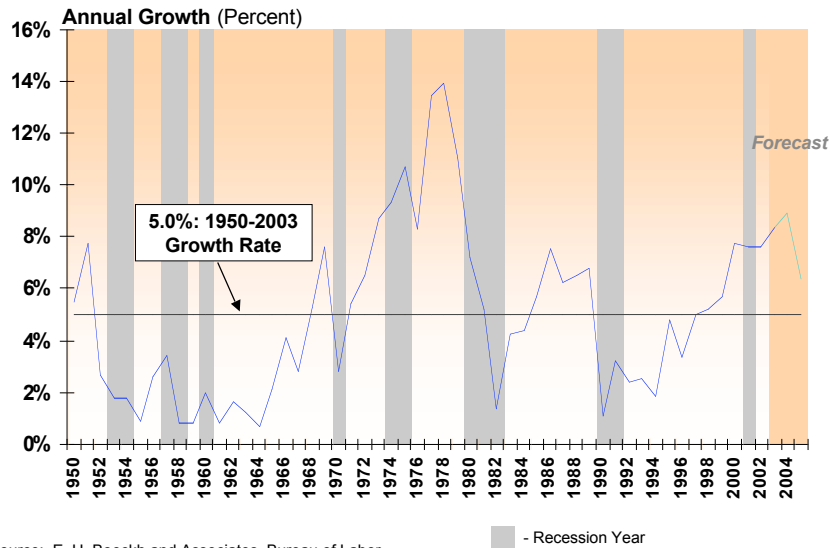


Source: Freddie Mac, BEA

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



Source: E. H. Boeckh and Associates, Bureau of Labor Statistics, U.S. Census Bureau, Freddie Mac

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## U.S. Economy Rebounds

- Economic growth strengthens in 2004
  - GDP growth should exceed 3.8% in 2H 2004
  - Accommodative 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

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### ***Where to Get More Information***

- Look for regular updates to our economic forecast, commentary and data at [www.freddiemac.com/news/finance](http://www.freddiemac.com/news/finance)
- Contact us at [chief\\_economist@freddiemac.com](mailto:chief_economist@freddiemac.com)

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