

# Economic and Housing Outlook

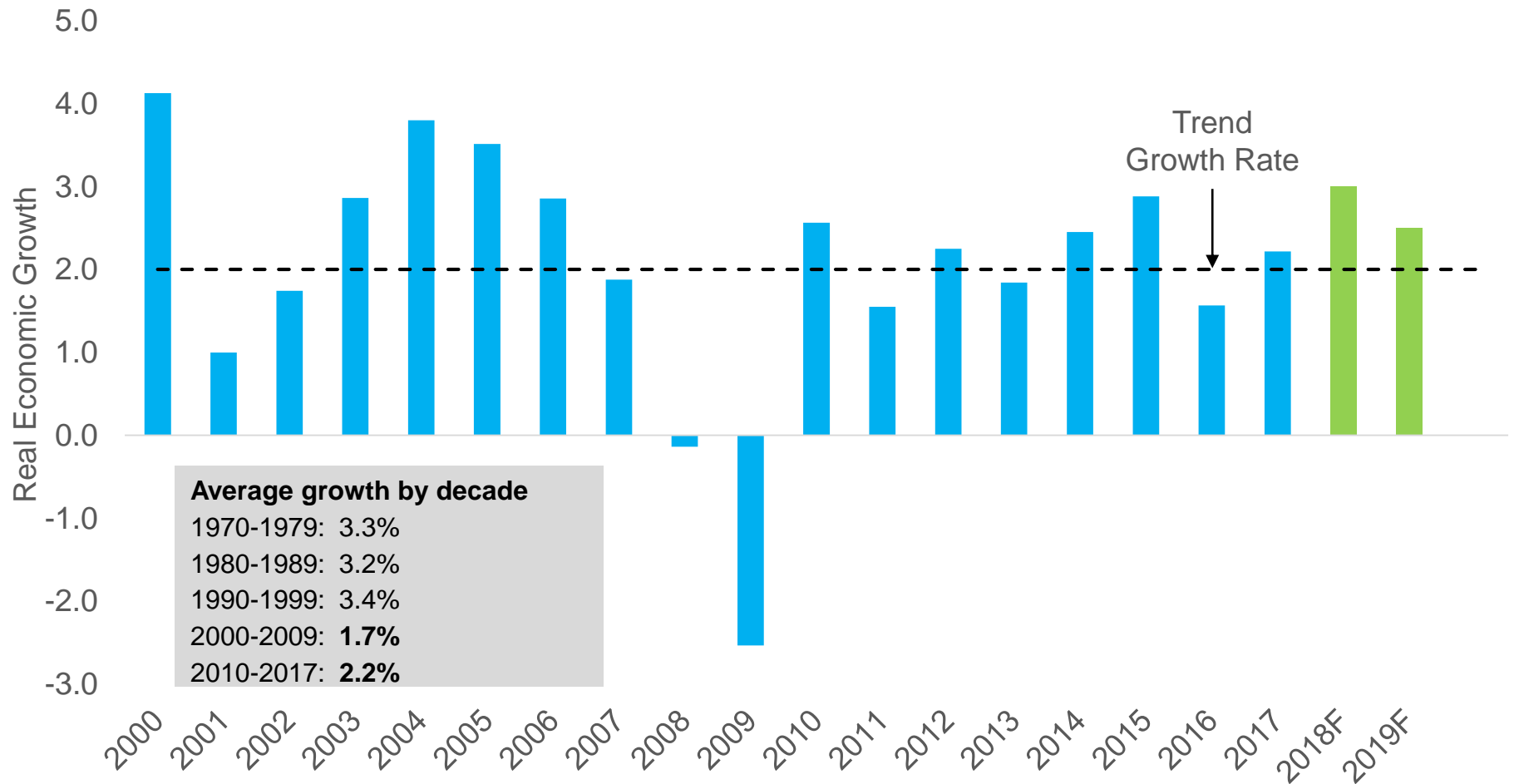
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Chief Economist

January 2019

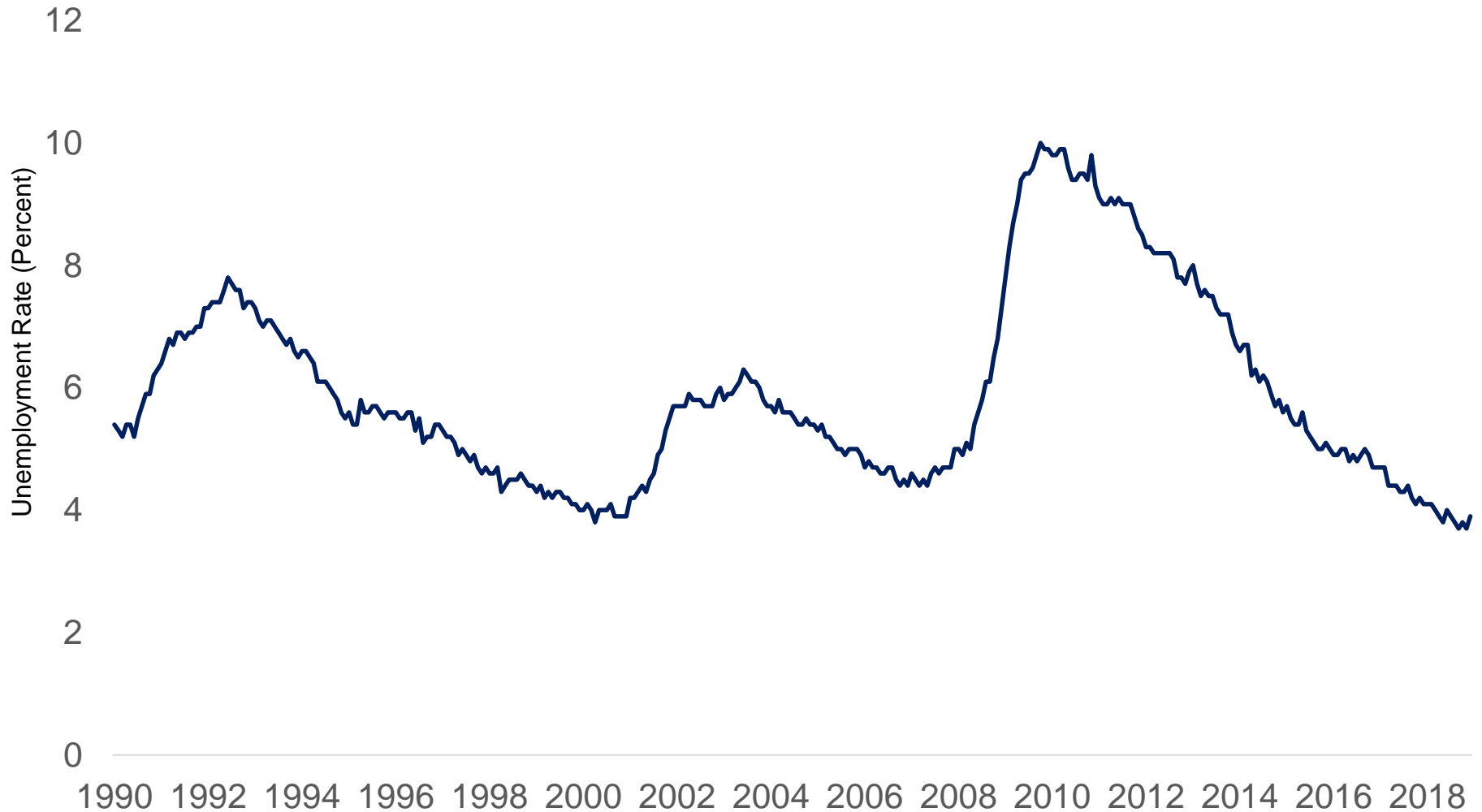
- Economic Growth is Strong, but Growth is Decelerating
- Job Market is Tight, but Income Growth Remains Weak and Inequality is Rising
- Home Sales are Declining, but Recently Lower Rates Firming Up Demand
- Entry-Level Supply Remains Very Low, Driving Up Prices
- Strong Migration to Affordable Markets in the 'Open West'

# Economic Growth is Strong, but Likely to Decelerate



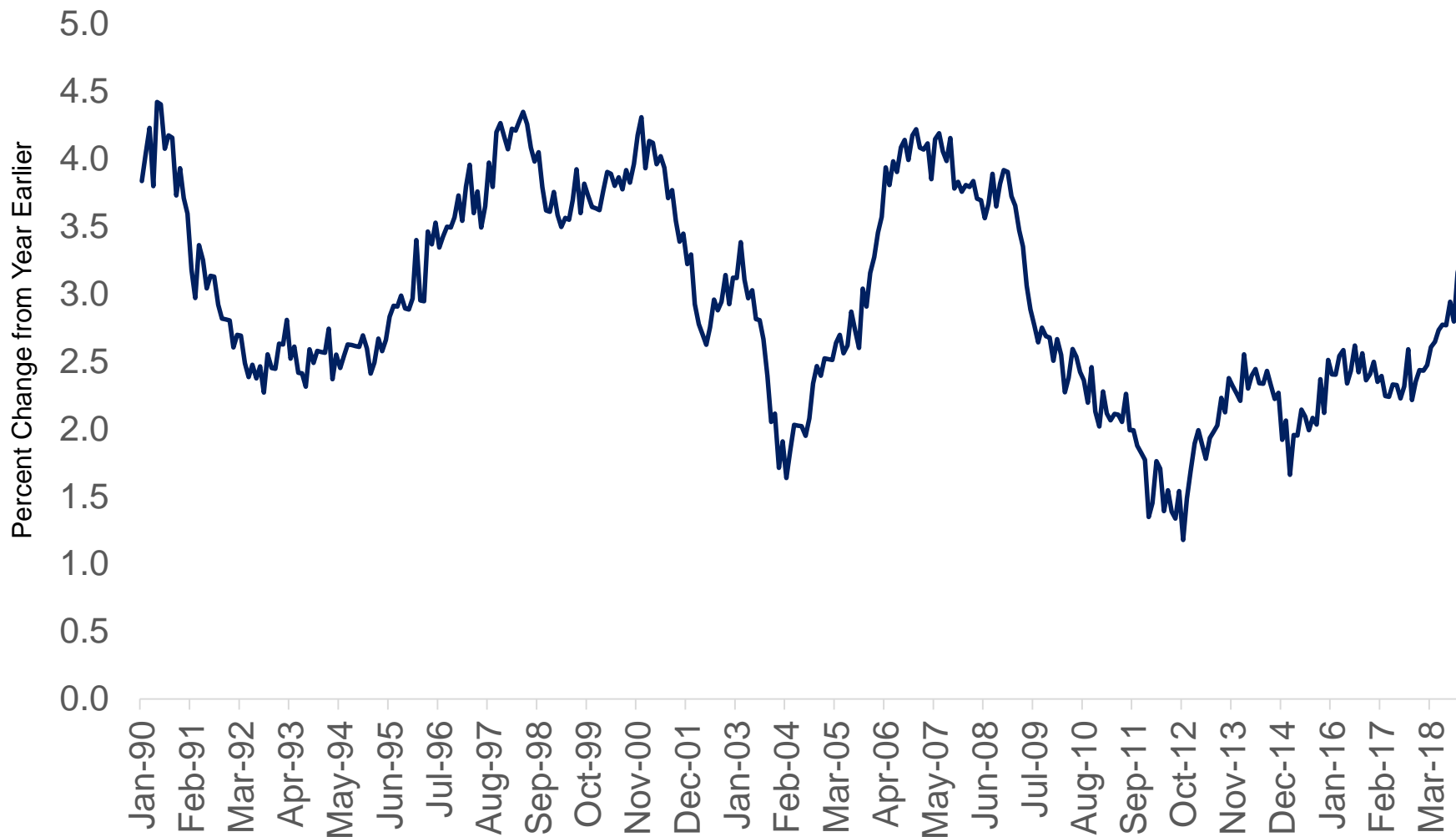
Source: US Bureau of Economic Analysis, Freddie Mac January 2019 Economic and Housing Research Outlook

# Lowest Unemployment Rate in Decades...



Source: US Bureau of Labor Statistics

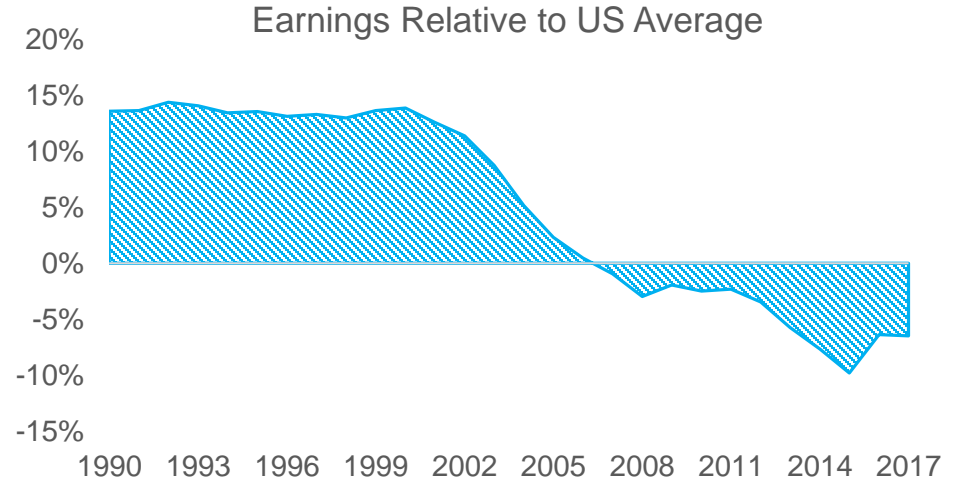
# ...But Until Very Recently, it Has Not Led to Much Stronger Wage Growth



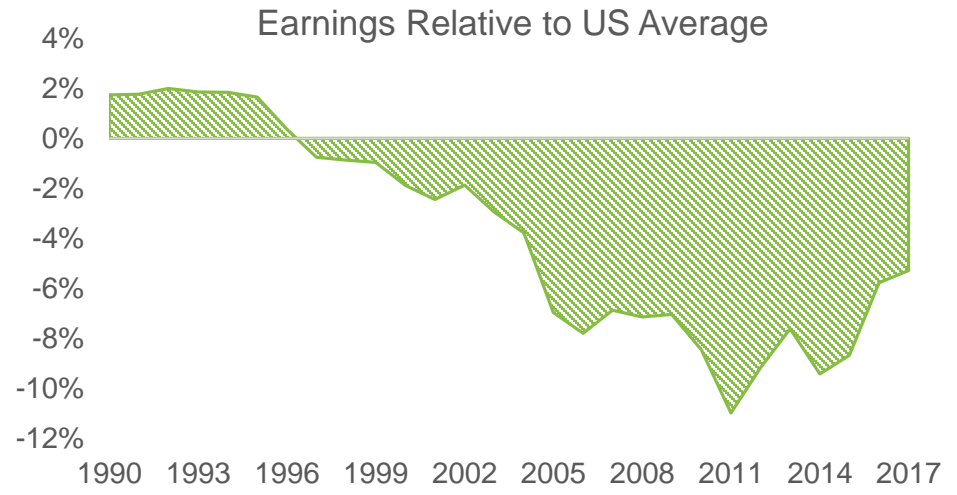
Source: US Bureau of Labor Statistics

# Even Fast Growing Employment Segments Have Struggling Wage Growth...

## Warehousing & Storage Employment

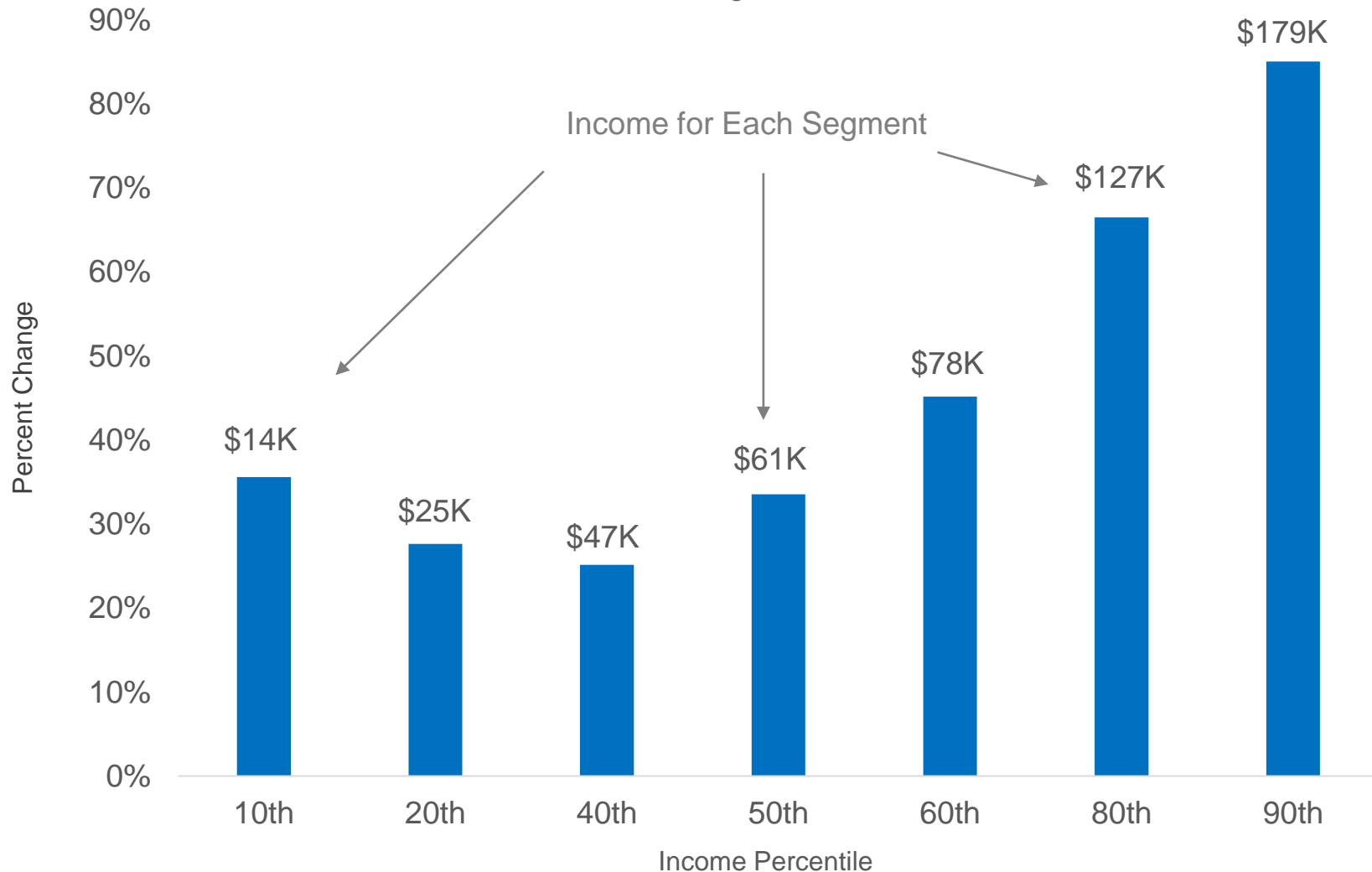


## Food Manufacturing



# ...Which is Why Income Growth for Lower Middle Class is Lagging

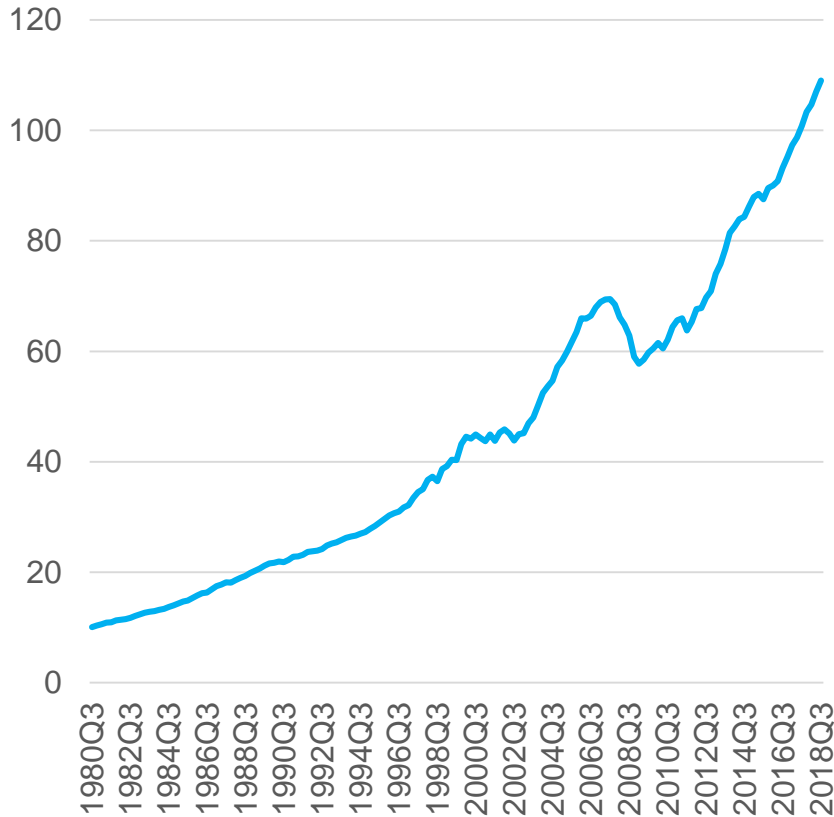
Cumulative Percent Change in Income Last 50 Years



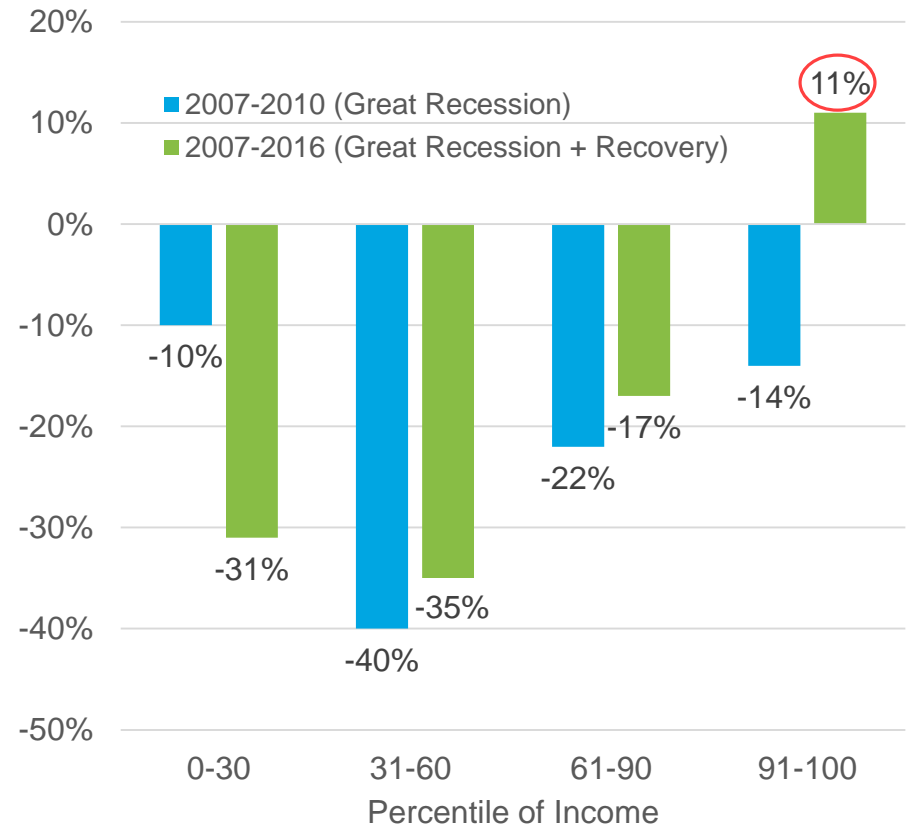
Note: Bureau of the Census 1967 to 2017 Incomes

# Household Wealth Soaring, But Wealth Has Declined for All But Wealthiest Americans

Household Wealth (\$Trillions)



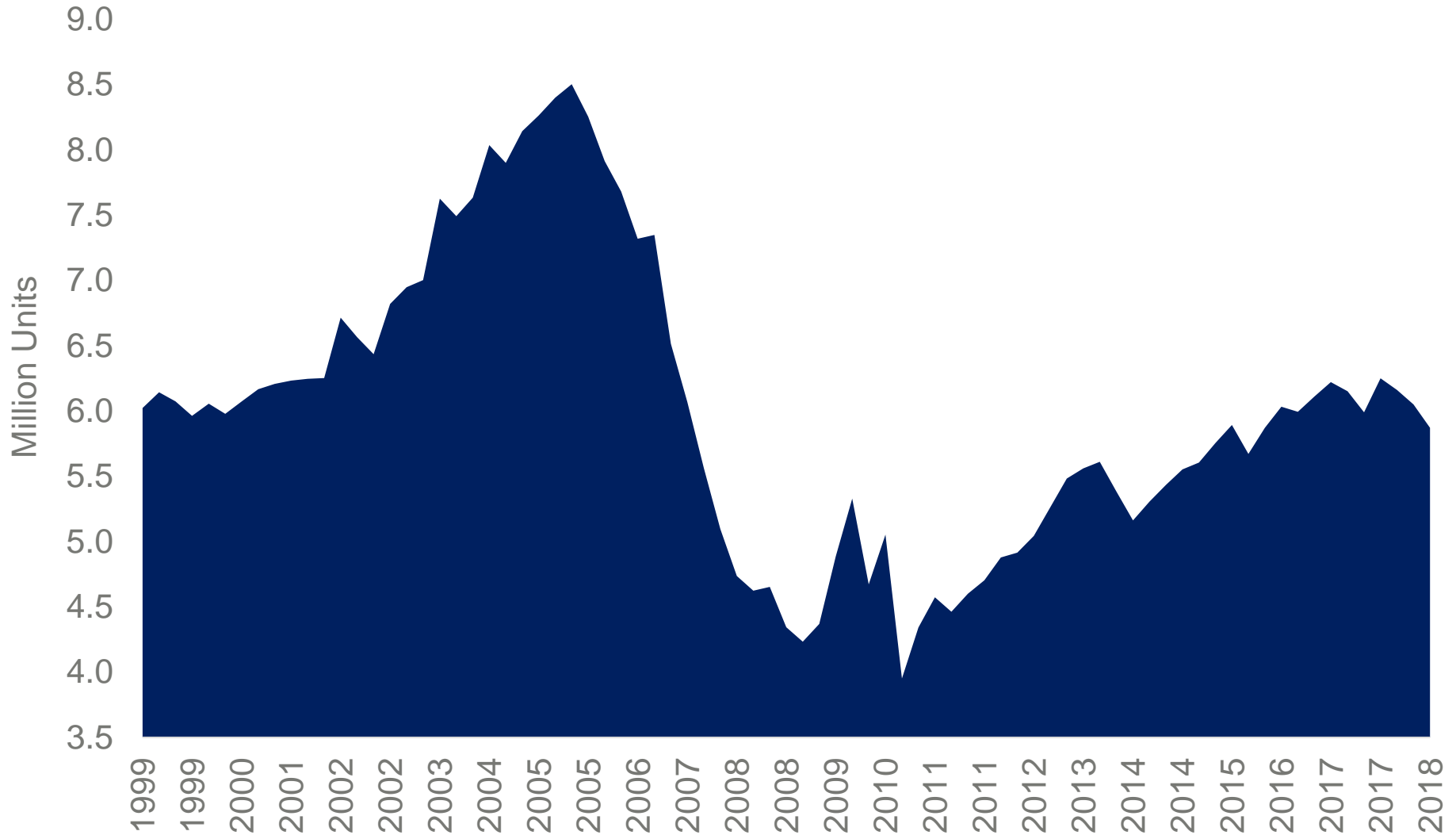
Percent Change in Real Wealth (by Income Distribution)



Source: Flow of Funds and Fed Notes “A Wealthless Recovery? Asset Ownership and the Uneven Recovery from the Great Recession” Lisa Dettling, Joanne Hsu and Elizabeth Llanes” Sept, 2018. The 2016 data in the wealth change is the latest available.



# Home Sales Crested in 2017 and Declined in 2018

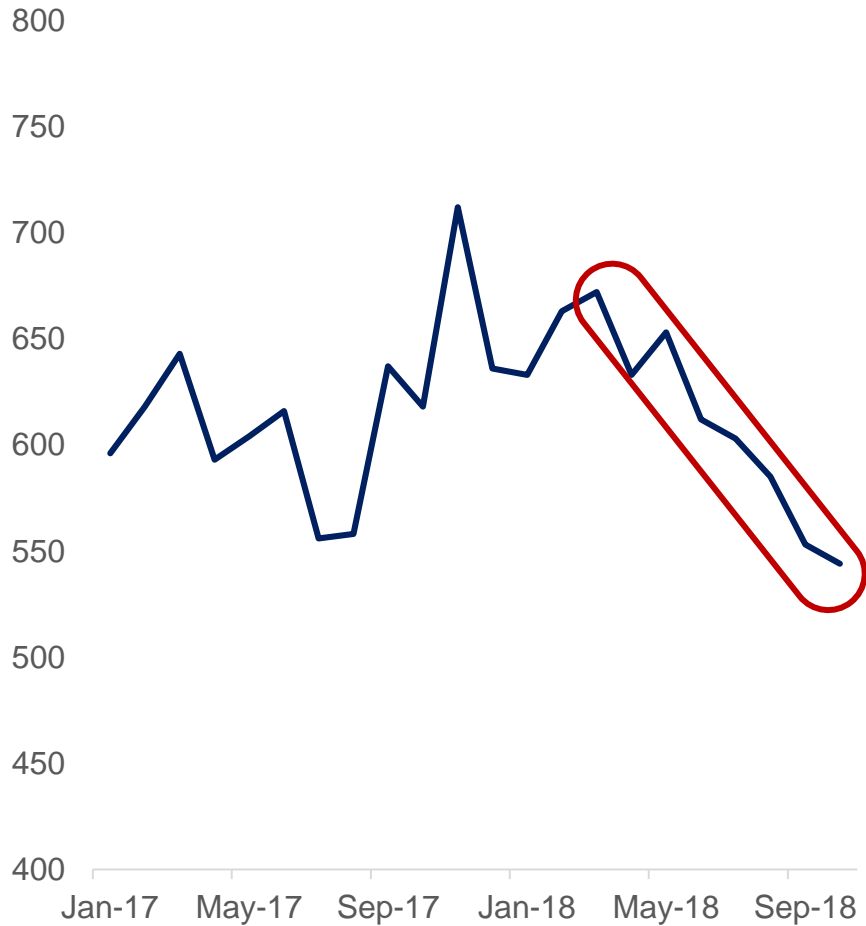


Source: NAR and Census

# Home Sales Declined in Most of 2018



### New Homes (Thousands)



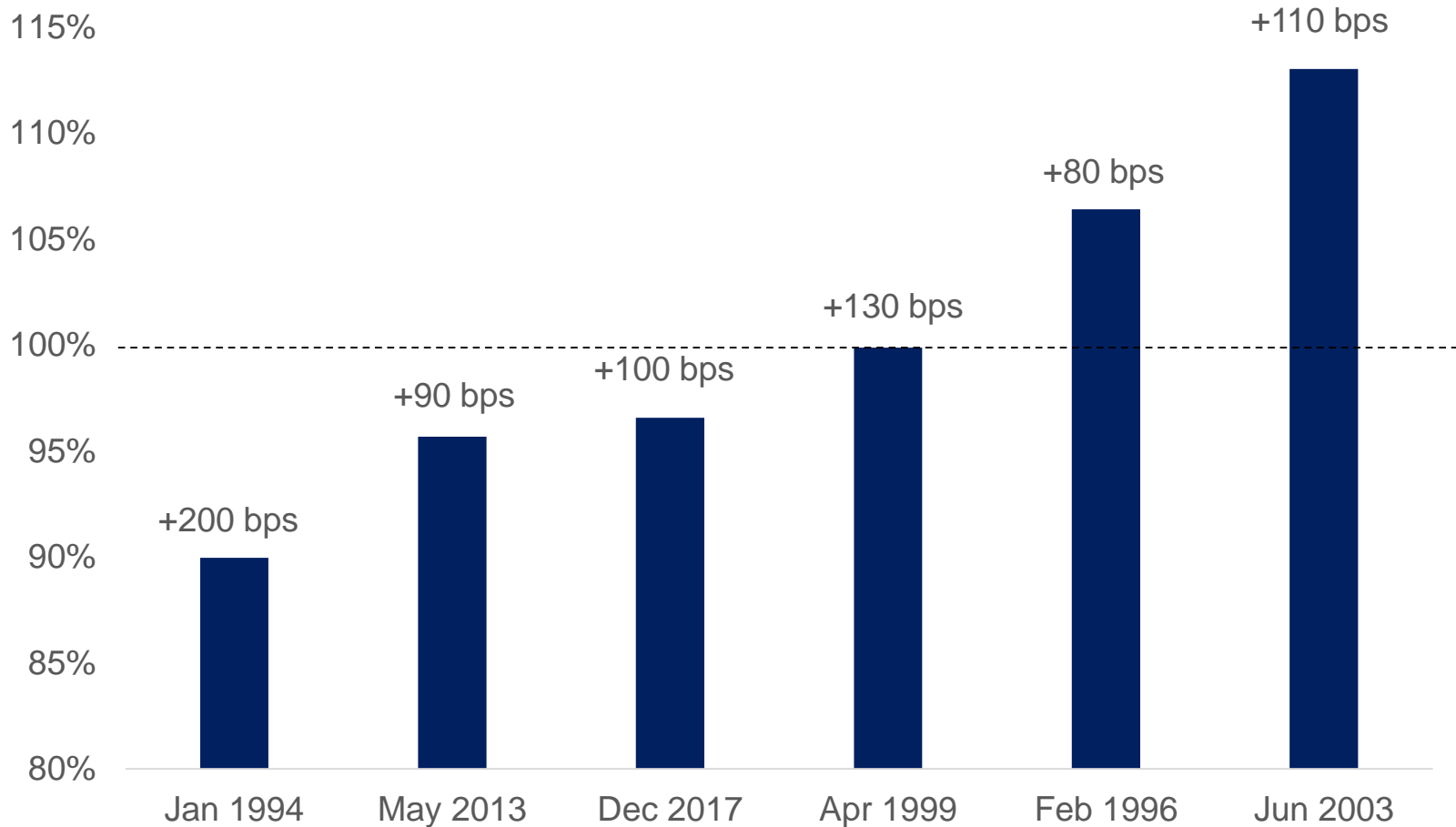
### Existing Homes (Thousands)



Source: National Association of Realtors (NAR)-SA, U.S. Census Bureau (BOC) – SA

# Home Sales Weakened After Rates Rose This Year, But Sales Depend More on the Economy than Rates

## Home Sales Activity 12 Months After Large Rate Shocks

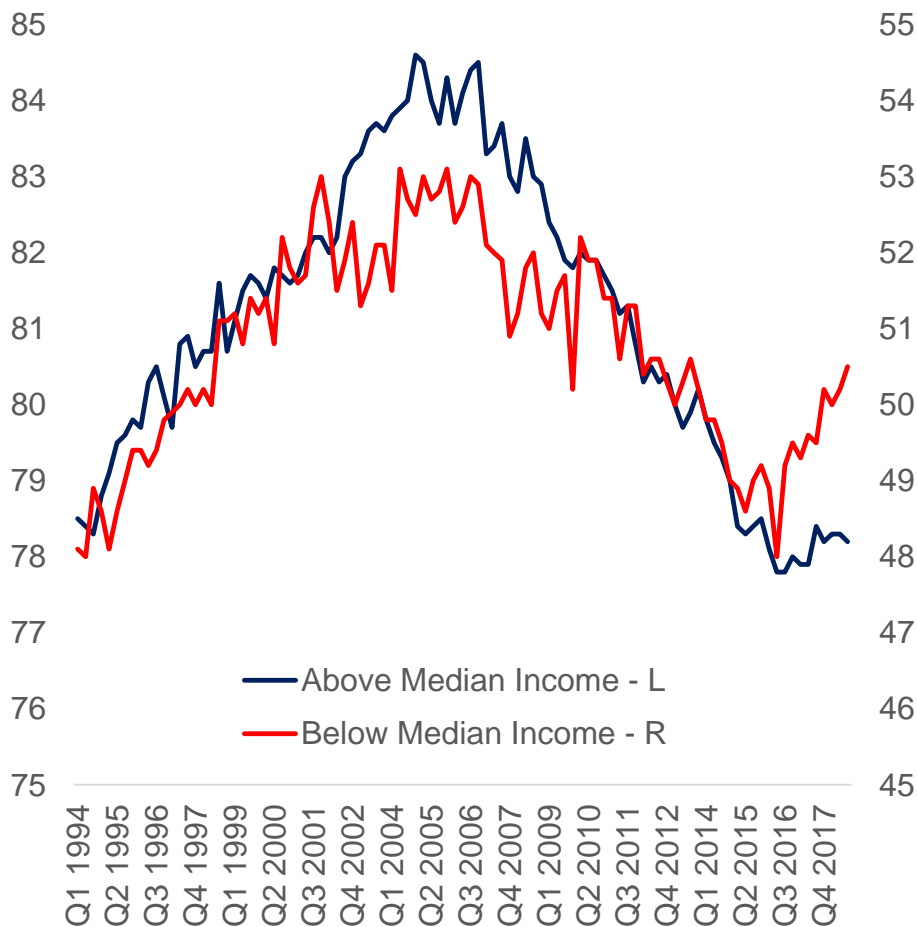


Source: NAR and Census

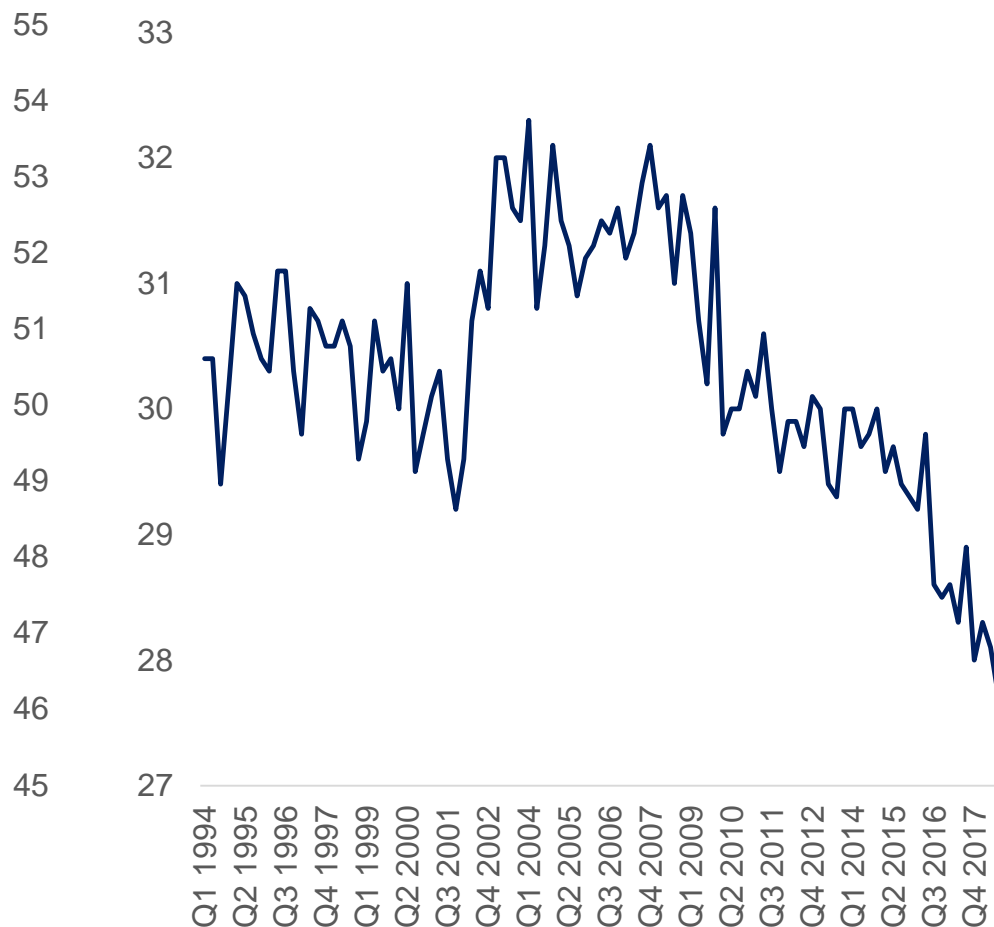
# Despite the Various Headwinds, Homeownership is Rising, Especially for Below AMI Borrowers



## Low Income Homeownership is Rising



## Income Homeownership Gap Lowest in Nearly 25 Years



Source: NAR and Census

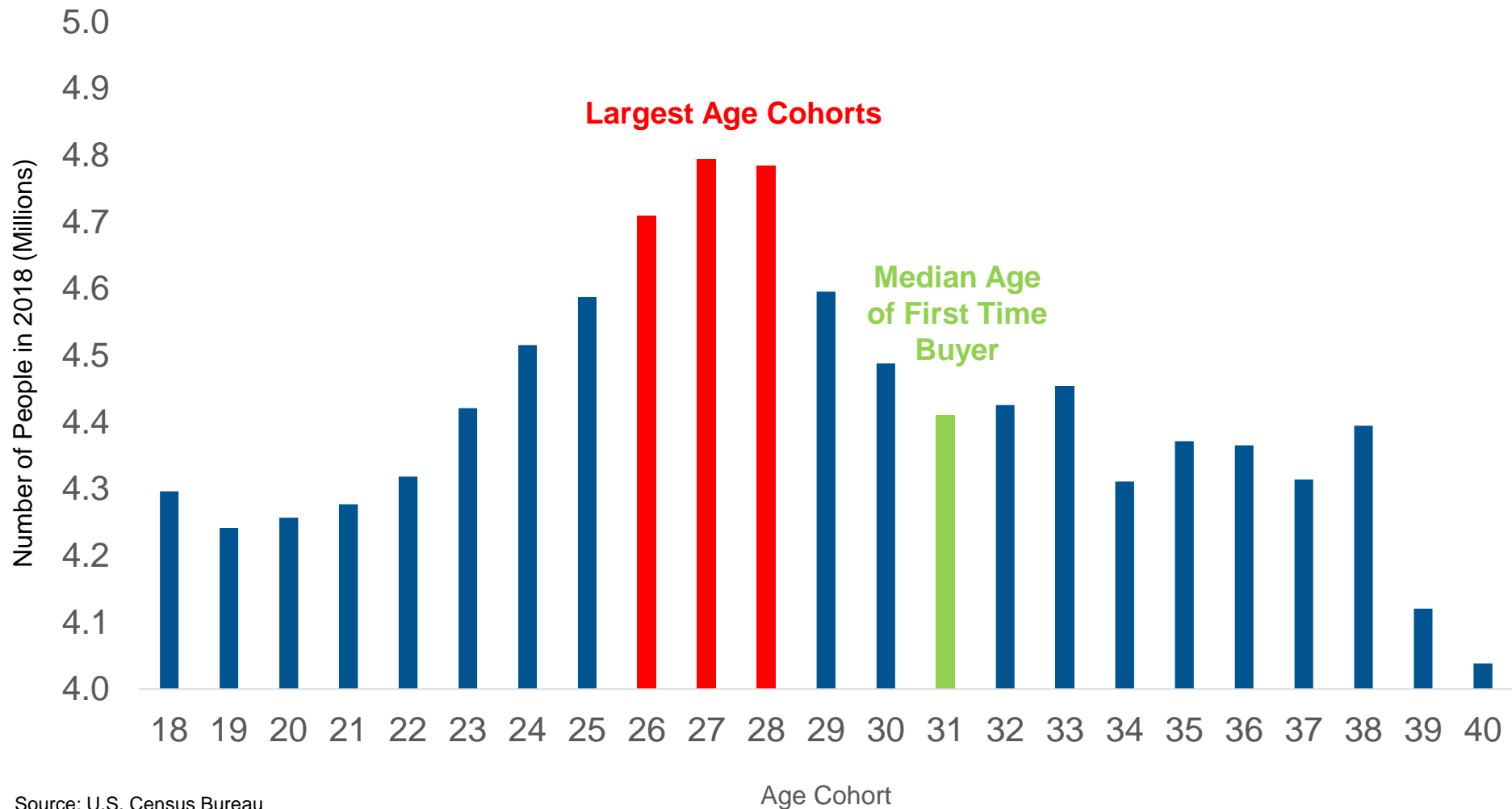
# Purchase Applications 'Soar' in Early 2019



Source: Freddie Mac and MBA

# Large Wave of Entry-Level Buyers Coming...

## Population by Age Cohort, 2018

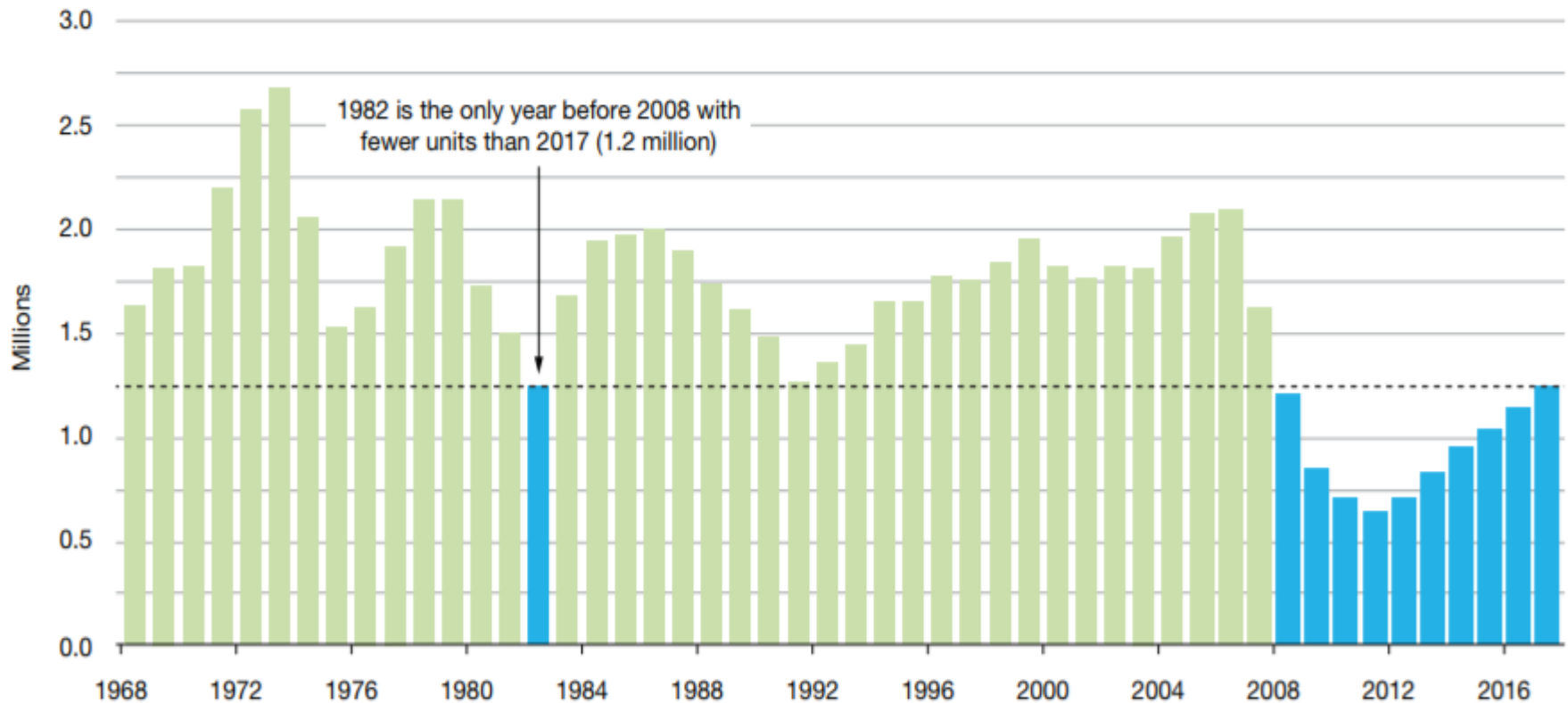


Source: U.S. Census Bureau

# ...But New Housing Supply Remains Low...

## Supply of new U.S. housing (1968–2017)

The supply of new housing is low by historical levels

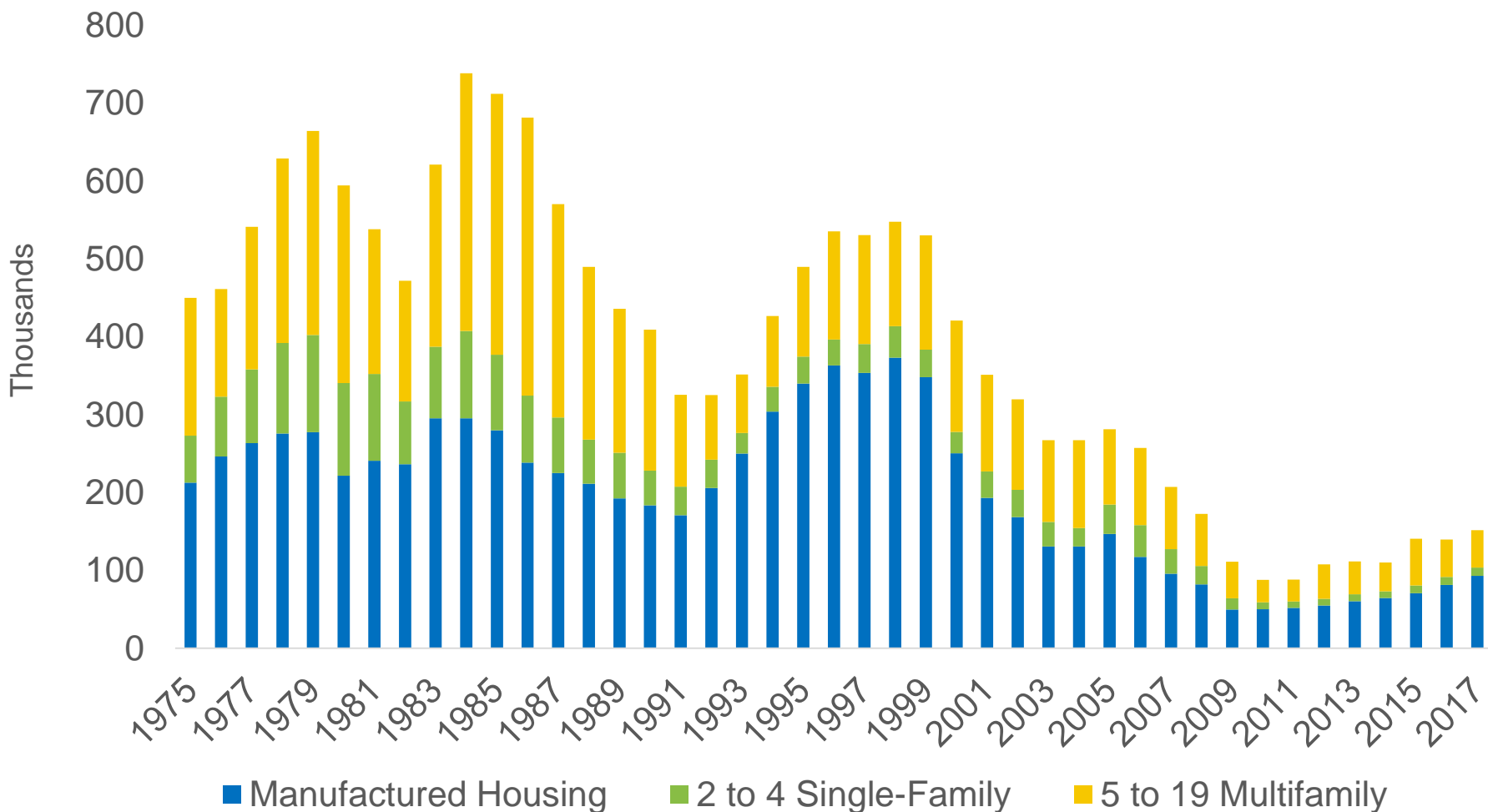


Source: U.S. Census Bureau and Department of Housing and Urban Development, Institute for Building Technology & Safety.

Source: Census

# ...And Entry-Level Supply is a Fraction of Historical Trends

## New Supply of Traditionally Affordable Segments

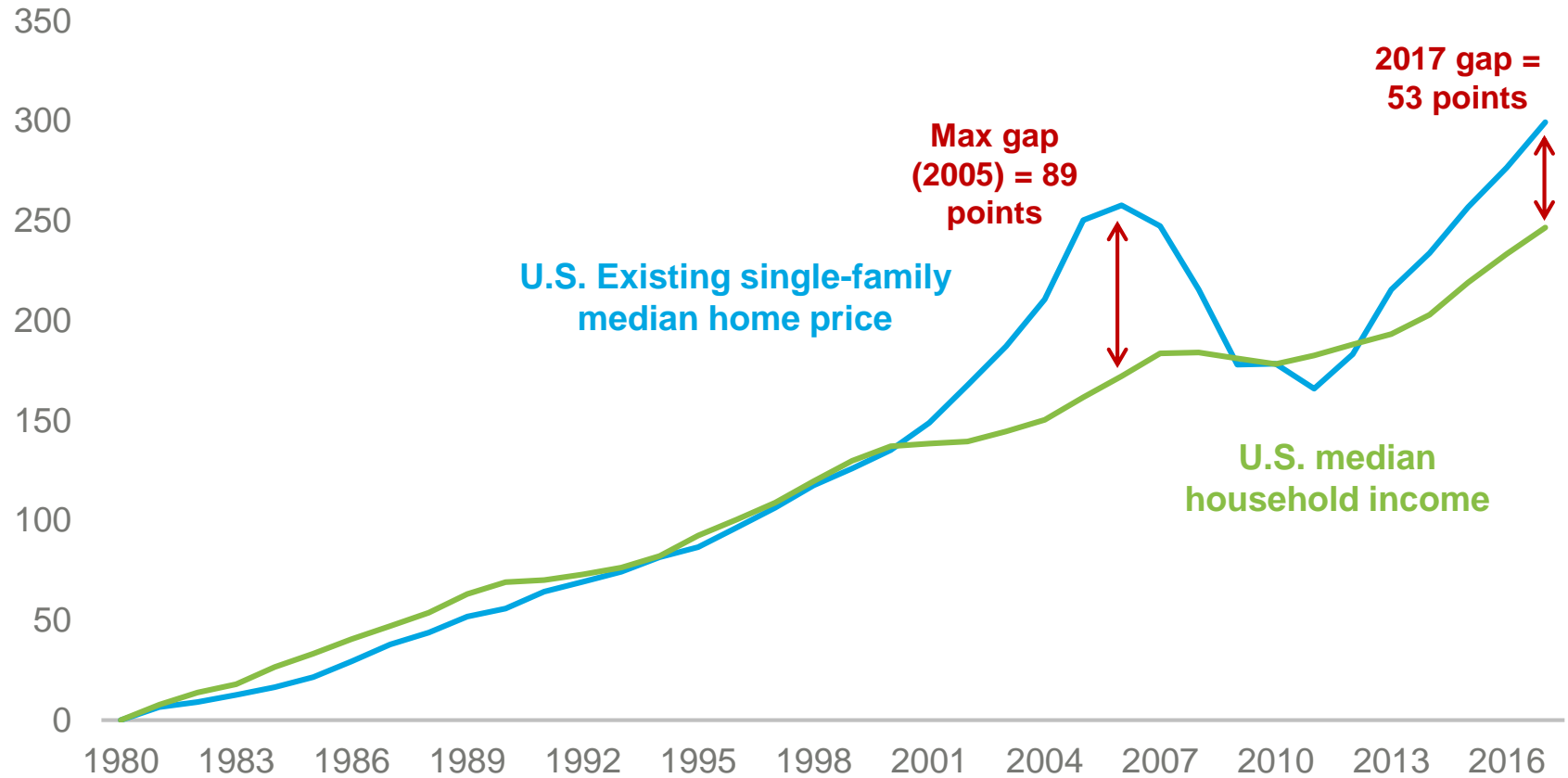


Source: Census



# Housing is Overvalued and Affordability is Worsening

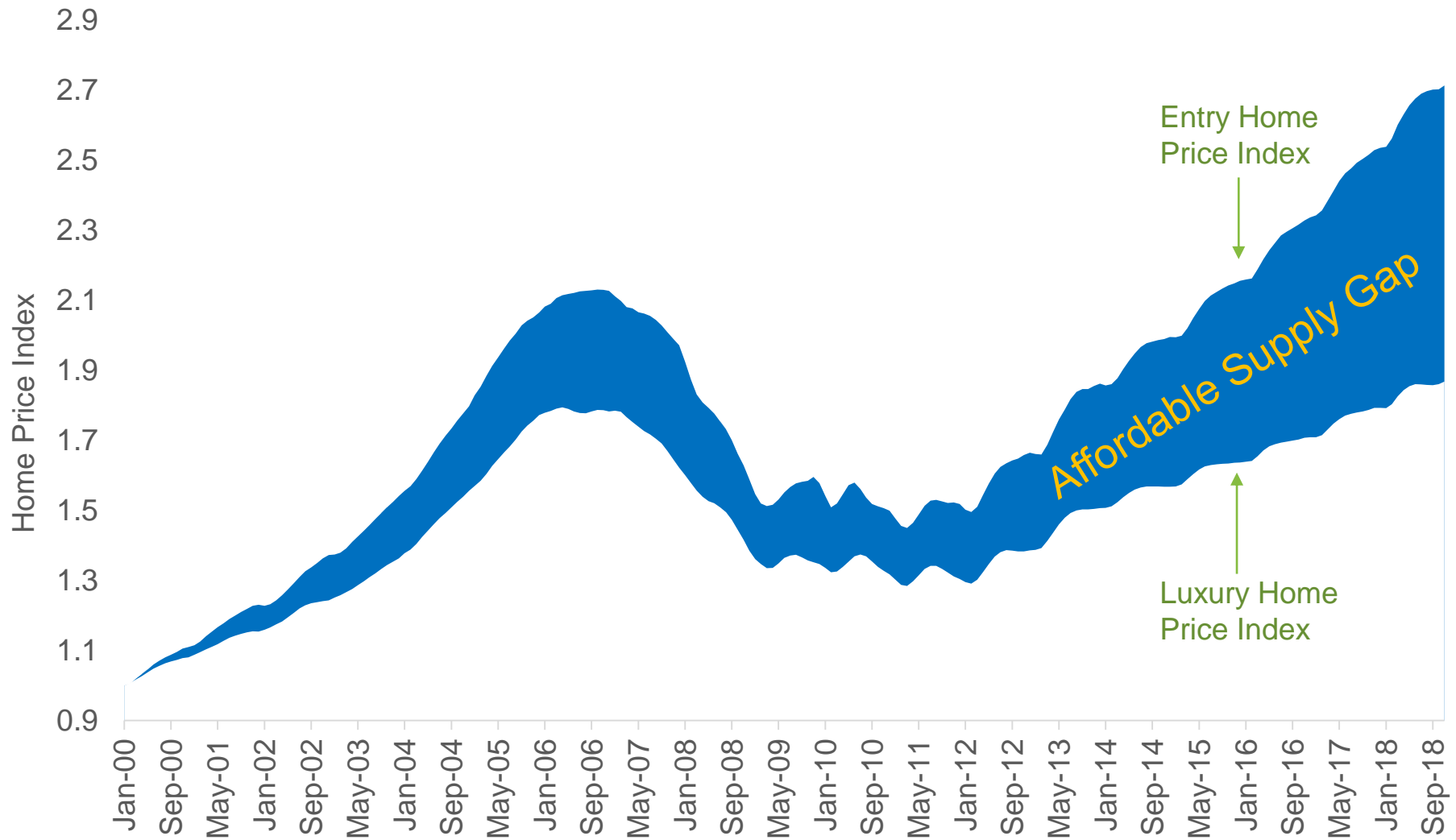
## Cumulative Growth since 1980 (%)



Source: Census and NAR

# Affordability Gap is Rapidly Rising

Supply Gap Between Entry Home Prices and Luxury Home Prices Rapidly Worsening

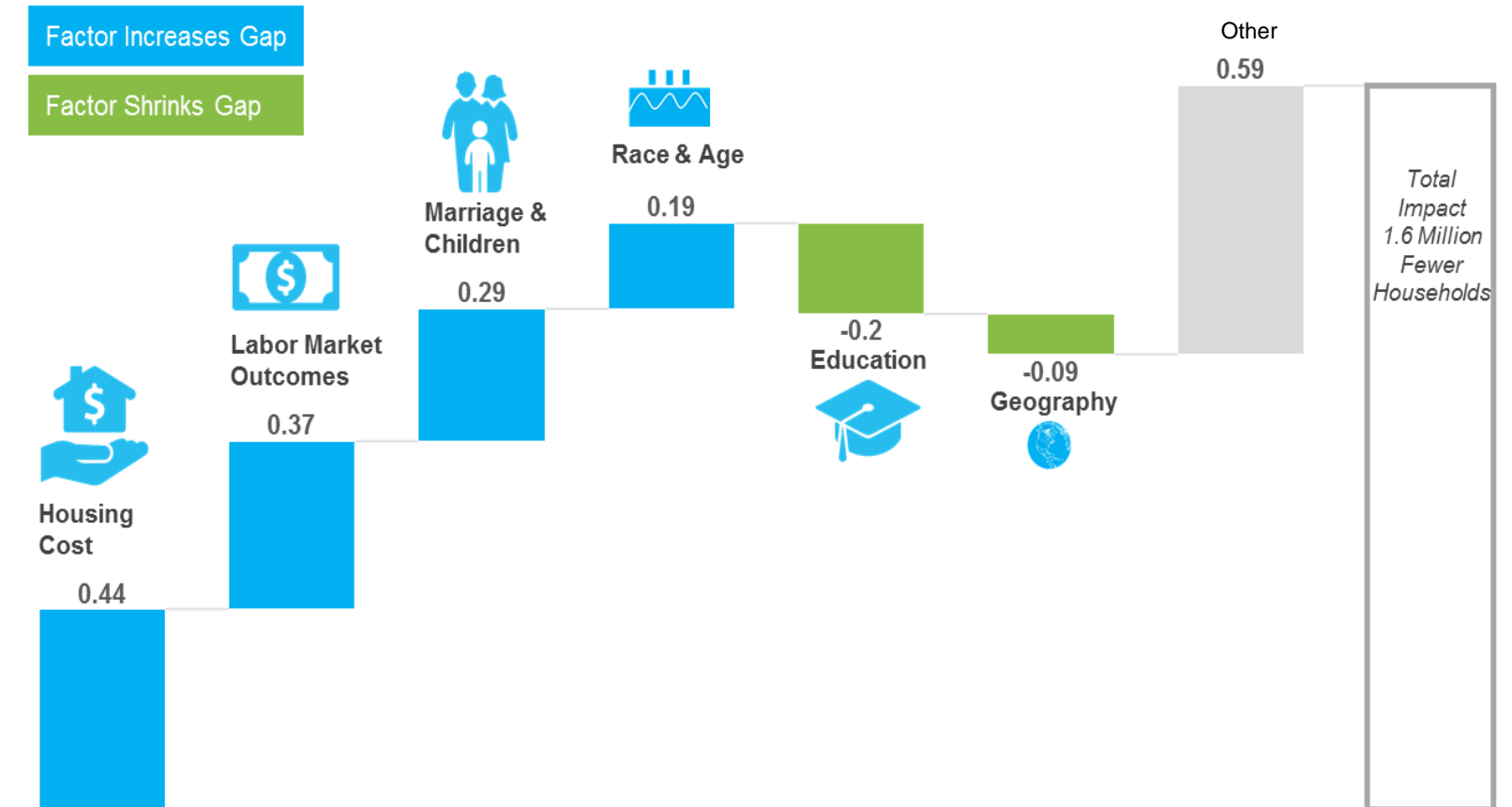


Source: CoreLogic

# High Housing Costs Largest Hurdle For The 1.6 Million Fewer Households Formed Since 2000

## Number of young adult households lost (millions)

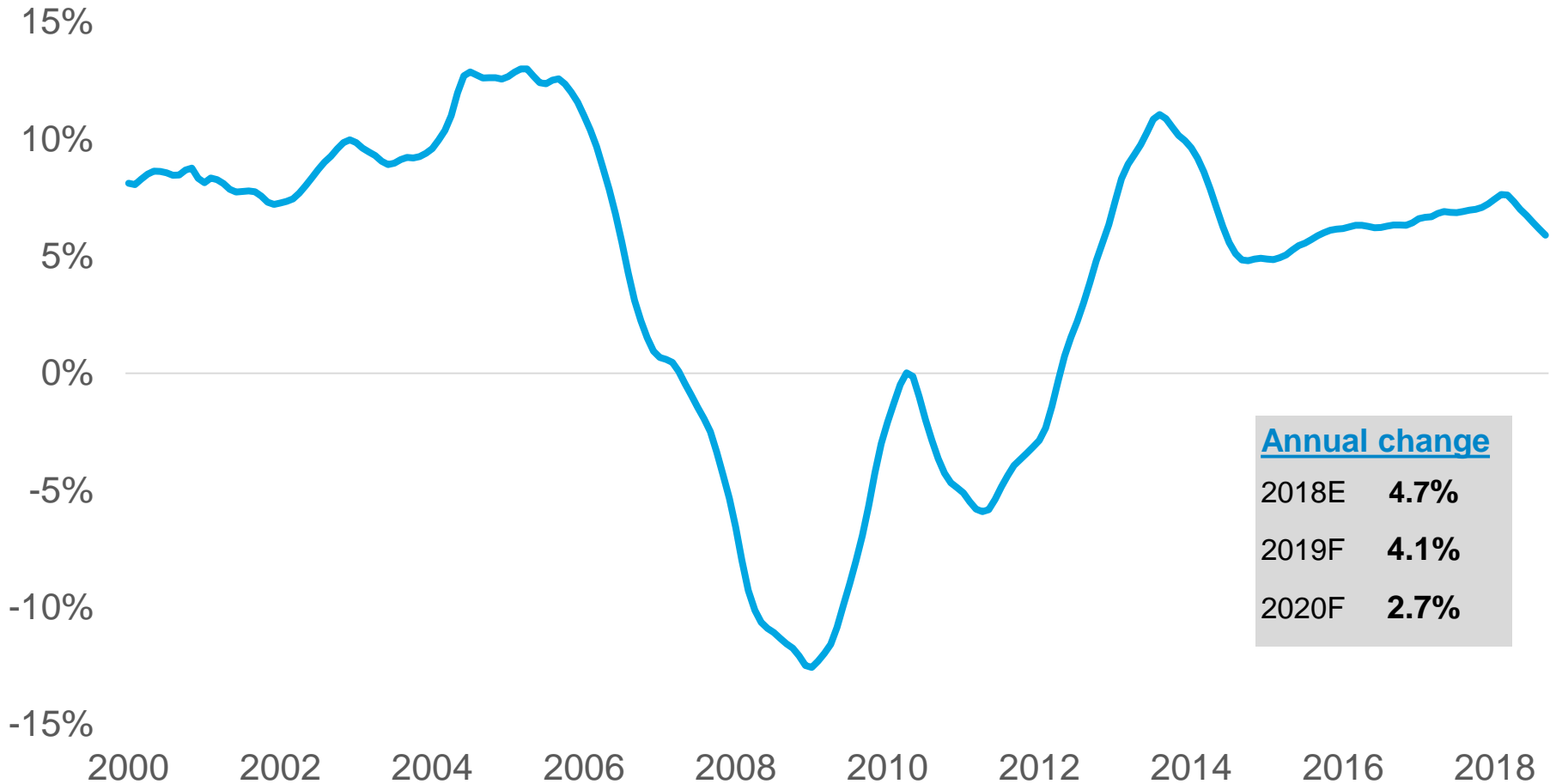
Additional young adult (age 25 to 34) headed households in 2016 with 2000 rate



# Home Price Growth Decelerates



## House Price Appreciation (Year over Year Change)



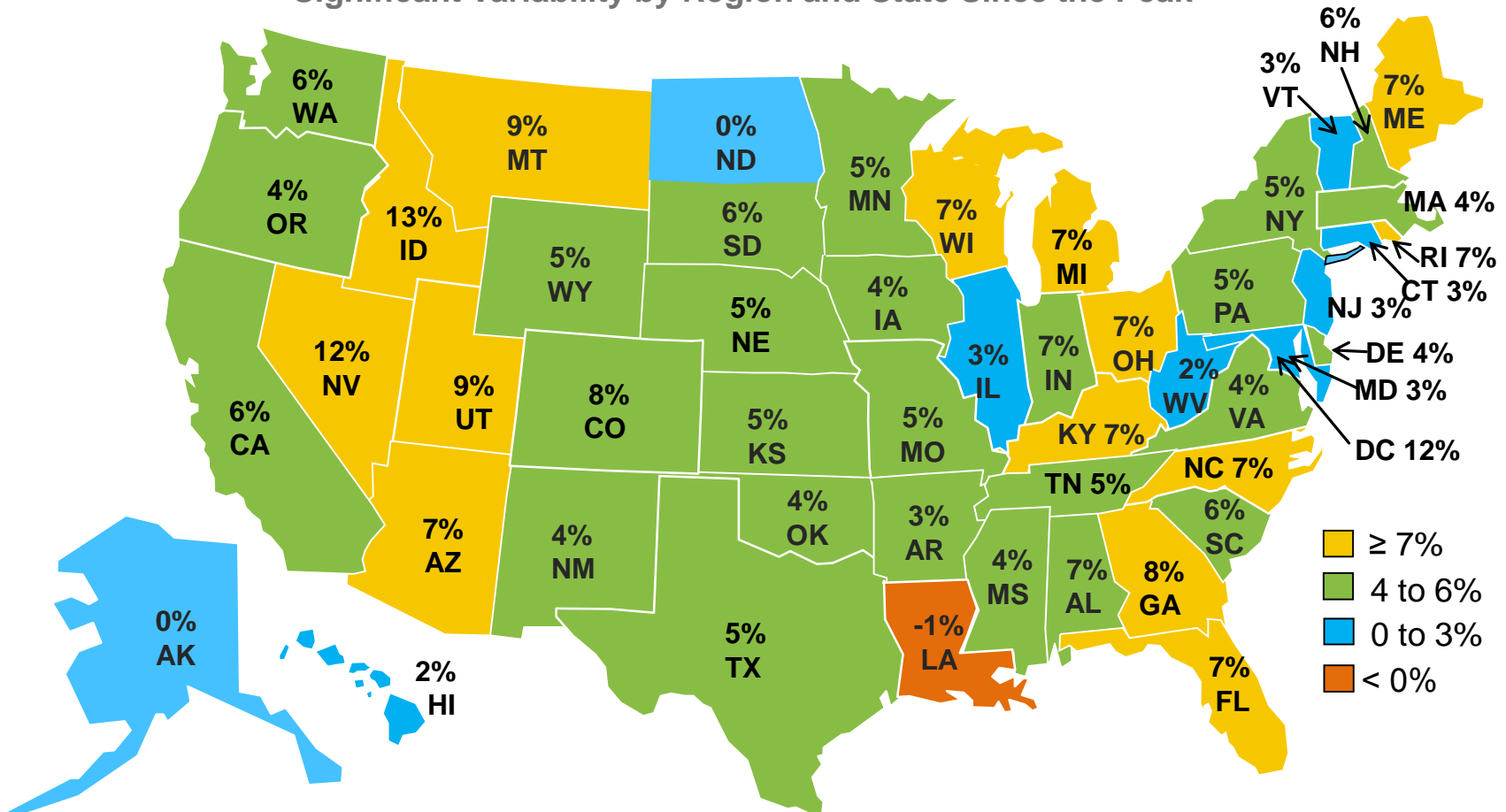
Source: Freddie Mac House Price Index, NSA

# Home Price Performance by State – December 2017 to December 2018<sup>1</sup>



United States: 5.6%

Significant Variability by Region and State Since the Peak

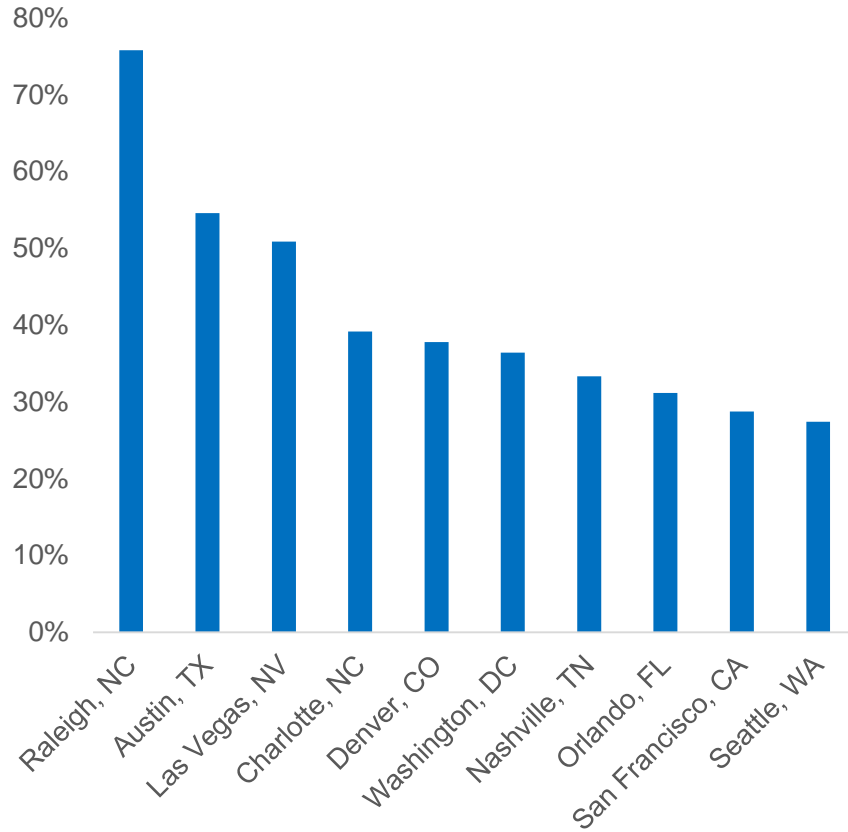


<sup>1</sup> The Freddie Mac House Price Index for the U.S. is a value-weighted average of the state indexes where the value weights are based on Freddie Mac's single-family credit guarantee portfolio. Other indices of home prices may have different results, as they are determined using different pools of mortgage loans and calculated under different conventions. The Freddie Mac House Price Index for the U.S. is a non-seasonally adjusted monthly series. Percent changes were rounded to nearest whole percentage point

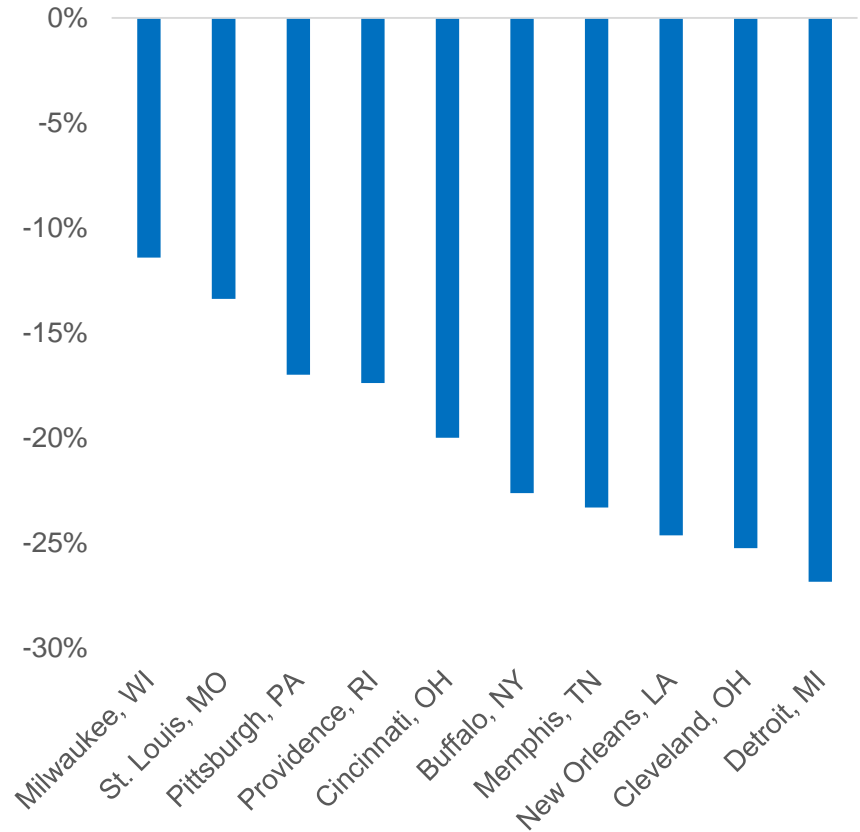
Source: Freddie Mac

# Older Millennials Are Migrating to Many Southern and Western Markets

Where Are 31 to 36 Year Old Population Moving To?\*



Where Are 31 to 36 Year Old Population Migrating Away From?\*

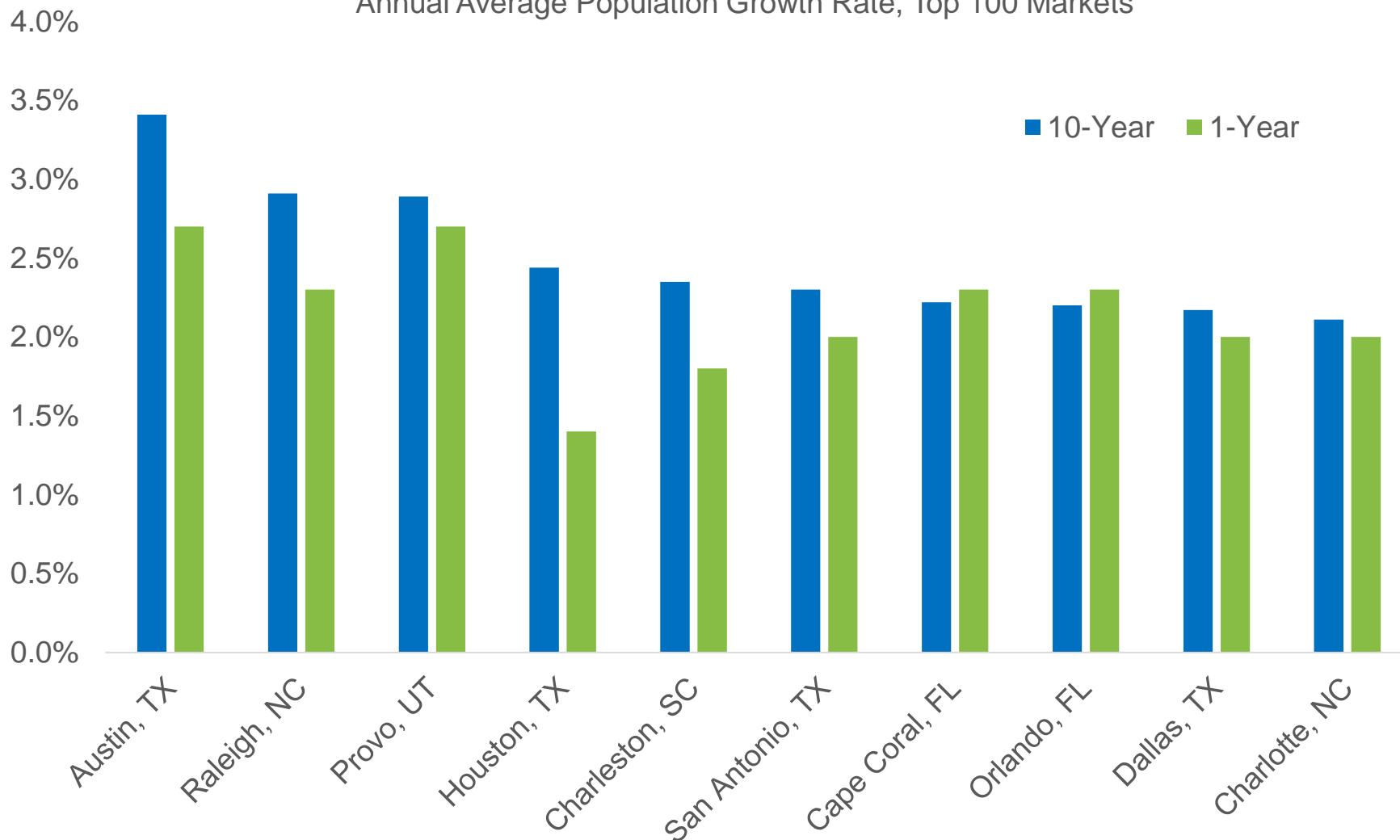


Source: Census and Freddie Mac

Note: The data tracks the percent change in the share of the 1980 to 1985 birth year cohorts in 2000 and 2016

# Texas Still Tops Among Large Markets for Population Growth....

Annual Average Population Growth Rate, Top 100 Markets



Source: Moody's

# The End!

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