

Economic Forecast Series

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Douglas
Duncan



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Featured Instructor:



Doug Duncan

Senior Vice President, Chief Economist
Fannie Mae

Moderator:



Leslie Wyatt

Director of Regulatory Compliance
SoftPro

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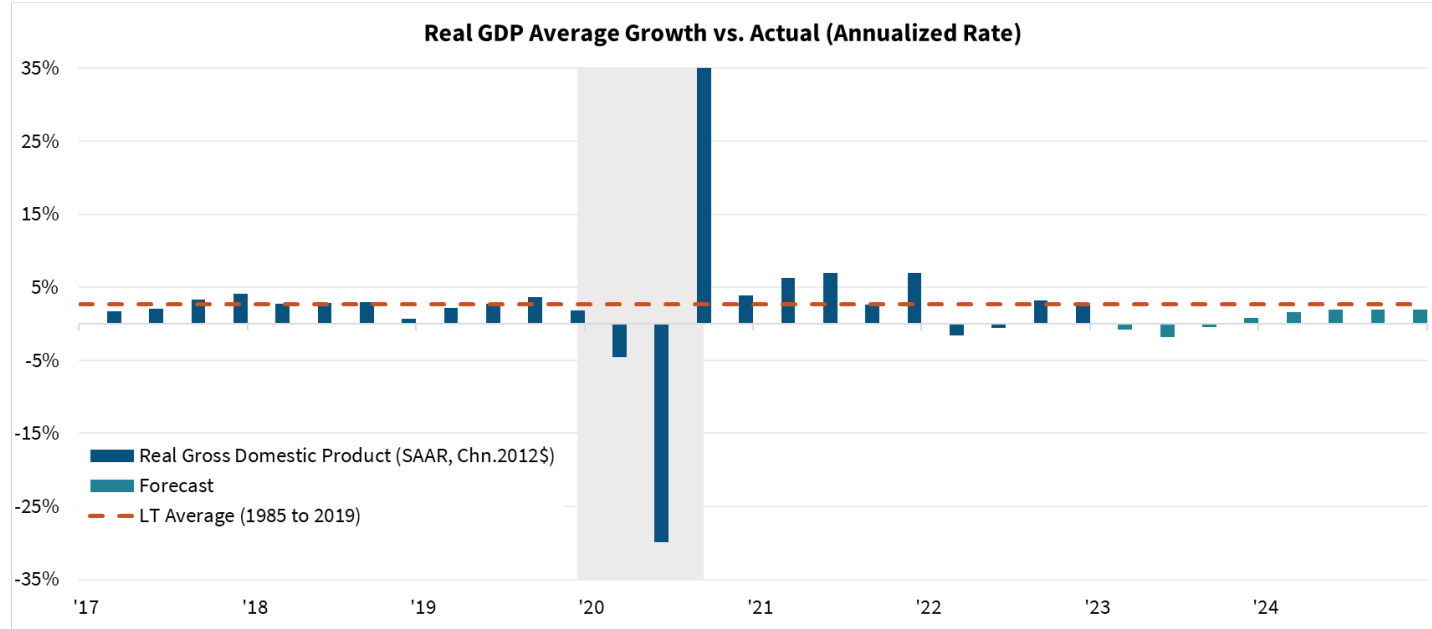
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GDP jumped in the in the second half of 2022, but we think this boost is temporary



Source: Bureau of Economic Analysis, Fannie Mae Economic & Strategic Research January 2023 Forecast – Data in Forecast as of 1/10/2023

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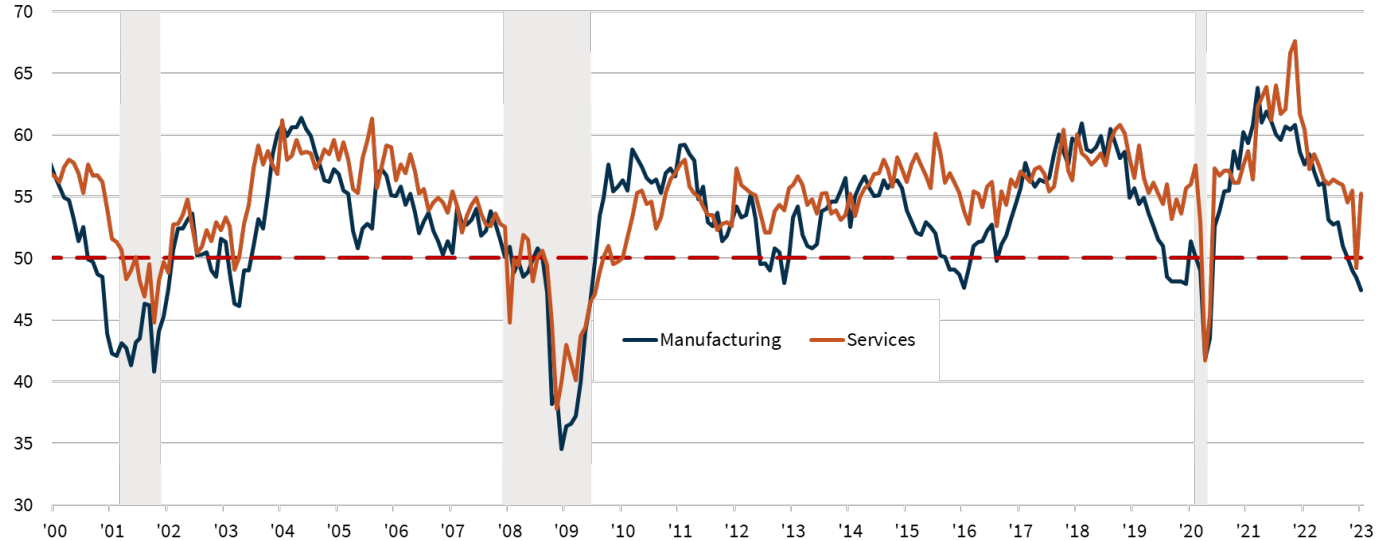
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Manufacturing and services diverge to begin 2023 as economic data paints a mixed picture

ISM Diffusion Indices (SA, +50 = Expansion)



Source: Institute for Supply Management

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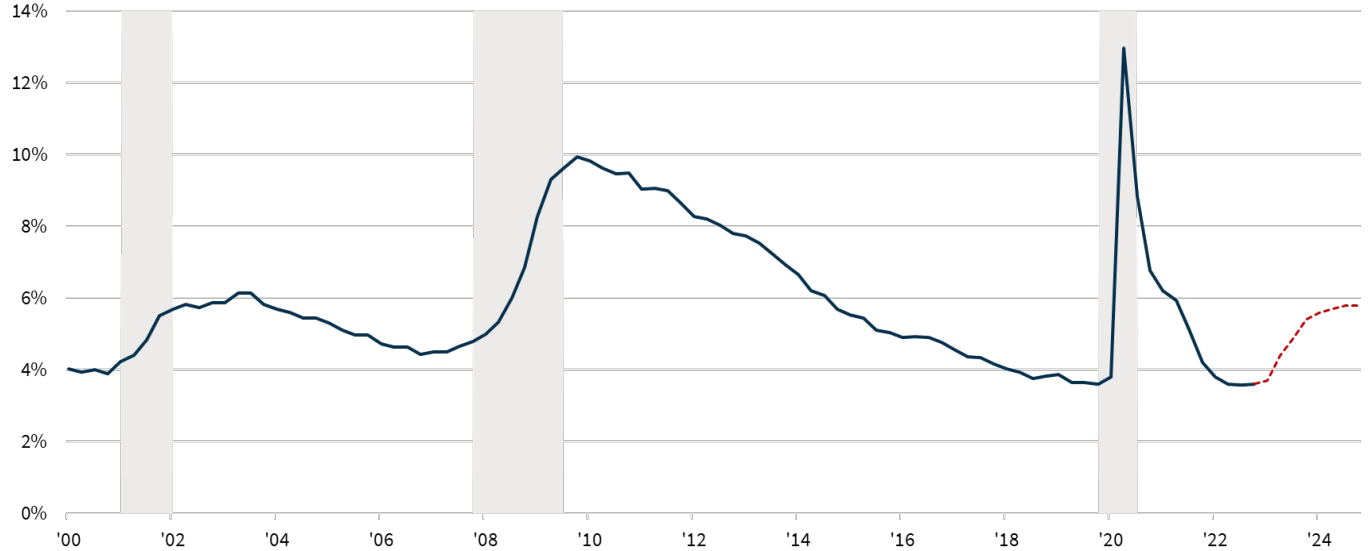
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Unemployment expected to rise this year as economy enters a recession, averaging around 5.4% in Q4 2023

Unemployment Outlook (through Q4 2024)



Source: Bureau of Labor Statistics, Fannie Mae Economic & Strategic Research January 2023 Forecast – Data in Forecast as of 1/10/2023

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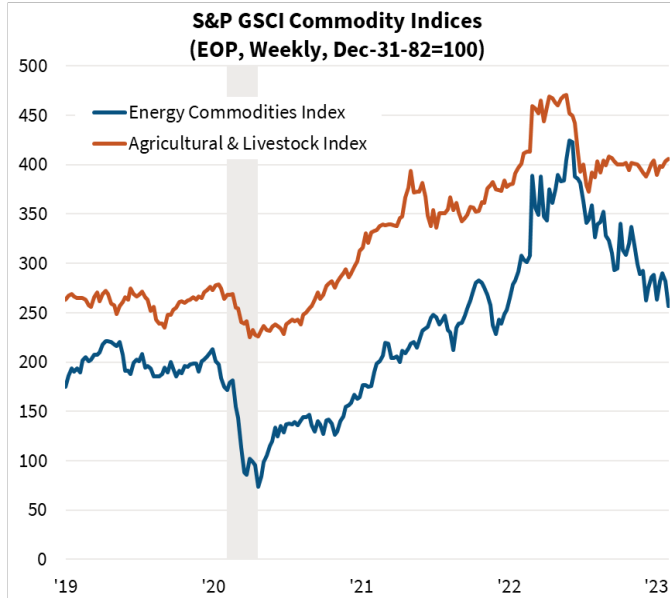
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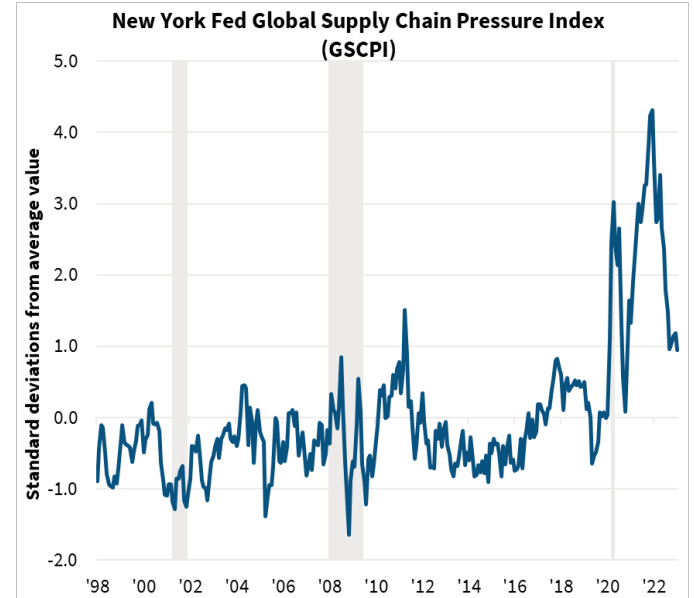
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Competing forces on the inflation front

Amid a global slowdown, energy prices have fallen, food prices have flattened, and supply chains have improved...



Source: S&P Global, New York Fed



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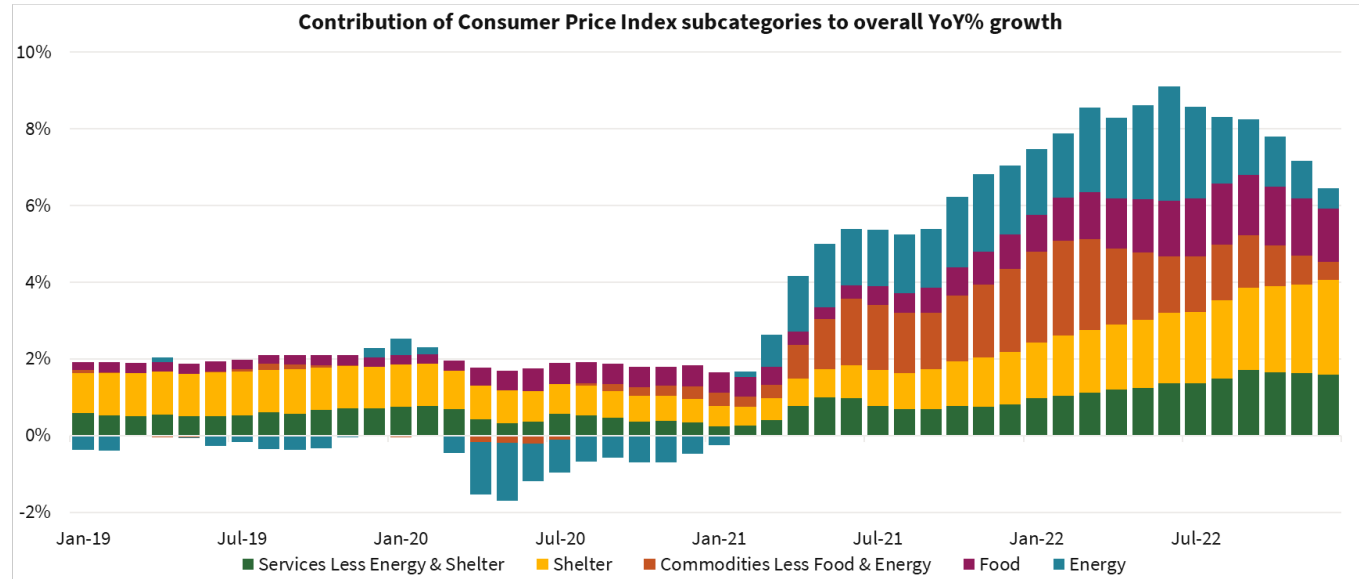
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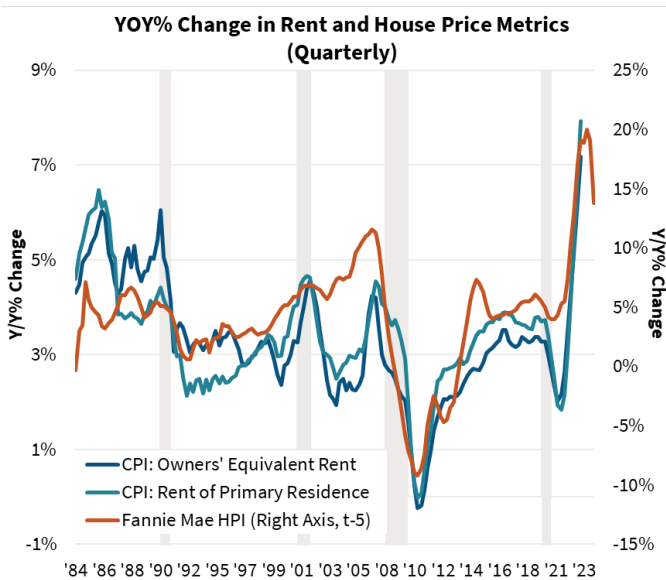
While goods and energy prices ease, core services remain inconsistent with 2% inflation target



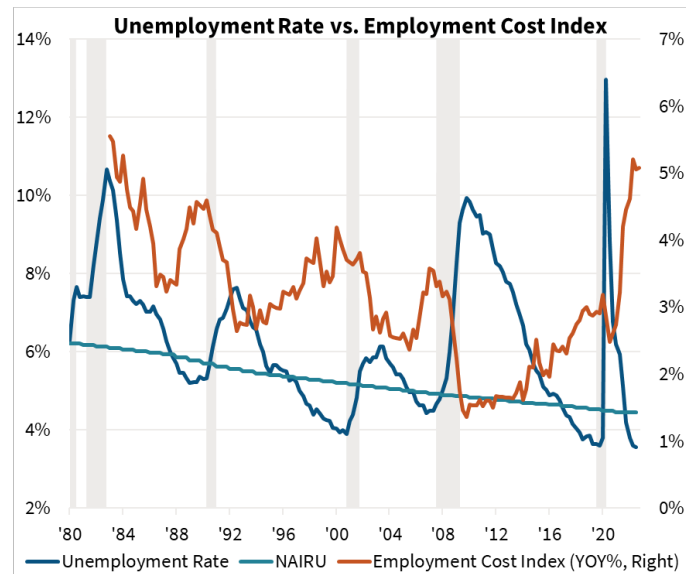
Source: Bureau of Labor Statistics

Competing forces on the inflation front

...but the CPI calculation has not yet captured all home price growth and the tight labor market may keep wage growth elevated



Source: Fannie Mae Home Price Index, Bureau of Labor Statistics, Congressional Budget Office



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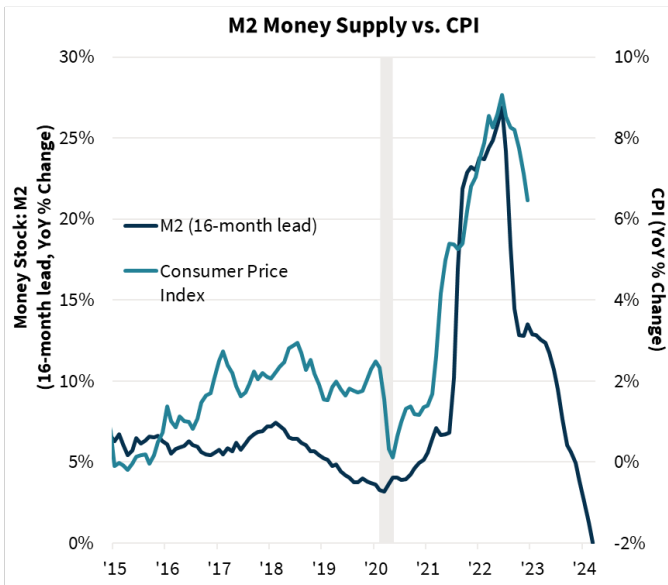
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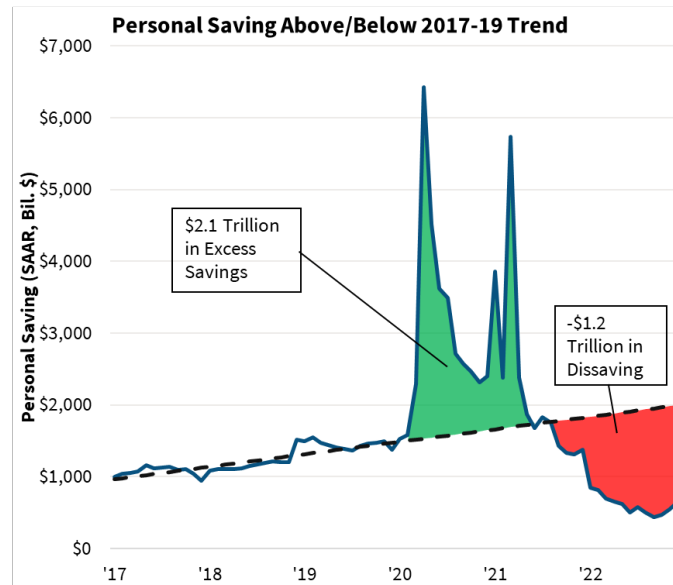
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Competing forces on the inflation front

...though tighter monetary policy may help to keep spending in check



Source: Bureau of Labor Statistics, Federal Reserve Board



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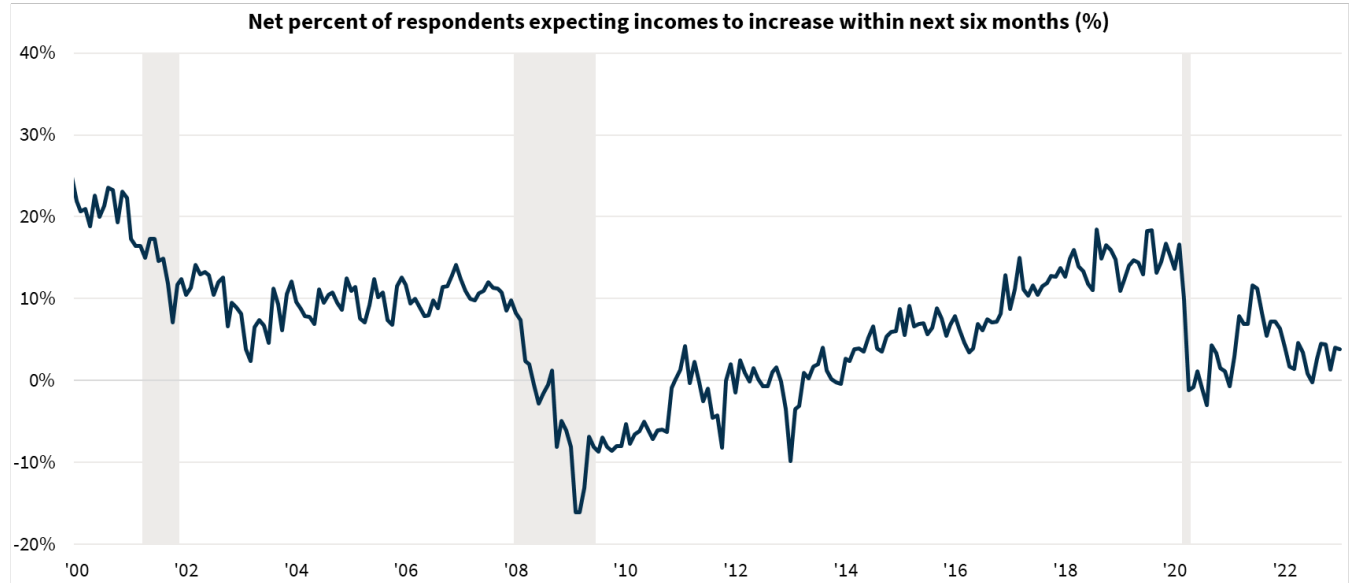
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Few respondents expect their incomes to increase in the coming months



Source: Conference Board

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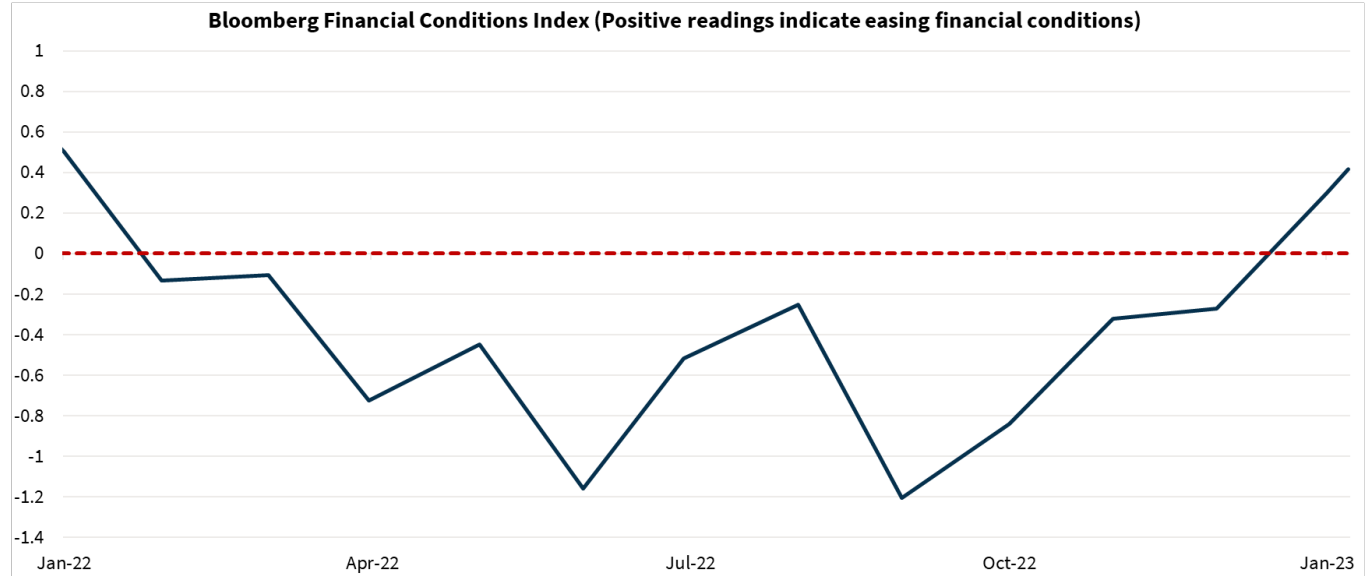
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Financial conditions are easing according to the BFCI

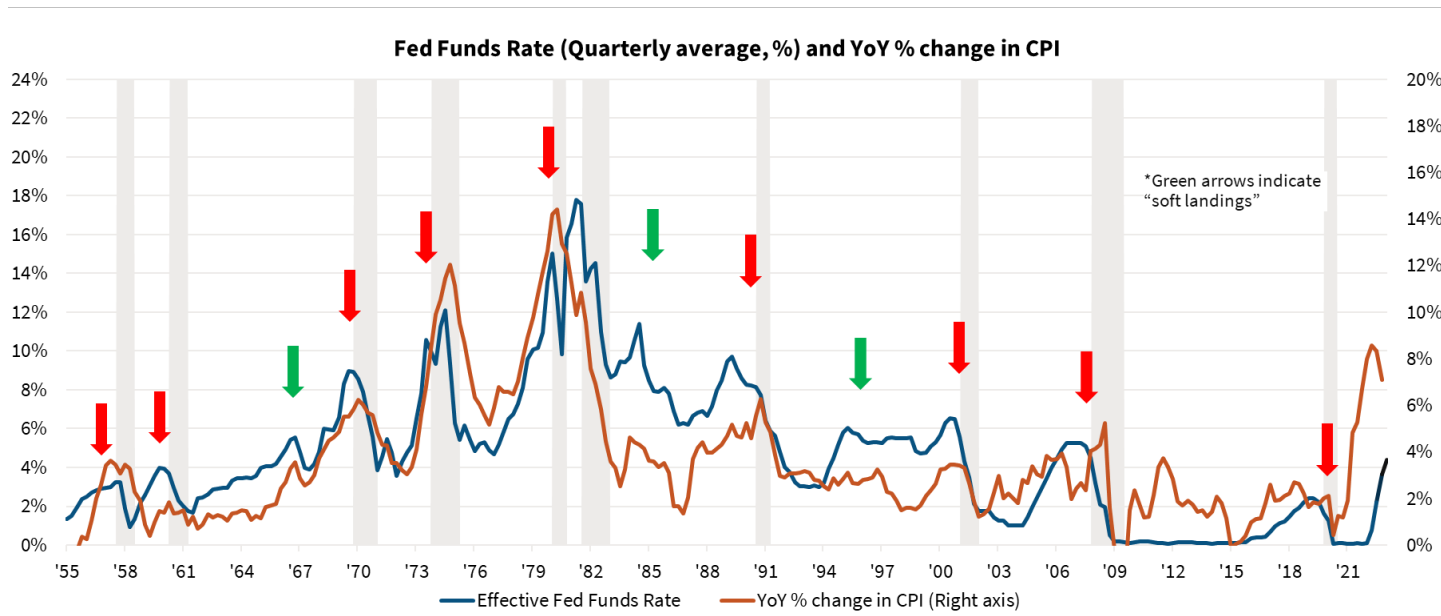
Current easing of financial conditions is counter to the Fed's goals



Source: Bloomberg

Fed funds rate increases often point toward next downturn

When the Fed has managed a “soft landing,” they were moving preemptively



Source: Federal Reserve, Bureau of Labor Statistics

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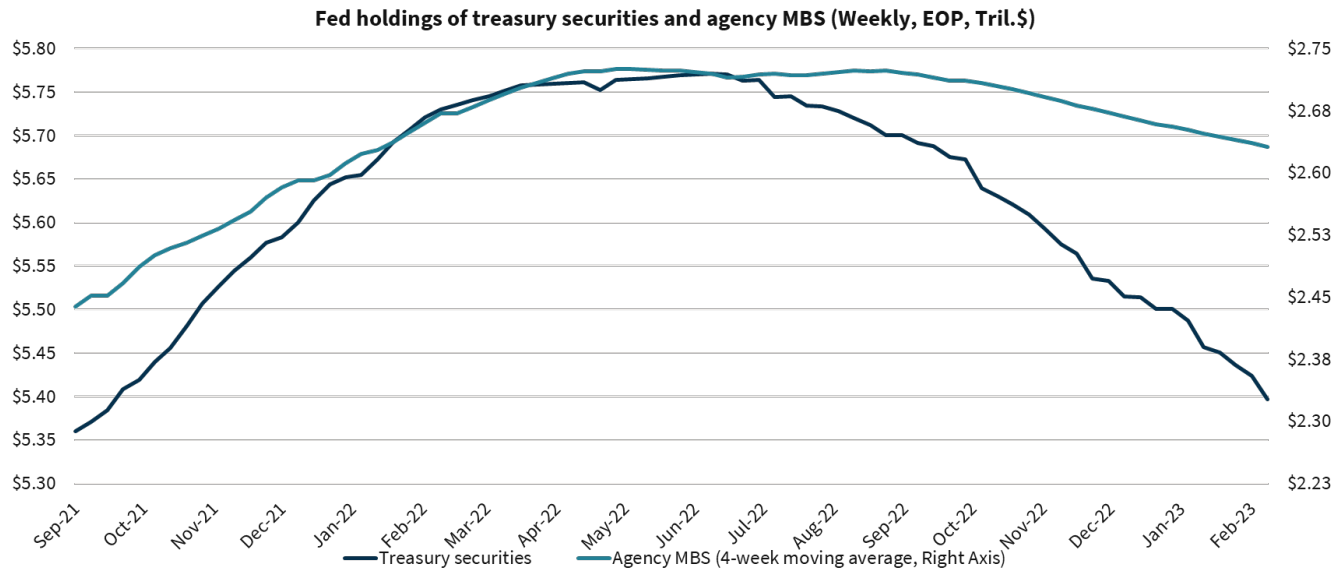
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Fed's balance sheet runoff began in June

Holdings of treasury securities have fallen by ~\$373 billion since the week of June 1, MBS down by ~\$83 billion



Source: Federal Reserve

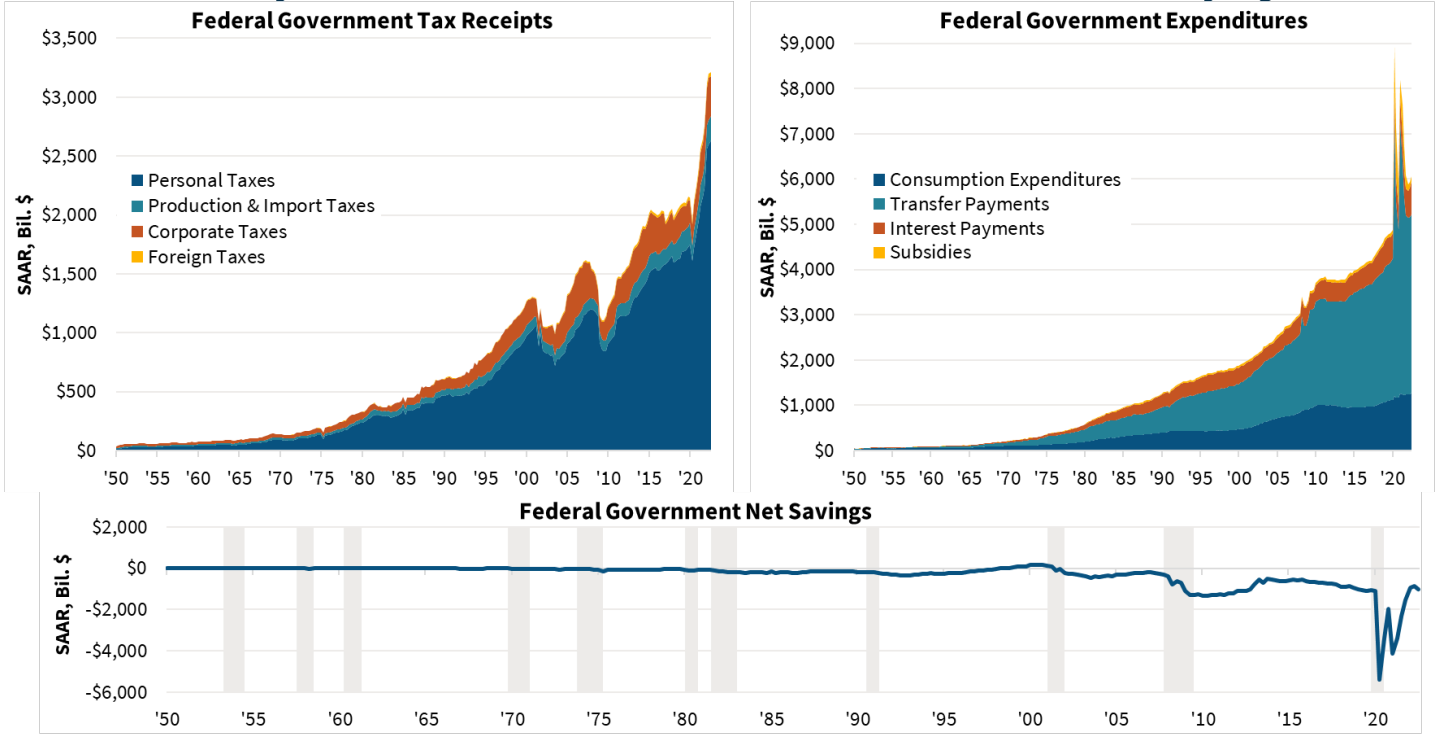
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Federal expenditures have shifted towards transfer payments



Source: Bureau of Economic Analysis

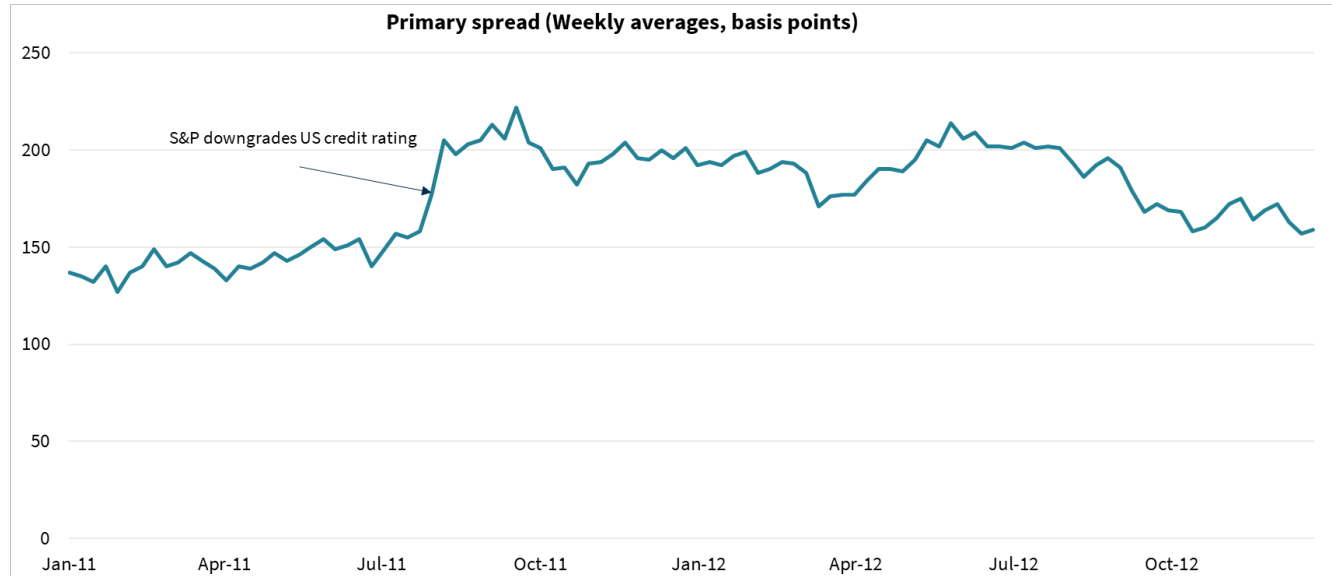
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Spreads widened sharply following the last debt ceiling fight and S&P downgrade of the US credit rating



Source: Federal Reserve, Freddie Mac



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Macroeconomic outlook

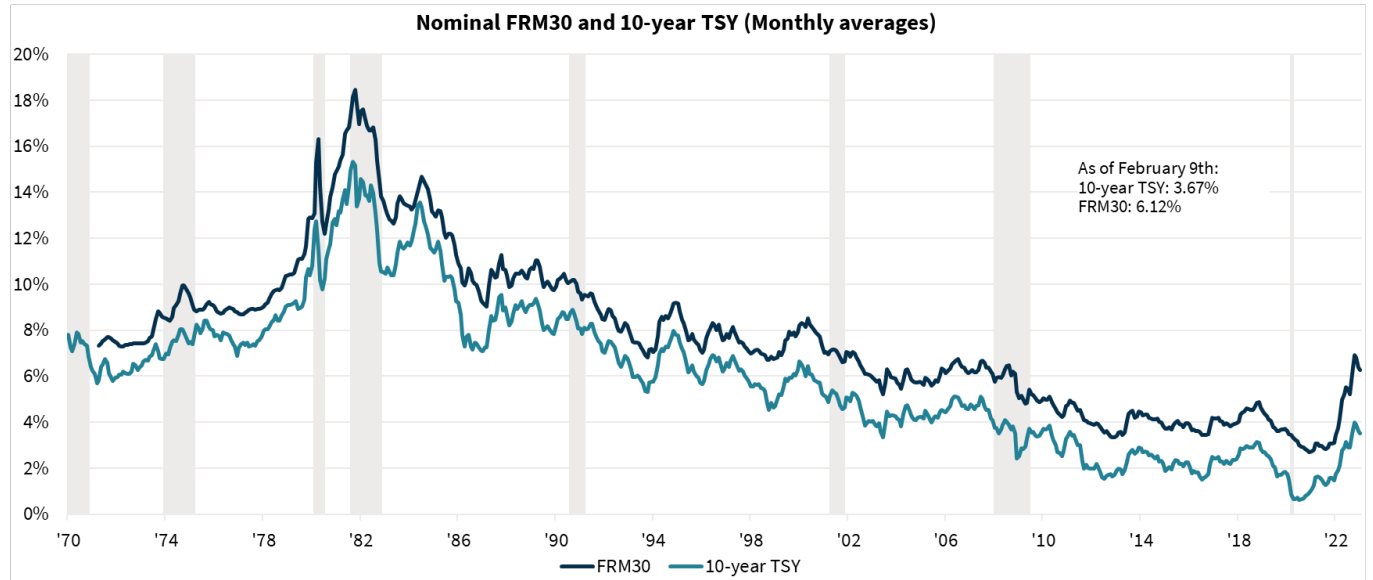
		Forecast		
	2021	2022	2023	2024
Real GDP annual growth (% Q4-over-Q4)	5.7%	0.8	-0.6%	1.9%
Unemployment rate (Q4)	4.2%	3.6%	5.4%	5.8%
Core CPI (year-end, % year-over-year)	5.0%	6.0%	3.4%	2.5%
10-year Treasury bond yield (annual average)	1.4%	3.0%	3.8%	3.7%

For the full forecast and economic commentary, visit: <https://www.fanniemae.com/research-and-insights/forecast>

Source: Fannie Mae Economic & Strategic Research January 2023 Forecast – Data in Forecast as of 1/10/2023

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Interest rates have pulled back somewhat as inflation begins to slow and concerns regarding growth increase



Source: Federal Reserve, Freddie Mac

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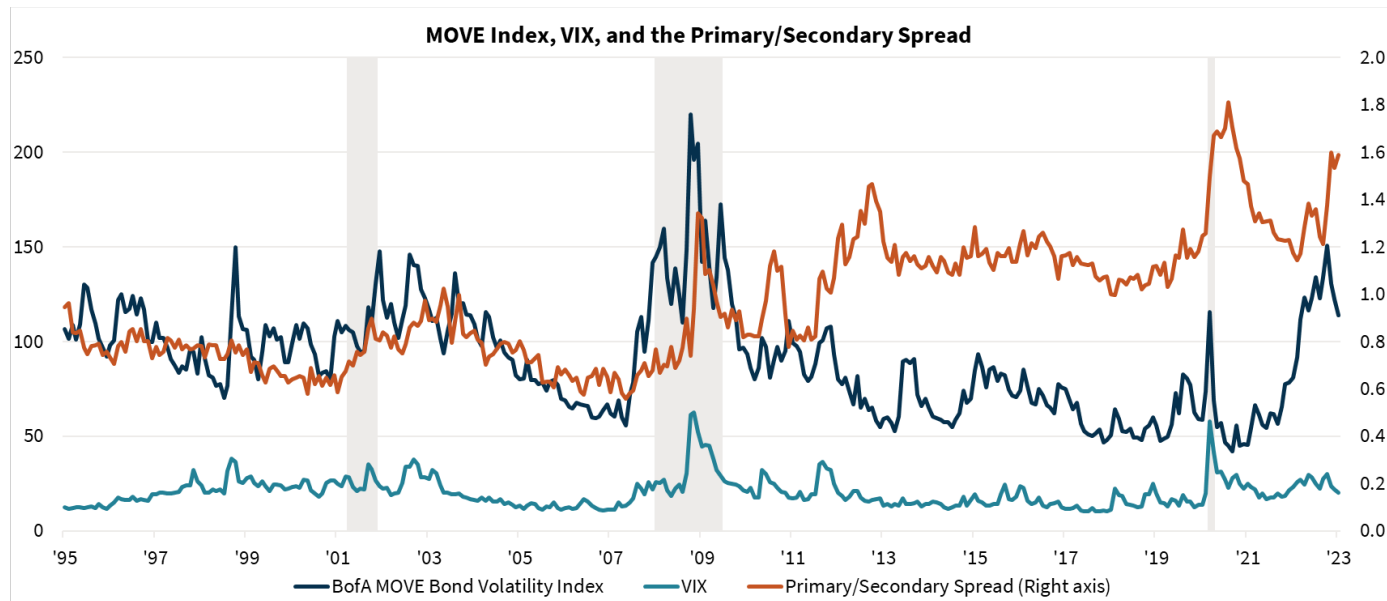
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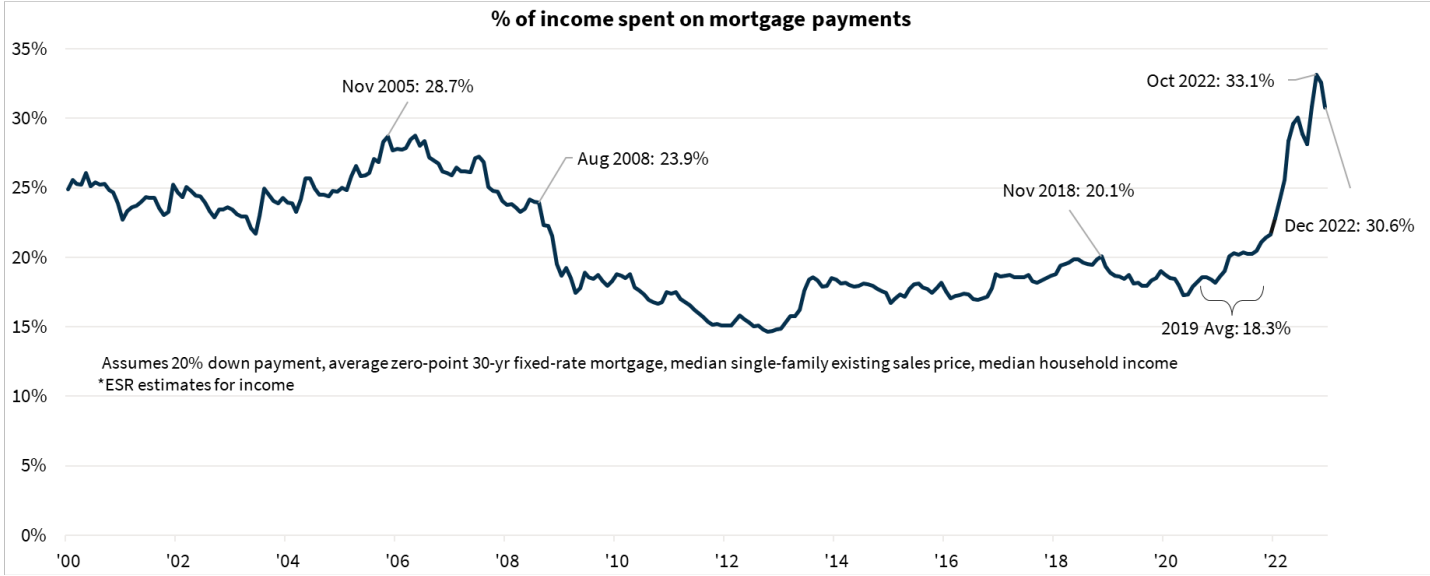


Spreads remain wide as volatility in the bond market drives spreads further



Source: Bank of America, VIX, Federal Reserve, Freddie Mac, Fannie Mae

House prices are historically elevated relative to incomes



Source: National Association of REALTORS®, Census Bureau, Freddie Mac, Fannie Mae ESR estimates and analysis

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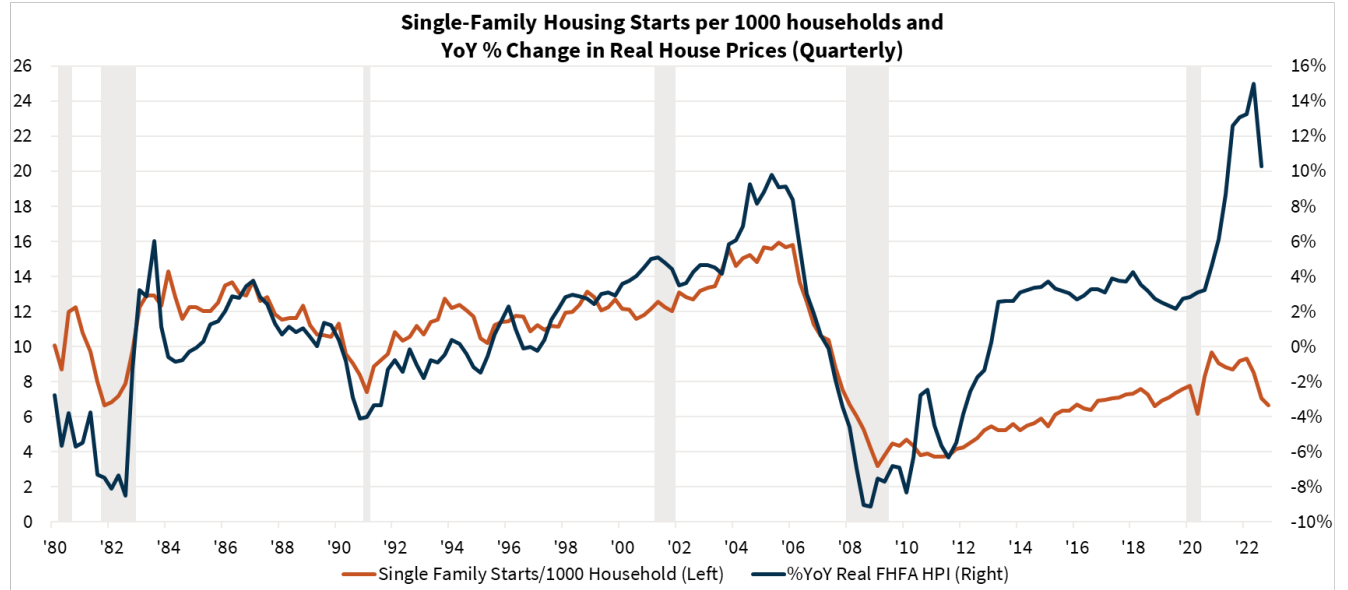
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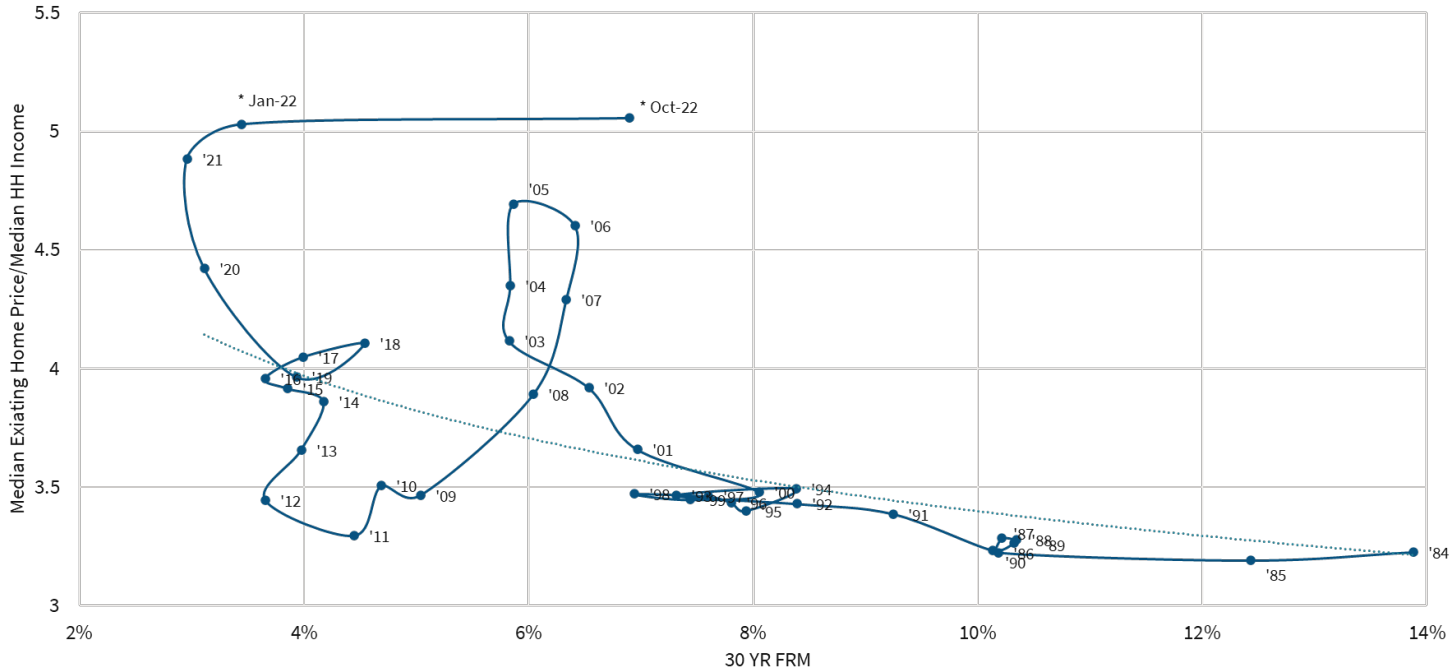
Housing supply response to price signal is disrupted

Supply response has been far weaker than historical relationship



Source: Census Bureau, Federal Housing Finance Agency

House prices historically elevated relative to incomes



Source: National Association of REALTORS®, Census Bureau, Freddie Mac, Fannie Mae ESR estimates and analysis

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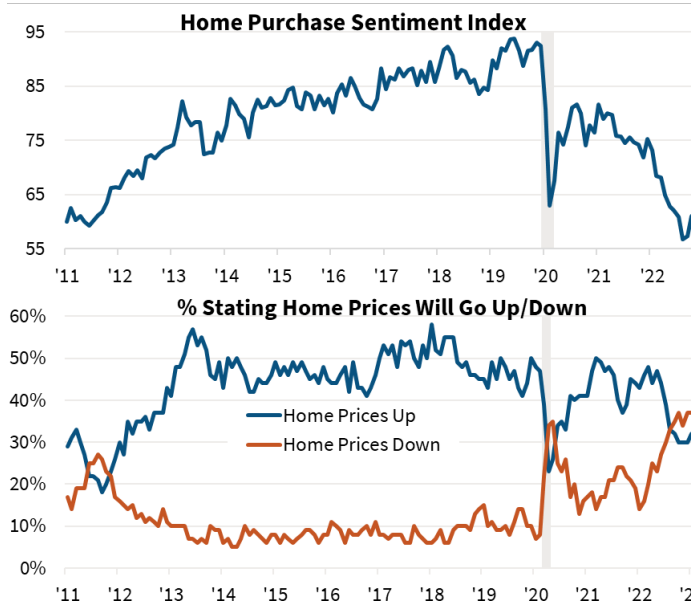
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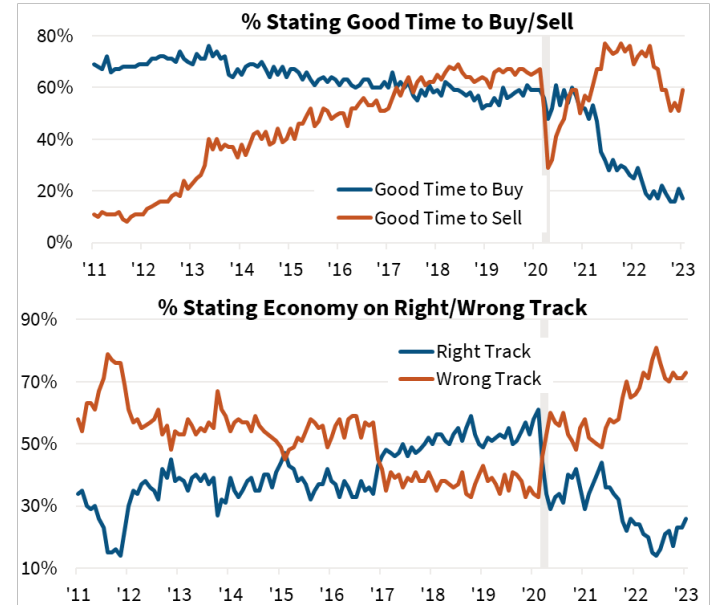


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Home purchase sentiment is near survey low as respondents remain concerned about home price growth, direction of economy



Source: Fannie Mae Home Purchase Sentiment Survey®



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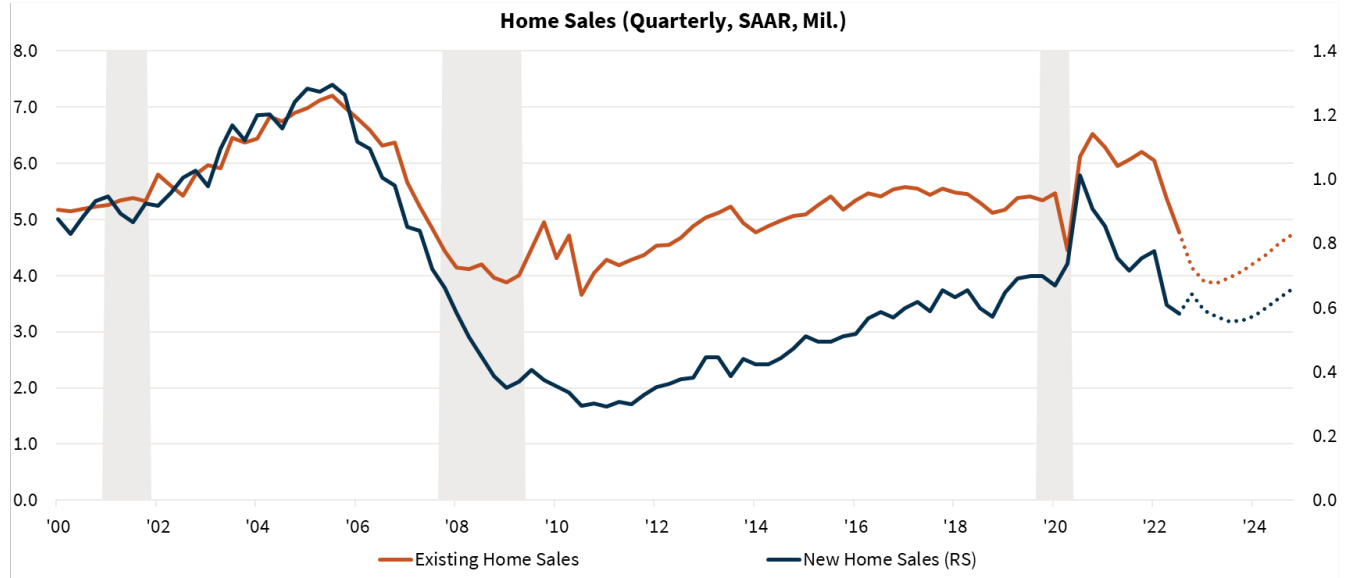
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Home sales could be worse than we currently expect

Though we do not expect anything like a repeat of the financial crisis



Source: National Association of REALTORS®, Census Bureau, Fannie Mae Economic & Strategic Research January 2023 Forecast – Data in Forecast as of 1/10/2023

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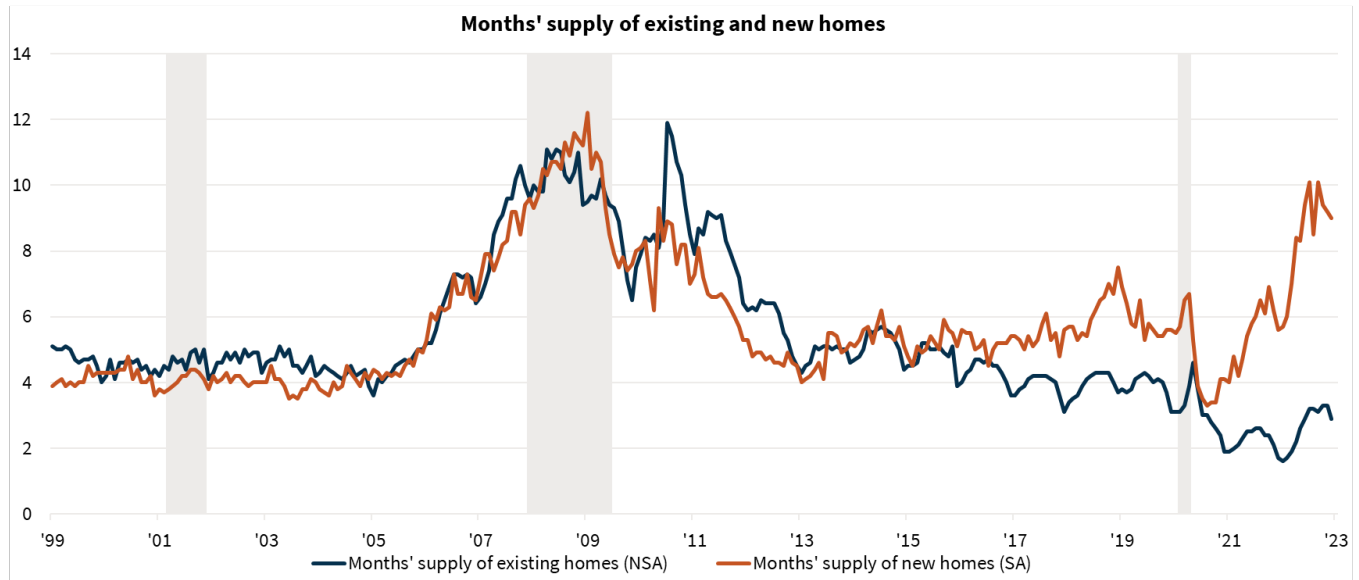
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Existing home inventory remains unusually tight

New home inventories are growing, spurring builders to offer incentives and discounts



Source: National Association of REALTORS®, Census Bureau

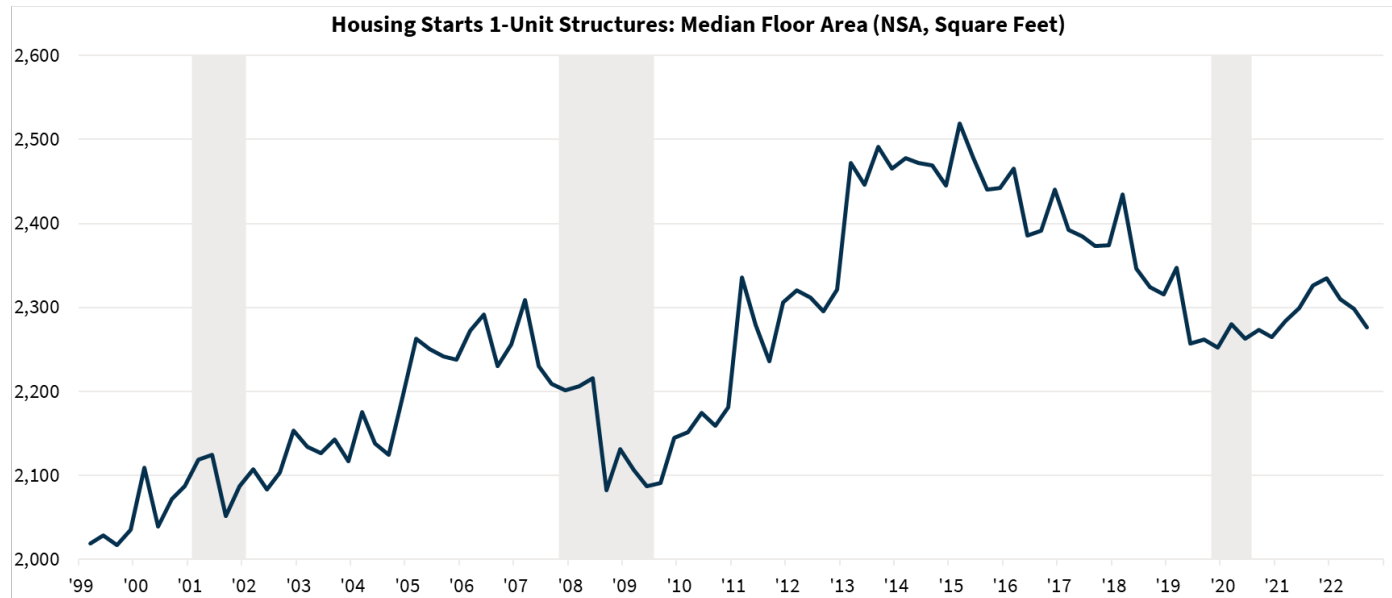
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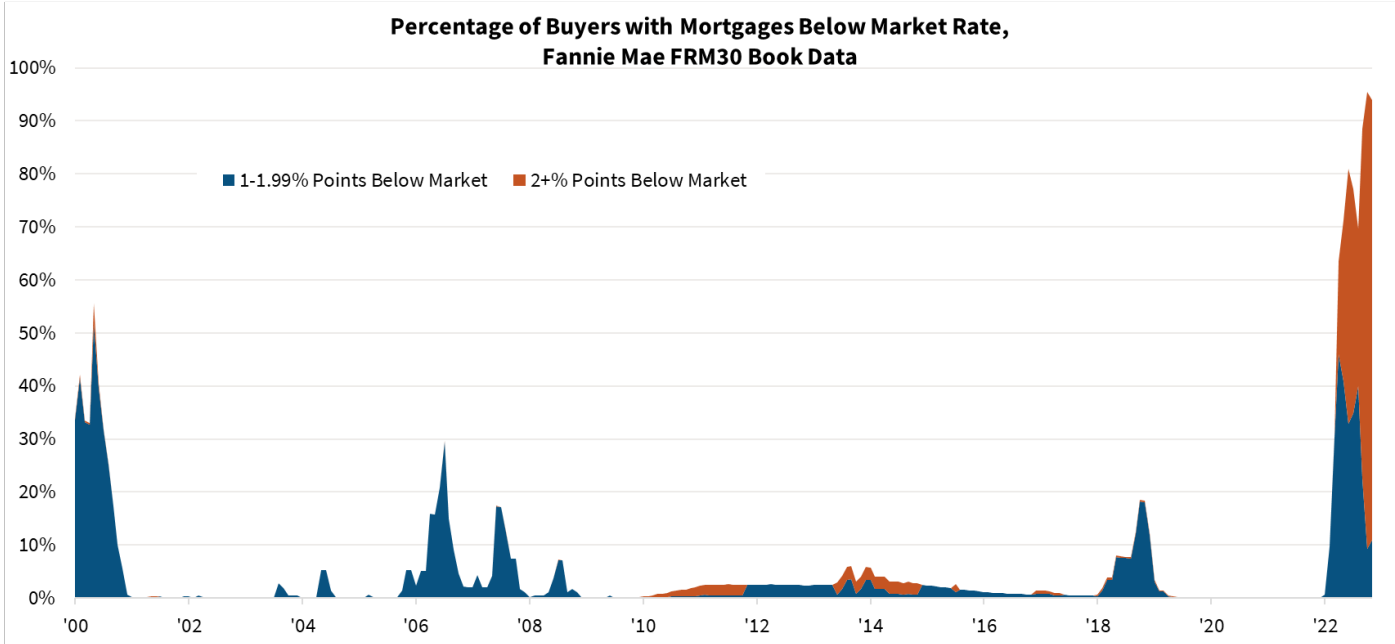


After rising briefly post-COVID, the size of new single-family housing starts has begun to shrink once again



Source: Census Bureau

Most borrowers are "locked in" at low interest rate, creating a financial disincentive to move



Source: Fannie Mae FRM30 Book Data through November 2022, Freddie Mac

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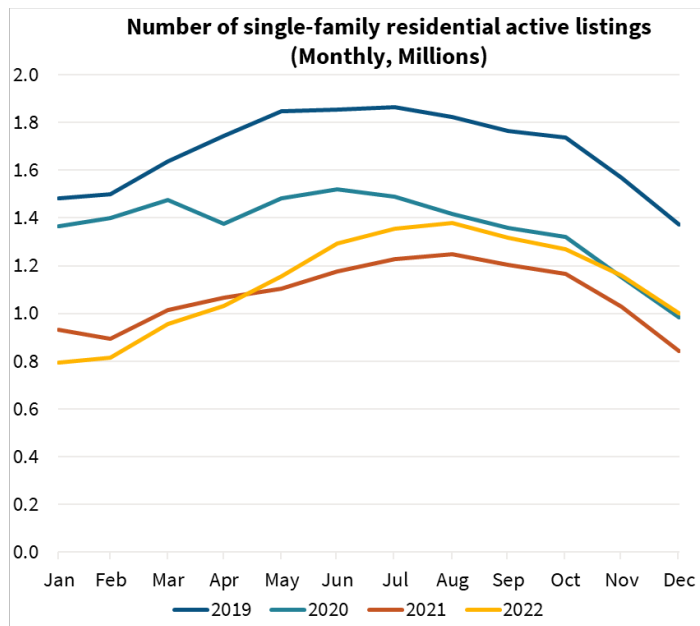
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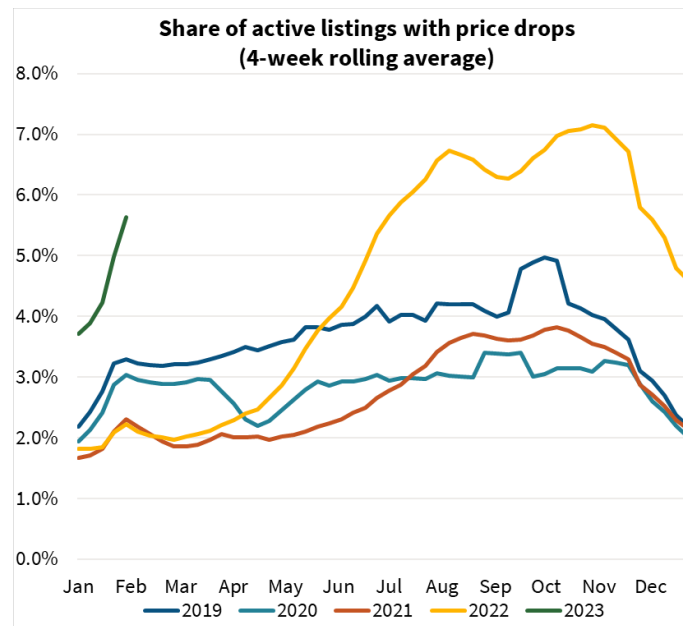
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Number of active listings with price drops provides further evidence of the cooling housing market



Source: Redfin



Housing and mortgage market outlook

	2021	Forecast		
		2022	2023	2024
10-Year Treasury (Annual Average)	1.4%	3.0%	3.8%	3.7%
30-Year Fixed-Rate Mortgage (Annual Average)	3.0%	5.3%	6.3%	5.7%
Single-Family Housing Starts (Percent Change Year-Over-Year)	1,127 thousand 13.8%	1,002 thousand -11.1%	749 thousand -25.3%	844 thousand 12.8%
Multifamily Housing Starts (Percent Change Year-Over-Year)	474 thousand 21.8%	553 thousand 16.8%	391 thousand -29.3%	320 thousand -18.2%
New Single-Family Home Sales (Percent Change Year-Over-Year)	771 thousand -6.2%	653 thousand -15.4%	570 thousand -12.7%	615 thousand 8.0%
Total Existing Home Sales (Percent Change Year-Over-Year)	6.120 million 8.4%	5.073 million -17.1%	4.004 million -21.1%	4.627 million 11.2%
Fannie Mae HPI (Percent Change Q4/Q4)	18.9%	8.4%	-4.2%	-2.3%
Purchase Mortgage Originations (Percent Change Year-Over-Year)	\$1,900 billion 20.9%	\$1,660 billion -12.6%	\$1,279 billion -22.9%	\$1,422 billion 15.2%
Refinance Mortgage Originations (Percent Change Year-Over-Year)	\$2,670 billion -4.7%	\$683 billion -74.4%	\$356 billion -48.0%	\$545 billion 53.3%
Total Mortgage Originations (Percent Change Year-Over-Year)	\$4,570 billion 4.5%	\$2,344 billion -48.7%	\$1,635 billion -30.2%	\$1,967 billion 20.3%

For the full forecast and economic commentary, visit: <https://www.fanniemae.com/research-and-insights/forecast>

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