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Freddie Mac Pulls a 180 in Housing Outlook

Rather than taking a step back this year, home sales now seem ready to best their 2016 numbers. Freddie Mac's **economists admit** that, up until this month, their expectations were for the former (i.e. a 'step back'), but based on recent data, they now see the U.S. housing market "on track to eclipse last year as the best in over a decade."

The company's May *Outlook* credits housing's strong launch into 2017 in part to the **surprising downward drift** of interest rates since March. Favorable rates, along with strong job growth, have bolstered housing demand, even as economic growth remains tepid-only 0.7 percent GDP growth in Q1. Still, despite the slow growth, blamed to a large degree on weak consumer demand, the labor market "keeps plugging along" with the lowest unemployment rate since 2001 (4.4 percent) and 79 straight months of job growth.

After rising to 4.3 percent in March, mortgages rates have dipped back down in the **4.0 percent range** and have been holding there. Freddie Mac expects them to head higher later in the year. Monetary policy will push short term rates higher and that, combined with Consumer Price Index-measured inflation predicted to increase about 0.6 percentage points, will drag long term, and mortgage rates, along. The increases will be measured, they say, with the 30-year fixed rate mortgage averaging 4.3 percent in the fourth quarter.

The company says existing home sales in March were the **highest since 2007** and new home sales beat expectations as well, making total first quarter sales overall the highest since 2007. (*Ed. Note: The report was written before the release of April data earlier this week showed both new and existing home sales retreating from March levels.*)

The year got off to a good start in the **construction** area as well, with housing starts the highest since 2007 through the first quarter, but even at that, running lower than long-term demand. Tight inventories continue to boost home price growth, which averaged 6.4 percent year-over-year in March per the Freddie Mac House Price Index.

All-in-all Freddie Says, 2017 is shaping up to be the **best year for housing in over a decade**.

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	100.00	+0.19
10 YR Treasury	4.8837	-0.0462
30 YR Treasury	5.2539	-0.0543

Pricing as of: 11/2 10:03AM 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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Mortgage **originations have also been a surprise**, with data that indicates origination volume about $60 billion higher than the company had forecast, primarily due to the continued strength of refinancing. Forty-nine percent of borrowers took cash out when they refinanced in the first quarter, up from 44 percent the previous quarter. This is the highest share since the fourth quarter of 2008, but still below the peak of 89 percent in the third quarter of 2006.

Cash-outs have picked up while low rates continued to support rate/term transactions. Recent declines should help spur **refinancing** while home **sales** will increase purchase loan originations. "Putting it all together we have increased our 2017 forecast for mortgage originations by just over $200 billion and added $100 billion to our 2018 forecast," the economists said.

While more borrowers are **cashing out** when they refinance, the net home equity that was cashed out declined from $19.1 billion in the fourth quarter of 2016 to $14.0 billion in the most recent period. Cash-out volume peaked at $84 billion in the second quarter of 2006.

Experienced. Trusted. Local.

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I would appreciate the opportunity to share with you my extensive mortgage lending experience. My client focused approach has allowed me to build long lasting relationships and partnerships throughout Arizona. I know this market. I live here and work here. Please allow me to be your mortgage lending partner.

Timothy Baron 

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