



Slow But Steady Signs of Recovery

A recent spate of positive housing news—increases in sales of new and existing homes over successive months, and favorable reports on home prices during the second quarter—reinforces the message that housing markets are stabilizing. These latest developments signal a shift in the risks to the economy. A growing threat to the economic outlook now comes not from housing but from the weak labor market, as the housing recovery and consumer spending cannot be sustained without growth of jobs and incomes. The employment report for August underscored the risks, as the unemployment rate jumped to 9.7 percent, the highest in more than 26 years, and the economy continued to shed jobs for the 20th straight month, with nonfarm payrolls down 216,000.

Nevertheless, the weak labor market does not damp the prospects for a gradual economic recovery over the remainder of this year, followed by a return to trend growth during 2010. Labor market conditions typically lag in a recovery, for several reasons. First, firms can increase output by boosting existing workers' hours. Second, managers are reluctant to hire until they are convinced that a higher sales pace will be sustained. Third, it often takes weeks or even months to recruit, interview and hire new staff.

The labor market report did contain some positive signs. Last month's job loss was the smallest in a year, and less than a third the pace in early 2009. Also, average hourly earnings were up 0.3 percent, helping to give households some much-needed spending power. These steps, though small, are a move in the right direction.

The economy is getting help from several other fronts to overcome the drag from labor markets. Perhaps most important, the crisis in financial markets, which exacerbated last year's economic collapse, fades further each month. Money markets played a critical role in the spread of the financial crisis when they seized up and helped spread liquidity problems to other markets. Market function has improved dramatically, and some key risk measures, like the 3-month Treasury-to-LIBOR spread, have returned to pre-crisis levels. Longer-term markets have also stepped up to meet the private sector's credit needs. Corporate debt issuance totaled \$917 billion in the first half of this year, up 59 percent from the first half of 2008, and four times the \$226 billion issued during the depths of the crisis in the second half of last year, according to the Securities Industry and Financial Markets Association.

Fixed-rate mortgage rates have declined and reached three-month lows, and by early September were a little over a quarter point above the record lows reached in the spring. Tensions still exist in the market, however, as jumbo mortgages are only available at a considerable spread over rates on conforming mortgages (for fixed-rate loans, that spread remains near one percentage point).



The economic stimulus package will bolster the recovery in the coming months and quarters. The Council of Economic Advisers has reported that just over one-third of the \$787 billion package had been spent (either directly or through tax reductions) or obligated by the end of August; thus, the bulk of the impact will be felt later this year and in 2010. Most analysts expect the stimulus to provide considerable lift to the economy in the coming months. One direct channel through which the stimulus is helping the economy is payments to states for unemployment insurance, which helps soften the blow of job loss.

The U.S. economy is also getting help from abroad. Most of our major trading partners are showing signs of a rebound. The French and German economies grew 1.4 percent and 1.3 percent annualized rates, respectively, in the second quarter, the first expansion since the first quarter of 2008 and suggesting the Euro area is pulling out of recession. Progress in their recoveries will provide a lift for U.S. net exports, which added more than two percentage points to U.S. GDP growth (annualized) in the first half of this year.

While signs of a U.S. recovery are tentative to date and the economy remains quite fragile, these many forces are helping to support growth. The process will take some time, but eventually will lead to job creation and increased confidence in the medium-term outlook.

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Major Economic Indicators

Indicator	2008				2009				2010				Annual Totals					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2005	2006	2007	2008	2009	2010
Real GDP (%)	-0.7	1.5	-2.7	-5.4	-6.4	-1.0	2.5	3.0	3.0	3.0	3.5	3.5	2.7	2.4	2.5	-1.9	-0.5	3.3
Consumer Prices (%) a.	4.5	4.5	6.2	-8.3	-2.4	1.4	3.5	1.5	1.8	2.0	2.0	2.2	3.8	1.9	4.0	1.7	1.0	2.0
Unemployment Rate (%) b.	4.9	5.3	6.0	6.9	8.1	9.3	9.6	9.9	9.9	9.8	9.7	9.6	5.1	4.6	4.6	5.8	9.2	9.8
30-Year Fixed Mtg. Rate (%) b.	5.9	6.1	6.3	5.9	5.1	5.0	5.2	5.2	5.4	5.6	5.7	5.9	5.9	6.4	6.3	6.0	5.1	5.6
1-Year Treas. Indexed ARM Rate (%) b.	5.1	5.2	5.2	5.1	4.9	4.8	4.8	4.8	4.9	5.1	5.2	5.3	4.5	5.5	5.6	5.2	4.8	5.1
10-Year Const. Mat. Treas. Rate (%) b.	3.7	3.9	3.9	3.7	2.7	3.7	3.5	3.6	3.8	4.0	4.1	4.3	4.3	4.9	4.6	3.8	3.4	4.0
1-Year Const. Mat. Treas. Rate (%) b.	2.1	2.1	2.1	1.0	0.6	0.5	0.5	0.5	0.6	0.7	0.8	1.0	3.6	4.9	4.5	1.8	0.5	0.8

Housing and Mortgage Markets

Indicator	2008				2009				2010				Annual Totals					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2005	2006	2007	2008	2009	2010
Housing Starts c.	1.06	1.02	0.87	0.66	0.53	0.54	0.60	0.60	0.65	0.75	0.85	0.95	2.07	1.80	1.36	0.91	0.57	0.80
Total Home Sales d.	4.93	4.84	4.89	4.62	4.46	4.61	5.10	5.25	5.25	5.50	5.70	5.95	7.46	6.73	5.72	4.84	4.86	5.60
Conventional Mtg. Home Price Index (%) e.	-1.9	-7.6	-10.3	-0.8	3.7	-9.8	-5.0	-2.0	-2.5	-1.5	-1.5	-0.5	12.3	5.4	-0.2	-5.2	-3.3	-1.5
S&P/Case-Shiller® Home Price Index (%) f.	-23.8	-8.5	-13.3	-26.5	-26.5	12.0	-8.0	-7.0	-5.0	-3.0	-3.0	-1.0	14.7	-0.3	-8.5	-18.4	-7.4	-3.0
1-4 Family Mortgage Originations g.																		
Conventional	\$440	\$480	\$280	\$210	\$369	\$500	\$460	\$410	\$364	\$417	\$480	\$386	\$3,167	\$2,858	\$2,312	\$1,410	\$1,739	\$1,647
FHA & VA	\$46	\$70	\$90	\$84	\$96	\$125	\$115	\$90	\$85	\$86	\$112	\$90	\$90	\$80	\$120	\$290	\$426	\$373
Total	\$486	\$550	\$370	\$294	\$465	\$625	\$575	\$500	\$449	\$503	\$592	\$476	\$3,257	\$2,938	\$2,432	\$1,700	\$2,165	\$2,020
ARM Share (%) h.	8	8	8	3	1	3	4	4	4	4	5	6	31	21	10	7	3	5
Refinancing Share - Applications (%) i.	49	47	39	56	78	70	55	55	52	51	47	46	44	43	42	48	64	49
Refinancing Share - Originations (%) j.	54	52	43	58	80	74	62	62	59	58	54	53	48	47	49	52	70	56
Residential Mortgage Debt (%) k.	2.7	0.1	-1.1	-2.9	-0.2	0.0	1.0	1.0	2.0	4.0	6.0	5.0	13.3	11.1	7.1	-0.3	0.5	4.3

Note: Quarterly and annual forecasts (or estimates) are shown in shaded areas; totals may not add due to rounding; quarterly data expressed as annual rates.

Annual forecast data are averages of quarterly values; annual historical data are reported as Q4 over Q4.

- a. Calculations based on quarterly average of monthly index levels; index levels based on the seasonally-adjusted, all-urban consumer price index.
- b. Quarterly average of monthly unemployment rates (seasonally-adjusted); Quarterly average of monthly interest rates (not seasonally-adjusted).
- c. Millions of housing units; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).
- d. Millions of housing units; total sales are the sum of new and existing detached single-family homes; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).
- e. Annualized growth rate of Freddie Mac's Conventional Mortgage Home Price Index (CMHPI); not seasonally-adjusted
- f. National composite index (annualized growth rate), not seasonally-adjusted
- g. Billions of dollars (not seasonally-adjusted).
- h. Federal Housing Finance Board (FHFB); quarterly averages of monthly shares of conventional, home-purchase mortgage closings (not seasonally-adjusted).
- i. Primary Mortgage Market Survey®; quarterly averages of monthly shares of all single-family mortgage applications (not seasonally-adjusted).
- j. Home Mortgage Disclosure Act for all single-family mortgages (not seasonally-adjusted); Annual share is dollar-weighted average of quarterly shares.
- k. Federal Reserve Board; growth rate of residential mortgage debt, the sum of single-family and multifamily mortgages (not seasonally-adjusted, annual rate)

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