Freddie Mac

U.S. Economic, Housing and Mortgage Market Outlook

JULY 2024 **IN THIS ISSUE:**

U.S. ECONOMY

Economic growth for Q1 2024 slows to the lowest level since Q2 2022 while the labor market also shows signs of cooling.

HOUSING & MORTGAGE MARKET

Home sales continue to remain low even as mortgage rates ease slightly, and while we see improvement in inventory, it remains below pre-pandemic averages

SPOTLIGHT: CONSUMER DELINQUENCIES

While credit card and auto loans are performing worse than their pre-pandemic average, mortgage loans are performing better. We also find that non-mortgage credit performance is better for people with mortgages as compared to people who do not have one. MORE →

Recent developments

U.S. economy: The third estimate of U.S. economic growth released by the Bureau of Economic Analysis (BEA) in June showed GDP growth at a 1.4% annualized rate in Q1 2024, a slight increase from the second estimate of 1.3%. Downward revisions to imports and upward revisions to nonresidential investment and government spending led to the upward revision of Q1 growth. Consumer spending, however, experienced a slowdown from 2.0% annualized growth in the second estimate to 1.5% in the final estimate for Q1 2024. Consumption spending's contribution to GDP also declined from 1.3% in the second estimate to 0.9% in the final estimate. Real Gross Domestic Income (GDI) increased 1.3% in Q1 2024. The average of GDP and GDI, a supplemental measure of economic activity that equally weights GDP and GDI, increased 1.4% in Q1 2024.

The final estimate for Q1 2024 GDP released in June was 18 basis points below the first estimate released in April. On average, the revisions to GDP from the preliminary to final estimate have been around 17 basis points since Q3 1965 (**Exhibit 1**). While there is no discernible pattern in the revisions to GDP estimates, typically, there are downward revisions to GDP at the beginning of a recession.[1] However, during the pandemic recession in Q2 2020, there was an upward revision to the GDP estimate mainly due to the relaxation of the stay-at-home orders which led to an uptick in economic activity.

1 https://www.stlouisfed.org/on-the-economy/2014/may/do-revisions-to-gdp-follow-patterns

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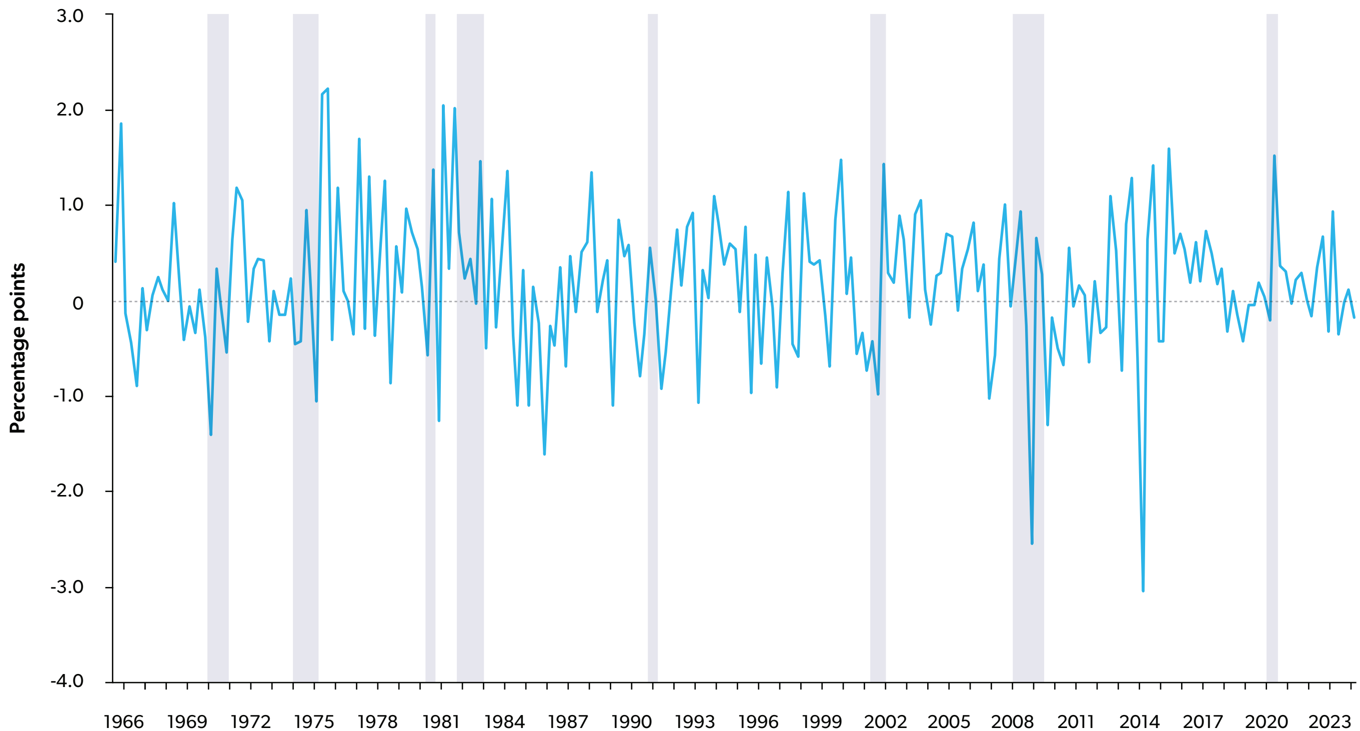
EXHIBIT 1

GDP revisions

Difference between the preliminary and final estimate of GDP



Source: Federal Reserve Bank of Philadelphia

The labor market cooled as per the latest employment report from the Bureau of Labor Statistics (BLS). Total nonfarm payroll gains were 206,000 in June and along with that April and May total payroll gains were revised down by a combined 111,000 (57,000 for April and 54,000 for May). Around three-fourths of the job gains in June occurred in healthcare and social assistance and government. Year-to-date job growth for 2024 is 1.3 million with an average of 222,000 jobs added each month (down from an average of 247,000 jobs last month). However, the unemployment rate ticked up further to 4.1% and is now at the highest level since November 2021.

The Job Openings and Labor Turnover Survey (JOLTS) report released by BLS showed job openings rose to 8.1 million in May, after April was revised down by 140,000 to 7.9 million. Job openings for April were at the lowest level since March 2021. The job openings to unemployed ratio for May at 1.22 was at the lowest level since June 2021. The quits rate was unchanged at 2.2% for the seventh consecutive month. Overall, the job market appears to be cooling with the unemployment rate rising over the last few months and substantial downward revisions to job gains.

On the inflation front there was some encouraging news as the Federal Reserve's preferred inflation gauge, the core Personal Consumption Expenditure Price Index, which strips out volatile food and energy prices, rose 0.1% month-over-month and was up 2.6% year over year in May 2024.[2] The annual increase was the lowest since March 2021. Prices for goods decreased 0.4% month-over-month led by declines in gasoline and other energy goods along with recreational goods and vehicles. Prices for services were up 0.2% month-over-month in May and within services, healthcare had the largest increase over the month followed by housing and utilities.

Overall, while economic growth for Q1 2024 was the slowest since Q2 2022, it still reflects a growing economy. There has been some moderation in inflationary pressures, and per the Fed dot plot, there might be only one rate cut this year. The higher for longer rates are affecting consumer delinquencies, which we discuss in detail in this month's *Spotlight*. The labor market, while still strong by historical standards, is showing some signs of cooling as the unemployment rate sits at the highest level since November 2021.

U.S. housing and mortgage market: The housing market continues to remain slow after being impacted by high mortgage rates. Total (existing + new) home sales for May at 4.7 million fell 2.3% from April and were down 4.9% from a year ago. Unlike the last couple of months when existing home sales declined while new home sales picked up, both existing and new home sales declined in May. Existing home sales were 4.11 million (seasonally adjusted annual rate) in May, down 0.7% month-over-month and 2.8% year-over-year.[3] New home sales for May fell 11.3% from April to an annualized rate of 619,000, accounting for about 13% of total home sales.[4] Both existing and new home inventory improved over May but still remains below the pre-pandemic average.[5] Existing home inventory picked up 19% year-over-year to 1.28 million units, while new home inventory is at the highest level it's been since January 2008.

Homebuilder confidence fell to 43 in June from 45 a month earlier, according to the National Association of Home Builders' Housing Market Index. The decline is below the threshold of 50, indicating poor building conditions over the next six months. The primary driver of the decline was attributed to higher mortgage rates and increases in construction cost.[6] Housing construction also experienced a decline in May. According to the U.S. Census Bureau, new residential construction fell in May with total housing starts declining 5.5% month-over-month. Single-family starts declined 5.2% month-over-month, and multifamily starts fell by 10.3%. Despite the fall in units started, the units under construction for multifamily remains high at 898,000 units.

The April FHFA Purchase-Only Home Price Index showed a 0.2% month-over-month increase after remaining unchanged the prior month. Year-over-year house price growth remained robust at 6.3% for April.

The 30-year fixed-rate mortgage averaged 6.92% in June, as measured by Freddie Mac's Primary Mortgage Market Survey® and ended the month at 6.86%. According to the Mortgage Bankers Association (MBA) Weekly Application Survey, mortgage activity increased over the month as rates ticked below 7%. Overall mortgage activity was up 14.5% month-over-month and was unchanged year-over-year at the end of June. Refinance activity during the last week of June was up 25.9% compared to the same week a month earlier, while purchase applications were up 8.0% month-over-month at the end of June.

Overall, high mortgage rates and house price appreciation has led to a slowdown in the housing market and is causing housing inventory to pick up.

2 BEA
3 National Association of Realtors
4 U.S. Census Bureau
5 Pre-pandemic average is considered to be the period from 2016-19.
6 National Association of Home Builders (https://www.nahb.org)

Outlook

We expect the U.S. economy to continue to be affected by higher interest rates, leading to a lower growth rate and a weaker labor market in 2024 and 2025. While incoming inflation data is reassuring, under our baseline scenario, a weaker economy and labor market will further cool inflation, though remaining above the Federal Reserve's target rate of 2%. We anticipate a rate cut towards the end of this year if the job market cools off enough to keep inflation in check. This rate cut, if it occurs, could lead to a slight easing of mortgage rates in 2024, offering a glimmer of hope for prospective buyers. We expect mortgage rates to decline further in 2025 to below 6.5%, further stimulating the housing market by making homeownership more affordable.

Despite strong housing demand, the housing outlook remains subdued under our baseline scenario, particularly for home sales. Our opinion hinges on the significant challenges posed by high mortgage rates, high home prices and a lack of homes available for sale. While inventory is improving in some parts of the country, supply remains short due to solid fundamentals in the housing market. We anticipate these challenges to persist in 2024 keeping total home sales volume down. However, we expect some improvement in home sales in 2025 with easing mortgage rates. Due to strong demand fundamentals, we expect upward pressure on home prices and forecast home prices to increase in 2024 and 2025.

We anticipate a modest increase in purchase origination volumes this year and into 2025, supported by high home prices. However, we do not expect purchase origination volumes to be significantly higher than in 2023, as affordability challenges will limit home sales. On the refinance side, we expect refinance origination volumes to remain flat in 2024. However, we expect the drop in mortgage rates to below 6.5% in 2025 to prompt buyers who obtained higher rates in 2023 to refinance into lower rates. Under such a scenario, we expect the refinance volume to grow modestly next year. With some pickup in refinance and purchase originations, we forecast total origination volumes in 2024 and 2025 to grow modestly.

Overall, we remain optimistic about the economy. While the high interest rate environment is deteriorating the credit performance, making it more difficult for credit borrowers to meet their payment obligations, particularly in the auto and credit card segments, homeowners' credit performance remains solid. The resilience in homeowners' credit performance indicates their ability to weather adverse economic impacts, if any. We expect homeowners to remain resilient as they have accumulated a large chunk of equity to tap into if negative incomes hit them.

JULY 2024 SPOTLIGHT:

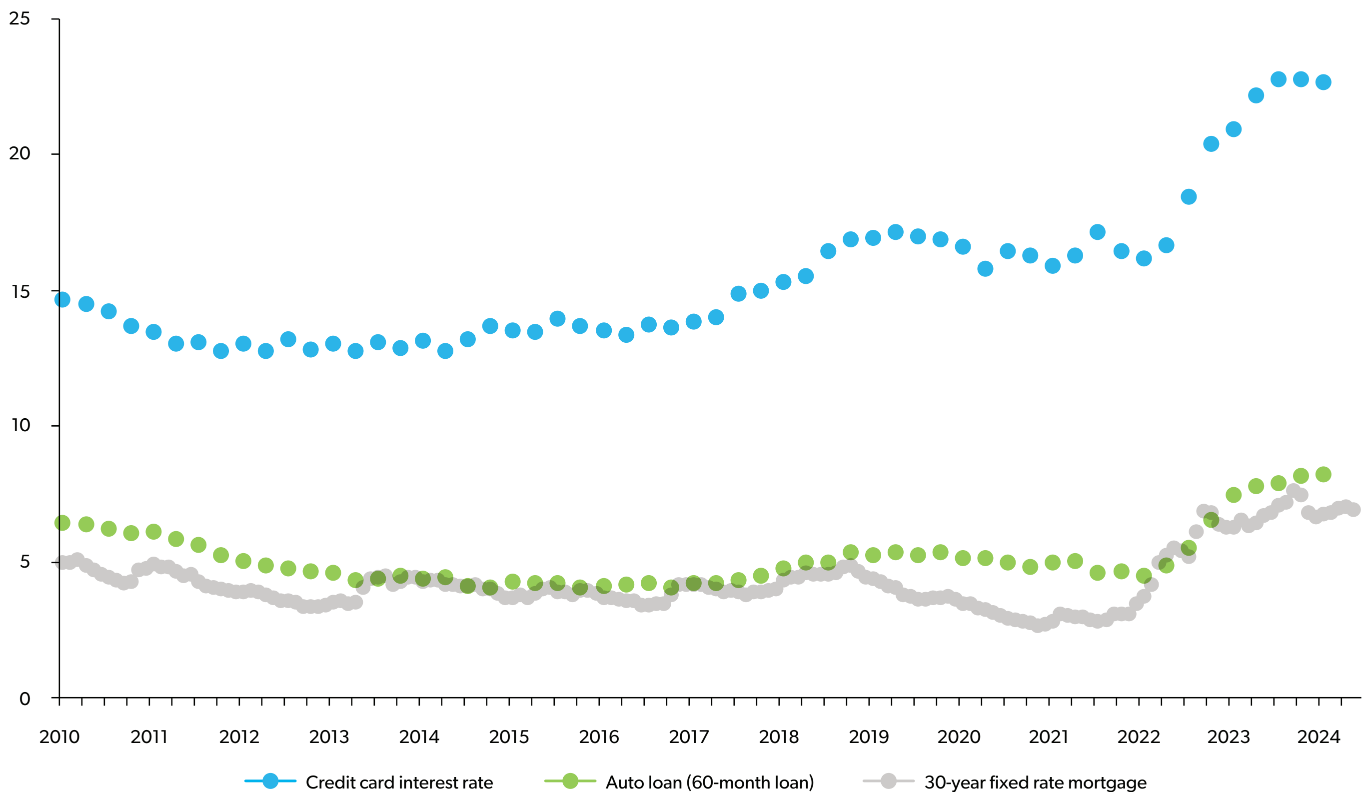
Credit card, auto and mortgage delinquencies

In this Spotlight, we analyze the post-pandemic performance of various consumer lending products, such as credit cards, auto loans and mortgages. In short, our analysis finds that mortgage loans continue to perform better than pre-pandemic averages while credit card and auto loans are performing worse. When we look at auto and credit card performance segmented by whether the borrower has a mortgage, we see that non-mortgage credit performance is better for mortgage borrowers than for non-mortgage borrowers.

Consumer delinquencies were at historic lows during the pandemic – led by factors such as the fiscal stimulus, the historically low interest rate environment, forbearance programs put in place by the government, and pandemic related savings, which improved the health of consumer balance sheets. While the Federal Reserve cut the Federal Funds Rates to near 0% in March 2020 to support the economy during the pandemic, it began raising rates in 2022 to rein in inflation, which had increased to the highest levels in 40 years. As the Federal Reserve raised the Federal Funds target range from near 0% in March 2022 to 5.25%-5.50% by July 2023, interest rates on credit cards, autos and mortgages also increased. **Exhibit 2** shows credit card interest rates increased from around 15% in 2022 to close to 23% in 2024. Rates on new auto loans for a 60-month term went up from 5% to 8% during the same period while 30-year fixed-rate mortgages went up from 3% to 7%.

EXHIBIT 2

Interest rates on credit cards, autos and mortgages (%)



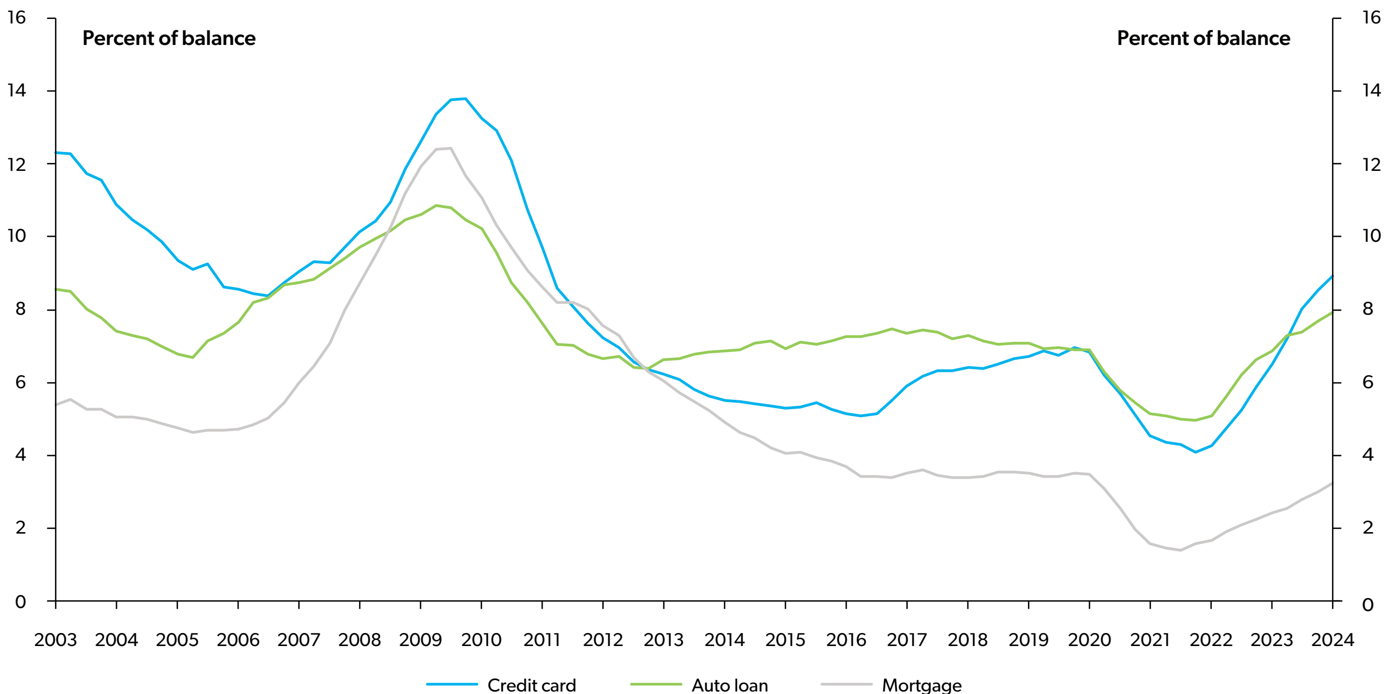
Source: Board of Governors of the Federal Reserve System, Freddie Mac; Data retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org

As stated above, during the pandemic, low interest rates, forbearance programs and fiscal stimulus pushed consumer delinquency rates near historic lows. As interest rates increased, forbearance programs ended, and excess pandemic savings were depleted, delinquency rates increased. At first, the increases were consistent with a normalization, or return to pre-pandemic average levels. However, as financial conditions have tightened, delinquency rates for some consumer loans have exceeded their pre-pandemic averages. **Exhibit 3** plots the transition into 30+ days delinquency by loan type. Delinquency rates on credit cards and autos declined during the pandemic. But with the reversal of the factors mentioned above, delinquency rates started to rise in Q1 2022 and are now at levels above the pre-pandemic average.[7] The largest increase in delinquencies has been for credit cards, up from 4.1% during Q4 2021 to 8.9% by Q1 2024. Auto loan delinquencies went up from 4.9% to 7.9% during the same time. The average delinquency rate for credit cards during the pre-pandemic period was 6.2% while that for auto loans was 7.2%.

For mortgages, while there has been a moderate rise in mortgage delinquencies, they remain below pre-pandemic levels. Mortgage delinquencies rose from 1.4% during Q3 2021 to 3.2% by Q1 2024. The pre-pandemic average mortgage delinquency rate was 3.5%. While delinquencies have risen modestly, delinquency rates on conventional mortgages are the lowest as compared to FHA/VA delinquencies, per the Q1 2024 MBA delinquency survey. Part of the reason mortgages have performed better than auto and credit cards is because 92% of U.S. household mortgages have fixed rates,[8] while most auto and credit card debt is variable rate. Thus, while interest rate on new mortgages increased as shown in Exhibit 2, the average rate on all outstanding mortgage debt increased much less.

EXHIBIT 3

Transition into delinquency by loan type



Source: New York Federal Reserve Consumer Credit Panel/Equifax

Note: Four quarter moving sum

7 We define the pre-pandemic period as the period from 2016Q1-2019Q4.
8 https://www.stlouisfed.org/on-the-economy/2024/feb/which-households-prefer-arms-fixed-rate-mortgages

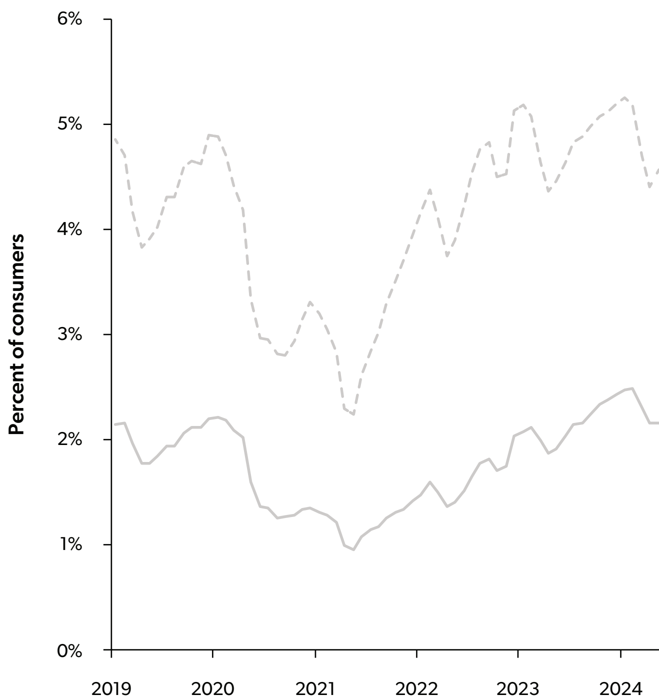
Mortgage performance has also been better than credit card and auto debt because mortgage borrowers are generally in a much better financial situation than non-mortgage borrowers (primarily renters). Renters tend to be younger; the median age of a renter was 31 years old as compared to the median age of a homeowner at 42 years old. Renters also tend to have lower incomes compared to homeowners, around 61% of the renters have incomes equal to or less than 80% of the area median income.[9,10] While nearly one-in-four homeowner households (19.7 million) are considered cost burdened (i.e. those who spend more than 30% of household income on housing and utilities) as of 2022, half of all renter households (22.4 million) are considered cost burdened.[11]

Using Experian data to track delinquency rates by their mortgage status, we find that delinquencies have been rising across the board (**Exhibit 4**). For those consumers with a mortgage, the share with a credit card delinquency increased from 1.0% in May 2021 (the trough) to 2.2% by May 2024, while those with auto delinquency increased from 0.8% in May 2019 to 1.7% in May 2024. On the other hand, for those consumers without a mortgage, the share with a credit card delinquency increased from 2.2% in May 2021 to 4.6% in May 2024 while the share with an auto delinquency increased from 4.1% to 6.9% during the same period. Thus, the share of consumers with delinquencies is higher for those with no mortgage on file, the majority of which are renters, than for those with a mortgage.

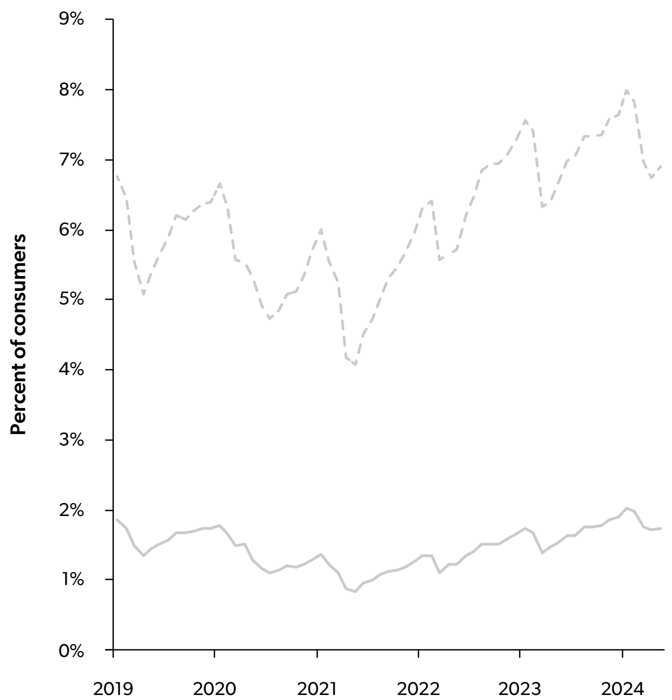
EXHIBIT 4

Delinquency rates by mortgage status

Credit card 30+ days DQ rate



Auto 30+ days DQ rate



Has a mortgage   No mortgage on file

Source: Freddie Mac calculations using Experian data.

9 Based on our analysis of CPS ASEC 2023 (Sarah Flood, Miriam King, Renae Rodgers, Steven Ruggles, J. Robert Warren, Daniel Backman, Annie Chen, Grace Cooper, Stephanie Richards, Megan Schouweiler, and Michael Westberry. IPUMS CPS: Version 11.0 [dataset]. Minneapolis, MN: IPUMS, 2023. https://doi.org/10.18128/D030.V11.0)

10 The Federal Reserve also find similar results in their analysis of different groups of credit card users. https://libertystreeteconomics.newyorkfed.org/2023/11/credit-card-delinquencies-continue-to-rise-who-is-missing-payments/

11 The State of The Nation's Housing 2024 (Harvard.Edu)

To conclude, our analysis reveals that delinquencies have been rising across the board for credit cards, autos and mortgages, although mortgage delinquencies remain below their pre-pandemic average. And with respect to mortgage status, we find that delinquency rates have risen more for those without a mortgage on file than for those with a mortgage. Rising rates have been hurting many consumers, but renters are feeling the impact of these rising rates more so than homeowners.

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