U.S. Economic, Housing and Mortgage Market Outlook

JUNE 2024 IN THIS ISSUE:

U.S. ECONOMY

Even though economic growth tempered in the first quarter of the year, it remains in line with historical averages.

HOUSING & MORTGAGE MARKET

Mortgage rates receded from the highs seen in April and early May; moderating rates along with modest improvements in housing inventory should provide some respite to potential homebuyers.

SPOTLIGHT: AANHPI HOMEOWNERSHIP

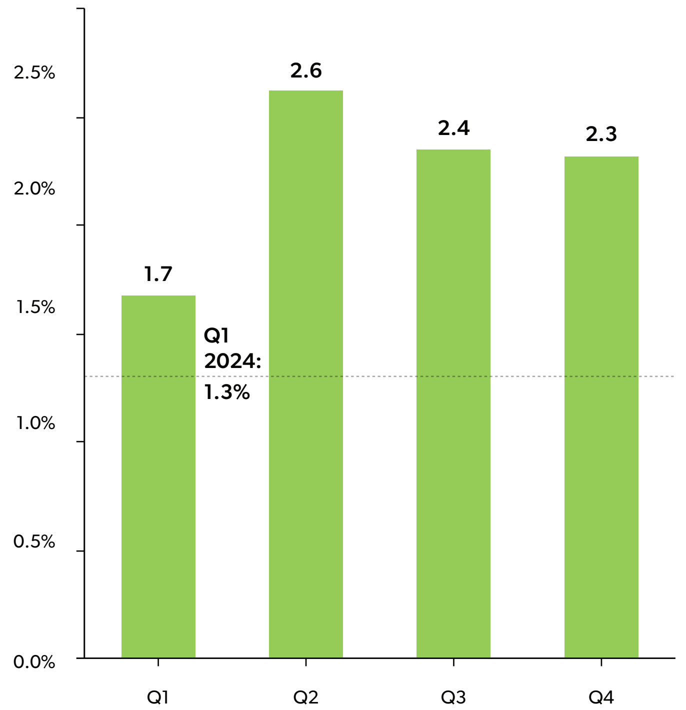
The Asian American, Native Hawaiian, and Pacific Islander (AANHPI) cohort is growing as a percentage of the population. Given that they are younger and in the prime homebuying age, we expect their homeownership rate to increase. MORE →

Recent developments

U.S. economy: The second estimate of U.S. economic growth released by the Bureau of Economic Analysis (BEA) in May 2024 showed further moderation of GDP growth to a 1.3% annualized rate in Q1 2024 as compared to the first estimate of 1.6%. Downward revisions to consumer spending were the largest contributor to the change along with private inventory investment and federal government spending. Consumption spending slowed to 2% annualized growth in Q1 as compared to 3.3% in Q4 2023. Consumption spending contributed 1.3% to the increase in GDP, implying that the other components offset each other – the increases in investment and government spending were offset by a decrease in net exports. While the downward revision of GDP for Q1 raises concerns of future growth, Q1 growth since 2000 has typically been slower than the other quarters despite being seasonally adjusted. **Exhibit 1** shows the quarterly averages of growth rates from Q1 2000 to Q1 2024.

EXHIBIT 1

Annualized GDP growth – Q1 2000-Q1 2024



Source: BEA
Note: Excludes data from 2020

Per the Bureau of Labor Statistics (BLS), the labor market report showed job gains of 272,000 for the month of May, more than consensus expectation of 185,000.[1] More than half of the total job gains for May came from healthcare, leisure and hospitality and government. Year-to-date job growth for 2024 is 1.2 million with an average of 247,000 jobs added each month. However, the unemployment rate ticked up to 4% for the first time since January 2022. Even with this uptick, the unemployment rate remained at or below the 4% mark for the twenty-eighth consecutive month and maintained the longest streak of at or below 4% unemployment since the 1960s.

Contrary to the employment report for May, which was strong, the Job Openings and Labor Turnover Survey (JOLTS) report released by BLS showed moderation in the labor market with job openings decreasing to 8.1 million in April. The job openings to unemployed ratio for April at 1.24 also moderated towards the pre-pandemic average.[2] The quits rate remained at 2.2% for the sixth month in a row. While overall job growth remained strong, there is also some cooling reflected in the steadily rising unemployment rate and declining job openings.

The core Personal Consumption Expenditures (PCE) price index, the Federal Reserve's preferred inflation gauge that strips out volatile food and energy prices, rose 0.3% month-over-month for the second consecutive month in April.[3] Prices for goods increased 0.2% and prices for services were up 0.3% month-over-month in April. Core services excluding housing, so-called "super core" inflation, a measure of inflation that the Federal Reserve has been tracking, came in at 0.3% month-over-month in April, slightly lower than the 0.4% increase in March. While April's core PCE movement was in the right direction, consistent moderation is imperative in the coming months for rates to come down since the index increased 2.7% from a year ago, above the Federal Reserve's target of 2.0%.

The Consumer Price Index (CPI) increased by 0.3% in April, aligning with consensus expectations. The CPI release for April showed some softening from the previous high monthly readings. CPI for shelter also came in lower than anticipated marking the slowest increase since October 2023. We expect shelter to subtract from the CPI in the coming months as the decline in rents gets incorporated into the shelter component with a lag. On the other hand, insurance costs along with medical and financial services inflation have been rising at a more rapid pace, and thus remain concerning in the long run.

Overall, while growth moderated to start the year, it is still consistent with an economy that is growing, albeit at a slower pace. The labor market remained strong with respect to job growth, but the unemployment rate ticked up to the highest since January 2022 and we expect inflation to continue to moderate through the rest of the year.

1 Moody's Analytics consensus expectation.
2 Pre-pandemic average for 2019 was 1.19.
3 BEA

U.S. housing and mortgage market: After benefitting from stable mortgage rates in the first couple of months of the year, the housing market experienced a slowdown in April due to a rebound in rates. Total (existing + new) home sales for April fell 2.3% from March and were down 2.7% from a year ago. Existing homes sold at an annual rate of 4.14 million in April, down 1.9% month-over-month and year-over-year.[4] New home sales for April fell 4.7% from March to an annualized rate of 634,000, accounting for about 13% of total home sales.[5] While housing inventory remains low as fewer people are switching homes due to the mortgage rate lock-in effect, there has been some uptick in both existing and new home inventory. Existing home inventory picked up 16% year-over-year to 1.21 million units, while new home inventory is at the highest level it's been since January 2008.

Homebuilder confidence reversed course in May, declining 6 points to 45, 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.[6] However, the housing construction sector experienced some growth in April. According to the U.S. Census Bureau, new residential construction picked back up in April with total housing starts increasing 5.7% month-over-month. While single-family starts retreated 0.4% month-over-month, multifamily starts surged by 31%.

The March FHFA Purchase-Only Home Price Index increased by 0.1% month-over-month compared to an increase of 1.2% in February. Year-over-year house price growth remained strong at 6.7% for March. The states with the highest annual house price appreciation were Vermont at 12.8% and New Jersey at 11.6% followed by New York at 10.9%.[7] The house price growth is primarily influenced by the depleted inventory of homes available for sale, coupled with resilient demand which continues to exert upward pressure on home prices.

The 30-year fixed-rate mortgage averaged 7.06% in May, as measured by Freddie Mac's Primary Mortgage Market Survey® and ended the month at 7.03%. According to the Mortgage Bankers Association (MBA) Weekly Application Survey, mortgage activity declined over the month as rates hovered around 7%. Overall mortgage activity was down 8.5% month-over-month and down 7.3% year-over-year at the end of May. Refinance activity for May was down 9.5% compared to April, and purchase applications were down 8.3% month-over-month at the end of May.

Higher interest rates continue to impact consumer credit performance. Overall, 3.2% of the outstanding debt was in some stage of delinquency, up 0.1 percentage point from Q4 2023.[8] While overall delinquency rates increased in Q1 2024, they remain 1.5 percentage points below the pre-pandemic level of Q4 2019. While serious delinquency rates for credit cards, autos and mortgages increased over the quarter, mortgage performance has remained better than the other sectors. Credit card serious delinquencies increased from 6.4% in Q4 2023 to 6.9% in Q1 2024 and auto delinquencies increased from 2.7% to 2.8% during the same period. Mortgage delinquencies rose from 0.8% to 0.9% in Q1 2024.

Overall, while housing inventory improved modestly in April, it remains below the level necessary for a balanced housing market. This imbalance is impacting housing affordability, which continues to remain a challenge.

4 National Association of Realtors
5 U.S. Census Bureau
6 National Association of Home Builders (https://www.nahb.org)
7 The state house price indices are based on Q1 2024 data.
8 New York Federal Reserve Consumer Credit Panel

Outlook

We expect the U.S. economy to continue to moderate as consumers adjust their spending in response to higher interest rates. In our baseline scenario, we expect a slowdown in employment, accompanied by a modest uptick in the unemployment rate.

As inflation remains above the Federal Reserve's target rate of 2%, an immediate cut in the federal fund rates is not on the horizon. However, in a scenario where the job market cools sufficiently to keep inflation in check, we anticipate one rate cut in the latter half of the year. This potential scenario could lead to a gradual easing of mortgage rates. We expect mortgage rates to remain above 6.5% through the end of the year, which compared to the rates as high as 7.8% witnessed last year is a positive development and could offer some respite for potential homebuyers.

Mortgage rates have been volatile over the past month, hovering between 6.9% and 7.2%; and they are still relatively high, deterring home sales. Despite robust housing demand driven by first-time homebuyers, we expect home sales to remain muted. The current housing demand is highly concentrated in the entry-level segment of the housing market, where the supply is short due to limited construction. Additionally, trade-up buyers are almost nonexistent as there is a financial disincentive to give up low rates on their current home in exchange for a higher rate on the trade-up home. However, unwavering demand and tight supply are expected to push home prices up, potentially leading to further increased home prices in both 2024 and 2025.

Our projection of mortgage origination is contingent on several factors, including home prices, home sales, and the cash share of purchases. As we anticipate a moderation in home sales, high prices, and a flat cash share of purchases, we expect purchase origination to be slightly higher in 2024 than in 2023. With mortgage rates above 7%, refinance activity is expected to be minimal. However, if interest rates drop below 6.5%, refinance activity could see some uptick, as millions of borrowers still have rates above 6.5%. Nevertheless, given persistent inflation, achieving rates below 6.5% is challenging. Our forecast suggests a modest increase in total origination volumes this year and next, primarily driven by home prices.

JUNE 2024 SPOTLIGHT:

Asian American, Native Hawaiian, and Pacific Islanders homeownership gap

Following Asian American, Native Hawaiian, and Pacific Islander (AANHPI) Heritage Month in May, and National Homeownership month in June, this month's Spotlight focuses on homeownership trends among AANHPI,[9] which is a growing demographic with a majority in their prime homebuying age. The growing size of this group and their homeownership rate have important implications for the housing market.

Over the last twenty years, the share of AANHPIs in the total U.S. population has nearly doubled to around 7%, and is projected to be around 1/10th of the total U.S. resident population by 2060.[10] From 2003 to 2023, the AANHPI population has been the second largest contributor (after Hispanics) to U.S. population growth at 24%.

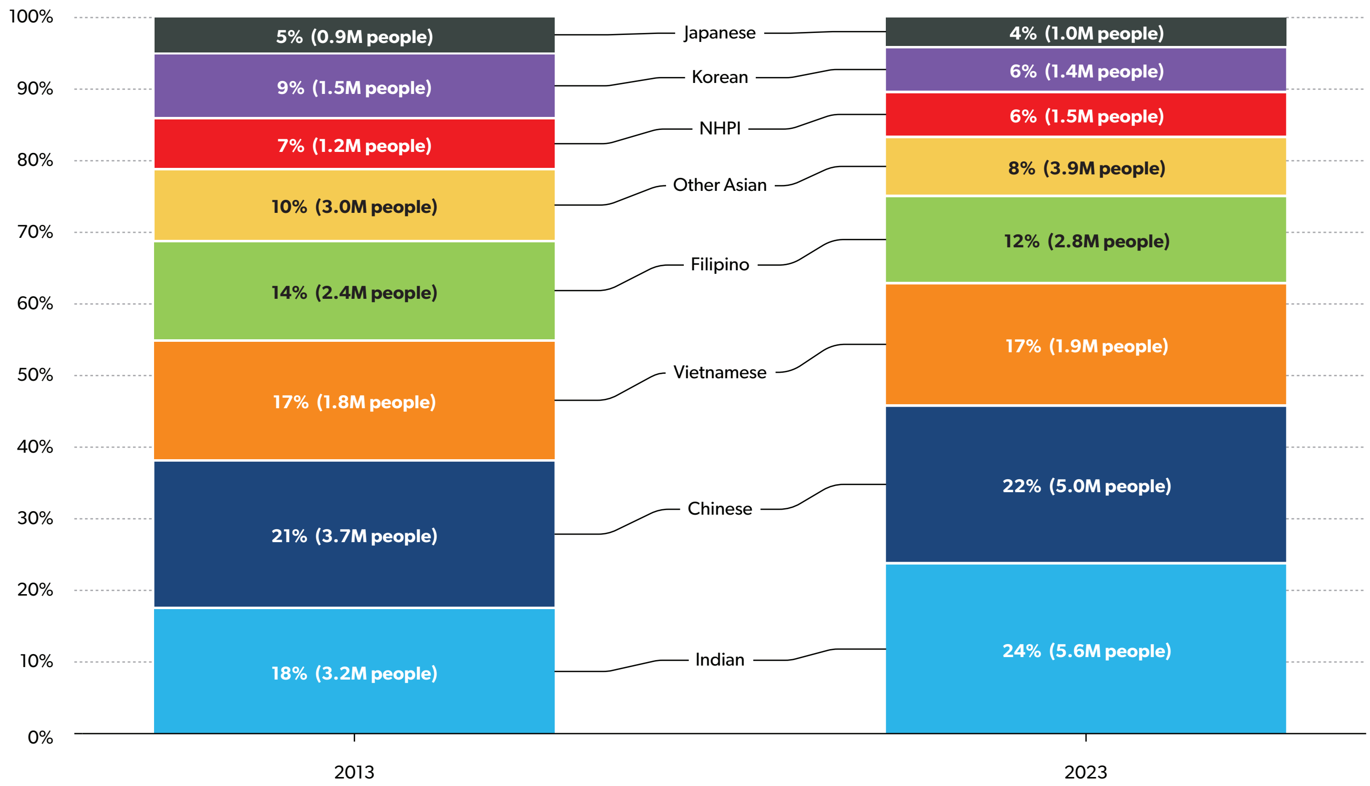
9 For this research, we focus on Asian Americans, Native Hawaiians and Pacific Islanders. As per the definition of the U.S. Census Bureau, Asians are defined as a person having origins in any of the original peoples of the Far East, Southeast Asia, or the Indian subcontinent including, for example, Cambodia, China, India, Japan, Korea, Malaysia, Pakistan, the Philippine Islands, Thailand, and Vietnam. "Native Hawaiian and Other Pacific Islander (hereafter NHPI)" refers to people having origins in any of the original peoples of Hawaii, Guam, Samoa, or other Pacific Islands. Pacific Islanders include diverse populations that differ in language and culture. They are of Polynesian, Micronesian, and Melanesian cultural backgrounds. https://www.census.gov/library/publications/2001/dec/c2kbr01-14.html#:~:text=The%20term%20%E2%80%9CNative%20Hawaiian%20and,differ%20in%20language%20and%20culture

10 https://www.census.gov/data/tables/2023/demo/popproj/2023-summary-tables.html

Since 2013, the U.S. Census Bureau has been collecting information about Asian subgroups (those with national origin within Asia). The seven categories of Asians they use are Asian Indian, Chinese, Filipino, Japanese, Korean, Vietnamese, and Other Asian.[11] Together with the Native Hawaiian and Pacific Islander (hereafter NHPI), the overall population of AANHPI increased from 17 million in 2013 to 23 million in 2023, an increase of 31% over the decade. Each of the subgroups of the AANHPI population also increased during this time as seen in **Exhibit 2**.

EXHIBIT 2

Share of AANHPI subgroups in total AANHPI population – 2013 & 2023



Source: CPS, 2013-2023 U.S. Census Bureau Current Population Survey 2003-2023 – retrieved from IPUMS: Steven Ruggles, Sarah Flood, Ronald Goeken, Josiah Grover, Erin Meyer, Jose Pacas and Matthew Sobek. IPUMS USA: Version 12.0 [dataset]. Minneapolis, MN: IPUMS,

The increase in the AANHPI population has been driven mainly by Asian Indians followed by Chinese. The share of Asian Indians as of 2023 was 24% of total AANHPI followed by Chinese at 22%. While the number of NHPI population in AANHPI population has been increasing, the pace of increase has not kept up with the other sub-groups. This has meant that the share of NHPI has declined slightly over the last 10 years from 7% to 6%. While the Census Bureau identifies these subgroups in the Current Population Survey (CPS), there are 16 other groups by country of origin.[12]

11 Other Asians include Asians from the other Asian countries who are grouped together due to smaller sample size.
12 https://www.census.gov/library/stories/2022/05/aanhpi-population-diverse-geographically-dispersed.html; https://data.census.gov/table?q==ACSDT5Y2020.B02015

Before we delve into the homeownership of AANHPIs, it is helpful to understand the demographic statistics of this group and how they compare to Non-Hispanic Whites (Whites). As shown in **Exhibit 3**, AANHPIs are younger, with a median age of 37 as compared to 43 for Whites. This group has a 3% higher marriage rate as compared to Whites. Importantly, AANHPIs have higher education levels as compared to Whites—around 45% of AANHPIs have a bachelor's degree or higher level of education as compared to 33% of Whites. This also translates into higher incomes for AANHPI as compared to Whites.[13] Also, a large share of the AANHPI population is foreign born as compared to Whites.

EXHIBIT 3

Demographic characteristics – Whites & AANHPI subgroups

2023	AANHPI	Whites	Asian Indian	Chinese	Filipino	Japanese	Korean	Viet-namese	Other Asian	NHPI
Age (median in years)	37	43	34	38	40	48	43	45	34	33
Married	49%	46%	53%	51%	48%	51%	52%	47%	46%	40%
Bachelors Degree	45%	33%	59%	47%	44%	53%	55%	29%	35%	18%
Median Household Income ('000s; 2023$)	$107	$81	$150	$103	$110	$85	$97	$84	$93	$85*
Foreign Born	60%	5%	66%	64%	58%	36%	69%	66%	58%	40%
Headship Rate	36%	45%	36%	39%	35%	43%	40%	36%	31%	34%
Homeownership rate	62%	75%	63%	63%	60%	69%	59%	72%	57%	47%
Citizens (Naturalized + US Born)	76%	98%	65%	74%	85%	80%	79%	87%	79%	84%

Source: U.S. Census Bureau CPS 2023

Note: For Median household income, headship rate and homeownership rate, we calculate the statistics for the head of the household; for other characteristics we include the entire population, rounded to the nearest thousands.

* While some studies have found the NHPI income to be lower than the Whites, we are focused only on the head of the household here which is leading to slightly different results. If we remove the restriction of head of household, the NHPI median income is lower than that of Whites as of 2023.

With respect to their headship rate (number of households divided by their population), we find that only 36% of AANHPI head a household as compared to 45% of Whites. Even in terms of the homeownership rate, AANHPI have a lower homeownership rate at 62% compared to 75% for Whites. The AANHPI population is not a monolith, and we find differences among the various subgroups. The homeownership rate of NHPI is much lower than the other subgroups at 48% followed by Other Asians at 58% and Koreans at 59%. Vietnamese and Japanese have the highest homeownership rate among these groups at 72% and 70% respectively.

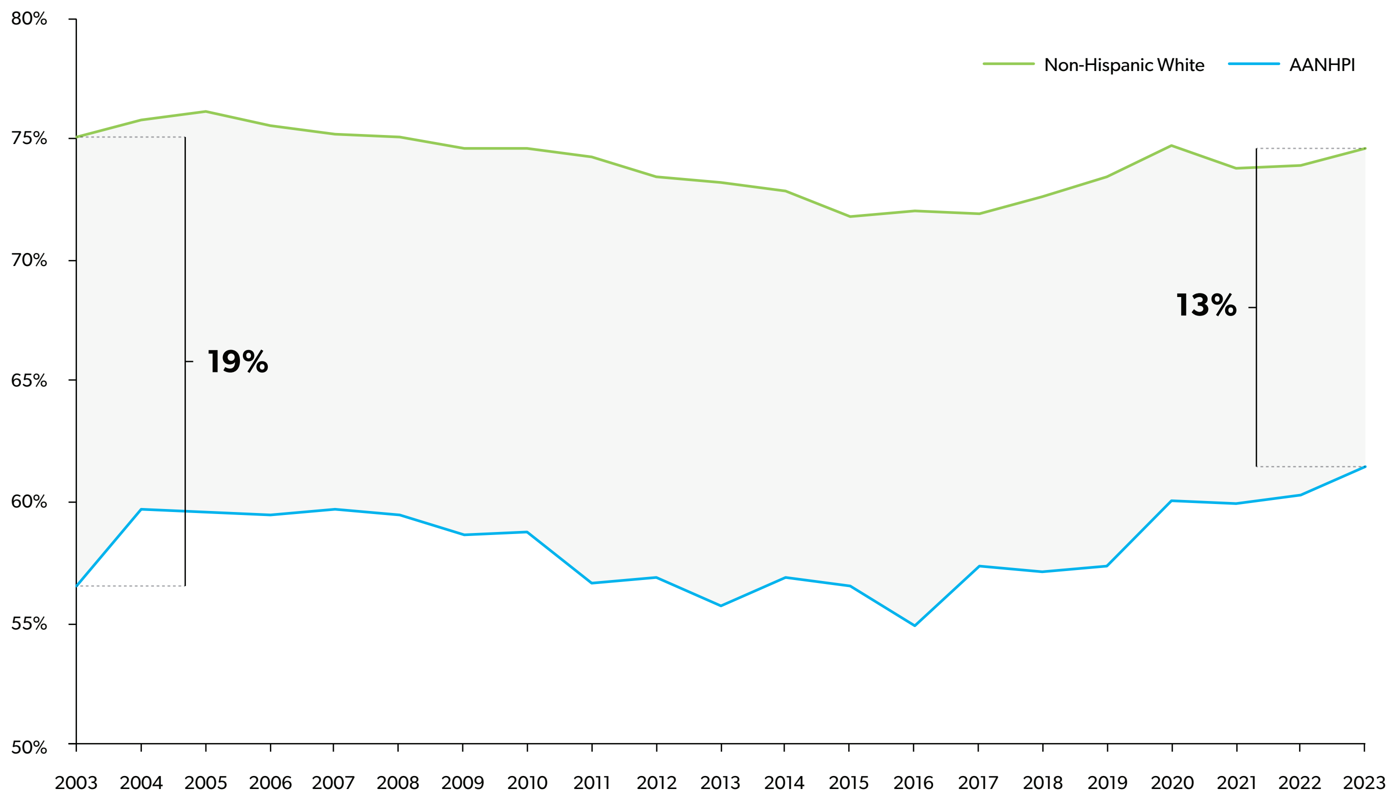
13 While the median income for this group is higher, we find that a high share of population from some of the Asian countries living below poverty line. For eg, around 40% of those from Afghanistan, 35% from Burma, 25% from Malaysia, are below the poverty line. The share of population below poverty line for NHPI & Chinese is at 14%, Vietnam at 9%, India at 5% and Japan at 3%. (Based on analysis of the 2023 CPS data).

Homeownership gap

The homeownership rate of AANHPI increased from 57% in 2003 to 62% in 2023 while White homeownership has remained around 75% during the same timeframe. The homeownership gap between AANHPI and Whites has been narrowing over the years and currently stands at 13% in 2023, down from 19% in 2003 (**Exhibit 4**). We identified in our previous analyses factors which drive the homeownership gap for Hispanics and Young Adults. These factors range from age, education, income, immigration, housing costs and region. Age is a proxy for life stages and is a very important predictor of homeownership. As people grow older, they are more likely to get married and have children—factors that increase the likelihood of homeownership. Similarly, the higher level of education and income, the more likely they are to be homeowners.

EXHIBIT 4

Homeownership rate gap

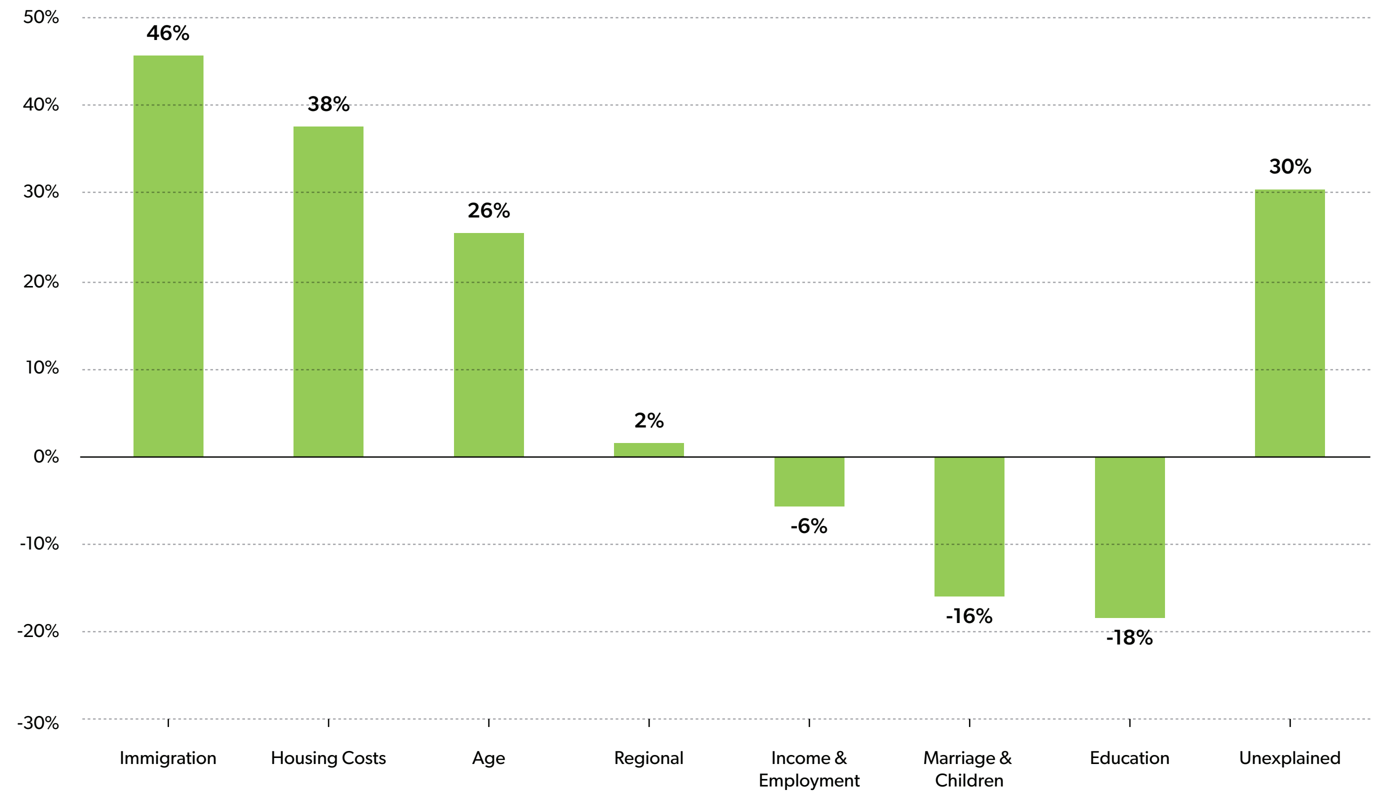


Source: U.S. Census Bureau CPS 2003-2023

In **Exhibit 5**, we compare the top factors likely contributing to the homeownership gap between AANHPI and Whites as of 2023, ranked in order of importance based on a decomposition analysis.[14] Overall, the factors we identified explain 70% of the total gap in homeownership between AANHPI and Whites with 30% unexplained. The most important factor contributing to the gap is immigration specific attributes (such as citizenship status, foreign born), accounting for almost 46% of the gap. The second most important factor is housing costs, which explains 38% of the gap between these two groups.[15] Age also remains a factor, accounting for almost 1/4th of the gap. On the other hand, we have income and employment, education, marriage and children, which are helping to close the gap between AANHPI and Whites. There are other unobserved factors which we could not capture in our analysis such as access to credit, housing inventory, intergenerational wealth, language, and cultural barriers which also affect the homeownership decisions of individuals.

EXHIBIT 5

Factors contributing to the White and AANHPI homeownership gap in 2023



Source: Freddie Mac calculations using CPS data

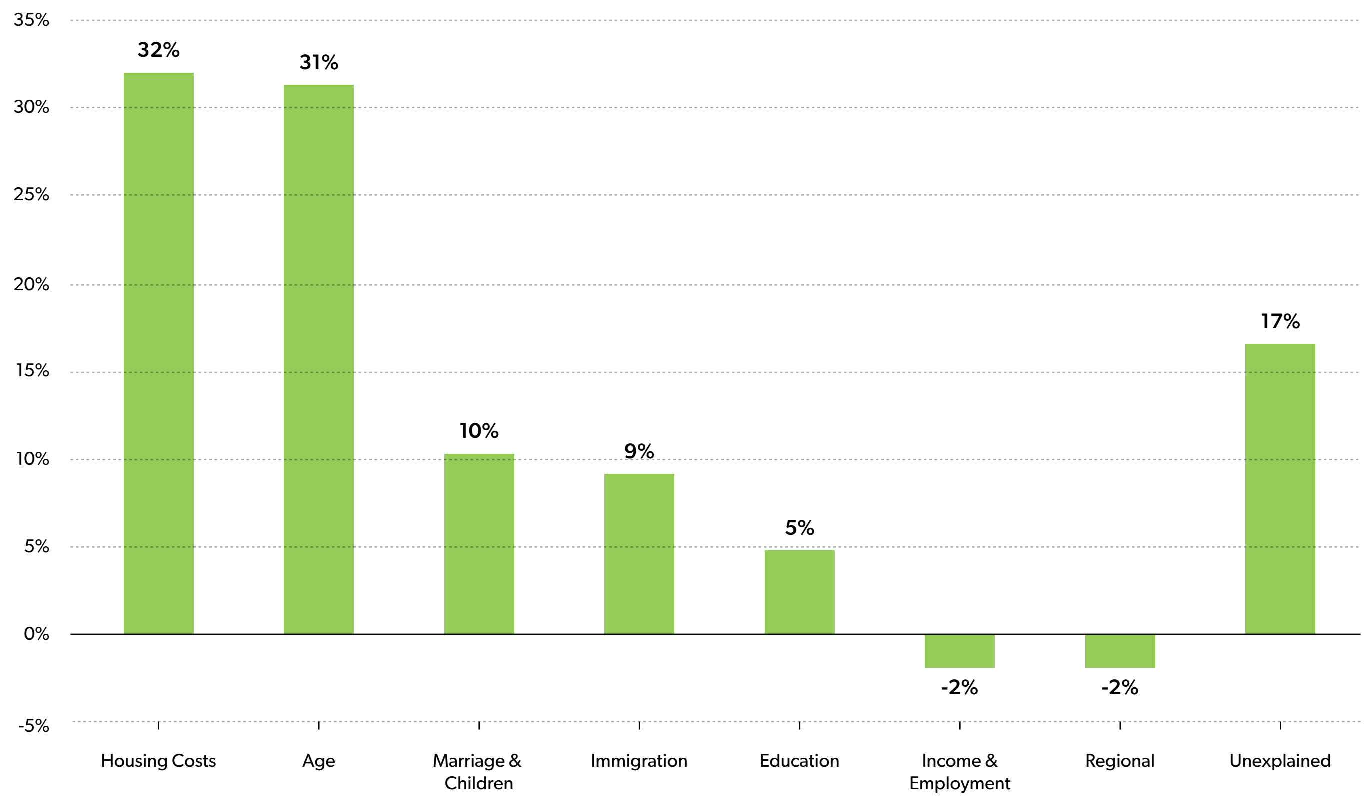
14 To quantify these impacts, we estimated a regression relating the probability of homeownership to factors shown in previous research to influence homeownership rates. We then applied Oaxaca-Blinder decomposition technique to determine the impacts. Details of the regression analysis and a comparison to prior research by others appear in the appendix of our previous article

15 While the incomes of the AANHPI group are higher, they are also located in the high cost regions of the country making housing costs an impediment for their homeownership.

While these results hold for the entire group of AANHPI, given that they are such a diverse group, it would help us to identify factors affecting the gap by subgroups. We compare the factors affecting the homeownership gap between NHPIs, a group that has one of the lowest homeownership rates among these subgroups with Indians and Chinese, which are the largest AANHPI subgroups. For NHPI, the homeownership rate in 2023 was 48%. Examining the impact of the factors mentioned above on NHPI homeownership, we find that they explain 83% of the total gap in the homeownership rate between Whites and NHPI with only 17% unexplained (**Exhibit 6**). The largest hindrance to homeownership for this group is housing costs, accounting for 34% of the gap. Age as well as marriage and children together account for almost 41% of the overall gap for this group. The NHPI group is much younger than the other cohorts so as they age, get married and have children, we expect their homeownership rate to increase over time. Income and employment along with where they live have a negative contribution, indicating that these factors are helping to close the gap.

EXHIBIT 6

Factors contributing to the Non-Hispanic White and NHPI homeownership gap in 2023

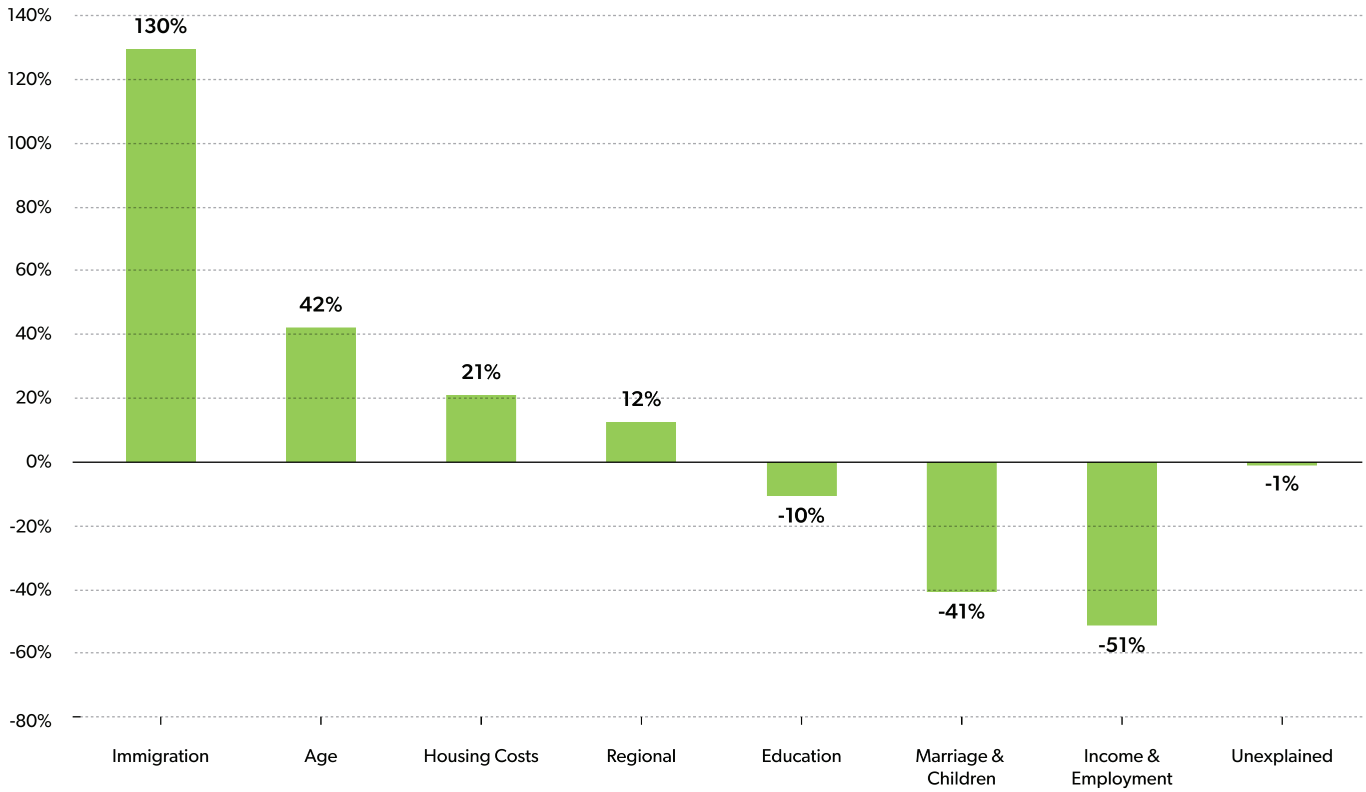


Source: Freddie Mac calculations using CPS data

For the Asian Indian subgroup, the homeownership rate as of 2023 was 64%, around 11 percentage points below the 75% homeownership rate for Whites. Unlike the NHPI group for whom housing costs were the largest factor contributing to the gap, immigration related attributes more than explain the gap in the homeownership rate between Asian Indians and Whites (**Exhibit 7**). This is in part because a large share of Asian Indians immigrated to the U.S. in recent years and the uncertainty around the immigration status for some holds them back from stepping into homeownership.[16] Age is the next largest factor contributing to the gap followed by housing costs. The higher level of education and income among the Asian Indians along with higher marriage rates is helping to close the gap.

EXHIBIT 7

Factors contributing to the White and Asian Indian homeownership gap in 2023



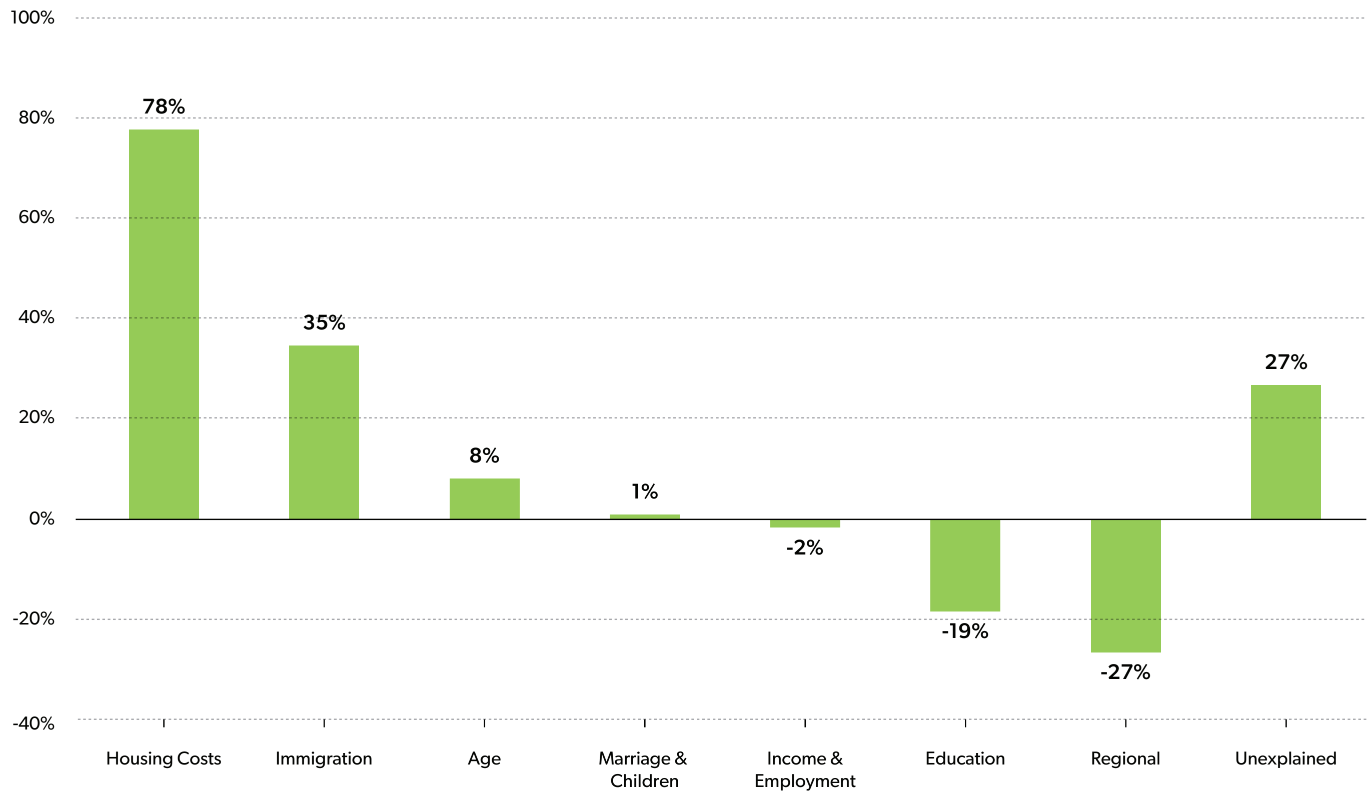
Source: Freddie Mac calculations using CPS data

16 Approximately half of the Indians in the US immigrated after 2010 with 1/5th immigrating after the year 2020. Chinese and Japanese are the second & third largest group of AANHPI immigrants after the year 2010.

For the Chinese subgroup, the homeownership rate in 2023 was around 63%, approximately 12 percentage points below the 75% homeownership rate for Whites. Overall, the following factors account for 79% of the gap in the homeownership rate between these two groups with 21% unexplained: housing costs account for 78% of the gap, while immigration attributes explain 35%, age 8%, and marriage and children around 1%. Income, employment and education are helping to close the homeownership gap for the Chinese.

EXHIBIT 8

Factors contributing to the White and Chinese homeownership gap in 2023



Source: Freddie Mac calculations using CPS data

To conclude, one key takeaway is that the AANHPI community is projected to keep growing as a share of the U.S. population. Of course, the AANHPI group is not a monolith and there are differences among the various subgroups and within those subgroups. Given that overall this group is younger and in the prime home buying age, as they grow older, get married and have children, we expect their homeownership rate to increase. However, housing costs are an issue affecting the homeownership rate of AANHPI as compared to Whites. Freddie Mac can play an important role in making homeownership possible for this important part of our population. For example, CreditSmart® is a suite of educational resources designed to empower customers with the skills and knowledge to assist them at every stage of their homeownership journey. CreditSmart® is available in multiple languages, including Chinese, Vietnamese and Korean—which can help when English language proficiency is a barrier. Additionally, Freddie Mac offers HomePossible® and HomeOne®, low down payment products that are particularly helpful for first-time buyers.

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