

# Economic and Housing Market Outlook

## **Virtual Discussion at Gonzaga University**

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May 6, 2020

# Last summer, this spring

Last summer....

*(clean shaven, provoking bears)*

## Me and the bears forecasting the economy



...this spring

*(quarantine beard, dealing with sassy autofill)*



**01** **Economy in Lockdown**  
Keeping up in real time

**02** **Charting the Future**  
Forecast scenarios

**03** **On the Other Side**  
Long-run housing drivers

# 01. Economy in Lockdown

Keeping up in real time



## Economic lockdown

Unemployment spikes as Americans shelter-in-place

Consumer spending collapses

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## Housing response

Housing momentum heading into lockdown

Housing stalls as economy shuts down

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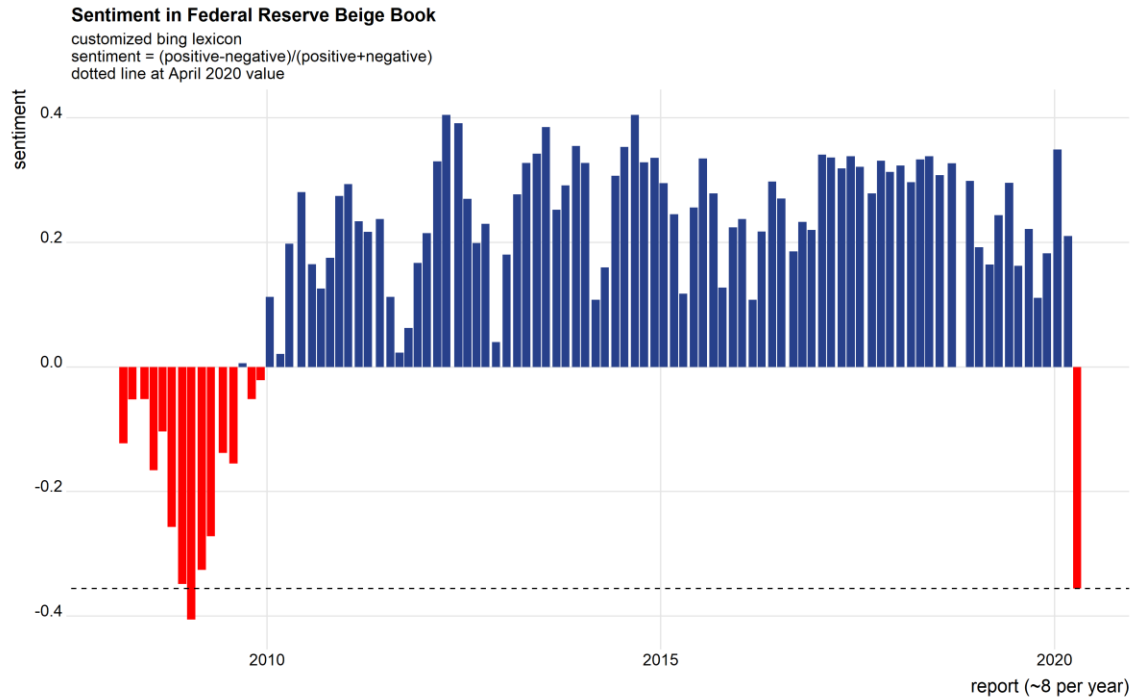


## What to watch

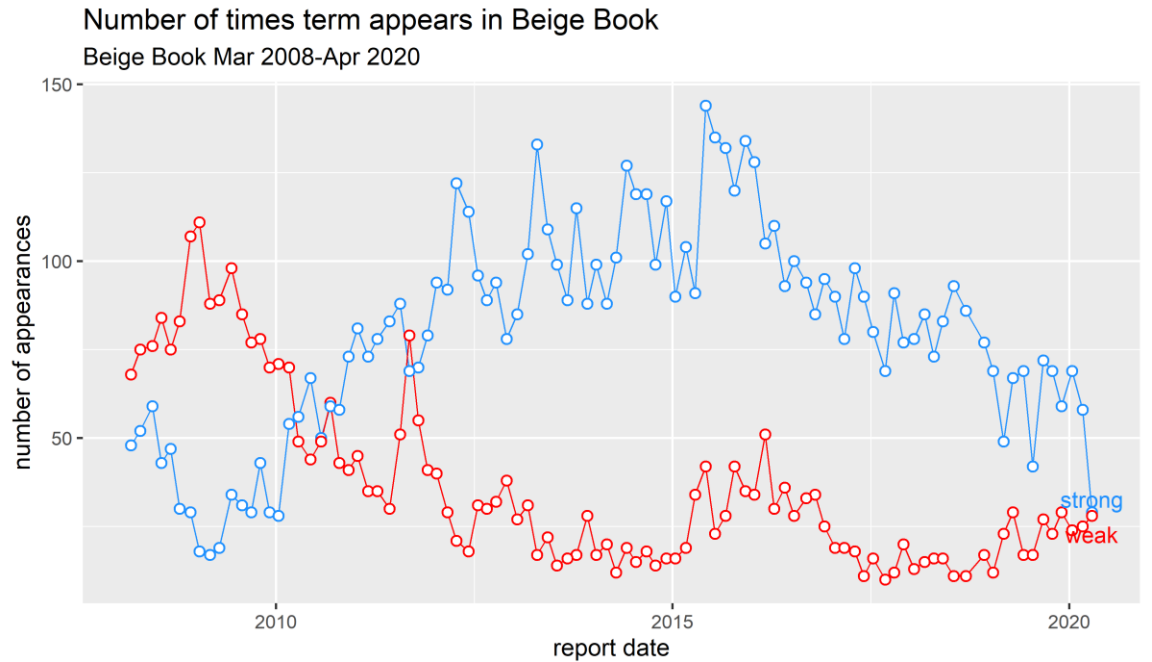
Usual statistics lag

High frequency indicators fill in the gap

# Sentiment the worst since the Great Recession



@lenkiefier  
 Source: Beige Book March 2008 - April 2020  
 For details and R code see Beige-ian Statistics: <http://lenkiefier.com/2018/07/29/beige-ian-statistics/>

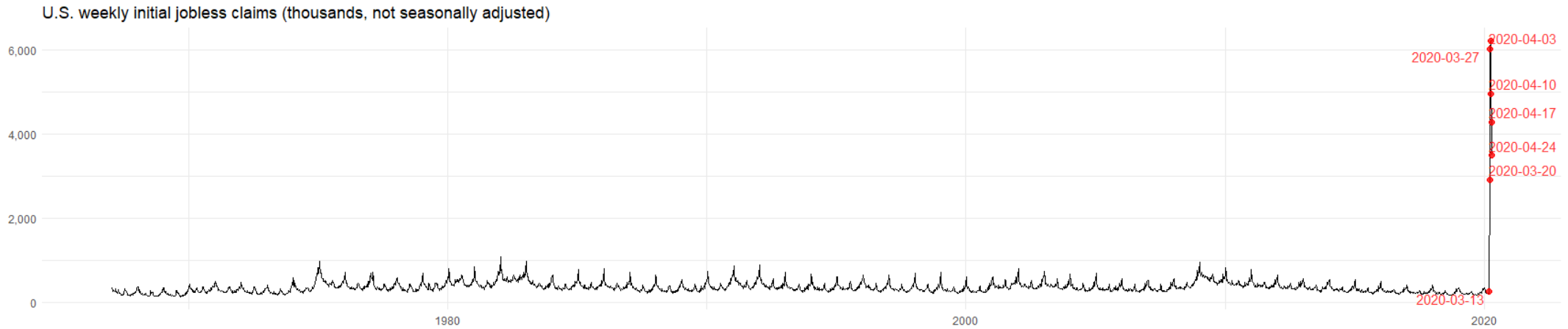


@lenkiefier Source: Federal Reserve Board Beige Book  
 For details and R code see Beige-ian Statistics: <http://lenkiefier.com/2018/07/29/beige-ian-statistics/>  
 strong includes "strong", "stronger", "strongest", "strengthen", "strengthened", "strengthening", "strongly"  
 weak includes "weak", "weaken", "weakened", "weaker", "weakest", "weakly", "weakening"

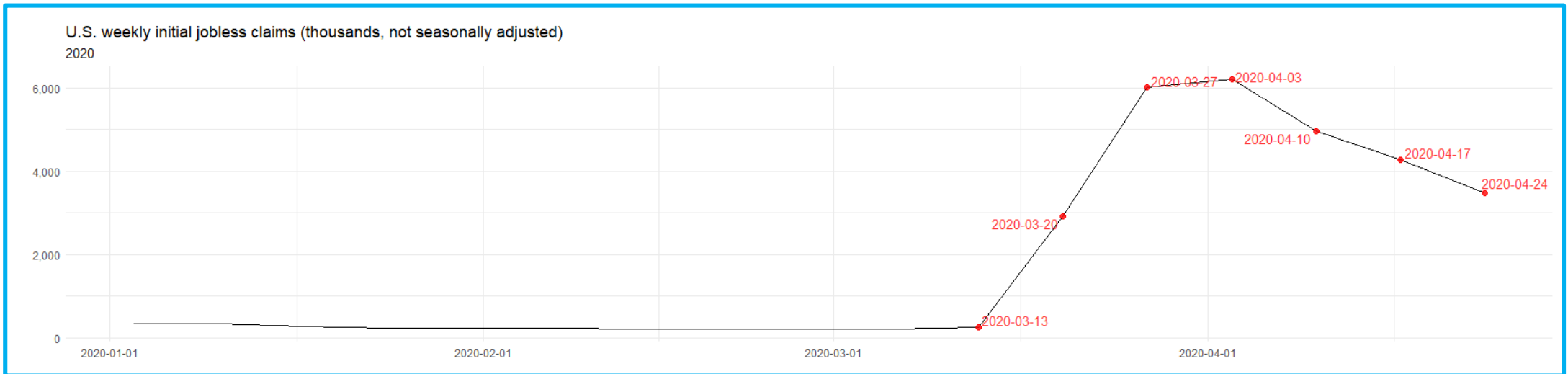
# Over the past 6 weeks over 27 million Americans filed unemployment claims



Full History



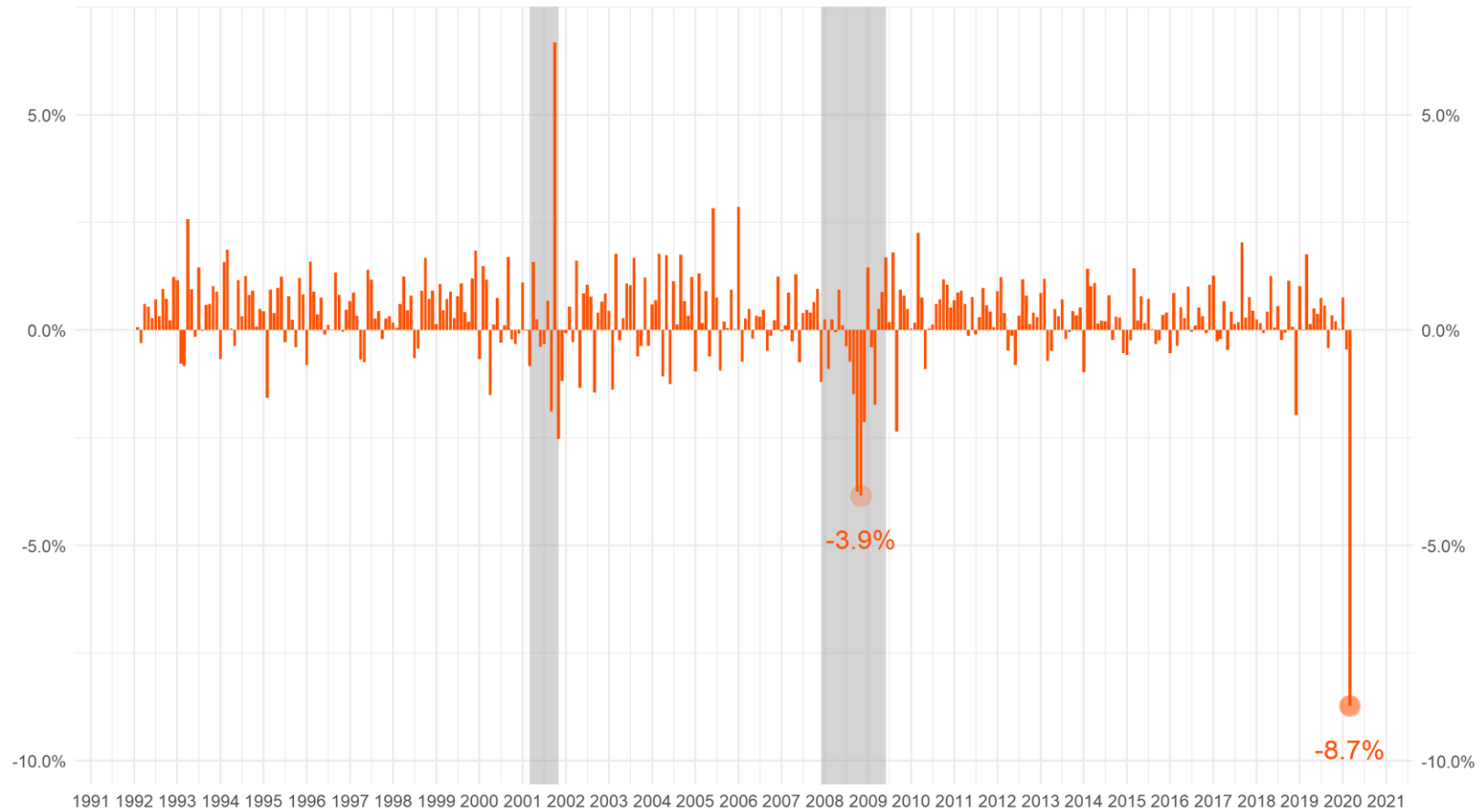
2020



@lenkiefier Source: U.S. Department of Labor, seasonally adjusted series

# Retail sales collapse

**U.S. Retail Sales Plunge**  
Monthly percent change

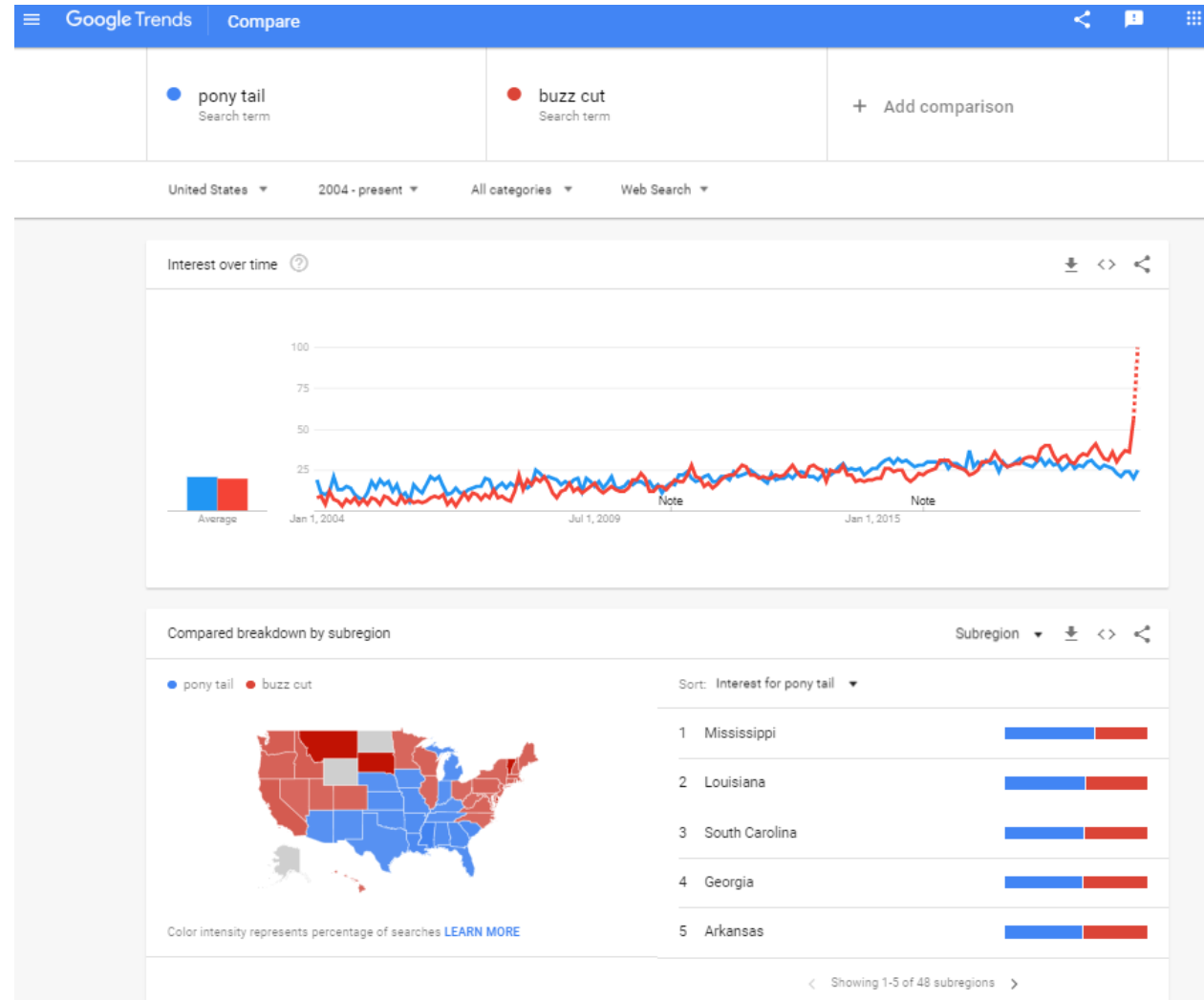


@lenkiefier Source: U.S. Census Monthly Retail Trade (seasonally adjusted RETAIL & FOOD SERVICES <https://www.census.gov/retail/marts/www/adv44x72.txt>)  
Shaded bars NBER recessions.



# Not all consumer spending can be made up later

## No retroactive haircuts



# The Housing Market

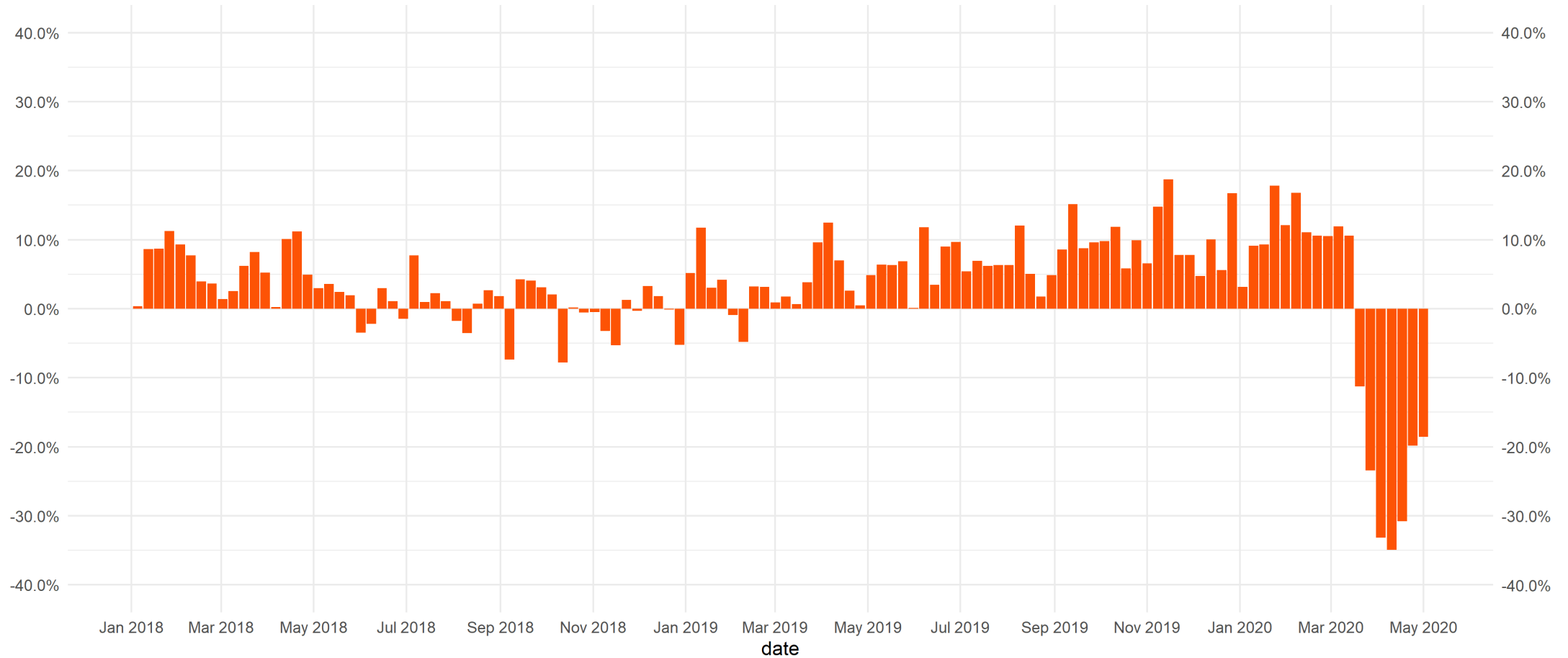
# Purchase mortgage applications fall about 20% year-over-year

## Pace of declines slowing



### U.S. Home Purchase Mortgage Applications Fall

52-week percent change in seasonally adjusted purchase mortgage applications index

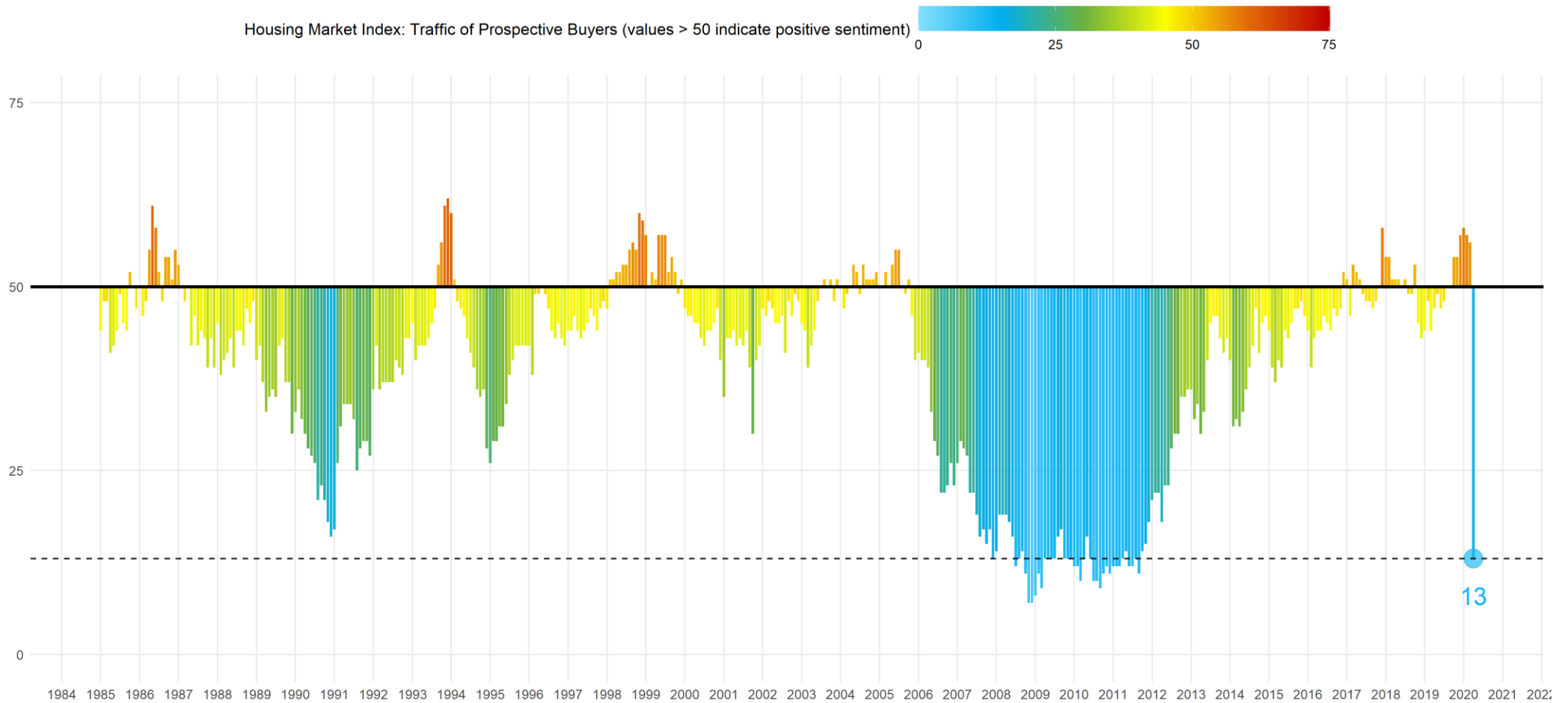


@lenkiefier Source: Mortgage Bankers Association, data through May, 01 2020

# Prospective homebuyer traffic plummets

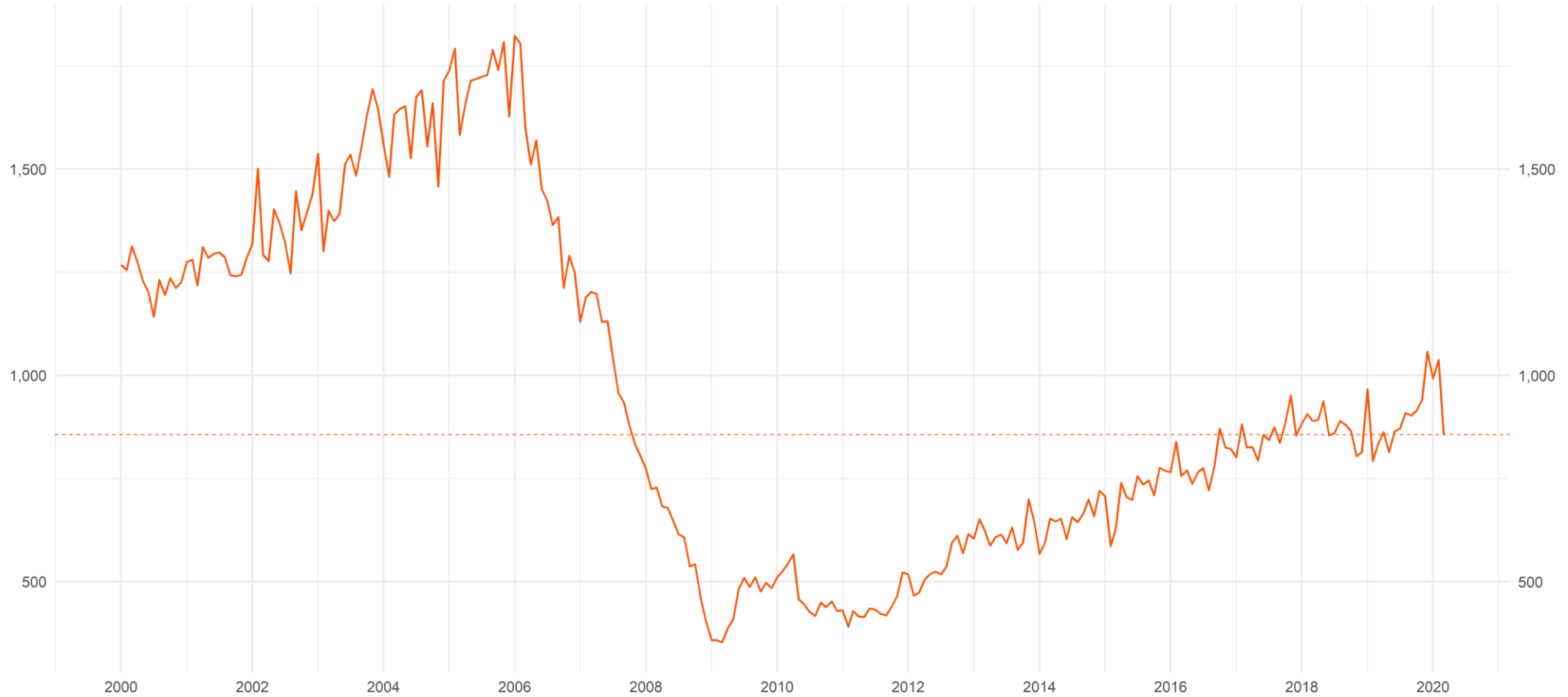


## Buyer Traffic for New Homes



@lenkiefier Source: U.S. Census and U.S. Department of Housing and Urban Development and NAHB/Wells Fargo Housing Market Index

## U.S. Single-family Housing Starts (1000s, SAAR)



Source: U.S. Census Bureau and Department of Housing and Urban Development  
Dotted line at March 2020 estimate

# Existing home sales inventory historically low

## U.S. Existing Home Sales Inventory

Number of single-family homes available for sale (millions, not seasonally adjusted)

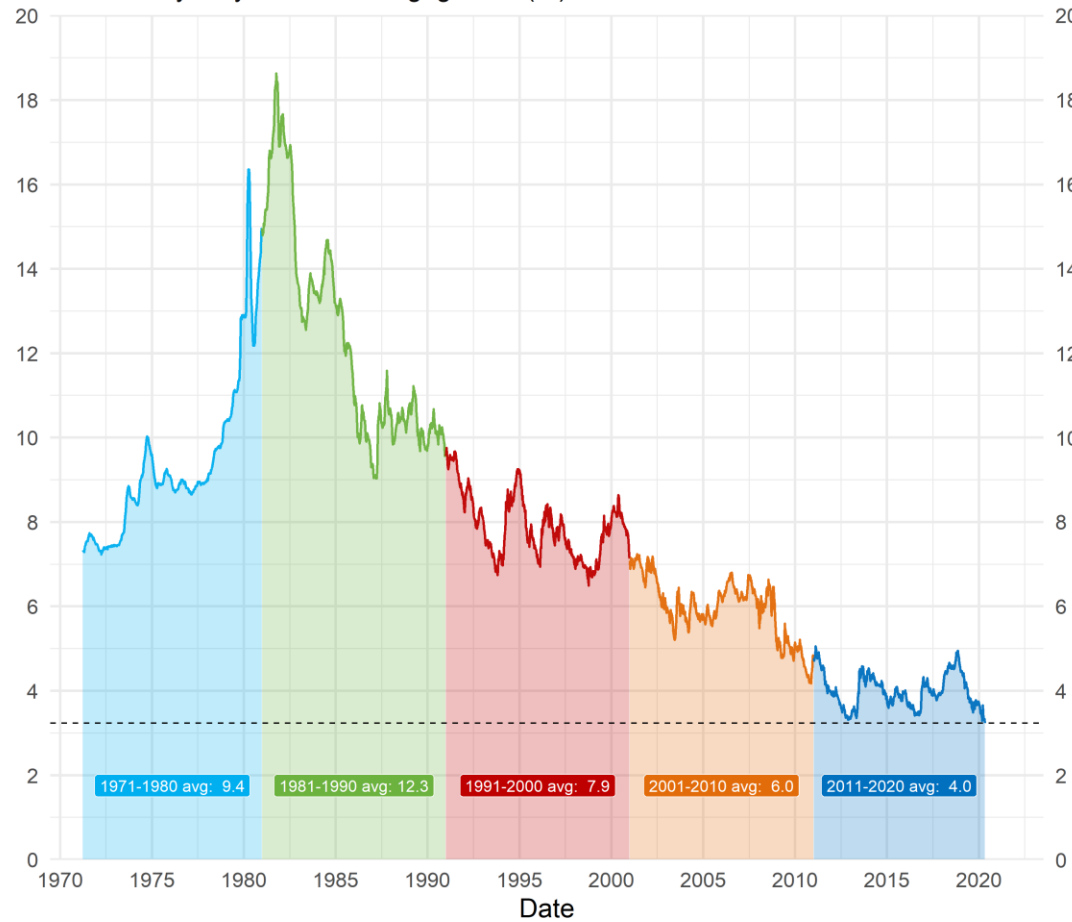


@lenkiefier Source: National Association of Realtors

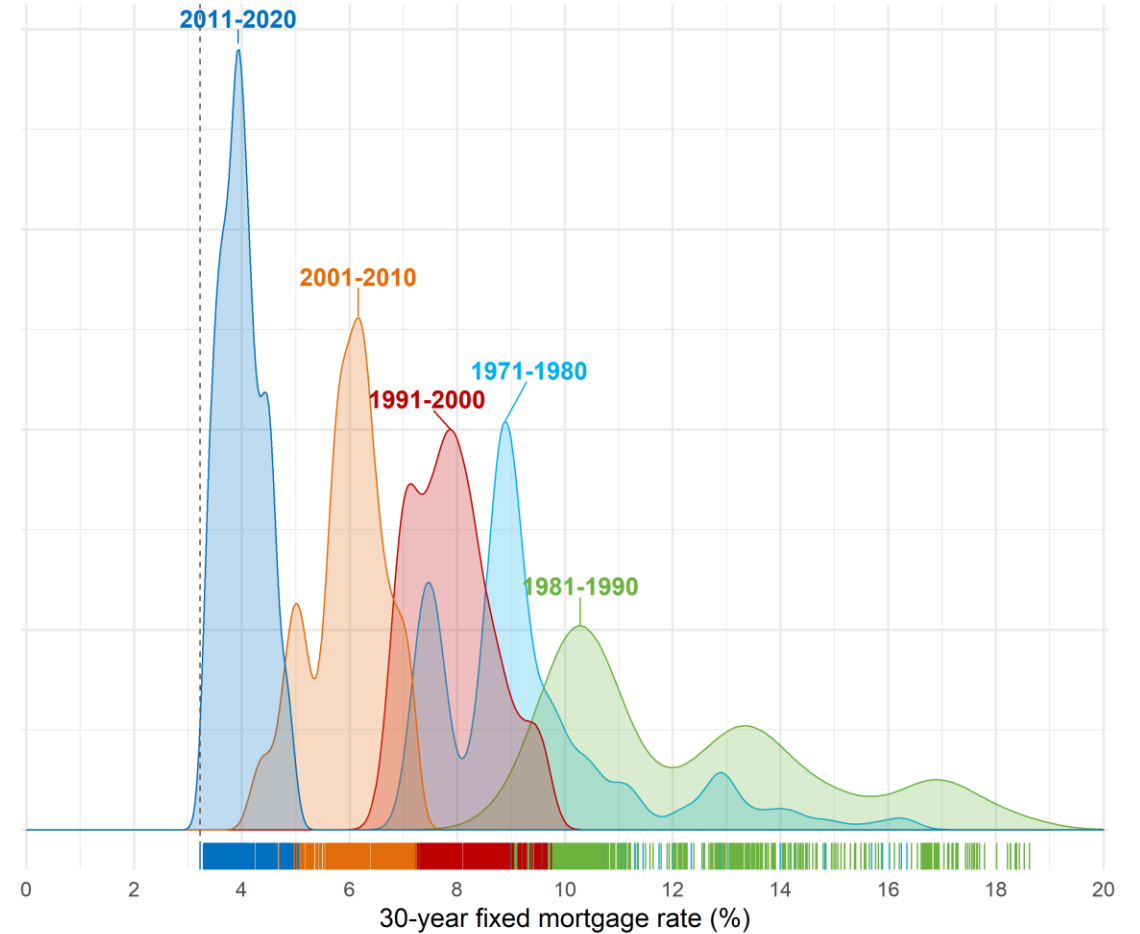
# Mortgage rates hit historical low

## Mortgage rates over five decades

U.S. weekly 30-year fixed mortgage rate (%)



## Estimated density over weekly observations (ticks individual weeks)

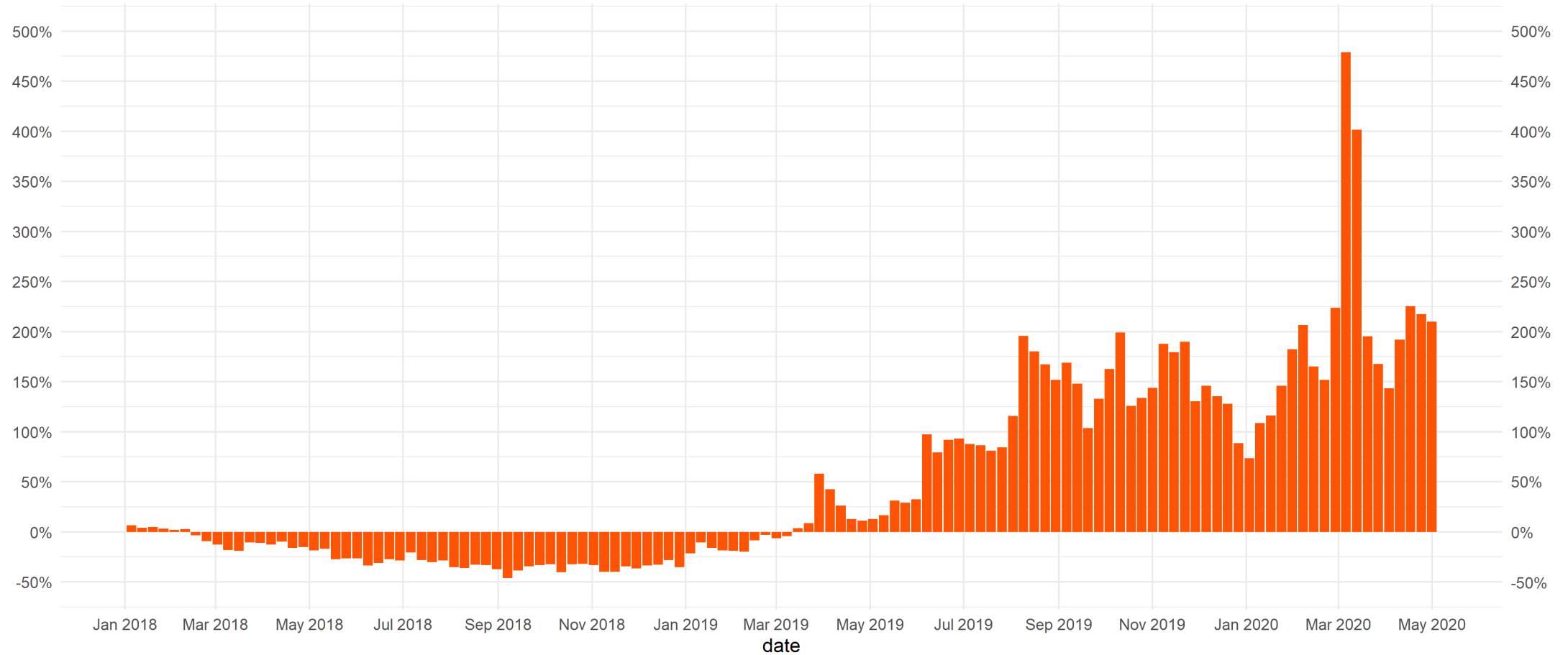


@lenkier Source: Freddie Mac Primary Mortgage Market Survey April 2, 1971 through April 30, 2020  
Dotted line at 3.23% average for week of April 30, 2020

# Refinance applications surge

## U.S. Mortgage Refinances Surge

52-week percent change in seasonally adjusted refinance mortgage applications index



@lenkier Source: Mortgage Bankers Association, data through May, 01 2020



# Spokane Metro Area Trends

# Spokane-Spokane Valley, WA MSA housing market snapshot



## Freddie Mac House Price Index (FMHPI<sup>SM</sup>)

### Explore House Price Trends

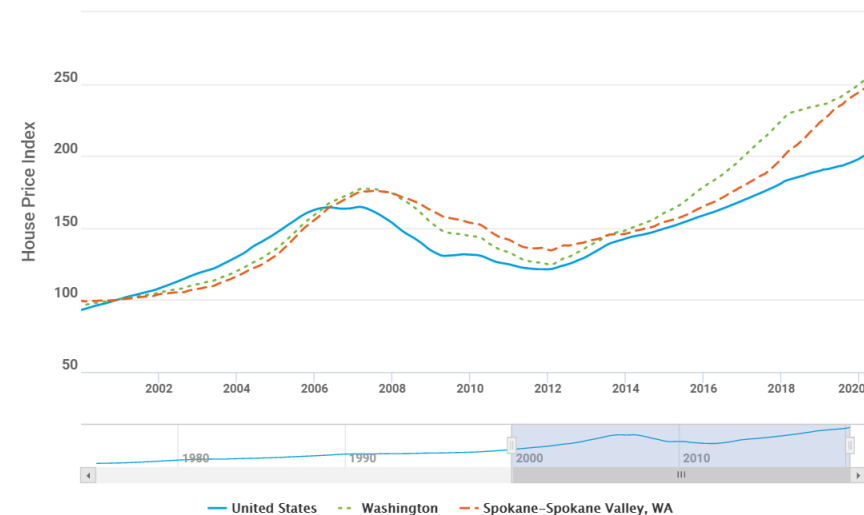
Review national housing statistics and compare to additional states or metros as of March, 2020

- United States
- Washington
- Spokane-Spokane Valley, WA

Add another state or metro

Chart Table

Zoom 1Y 3Y 5Y 10Y All Show % Change 01/01/2000 - 03/01/2020



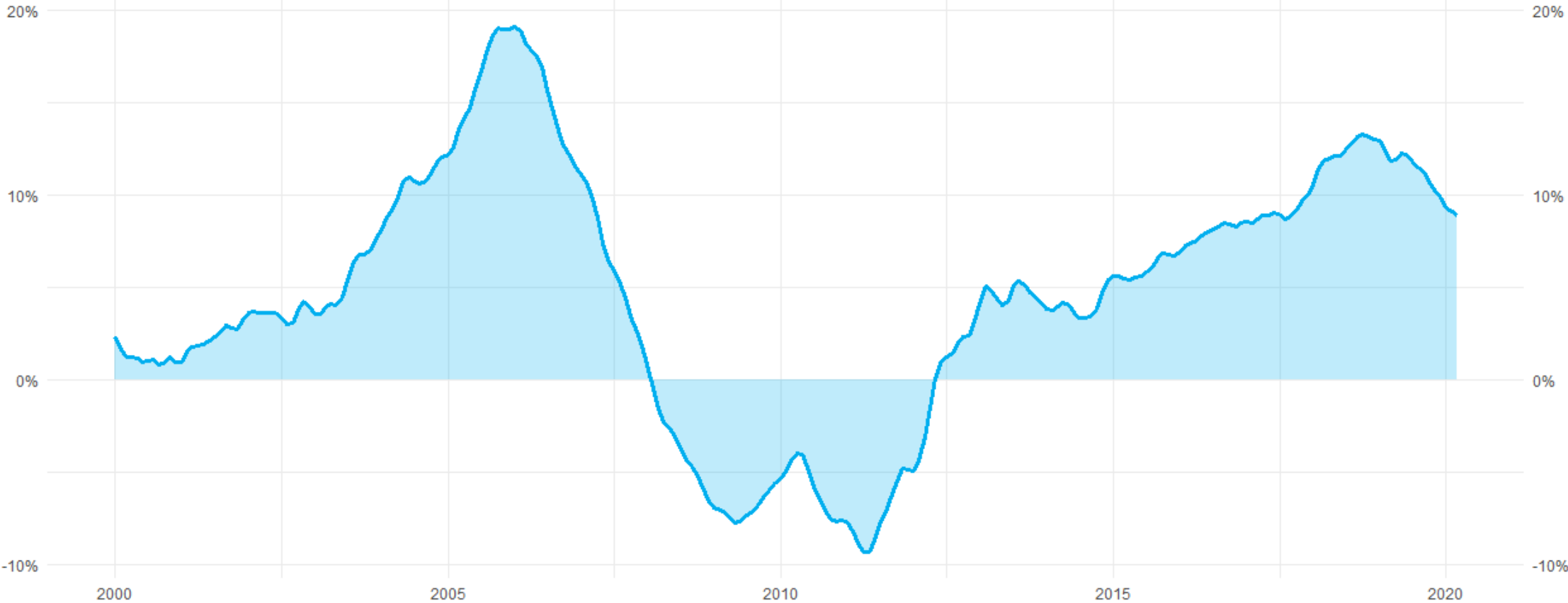
<http://www.freddiemac.com/research/indices/house-price-index.page>

- Mortgage applications in Spokane vs 2019
  - » YTD purchase apps down about 5% (US ~ -4%)
  - » YTD refinance apps up about 250% (US ~ 200%)
- Spokane housing market is supported by
  - » Stability from large healthcare industry
  - » Positive in-migration
    - about 9 thousand per year, with about 1/3 to 1/2 from Seattle
    - Median sales price in Seattle ~\$689k vs ~\$260k in Spokane
- Lack of high-wage industries, reliance on student population could limit growth

# House prices in Spokane MSA increased 8.9% from March 2019 to March 2020



Spokane-Spokane Valley WA MSA House Price Trends  
12-month percent change in Freddie Mac House Price Index

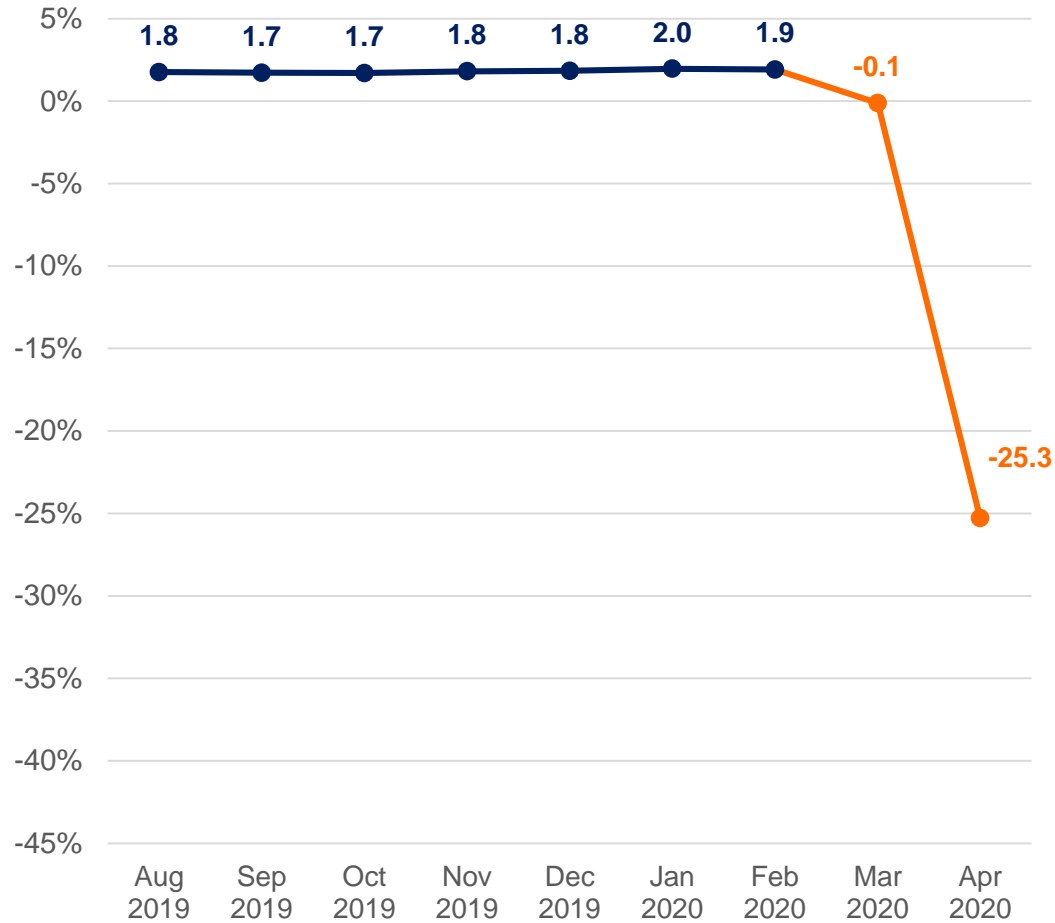


# 02. Charting the Future

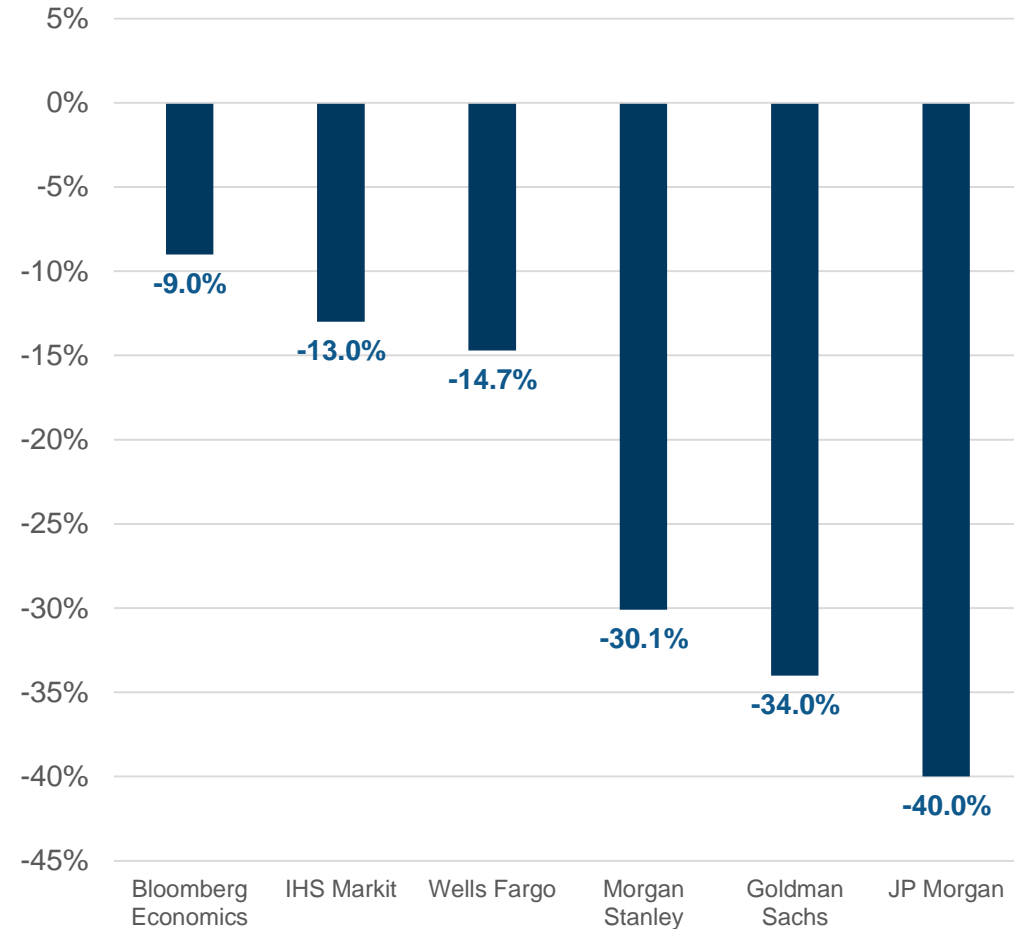
Forecast scenarios

# Economic growth expected to contract significantly

WSJ Econ Survey 2020Q2 Avg GDP Forecast



2020Q2 GDP Forecast



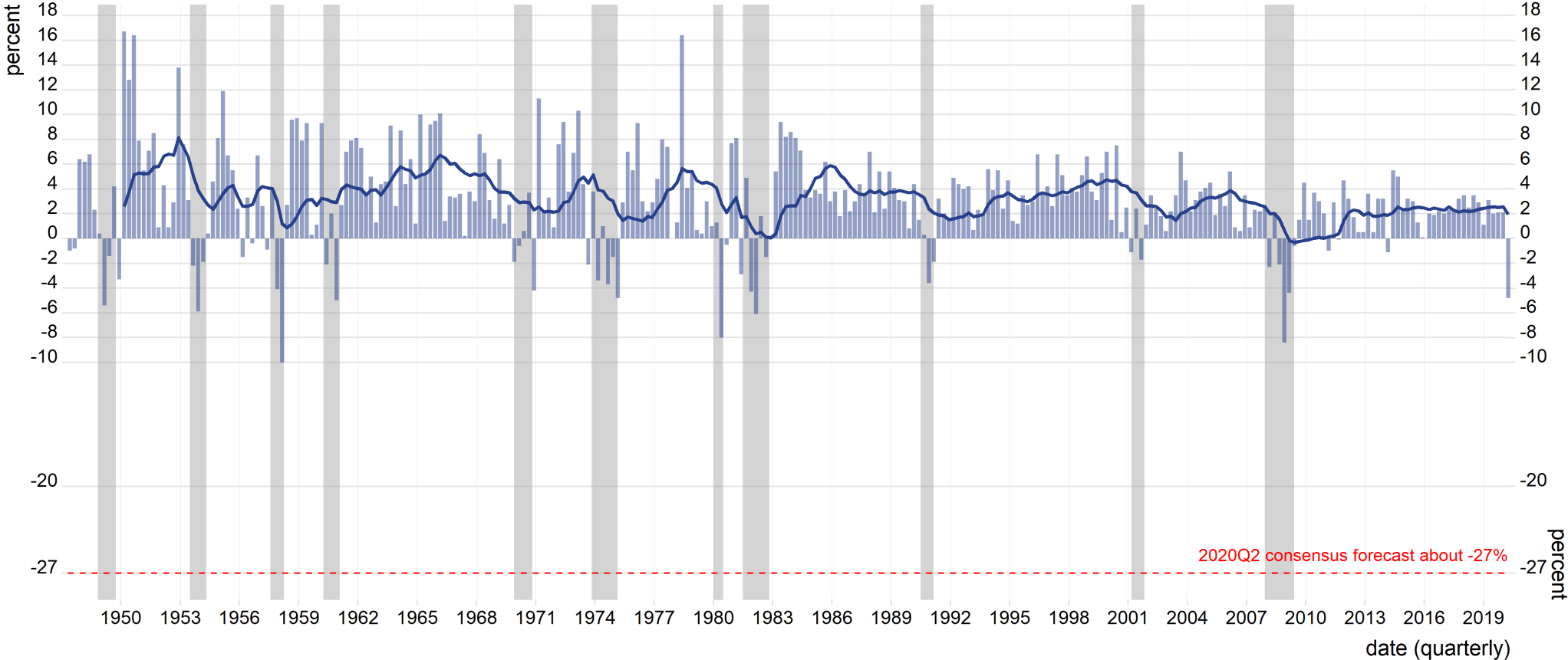
Growth expressed as Seasonally Adjusted Annual Rate

Source: WSJ (April 2020); Bloomberg (4/29), Goldman Sachs (4/10), JP Morgan (5/1), IHS (4/10), Morgan Stanley (4/3), Wells Fargo (4/10)

# The U.S. economy contracted almost 5% (at an annual rate) in the first quarter of 2020



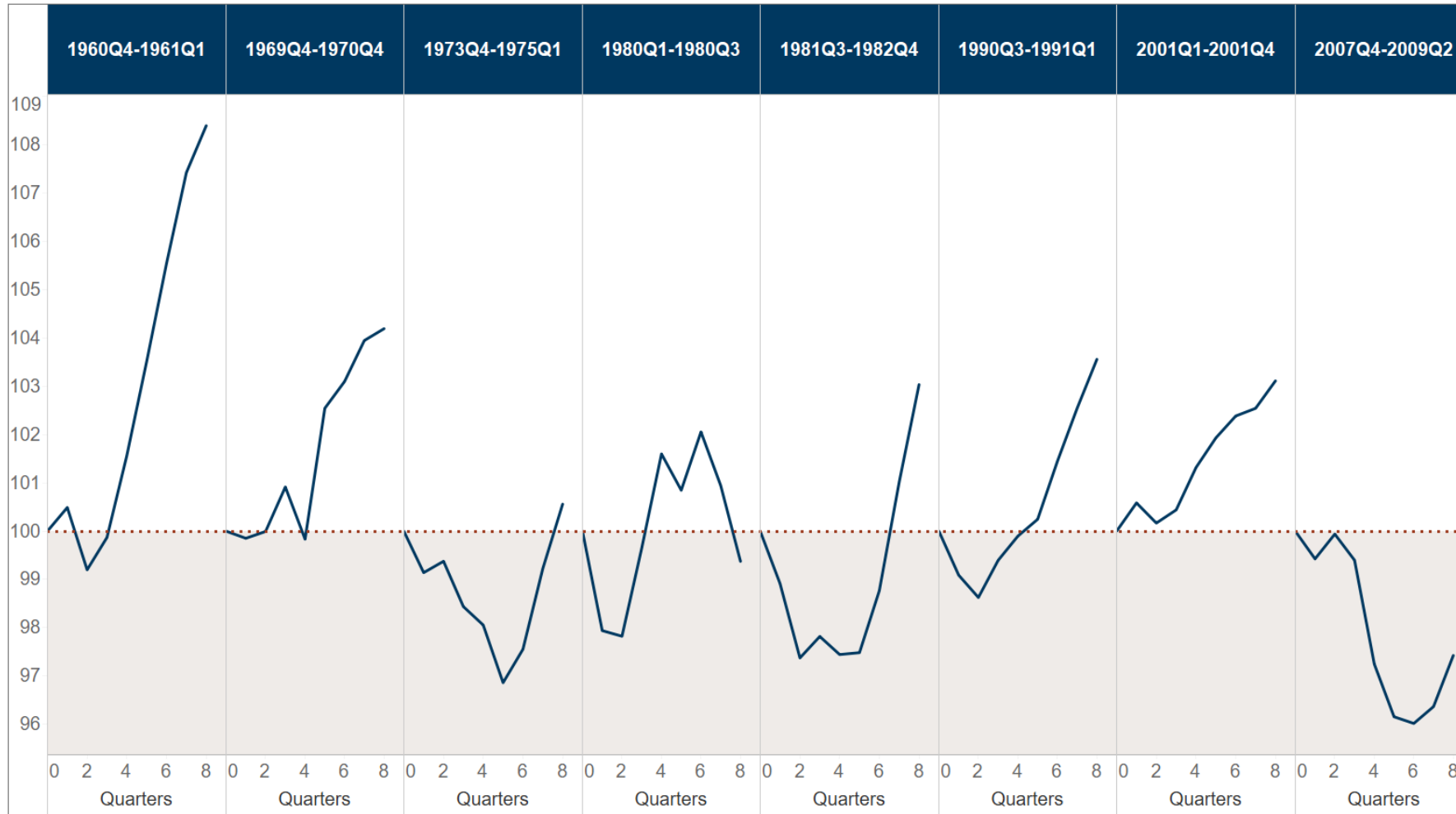
**Growth Rate for U.S. Real Gross Domestic Product**  
 line 12-quarter moving average, bars quarterly growth rate estimates through 2020Q1  
 seasonally adjusted annual rate



@lenkier Source: U.S. Bureau of Economic Analysis, NBER recession dates (gray bars)  
 Table 1.1.2. Contributions to Percent Change in Real Gross Domestic Product. Seasonally Adjusted Annual Rates, as of April 29, 2020

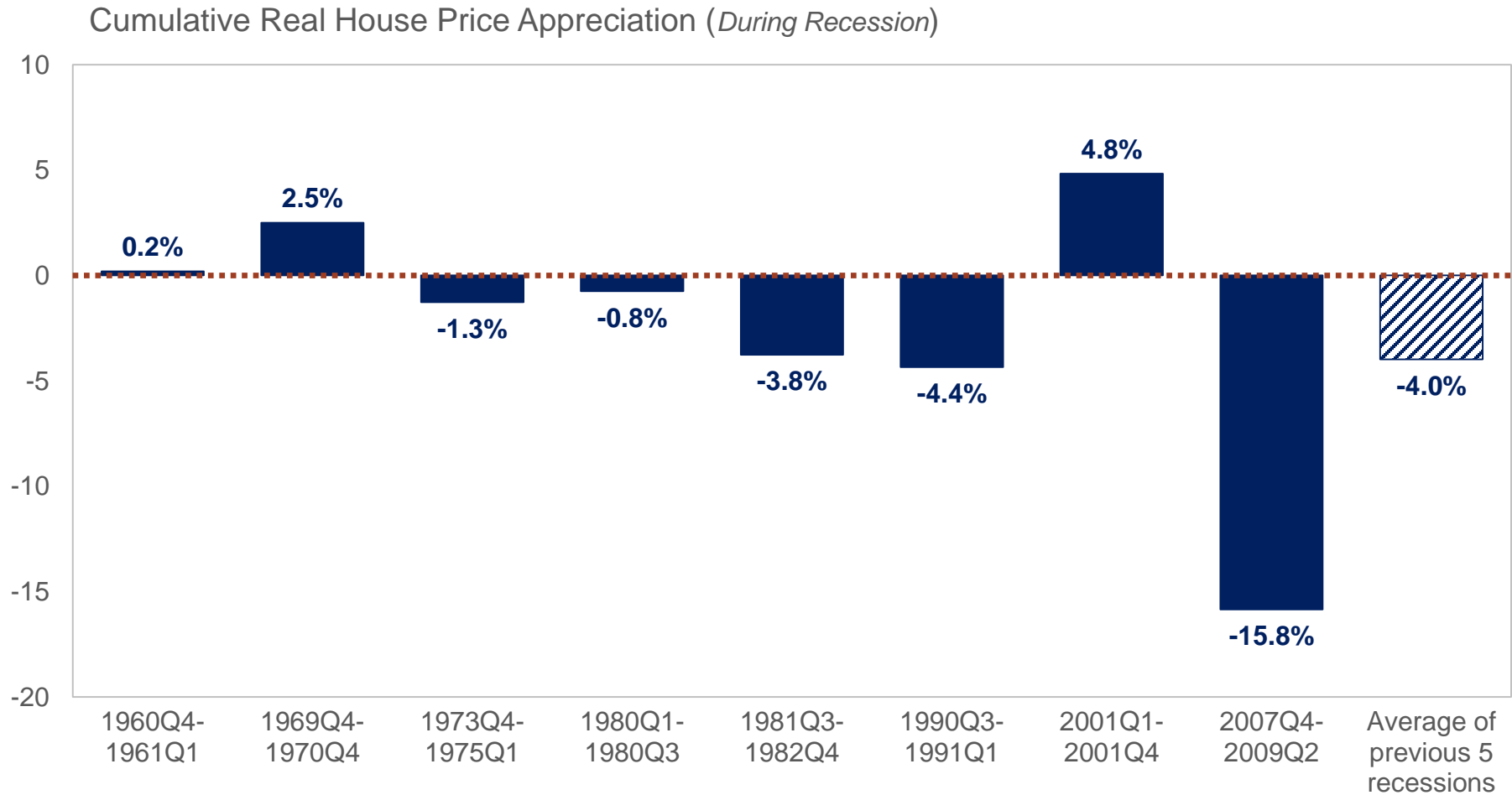
Each economic recovery is unique *just like all the rest*

### Real GDP Recovery Paths



Note: Horizontal Axis corresponds to quarters with 0 being the quarter in which the recession starts  
 Data indexed to 100 – 100 being the value at the start of the recession.

# Cumulative real house price appreciation in past recessions



Source: Case-Shiller Index



# 03. On the Other Side

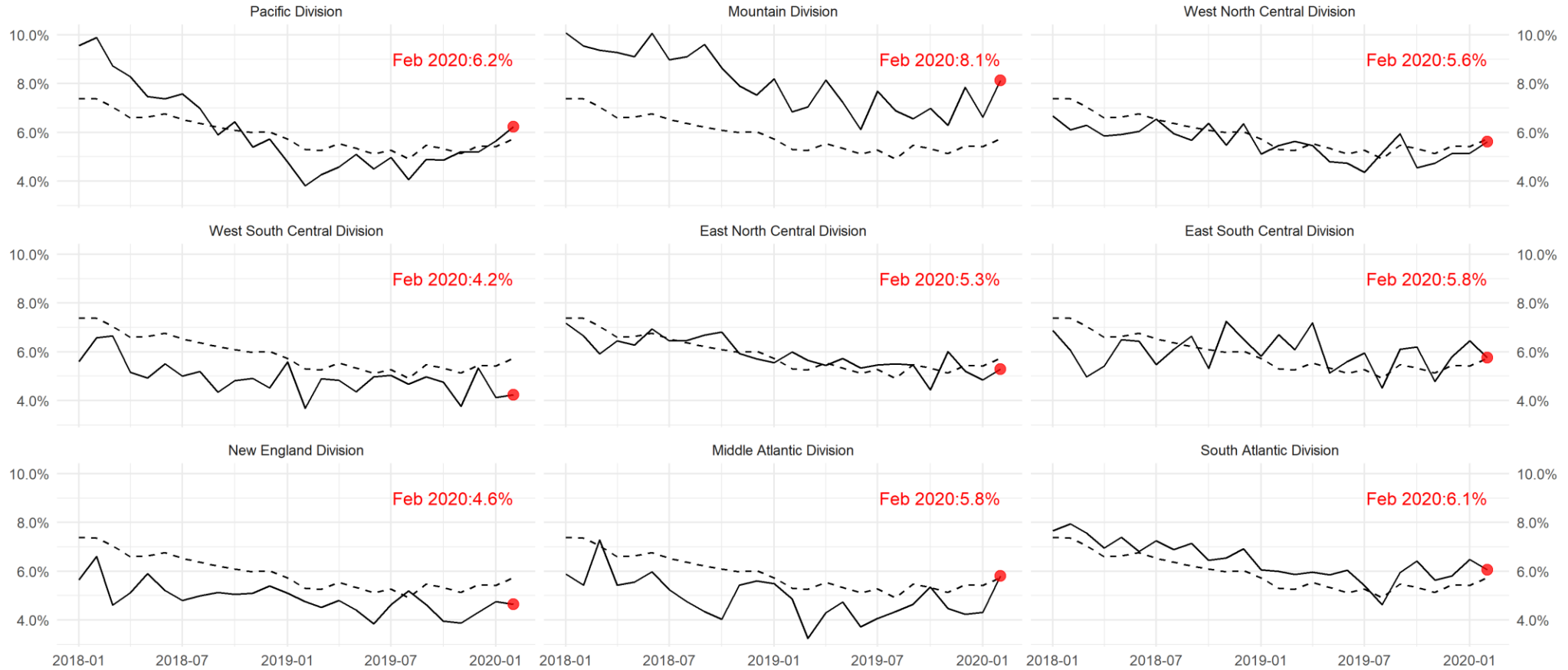
Long-run housing drivers

# Ahead of the lockdown, house prices were accelerating across much of the United States



## House Price Growth

12-month percent change in seasonally adjusted purchase-only house price index  
 Solid line division, dotted line US

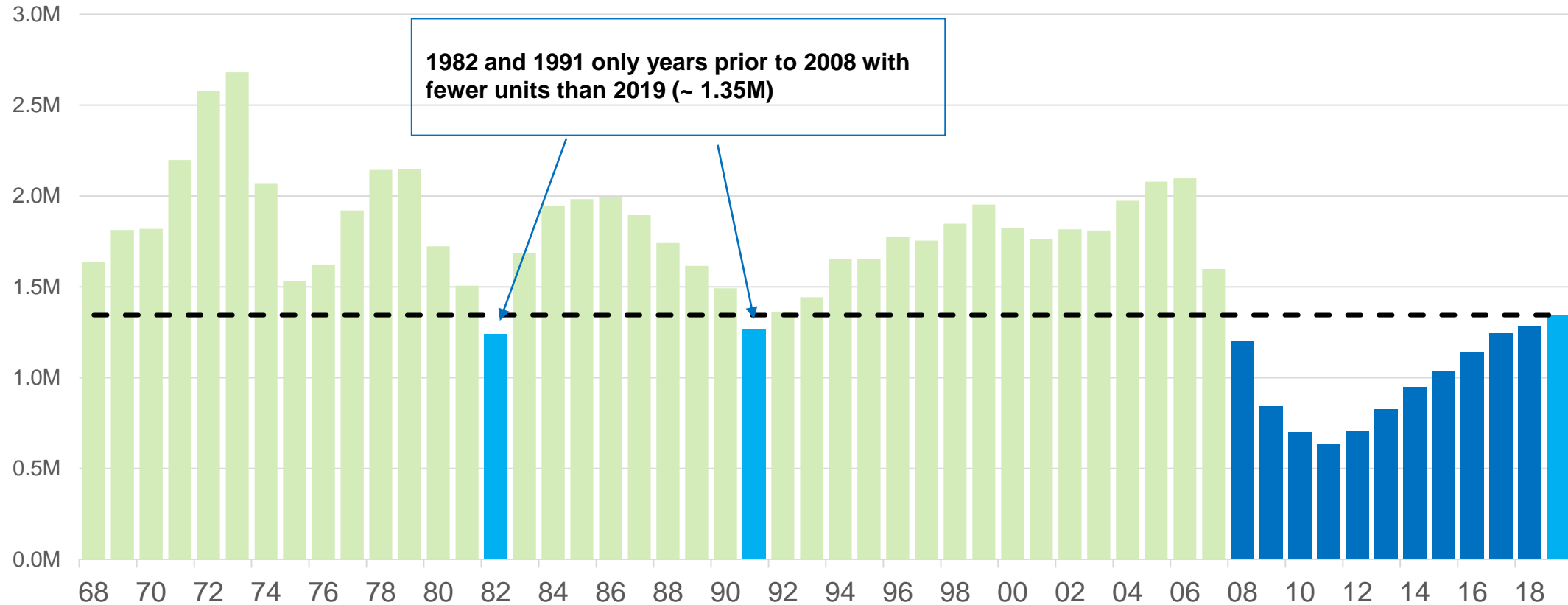


@lenkier Source: Federal Housing Finance Agency (FHFA)

# The U.S. added fewer gross housing units than in 2019\* in only two years prior to 2008

## U.S. new housing supply low relative to history

U.S. annual housing completions and manufactured home shipments



Source: U.S. Census Bureau and Department of Housing and Urban Development, Institute for Building Technology & Safety

\*Manufactured home shipments only available through Nov 2019, assumes Dec 2019 at Jan-Nov 2019 SA avg (94,000)

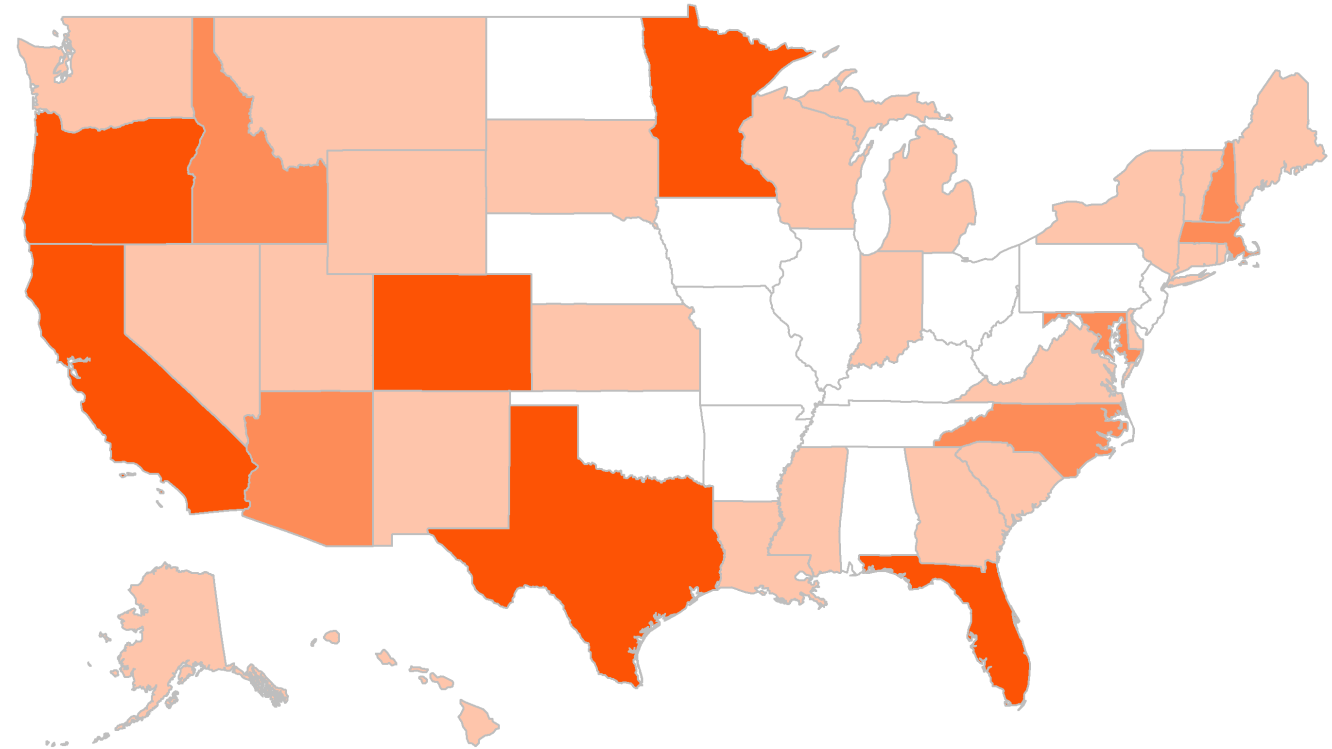
## Housing Stock Deficit as Proportion of State's Housing Stock

### Target housing stock in the second quarter of 2018

About 2.5 million housing units are needed to match long-run demand: a huge shortfall.

	<i>Millions</i>
Current households	121.2
Target households	122.5
Current housing stock	138.3
Target housing stock	140.8

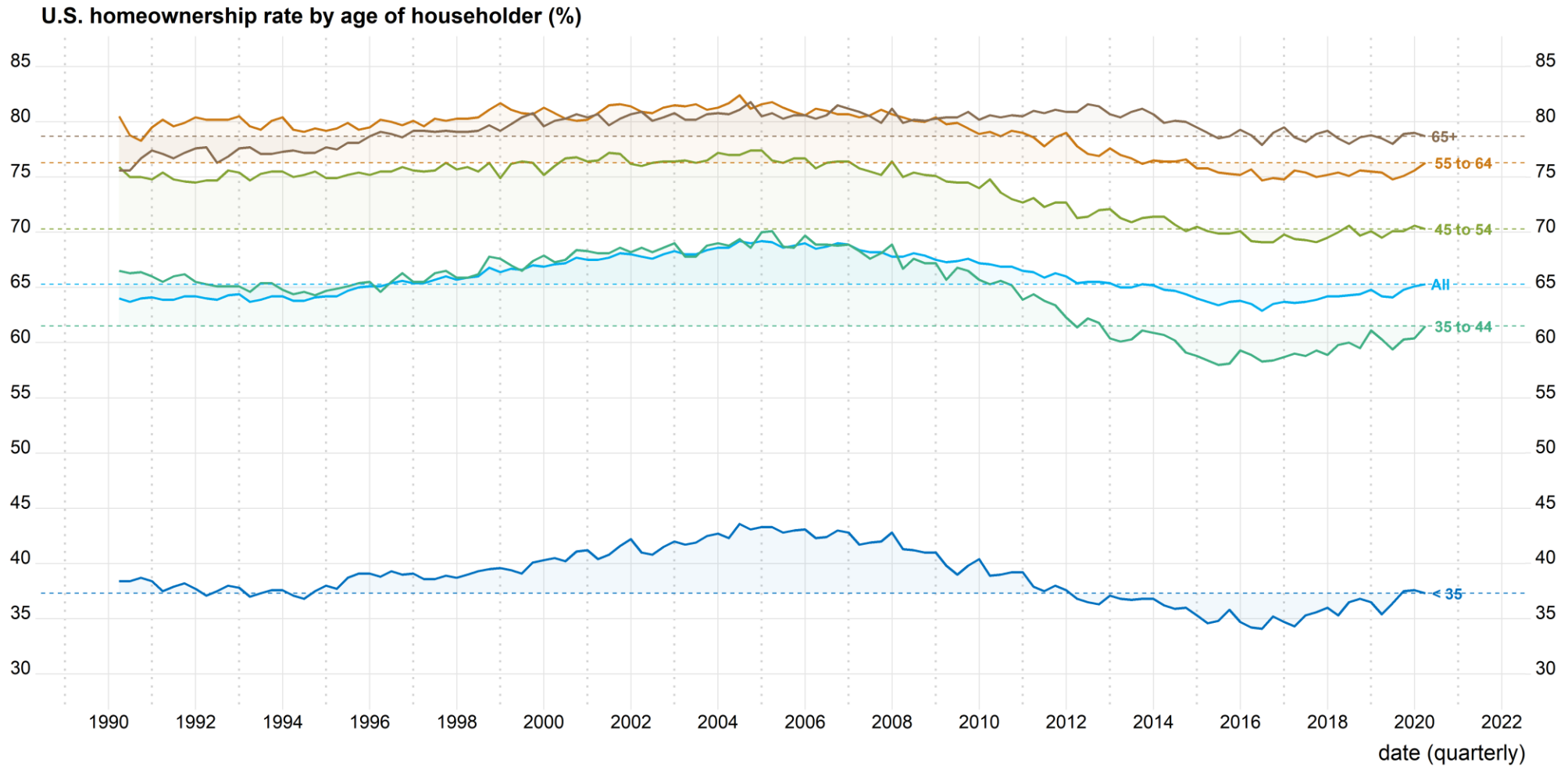
Housing stock target minus current housing stock **2.5**



Less than 0%
  0% to 1%
  1% to 2%
  2+%

Source: Freddie Mac Economic and Housing Research analysis of U.S. Census Bureau's Current Population Survey/Housing Vacancy Survey  
 Accounts for historical vacancy rates, net migration between states, and pent up housing demand, extension to state level of analysis in  
<http://www.freddiemac.com/research/insight/20200227-the-housing-supply-shortage.page>

# U.S. homeownership rates trending higher



@lenkier Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey  
Dotted line at 2020Q1 value

## For more information



Economic and Housing Research: <http://www.freddiemac.com/research>

Contact:

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