

# Housing & Mortgage Market Outlook

2005 Economic Outlook Symposium  
Federal Reserve Bank of Chicago

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December 2005

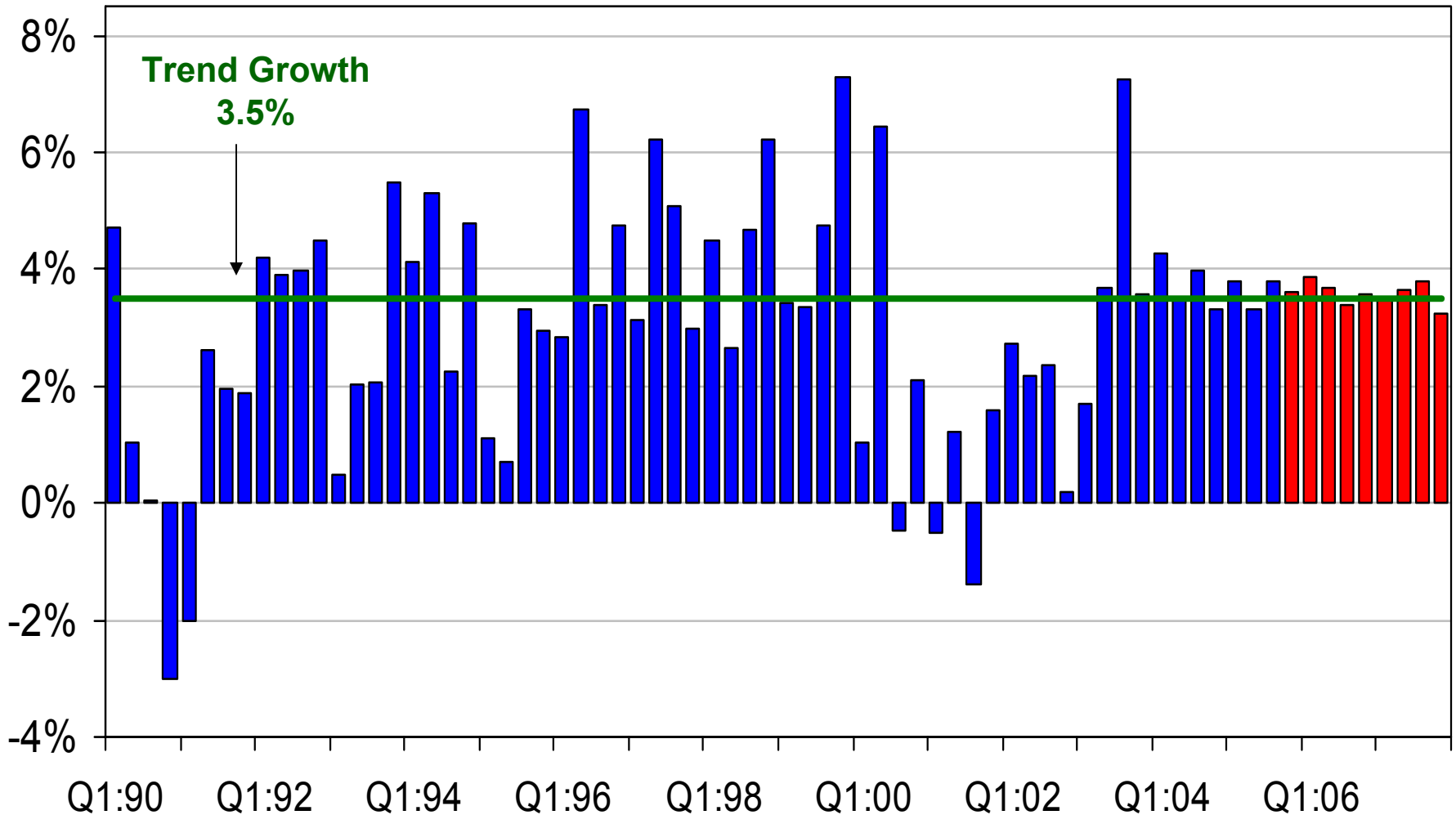
David W. Berson  
Vice President & Chief Economist



# What You Want to Know:

- We expect economic growth around trend for the next year, but downside risks have increased.
- The Fed should tighten at a measured pace in 2005 and into 2006, with long-term rates rising only modestly.
- Home sales will set another record this year (fifth in a row), but are poised to slip in 2006
- Originations should be close to 2004's pace, with refis down again but purchases up to new records. Both purchase and refis should drop in 2006.

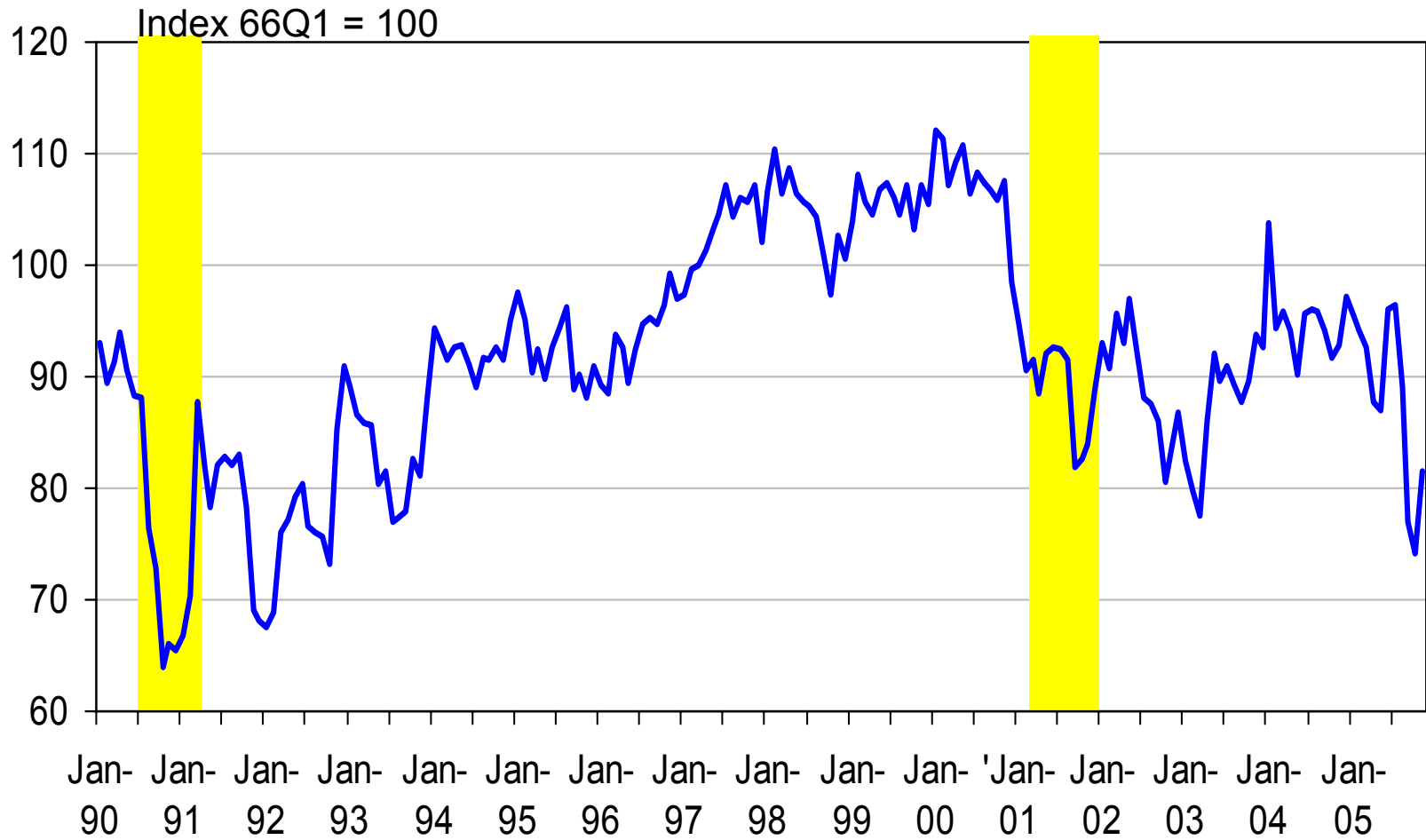
# GDP Growth At-or-Above Trend



Source: Bureau of Economic Analysis, Fannie Mae forecast

# Consumer Sentiment

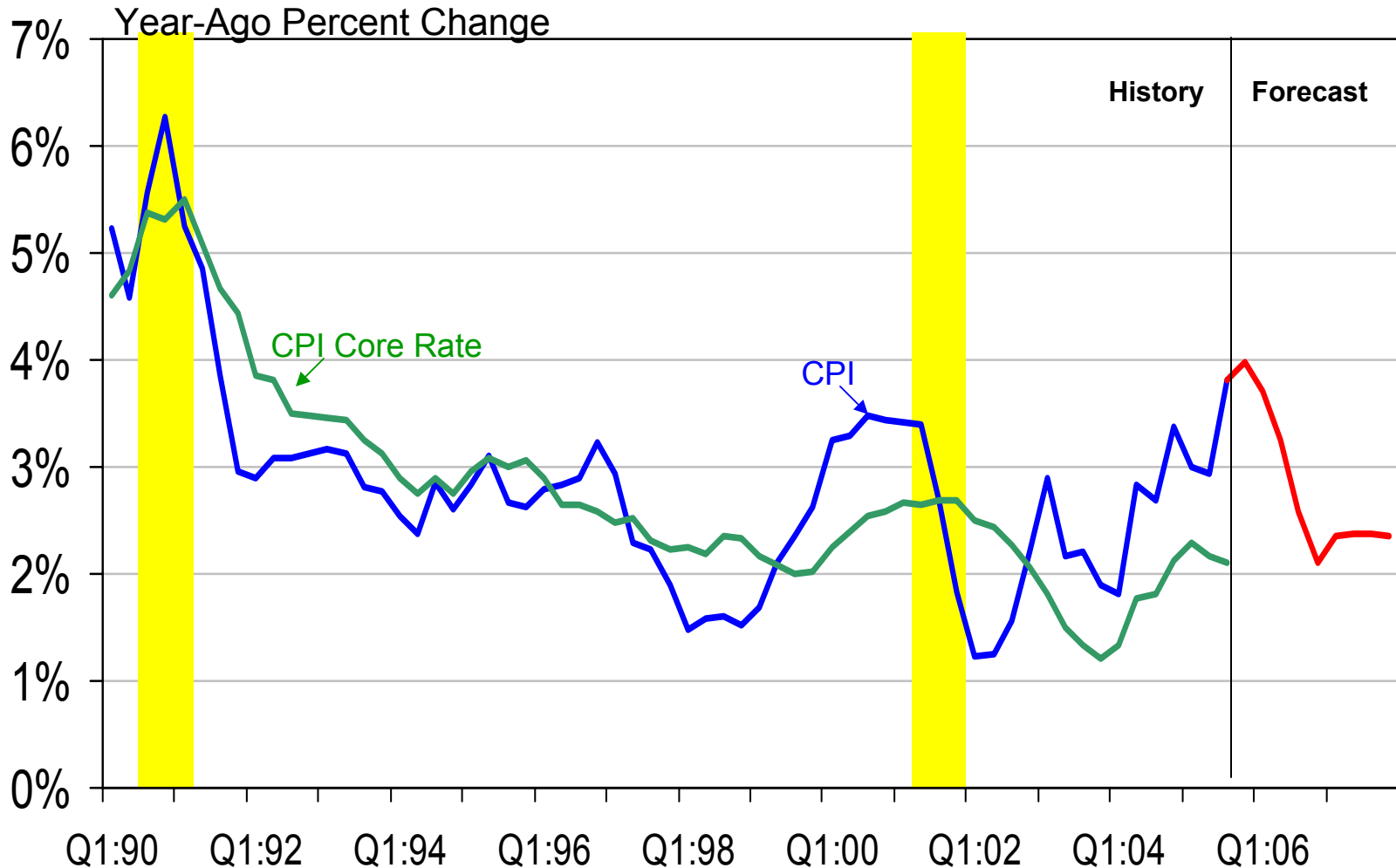
## *Energy Prices a Concern*



Source: University of Michigan

# Inflation\*

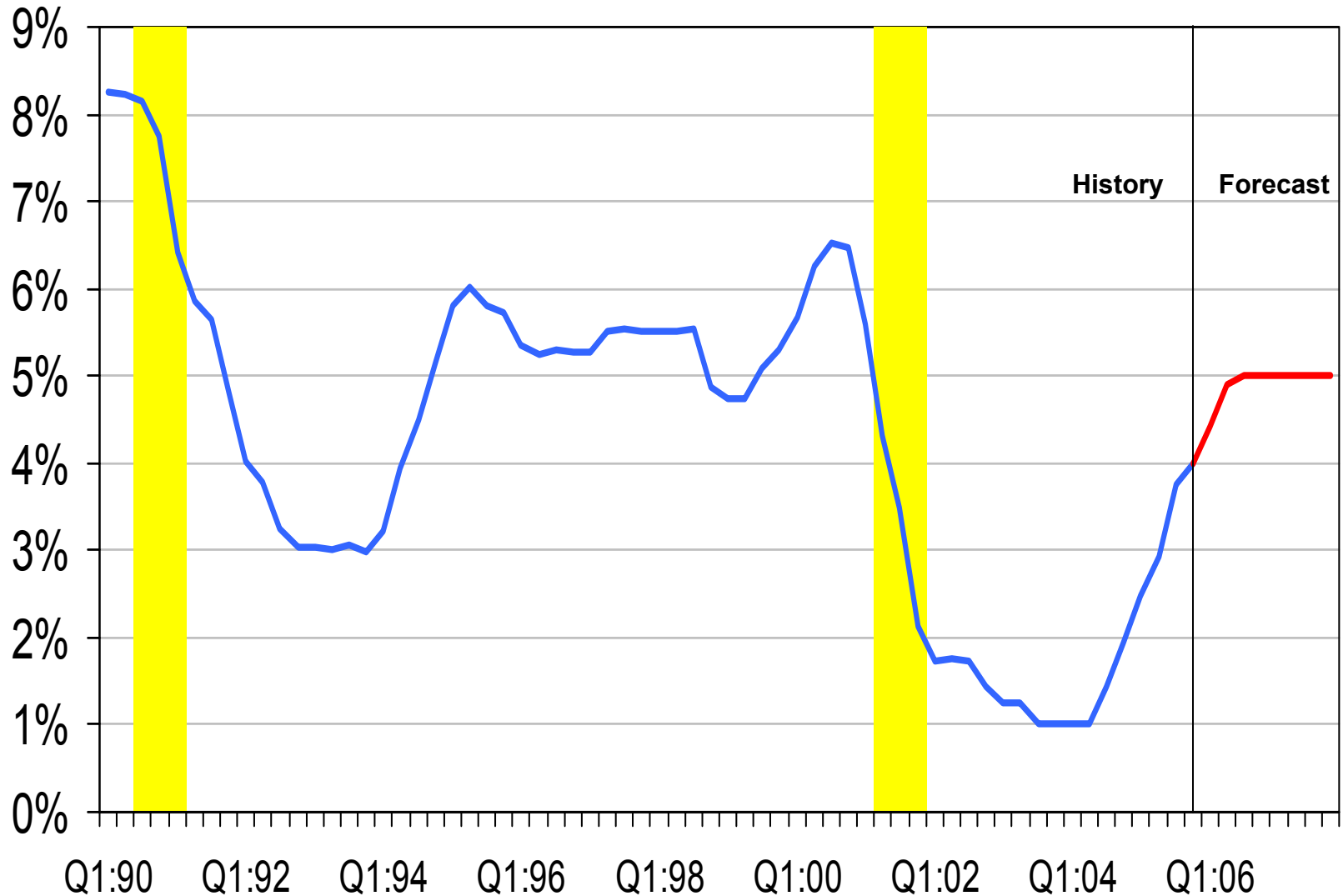
## *Oil is Still a Concern, But Core Has Stabilized*



\*Consumer Price Index

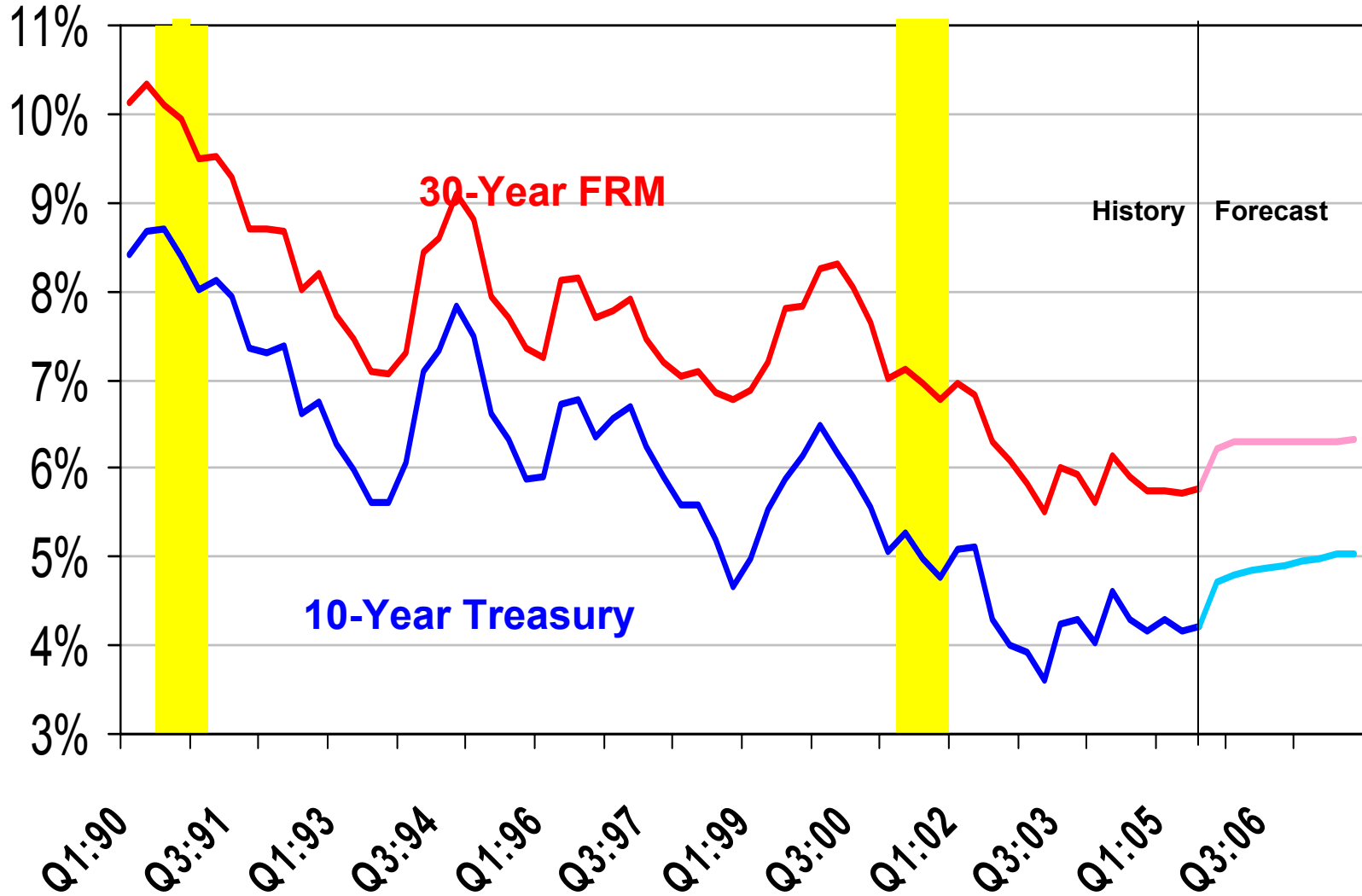
# Federal Funds Rate

## *More Tightenings Ahead*



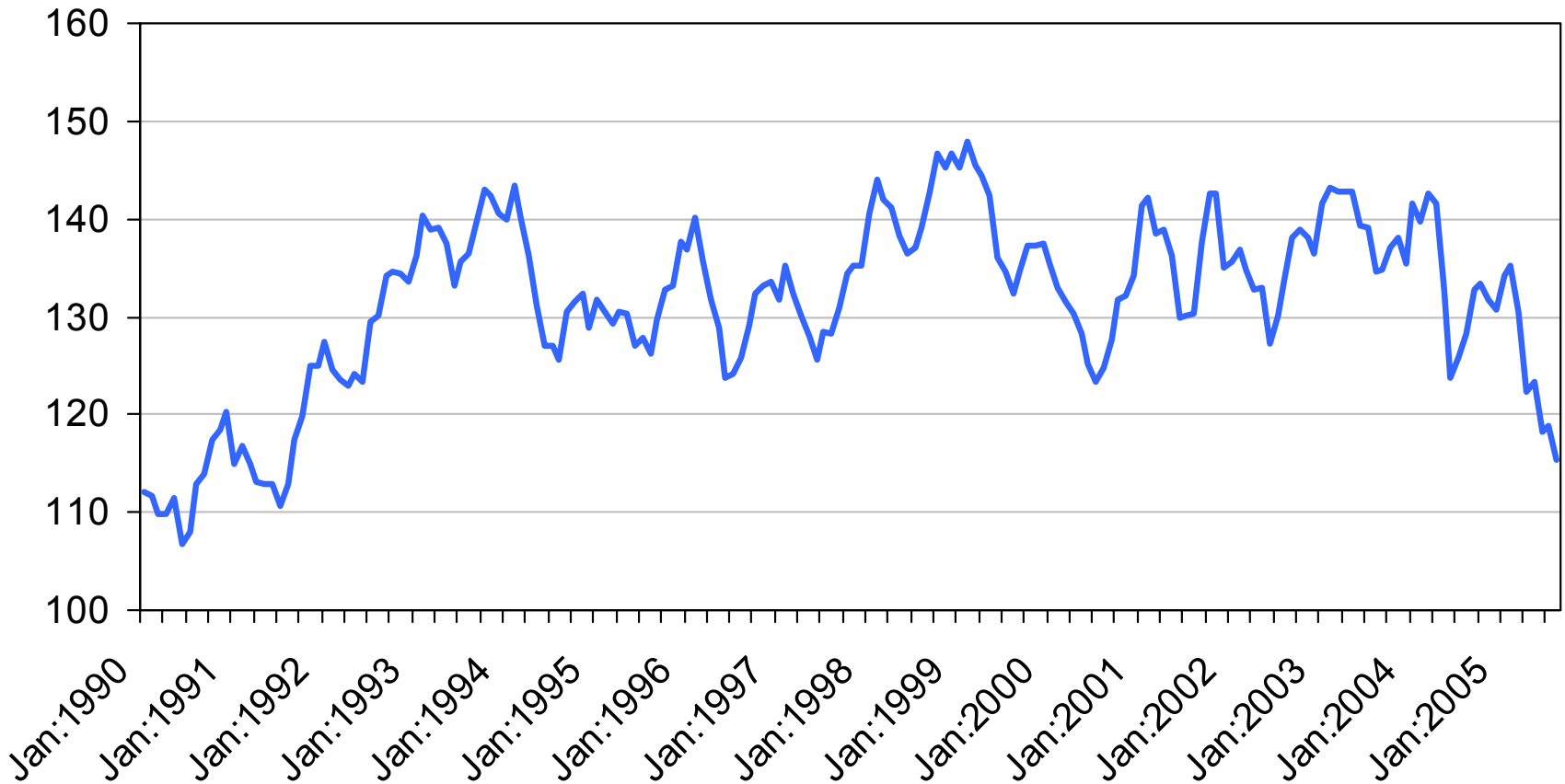
# Long-Term Interest Rates

## *Only Modest Increases*



# Affordability Index

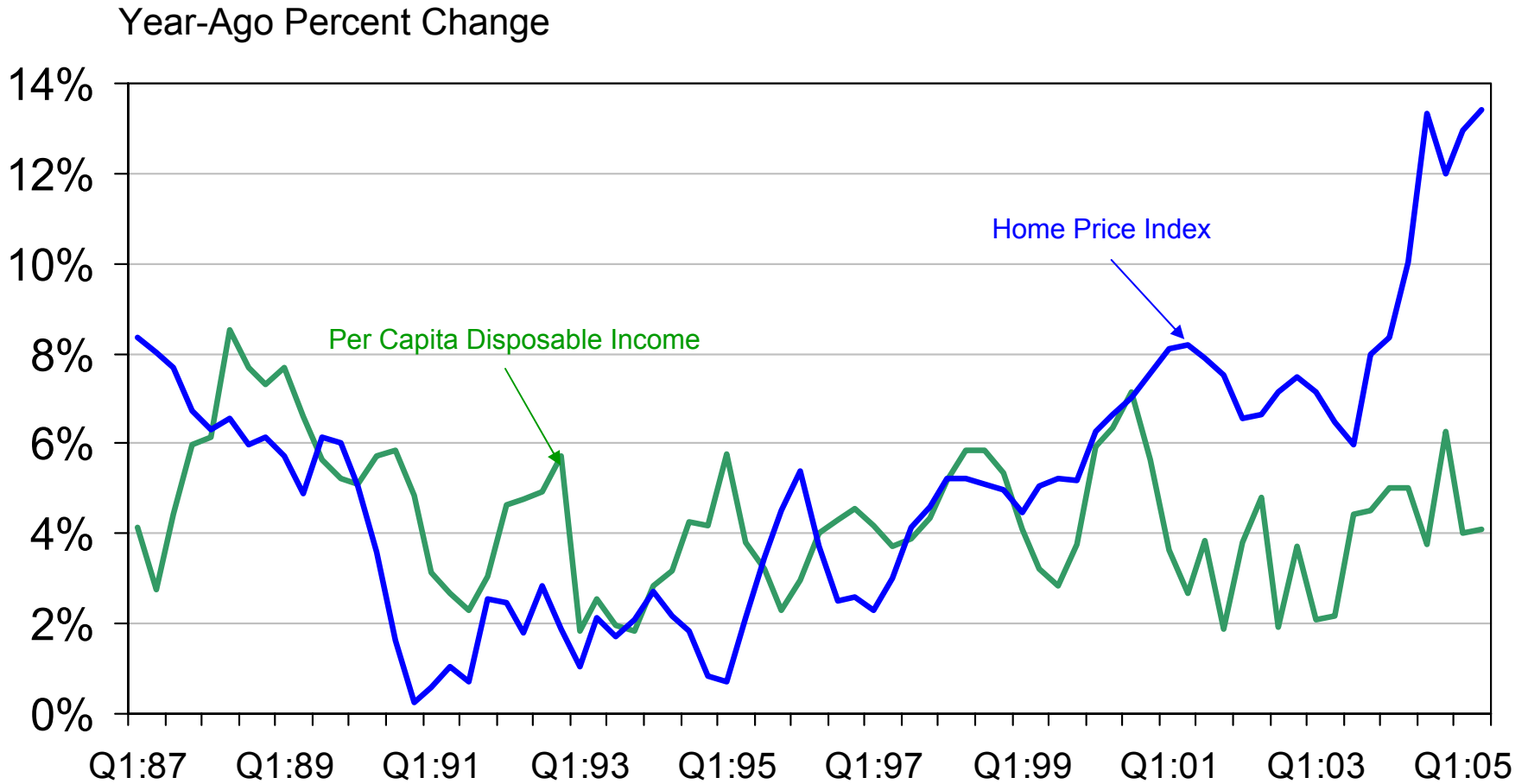
Index=100 when median family income qualifies for an 80% mortgage on a median priced existing single-family home. Rising index indicates more buyers can afford to enter market.



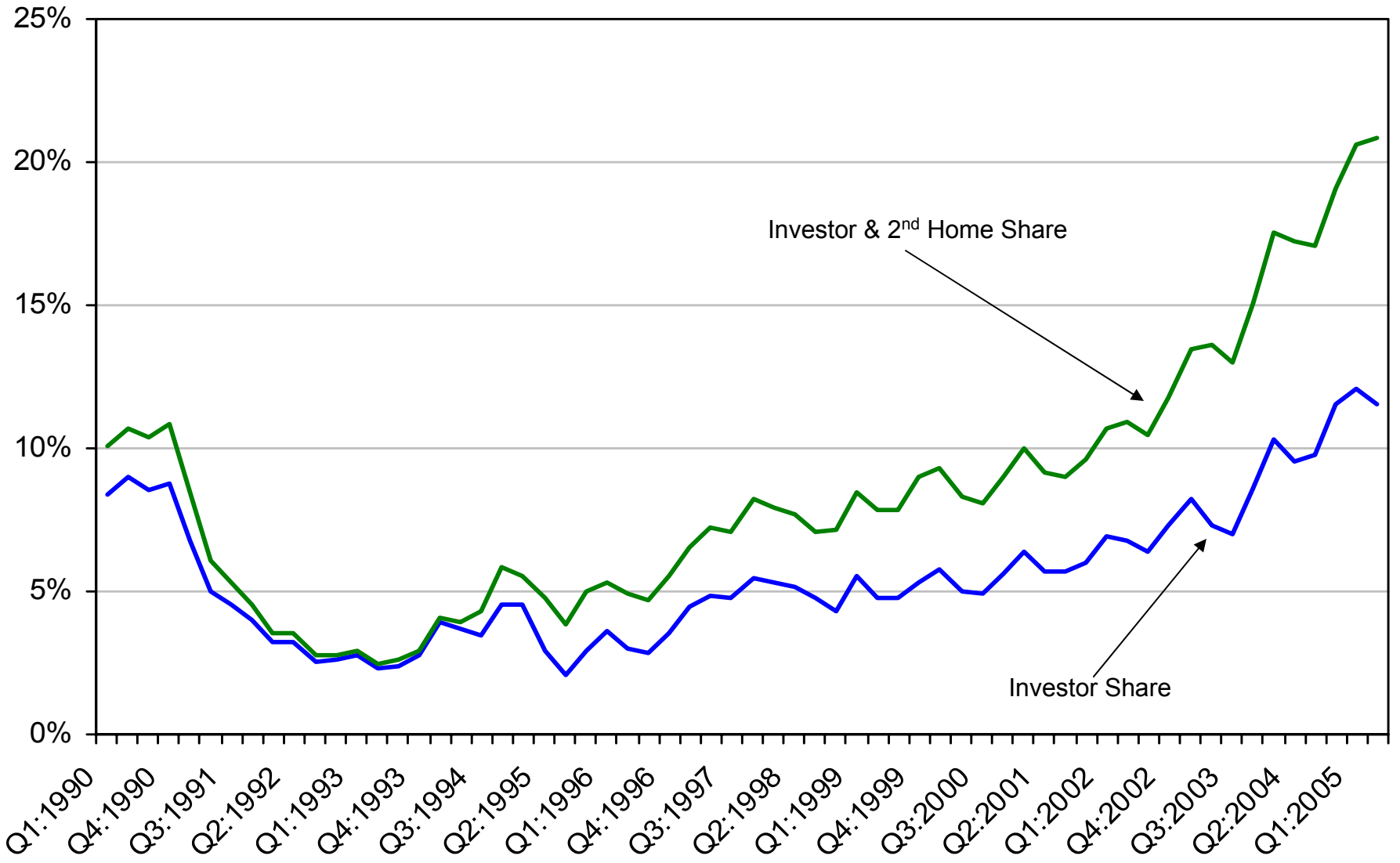


# Home Price Gains

## *Unsustainably Strong, Should Slow*



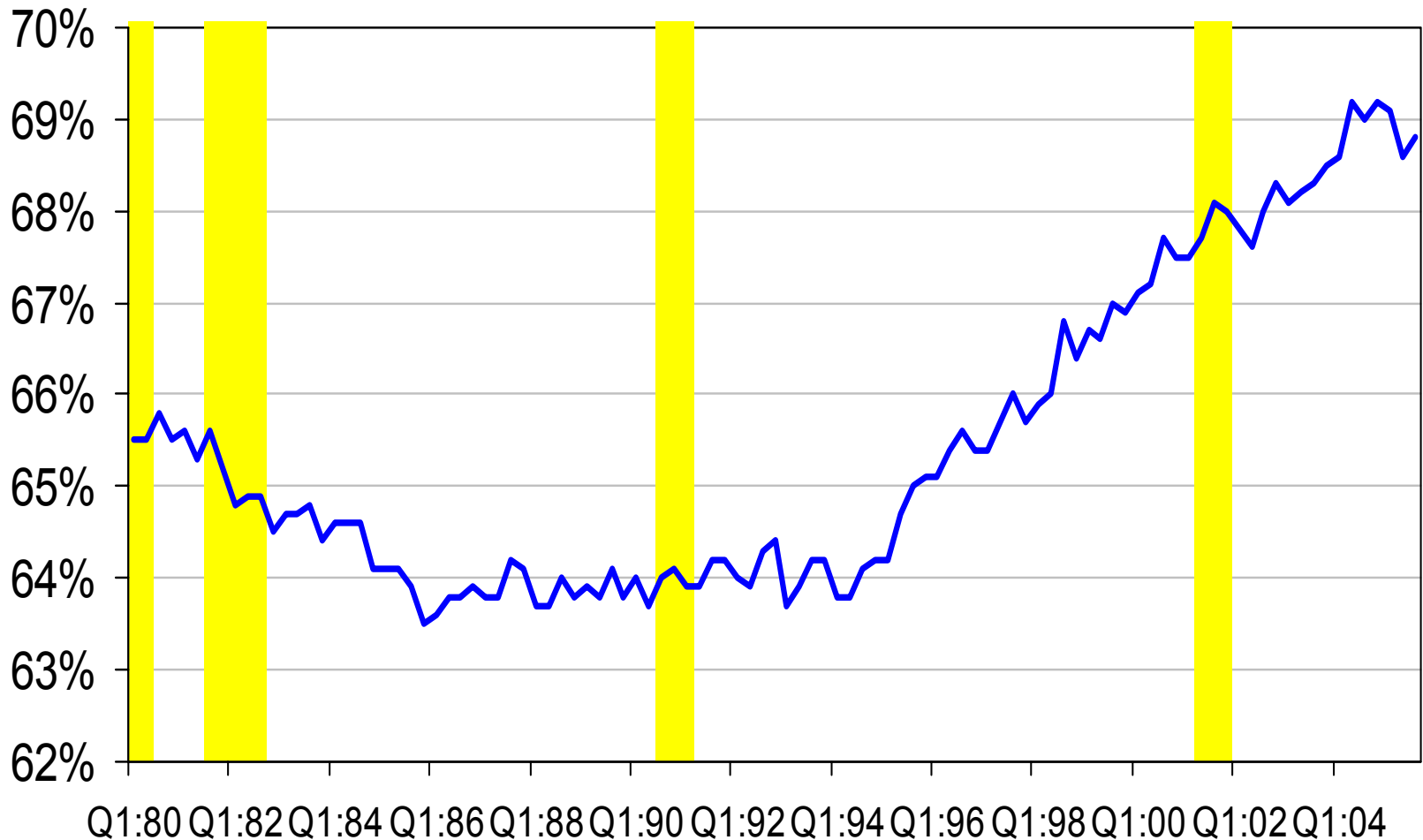
# Investor & 2<sup>nd</sup> Home Share of Prime Conventional Conforming Purchase Originations



Note: Shares are based upon numbers of loans  
Source: LoanPerformance

# Homeownership Rate

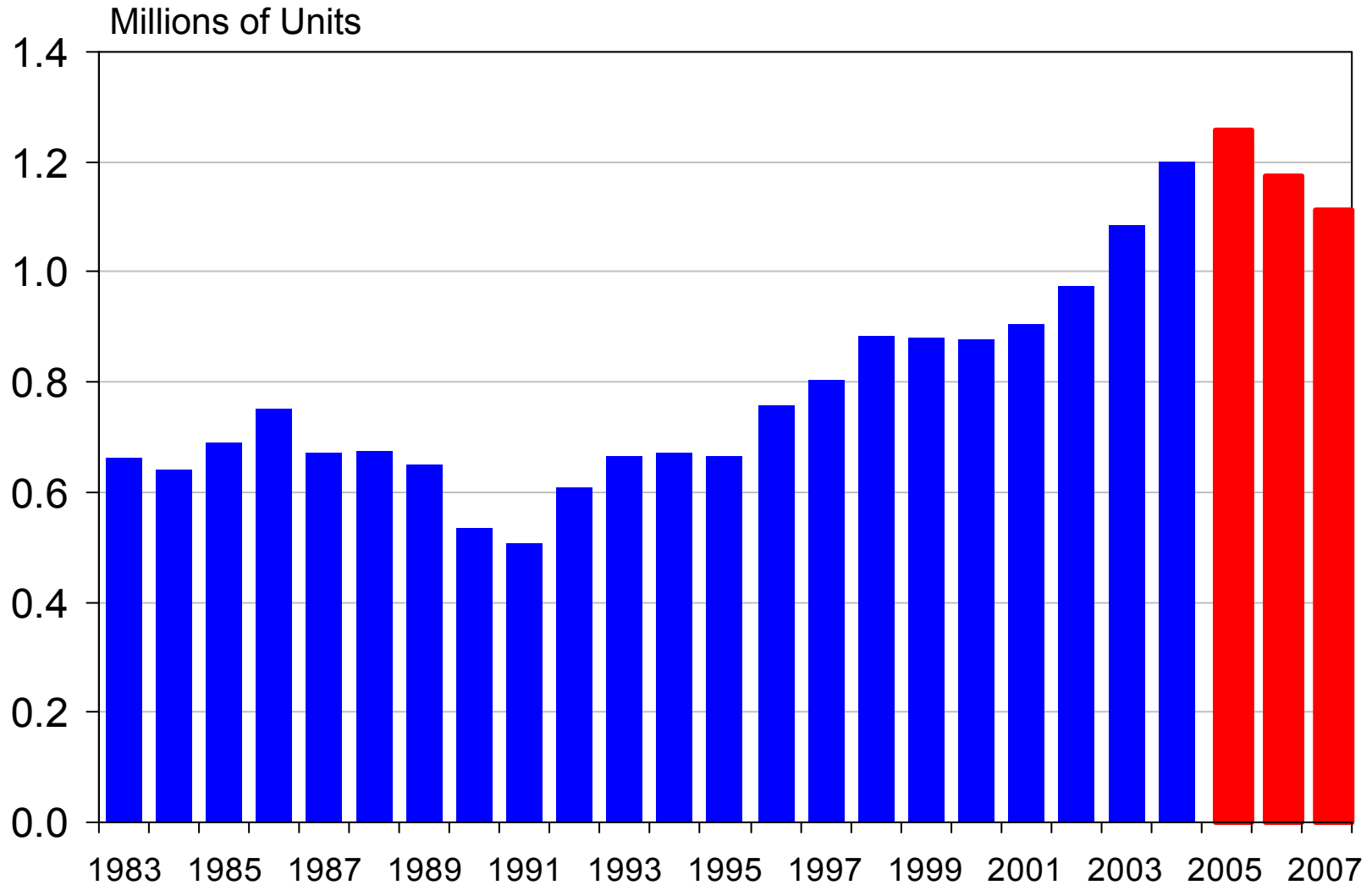
## *Down Because of High Home Prices?*



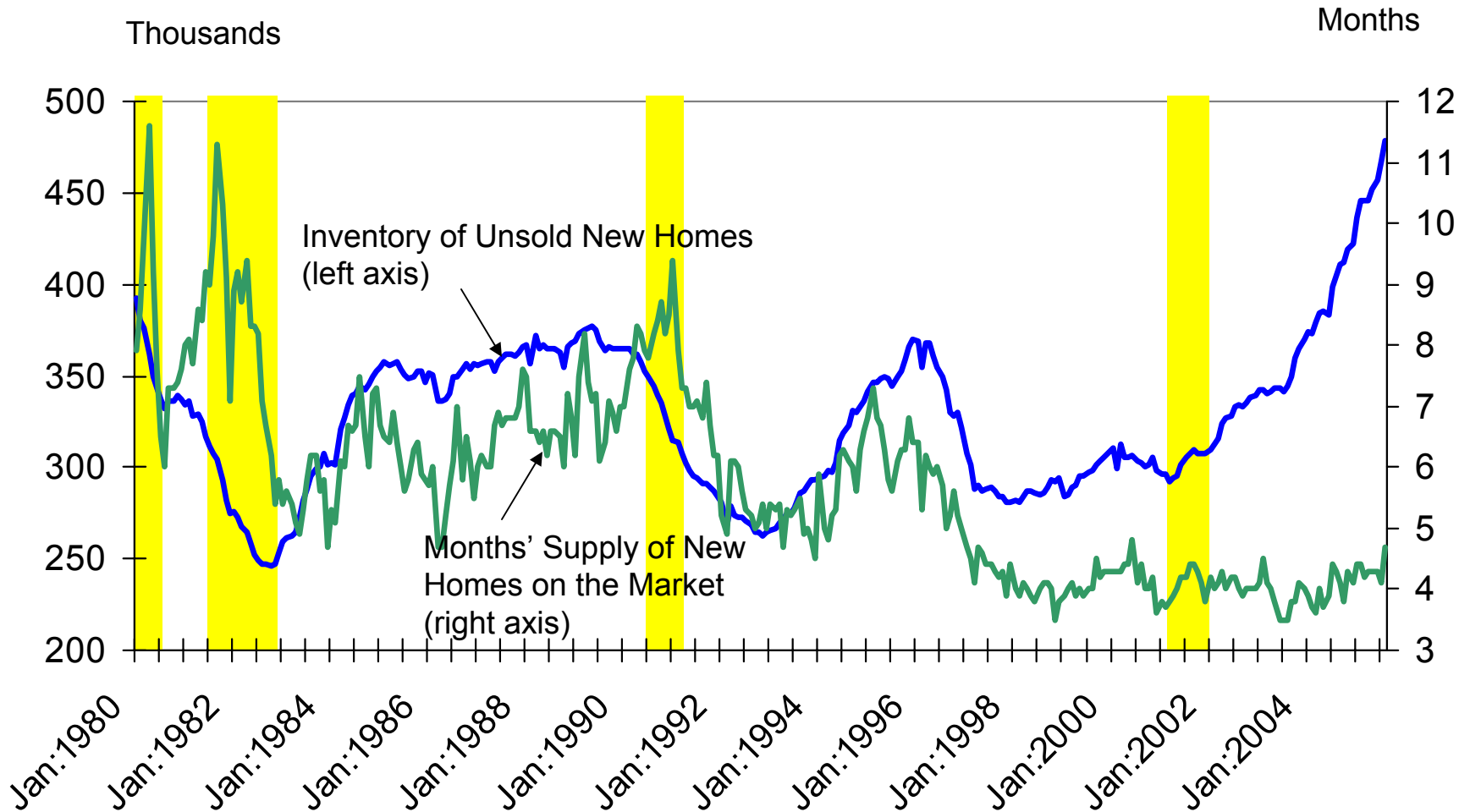
Source: Bureau of the Census

# New Home Sales

*A New Record in 2005, But Down in 2006*



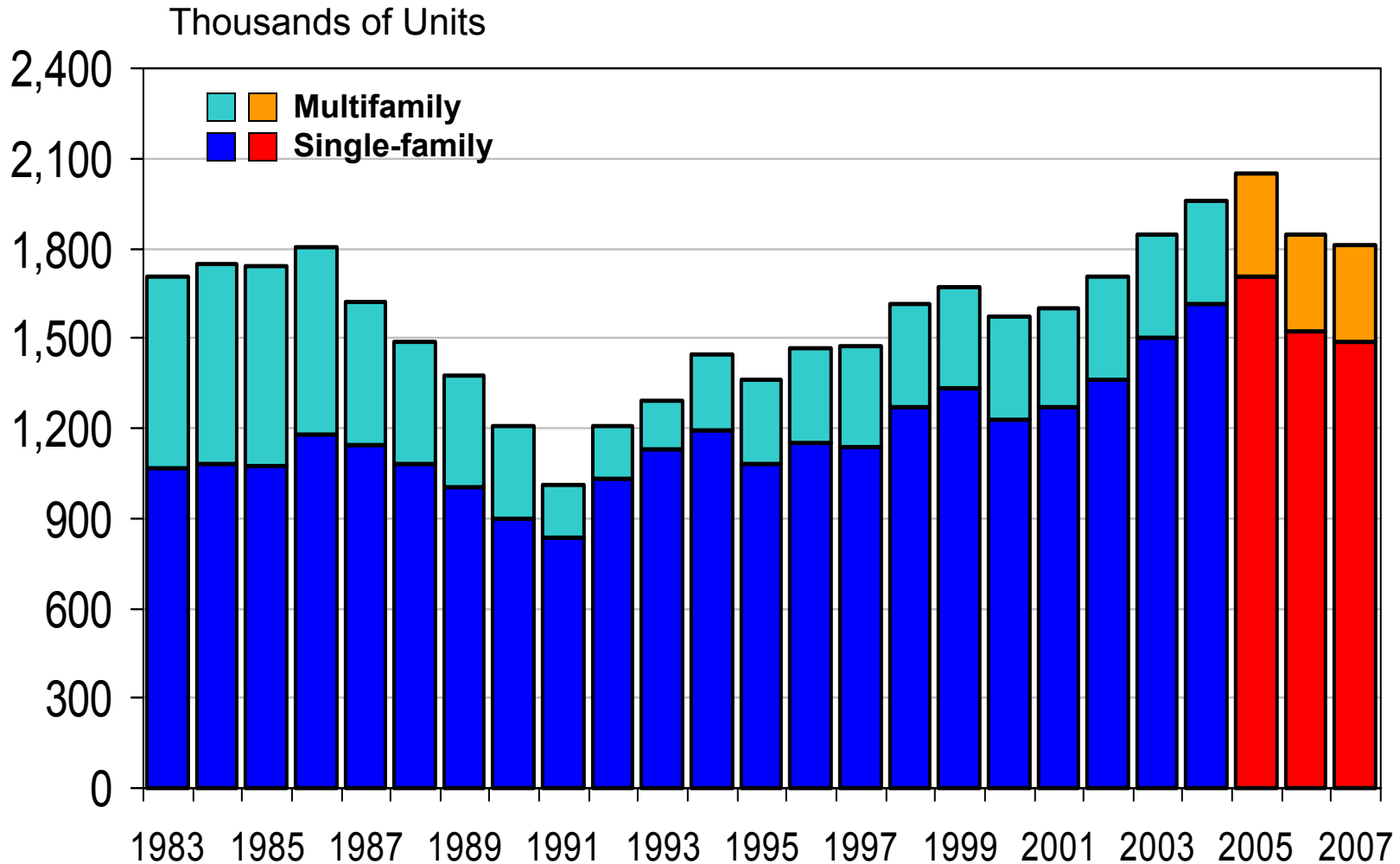
# New Homes For Sale



Source: Census Bureau

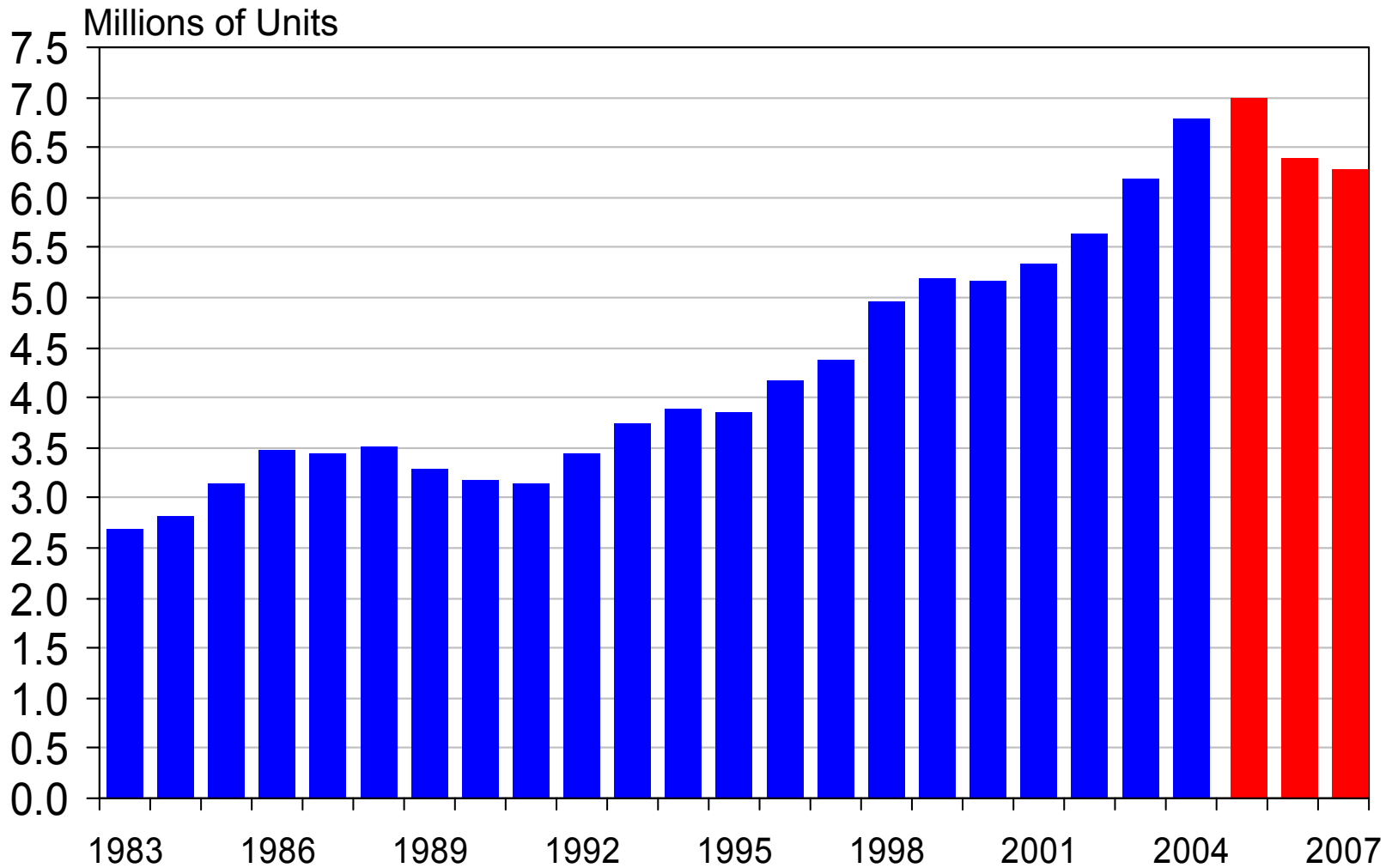
# Housing Starts

## *Single-family at Record Highs in 2005*

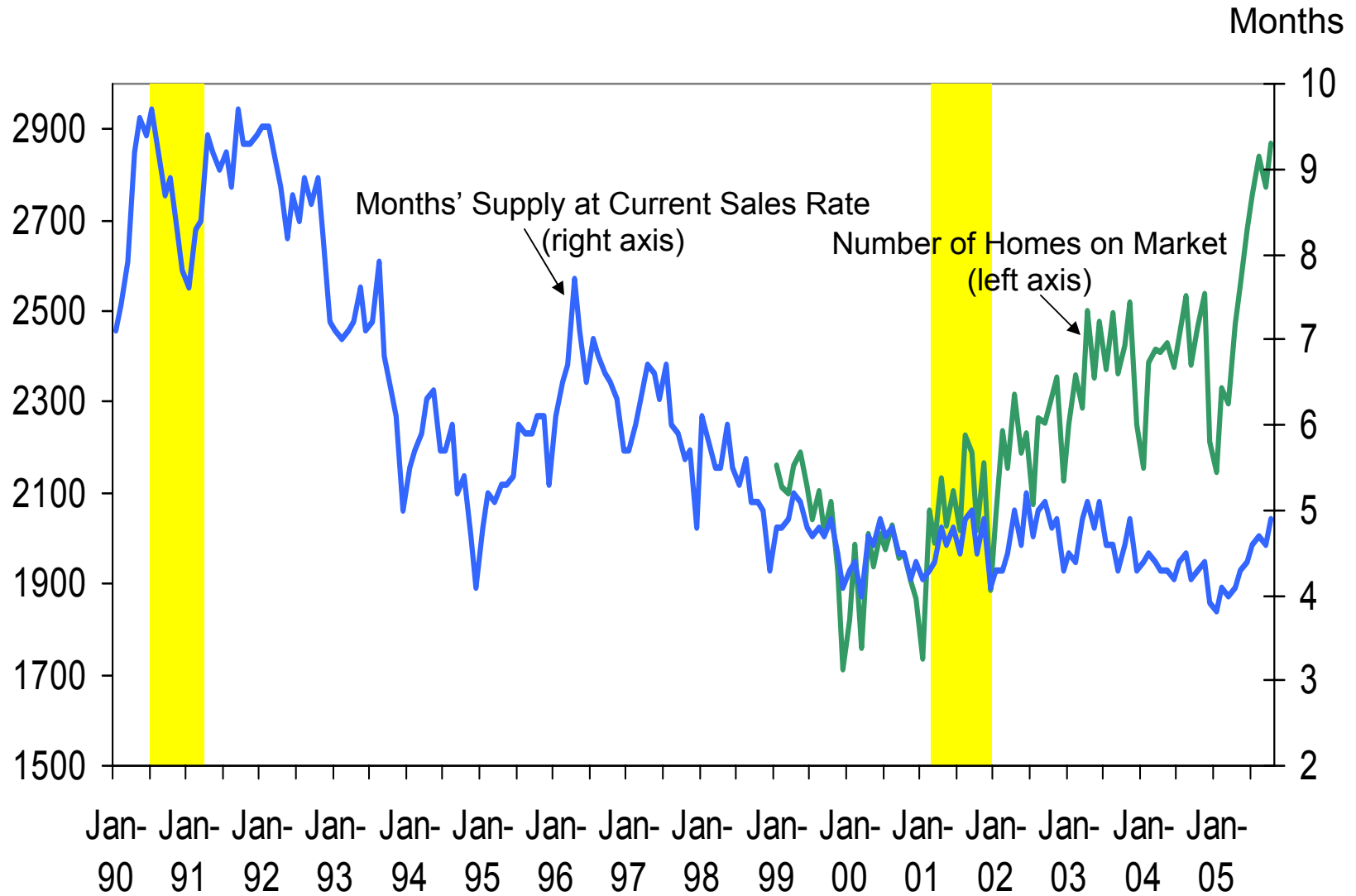


# Existing Home Sales

## *A New Record in 2005, But Down in 2006*



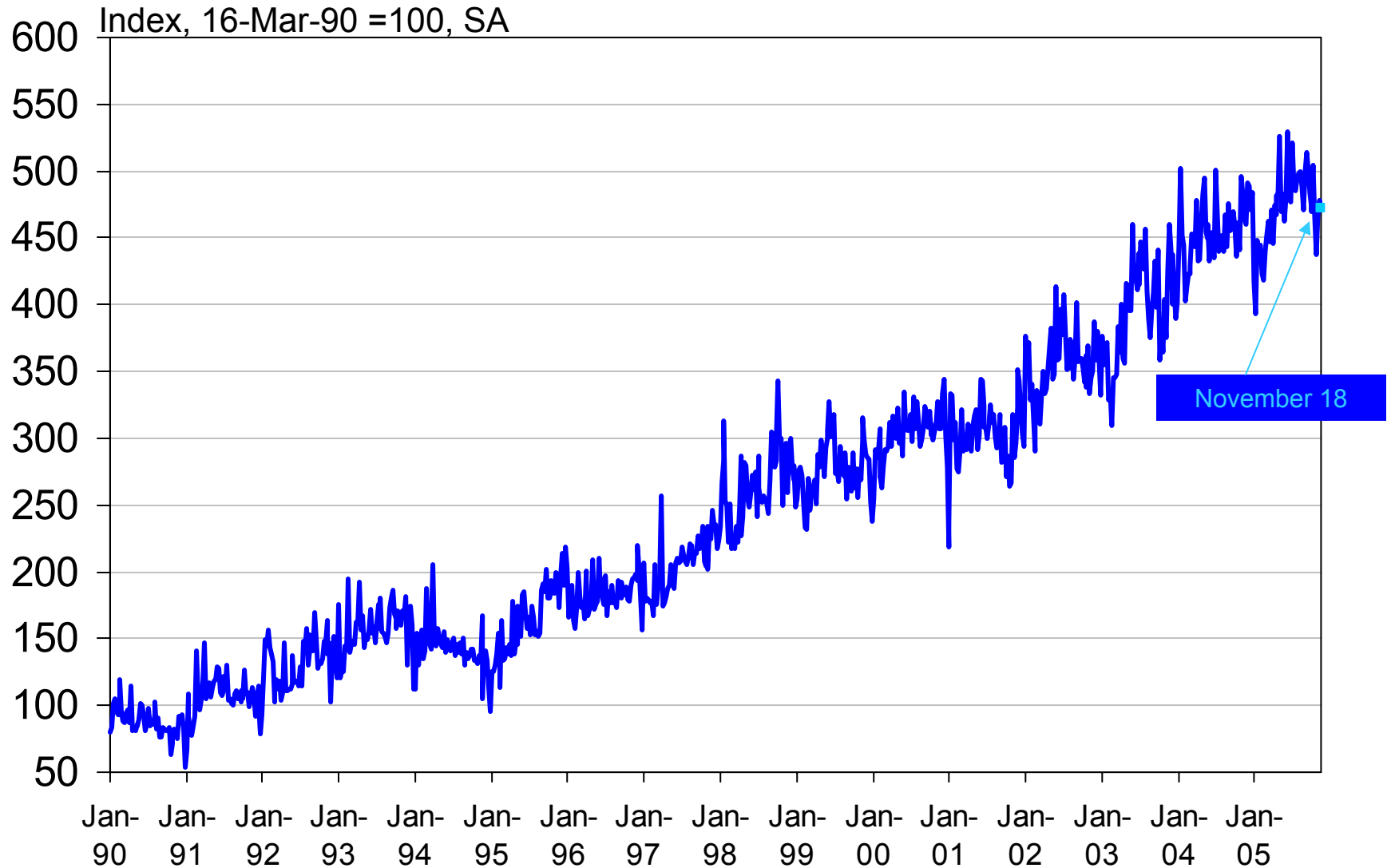
# Existing Homes For Sale





# MBA Purchase Index

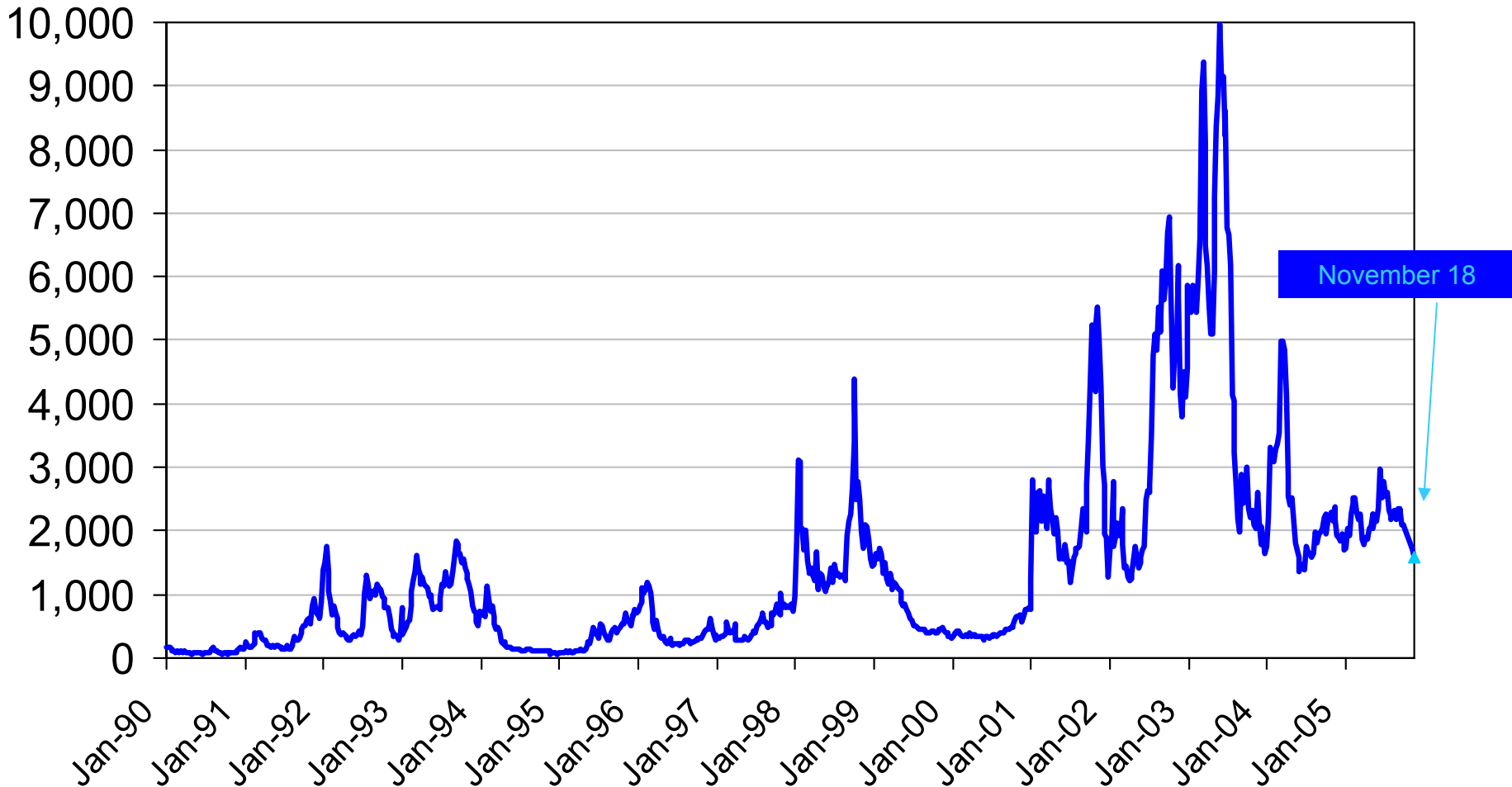
## *Strong, But Down From Peak Levels*



# MBA Refinance Index

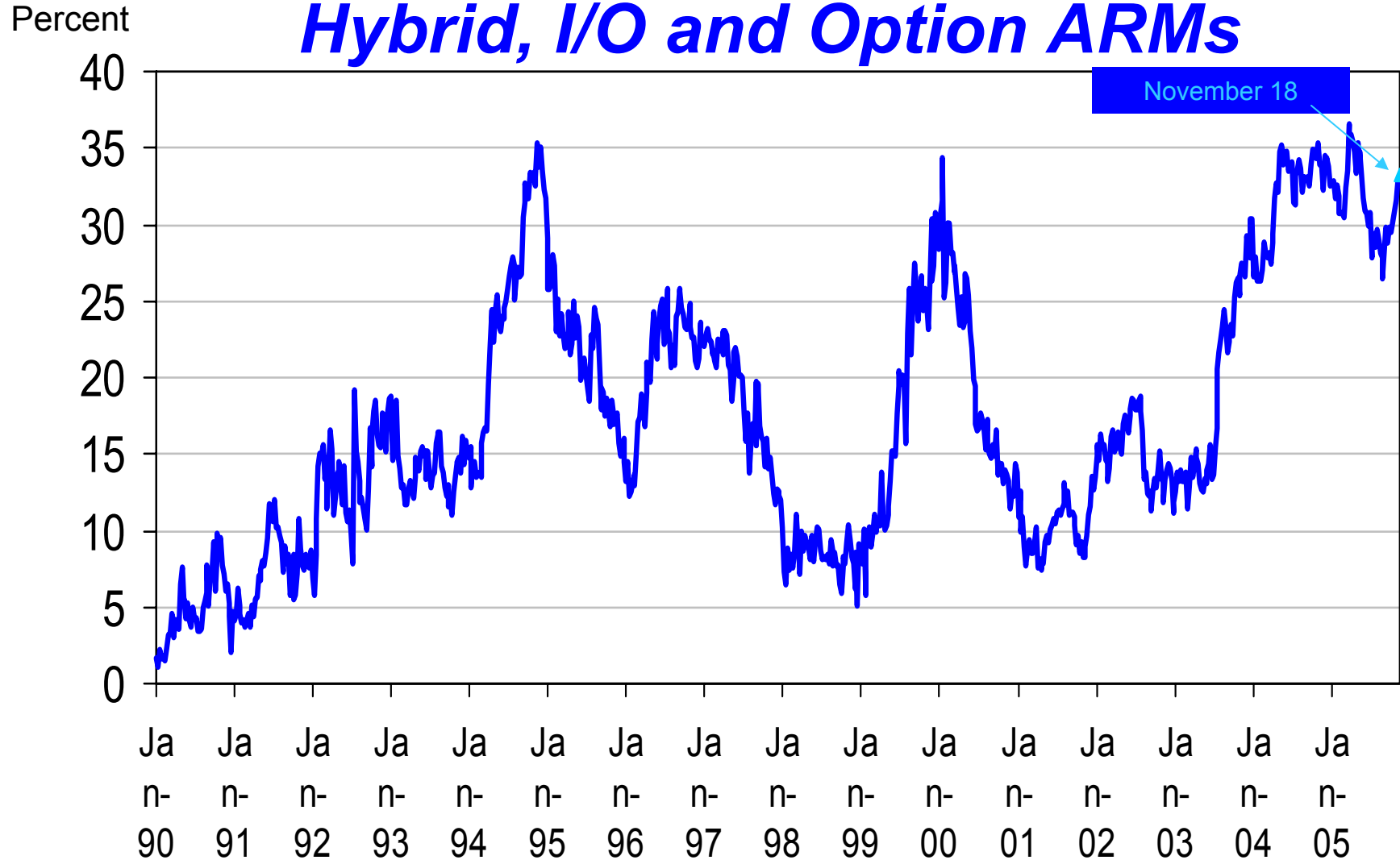
## *Edging Down*

Index, 16-Mar-90 =100, SA



# ARM Share of Mortgage Applications\*

## *Boosted by High Home Prices and Hybrid, I/O and Option ARMs*

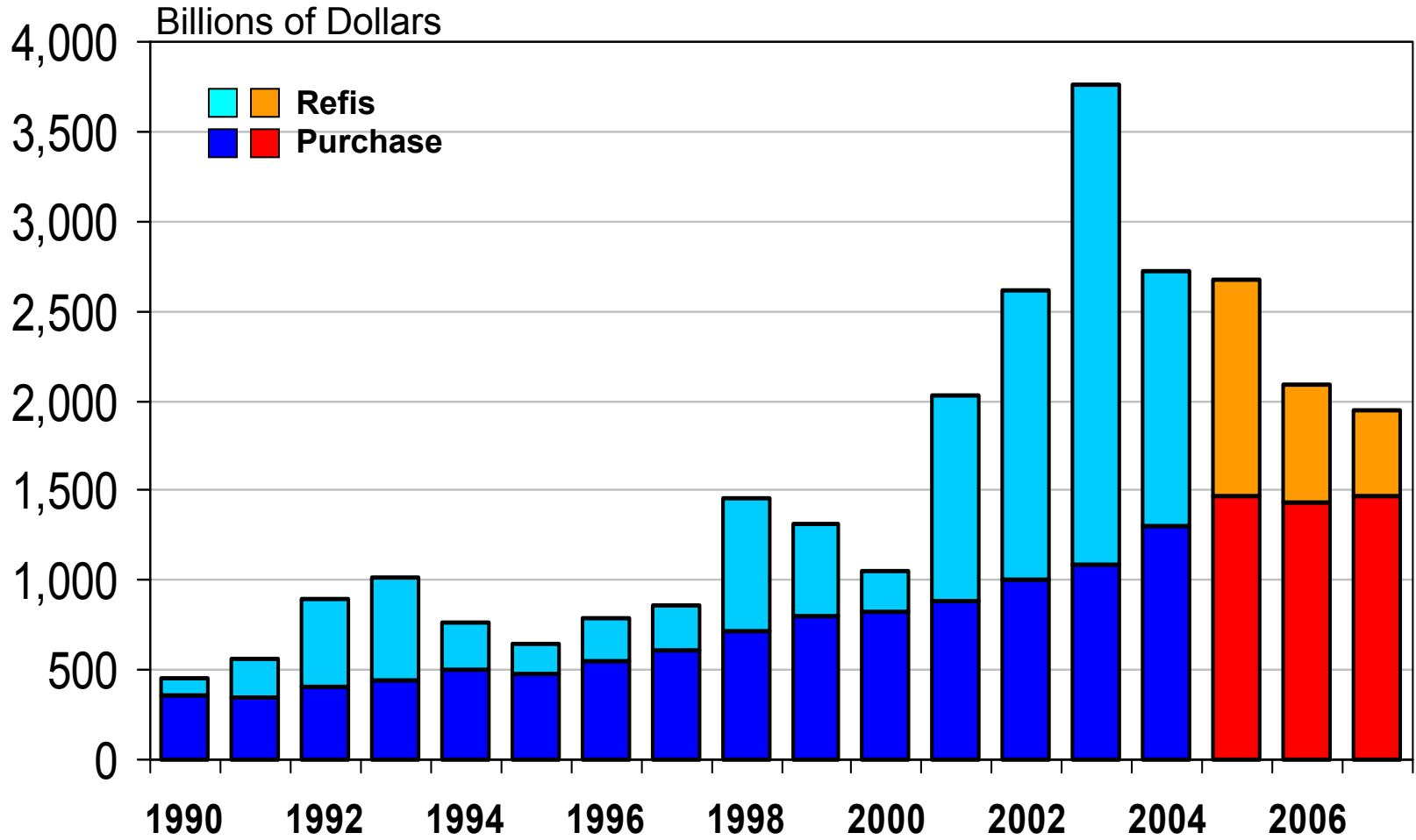


\*By number of loans

Source: Mortgage Bankers' Association of America Weekly Mortgage Application Survey

# Mortgage Originations

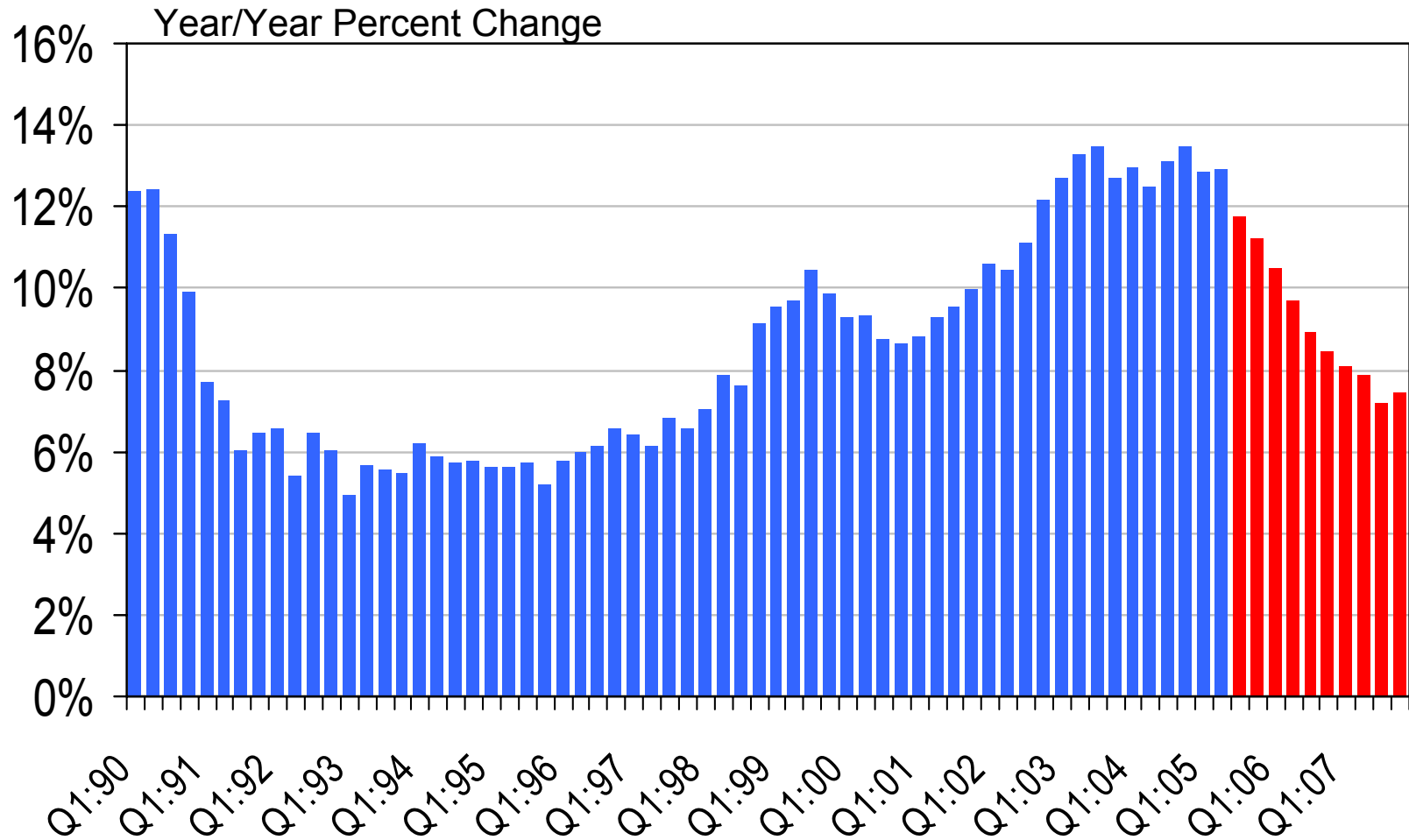
## *Purchases at a New Record in 2005*



Source: HUD, Fannie Mae estimates (1998 forward), Fannie Mae forecast

# Mortgage Debt Outstanding

## *Growing at an Unsustainable Pace*



Source: Federal Reserve Board, Fannie Mae forecast

# Things to Take Away:

- Continued economic growth at or near trend.
- The Fed will tighten monetary policy over the next year.
- Housing activity will climb to record levels again this year.
- Originations will edge down in 2005.
- Other sectors will accelerate as housing and consumer spending slow.
- Long-term rates should rise only modestly from here.
- Home sales and price gains will slow later this year and in 2006.
- And will fall further in 2006.