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

Q1:90  Q1:92  Q1:94  Q1:96  Q1:98  Q1:00  Q1:02  Q1:04  Q1:06

Trend Growth 3.5%

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

Source: Bureau of Labor Statistics
Federal Funds Rate

More Tightenings Ahead

Source: Federal Reserve Board, Fannie Mae forecast
Long-Term Interest Rates

Only Modest Increases

Source: Freddie Mac, Federal Reserve Board, Fannie Mae forecast
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.

Source: National Association of Realtors
Home Price Gains
Unsustainably Strong, Should Slow

Year-Ago Percent Change

Home Price Index
Per Capita Disposable Income

Source: Bureau of Economic Analysis, OFHEO
Investor & 2nd 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

Source: Bureau of the Census, Fannie Mae forecast
New Homes For Sale

Inventory of Unsold New Homes
(left axis)

Months’ Supply of New Homes on the Market
(right axis)

Source: Census Bureau
Housing Starts

Single-family at Record Highs in 2005

Thousands of Units

Source: Bureau of the Census, Fannie Mae forecast
Existing Home Sales
A New Record in 2005, But Down in 2006

Source: National Association of Realtors, Fannie Mae forecast
Existing Homes For Sale

Source: National Association of Realtors
MBA Refinance Index

Edging Down

Index, 16-Mar-90 =100, SA

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

Year/Year Percent Change

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.