



## Housing Affordability Constrains as the Expansion Matures

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February 24, 2016



### Disclaimer

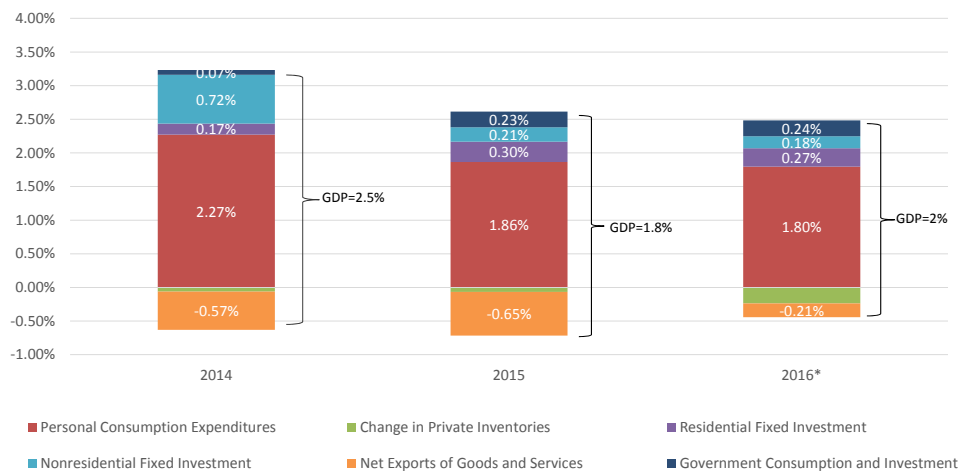
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## Macroeconomic Developments

Check out Fannie Mae's Economic and Housing Outlook at <http://fanniemae.com/portal/research-and-analysis/emma.html>

## Housing Contribution to Growth Increases, a Bit

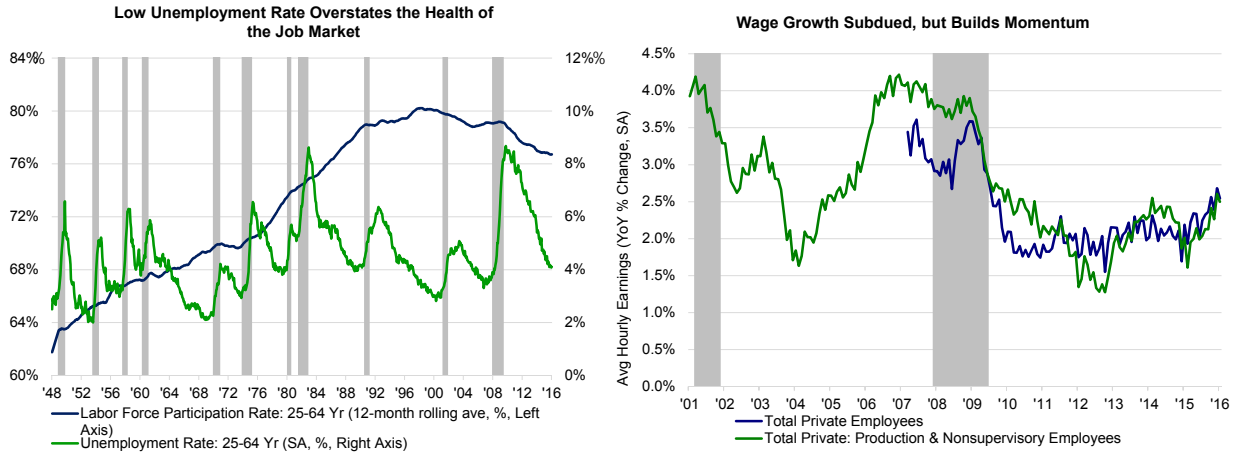
Contribution to Percent Change in Real GDP (Q4/Q4)



Source: Bureau of Economic Analysis, \*Fannie Mae Economic & Strategic Research February 2016 Forecast



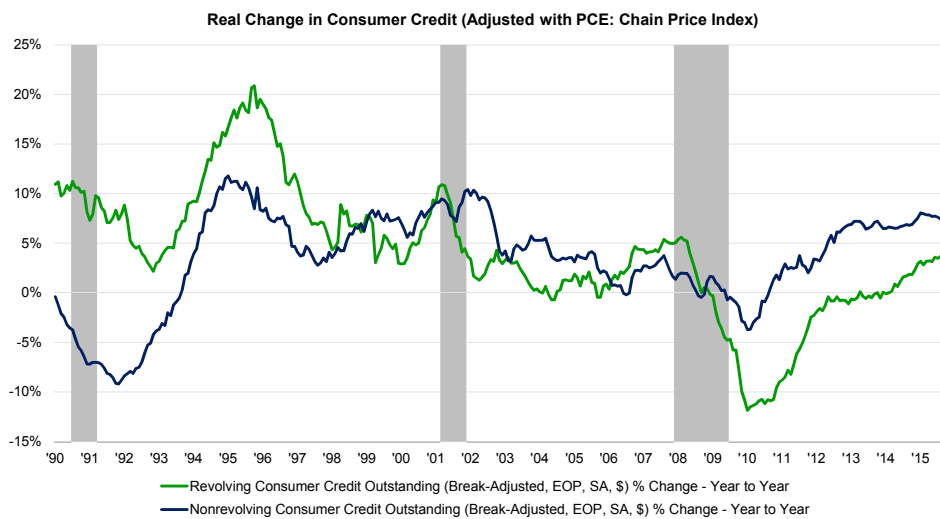
### Labor Conditions Are Improving



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### Revolving Consumer Credit Rises in Real Terms

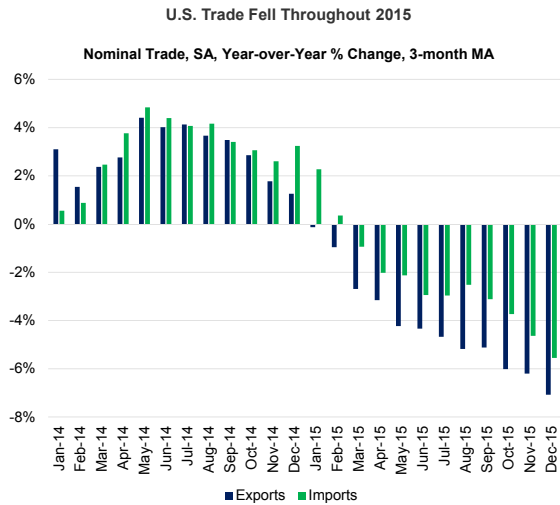
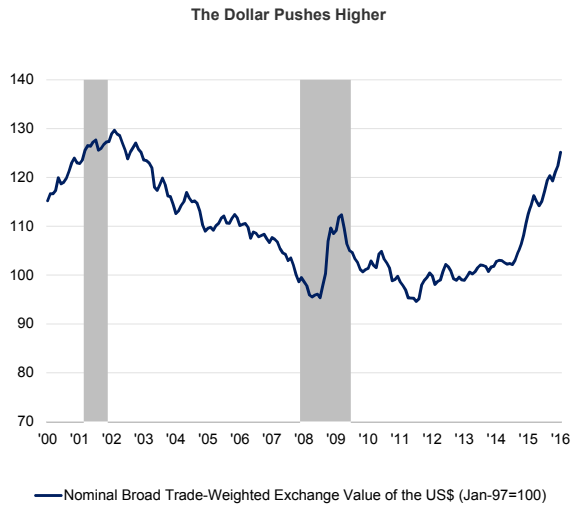


Note: Revolving Credit includes credit card credit and balances outstanding on unsecured revolving lines of credit. Nonrevolving credit includes secured and unsecured credit for automobiles, mobile homes, trailers, durable goods, vacations, and other purposes. Consumer credit excludes loans secured by real estate (such as mortgage loans, home equity loans, and home equity lines of credit).

Source: Federal Reserve Board

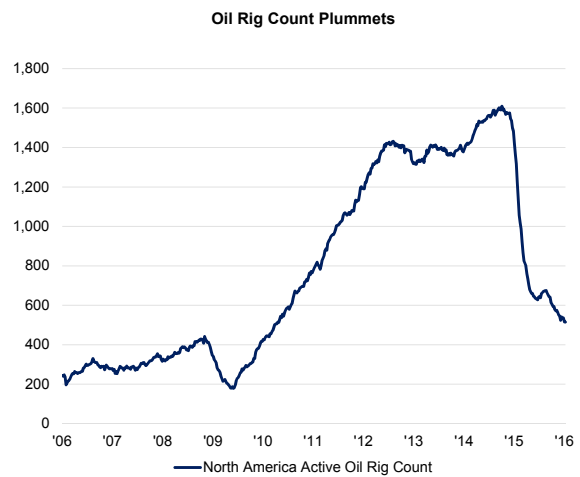
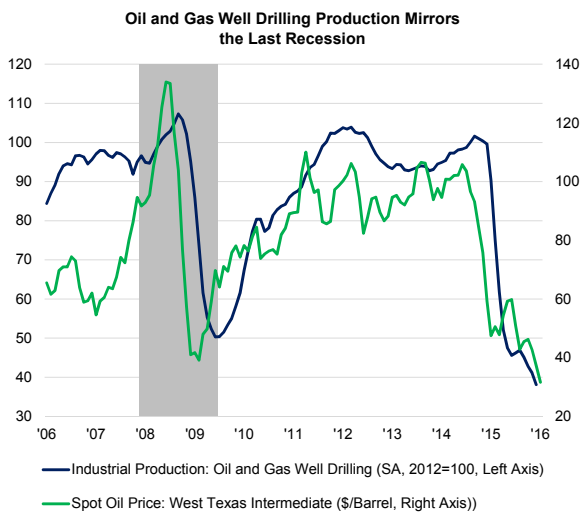
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### The Strengthening Dollar is Contributing to the Reduction in Trade



Source: Federal Reserve Board, Census Bureau

### Oil and Gas Investments Decline Amid Low Oil Prices

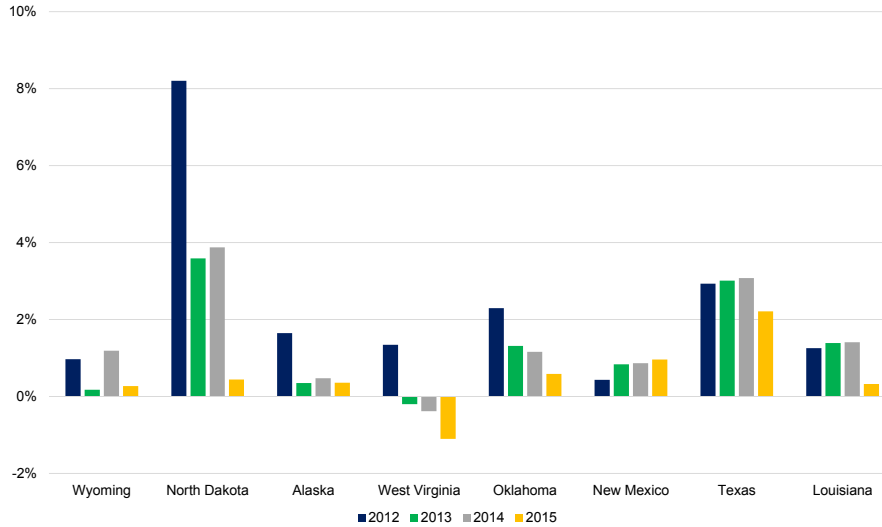


Source: Bureau of Labor Statistics, Baker Hughes



## Employment Growth Slowing in Oil Producing States

Year-over-Year Change in Payroll Employment in Oil Producing States



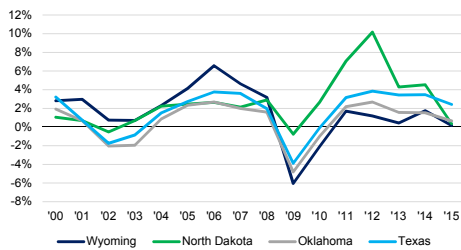
State	Share of Payroll Employment in Mining & Logging
Wyoming	8.18%
North Dakota	6.06%
Alaska	5.20%
West Virginia	3.65%
Oklahoma	3.31%
New Mexico	3.29%
Texas	2.51%
Louisiana	2.38%

Source: Bureau of Labor Statistics

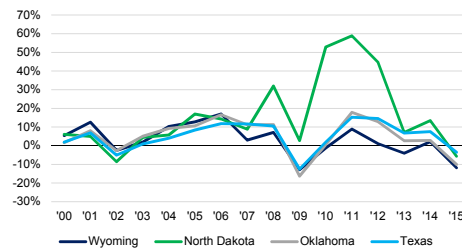


## State-Level Effects of Low Oil Prices

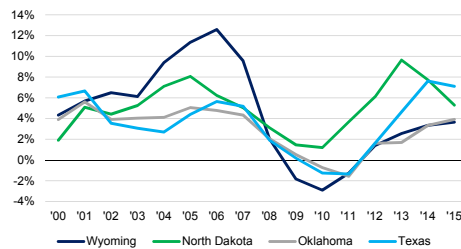
Total Private Employment: Year-over-Year Change



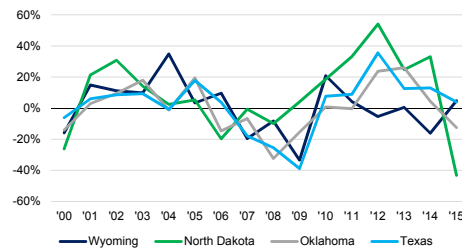
Mining & Logging Employment: Year-over-Year Change



Home Price: Year-over-Year Change



Housing Starts: Year-over-Year Change

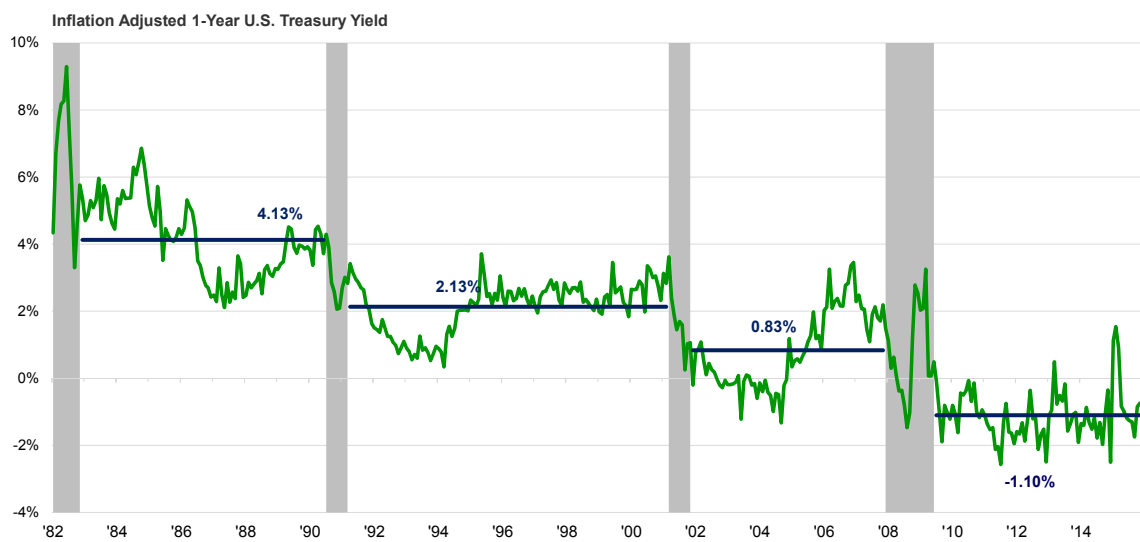


Source: Bureau of Labor Statistics, FHFA, Bank of Tokyo

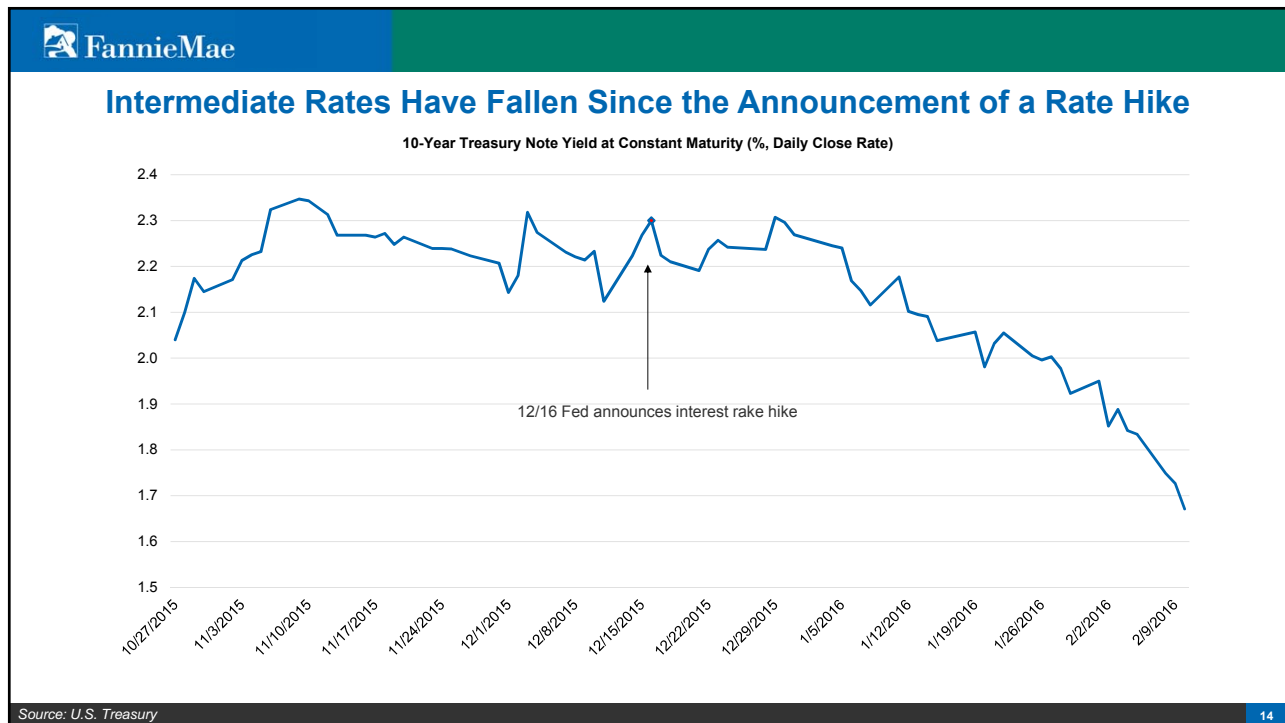
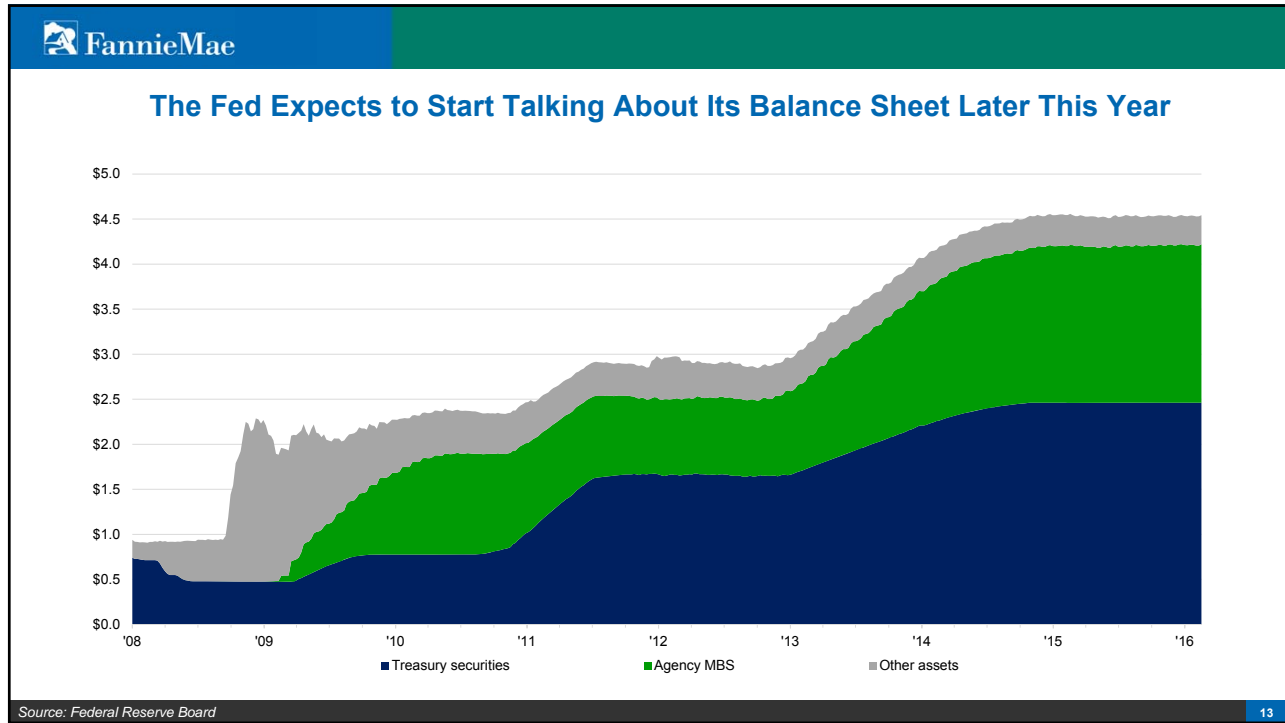
## The Fed and Interest Rates

Check out *Fannie Mae's Economic and Housing Outlook* at <http://fanniemae.com/portal/research-and-analysis/emma.html>

## Real Interest Rates Have Trended Lower for Over Three Decades



Source: Federal Reserve Bank of Cleveland



## Fed's MBS Holdings Constant for Now

### September FOMC Minutes

- “A staff briefing provided background on the macroeconomic effects of alternative approaches to ceasing reinvestments of principal on securities held in the SOMA after the Committee begins to normalize the stance of policy by increasing the target range for the federal funds rate.”
- “...The Committee made no decisions regarding its strategy for ceasing or phasing out reinvestments at this meeting.”

“The Committee will continue its policy of reinvesting proceeds from maturing Treasury securities and principal payments from agency debt and mortgage-backed securities. As highlighted in our policy statement, we anticipate continuing this policy “until normalization of the level of the federal funds rate is well under way.”  
– Janet Yellen, December 16, 2015

Source: September 2015 FOMC Meeting Minutes

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## 2016 Economic Outlook – Moderate Economic Growth Continues

	February 2016 forecast
Real GDP Annual Growth	2.0%
Unemployment Rate (Year-end)	4.7 %
Core CPI (Year-end)	1.7%
10-Year Treasury Bond Yield (Year-end)	2.1%

Source: Fannie Mae Economic & Strategic Research February 2016 Forecast

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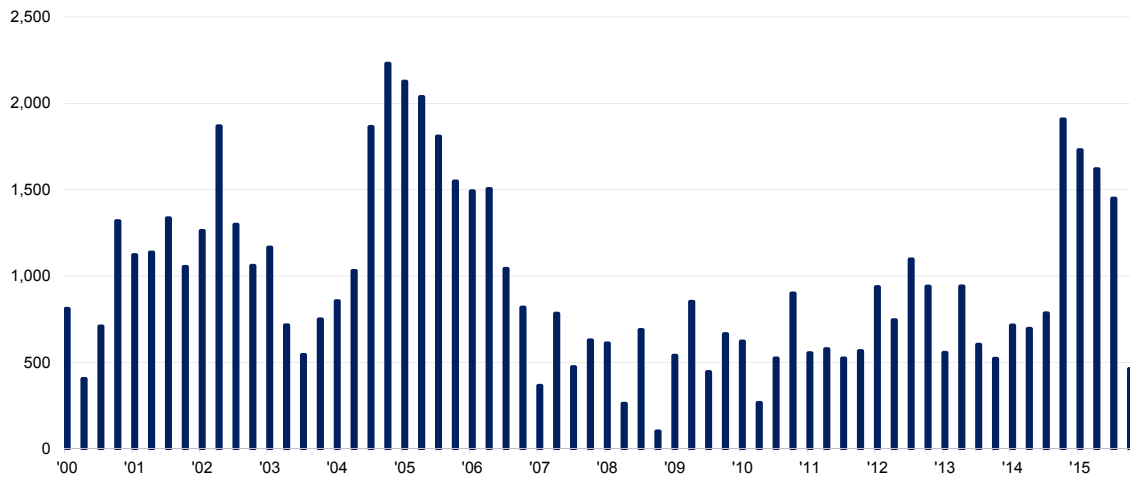


## Housing/Mortgage Market

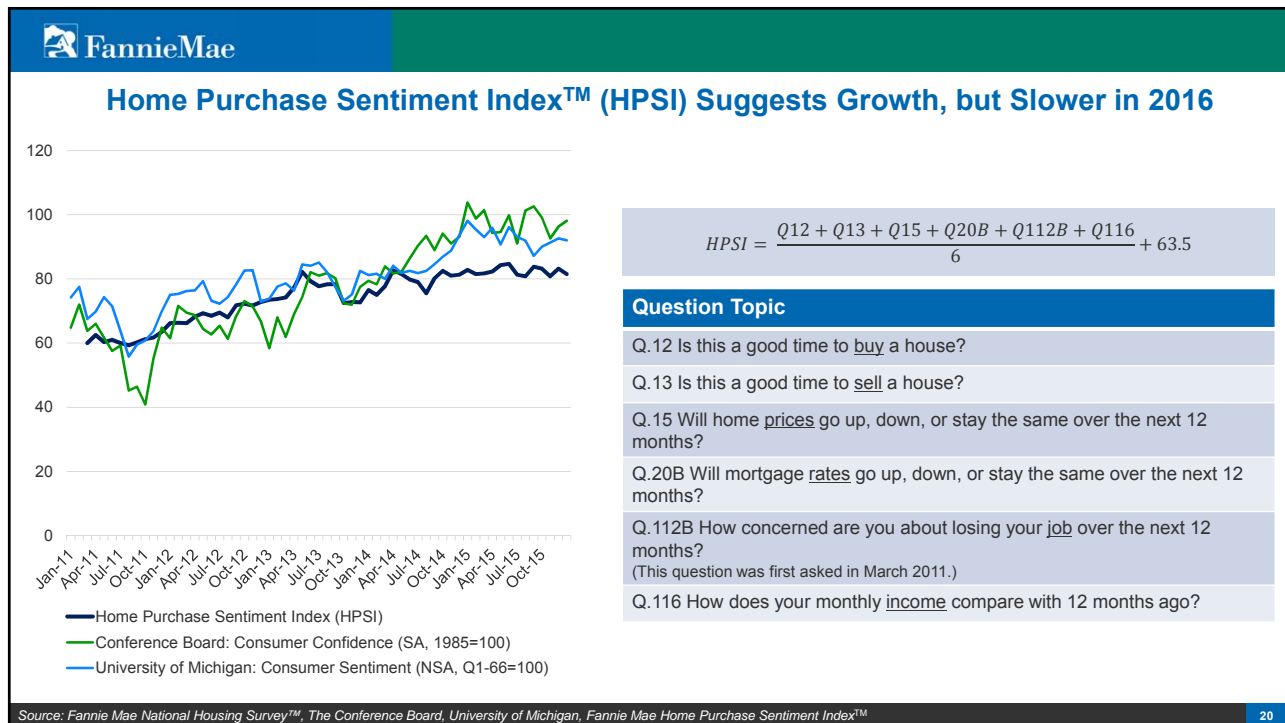
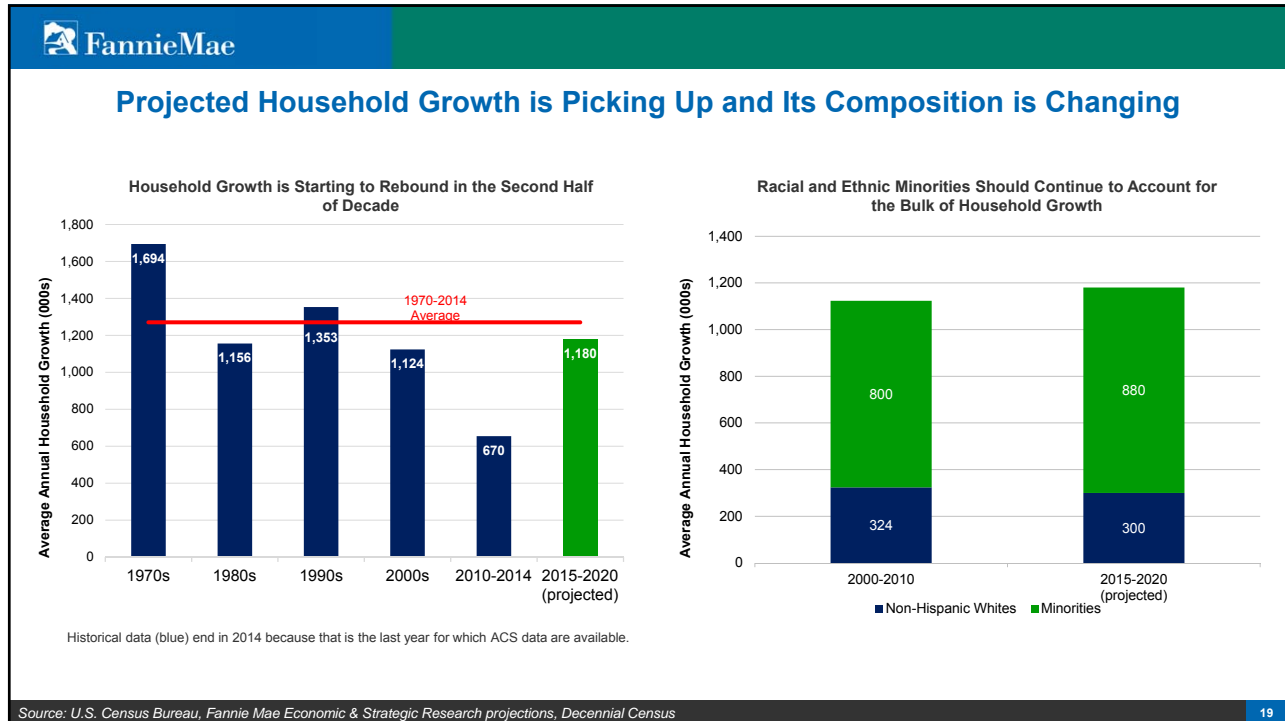
Check out Fannie Mae's Economic and Housing Outlook at <http://fanniemae.com/portal/research-and-analysis/emma.html>

## Household Formation Ends an Otherwise Impressive 2015 on a Soft Note

Total Number of Households, Break-adjusted (Thous) Change – Year-to-Year

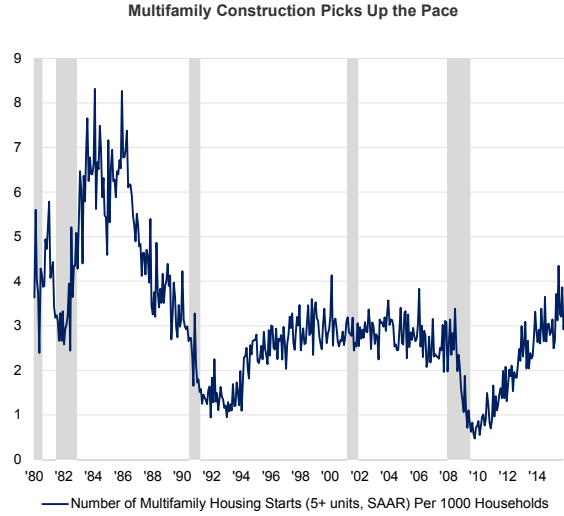
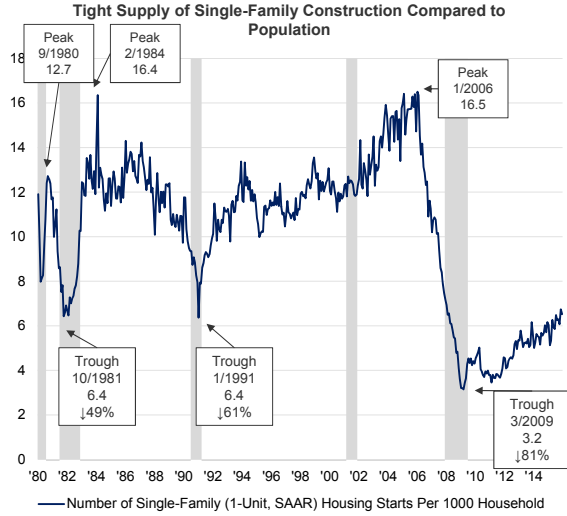


Source: Census Bureau





### Single-Family Housing Supply is Still Behind the Curve

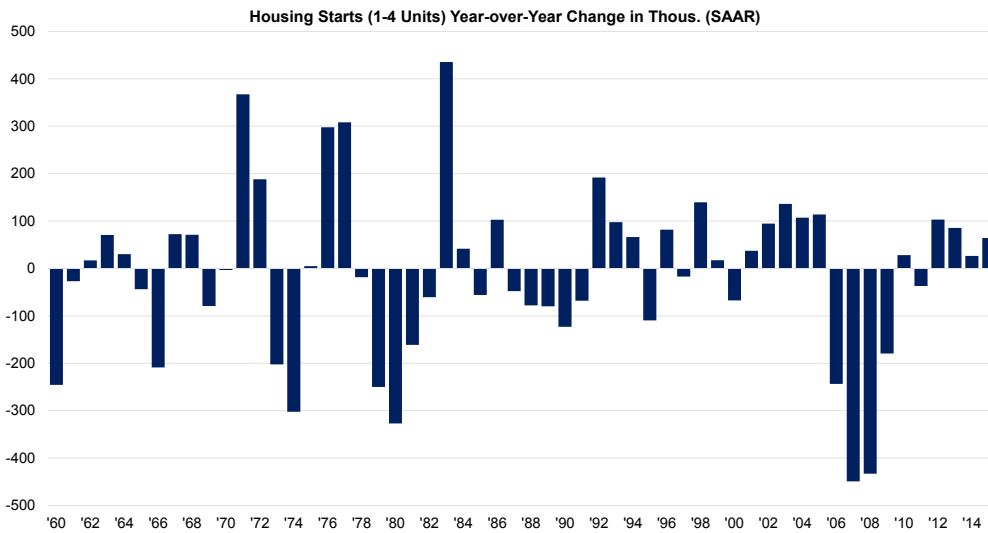


Source: Census Bureau

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### The Increase in Housing Starts in the Current Recovery is Behind What We've Seen in the Past

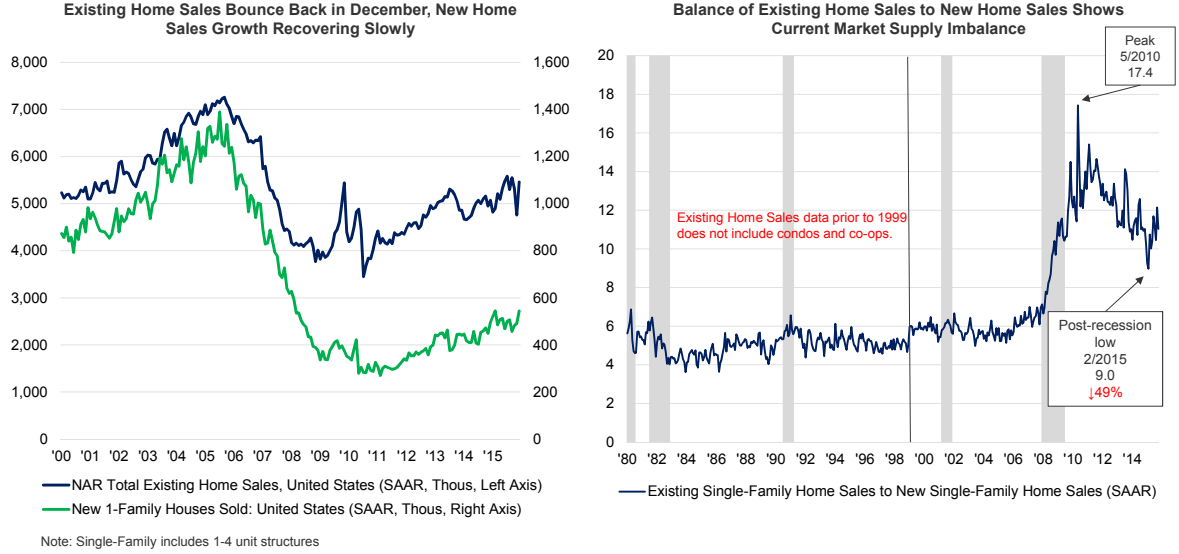


Source: Census Bureau

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## Housing Demand is Moving Ahead of Supply

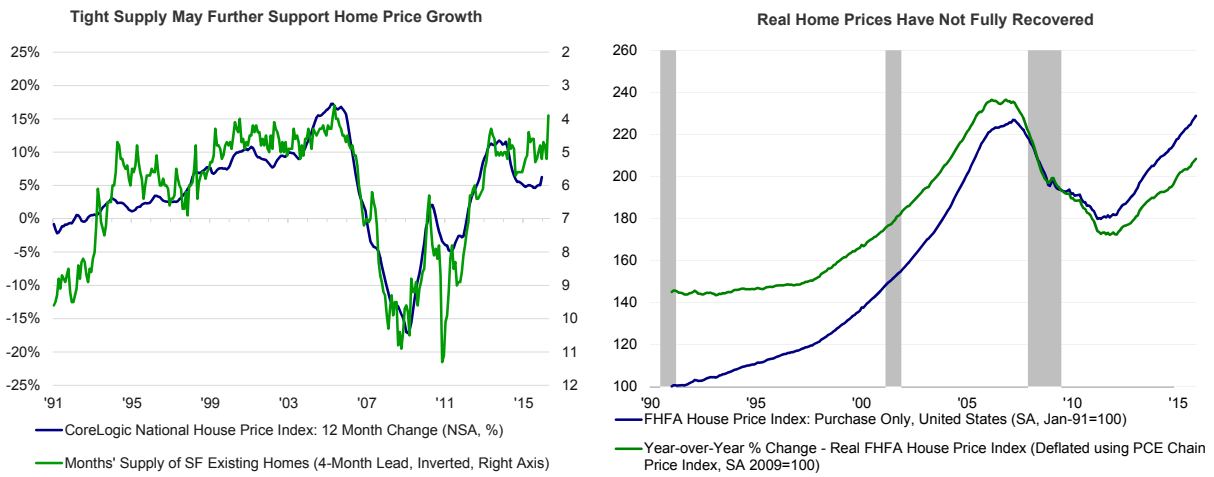


Source: Census Bureau, National Association of REALTORS®

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## Real Home Price Appreciation Still Well Above Long-Term Averages

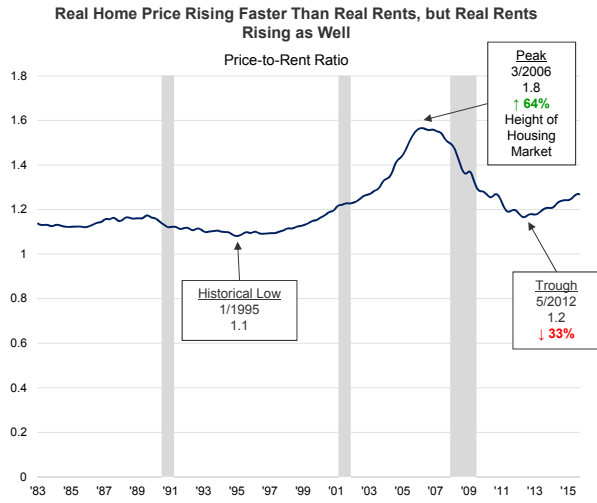
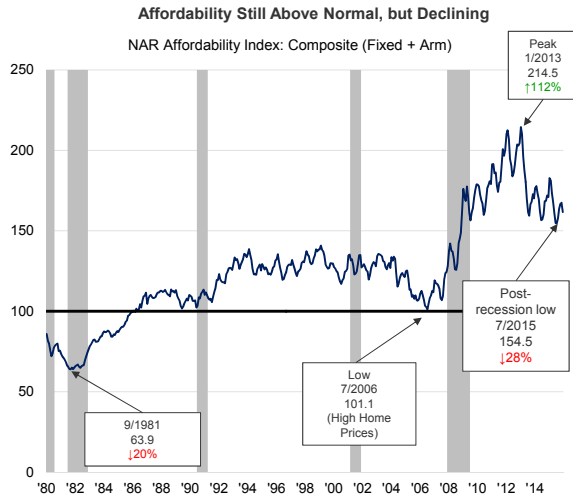


Source: National Association of REALTORS®, CoreLogic, Federal Housing Finance Agency, Bureau of Economic Analysis

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## Housing Affordability Moves to the Forefront



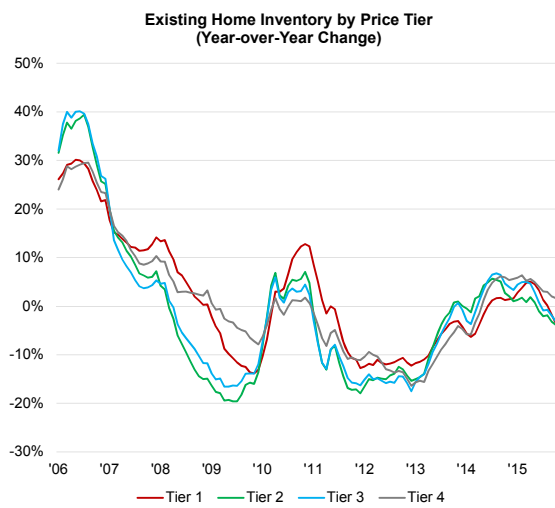
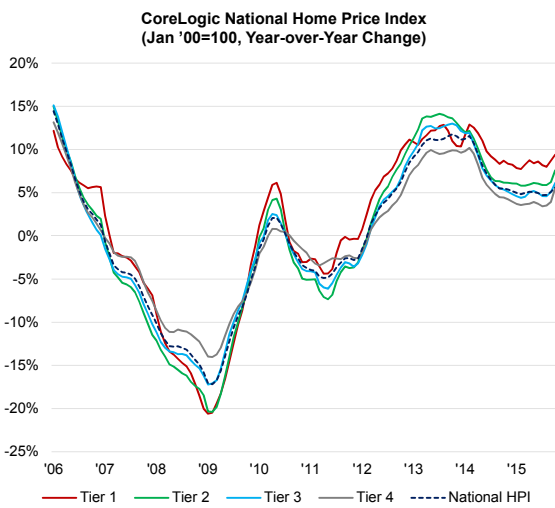
Note: Price-to-Rent: The ratio is calculated by dividing the FHFA repeat-purchase home price index by the U.S. Bureau of Labor Statistics (BLS) consumer price sub-index on Owner's Equivalent Rent

Source: National Association of REALTORS®, U.S. Bureau of Labor Statistics (BLS); CPI; FHFA

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## A Lack of More Affordable Properties May Impact Potential First-Time Homebuyers



Note: Tier 1: 0-75% of median, Tier 2: 75%-100% of median, Tier 3: 100%-125% of median, Tier 4: 125%+ of median

Source: CoreLogic

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## Continuing to See Faster Home Price Appreciation Among Moderately Priced Homes

MSA Name	Low Tier Year-over-Year % Change	Mid Tier Year-over-Year % Change	High Tier Year-over-Year % Change	Low - Mid Tier Change	Low - High Tier Change
Atlanta	7.95%	7.55%	4.93%	▲ 0.40%	▲ 3.02%
Boston	8.09%	5.66%	3.80%	▲ 2.43%	▲ 4.29%
Chicago	7.13%	2.99%	0.01%	▲ 4.14%	▲ 7.12%
Denver	16.30%	11.24%	8.15%	▲ 5.06%	▲ 8.15%
Las Vegas	7.95%	7.81%	4.20%	▲ 0.14%	▲ 3.75%
Los Angeles	8.82%	6.79%	4.72%	▲ 2.03%	▲ 4.10%
Miami	11.79%	9.17%	6.44%	▲ 2.62%	▲ 5.35%
Minneapolis	8.17%	5.72%	1.73%	▲ 2.45%	▲ 6.44%
New York	4.47%	3.83%	2.40%	▲ 0.64%	▲ 2.07%
Portland	13.77%	10.58%	9.43%	▲ 3.19%	▲ 4.34%
Phoenix	11.53%	7.24%	3.70%	▲ 4.29%	▲ 7.83%
San Diego	9.88%	6.16%	5.22%	▲ 3.72%	▲ 4.66%
San Francisco	10.93%	10.42%	10.97%	▲ 0.51%	▼ -0.04%
Seattle	8.95%	8.52%	9.28%	▲ 0.43%	▼ -0.33%
Tampa	16.11%	8.53%	4.92%	▲ 7.58%	▲ 11.19%
Washington DC	3.61%	2.10%	1.22%	▲ 1.51%	▲ 2.39%

Note: Percentage change in S&P/Case-Shiller Home Price Index (SA) from October 2014 to October 2015.

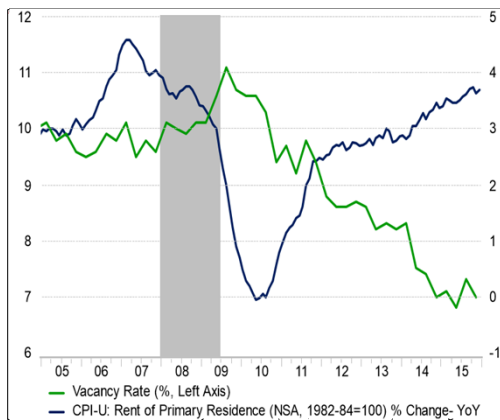
Source: S&P/Case-Shiller

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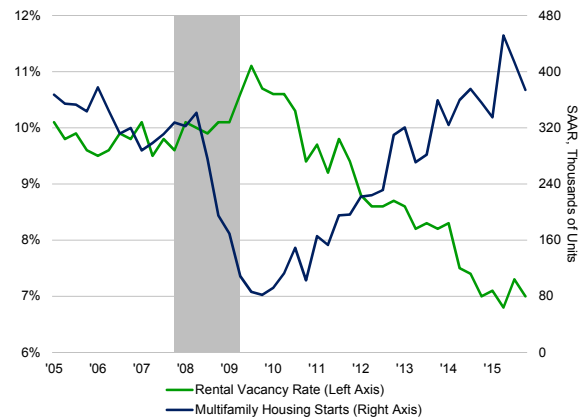


## Rental Market Should Be Strong for Another 3 Years

High Rental Demand Driving Appreciation



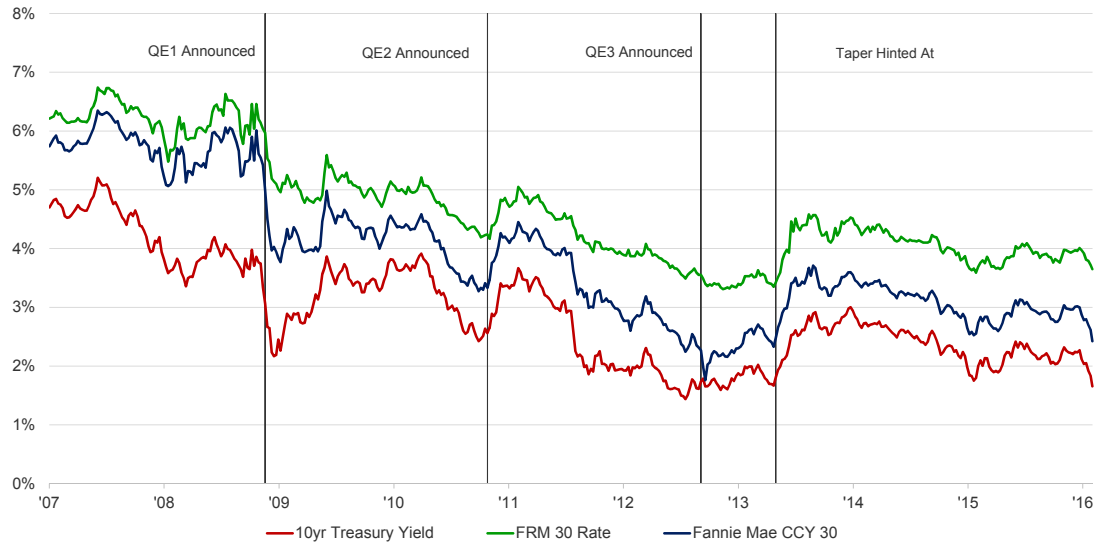
Multifamily Starts Are on a V-Shape Recovery As Rental Vacancy Rate Trends Down Sharply



Source: Census Bureau, Bureau of Labor Statistics

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## Mortgage Rates Dip Even Lower



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## 2016 Housing Outlook – Up from 2015, but Slower Growth

	February 2016 forecast
Housing Starts	Up 11% to 1.234 million
New Single-Family Home Sales (% Change Year-over-Year)	Up 11.3% to 558 thousand
Total Existing Home Sales (Single-Family, Condos, and Co-Ops)	Up 2.7% to 5.402 million
FHFA Purchase-Only Index (Annual Percent Change Q4/Q4)	Up 5.2%
Purchase Mortgage Originations	\$950 billion
Refinance Mortgage Originations	\$558 billion
30-Year Fixed Rate Mortgage (Year-end)	3.8%

Source: Fannie Mae Economic &amp; Strategic Research February 2016 Forecast

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## Speaker Biography

Douglas G. Duncan is Fannie Mae's senior vice president and chief economist. He is responsible for providing all forecasts and analyses on the economy, housing, and mortgage markets for Fannie Mae. Duncan also oversees corporate strategy and is responsible for strategic research regarding external factors and their potential impact on the company and the housing industry. He serves as a voting member of the Fannie Mae Finance Committee.



Under his leadership, in 2015 Fannie Mae's Economic and Strategic Research Group won the NABE Outlook Award presented annually for the most accurate GDP and Treasury note yield forecasts. In addition, the Group was awarded Pultenomics best home price forecast.

Named one of Bloomberg / BusinessWeek's 50 Most Powerful People in Real Estate, Duncan is Fannie Mae's source for information and analyses on the external business and economic environment, the implications of changes in economic environment to the company's strategy and execution, and forecasting for housing activity, demographics, overall economic activity, and mortgage market activity.

Prior to joining Fannie Mae, Duncan was Senior Vice President and Chief Economist at the Mortgage Bankers Association. His experience also includes service as a LEGIS Fellow and staff member with the Committee on Banking, Finance, and Urban Affairs for Congressman Bill McCollum in the U.S. House of Representatives, and work on the Financial Institutions Project at the U.S. Department of Agriculture.

Duncan received his Ph. D. in Agricultural Economics from Texas A&M University and his B.S. and M.S. in Agricultural Economics from North Dakota State University.

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