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# **Economic and Housing Outlook**

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Economic & Strategic Research

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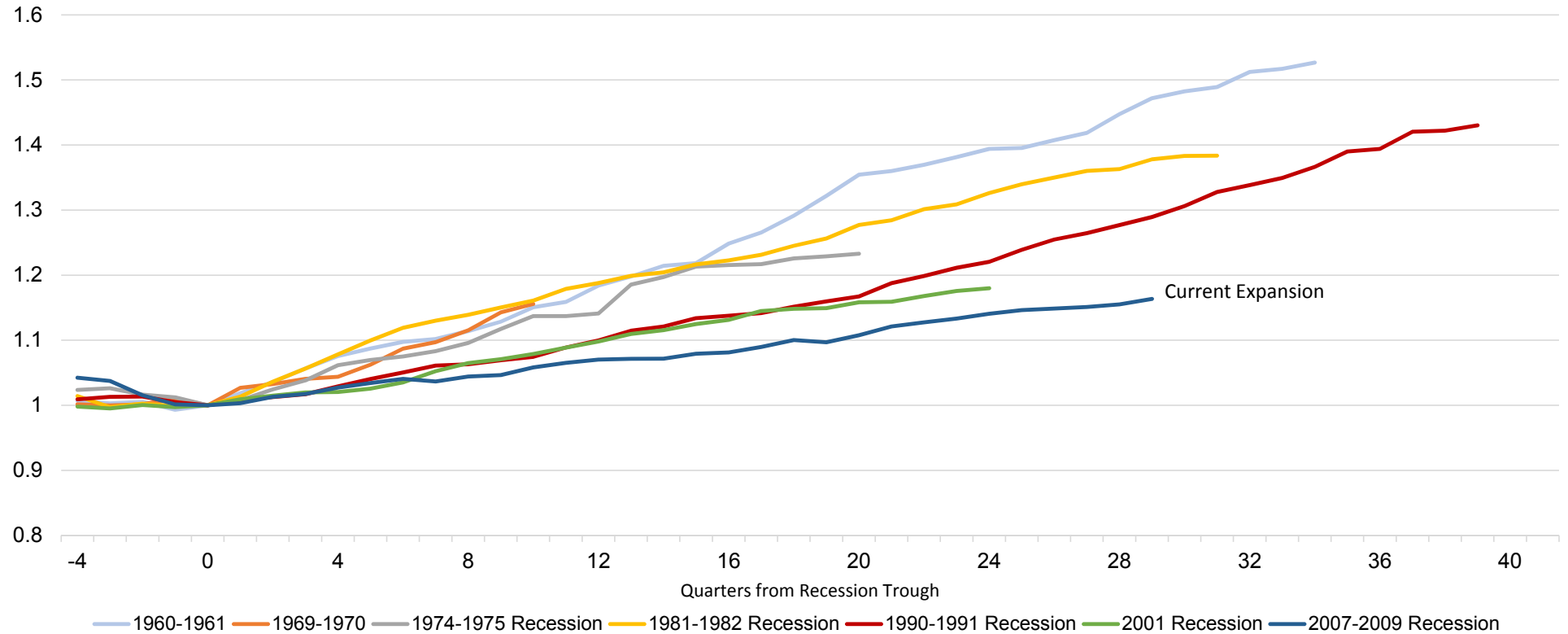
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# Likely in Late Stage of Subpar Expansion

1 = Level at Recession Trough

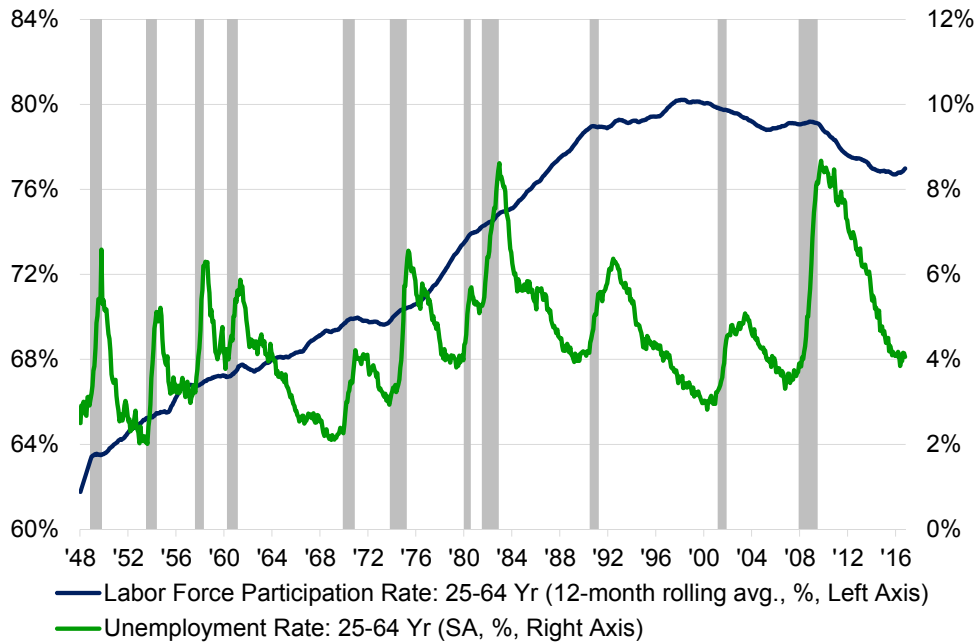
### Cumulative Change in Real GDP By Business Cycle



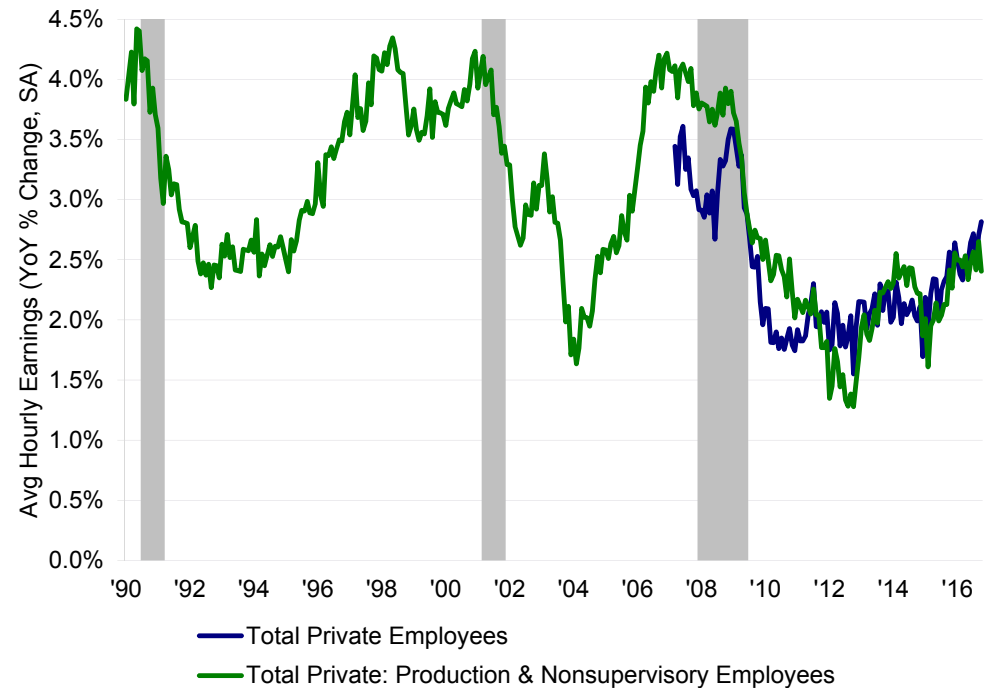


# Unemployment Continues to Improve, but Wage Growth Remains Modest

### Labor Force Participation Rate Ticks Up Along with a Leveling Out Low Unemployment Rate



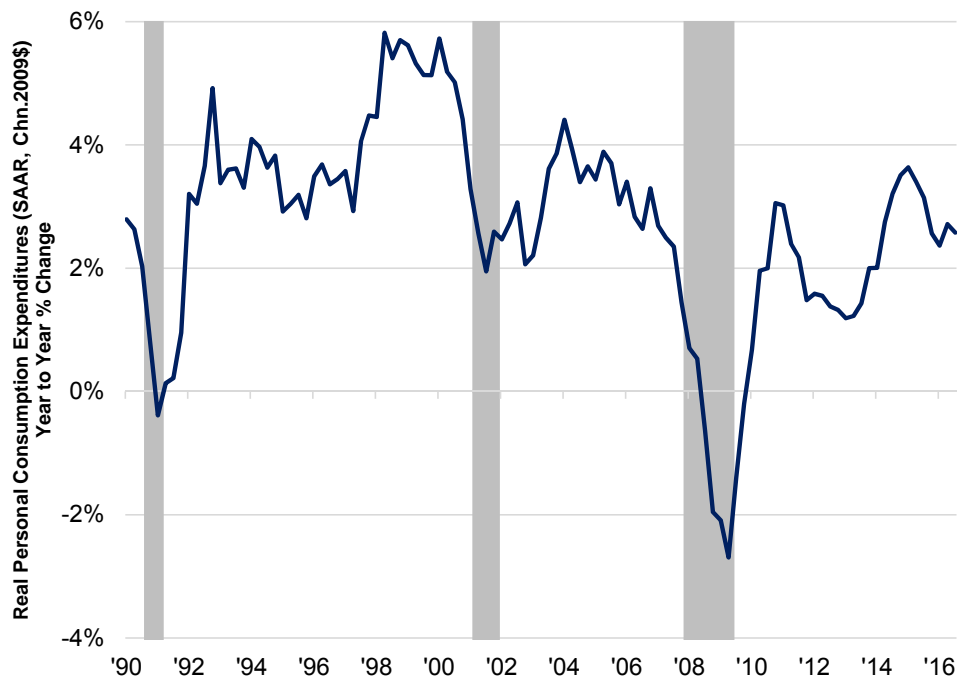
### Wage Growth Picks Up



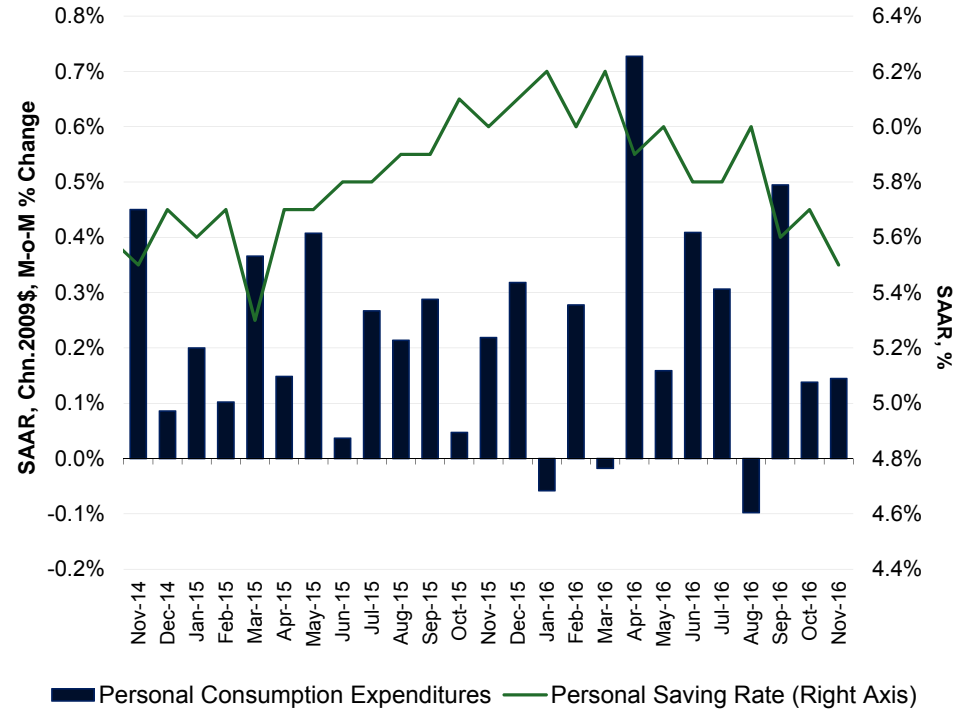


# Consumer is Driving Growth, but Has Recently Done So at Expense of Savings

### Real Personal Consumption Continues to Grow



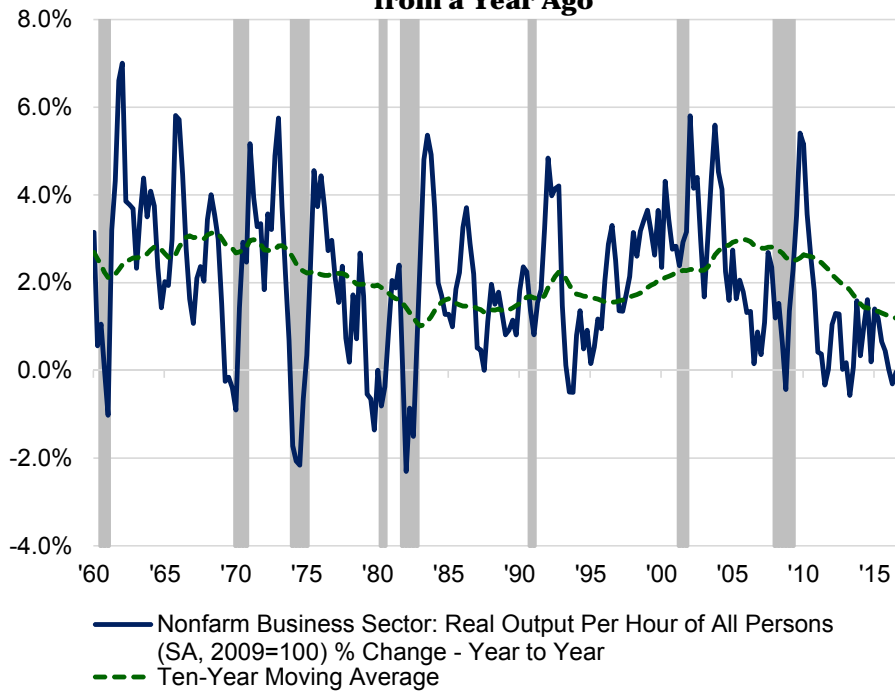
### Consumption Growth Along with Drop in the Savings Rate



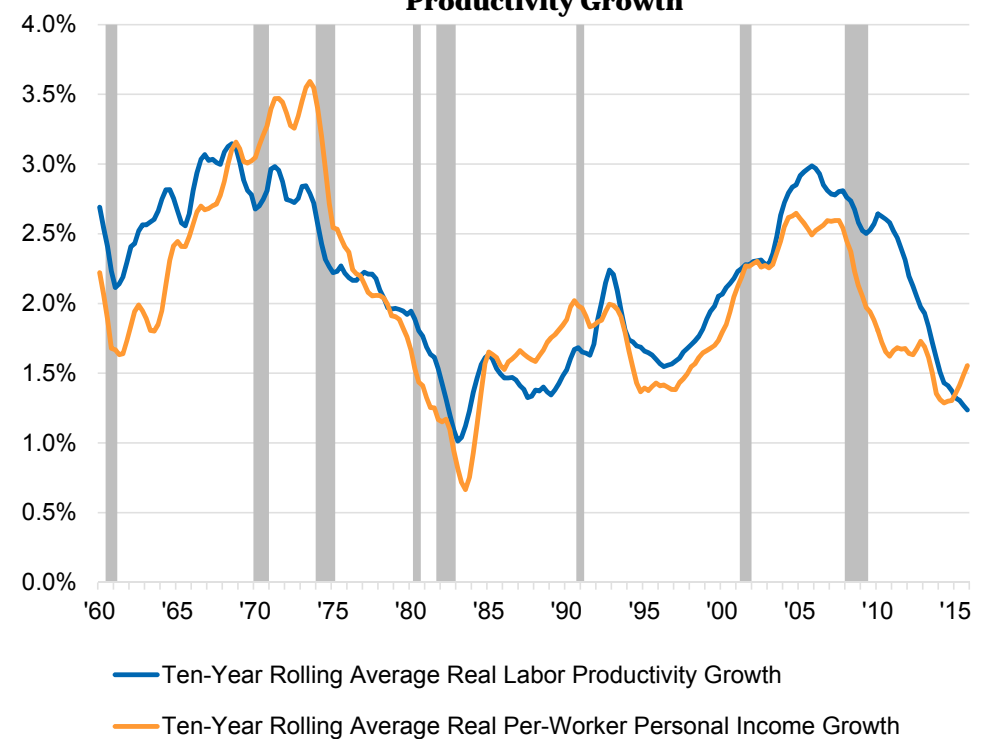


# Productivity Growth Slows, Limiting Potential for Continued Wage Gains

### Real Labor Productivity Is Little Changed from a Year Ago



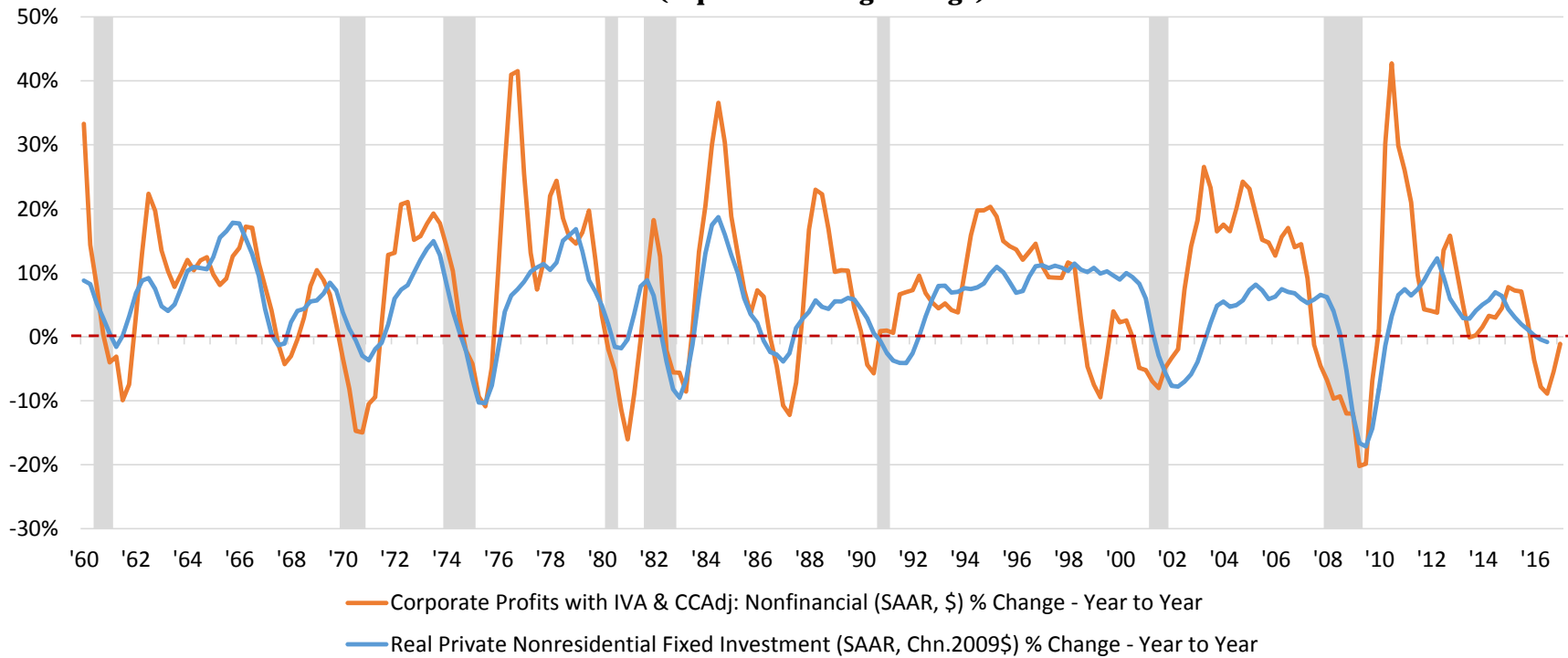
### Long Run Real Income Growth Tracks Productivity Growth





# Business Investment and Corporate Profits are Key to Continued Expansion

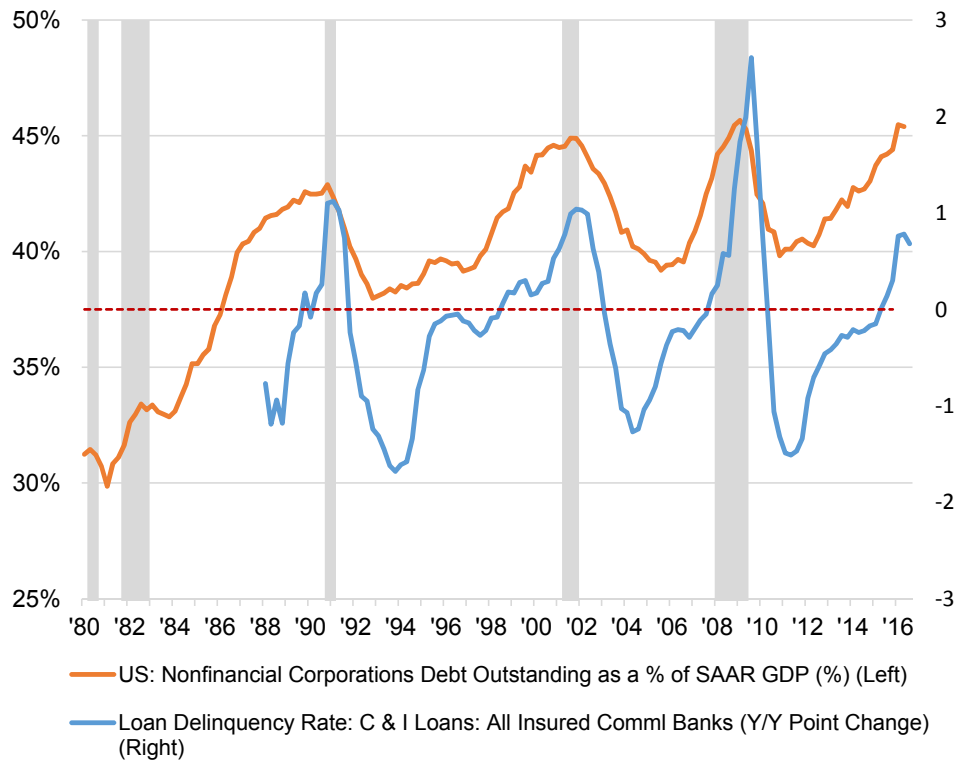
**Y/Y % Change in Corporate Profits (2 quarter lag) and Nonresidential Fixed Investment (2 quarter rolling average)**



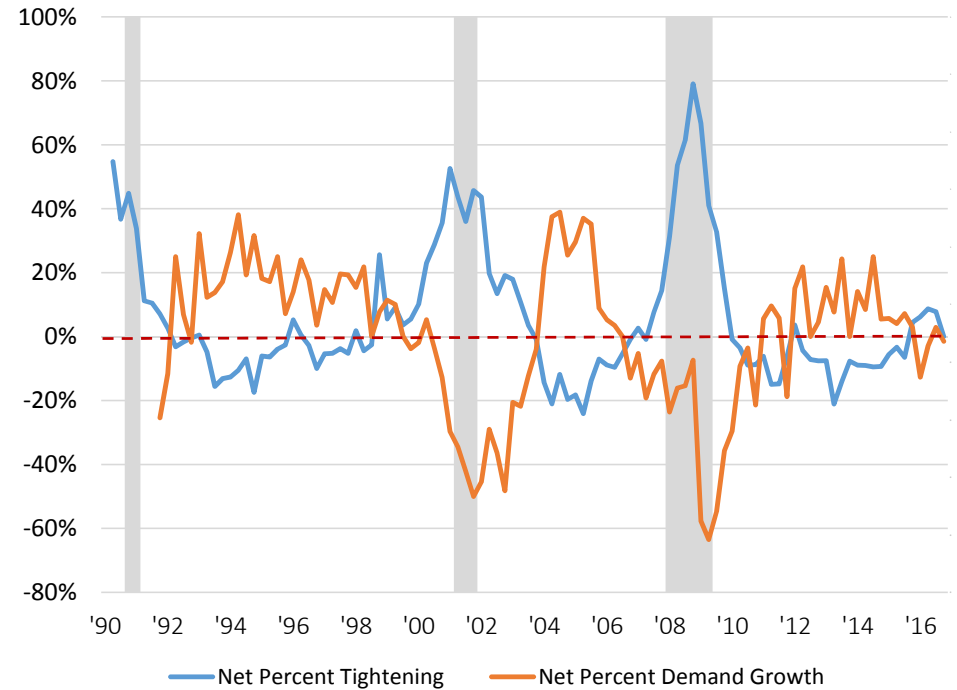


# Corporate Debt Cycles Showing Limited Additional Leverage Capacity

### Nonfinancial Corporate Debt Cycle



### Senior Loan Officer Survey C&I Loans

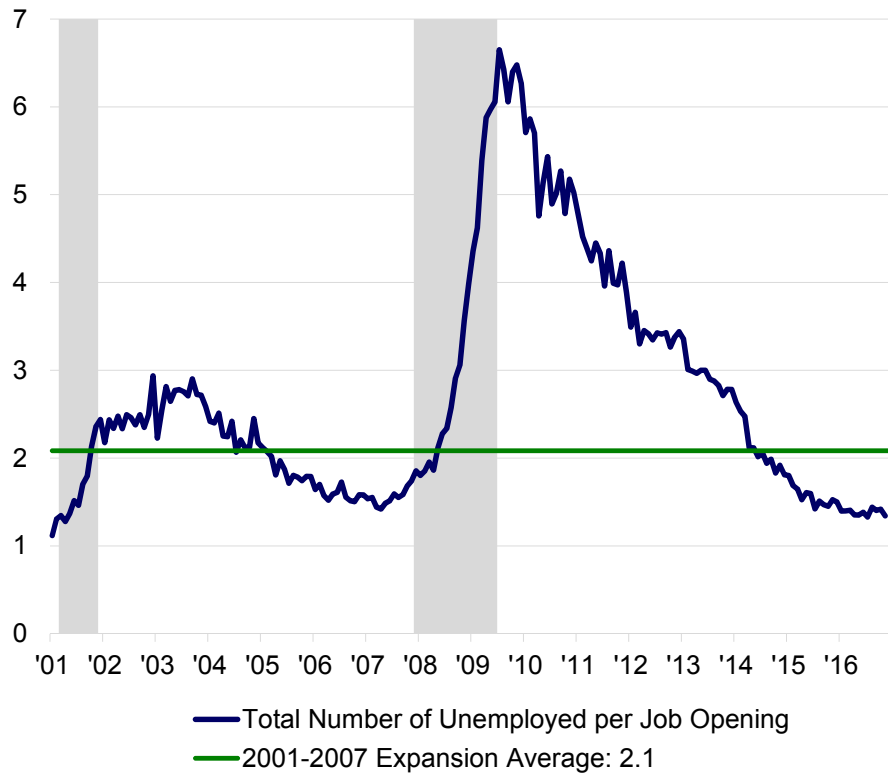




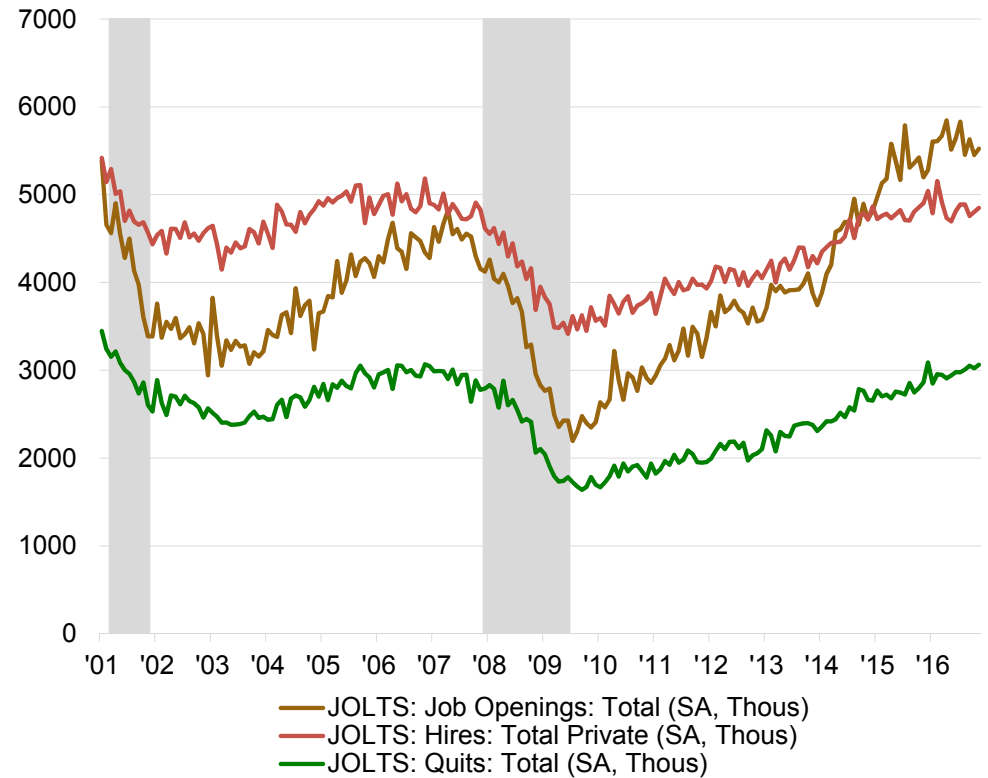


# Diminishing Labor Market Slack as Turnover Levels Are Near Cyclical High

### Unemployed per Job Opening



### Hires and Quits Holding at Pre Recession Level





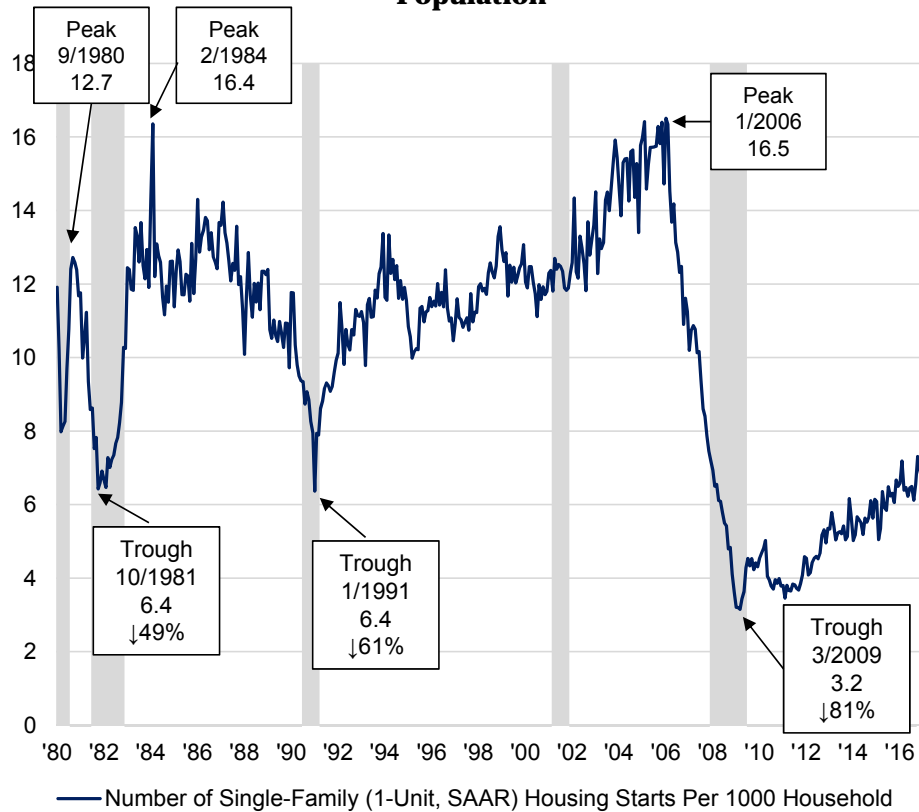
## 2017 Economic Outlook – Moderate Economic Growth Continues

2017 Forecast	
Real GDP Annual Growth (Q4-over-Q4)	2.0%
Unemployment Rate (Year-end)	4.6%
Core CPI (Year-end, % Year-over-Year)	2.2%
10-Year Treasury Bond Yield (Year-end)	2.6%

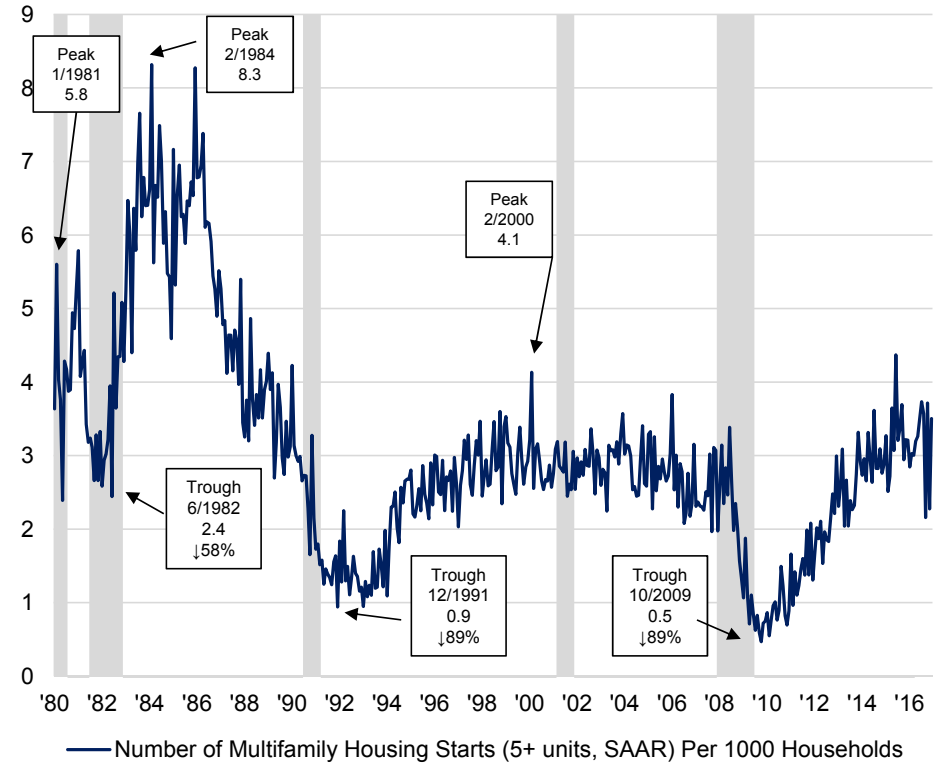


# Single-Family Housing Supply is Still Behind the Curve

## Tight Supply of Single-Family Construction Compared to Population



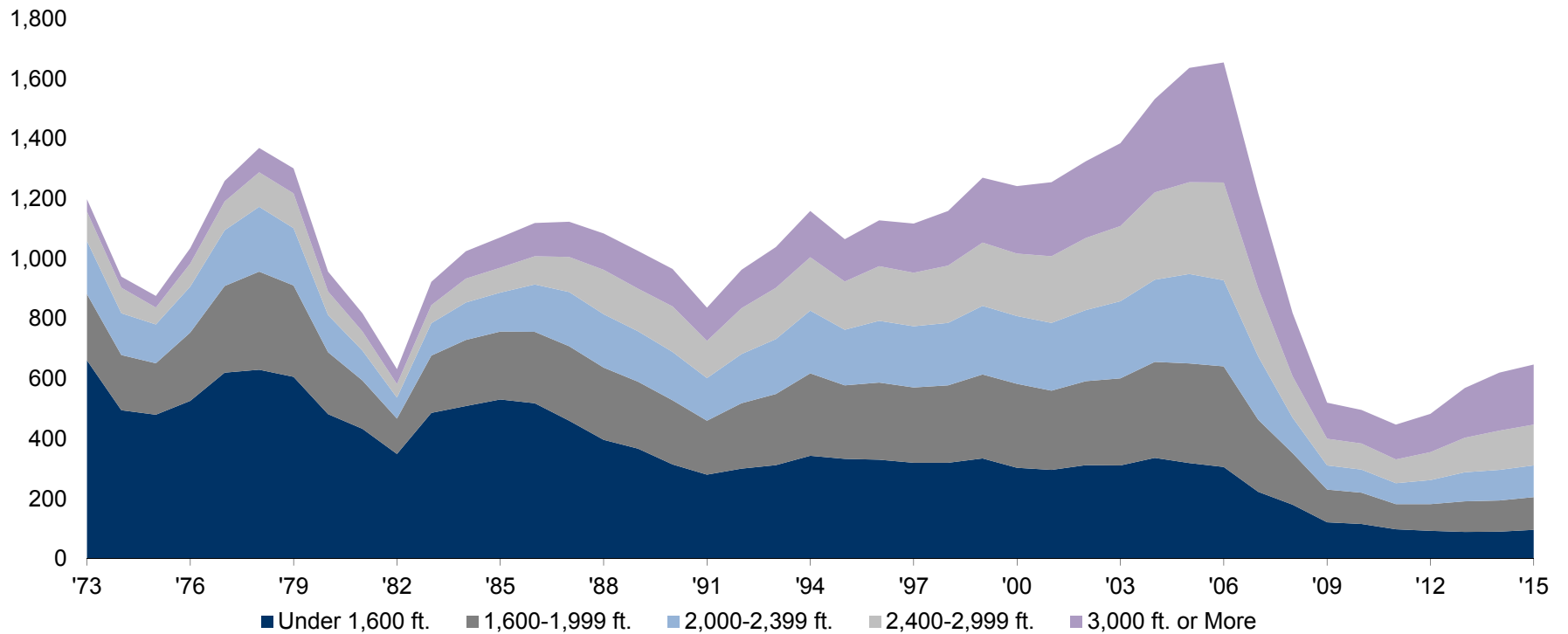
## Multifamily Construction Has Recovered Its Pre-Recession Peak





# Recovery in New Home Construction Is Slower than What We've Seen in the Past and Skewed Toward Less Affordable Homes

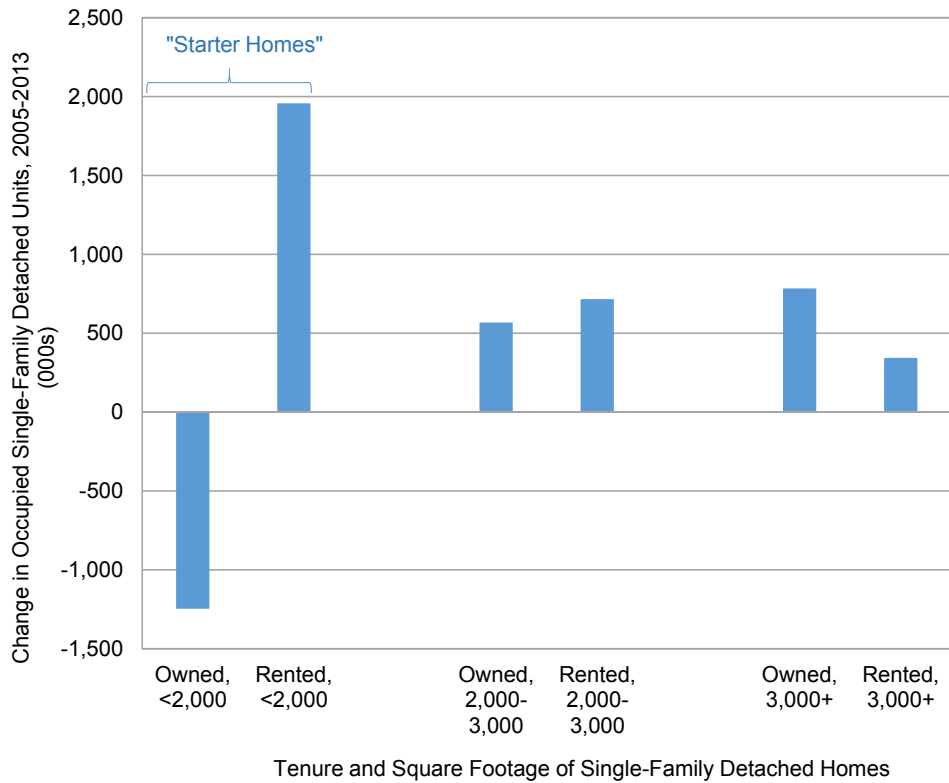
Single-Family Housing Completions by Square Feet of Floor Area (Thous.)



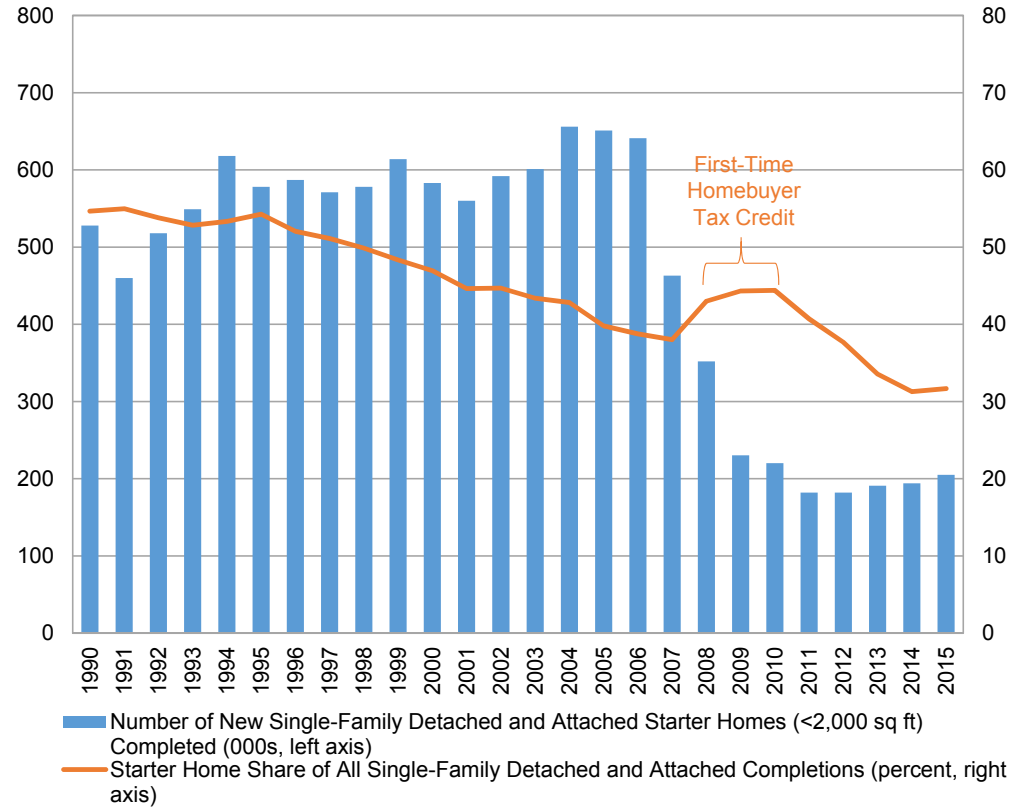


# Lean Supply of Starter Homes Challenges First-Time Homebuyers

## Many Single-Family Starter Homes Have Shifted to the Rental Market



## Fewer New Starter Homes Are Being Built

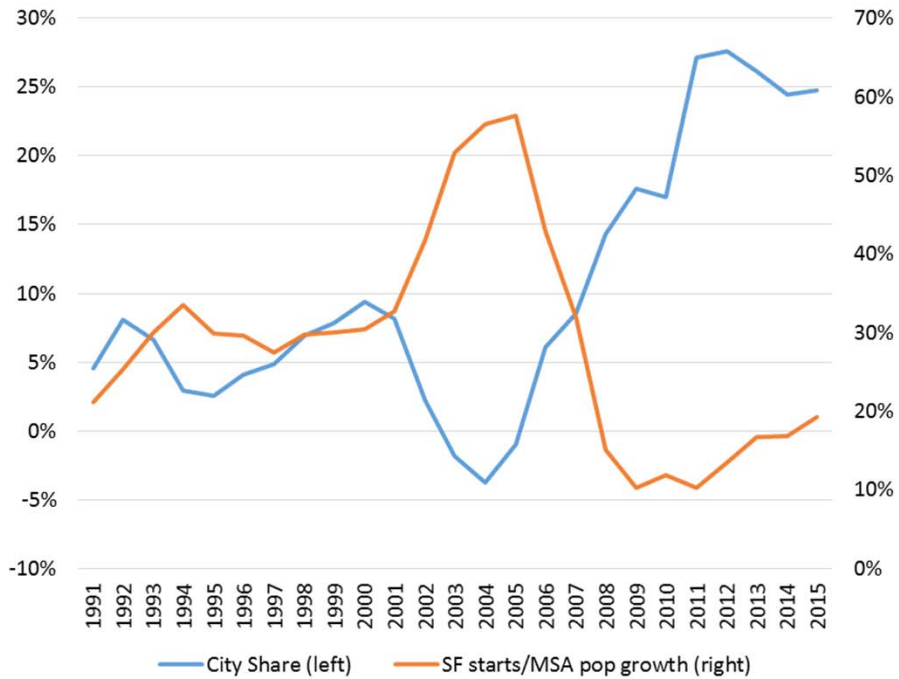


Source: Census Bureau, ESR calculations

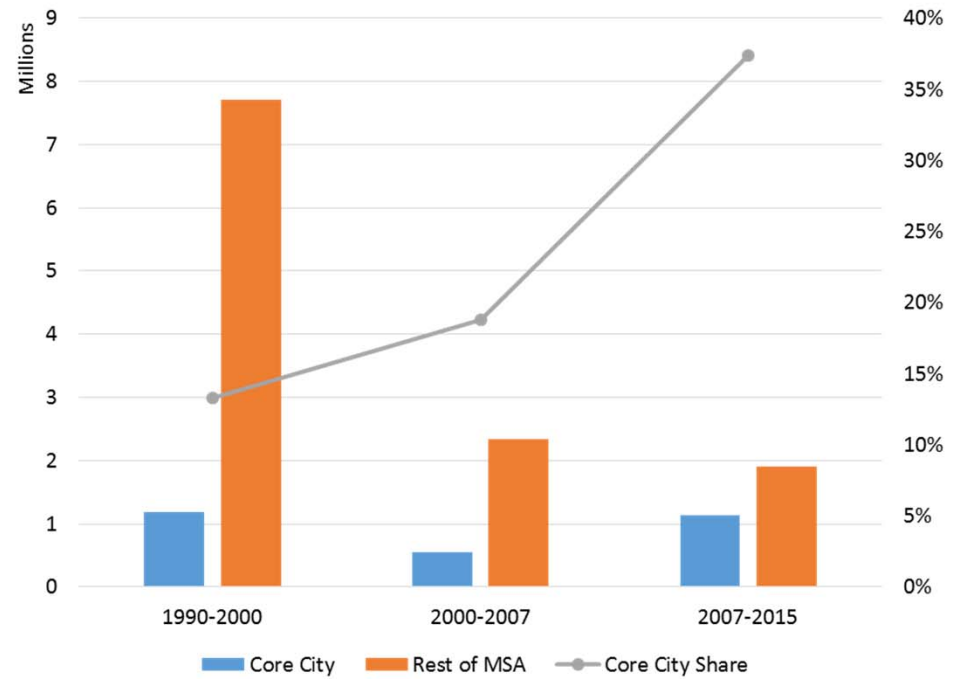


# Changing Geographic Distribution of Housing Demand

**Core City Share of Largest 25 MSA Pop. Growth and MSA SF Starts as a Share of Pop. Growth**

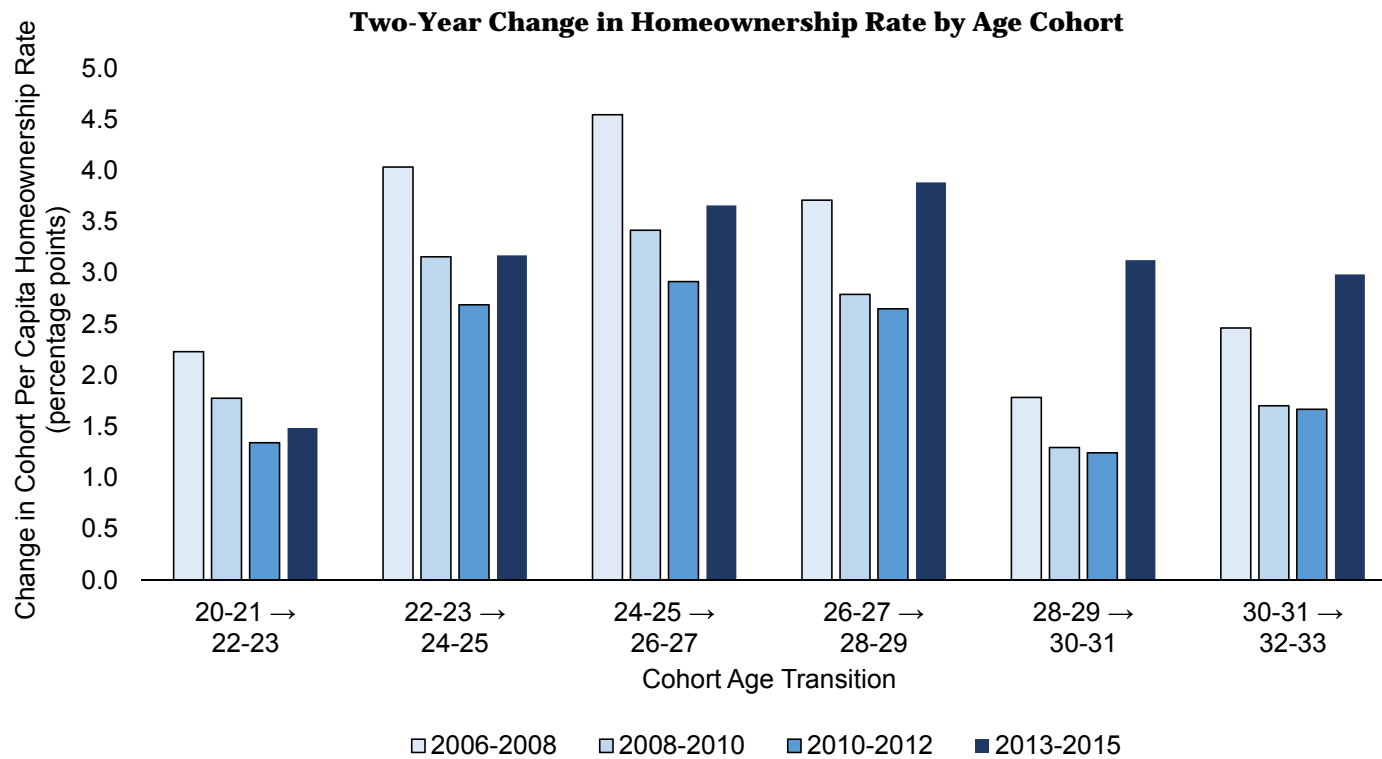


**Job Growth and Core City Share in Top 25 MSAs (peak-to-peak)**





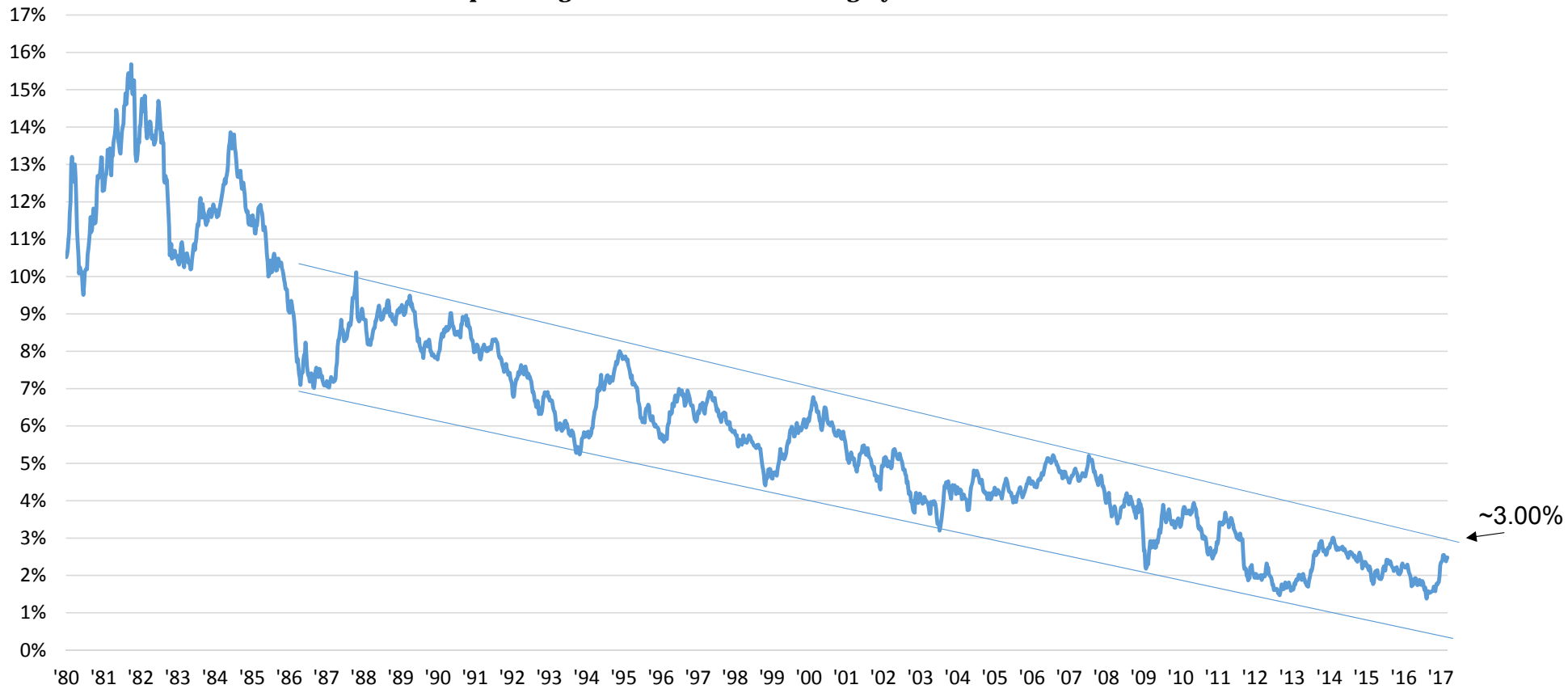
## Millennial Homeownership Begins to Accelerate





# 30-Year Downtrend In Ten-Year Treasury Yield Remains Intact for Now

Top of Longer Run Trend Line is Roughly 3.00% Percent

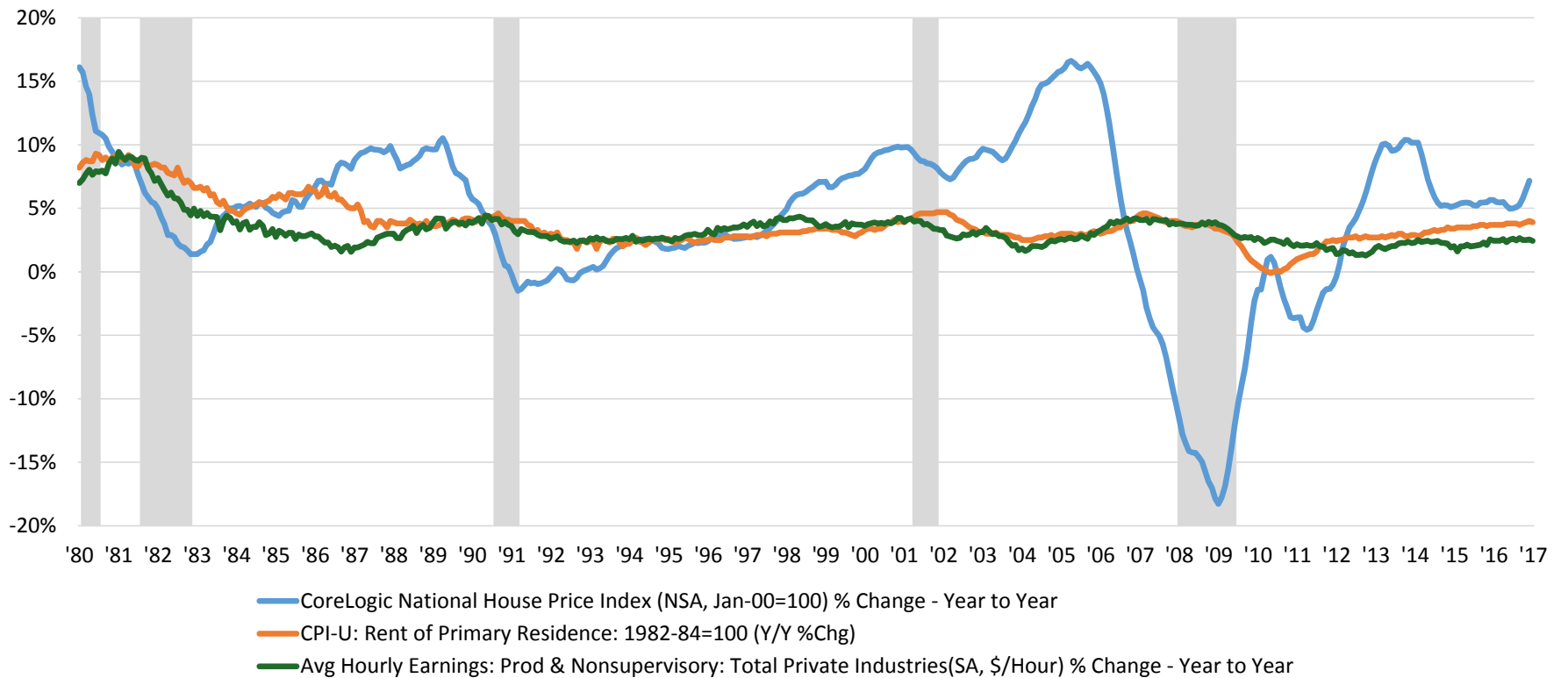






# House Prices and Rents Have Recently Grown More Quickly Than Hourly Earnings

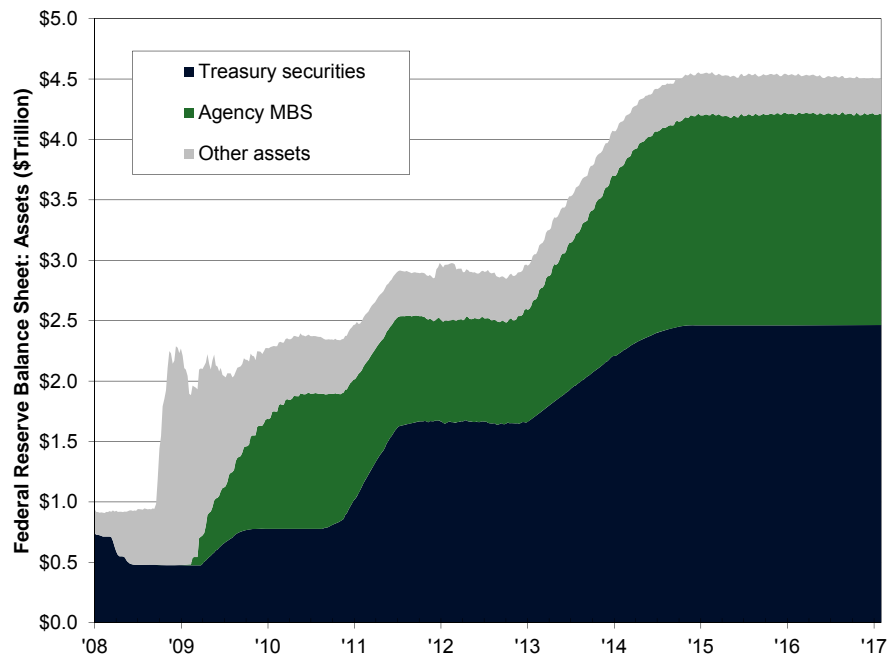
Y/Y % Change in House Prices and Rents Relative to Hourly Wages





## Federal Reserve Balance Sheet

### Reinvestment Policy Has Maintained the Balance Sheet at \$4.5 Trillion



Source: Federal Reserve

### Central Bankers on Future Balance Sheet Policy

- **Ben Bernanke:** If it's agreed that the most prudent approach to shrinking the balance sheet is simply, at some point, to stop reinvestment once and for all, then it also seems preferable to delay the beginning of that process until the short-term interest rate is well away from zero—a conclusion also drawn by the Fed staff. (Brookings Blog, Jan 26, 2017)
- **John Williams:** “If fiscal policy changes lead to a more rapid elimination of slack, policy adjustment would, all else being equal, likely be more rapid than otherwise, with the conditions the FOMC has set for a cessation of reinvestments of principal payments on existing securities holdings being met sooner than they otherwise would have been.” (Speech at Brookings Institute, January 17, 2017)
- **Robert Kaplan:** “We should be removing accommodation, probably some time later this year early next year looking at the Fed balance sheet in order to examine how we might let that run off or reduce it.” (Speech at Dallas Federal Reserve, January 17, 2017)



## 2017 Housing and Mortgage Market Outlook – Up from 2016, but Slower Growth

2017 forecast	
Housing Starts (% Change Year-over-Year)	Up 6% to 1.24 million
New Single-Family Home Sales (% Change Year-over-Year)	Up 9% to 616 thousand
Total Existing Home Sales (% Change Year-over-Year)	Up 1.6% to 5.54 million
FHFA Purchase-Only Index (Annual Percent Change Q4/Q4)	Up 5.2%
Purchase Mortgage Originations	Up 4.2% to \$1,056 billion
Refinance Mortgage Originations	Down 45% to \$510 billion
30-Year Fixed Rate Mortgage (Year-end)	4.2%



## Speaker Biography

### **Mark Palim – Vice President and Deputy Chief Economist**

Dr. Mark Palim is Vice President and Deputy Chief Economist at Fannie Mae. He is responsible for overseeing the Economic and Strategic Research Group's forecasting functions and manages multi-disciplinary partnerships across the company to address specific business issues facing Fannie Mae. Dr. Palim is a key spokesperson on economic trends and a frequent speaker at national mortgage finance and housing industry events.

Prior to working at Fannie Mae, Dr. Palim was an economic consultant at PricewaterhouseCoopers and LECCG. His practice focused on applying economic and financial theory to a variety of business disputes and policy questions. He worked as a consulting and testifying expert in antitrust cases and disputes in the financial services industry. In addition, Dr. Palim led a team of 75 adjudicators charged with valuing claims for the Department of Justice and the Special Master administering the Federal September 11th Victim Compensation Fund.

Dr. Palim was first involved with economic forecasting and mortgage securities in 1988 when he was a portfolio manager and reported to the Chief Economist at Mercantile Safe Deposit and Trust Company. Subsequently, he continued his work on macroeconomic and policy issues as a staff economist for the National Association of Federal Credit Unions (NAFCU).

Dr. Palim has a Ph.D. in economics from George Mason University and a B.A. in international studies from the Johns Hopkins University. In addition to his academic training, Dr. Palim is a Chartered Financial Analyst charter holder (CFA).

Dr. Palim is married to an attorney and has four children. He lives in Bethesda, Maryland and grew up in Brussels, Belgium. Dr. Palim is fluent in French.





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