

The Economy Drags Housing Upward

Doug Duncan

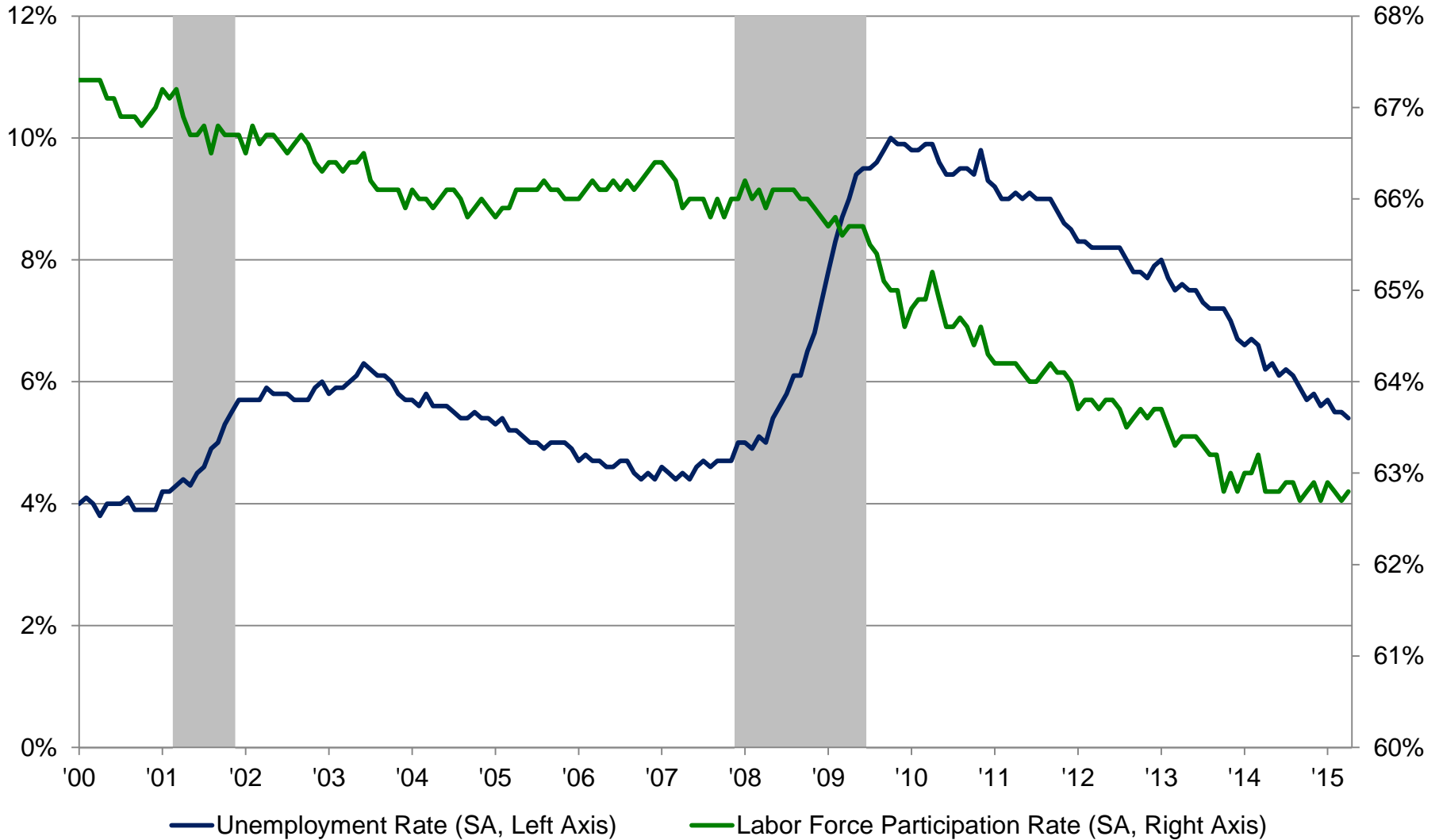
Chief Economist, Fannie Mae

May 20, 2015

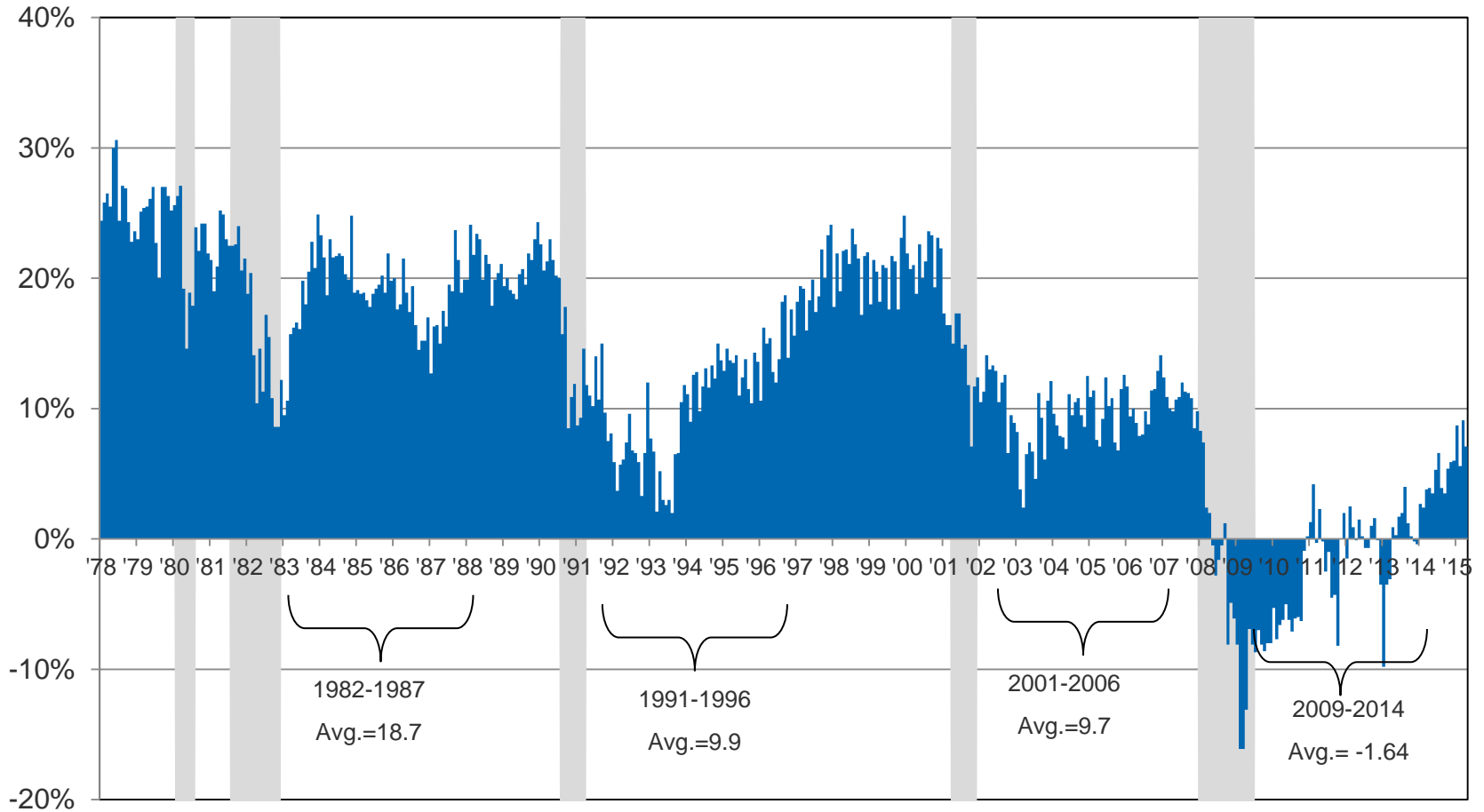
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Strong April Job Gains Leave Disappointing March Behind

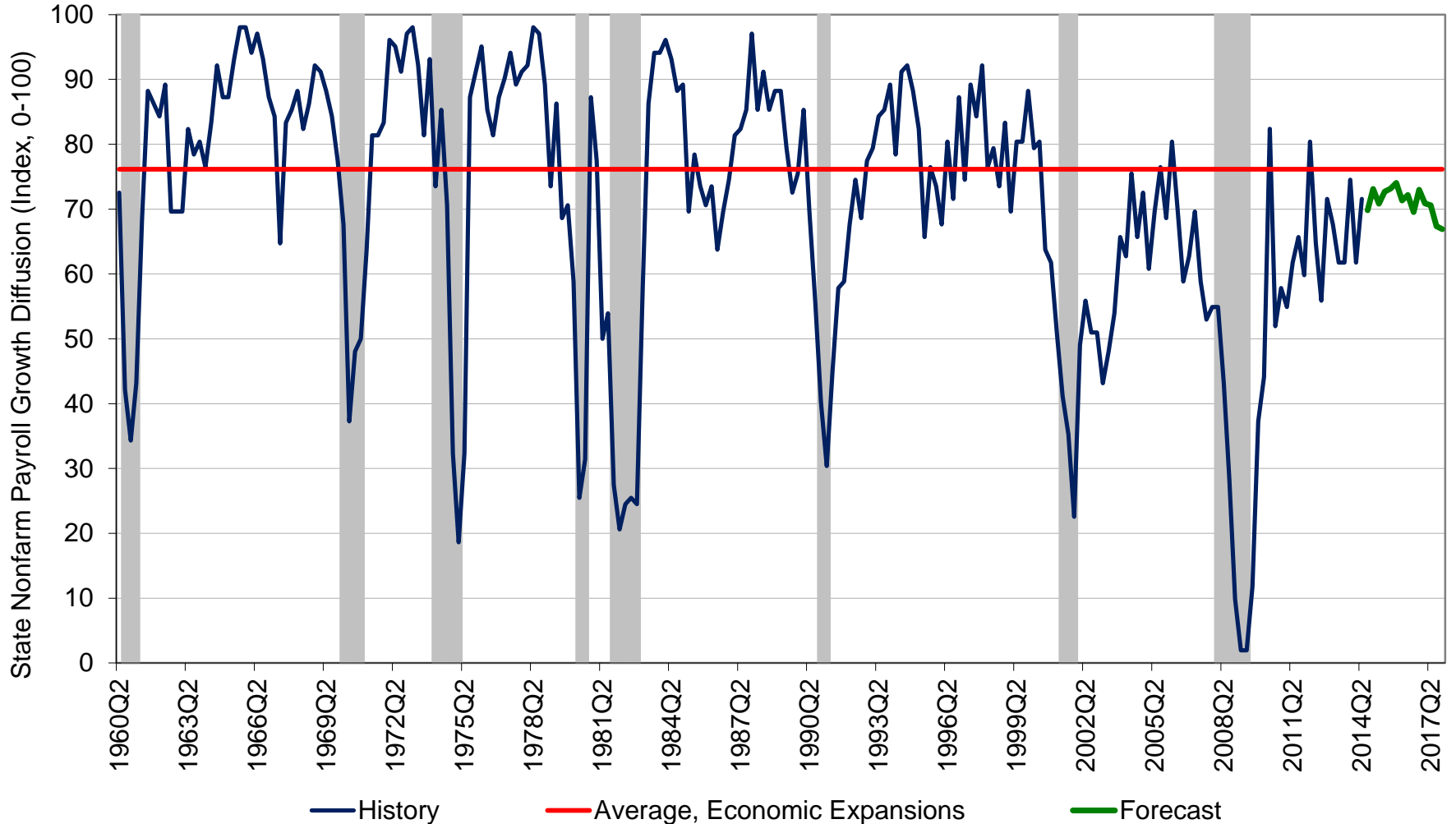


Income Growth Expectations Continue to Improve

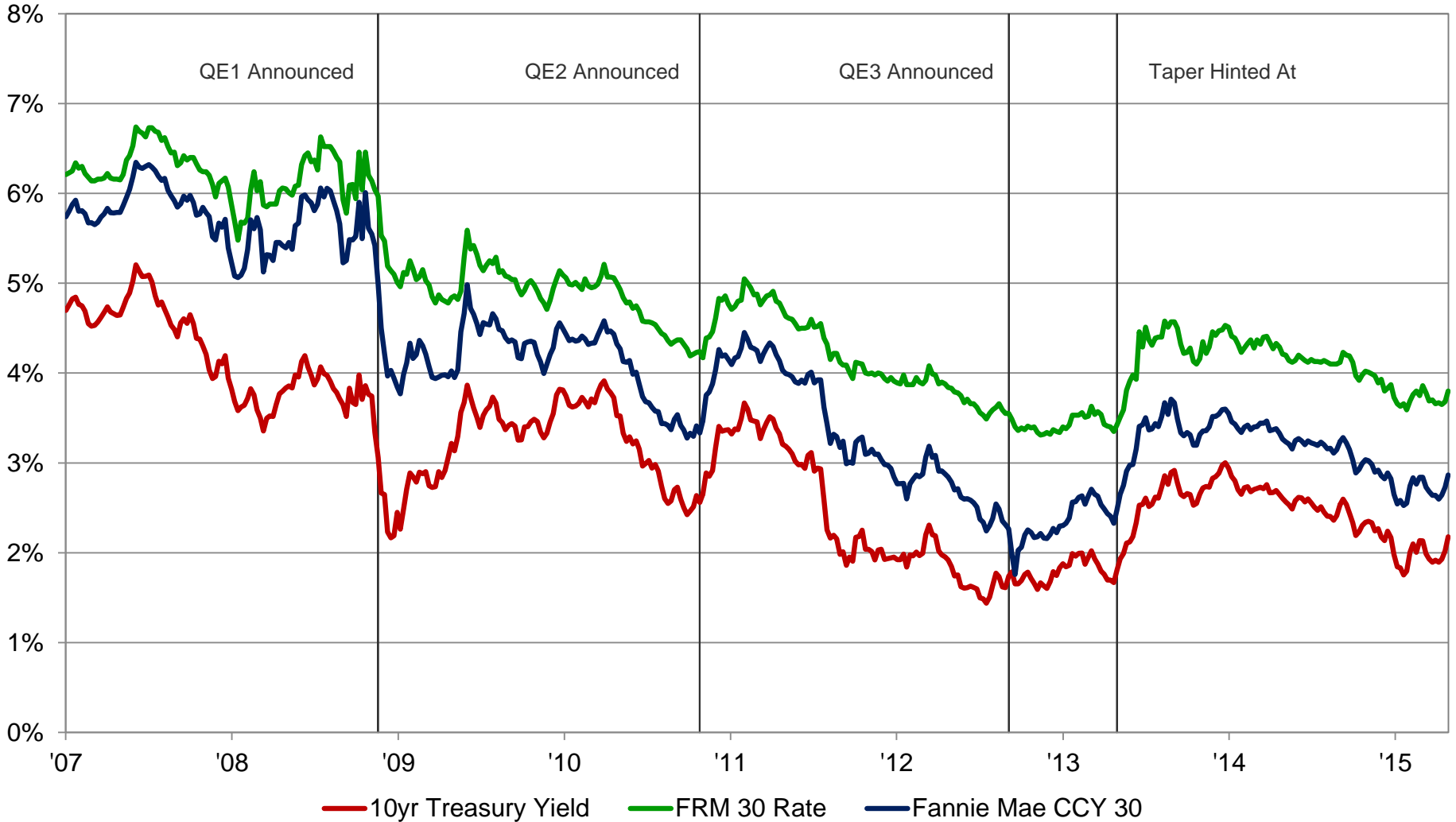


■ Difference Between % Increase and % Decrease 6 Months Hense (Left Axis)

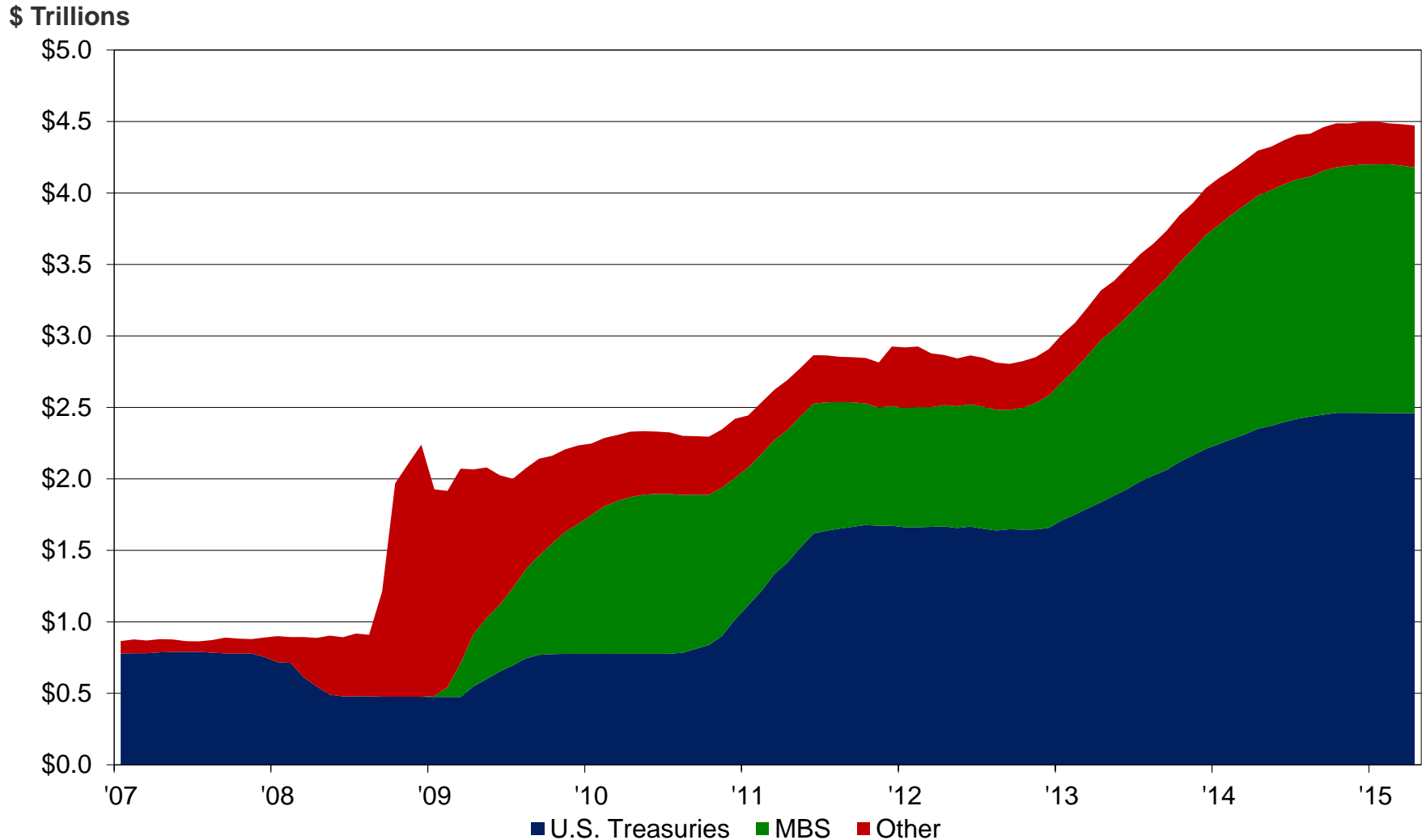
State Level Payroll Growth is More Geographically Concentrated Than in Most Prior Recoveries



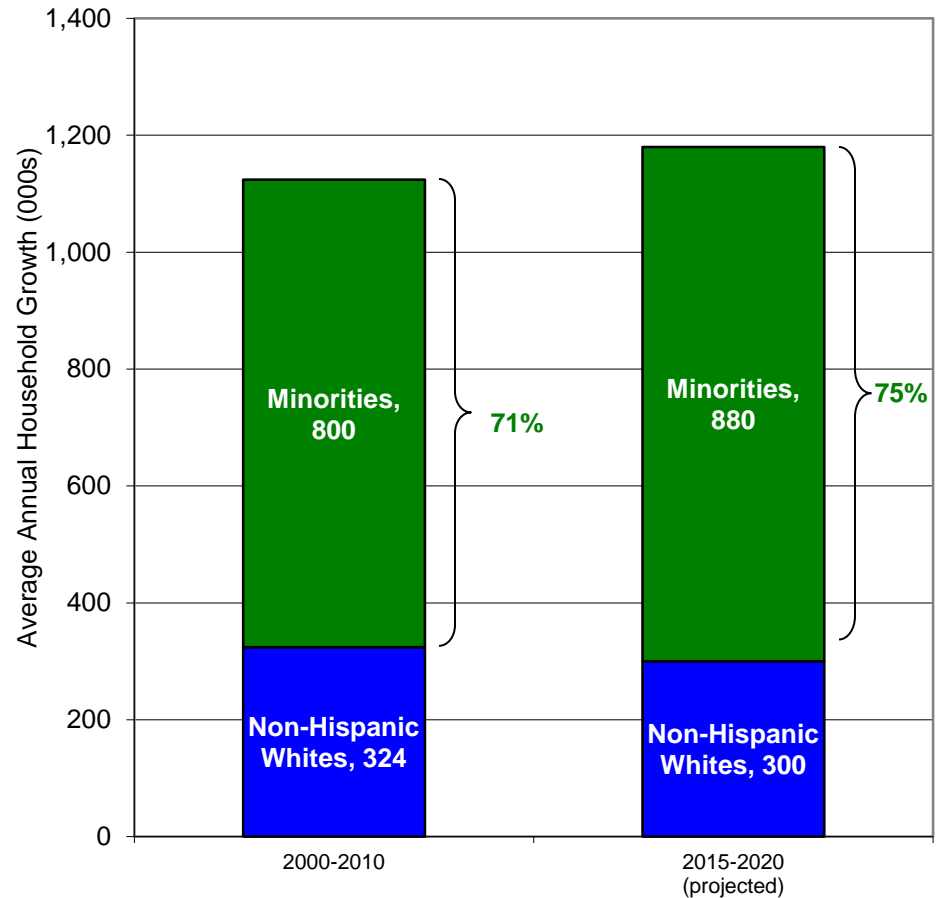
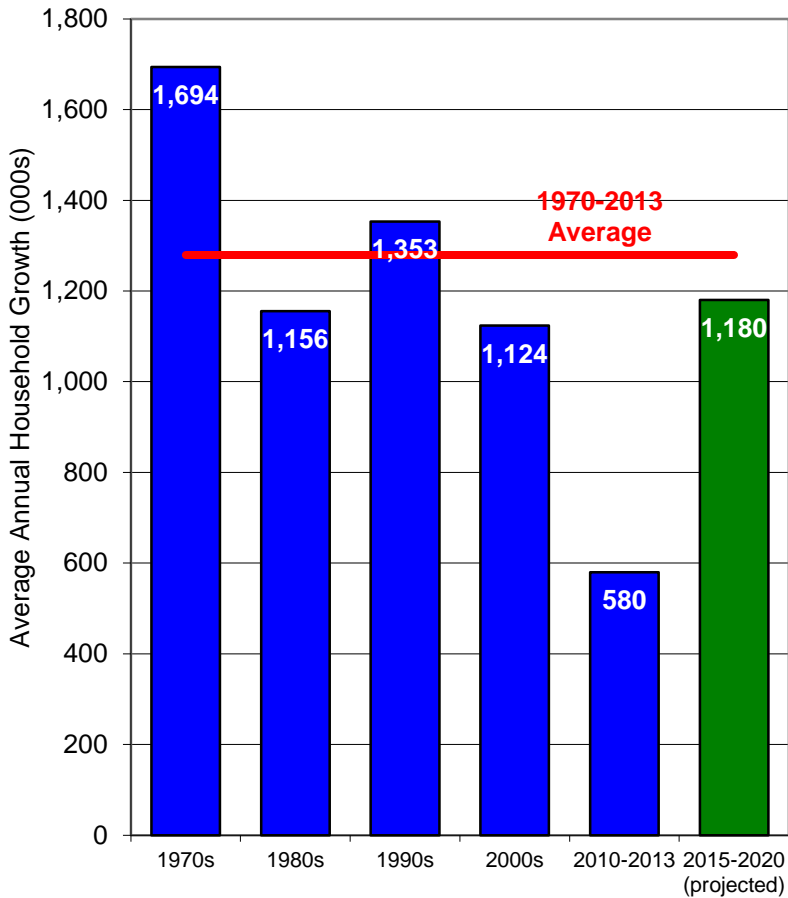
The Sharp Rise in Interest Rates in 2013 Sparked by Fed “Tapering” has Reversed



The Fed Ended the QE Program With Its Balance Sheet Near a Landmark \$4.5 Trillion

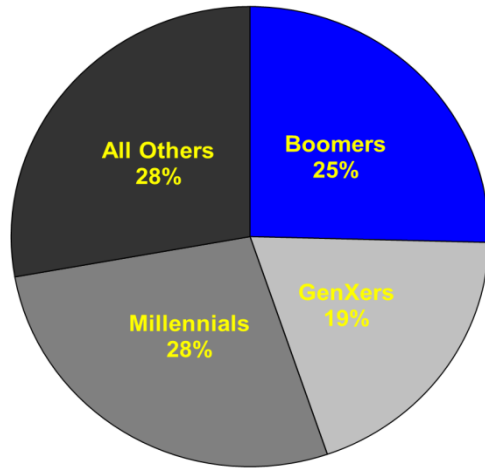


Household Growth Has Been Severely Depressed, However, Racial and Ethnic Minorities Continue to Account for the Bulk of Household Growth



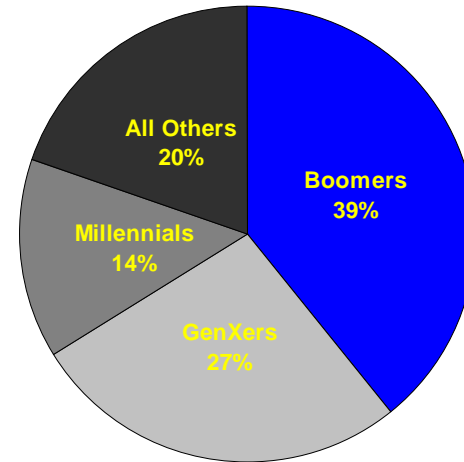
Baby Boomers Have an Enormous Housing Market "Footprint"

Population



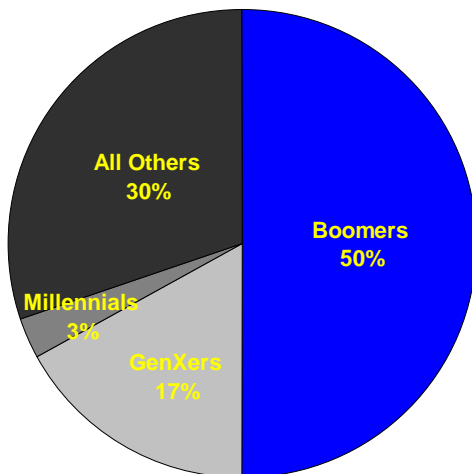
80 Million

Occupied Housing Units



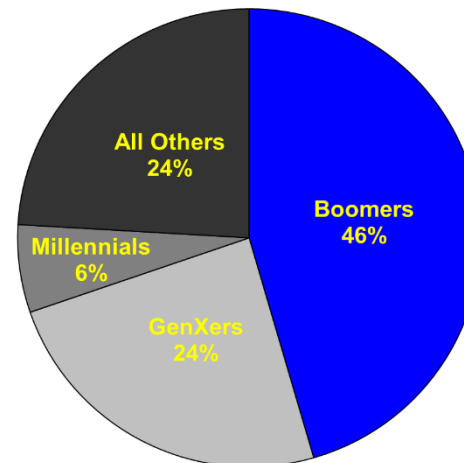
45 Million

Primary Residence Home Equity



\$6.3 Trillion

Owner-Occupied Housing Units

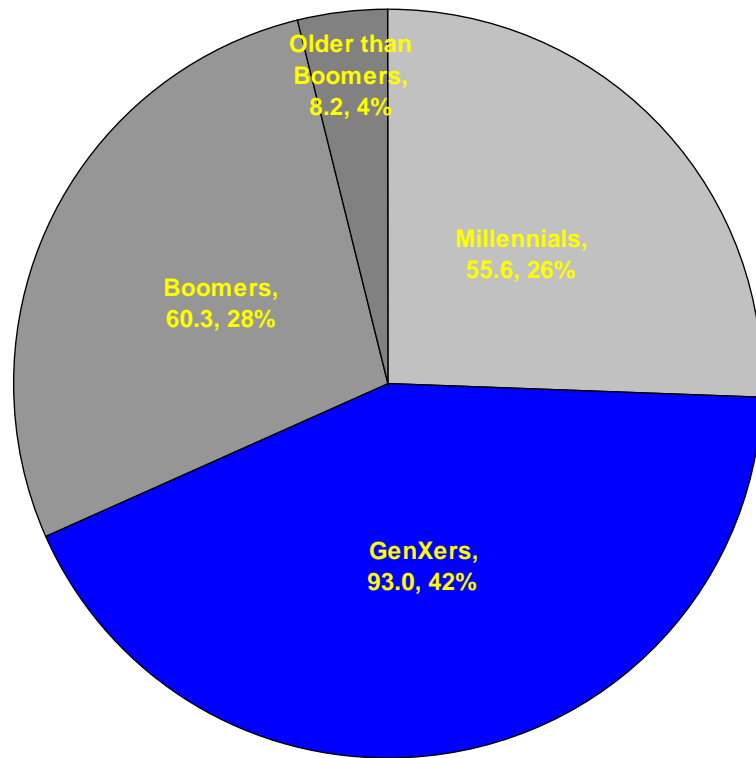


34 Million

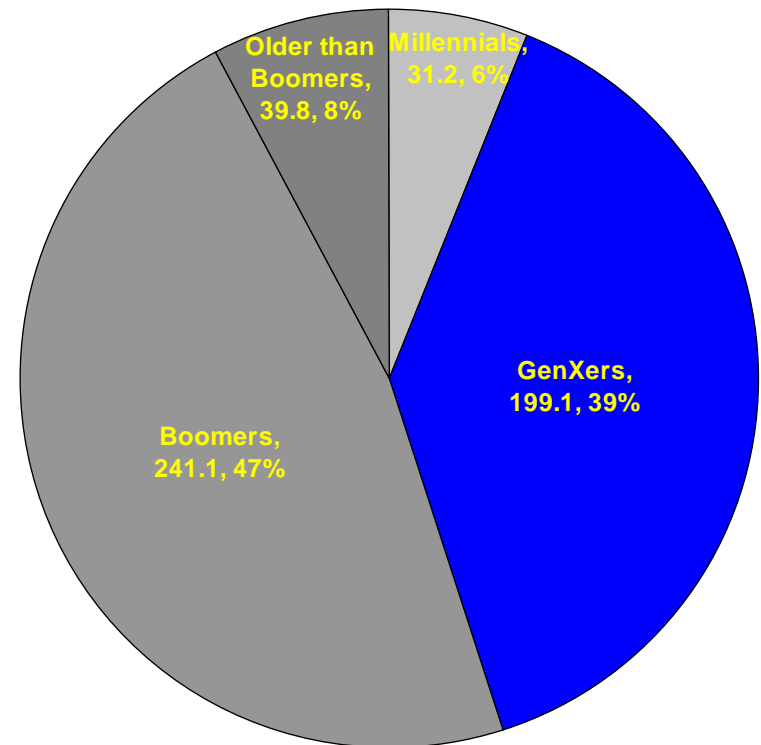
Despite Slow Household Growth, GenXers Are Large Source of Purchase Money and Refi Demand

Fannie Mae Single-Family Mortgage Acquisitions in 2013

Purchase Money Mortgages



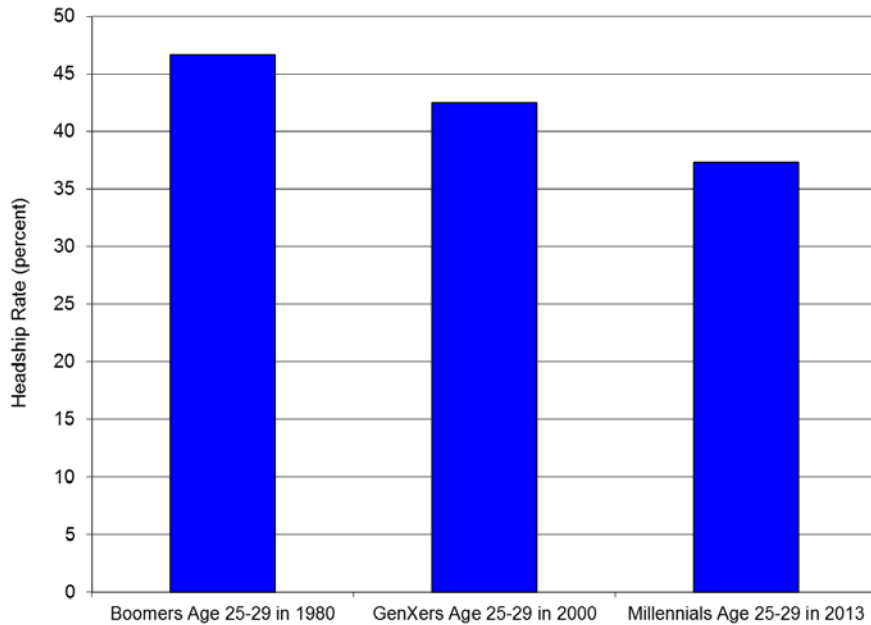
Refinance Mortgages



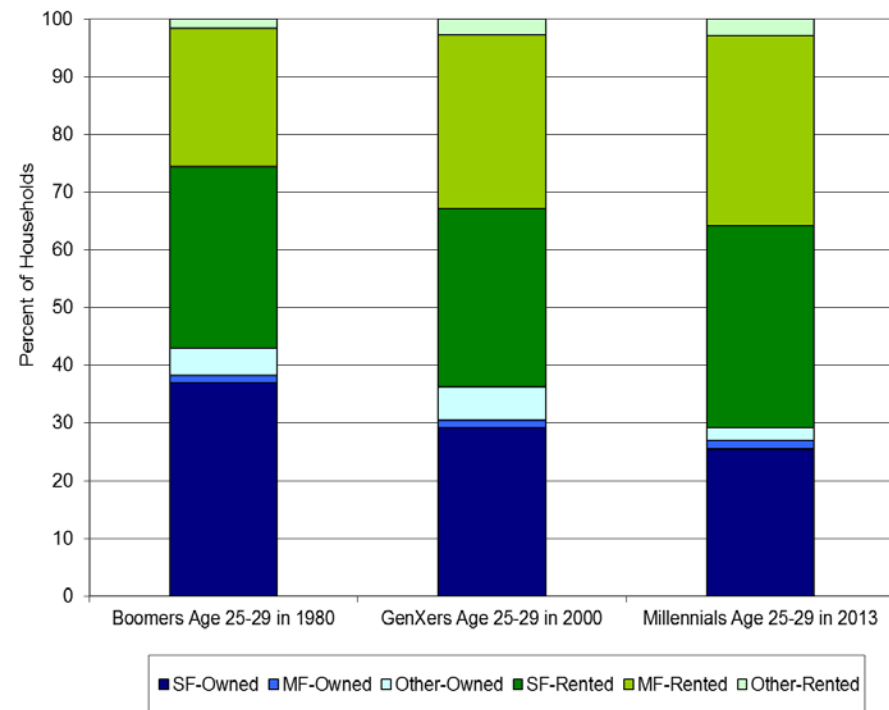
First number in data label is the unpaid principal balance of Fannie Mae conventional single-family acquisitions in billions of dollars. Excludes loans for which borrower age was missing.

But Millennial Housing Demand Has Been Suppressed Compared with Previous Generations

Millennials Are Less Likely to Form Households Than Their Predecessors



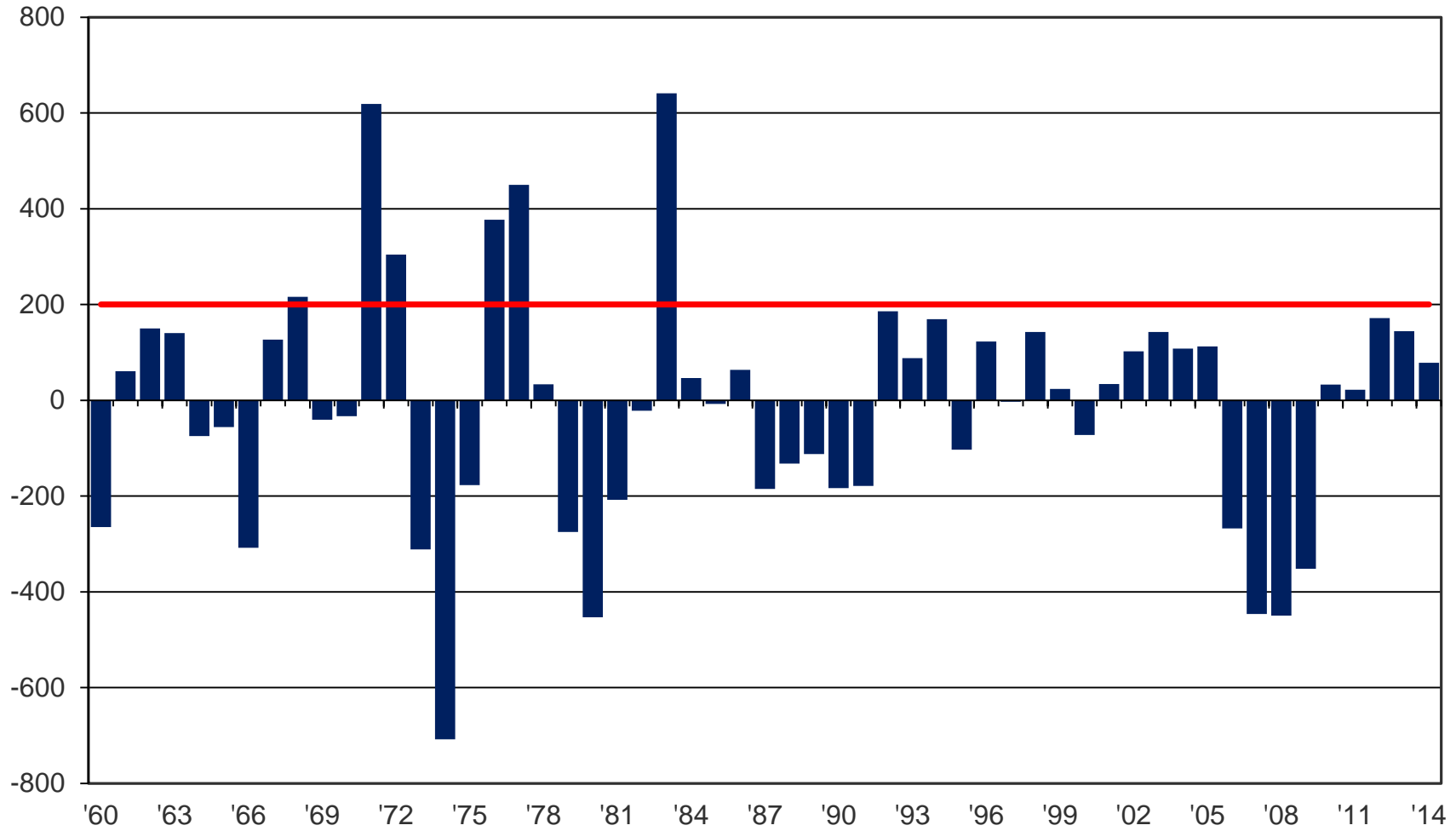
When They Do Form Households, They Are More Likely to Rent, Particularly SF Homes



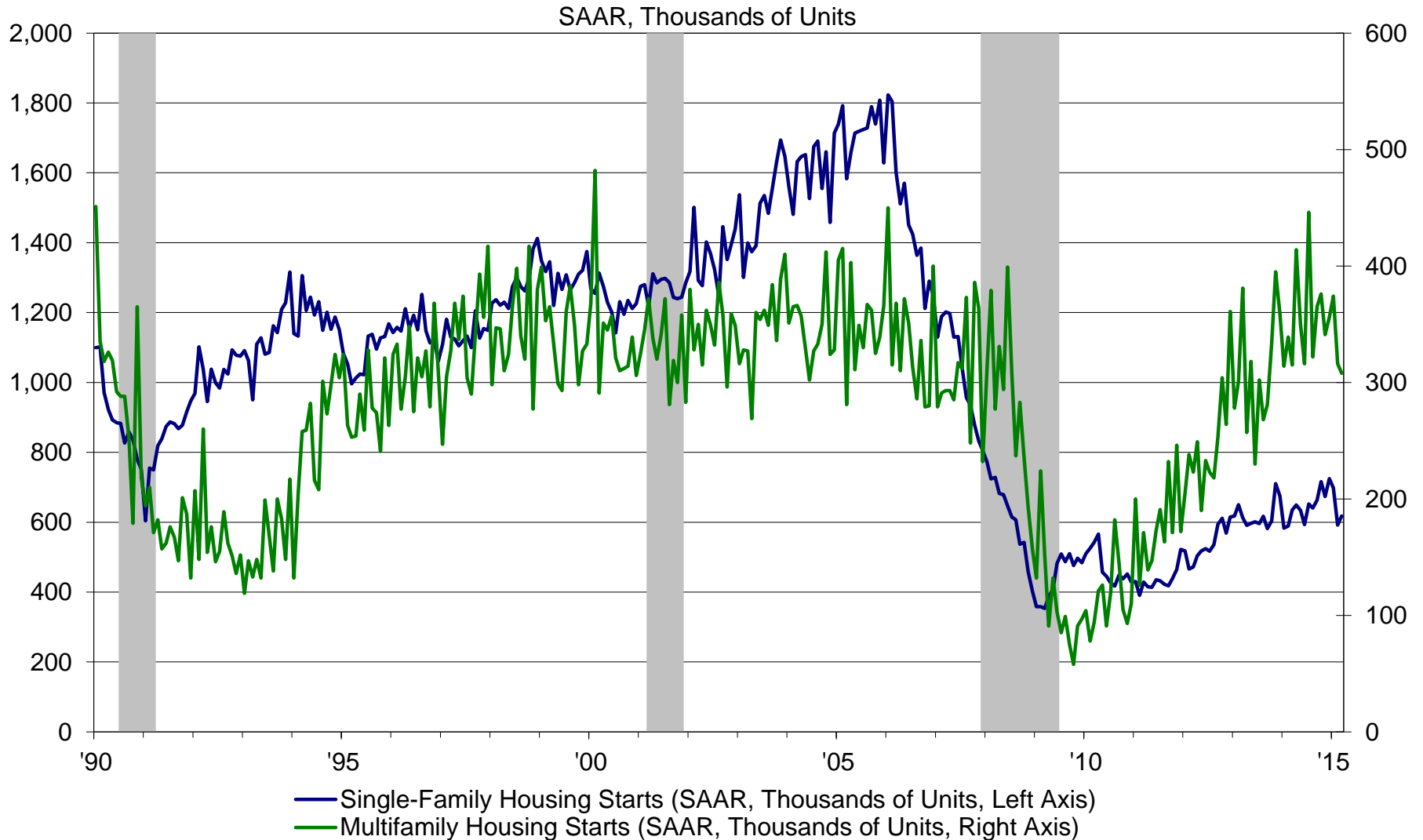
The headship rate, a commonly used metric of household formation, is the proportion of the population in a given age group that is a householder, i.e., the person, or one of the persons, in whose name a housing unit is owned, being bought, or rented. “Single-family” (SF) is 1 to 4 units in structure, “multifamily” (MF) is 5+ units in structure, and “Other” is predominantly manufactured/mobile homes.

We Have Not Seen an Increase in Annual Housing Starts Greater than 200K Since the Early 1980s

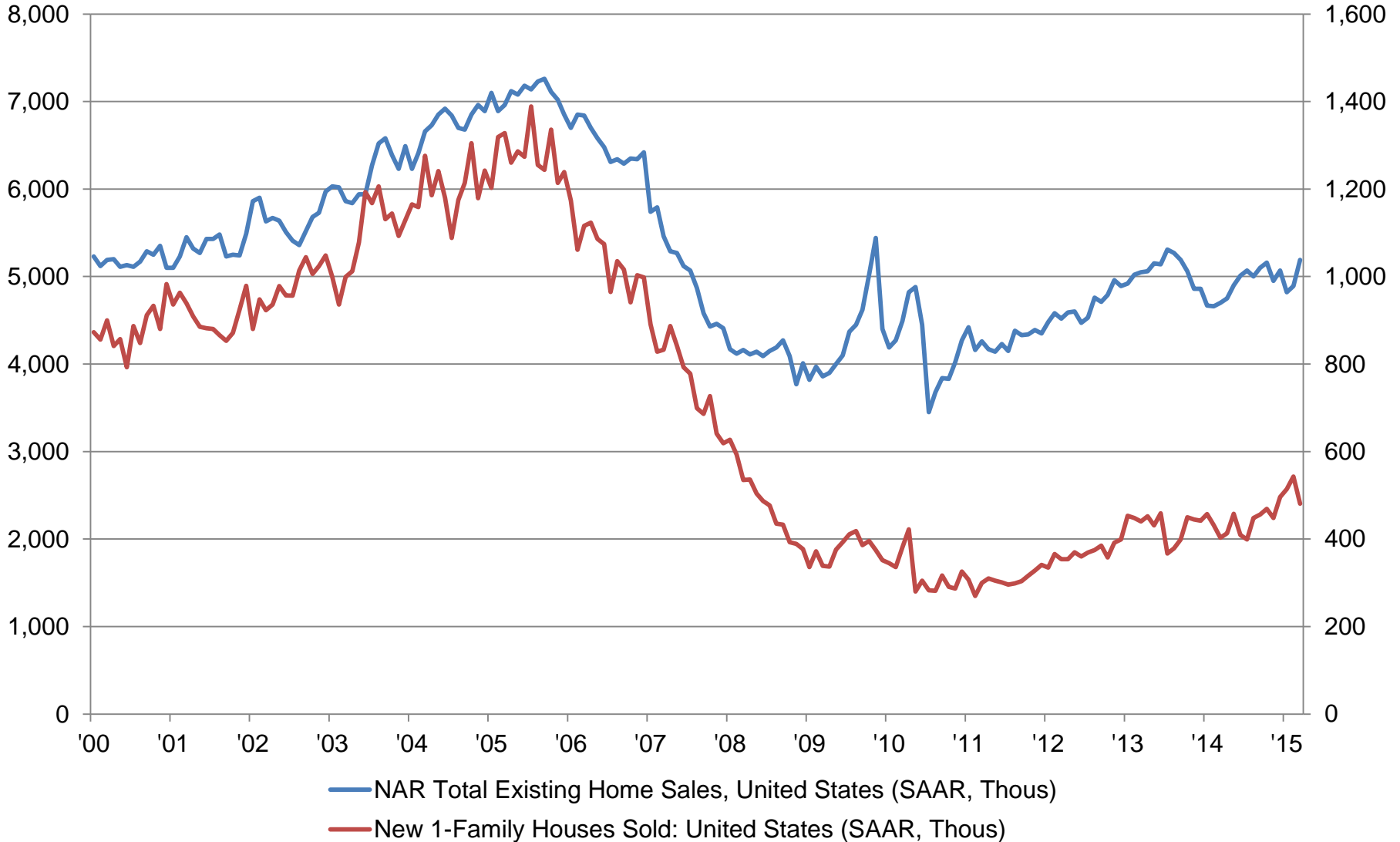
Annual Change in Total Housing Starts (Thousands of Units)



Multifamily Housing Starts Growth Outpaces Single-Family Sector

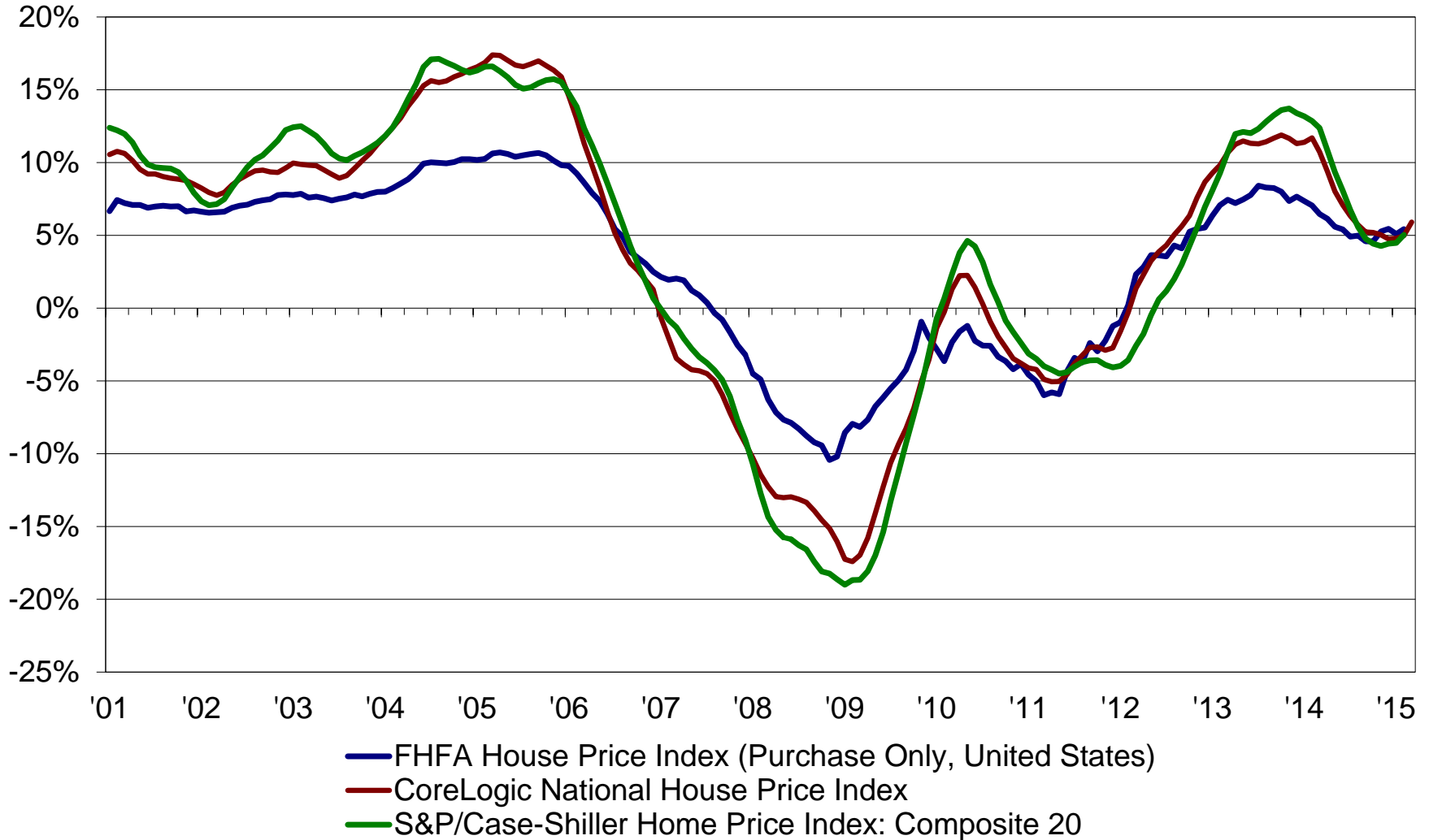


Home Sales Diverge, but Overall Trend is Upward

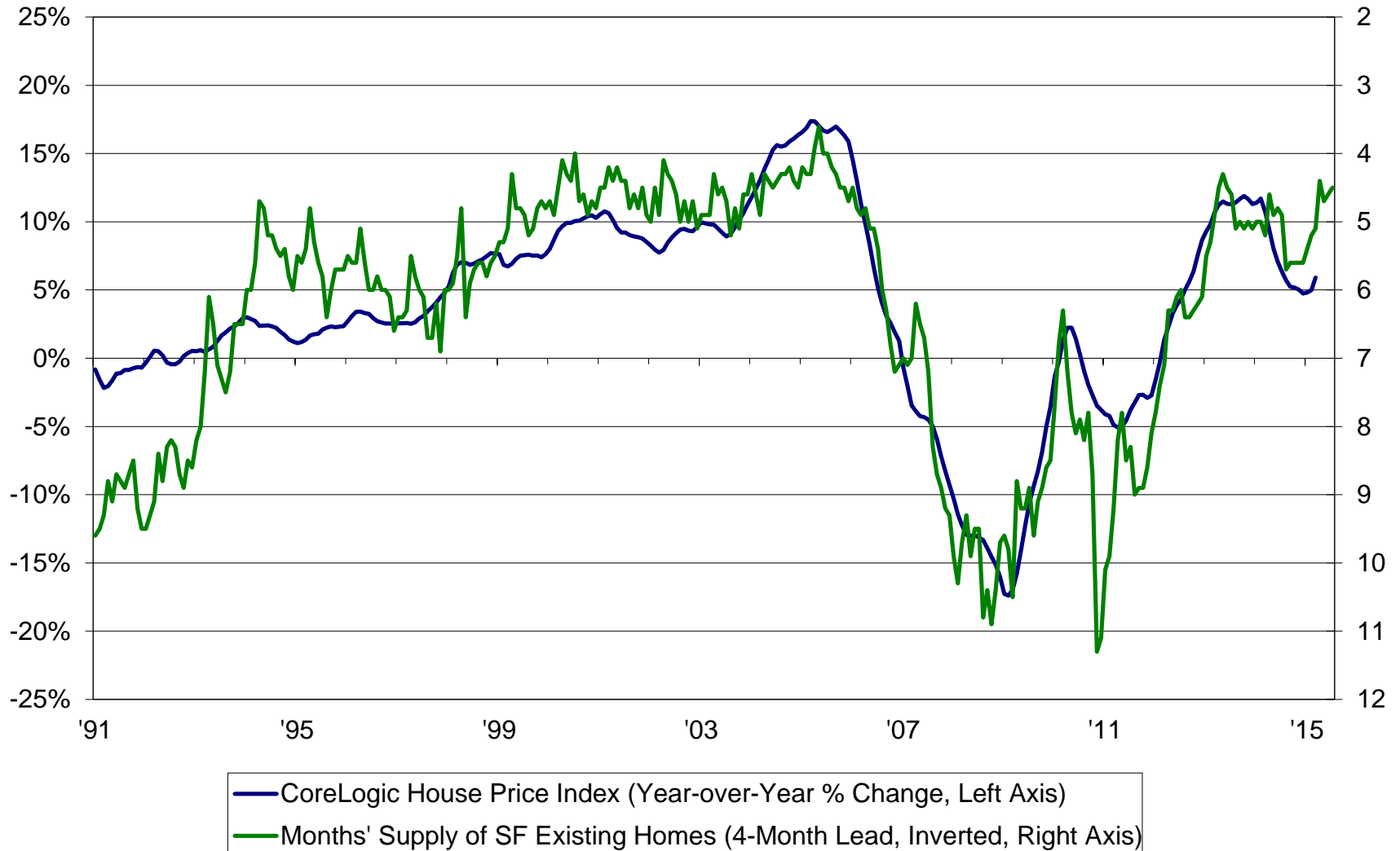


Home Price Growth Moderates...

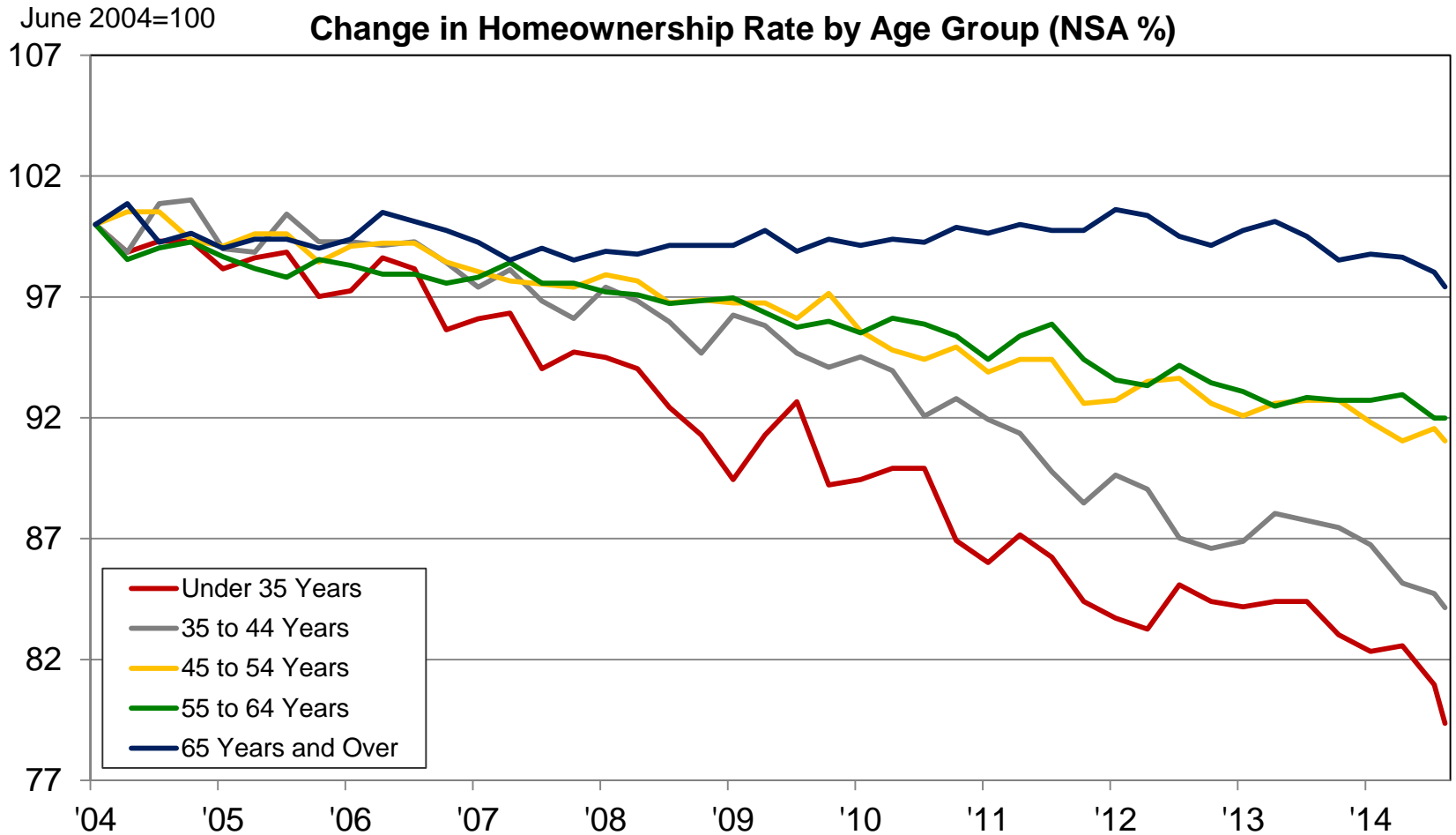
Year-over-Year % Change



...as Tight Supply Continues to Support Growth

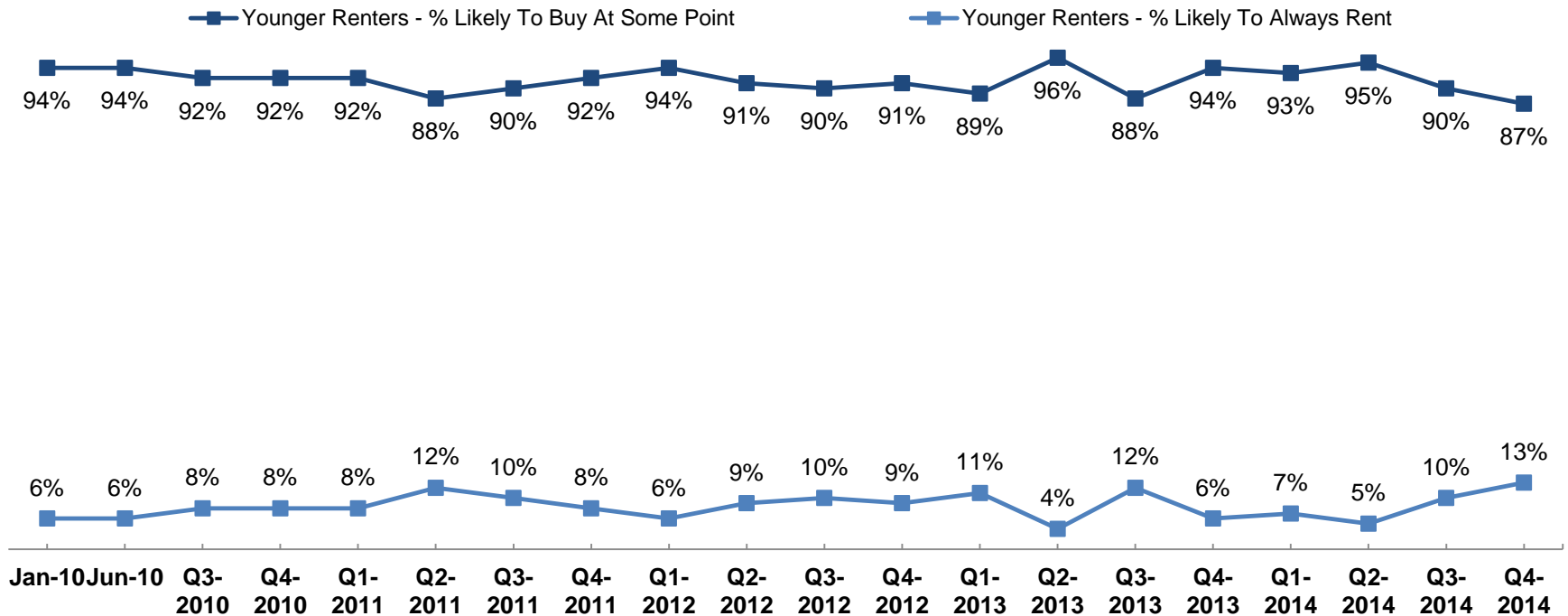


Homeownership Rates Have Declined the Most for the Younger Age Cohorts



The Vast Majority of Younger Renters Plan to Buy a Home at Some Point in the Future

Lifetime intentions to own a home among younger renters



Q31. If you were going to move, would you be more likely to: *Rent / Buy*

Q50. [IF Q31=RENT] In the future, are you more likely to: *Always rent / Buy at some point in the future*

Younger renters likely to buy at some point: Q31= Buy or Q50 = Buy at some point in the future

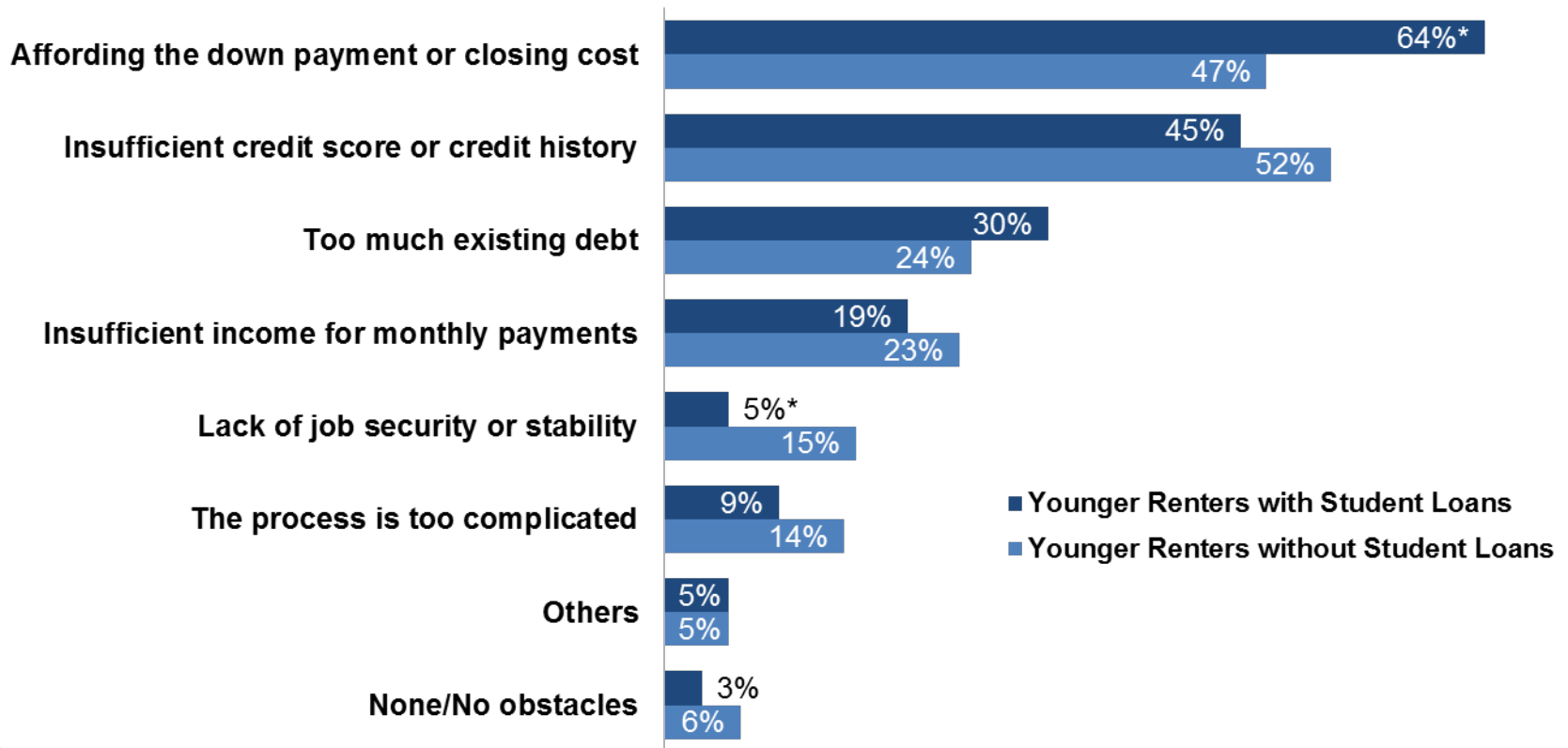
Younger renters likely to always rent: Q50 = Always Rent

Ages 25-39

Q4 2014: Younger Renters – n=351; MOE +/- 5.23%

Younger Renters With Student Loans Cite Affording the Down Payment as Their Biggest Obstacle to Getting a Mortgage, While Those Without Student Loans Cite Insufficient Credit

What would be your biggest obstacle to getting a mortgage to purchase or refinance a home today?
SELECT UP TO 3 – Q3 – 2014



Ages 25-39

Younger Renters with Student Loans – n=109; MOE +/- 9.39%

Younger Renters without Student Loans – n=217; MOE +/- 6.65%

* Denotes a statistically significant difference between younger renters with and without student loans at the 95% confidence level

Trouble Accessing Credit is Not the Primary Consideration in the Decision to Continue Renting

What is your primary reason for renting now?

Q3 2012
Younger
Renters

Q3 2013
Younger
Renters

Q3 2014
Younger
Renters



Ages 25-39

Younger Renters Q3 2012 – n=328; MOE +/- 5.41%

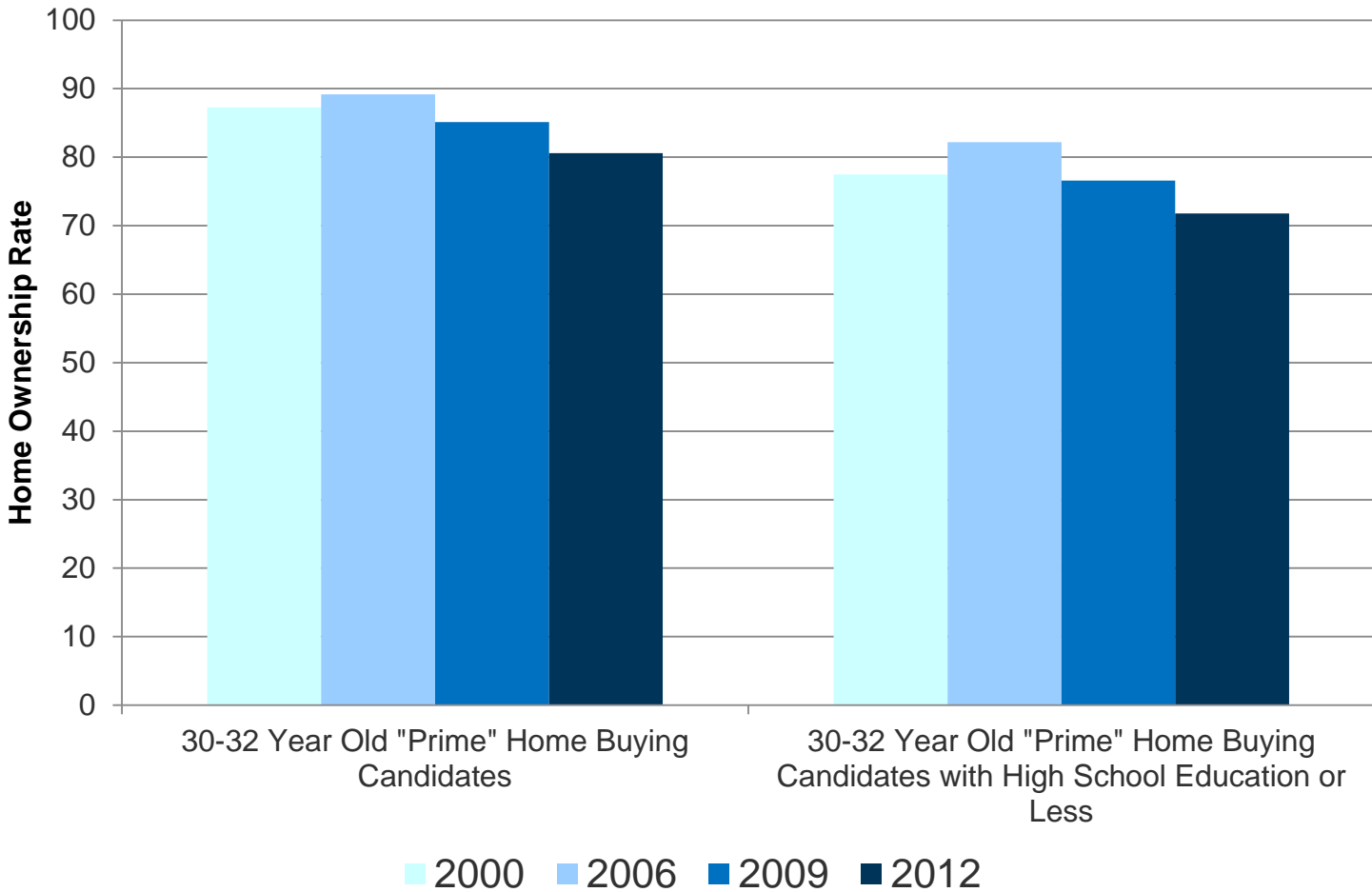
Younger Renters Q3 2013 – n=346; MOE +/- 5.27%

Younger Renters Q3 2014 – n=325; MOE +/- 5.44%

* Denotes a statistically significant difference between younger renters in Q3 2013 and Q3 2014 at the 95% confidence level

But the Problem is Not Just Student Loans

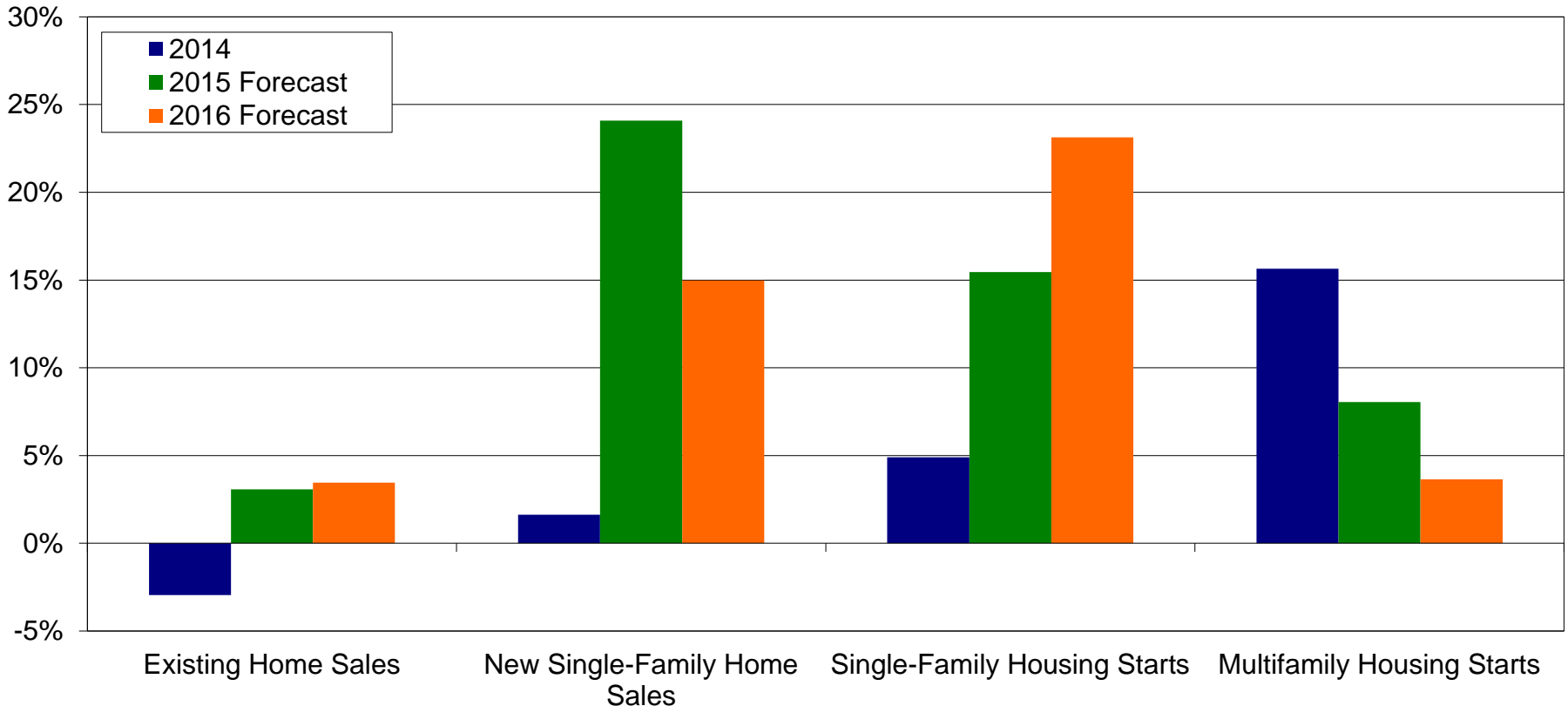
Homeownership among Young Adults who are "Prime" Buying Candidates*



*Prime homebuyers are defined as upper income households with householders in their early 30s who have college educations and are married with children.

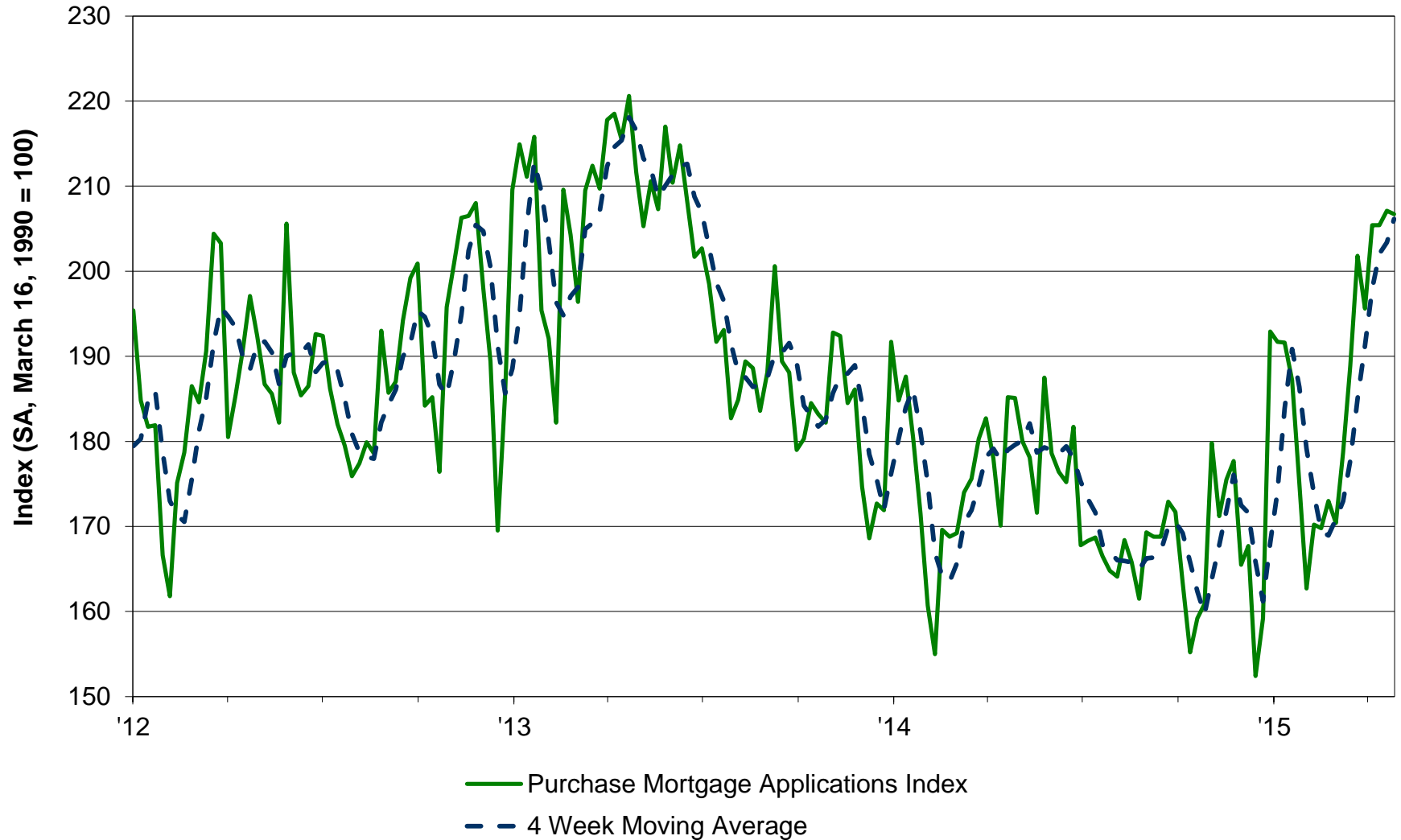
Housing Activity Mixed in 2014, but Measured Recovery Continues

Year-over-Year % Change

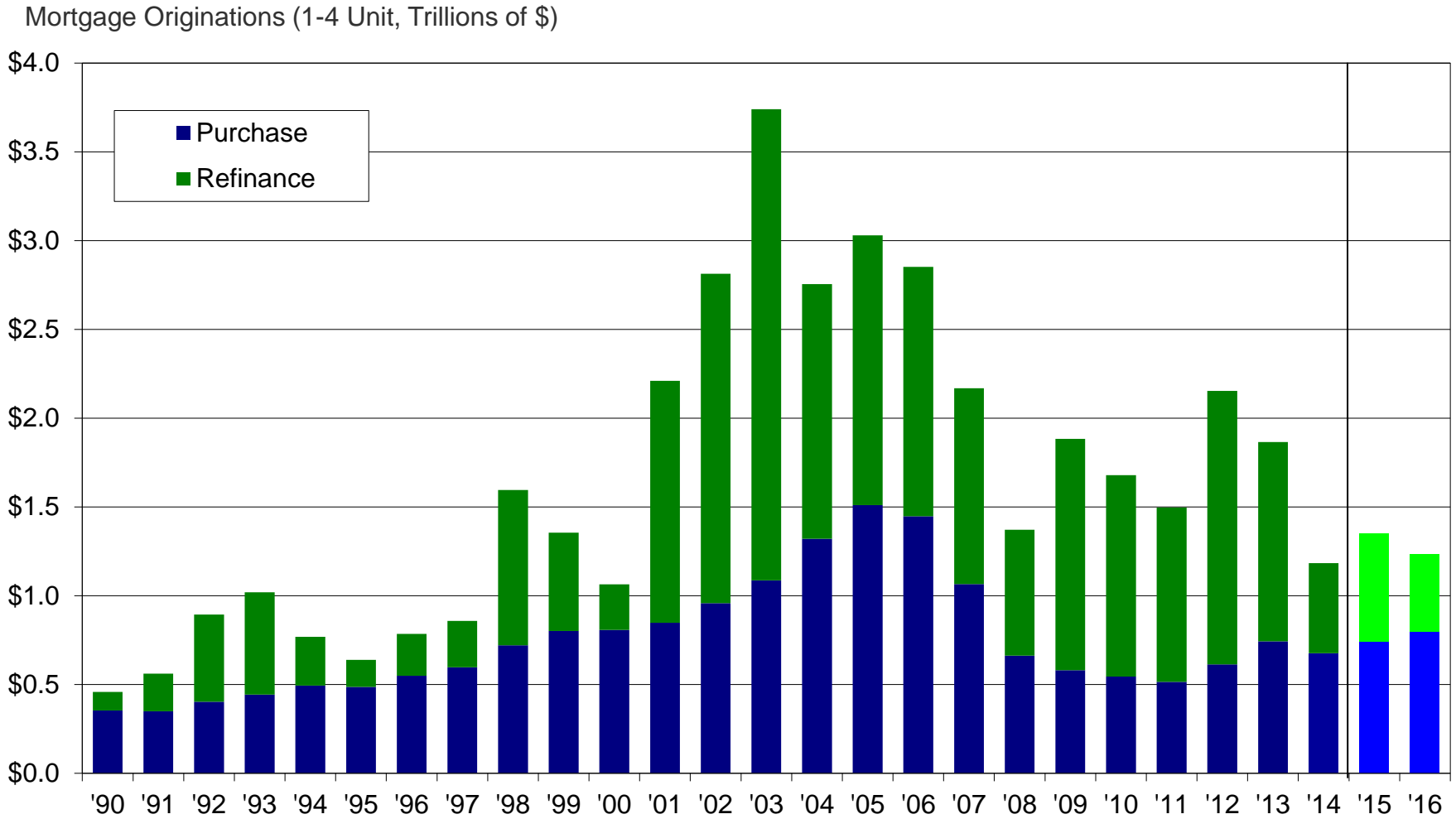


	2013	2014	2015 Forecast	2016 Forecast
	<i>Thousands of Units</i>			
Existing Home Sales	5,090	4,940	5,092	5,268
New Home Sales	429	436	541	622
Single-Family Housing Starts	618	648	748	921
Multifamily Housing Starts	307	355	384	398

Purchase Demand Gains Momentum



Mortgage Production Expected to Be Little Changed in 2015 Amid Shift to Purchase Market



Speaker Biography

Douglas G. Duncan is Fannie Mae's Senior Vice President and Chief Economist. He is responsible for managing Fannie Mae's Economic & Strategic Research Group and oversees corporate strategy. In this leadership role, Duncan provides all economic, housing, and mortgage market forecasts and analyses, and serves as the company's thought leader and spokesperson on economic and mortgage market issues.

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. He has been elected to the Board of Directors for the National Association of Business Economists, is a member of the American Economics Association and the American Real Estate and Urban Economics Association, and is past president of the Housing Statistics Users Group.

Named one of Bloomberg / BusinessWeek's 50 Most Powerful People in Real Estate and one of Inman News' 100 Most Influential Real Estate Leaders for 2013, Duncan is a frequent speaker on national and state economic, housing, and mortgage market conditions.

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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