



Fannie Mae™

Economic and Housing Outlook

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Economic & Strategic Research

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Disclaimer

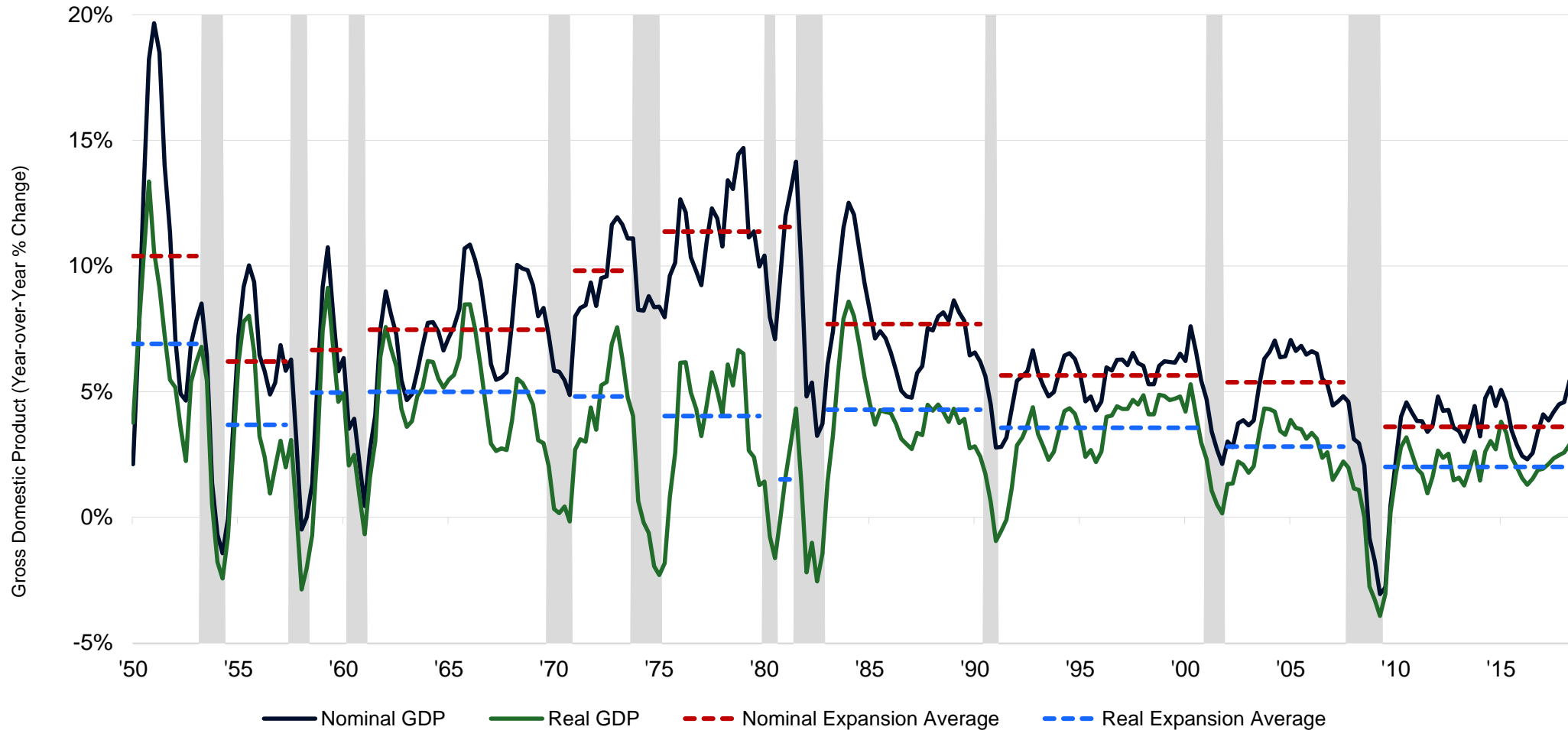
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Economic Growth, Employment and Policy Changes



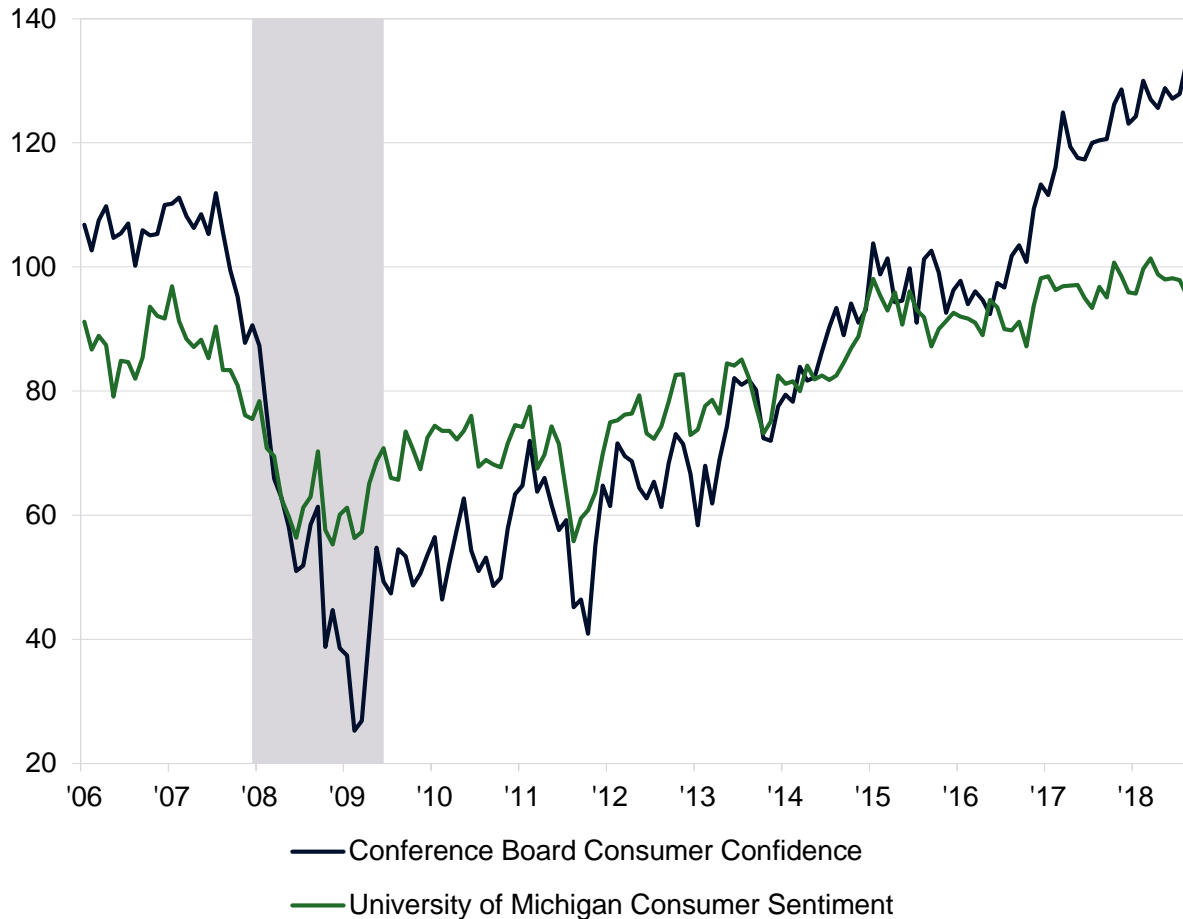
Current Expansion Is Aging and Relatively Weak So Far



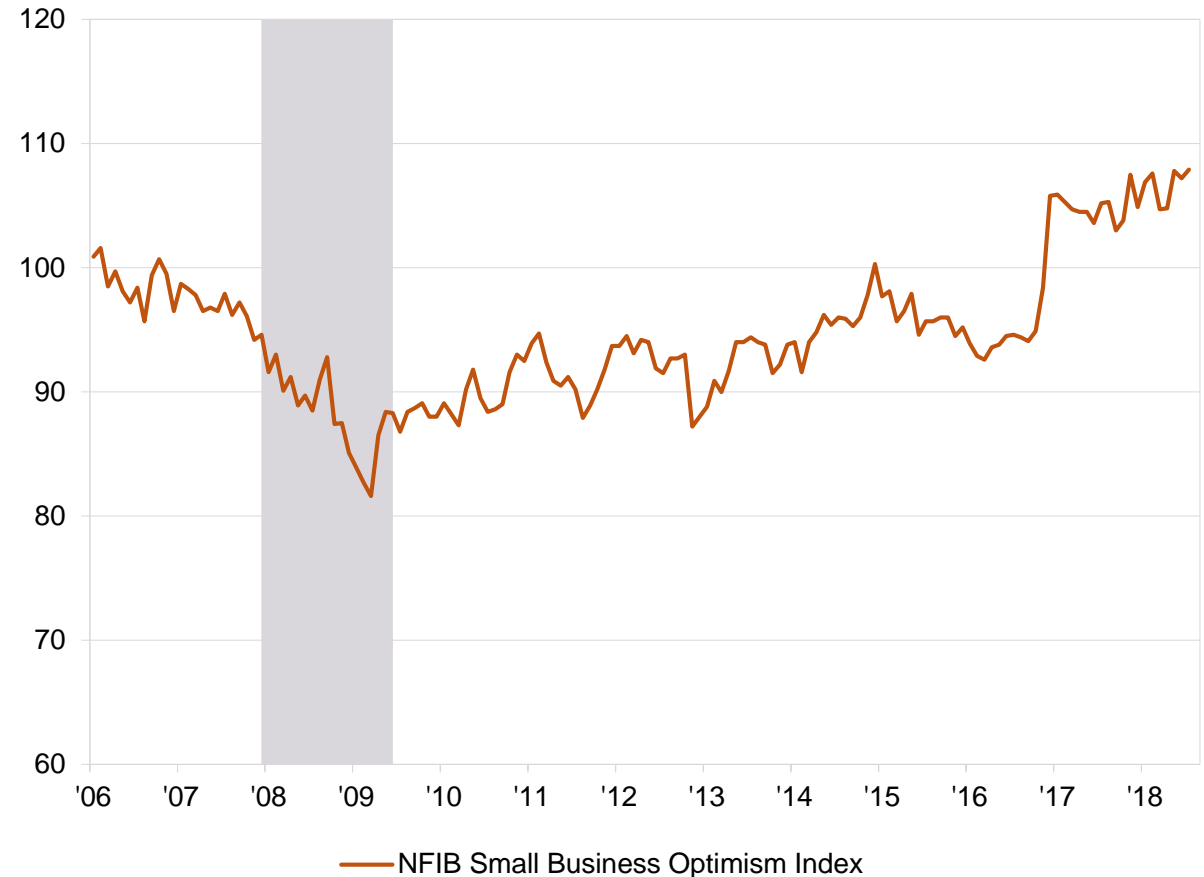


Consumer and Business Confidence Remain Strong

Consumer Confidence Near Cycle High

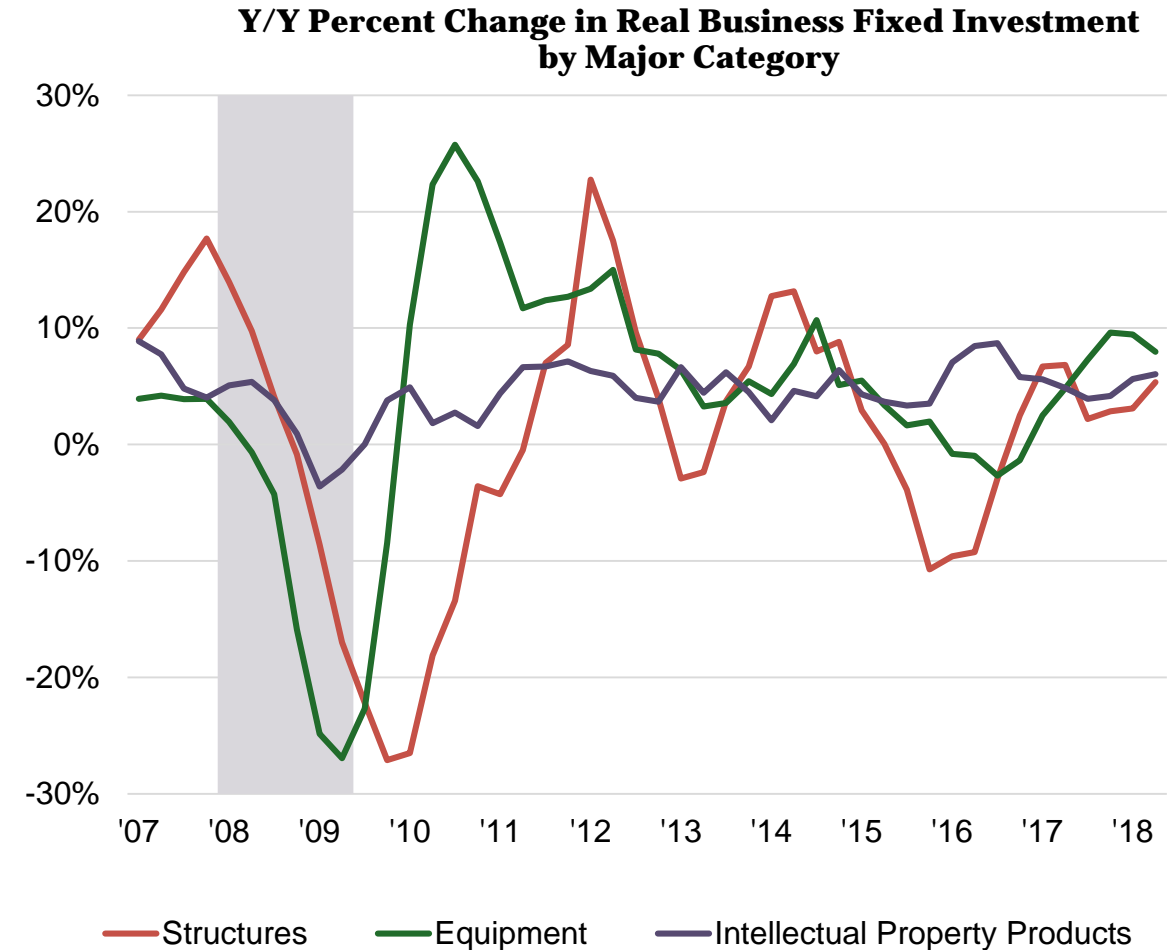
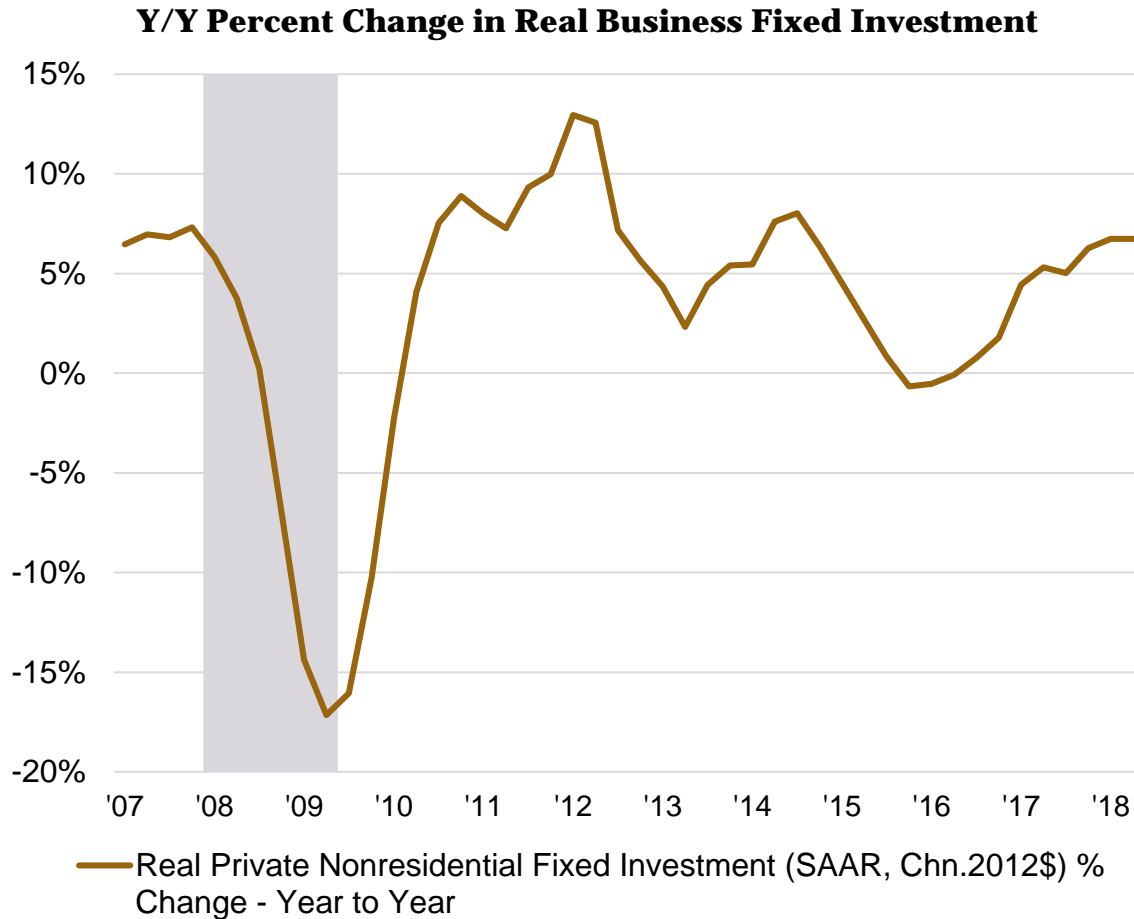


Small Business Confidence At Cycle High





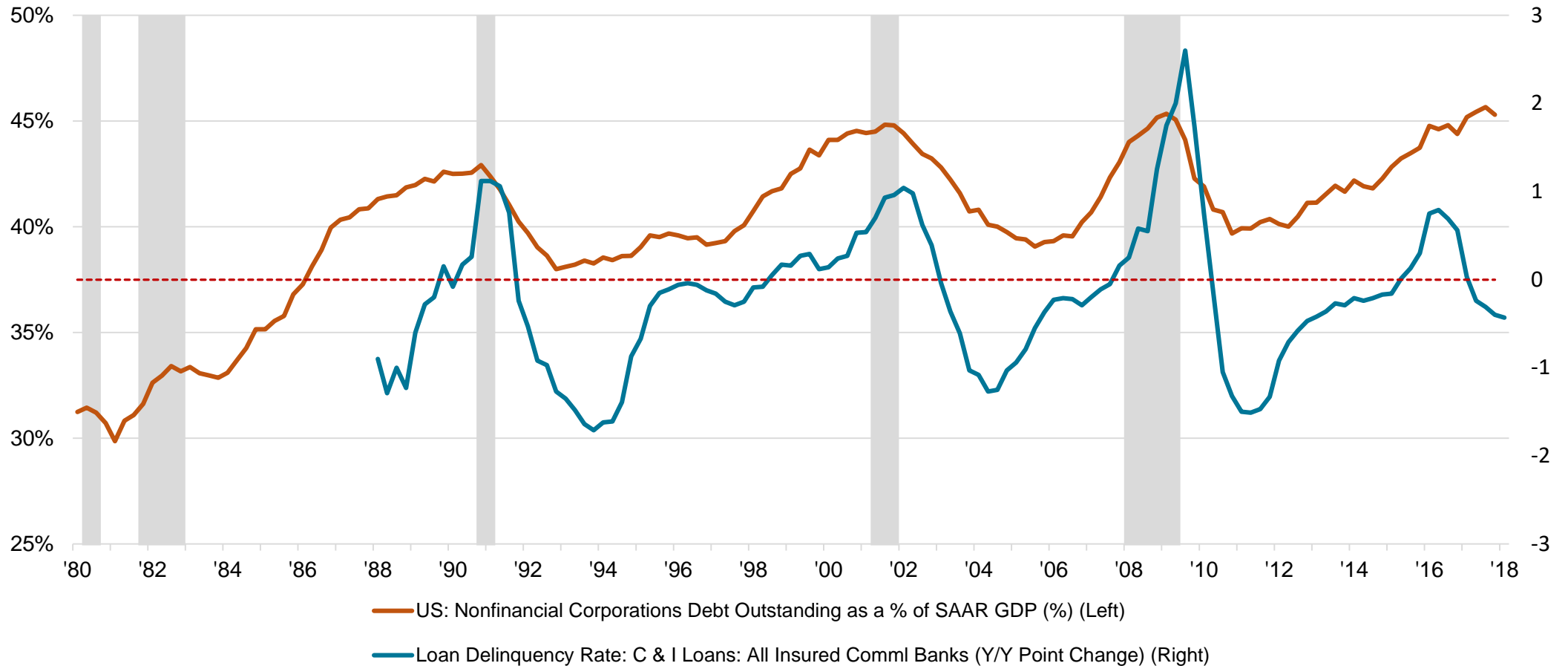
Business Investment Has Been a Driver of Growth Over the Past Year





Corporate Debt Cycle Shows Limited Additional Leverage Capacity

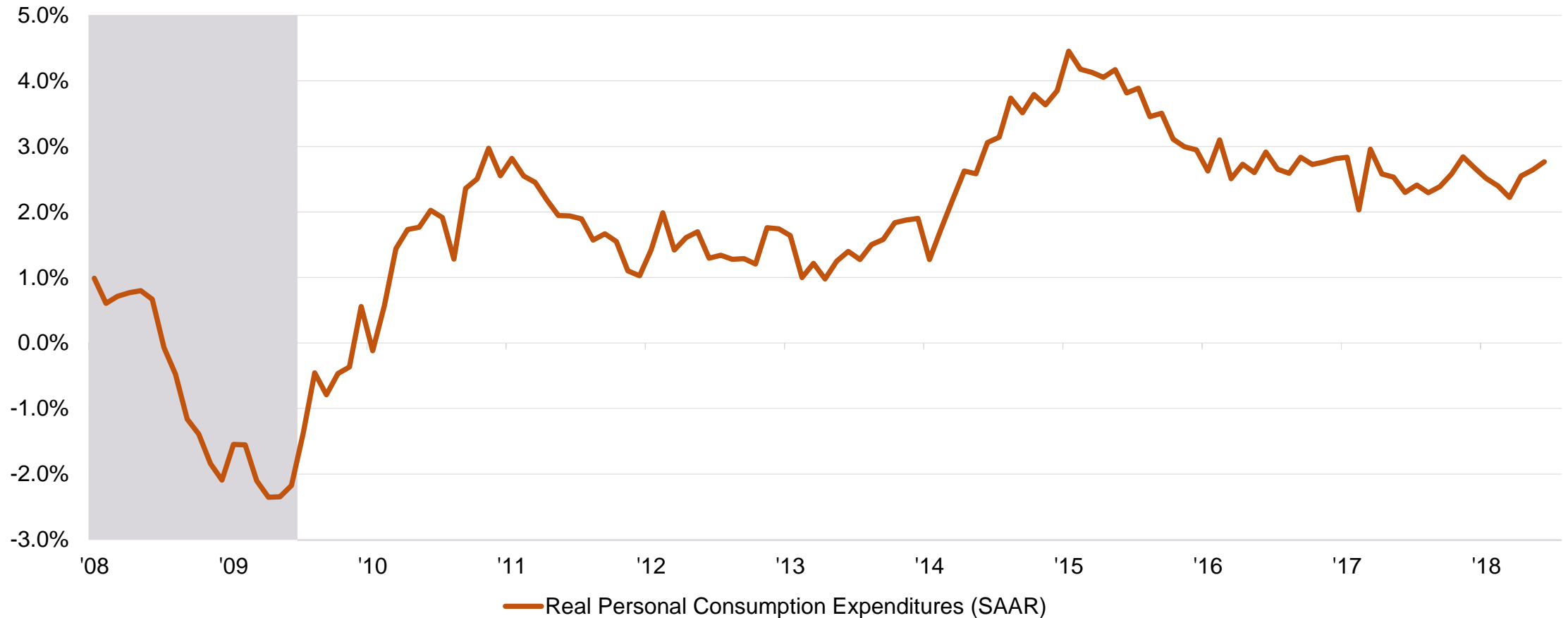
Nonfinancial Corporate Debt as a Percent of GDP and Change in Delinquency Rates for Bank Business Loans





Consumer Spending Growth Remains Steady

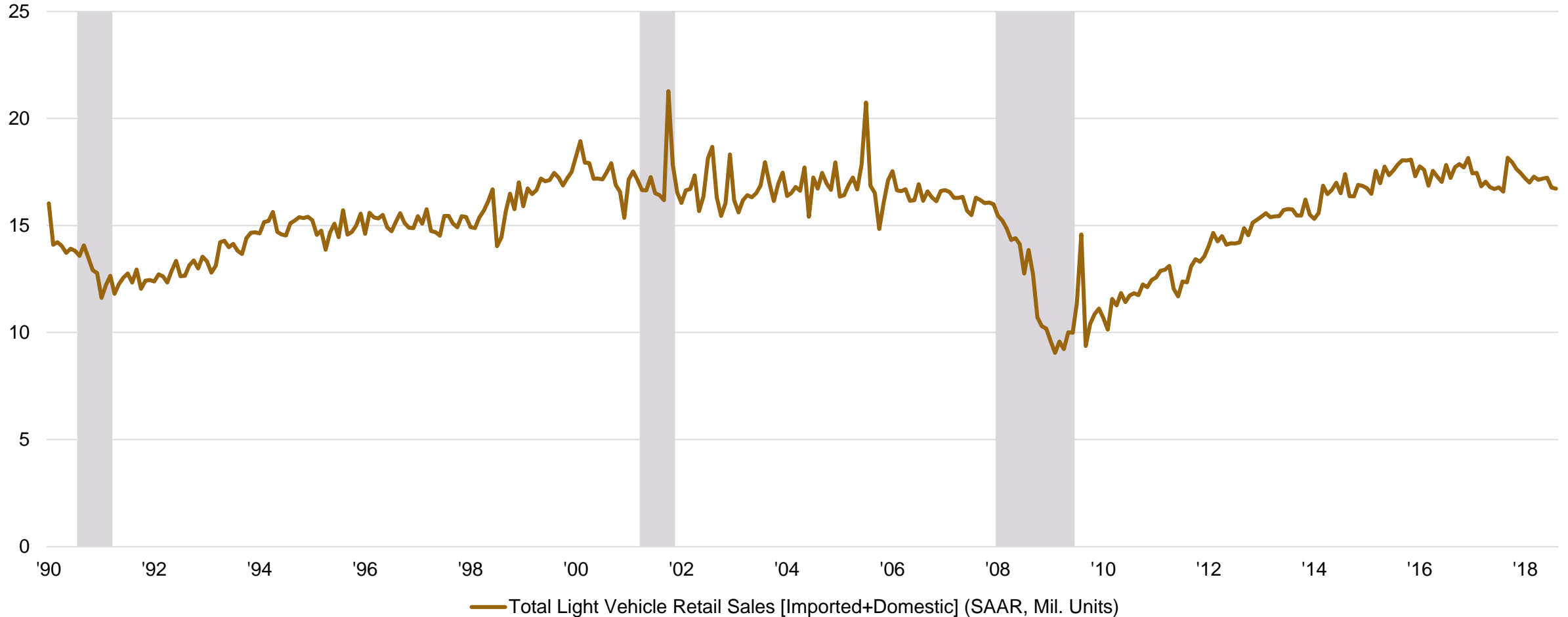
Annual Growth in Consumer Spending Holds Within a Tight Range





Auto Sales Have Likely Peaked

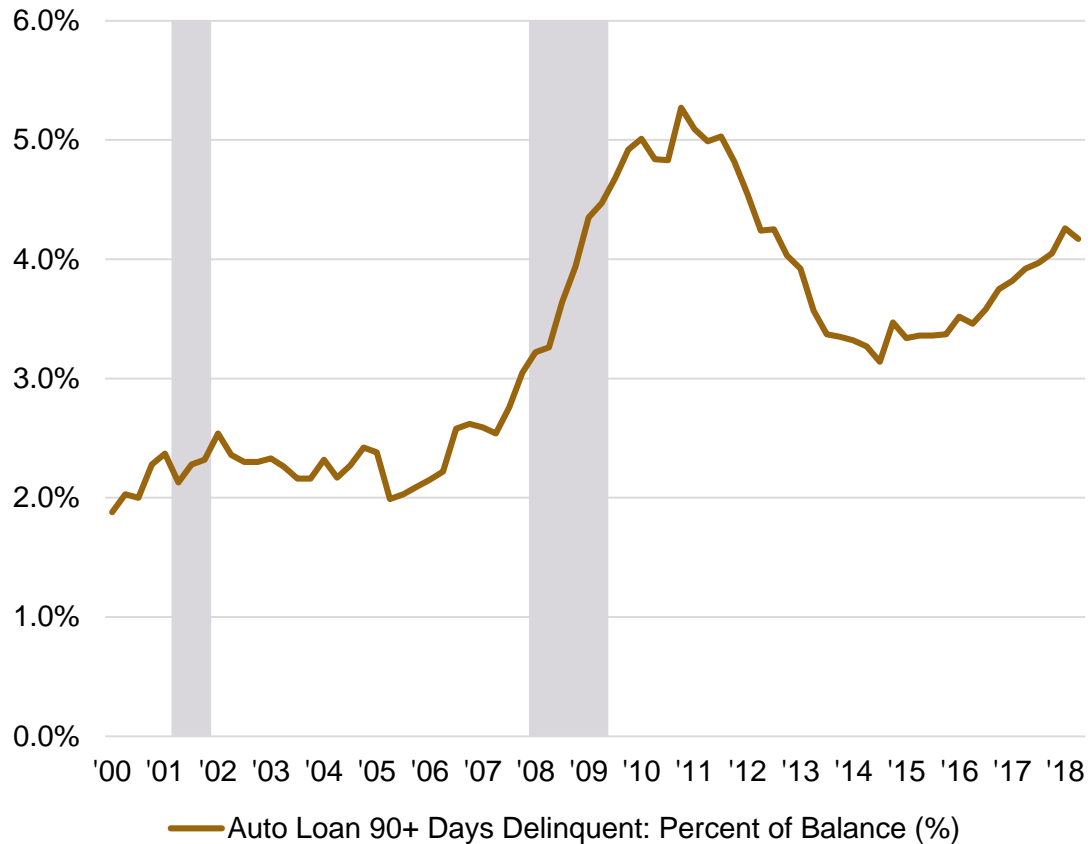
Total New Car Sales (Millions SAAR)



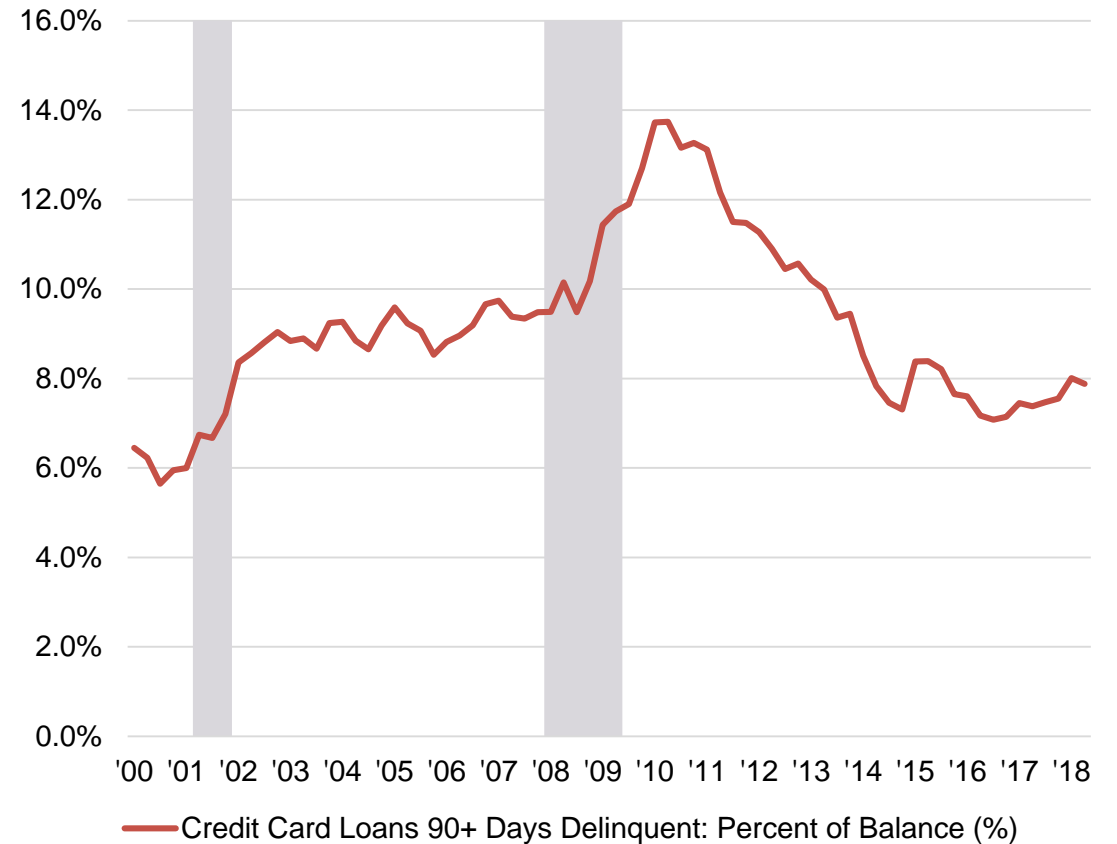


Consumer Loan Delinquency Rates Consistent With Later Credit Cycle

New Serious Delinquent (90 Day) Loans as a Percent of Total Balance – Auto Loans



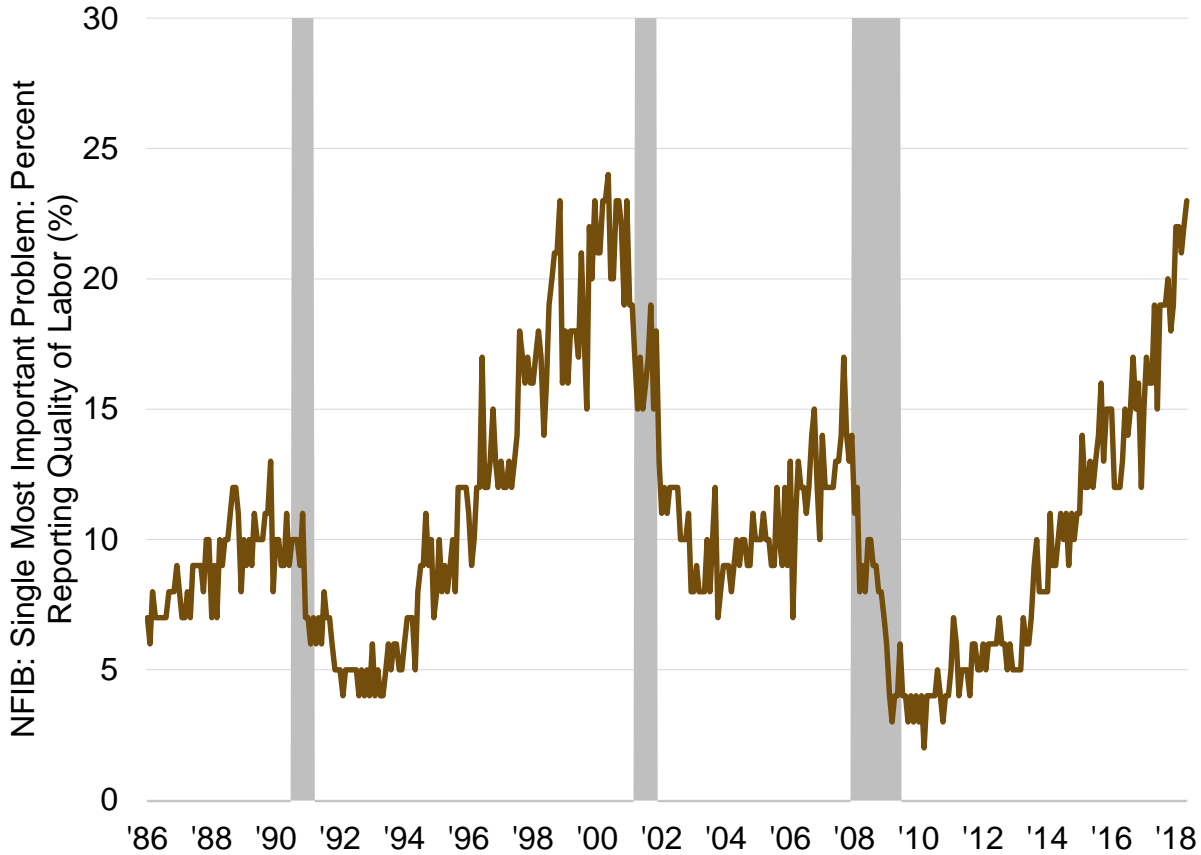
New Serious Delinquent (90 Day) Loans as a Percent of Total Balance – Credit Cards



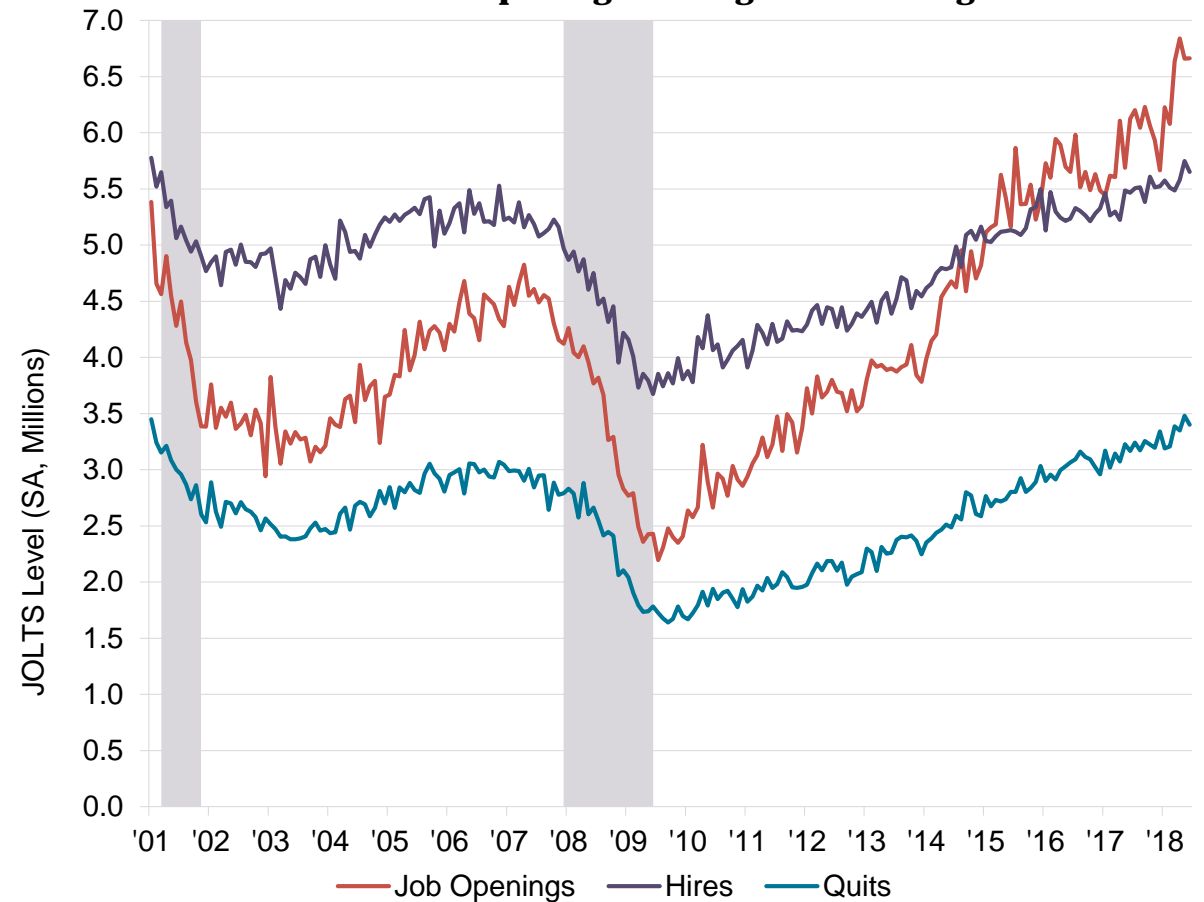


Labor Market Slack Diminishes as Quits Reach Prior Cyclical High

Quality of Labor Is an Increasing Problem for Small Business



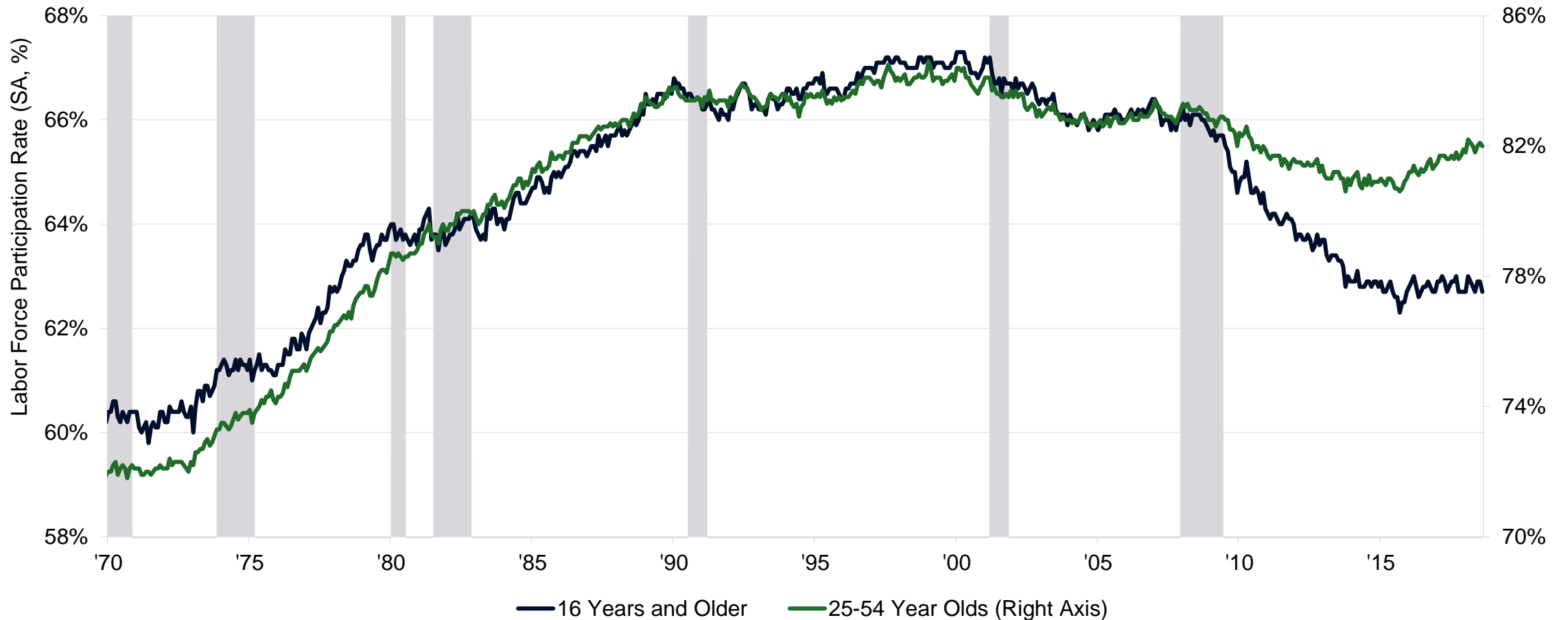
Widening Gap Between Job Openings and Hires, With Job Openings Hitting a Record High





There Is Potential For Additional Workers to Come Off the Sidelines

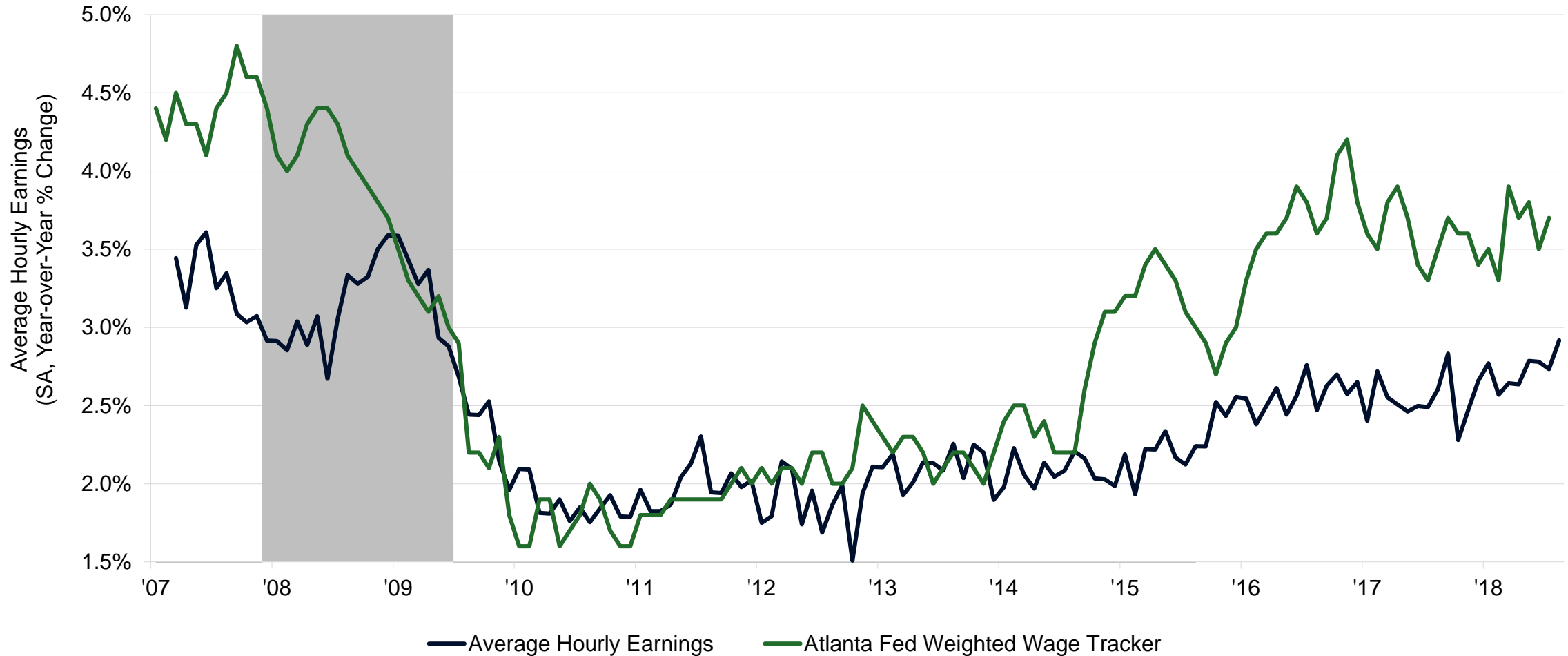
Prime-Age Labor Force Participation Rate Has More Room to Run





Nominal Wage Growth Trending Modestly Higher

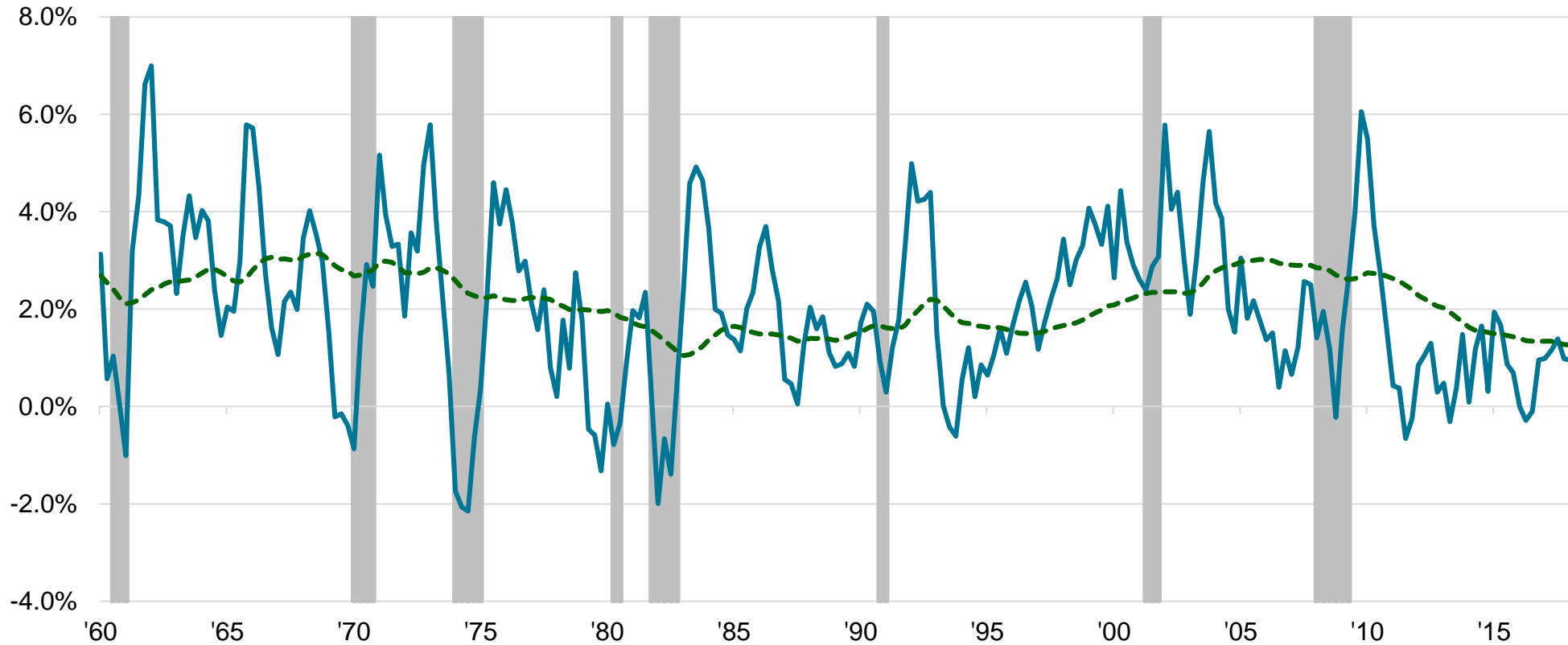
Y/Y % Change in Differing Wage Measures





Growth in Productivity Required for Sustained Income Growth

Real Labor Productivity Remains Modest



— Nonfarm Business Sector: Real Output Per Hour of All Persons (SA, 2012=100) % Change - Year to Year
- - - Ten-Year Moving Average

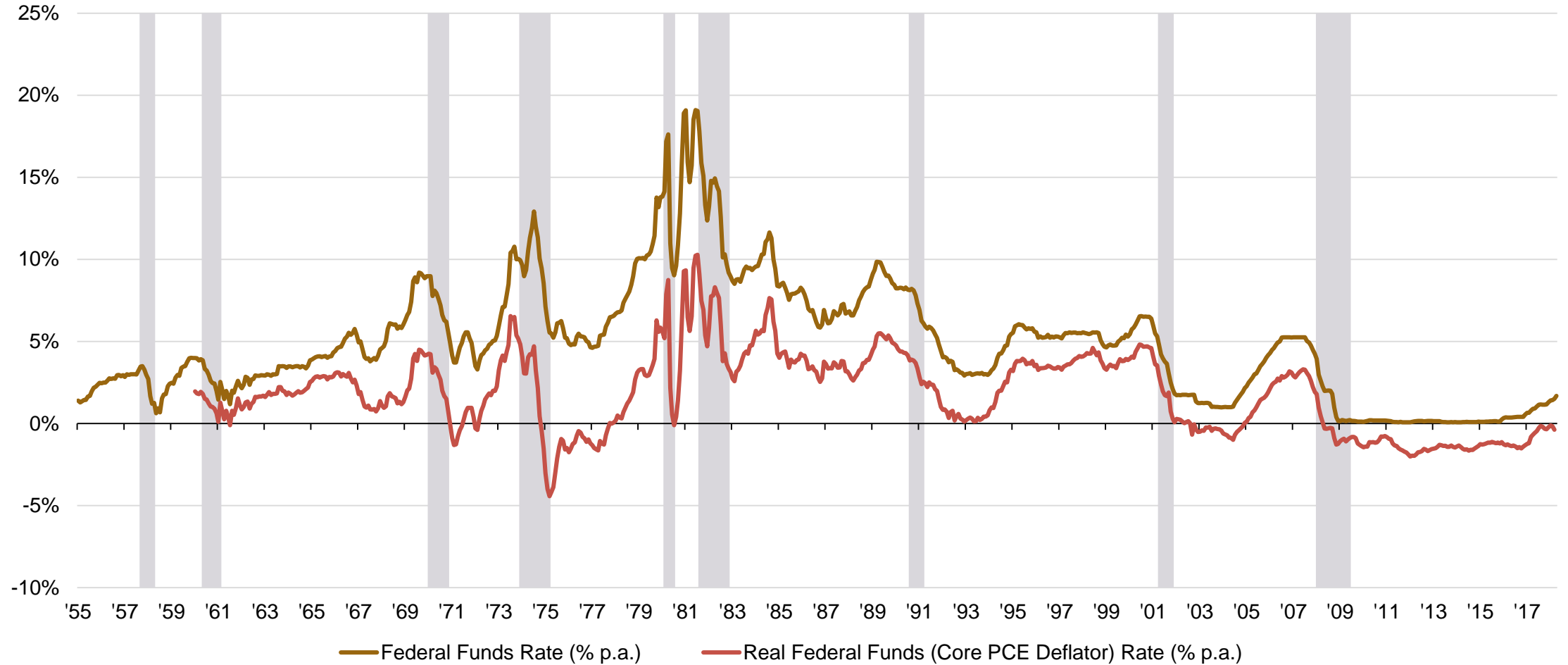


The Fed and Interest Rates



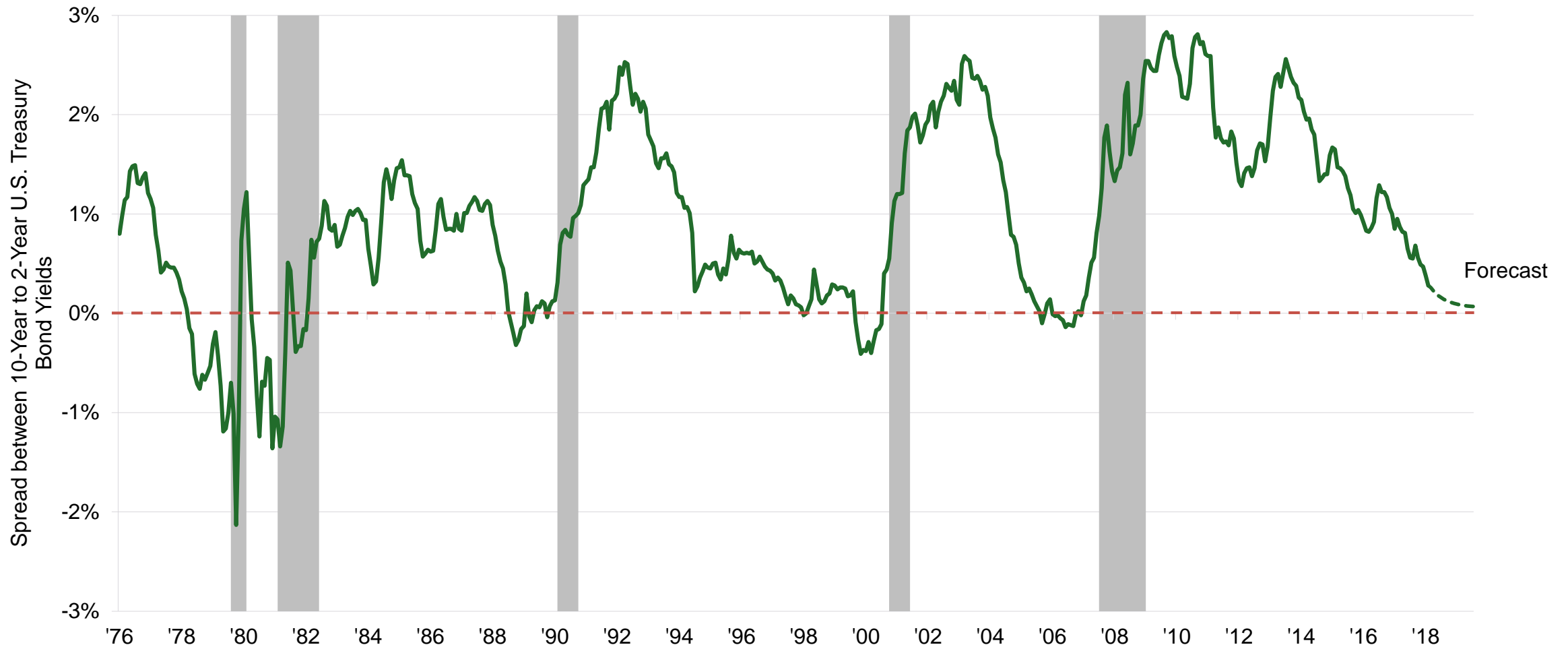
Federal Reserve Is Normalizing Monetary Policy

The Fed Has Begun a Tightening Cycle





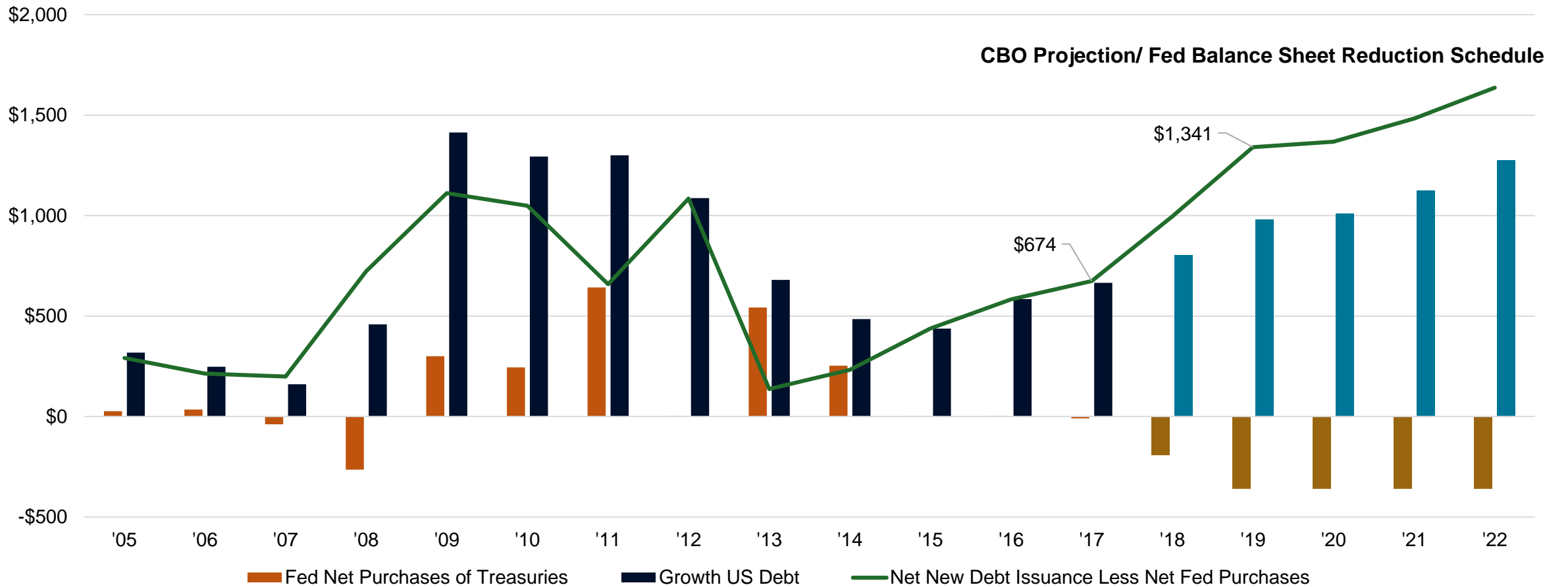
Yield Curve Has Flattened Over Last Year – 10-2 spread





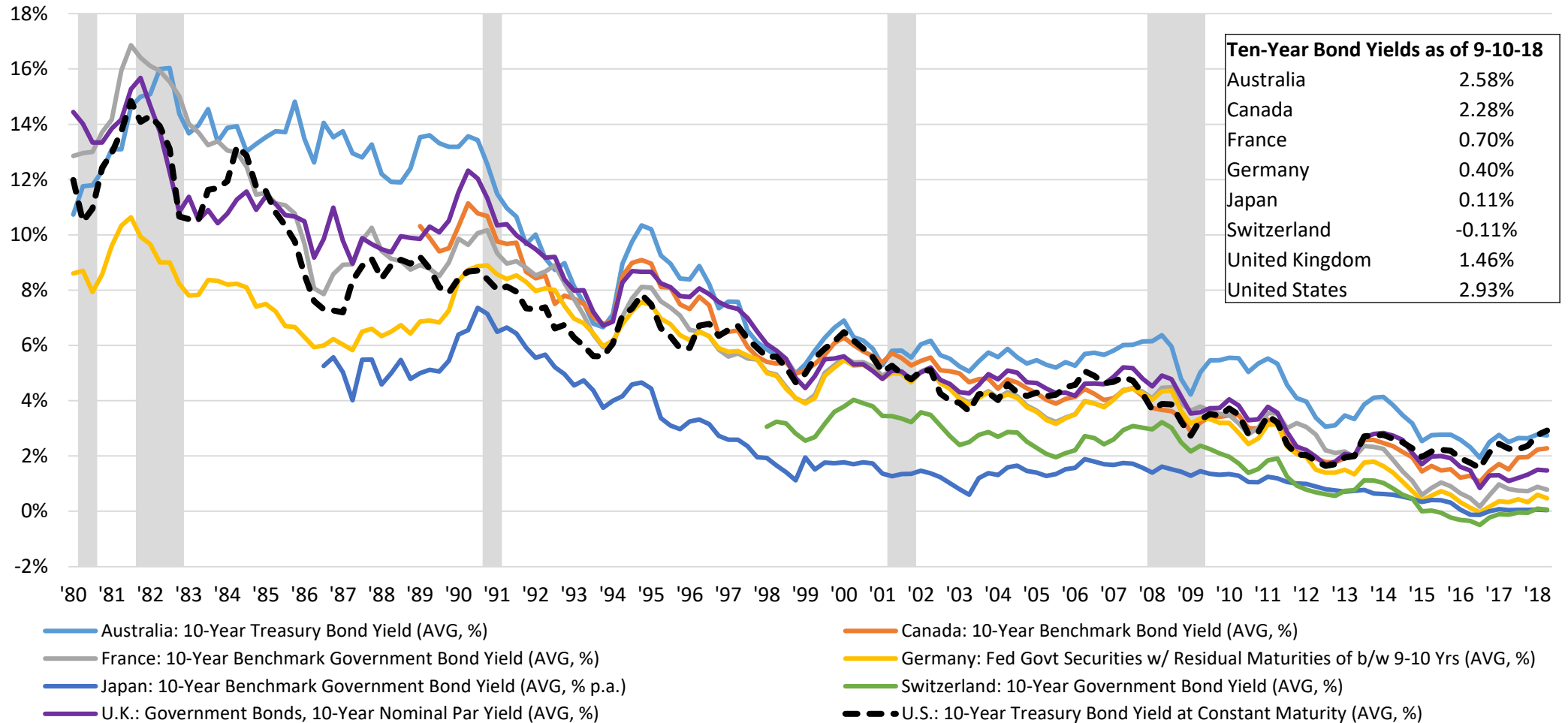
Acceleration in US Debt Issuance Will Likely Coincide With Negative Net Fed Treasuries Purchases

Annual Net US Government Debt Issuance and Net Fed Treasury Purchases (\$billions)





Ten-Year Bond Yields of Major Industrialized Nations





2018 Economic Outlook – Slight Uptick In Economic Growth

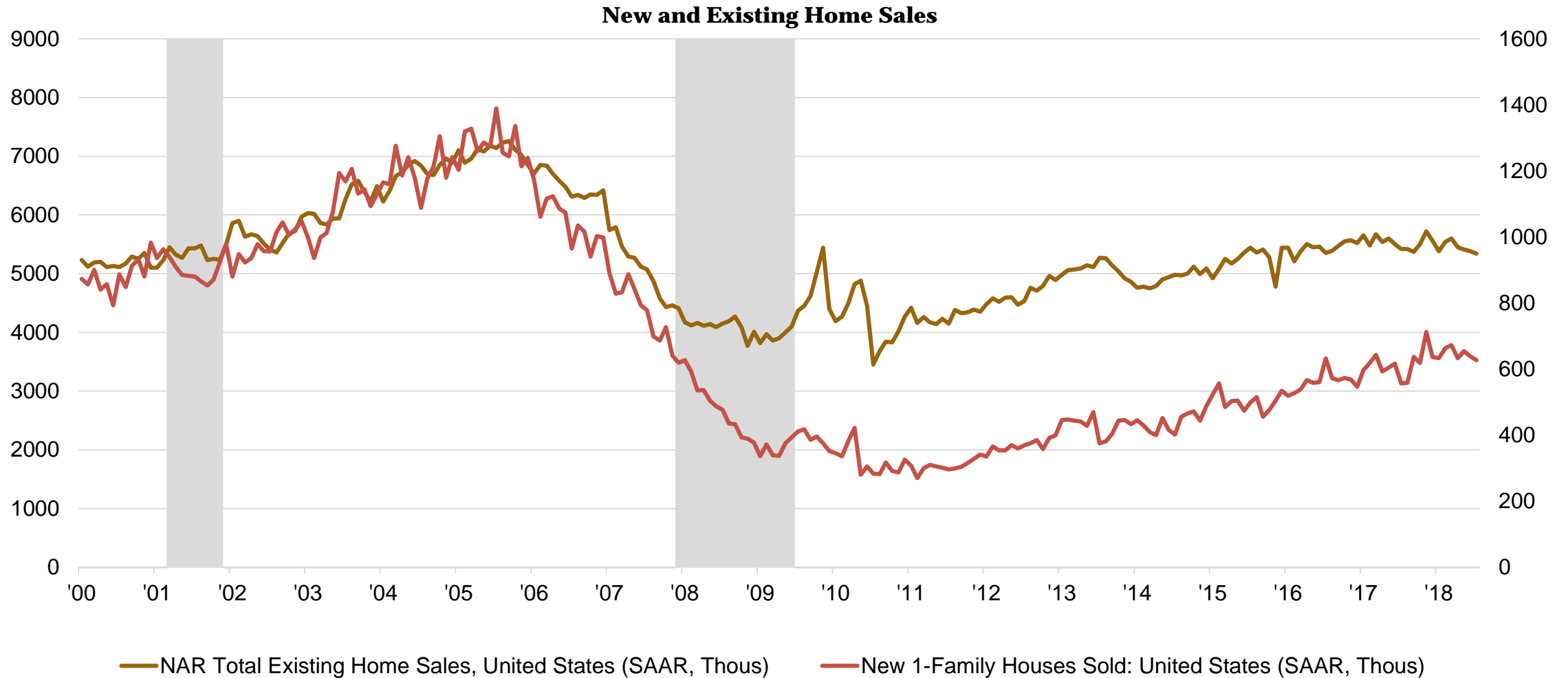
	2016	2017	2018	2019
Real GDP Annual Growth (Q4-over-Q4)	1.8%	2.5%	3.0%	2.3%
Unemployment Rate (Year-end)	4.9%	4.4%	3.9%	3.6%
Core CPI (Year-end, % Year-over-Year)	2.2%	1.7%	2.3%	2.4%
10-Year Treasury Bond Yield (Annual Average)	1.8%	2.3%	2.9%	3.0%



Housing and Mortgage Market

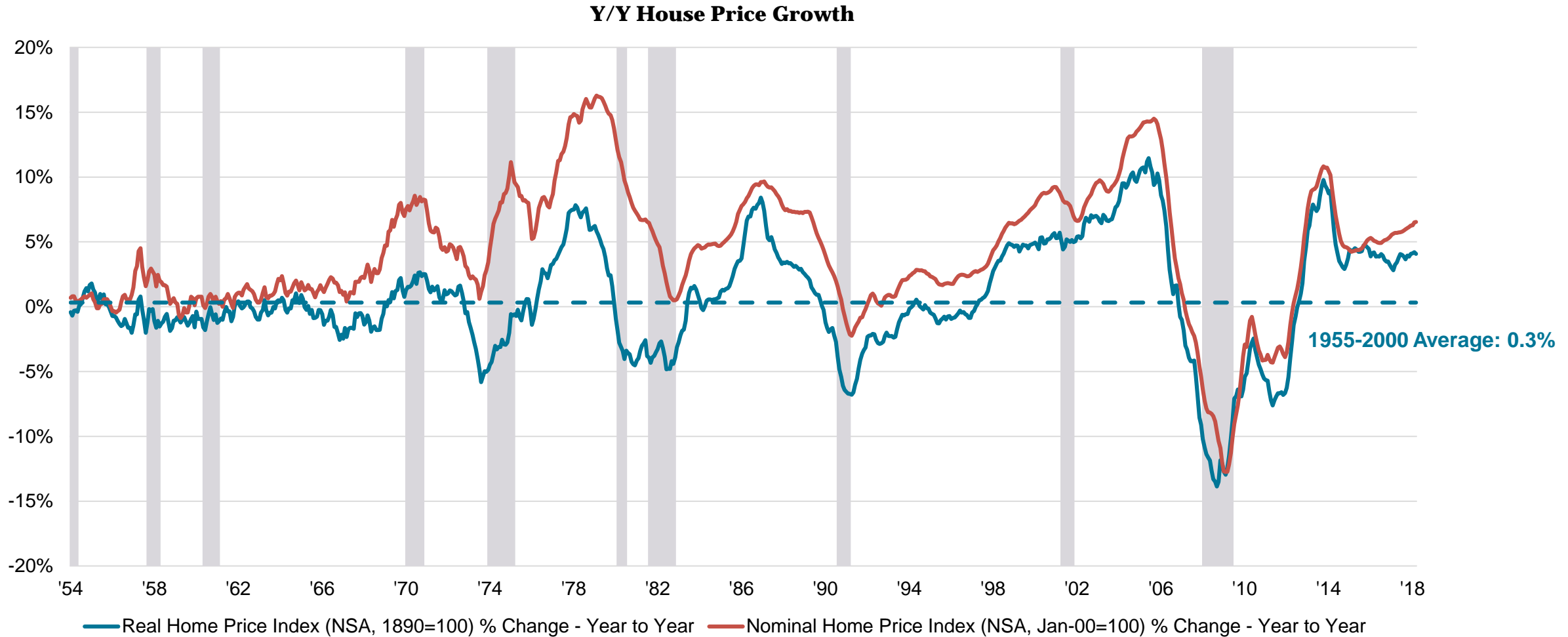


Home Sales Growth Softening and New Sales Subdued Relative to Existing





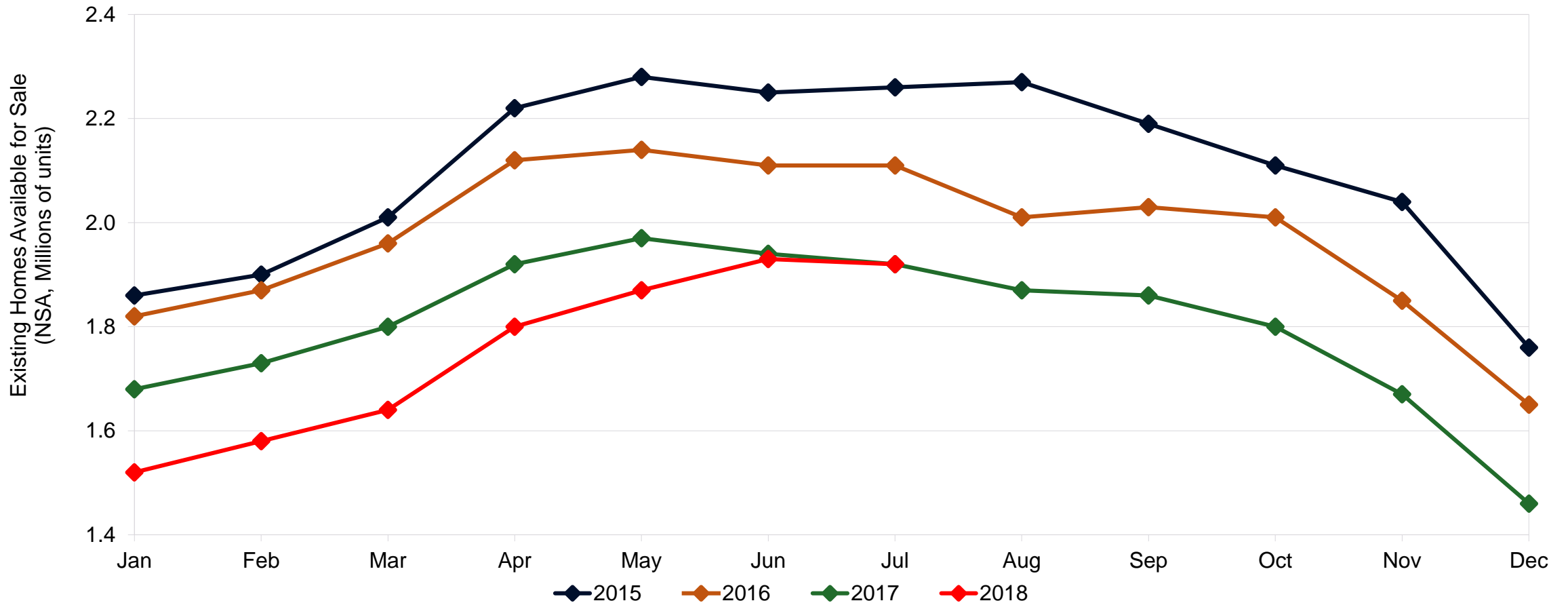
Real Home Price Appreciation Is Still Well Above Its Long-Term Average





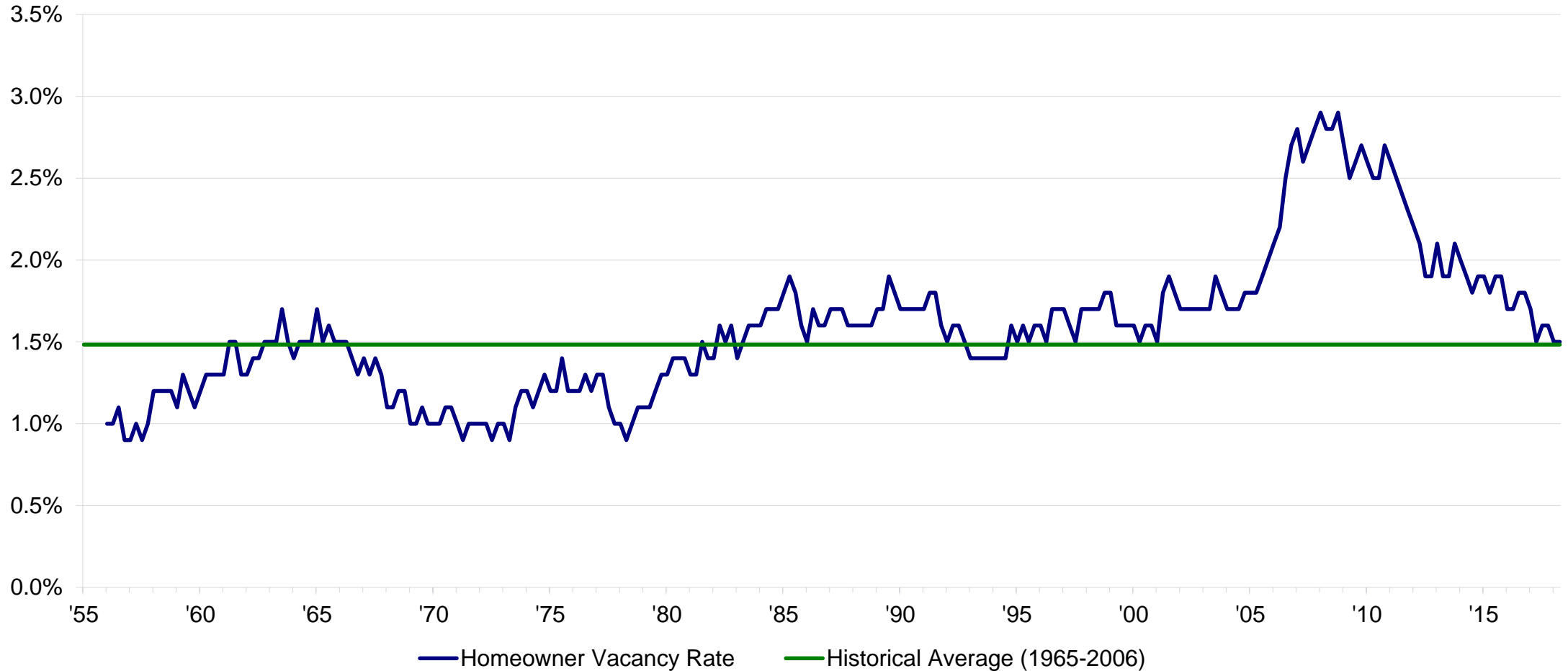
Year-over-Year Declines in For-Sale Inventories of Existing Homes Finally End, Though Remain Near Recent Low

Existing Homes Available for Sale (Millions)



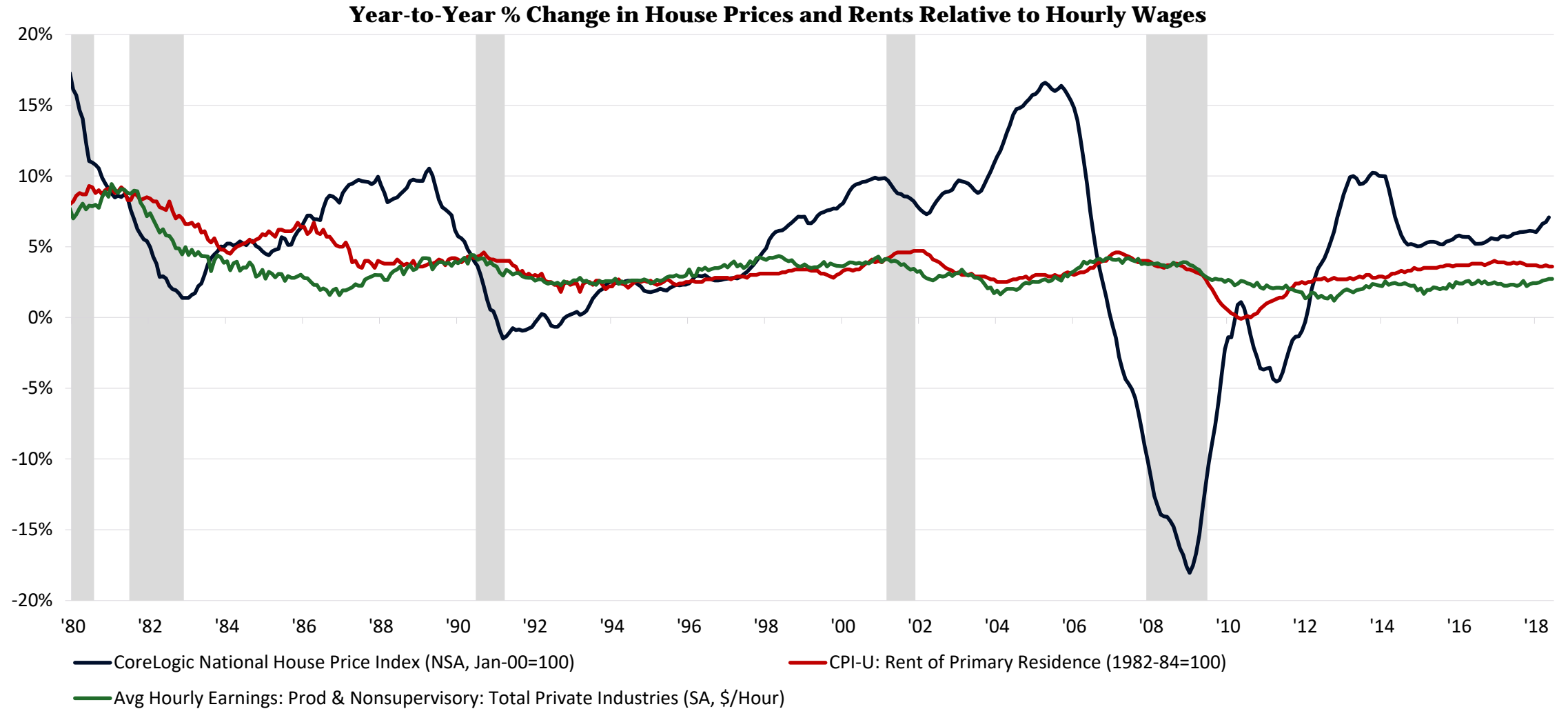


Homeowner Vacancy Rate Back Near the Historical Norm





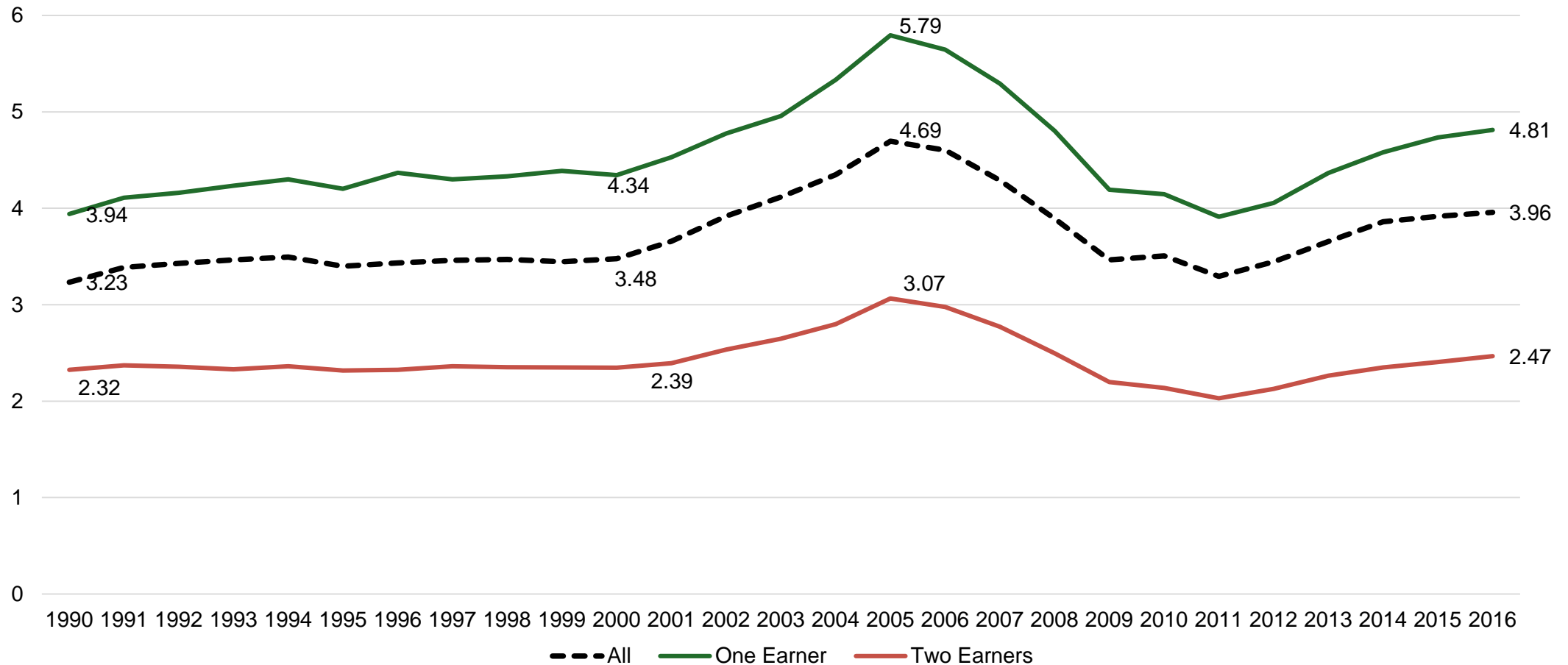
Rents Growing More Quickly Than Average Wages





House Prices Relative to Household Incomes

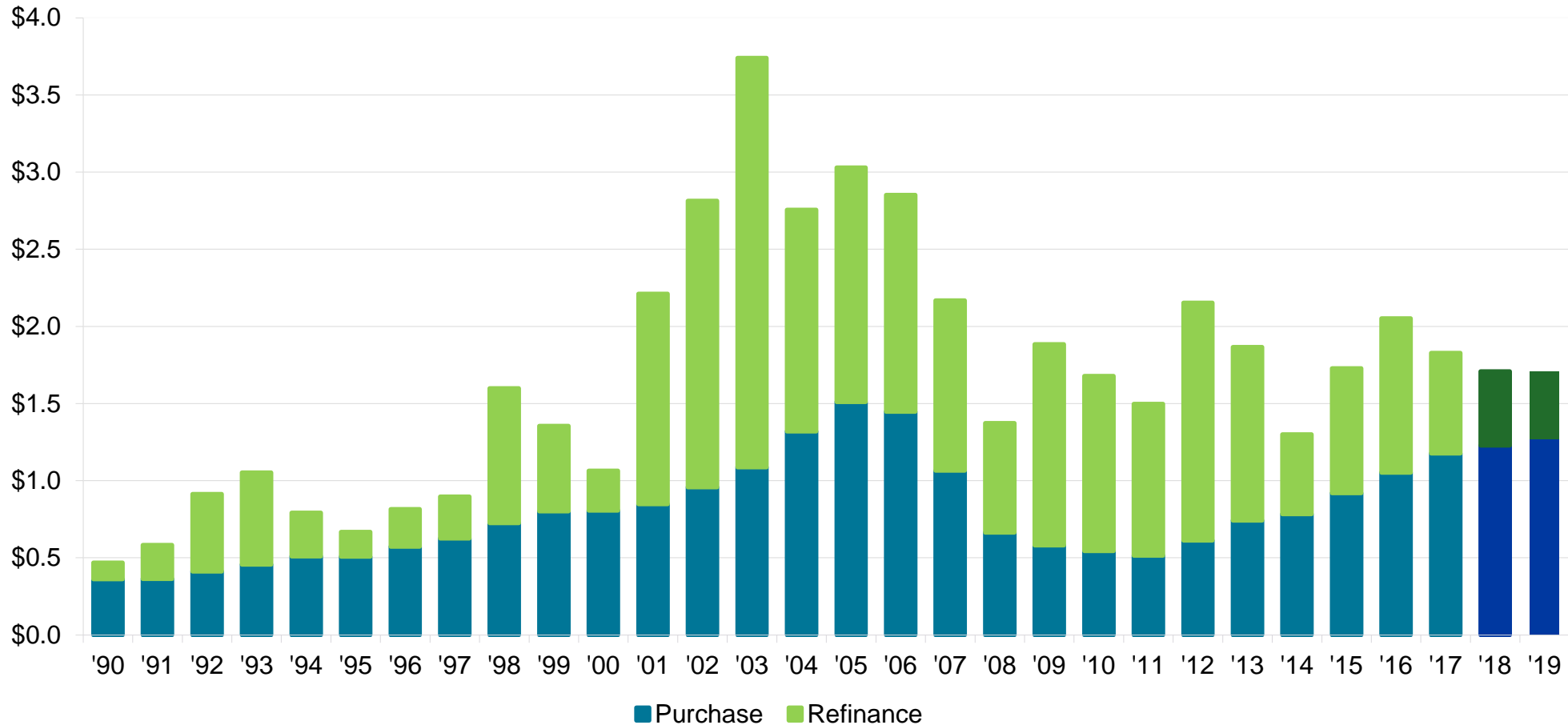
Median Single-Family House Price to Median HH Income by Number of Earners





Mortgage Production Expected to Shift Further Toward Purchase Market

Mortgage Originations (1-4 Unit, Billions of \$)





Housing and Mortgage Market Outlook

	2016	2017	2018	2019
Housing Starts <i>(Percent Change Year-Over-Year)</i>	1.174 million 5.6%	1.203 million 2.7%	1.279 million 6.3%	1.306 million 0.2%
New Single-Family Home Sales <i>(Percent Change Year-Over-Year)</i>	561 thousand 12.0%	613 thousand 9.3%	653 thousand 6.5%	682 thousand 4.4%
Total Existing Home Sales <i>(Percent Change Year-Over-Year)</i>	5.450 million 3.8%	5.511 million 1.1%	5.465 million -0.8%	5.547 million 1.5%
FHFA Purchase-Only Index (Annual Percent Change Q4/Q4)	6.4%	6.8%	5.3%	4.1%
Purchase Mortgage Originations <i>(Percent Change Year-Over-Year)</i>	\$1,052 billion 15.1%	\$1,177 billion 11.9%	\$1,199 billion 1.9%	\$1,257 billion 4.8%
Refinance Mortgage Originations <i>(Percent Change Year-Over-Year)</i>	\$1,000 billion 22.7%	\$650 billion -35.0%	\$470 billion -27.7%	\$438 billion -6.8%
30-Year Fixed-Rate Mortgage (Annual Average)	3.6%	4.0%	4.5%	4.7%
10-Year Treasury (Annual Average)	1.8%	2.3%	2.9%	3.0%



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 LECG. 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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