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# **Will Policy Change Extend the Expansion?**

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January 26, 2017





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**Declaring that the absence of recession is not tantamount to economic growth, the president proposed in 1963 to cut income taxes from a range of 20-91% to 14-65%. He also proposed a cut in the corporate tax rate from 52% to 47%.**

**- John F. Kennedy on the Economy and Taxes**



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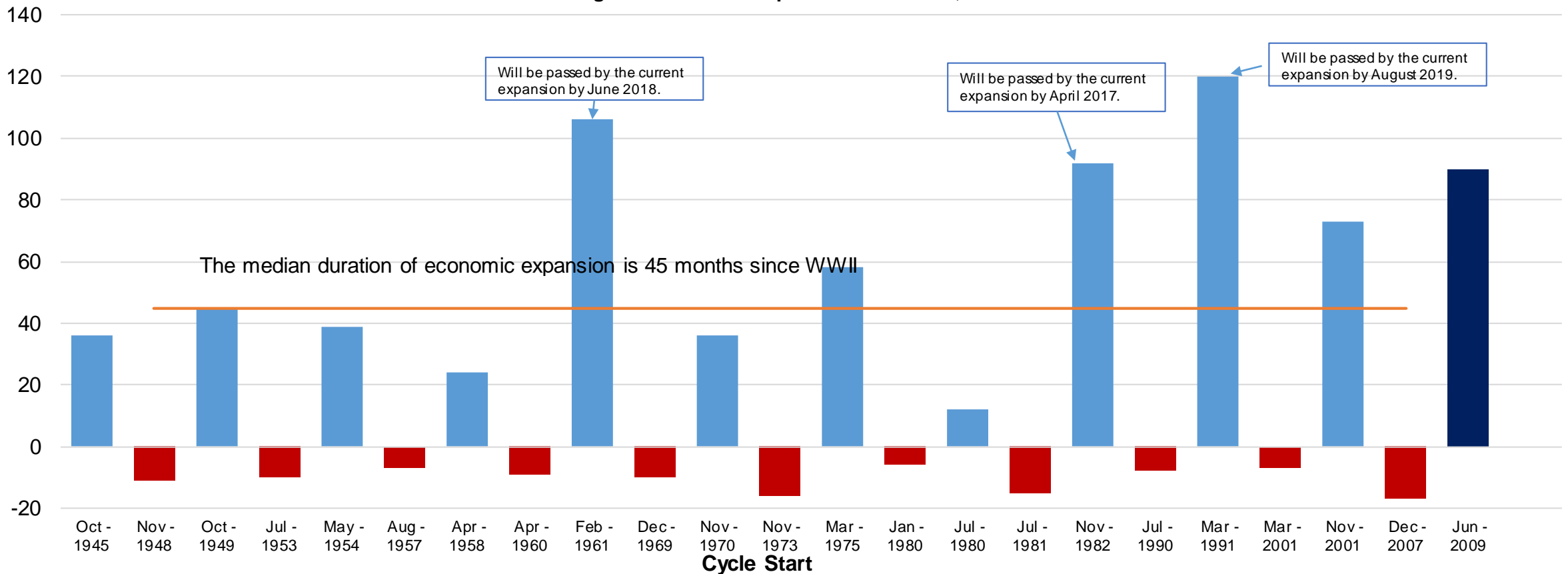
# **Economic Growth, Employment, and Income**



# Outlook for the Next Possible Recession

## We Are Probably in the Late Stages of the Economic Expansion

Length of Economic Expansion/Recession, in Months



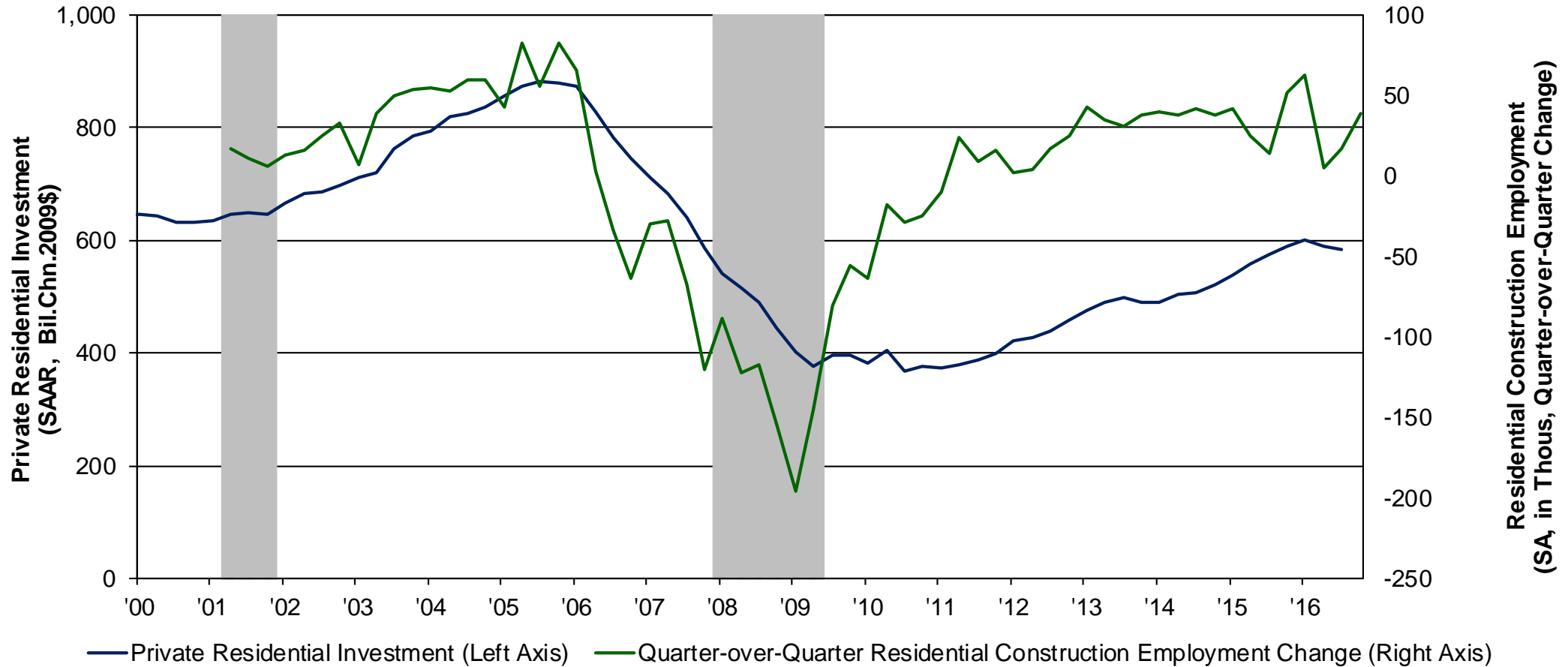


# Potential Policy Changes: Will They Enhance Prospects for Growth?

	Yes	No	?
Corporate tax cuts			
Personal tax cuts			
Infrastructure spending			
Defense spending			
Deregulation			
Immigration reform			
Trade barriers			
Health Care Reform			
Energy			



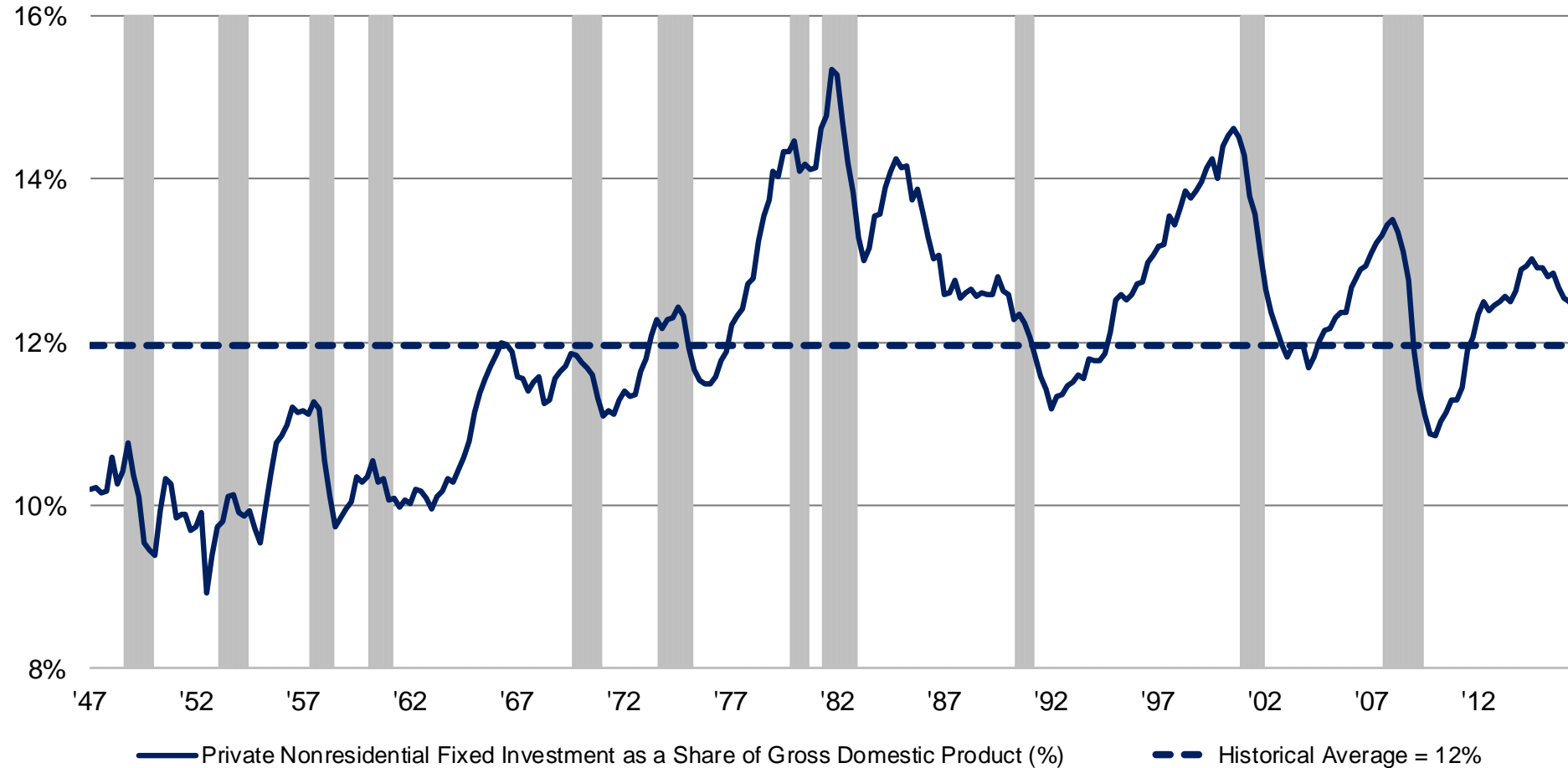
# Private Residential Investment Pulls Back Slightly, but Residential Construction Employment Gains Pick Up



Note: Residential Construction Employment combines construction of buildings and specialty trade contractors.



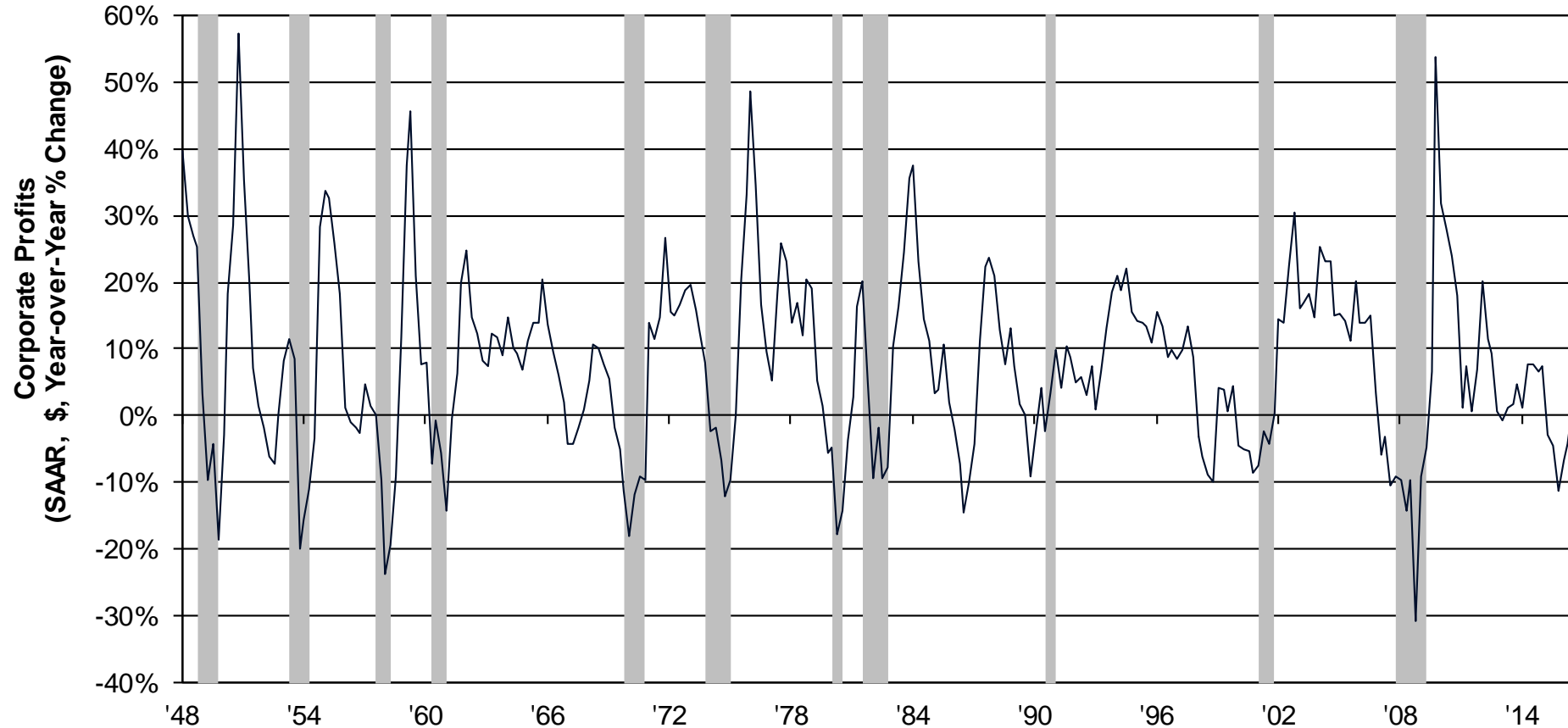
# Business Fixed Investment Share of GDP Is Well Below Prior Peaks and Falling







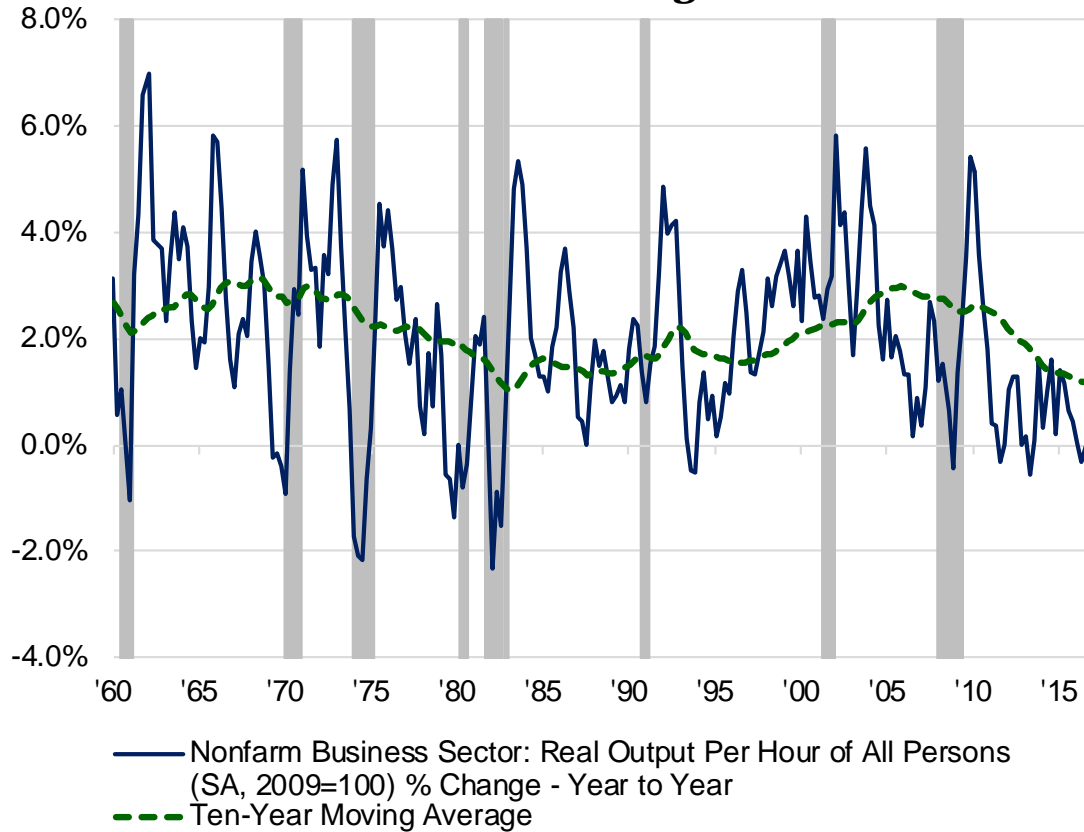
# Corporate Profits Rise from a Year Ago, Ending The Five Quarter Streak of Annual Declines



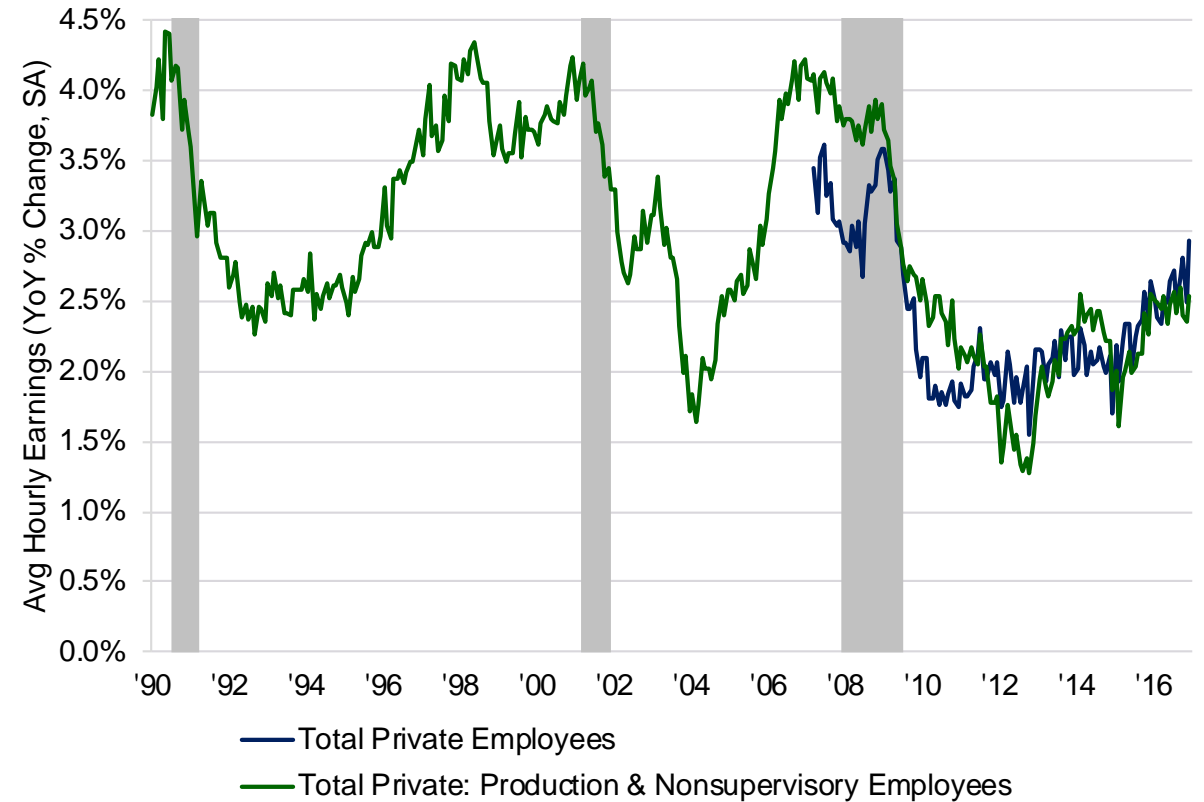


# Productivity Growth Slows

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

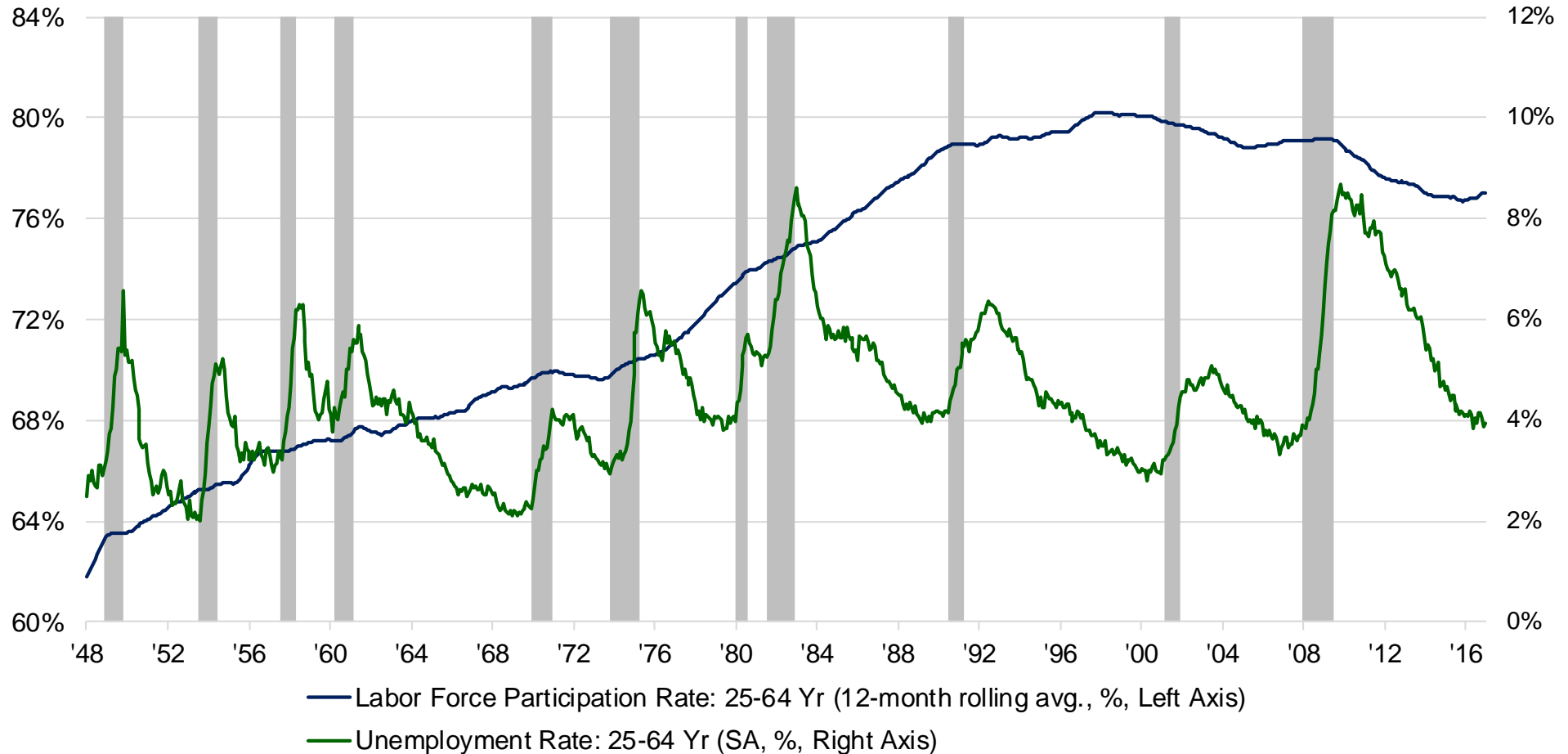


## Wage Growth Is on an Uptrend





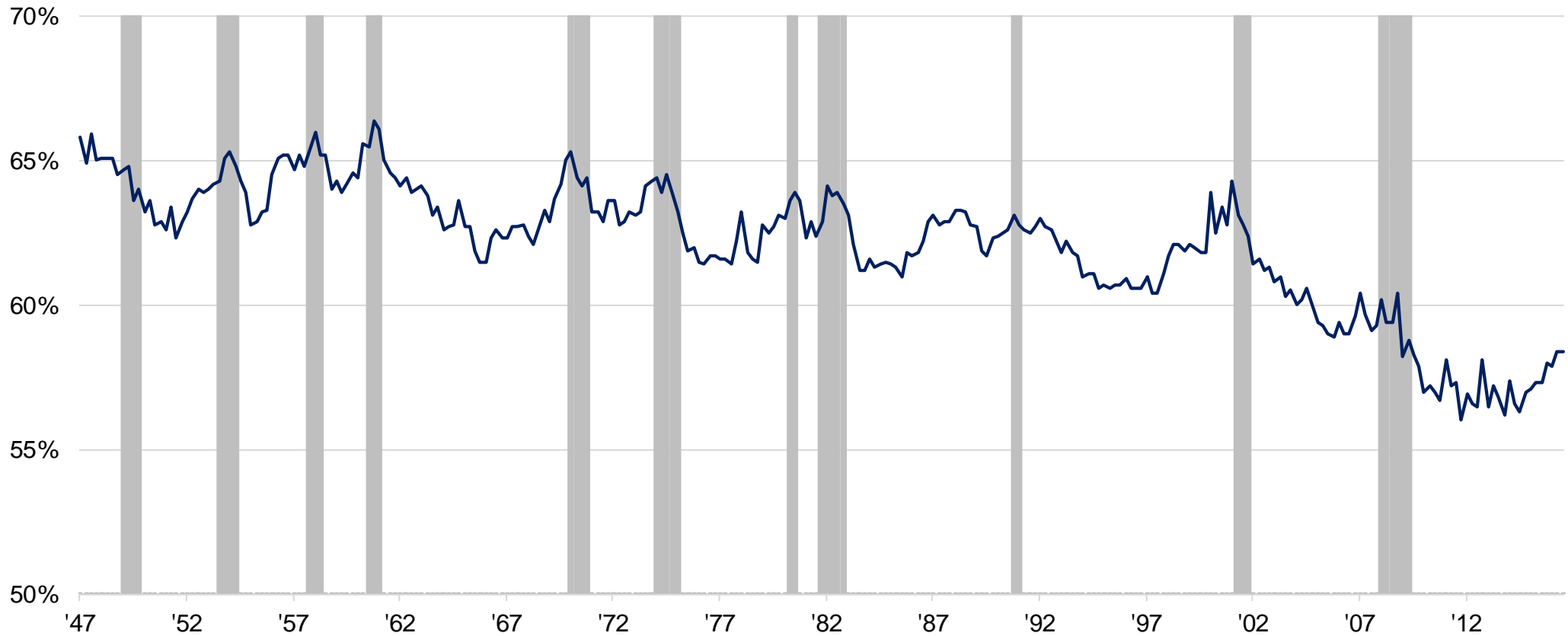
# Unemployment Rate Declines, While Labor Force Participation Rate Stabilizes





# Labor Share of Income Remains Low, but is on Upward Trend

**Nonfarm Business: Labor Share, All Persons (SA)**

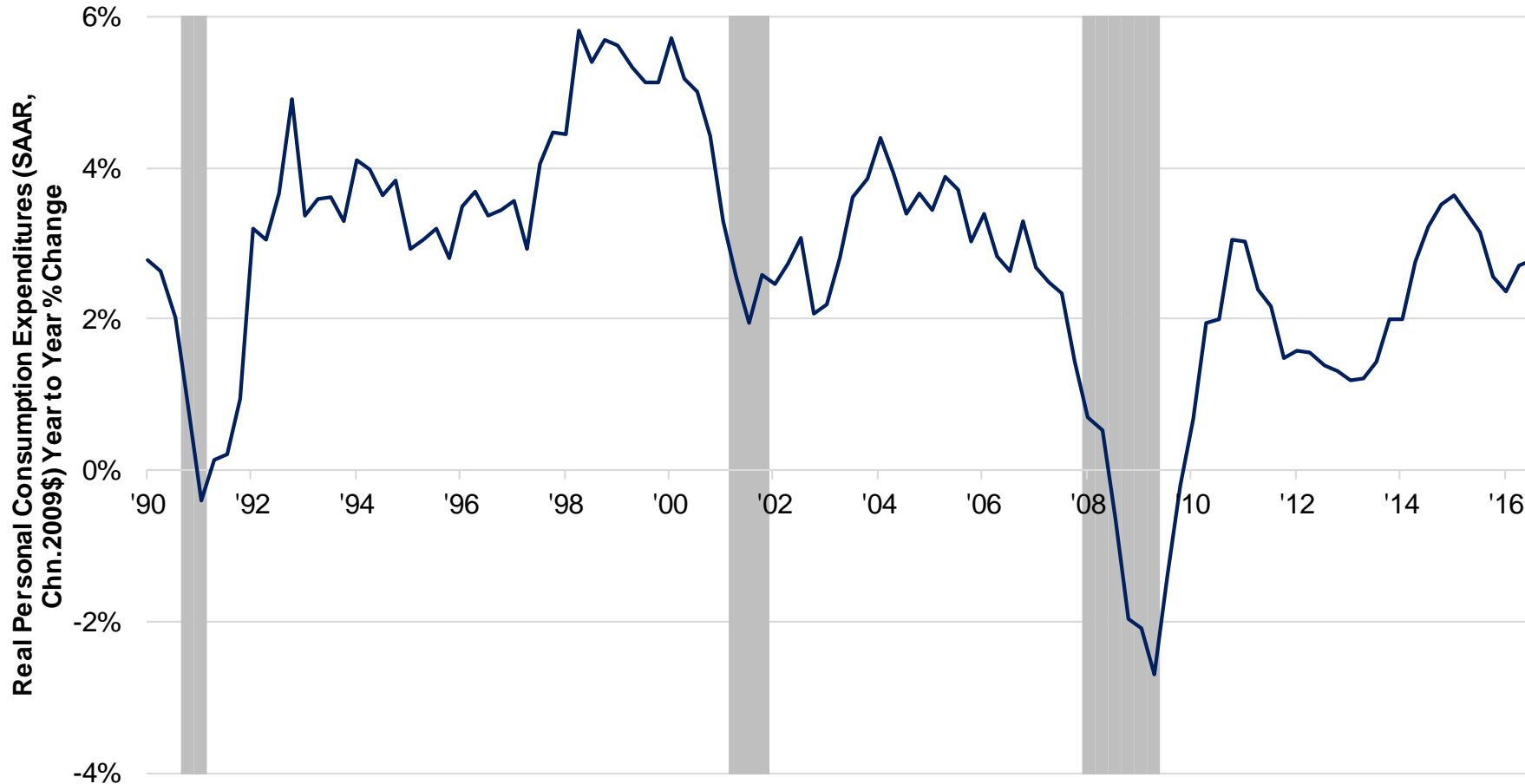


Note: Labor share of income is the portion of output that employers spend on labor costs (wages, salaries, and benefits) valued in each year's prices.



# Consumer Spending Supports Growth

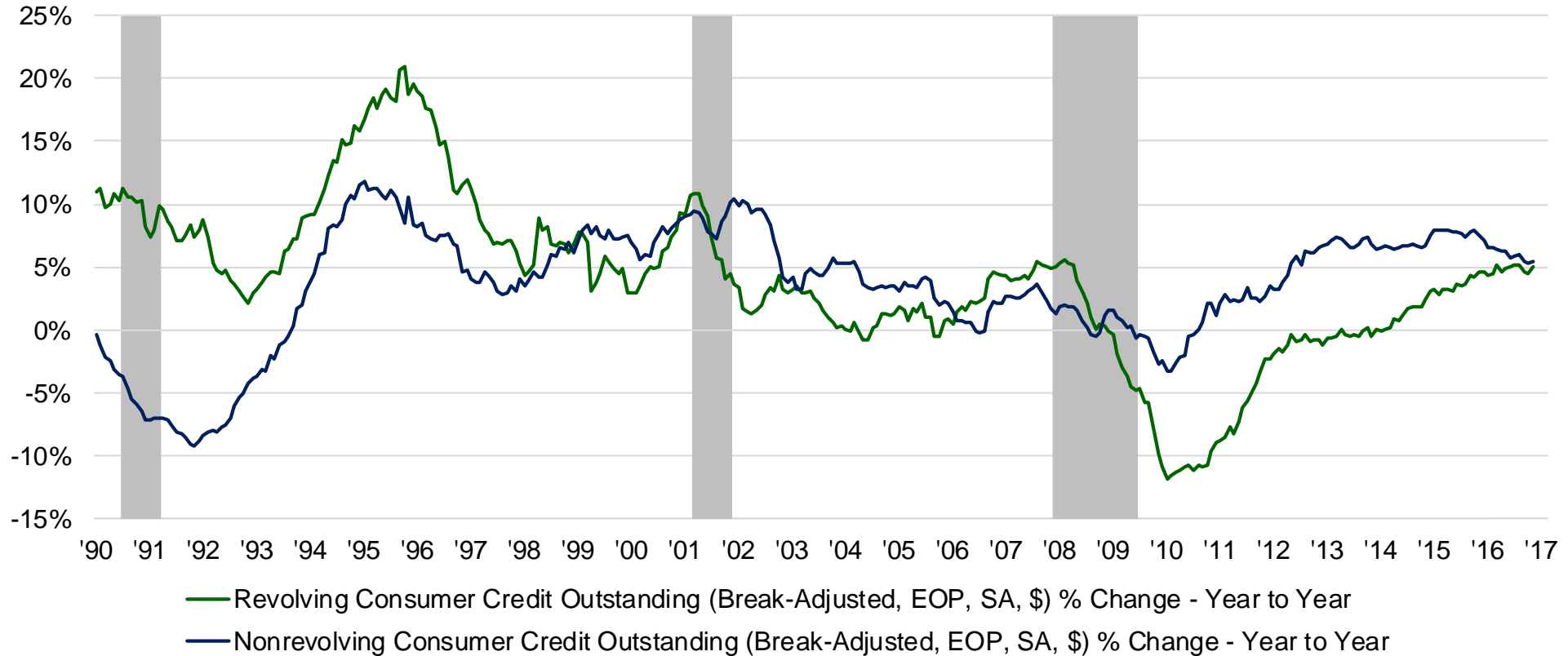
## Real Personal Consumption Remains Supportive





# Consumer Credit Rises in Real Terms

## Real Revolving Consumer Credit Has Trended up over the Past Two Years

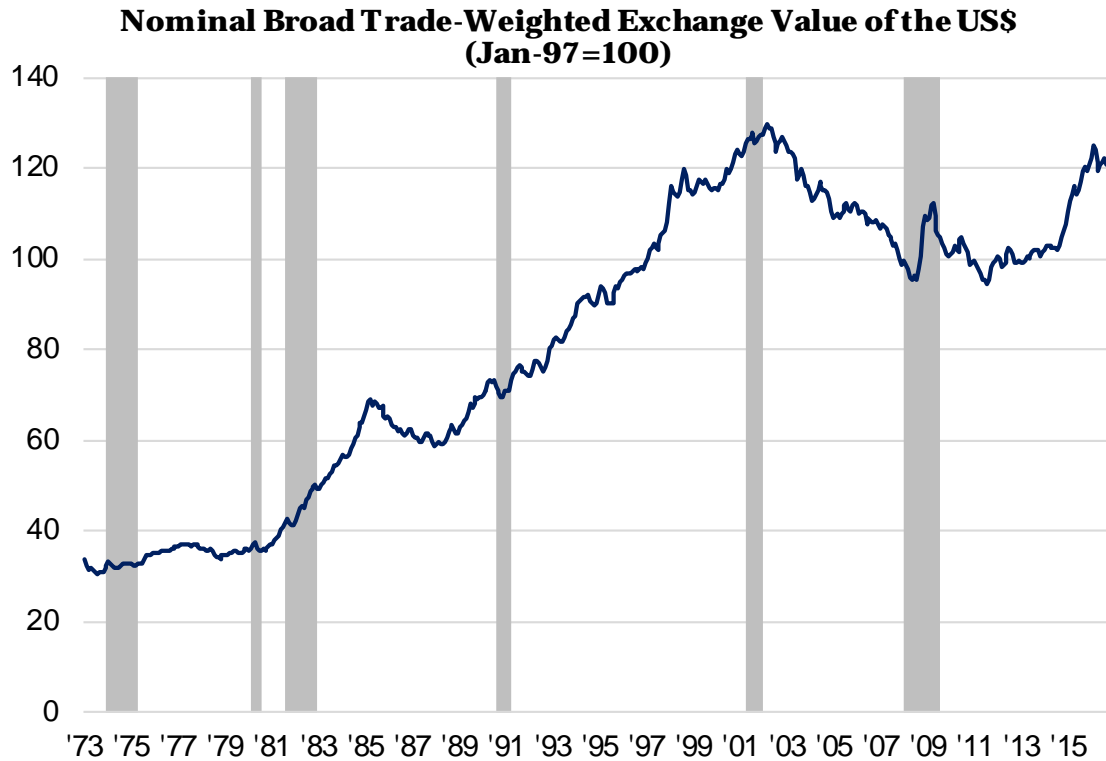


Note: 1) Revolving Credit includes credit card credit and balances outstanding on unsecured revolving lines of credit. Nonrevolving credit includes secured and unsecured credit for automobiles, mobile homes, trailers, durable goods, vacations, and other purposes. Consumer credit excludes loans secured by real estate (such as mortgage loans, home equity loans, and home equity lines of credit).  
2) Adjusted with Personal Consumer Expenditures Chain Price Index.  
3) Shaded areas are recessions.

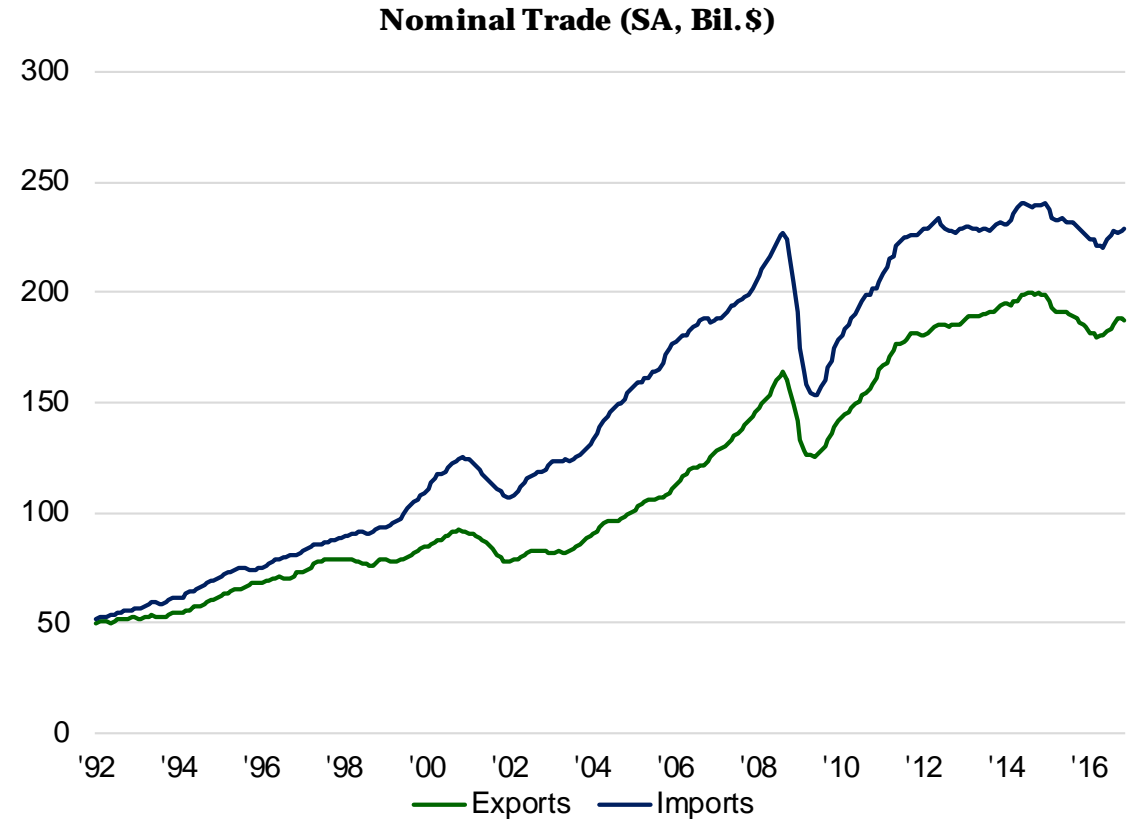


# The Strong Dollar Contributes to the Reduction in Trade; Fed Rate Increases Would Add To That Headwind

## The Dollar Remains Elevated

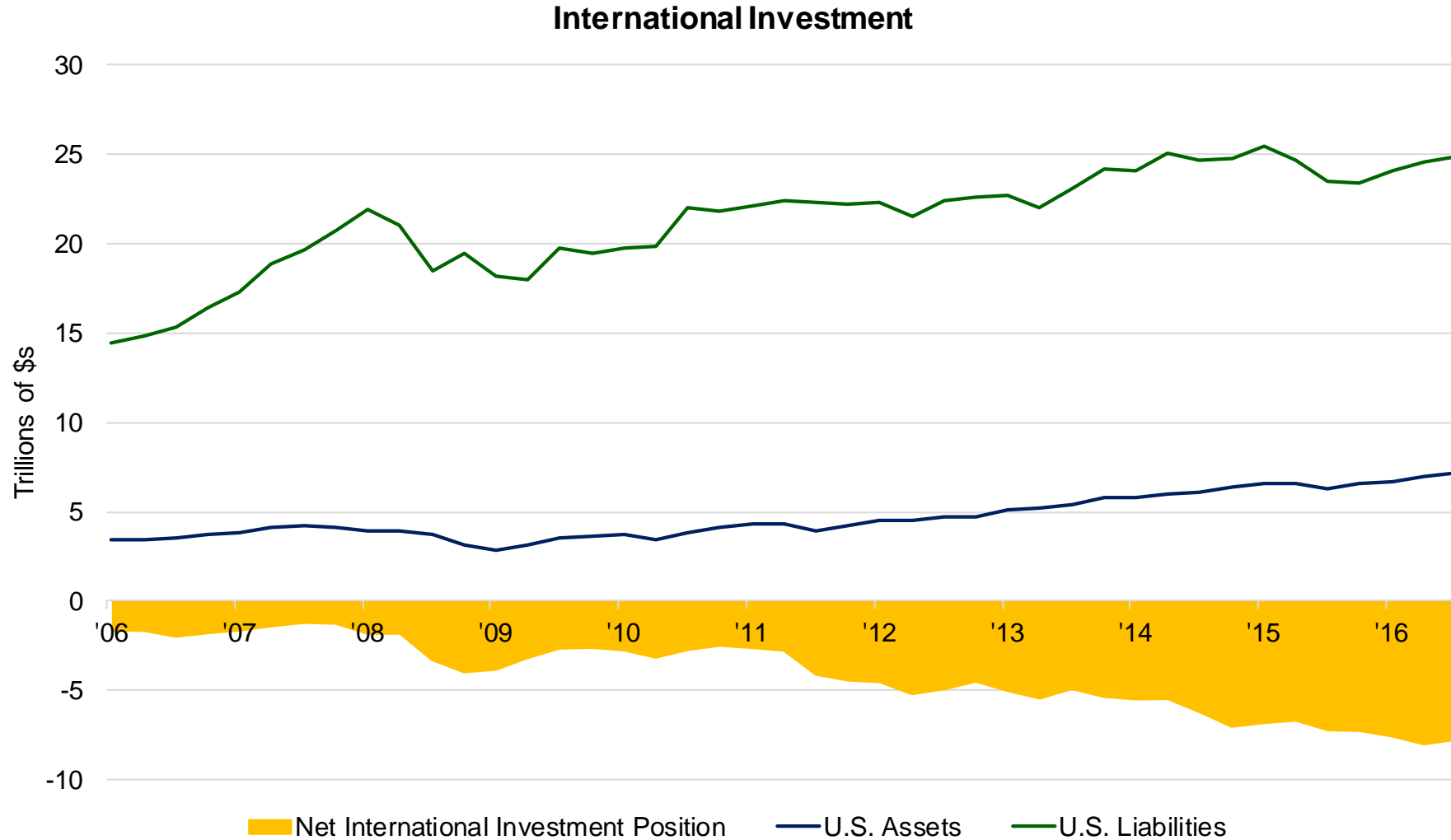


## U.S. Trade Is Still below Peak





# International Investment to the U.S. is Much Larger than from the U.S.







# European Union Membership Varieties

## European Union

28-nation single market of free trade and shared regulation; includes “free movement” of goods, services, capital, and people

## Euro Zone

19 countries using the euro currency

## European Economic Area

Provides access to single market in exchange for payments; has “emergency brake” on free movement of people

## European Free Trade Association

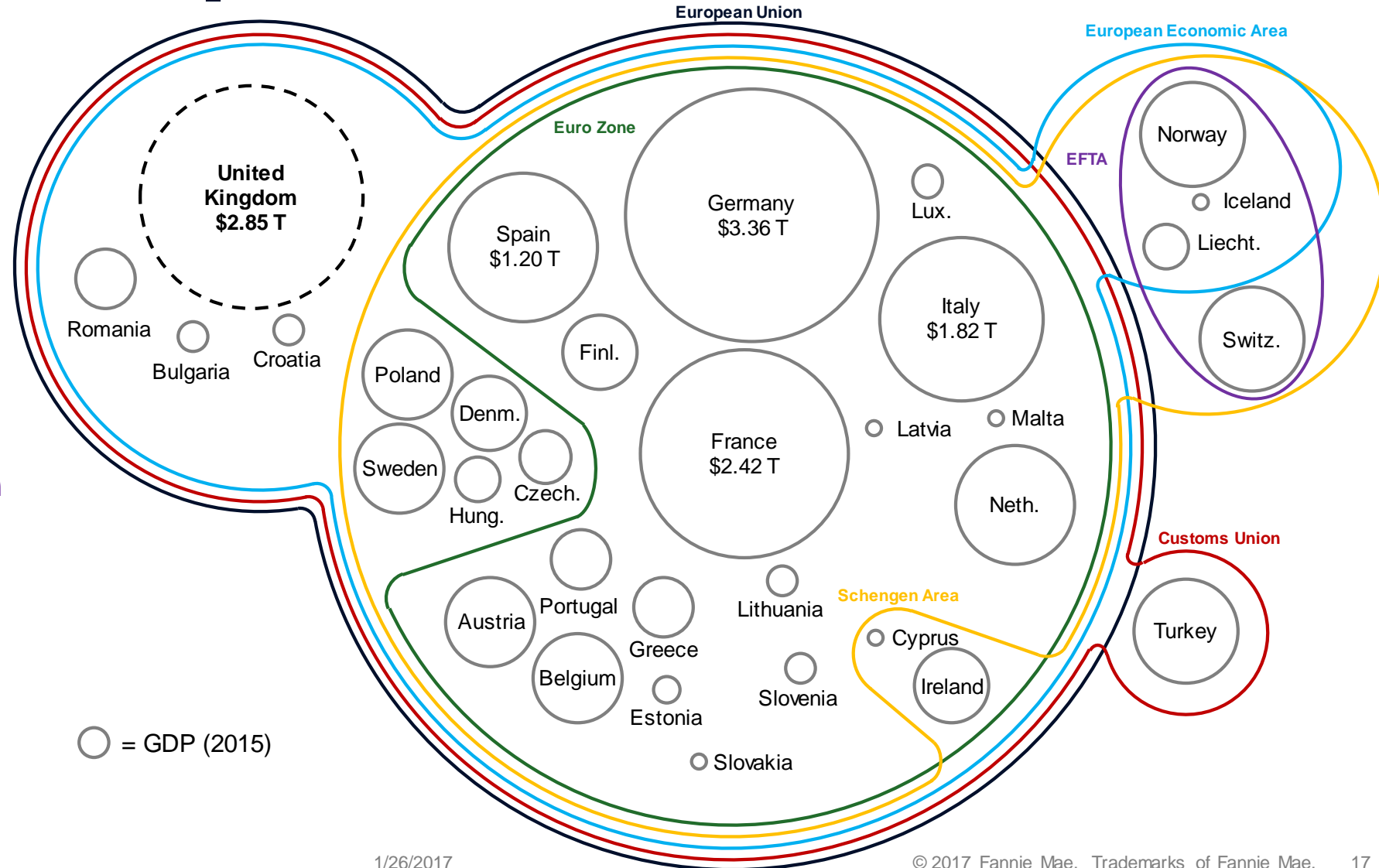
Free-trade zone and network of agreements with other countries

## Customs Union

Circulates goods without duties, has uniform system for handling imports

## Schengen Area

26-country passport-free travel zone



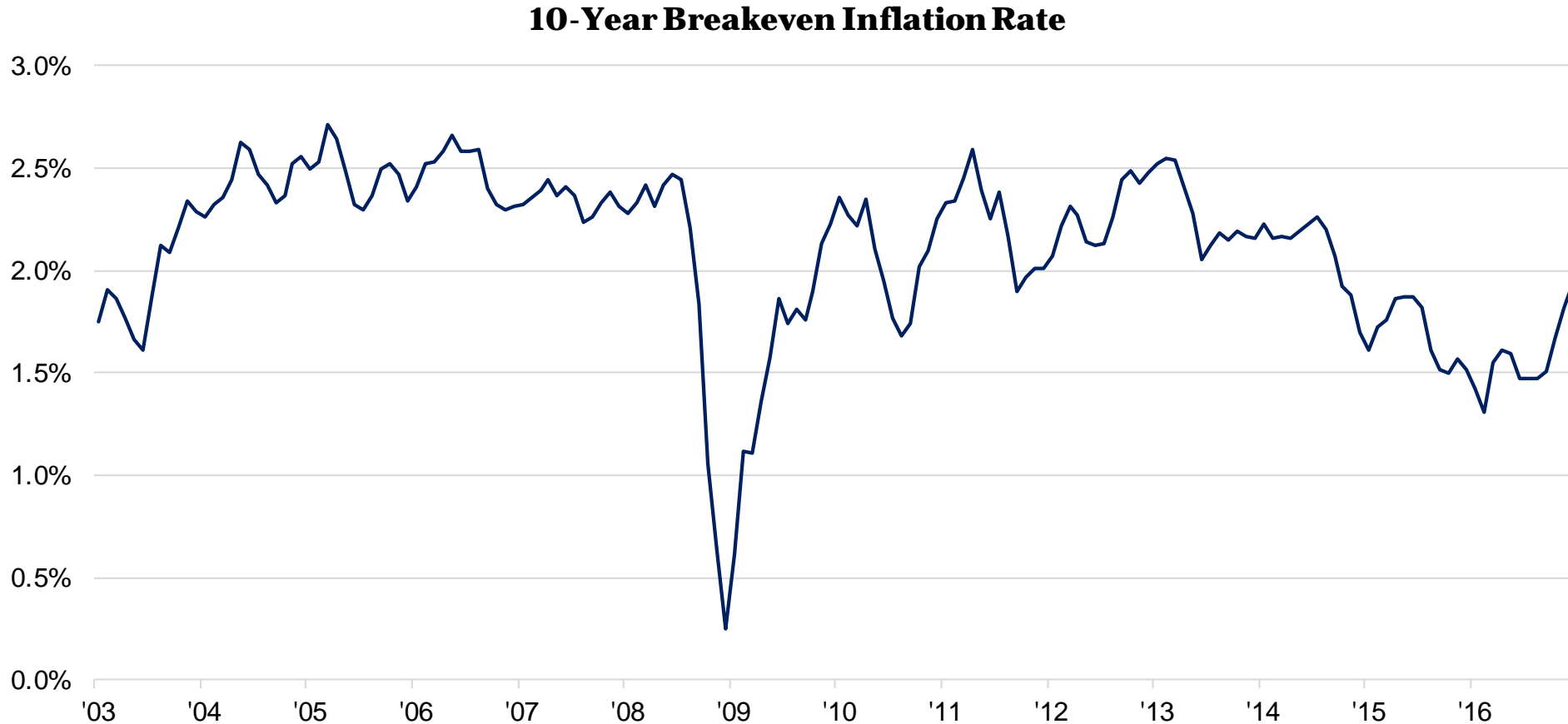


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# **The Fed, Interest Rates, and The Outlook**



# Long-Term Inflation Expectation Spikes

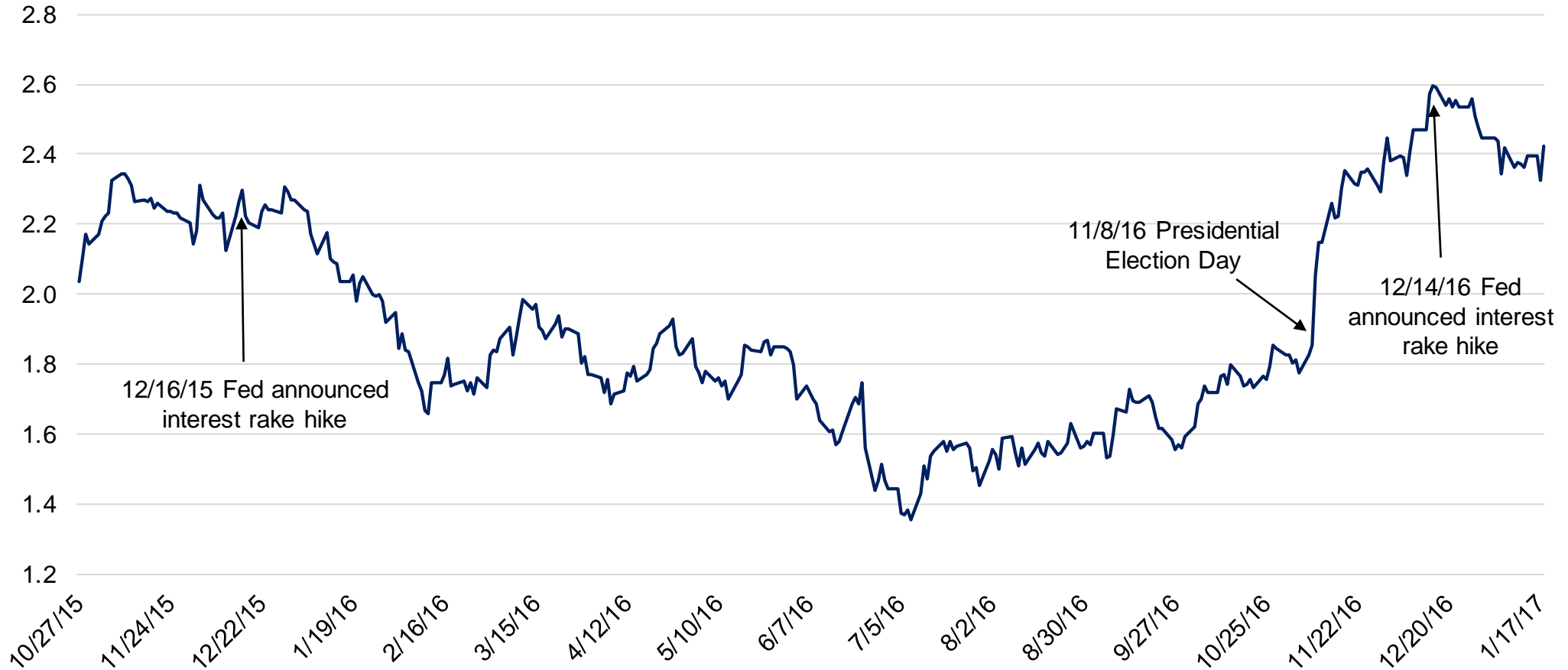


Note: The 10-year breakeven rate measures the difference in the yields between 10-year Treasury Note and Treasury Inflation Protected Securities.



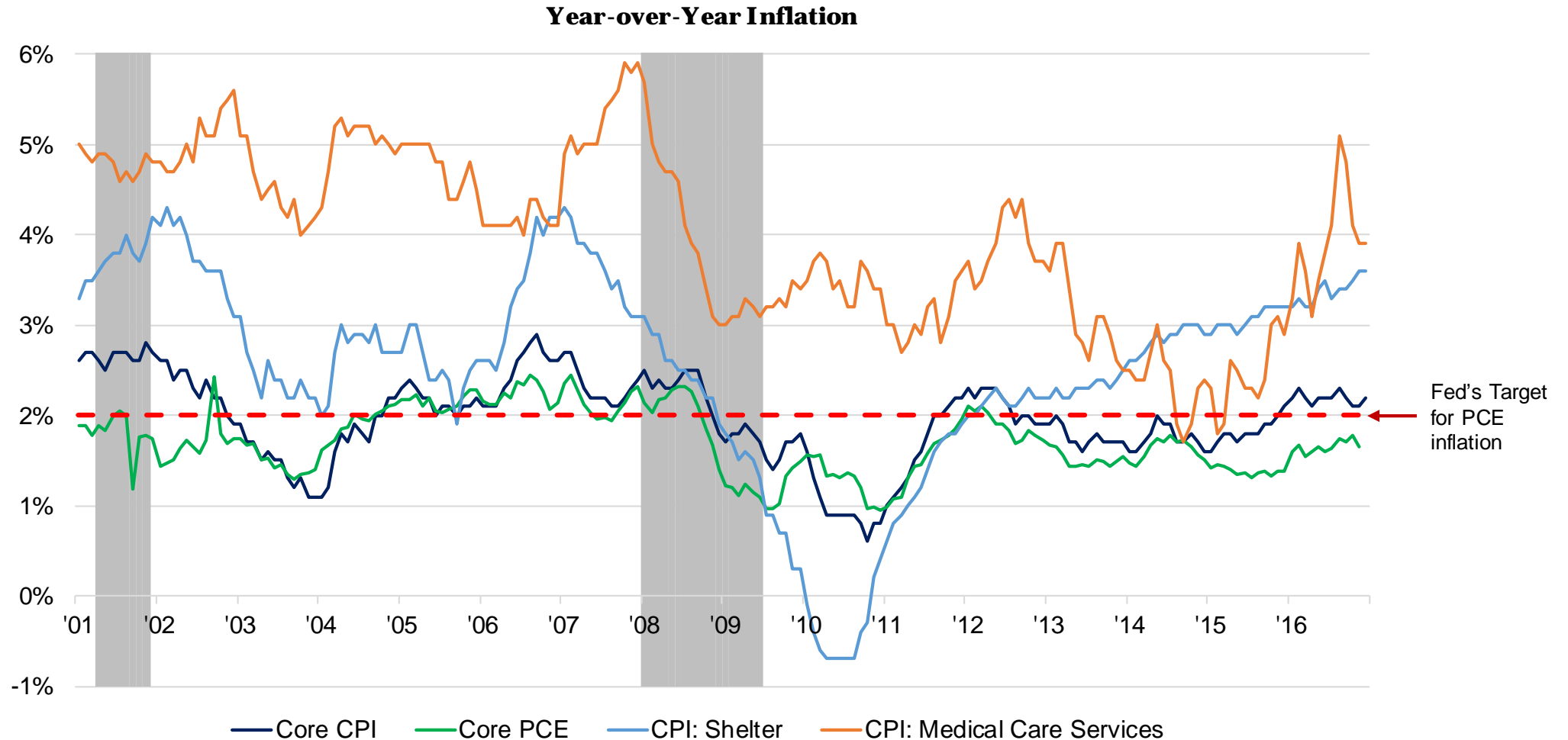
# Intermediate Rates Have Risen Substantially Since the Presidential Election

10-Year Treasury Note Yield at Constant Maturity (% Daily Close Rate)





# Core Inflation Inches Up, while Growth of Medical Care Prices and Shelter Prices Stabilizes





# 2017 Economic Outlook – Moderate Economic Growth Continues

January 2017 Forecast	
Real GDP Annual Growth (Q4-over-Q4)	2.0%
Unemployment Rate (Year-end)	4.5%
Core CPI (Year-end, % Year-over-Year)	2.1%
10-Year Treasury Bond Yield (Year-end)	2.7%

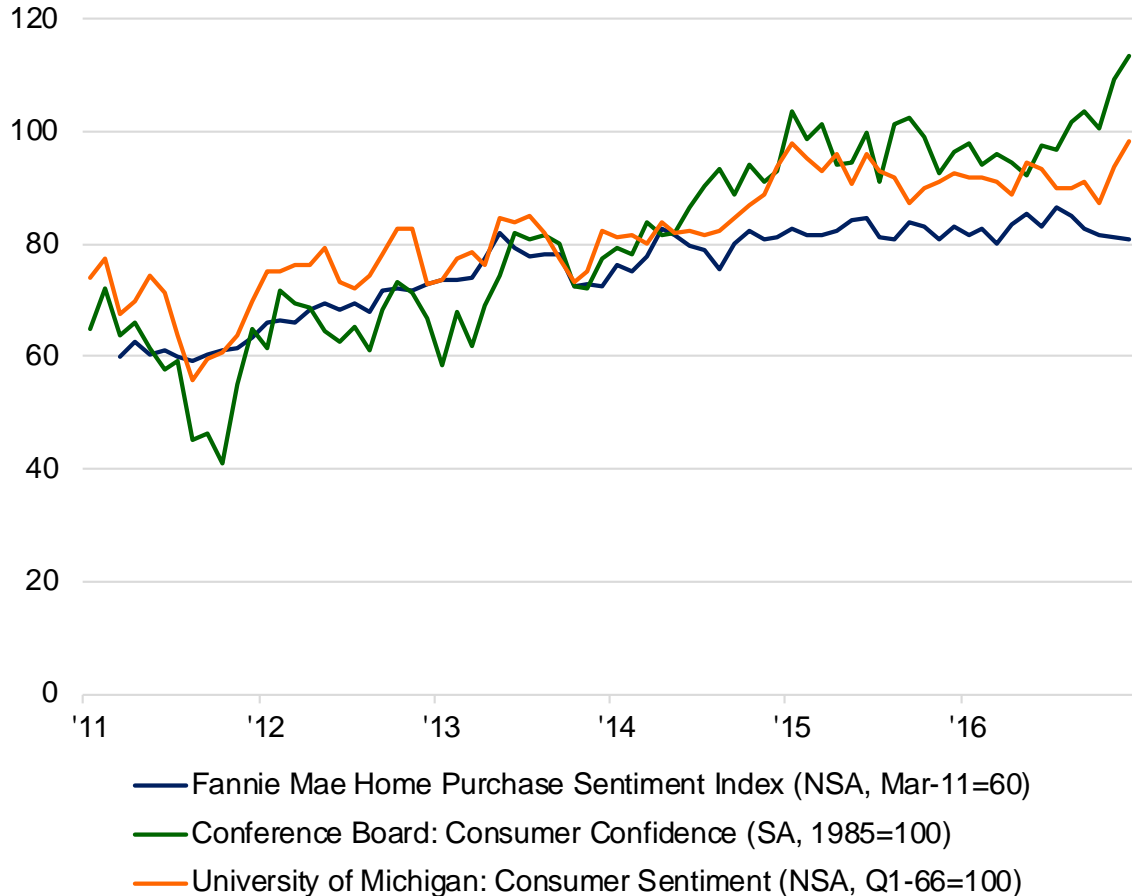


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# Housing Market



# Home Purchase Sentiment Index™ (HPSI) Suggests Slower Growth in 2017



$$HPSI = \frac{Q12 + Q13 + Q15 + Q20B + Q112B + Q116}{6} + 63.5$$

## Question Topic

Q.12 Is this a good time to buy a house?

Q.13 Is this a good time to sell a house?

Q.15 Will home prices go up, down, or stay the same over the next 12 months?

Q.20B Will mortgage rates go up, down, or stay the same over the next 12 months?

Q.112B How concerned are you about losing your job over the next 12 months?

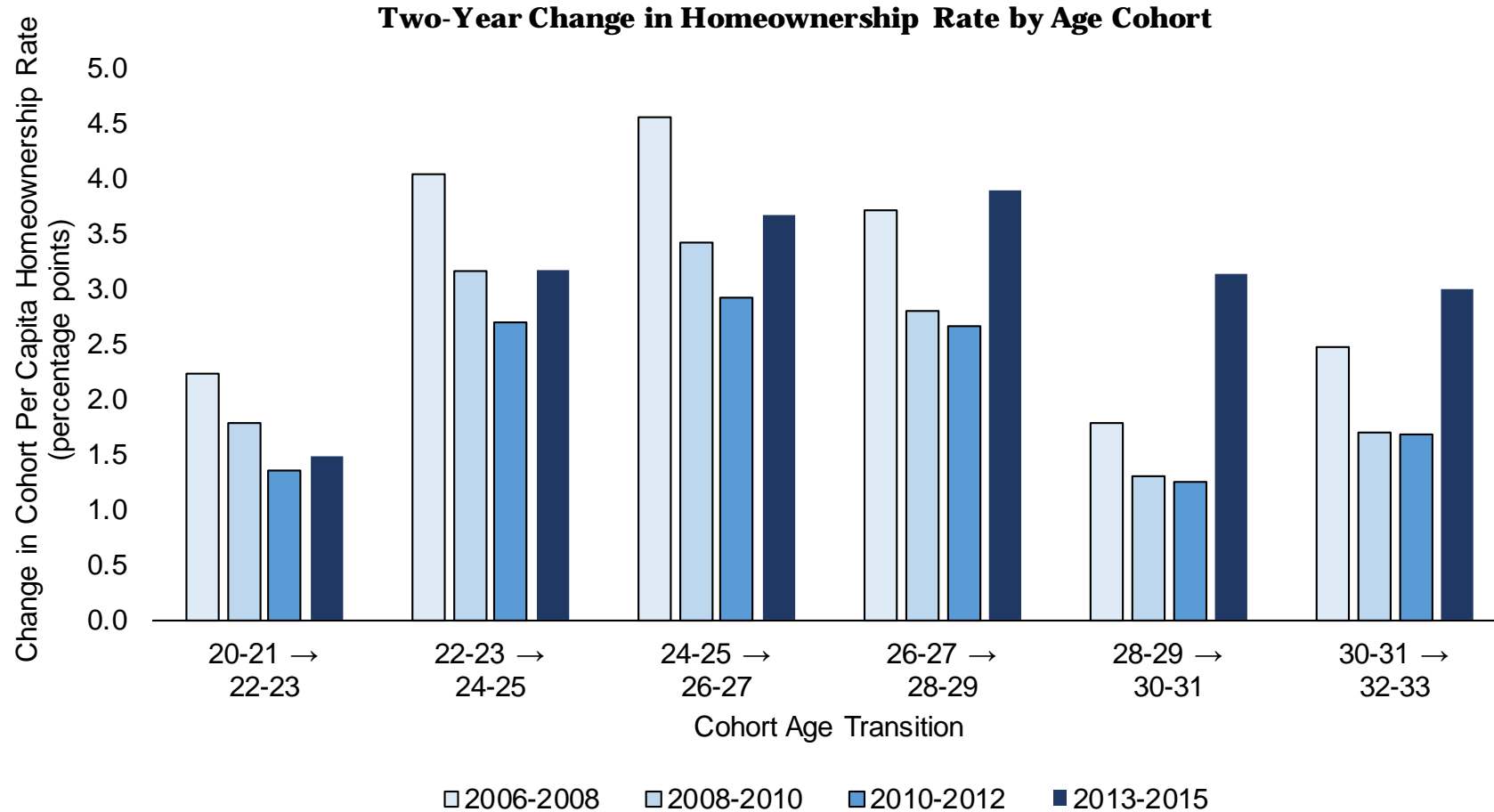
(This question was first asked in March 2011.)

Q.116 How does your monthly income compare with 12 months ago?





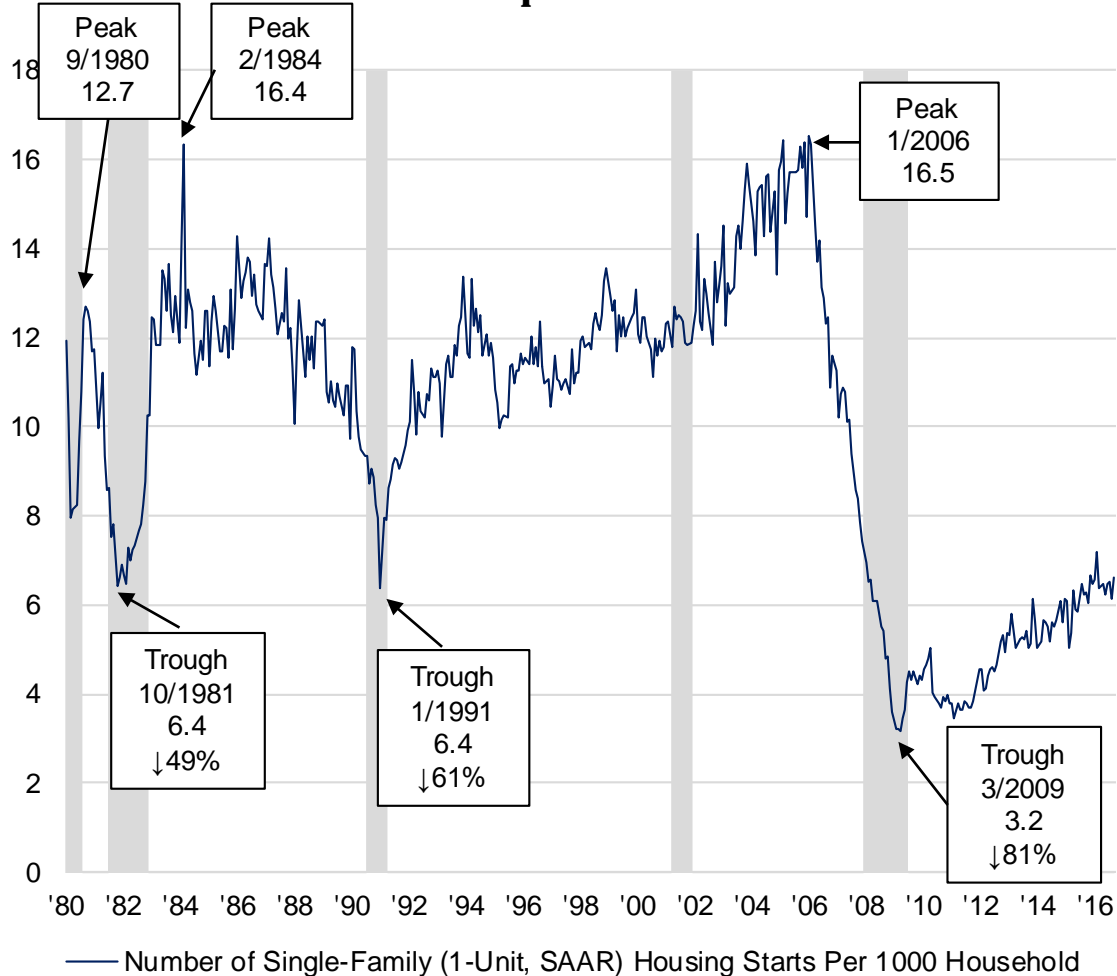
# Millennial Homeownership Begins to Accelerate



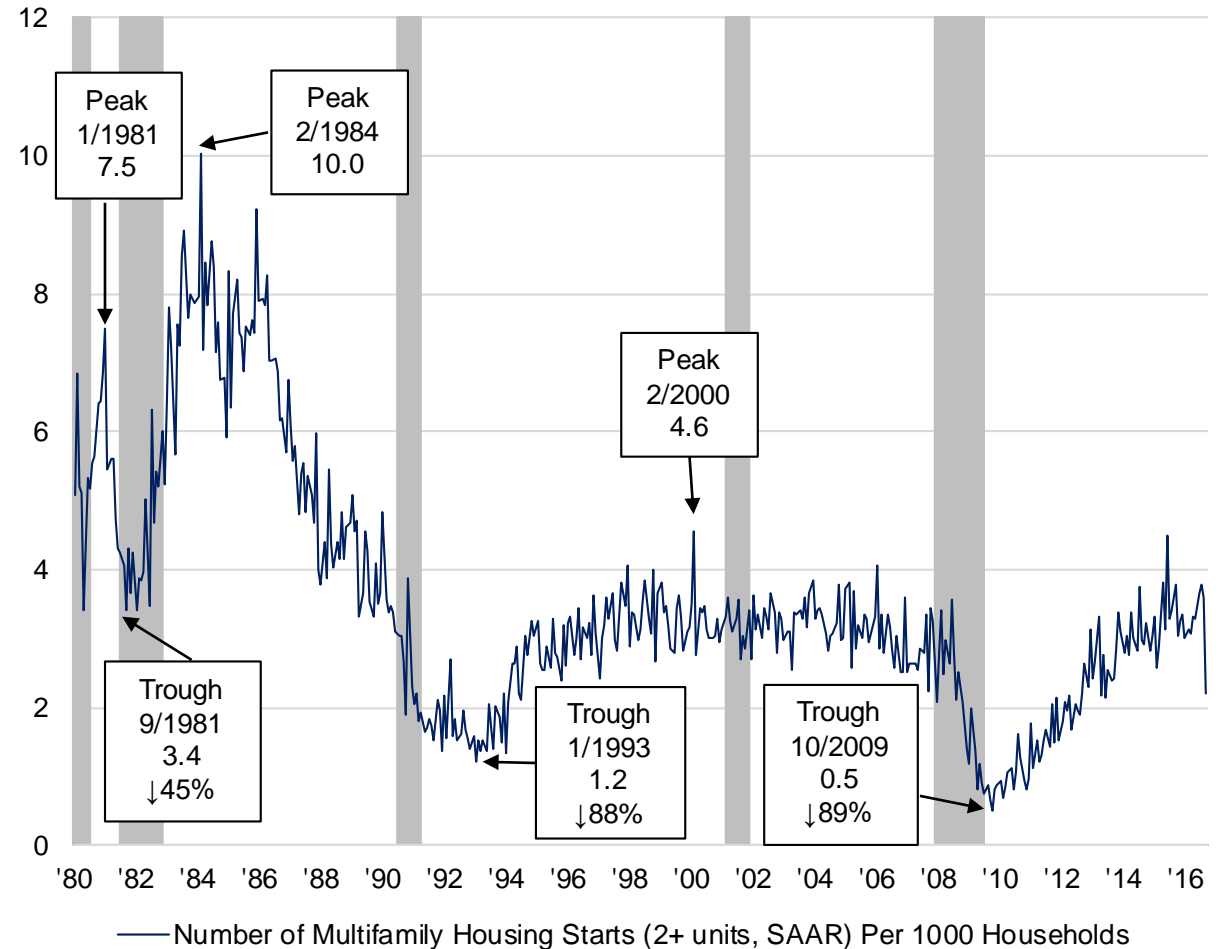


# Single-Family Housing Supply is Still Behind the Curve

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



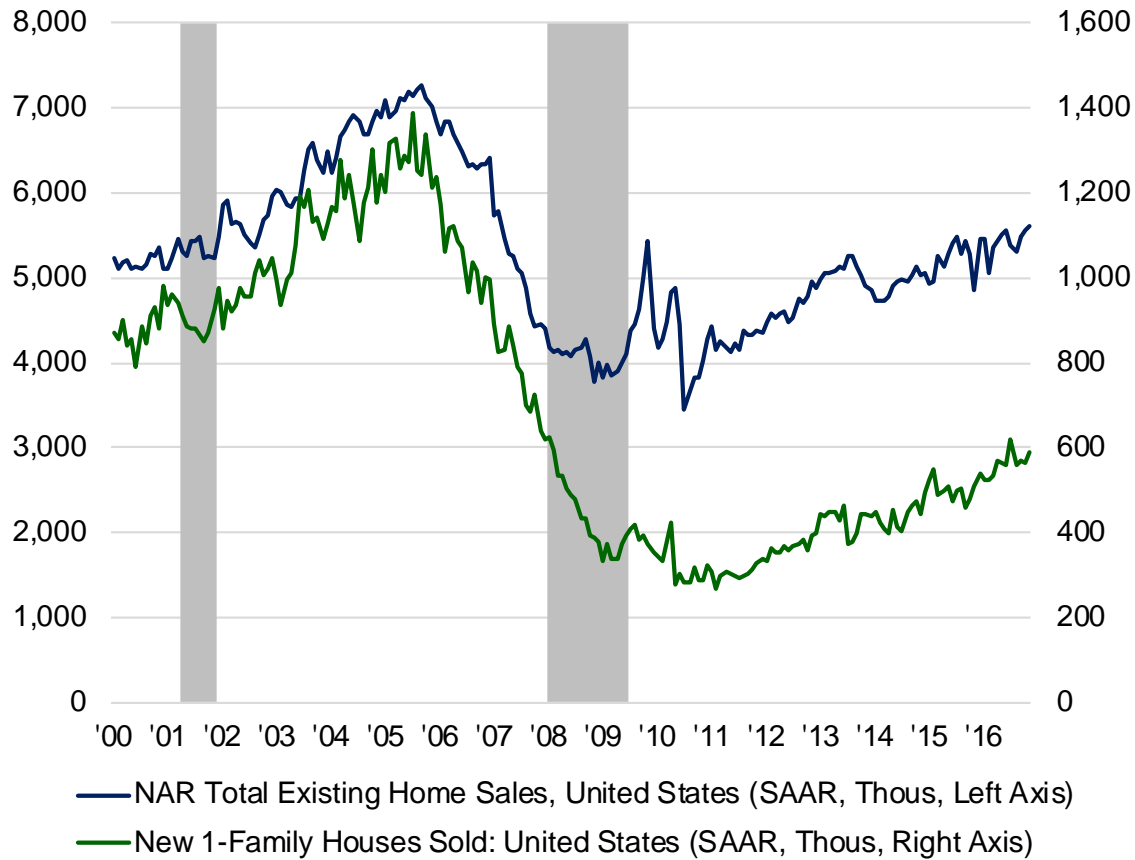
## Multifamily Construction Has Recovered Its Pre-Recession Peak



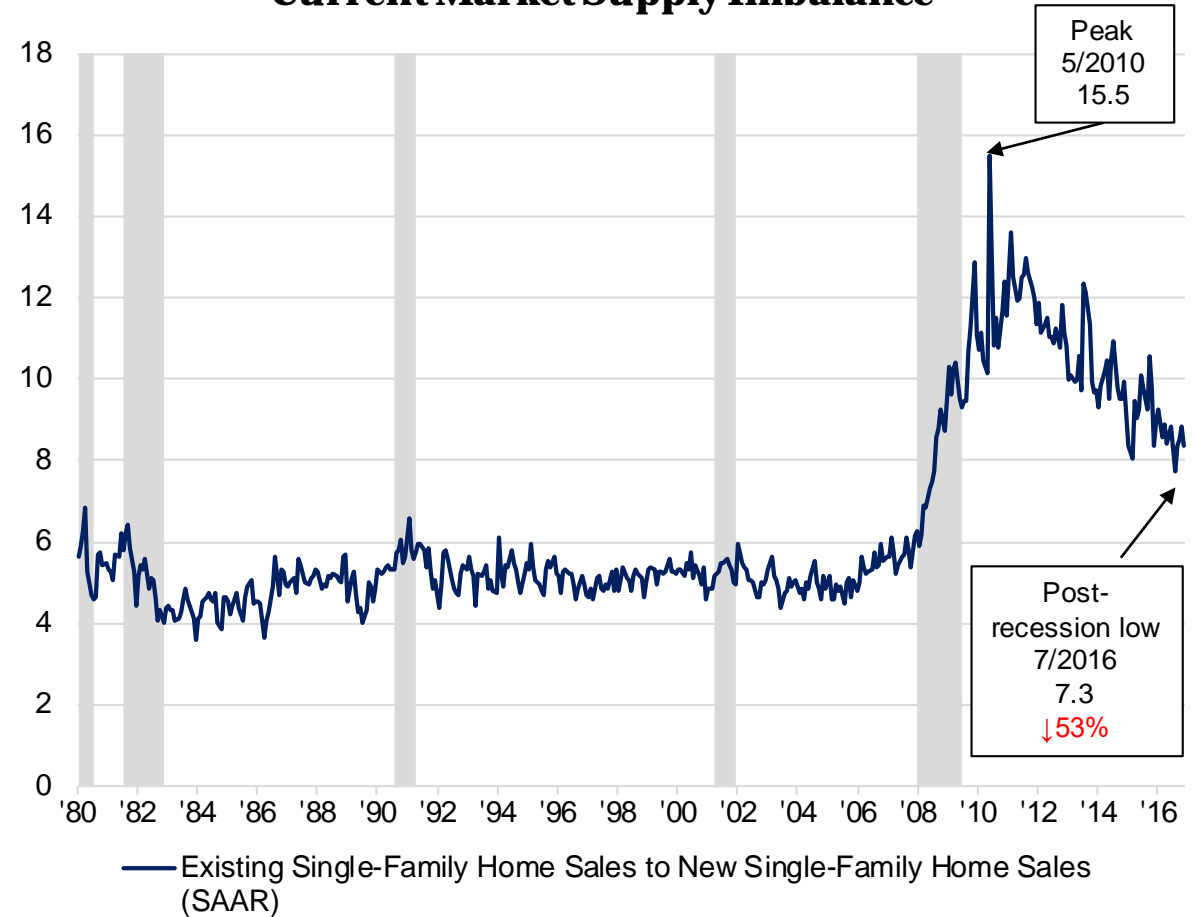


# Home Sales Pick Up

## Existing Home Sales Rise to a New Near-Decade High; New Home Sales Strengthen



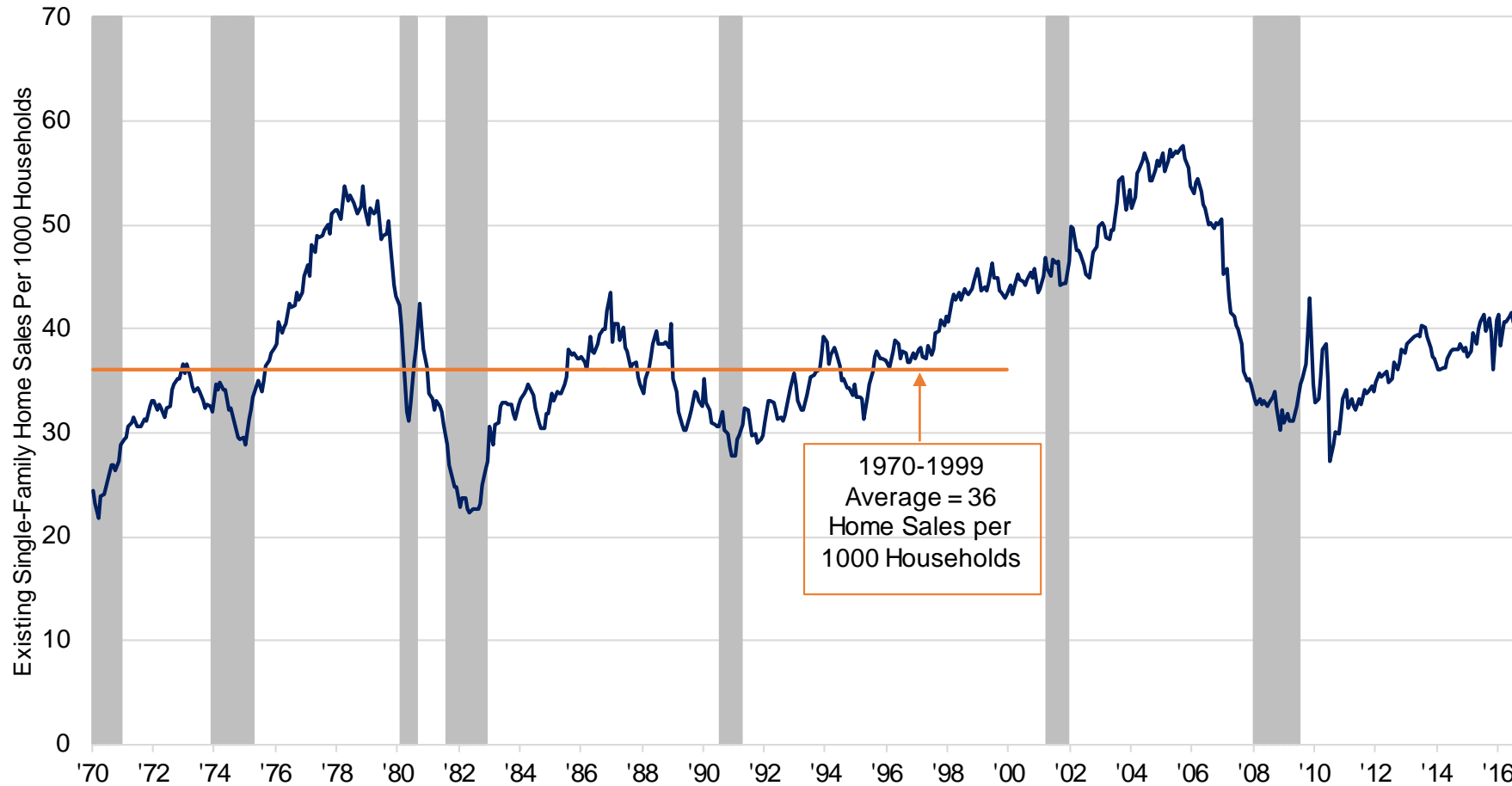
## Ratio of Existing Home Sales to New Home Sales Shows Current Market Supply Imbalance





# Turnover Rate Picks Up

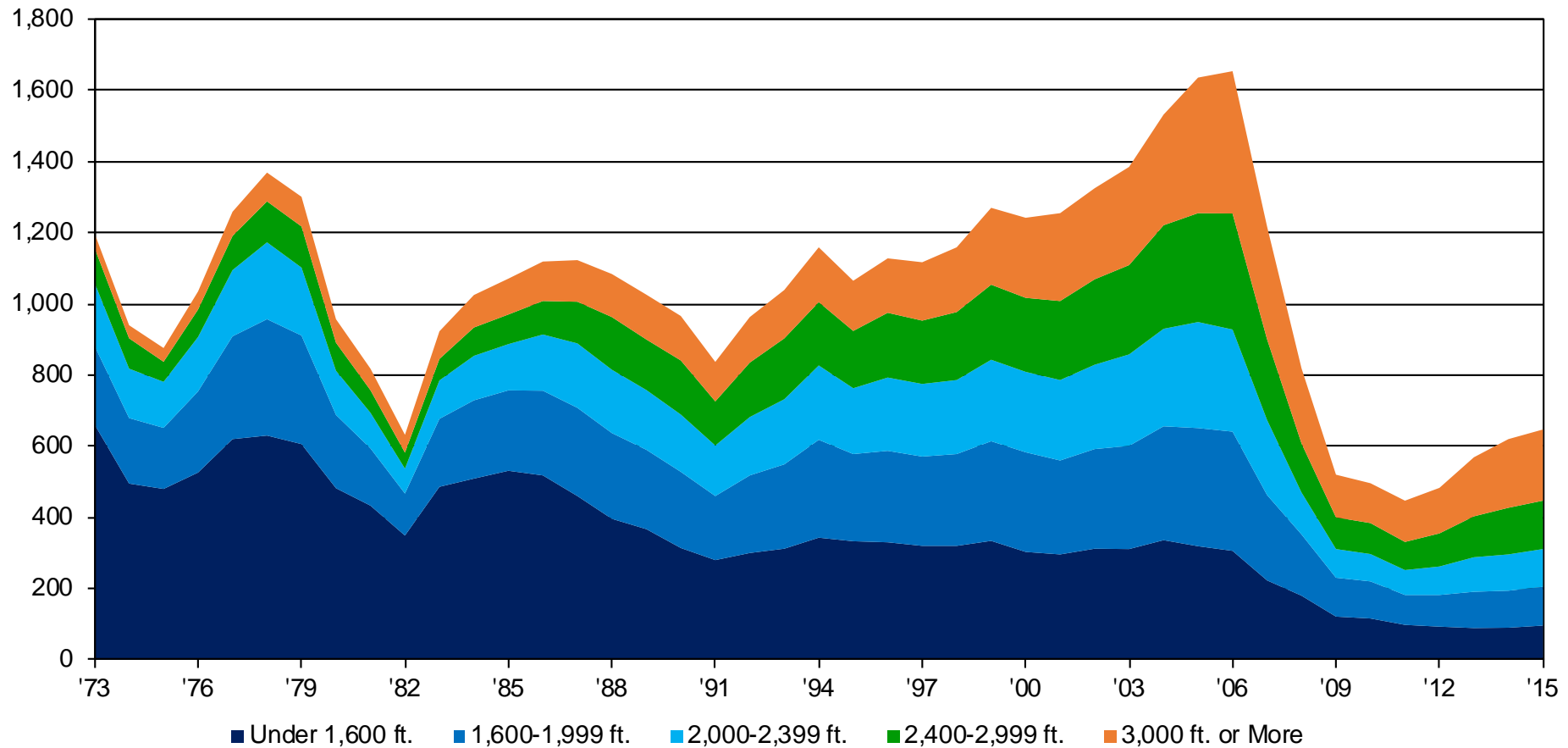
## Turnover Rate Is Higher Than The Pre-Housing Bubble Average





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

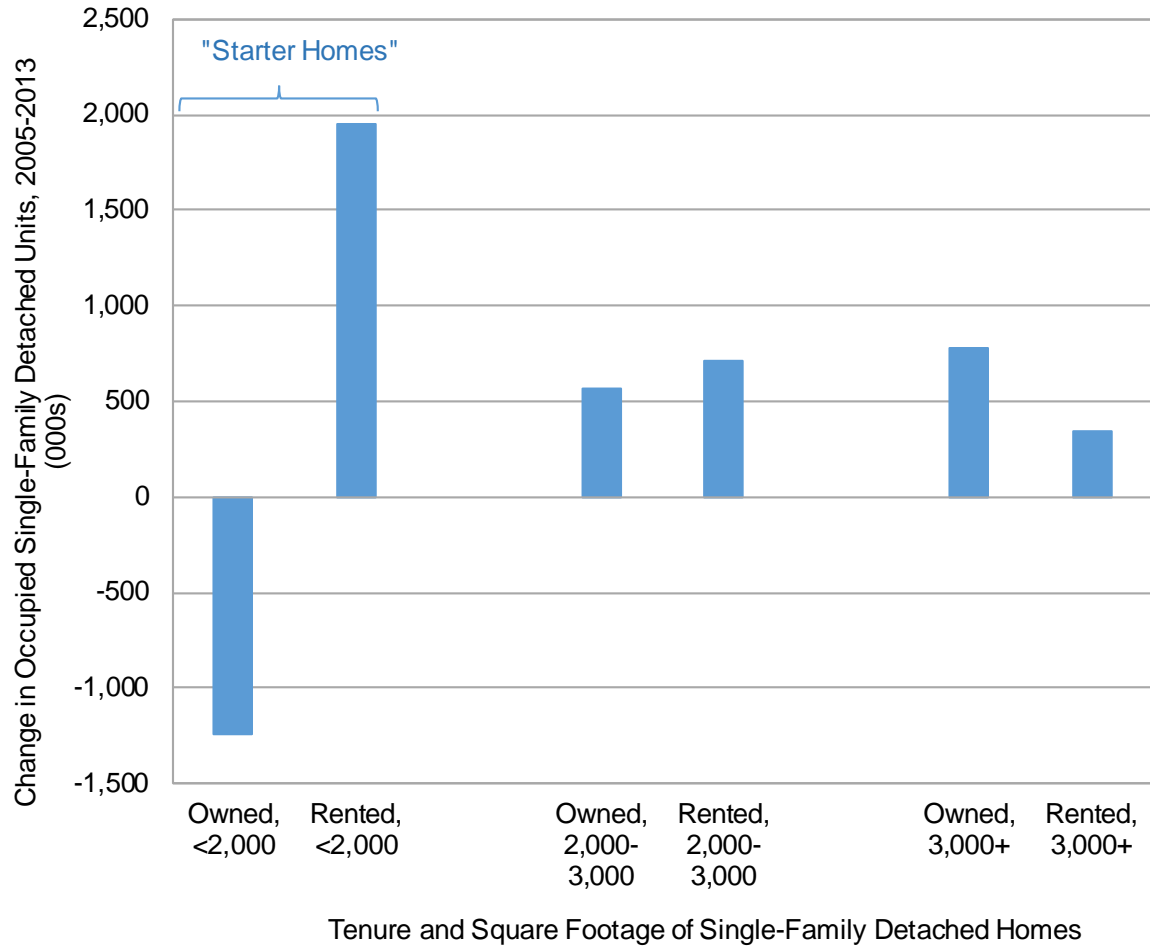
Single-Family Housing Completions by Square Feet of Floor Area (Thous.)



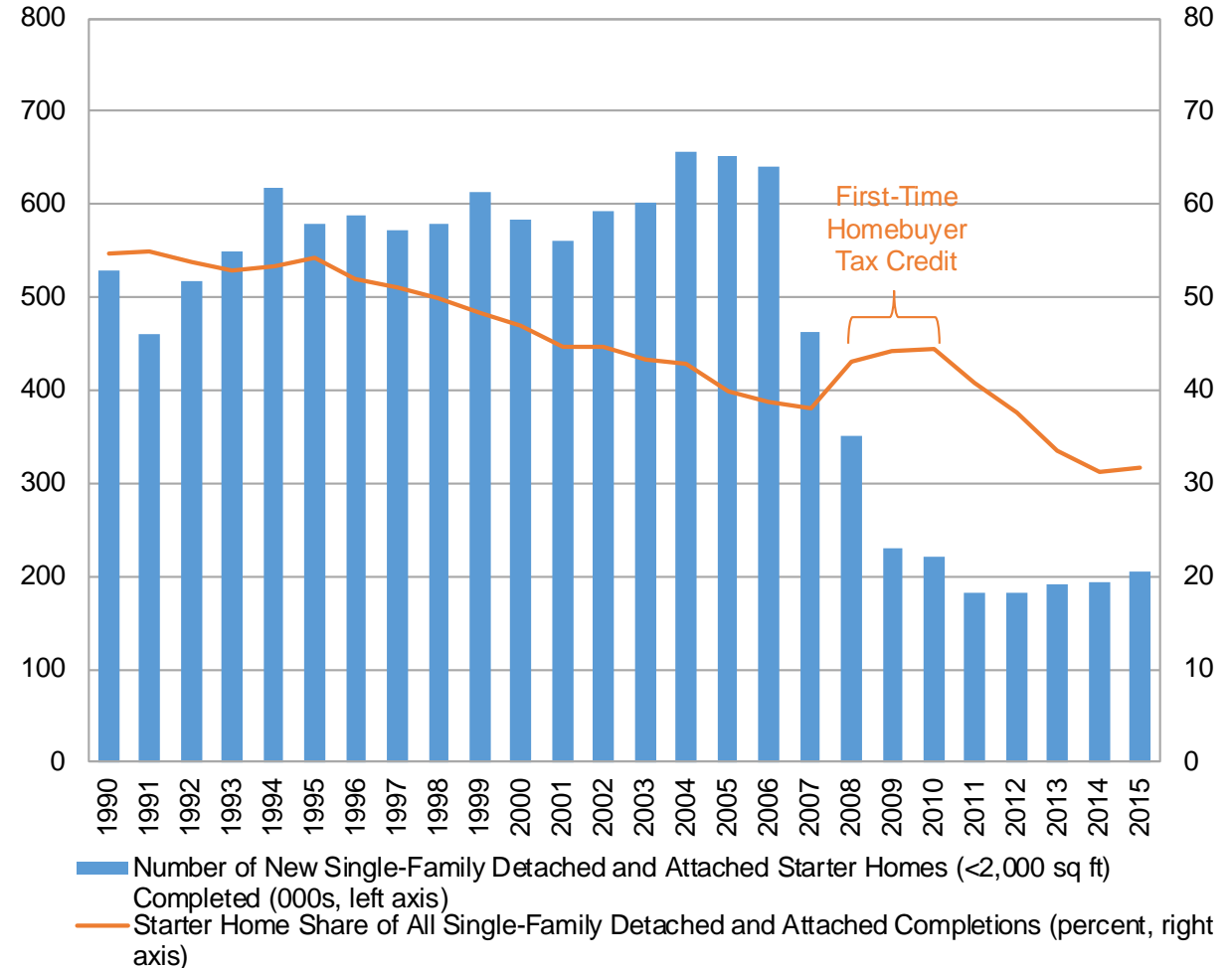


# Lean Supply of Starter Homes Challenges First-Time Homebuyers

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



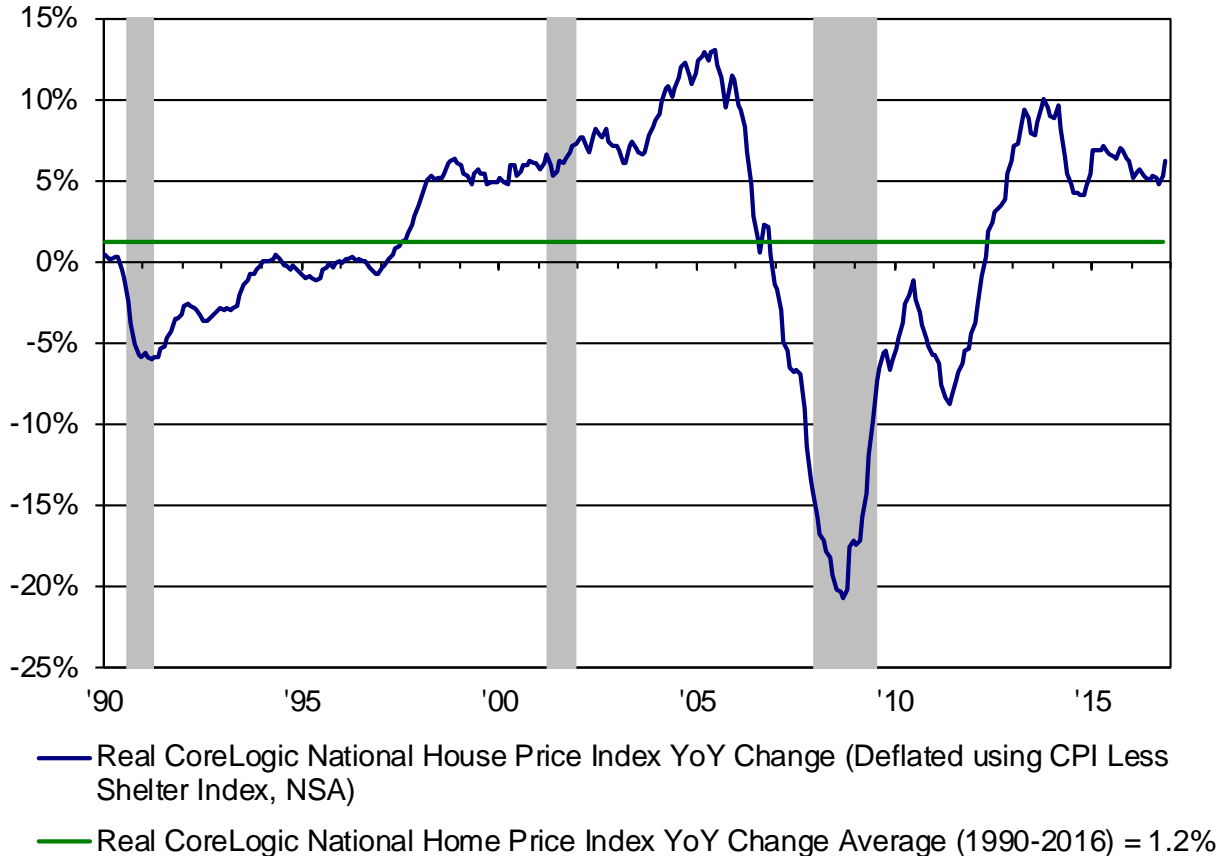
## Fewer New Starter Homes Are Being Built



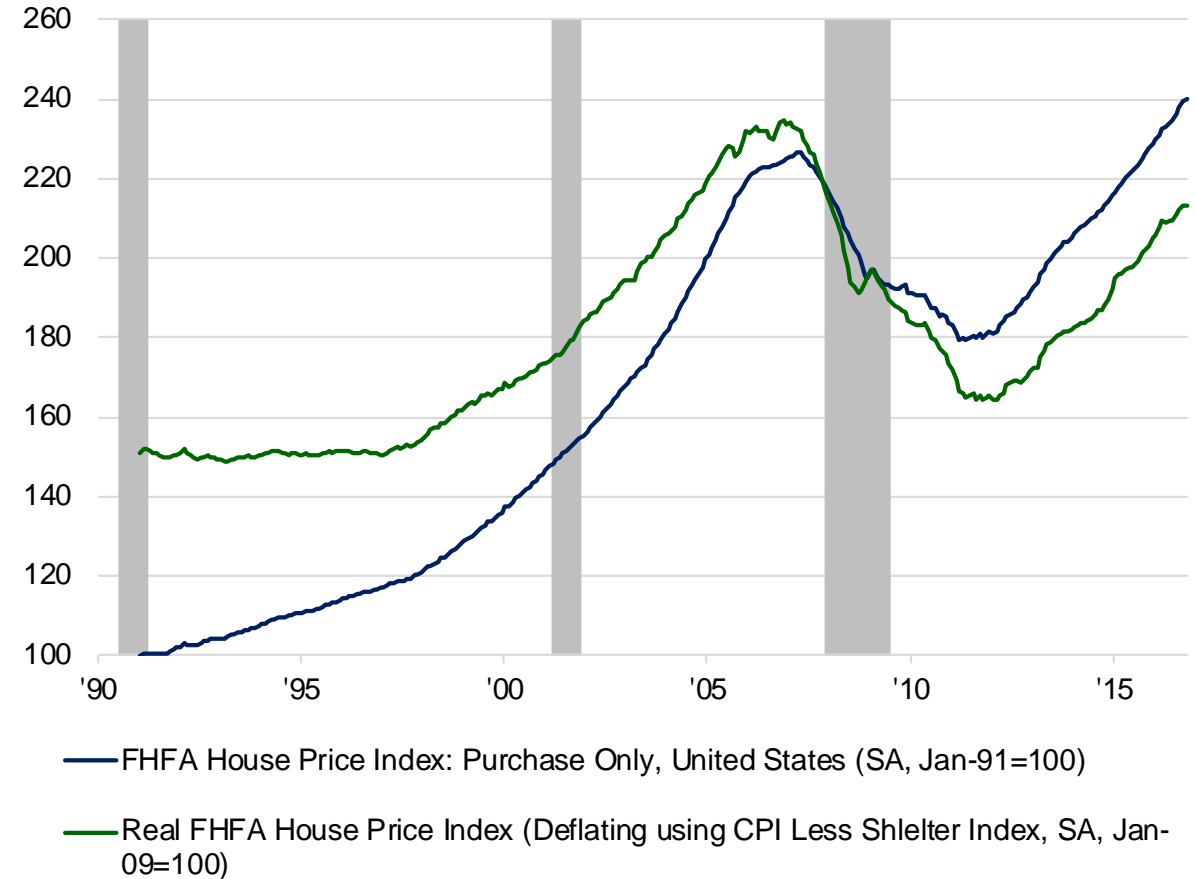


# Real Home Price Appreciation is Still Well Above Its Long-Term Average

## Solid Real Home Price Appreciation Continues



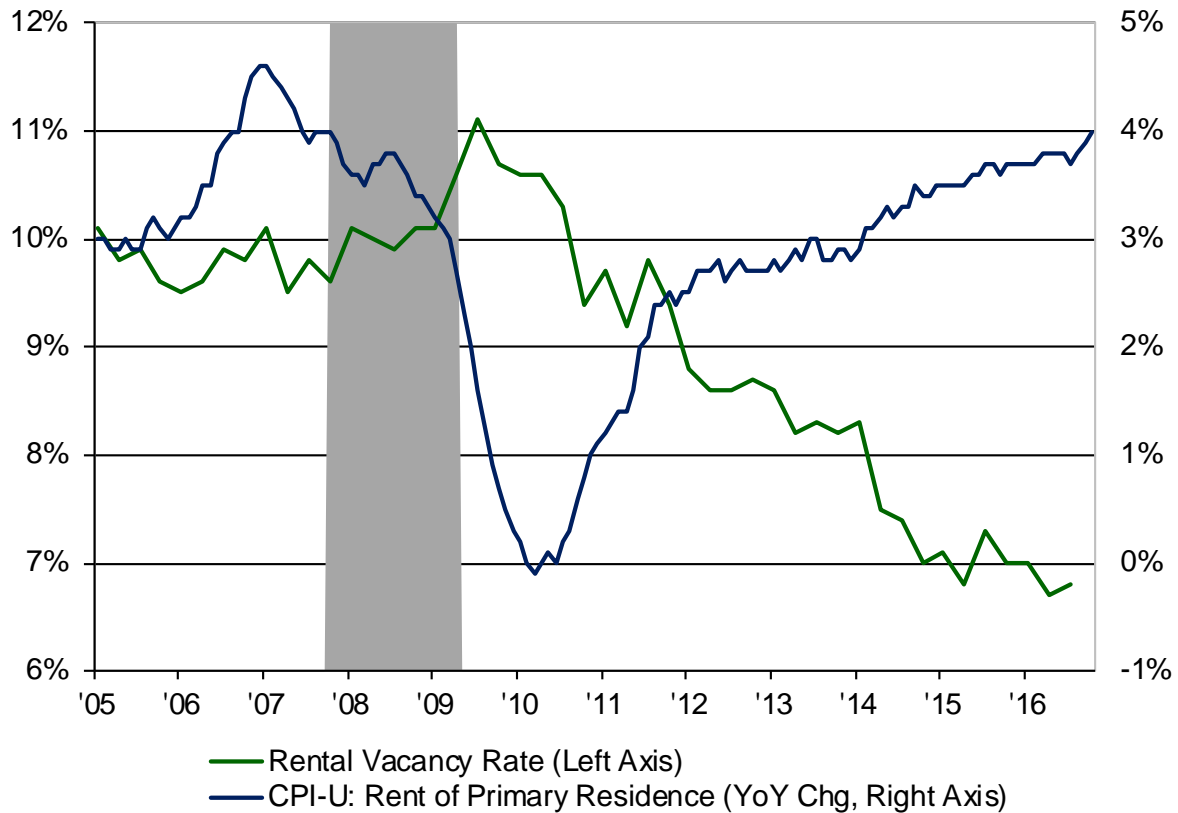
## Real Home Prices Have Not Fully Recovered



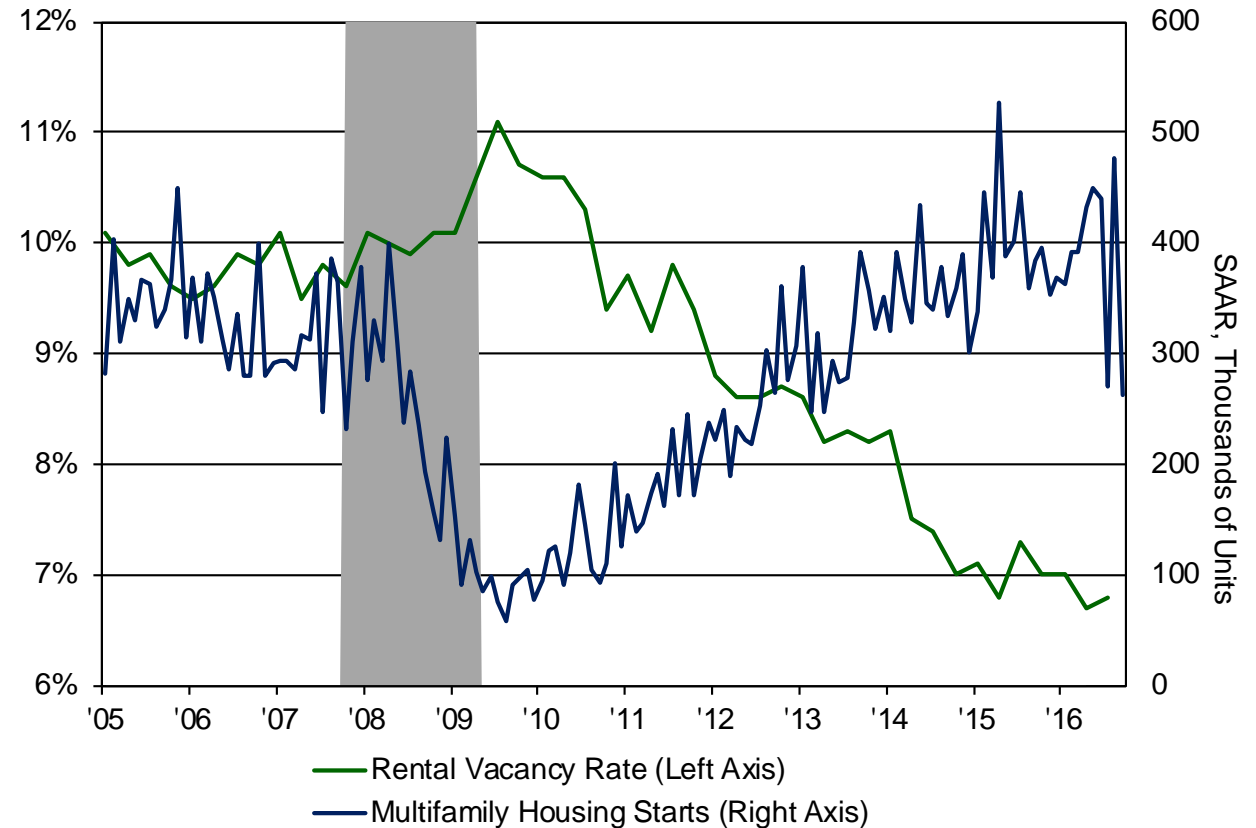


# High Rental Demand Have Boosted Multifamily Sector

## Rents Remain Elevated



## Multifamily Starts Decline Sharply to a Three-Year Low; Vacancy Rate Ticks Up

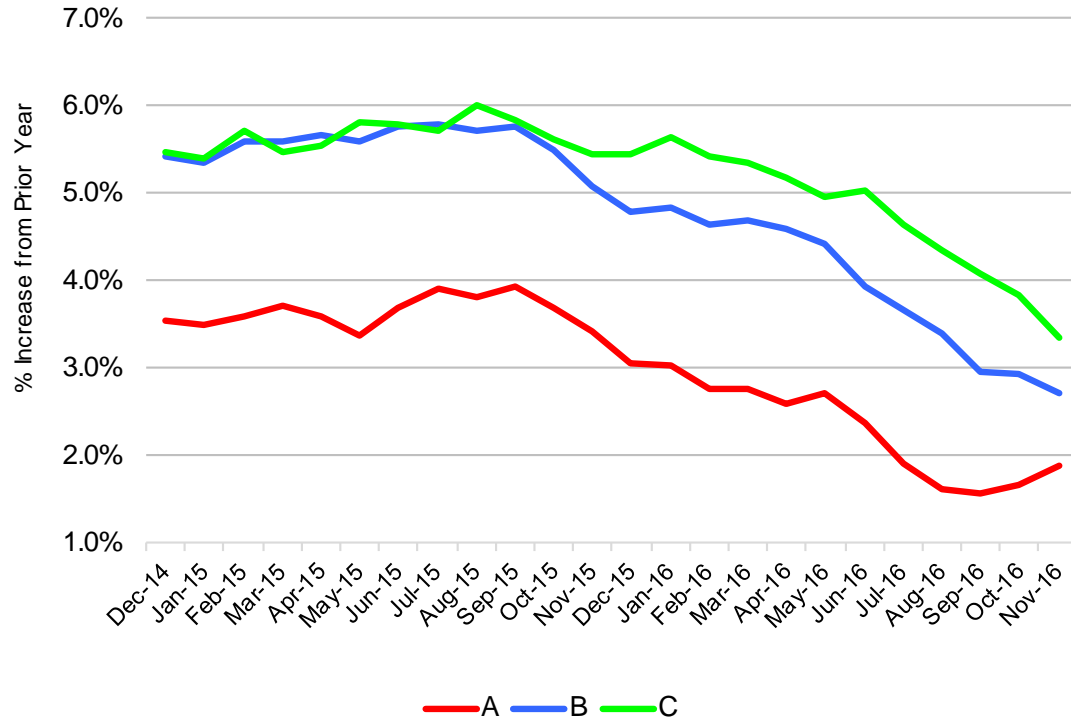




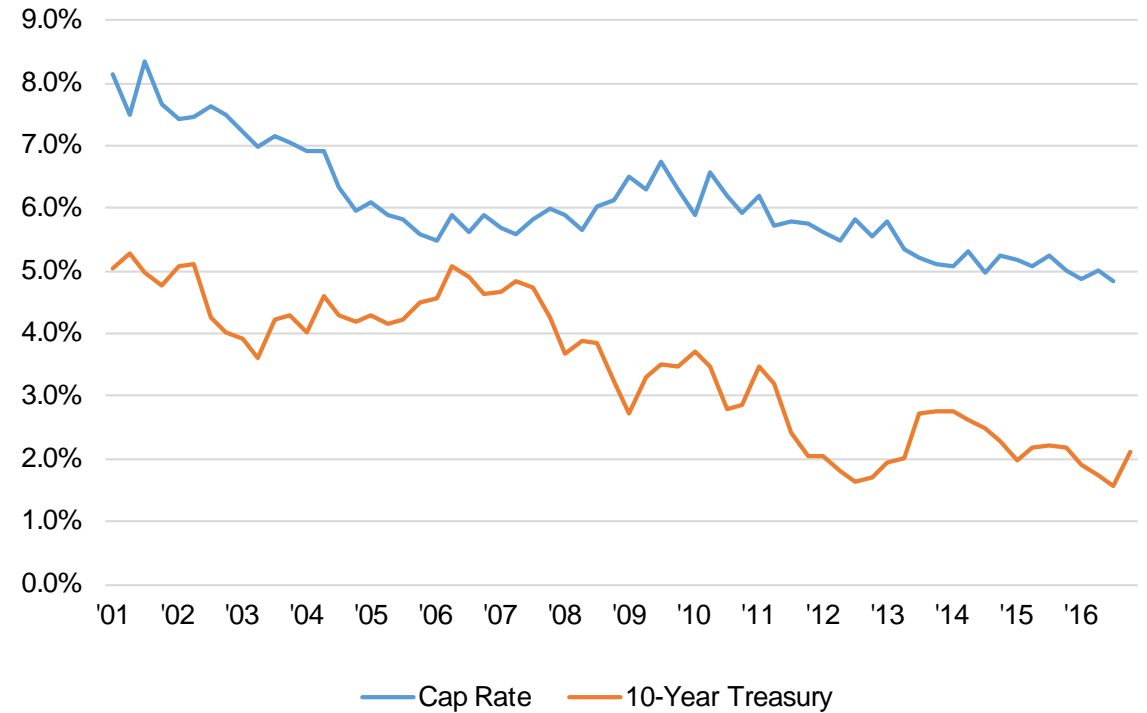


# Multifamily Sector Shows Signs of Cycle Maturity

### Effective Apartment Rent Growth Recently Slowing



### Multifamily Apartment Cap Rate and 10 Year Treasury



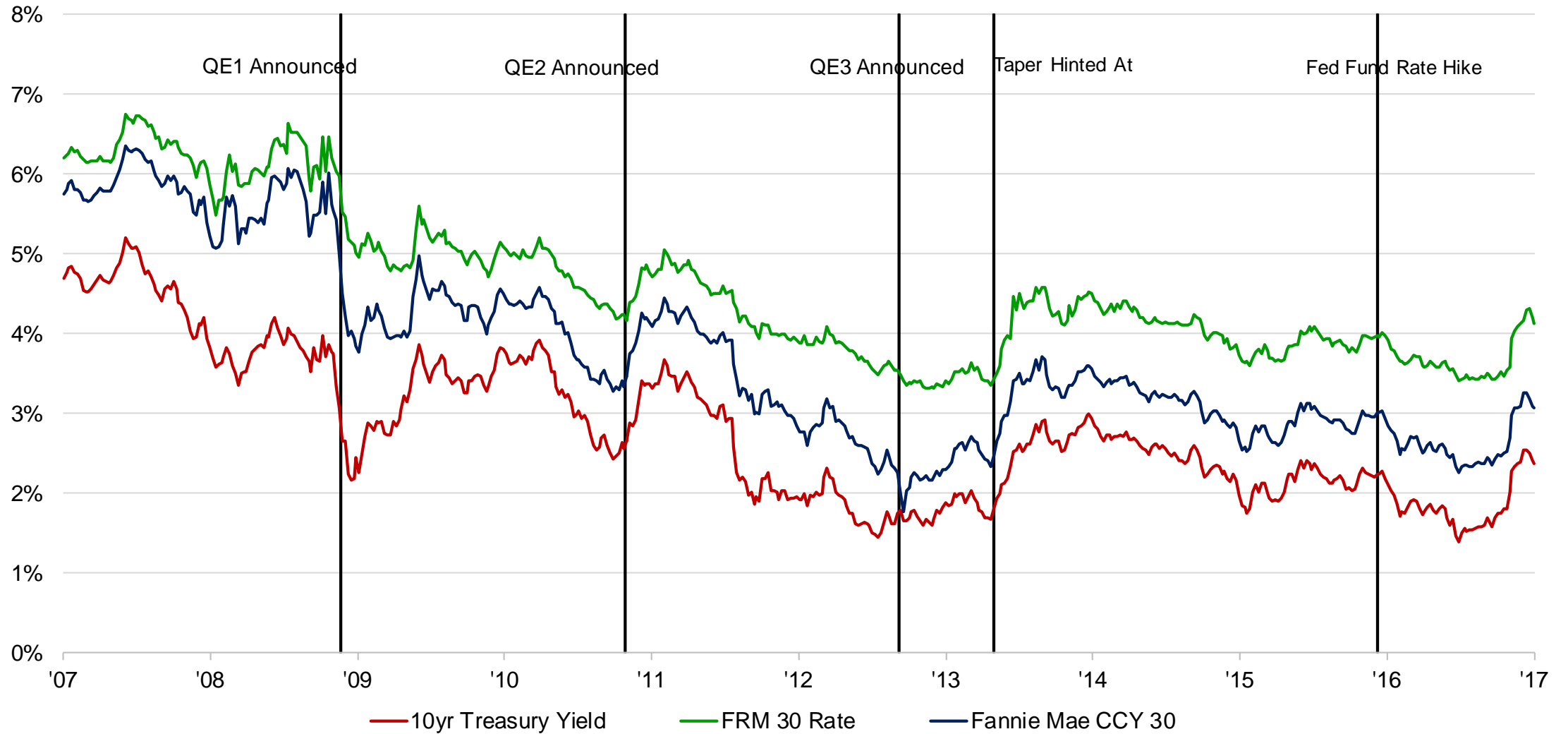


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# Mortgage Market and Outlook



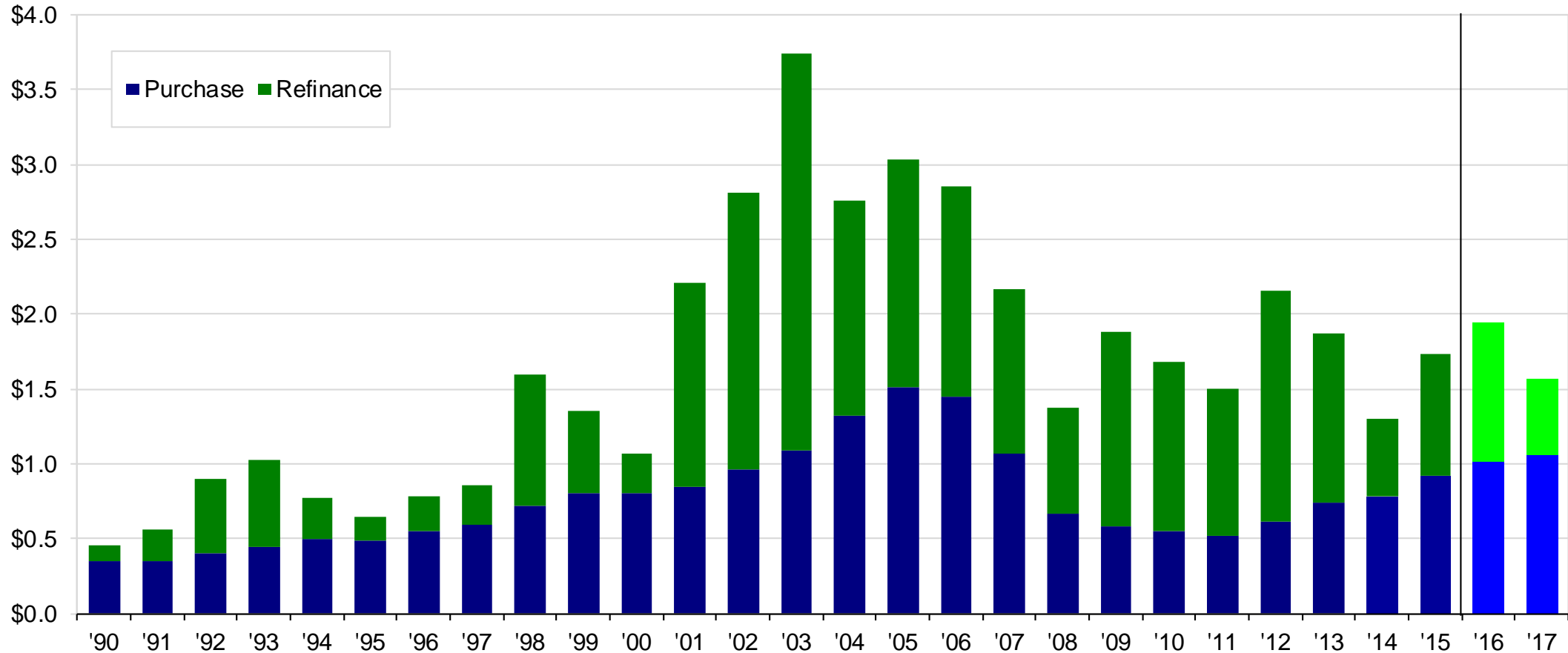
# Mortgage Rates Rise from Historical Low Levels





# Mortgage Production Expected to Shift Further Toward Purchase Market

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





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

January 2017 forecast	
Housing Starts (% Change Year-over-Year)	Up 6% to 1.23 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 5.51 million
FHFA Purchase-Only Index (Annual Percent Change Q4/Q4)	Up 5.2%
Purchase Mortgage Originations	\$1,058 billion
Refinance Mortgage Originations	\$510 billion
30-Year Fixed Rate Mortgage (Year-end)	4.3%

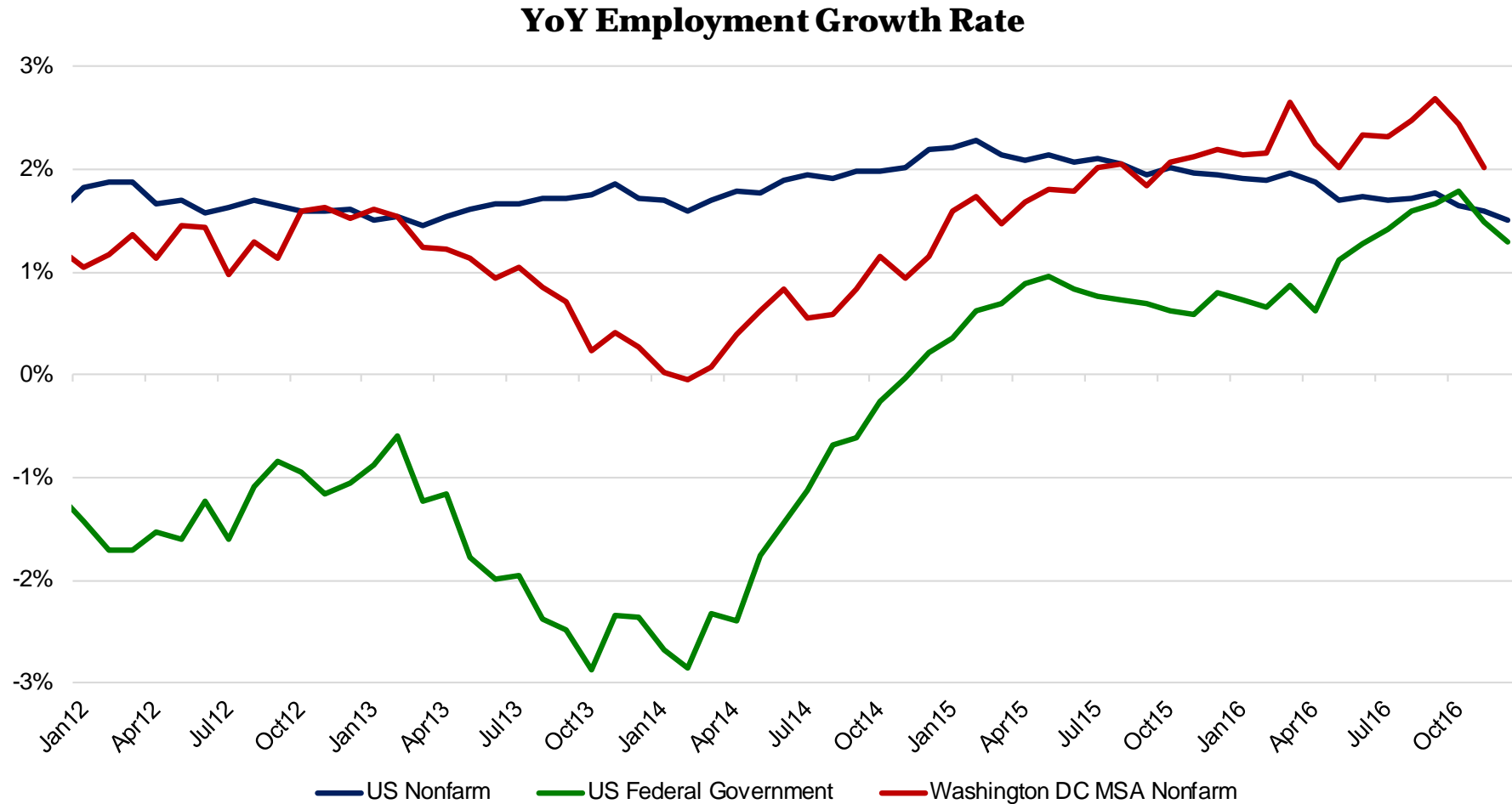


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# **Snapshots of Washington Area Markets**

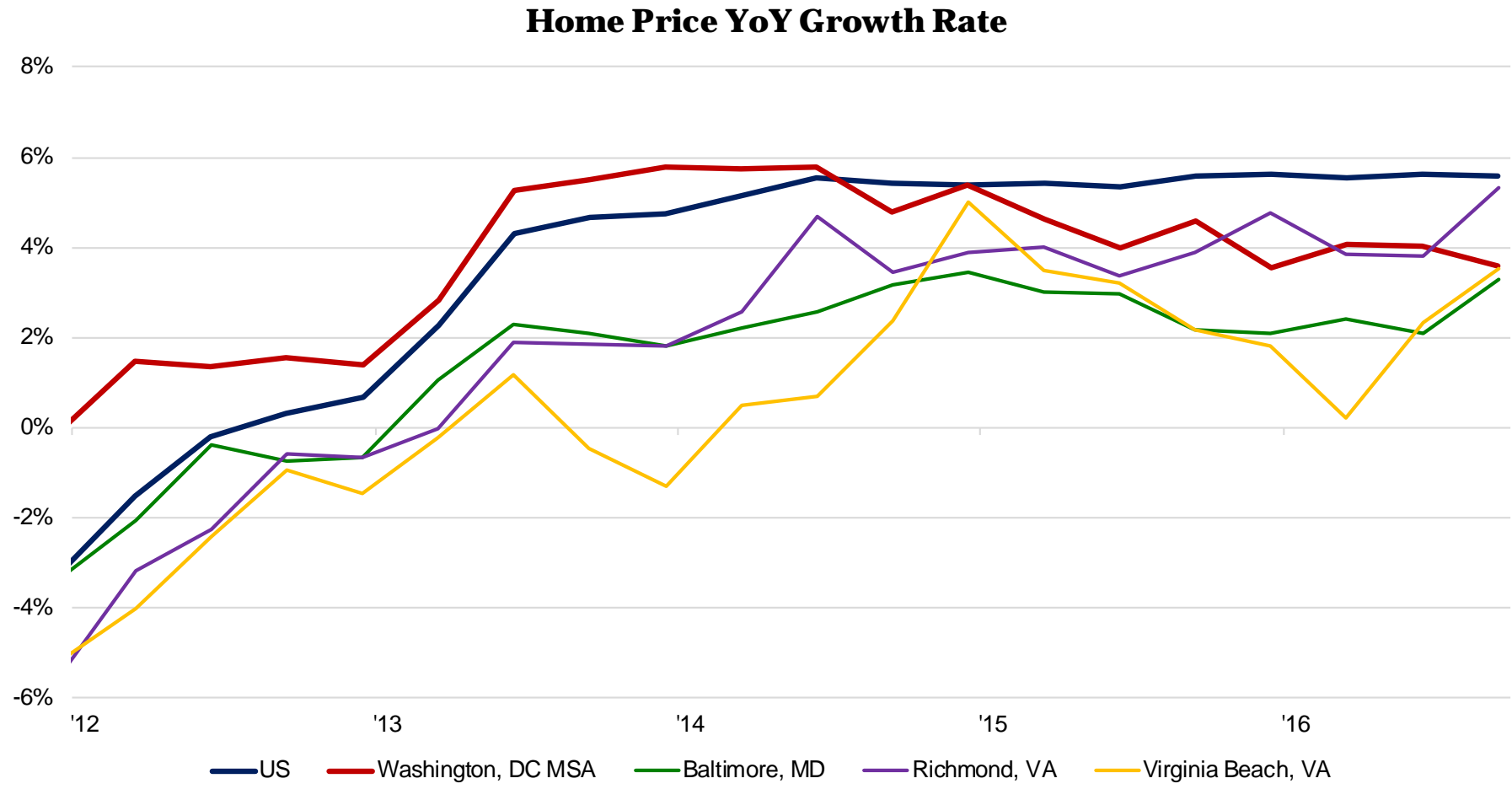


# Employment Growth in Washington, DC Area Slows Down





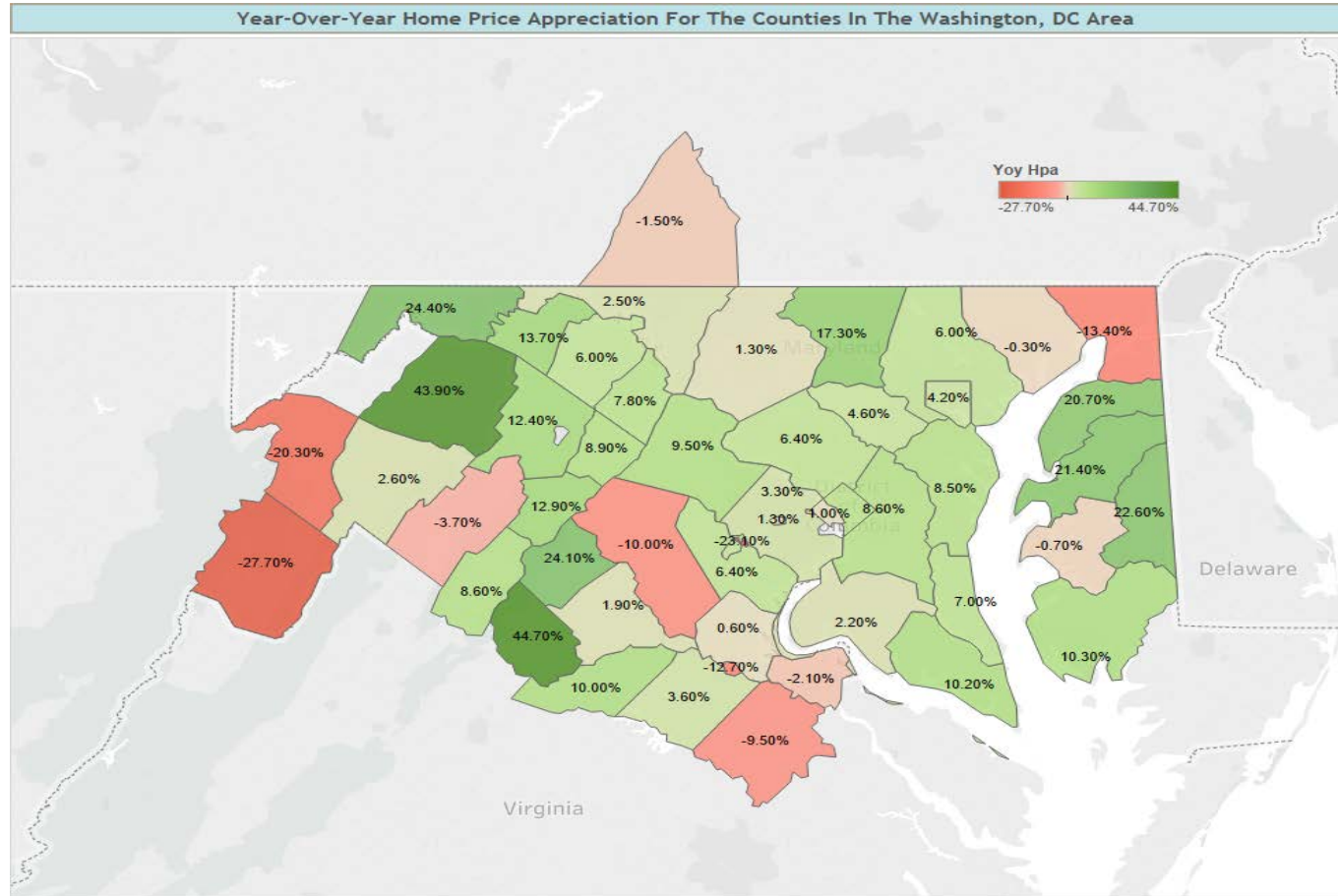
# Home Price Growth in Washington, DC Area Lags Other Parts of the U.S.







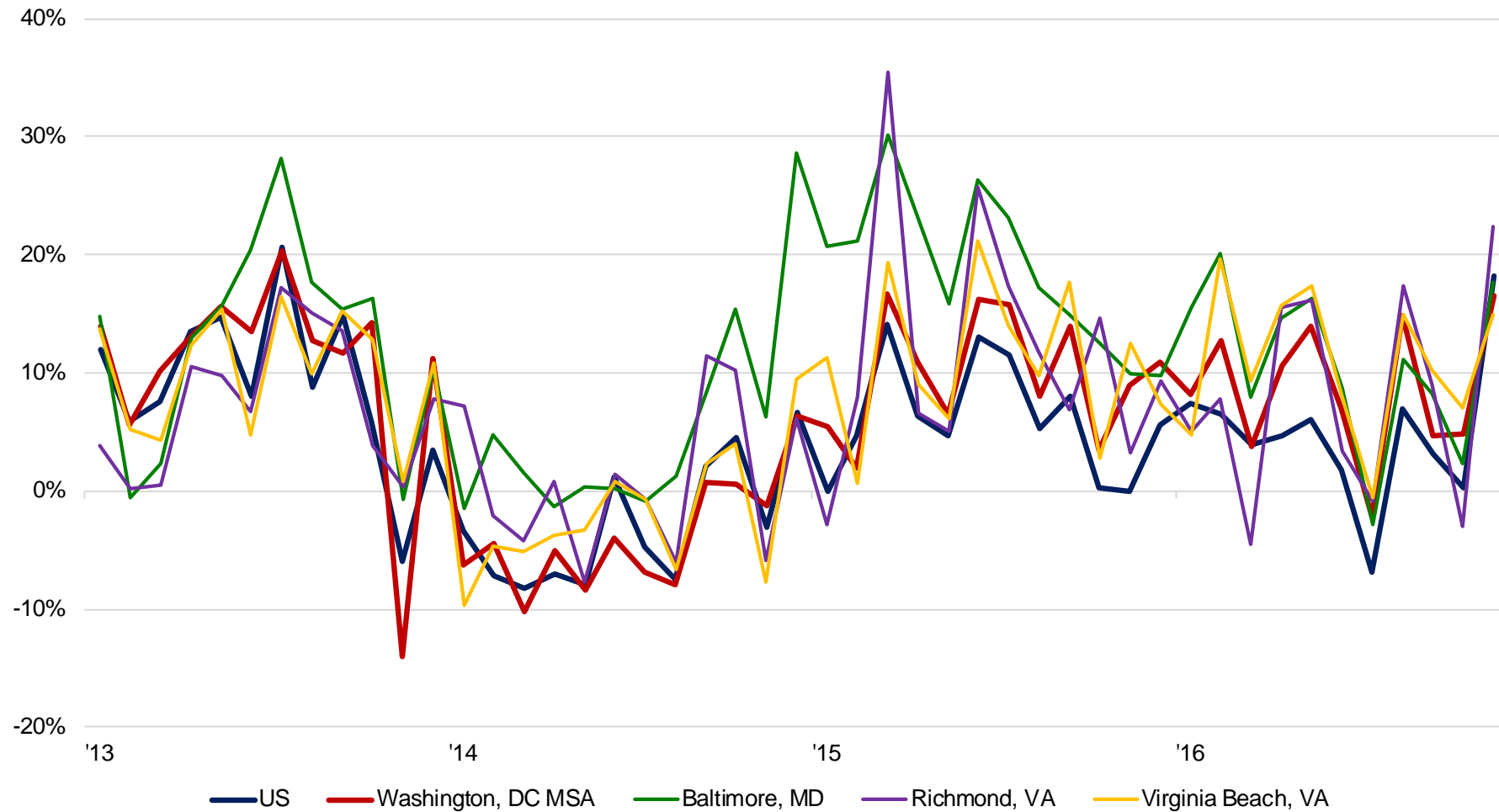
# The Counties Further From the Washington, DC Core Saw Slightly Faster Home Price Growth in 2016, Than Did the Core Counties





# Home Sales Swing Back

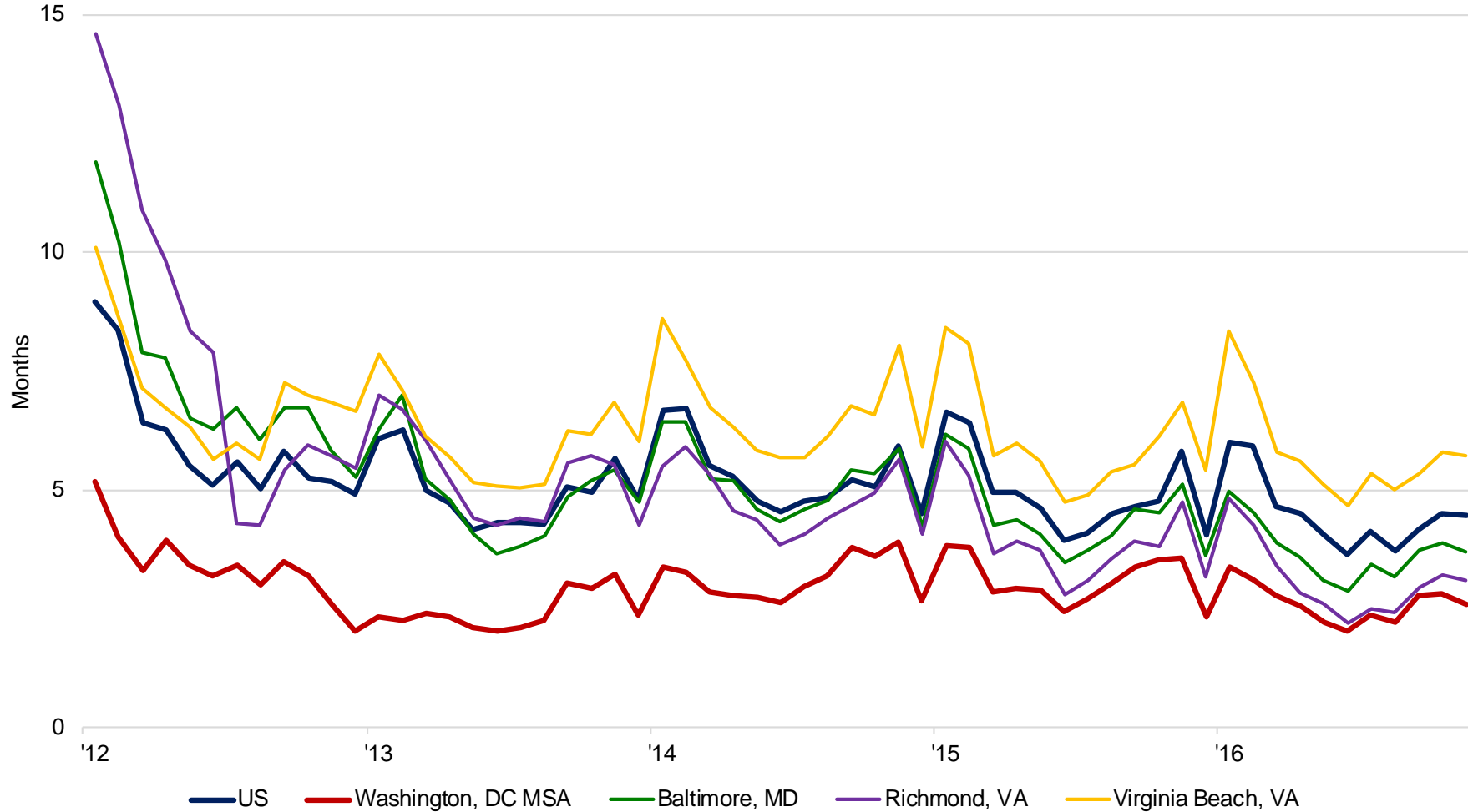
## Home Sales YoY Growth Rate





# Inventory-to-Sales Ratio Decline Slightly from a Year ago

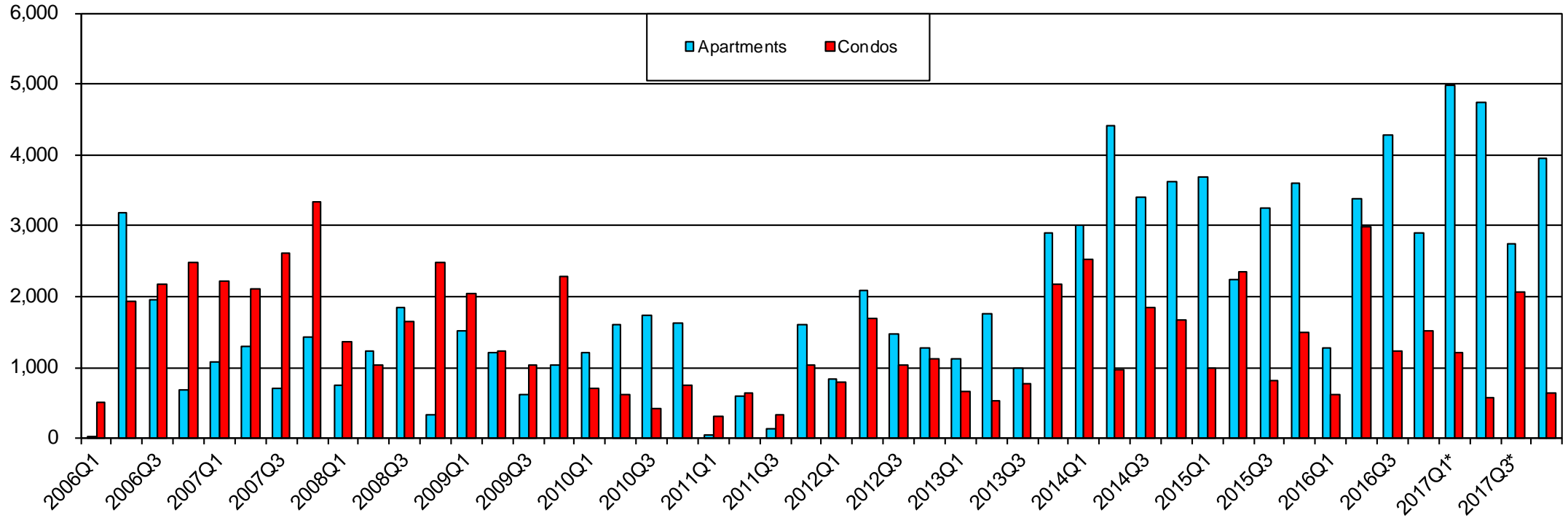
## Inventory-to-Sales Ratio





# Multifamily Development Continues to Expand in Washington, DC Area

## Apartments & Condos/Townhomes: Units Completed and Units Underway

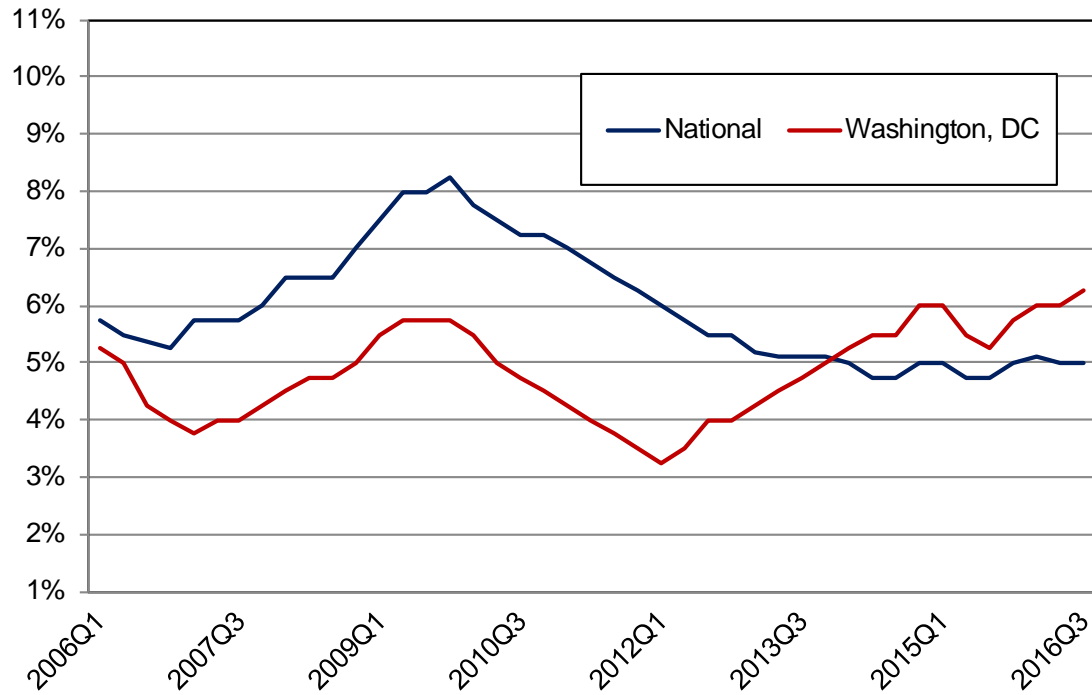


\* Expected completion date

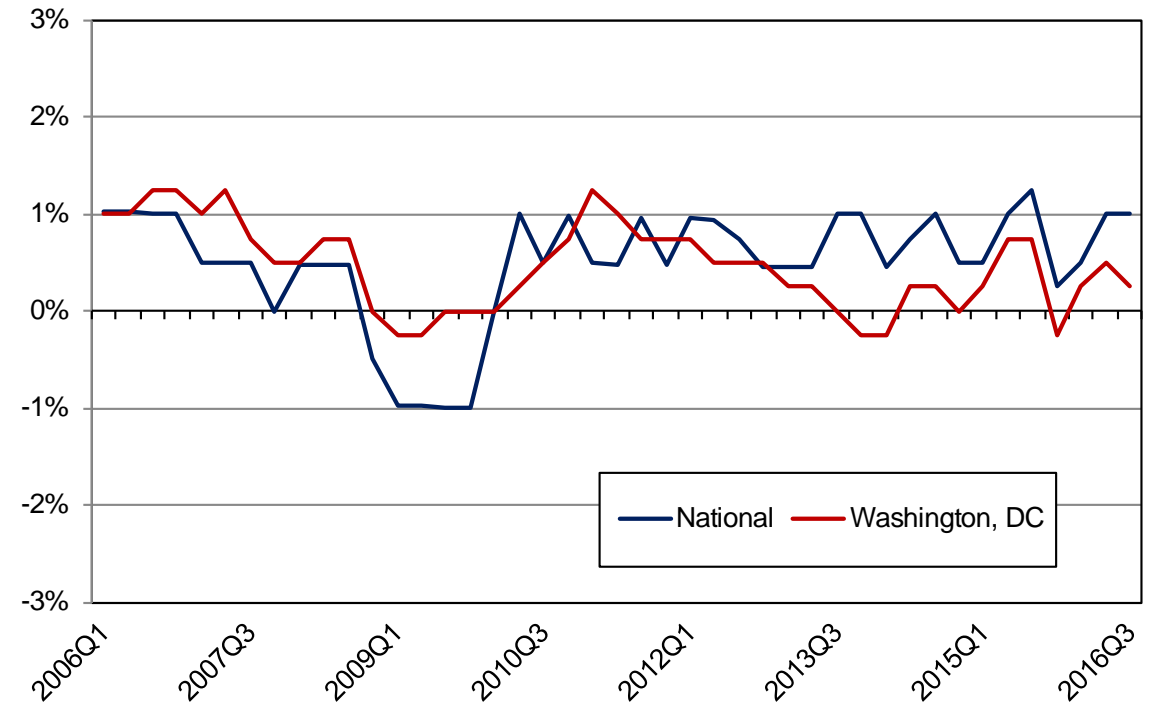


# Multifamily Sector in Washington, DC Area Shows Signs of Weakness

### Vacancy Rate



### Asking Rent Quarter-over-Quarter Growth Rate





## 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, 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 both 2015 and 2016 – the first recipient in the award's history to capture the honor two years in a row. In addition, the Group was awarded Pulsenomics 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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