

Freddie Mac First Quarter Projections: Steady as They Go

By: Jann Swanson | Fri, Jan 15 2021, 10:19 AM

Freddie Mac's first quarter 2021 economic forecast is unusually short, and, unlike recent forecasts from either of the GSEs, has relatively few revisions. The company's economists say that nearly a year after the first cases of COVID-19 were diagnosed in the U.S., economic growth remains uncertain, with answers largely hinging on the roll-out of the new vaccines. The labor market remains weak with close to 20 million collecting unemployment insurance. December's job losses, the first since last April, didn't change the unemployment rate from 6.7 percent because labor participation also declined.

Record **low mortgage rates continued to carry the housing market** during the turmoil of the pandemic. At the end of the first week of 2021, the 30-year rate hit 2.65 percent, a new low. Freddie Mac expects the low interest rate environment to continue through both this year and next, averaging 2.9 percent through this end of this year and 3.2 percent in 2022.

Along with the low rates, the demand for housing has also been supported by the **ability of workers to do so remotely**. Sales in 2020 reached levels last seen in 2006. Annualized sales hit 7.6 million in the fourth quarter with strong showings from both new and existing home sales. Freddie Mac forecasts total home sales to be 6.8 million in the first quarter of 2021 and to average 6.5 million for the full year.

The level of home sales has put pressure on housing inventory which has now hit an all-time low of 1.23 million available homes, only a 2.3-month supply at the current sales pace. This has, in turn, driven home prices up; the quarter over quarter increase in the fourth quarter was 4 percent. **Freddie Mac forecasts house price growth to moderate over 2021 and 2022** to 1.3 percent and 0.7 percent, respectively.

All these factors - low rates, increasing home sales and sales prices - have boosted mortgage originations. They are forecast to hit a historic high of \$4 trillion in 2020. Refinancing will account for \$2.6 trillion and purchase mortgages \$1.4 trillion. In the fourth quarter alone, there were \$778 billion in refinancing originations and \$436 billion in purchase mortgages. Freddie Mac forecasts total originations to decrease to \$3.3 trillion in 2021 and decline further to \$2.4 trillion in 2022.

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