

Private Forces Move to the Fore

Doug Duncan, Chief Economist

Fannie Mae

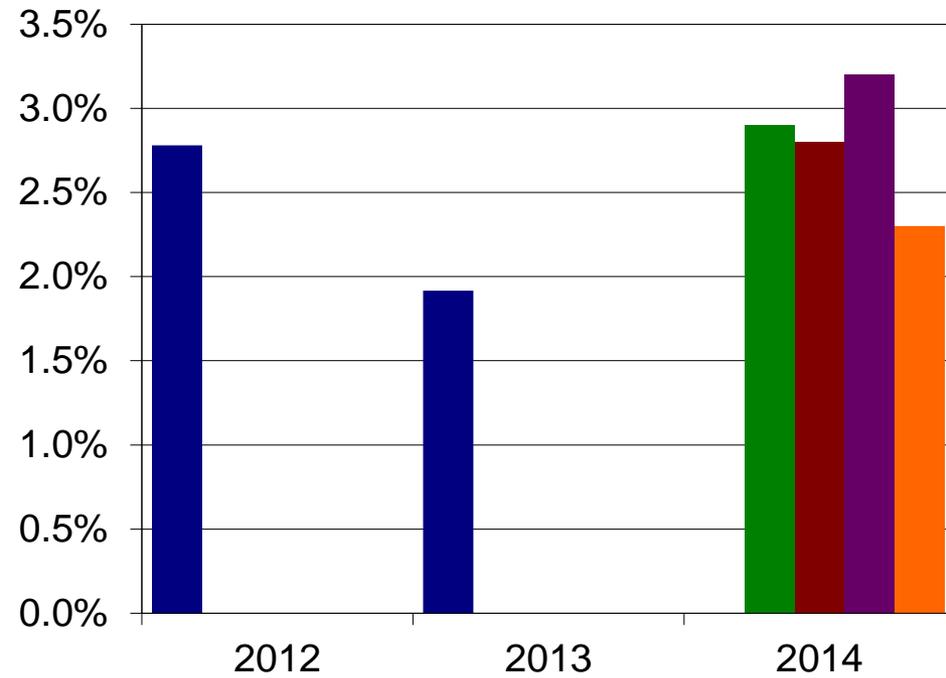
February 27, 2014

Disclaimer

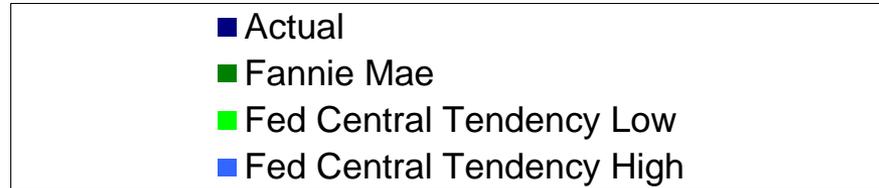
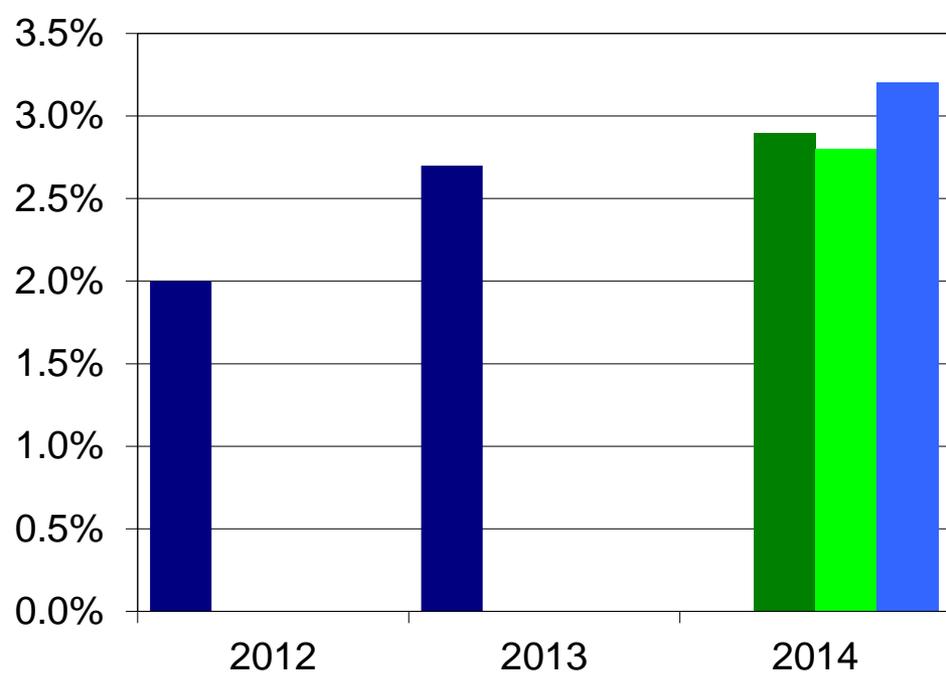
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GDP Growth Expected to Accelerate this Year...

Year-over-Year % Change



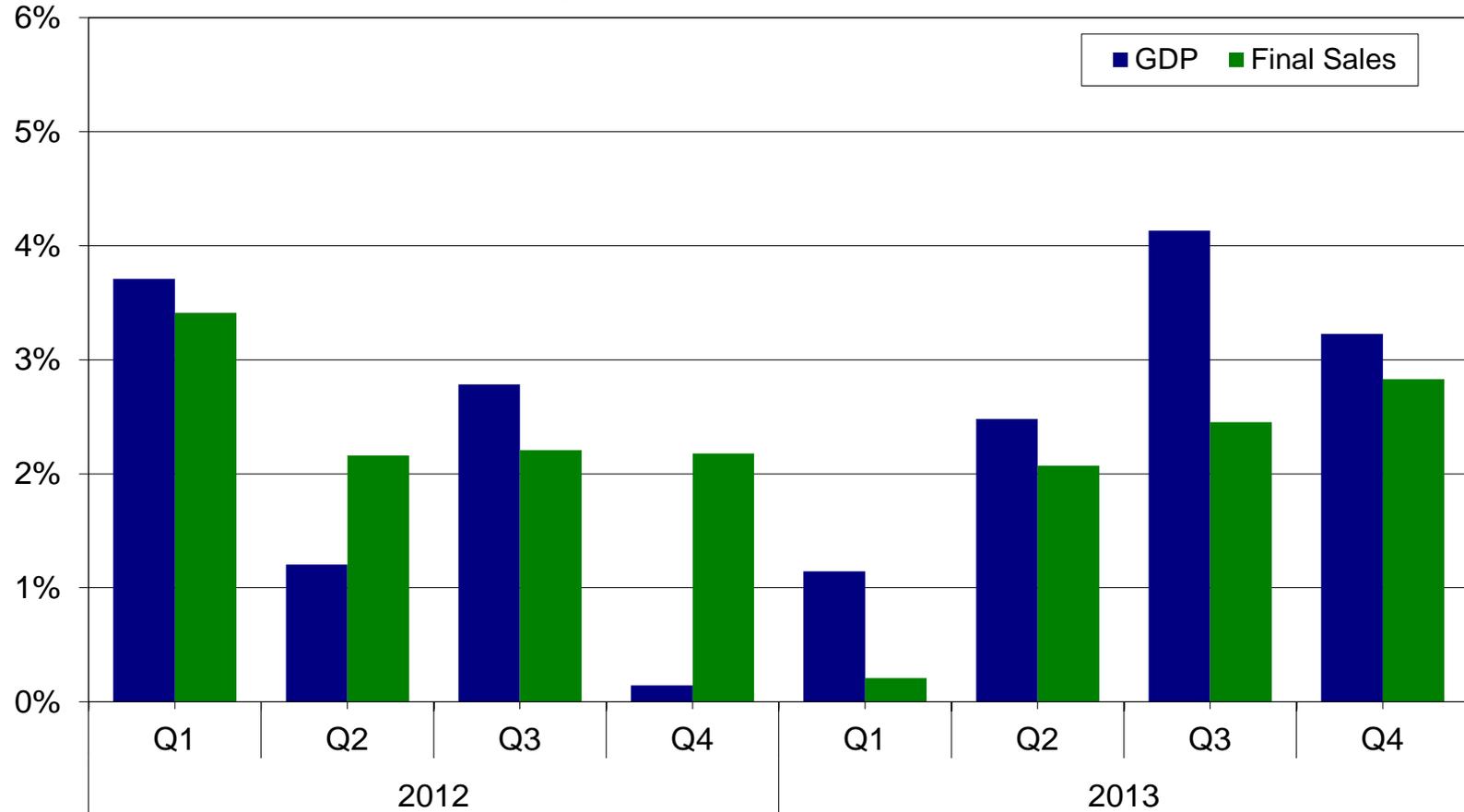
Q4/Q4 % Change



Values for 2014 are ESR group and other forecasts.

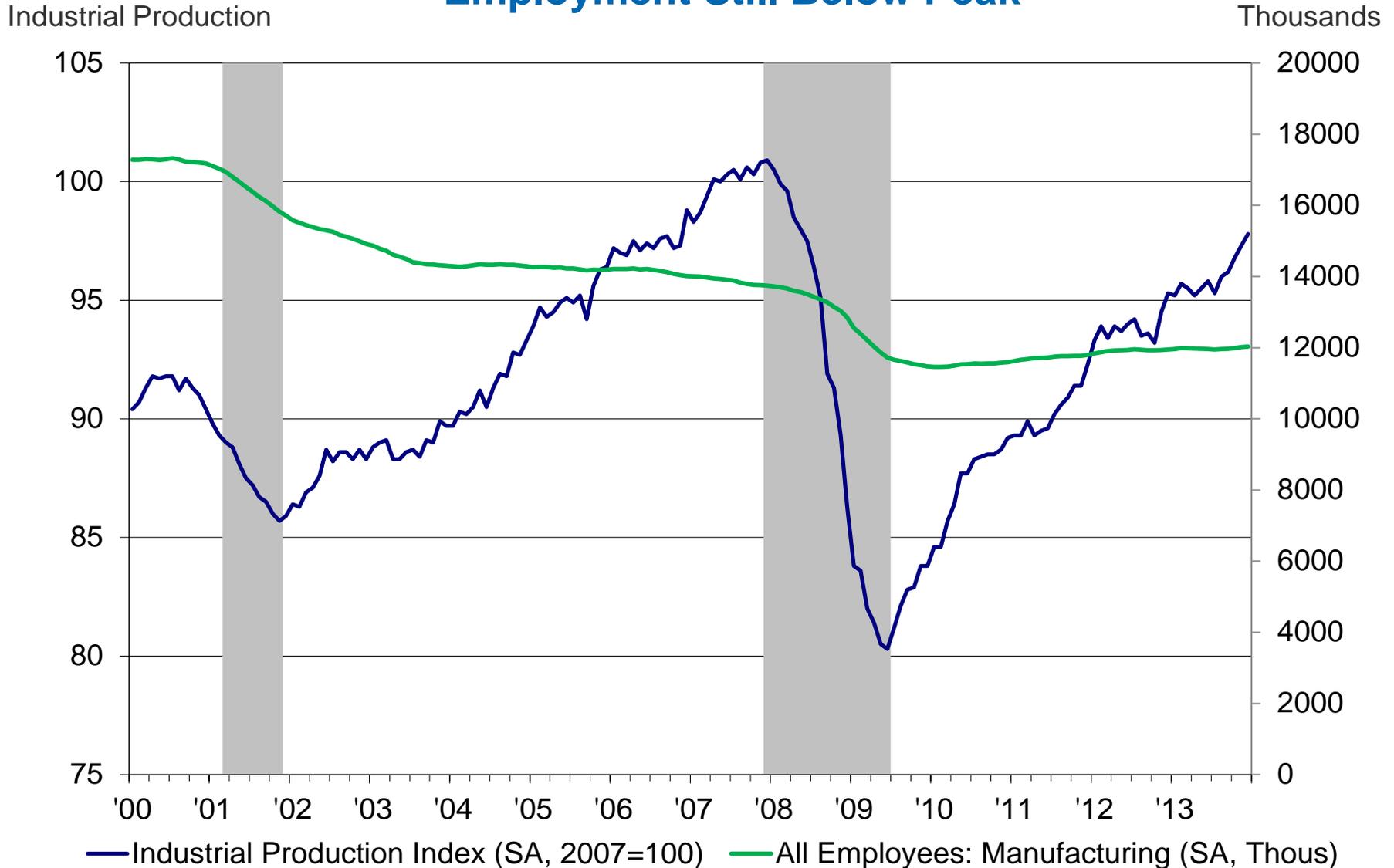
Underlying Demand in the Economy Strengthened in the Second Half of 2013

Inflation-Adjusted, Quarterly % Change (SAAR)

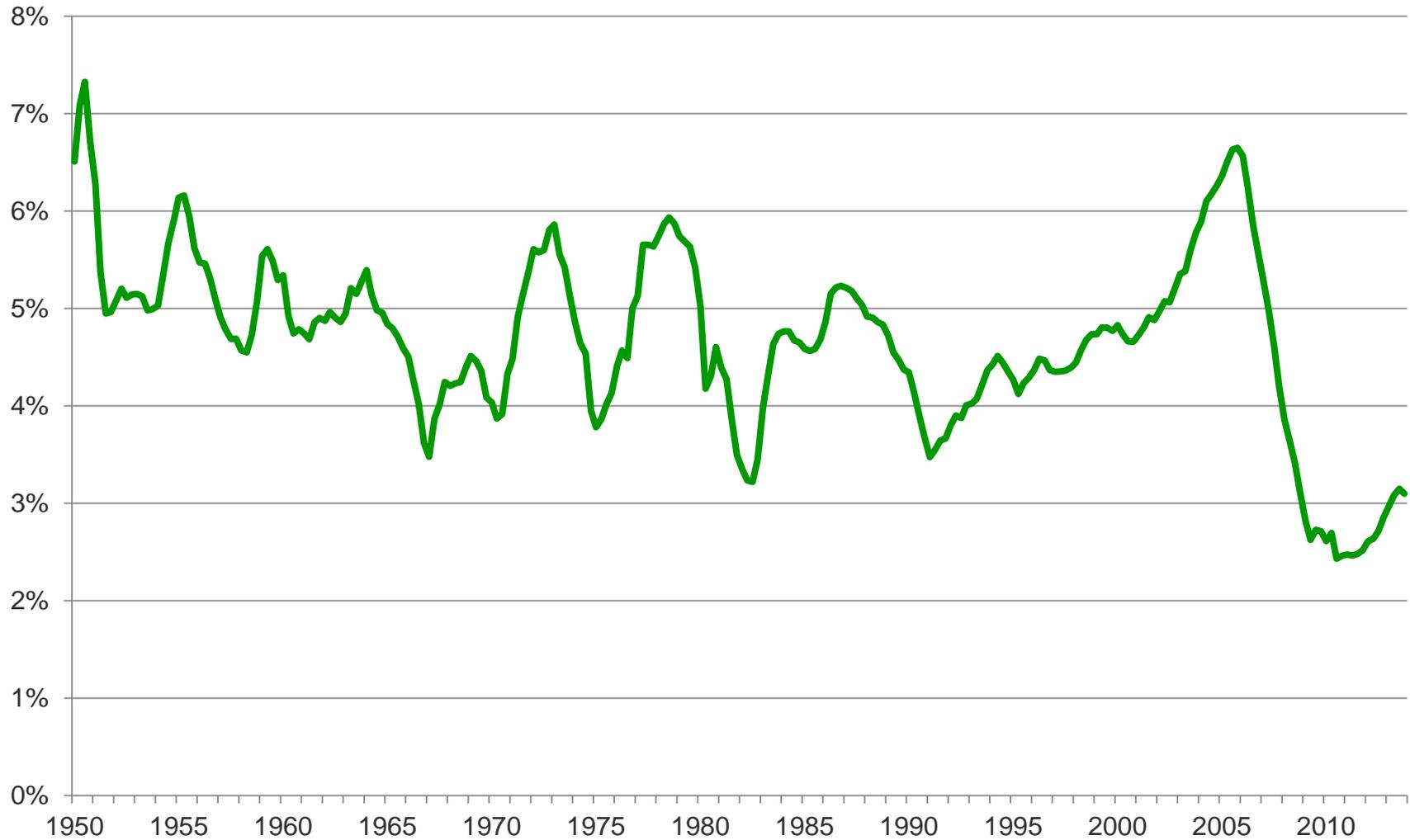


Note: Underlying demand is measured by final sales of domestic product (gross domestic product minus the change in inventories).

Manufacturing Output Approaches New Highs but Employment Still Below Peak

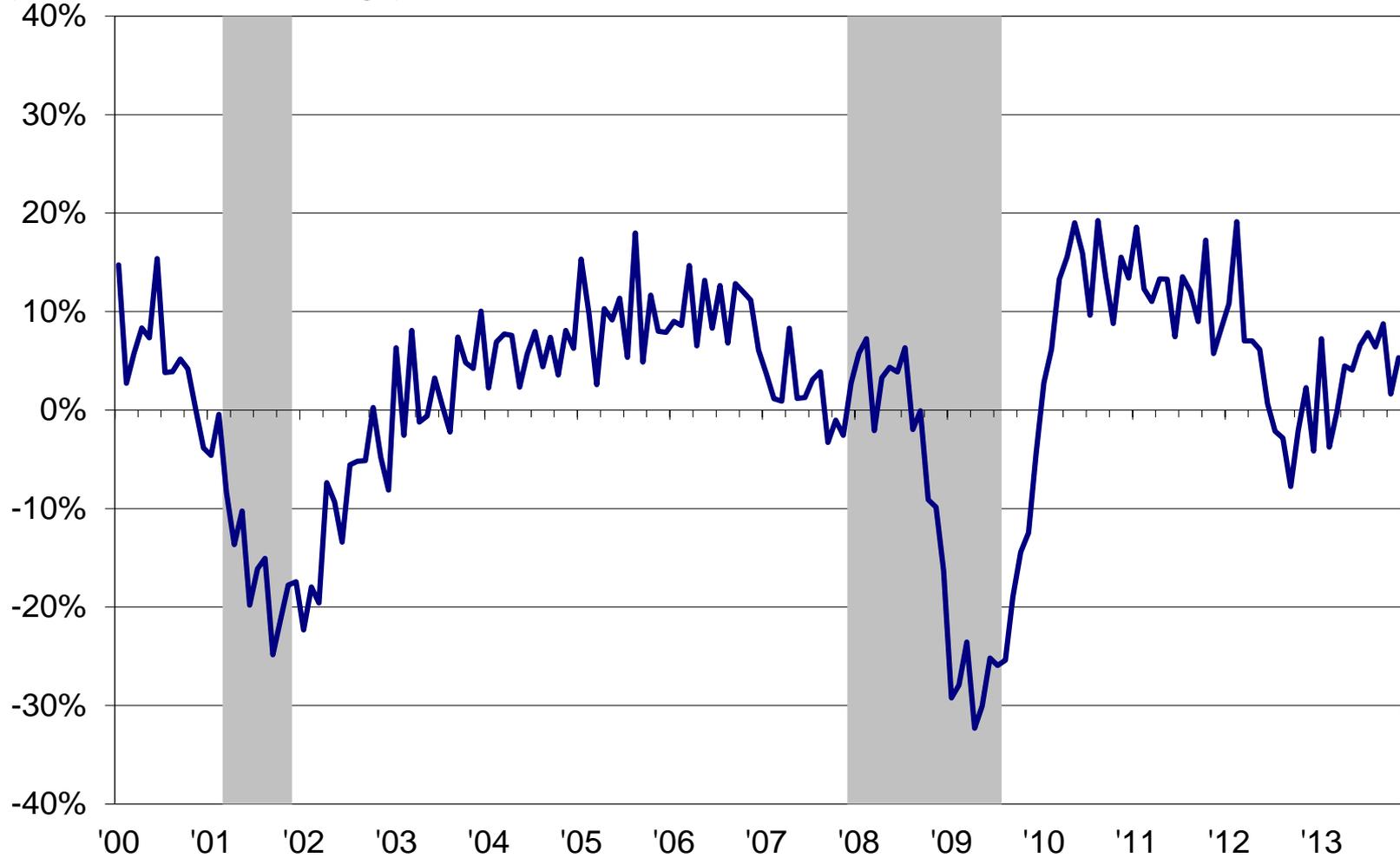


Residential Investment as a Share of GDP Still Remains at an Historically Low Level



Core Capital Goods Orders Suggest Rebounding Business Capital Investment

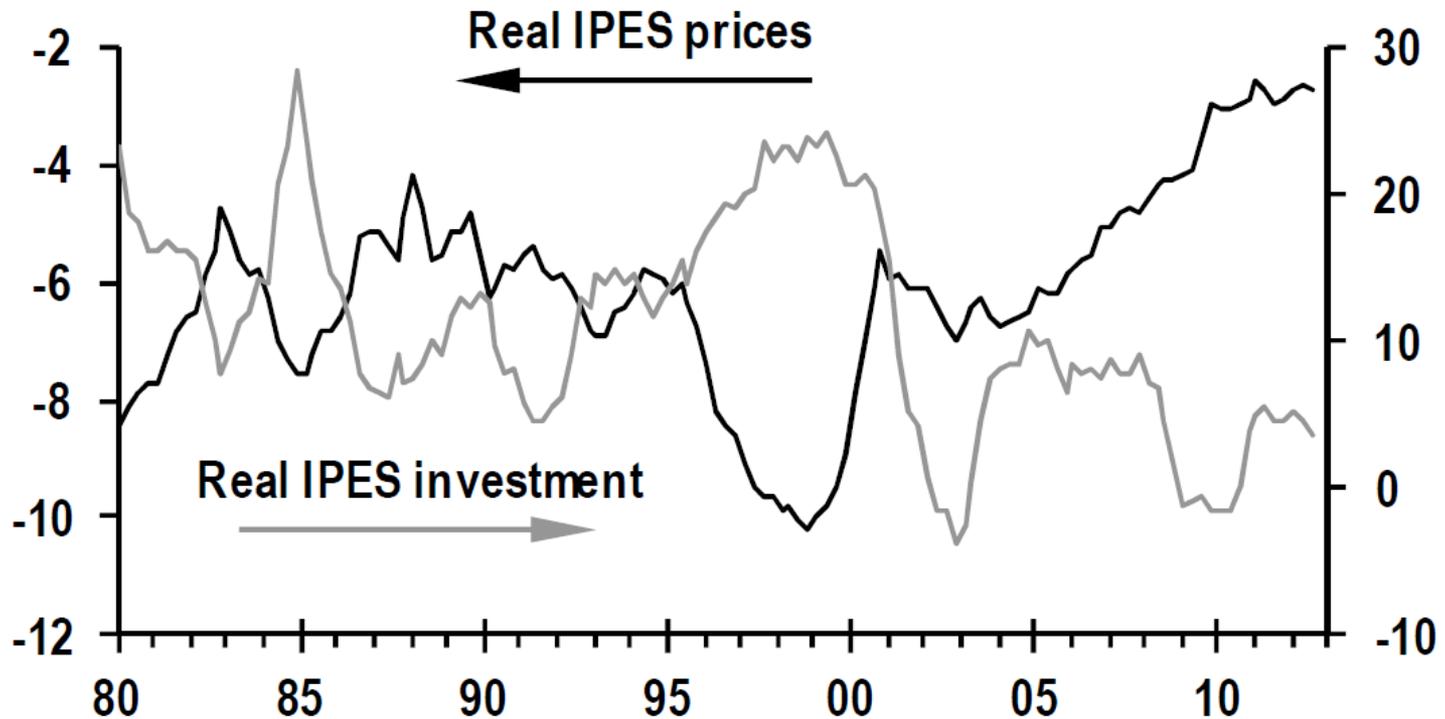
Manufacturers New Orders of Nondefense Capital Goods ex. Aircraft
(Year-over-Year % Change)



The Returns on Capital Investment in Technology Seem to be Declining

Information processing equipment and technology (IPES)

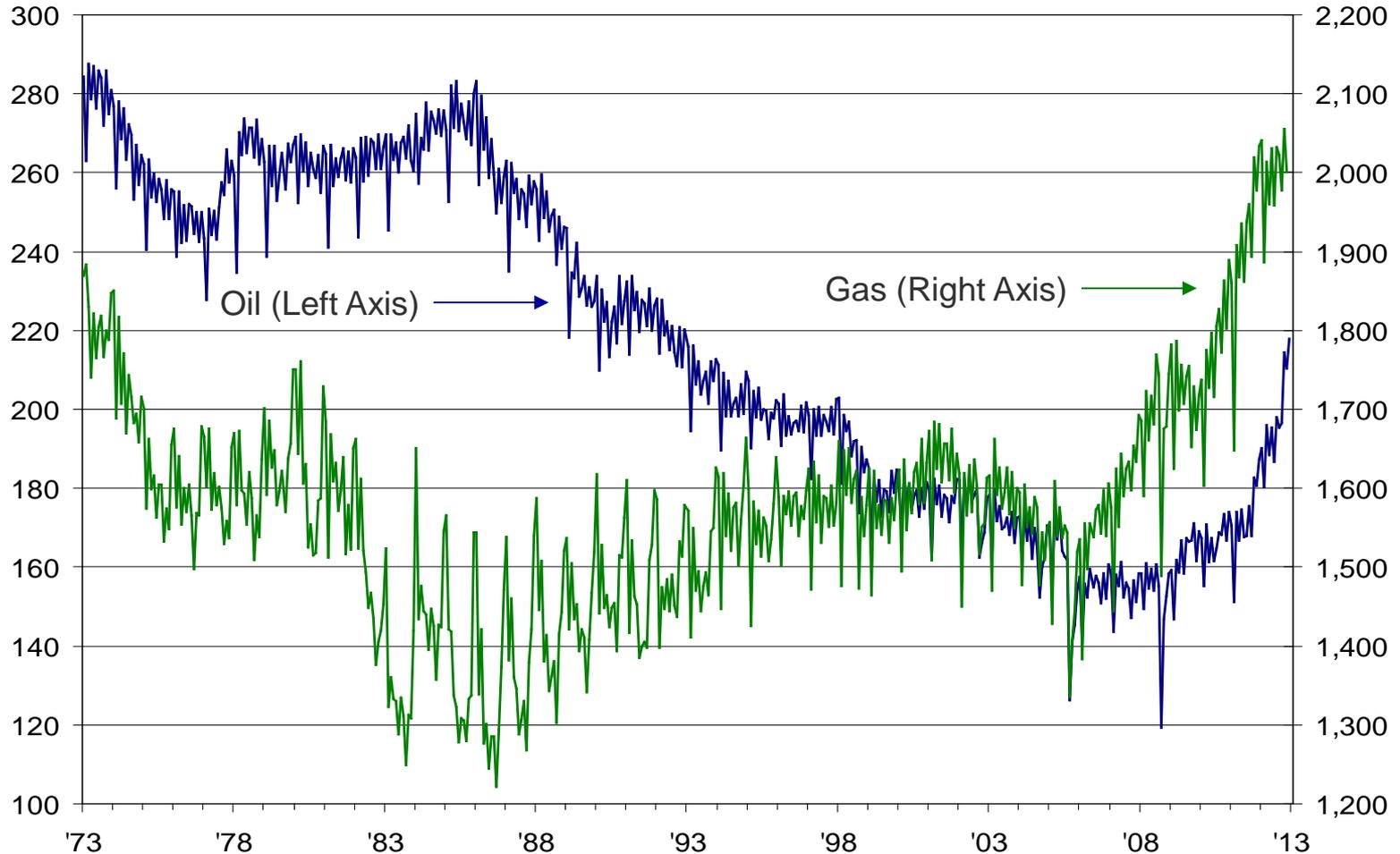
%ch over 8 qtrs, ar, both scales



Domestic Energy Production Reaches the Highest Levels in Decades

Total U.S. Field Production of Crude Oil
(Millions of Barrels/Month)

U.S. Production of Dry Natural Gas
(Billions of Cubic Feet/Month)

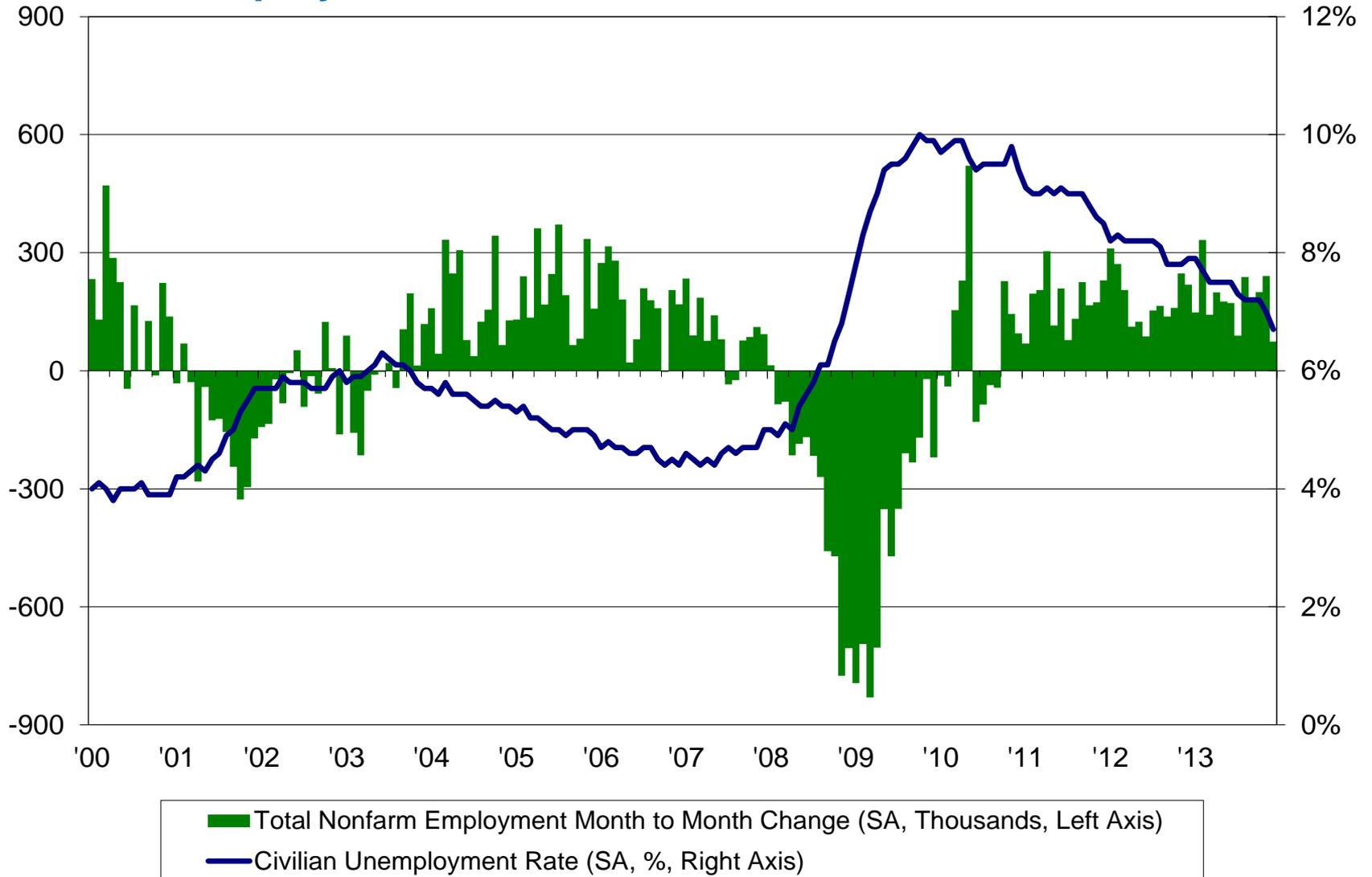


Petroleum and Other Fuels Falling as a Share of Total U.S. Imports

Mineral Fuels, Lubricants & Related Materials as a Share of Total Nominal U.S. Imports (NSA, %)

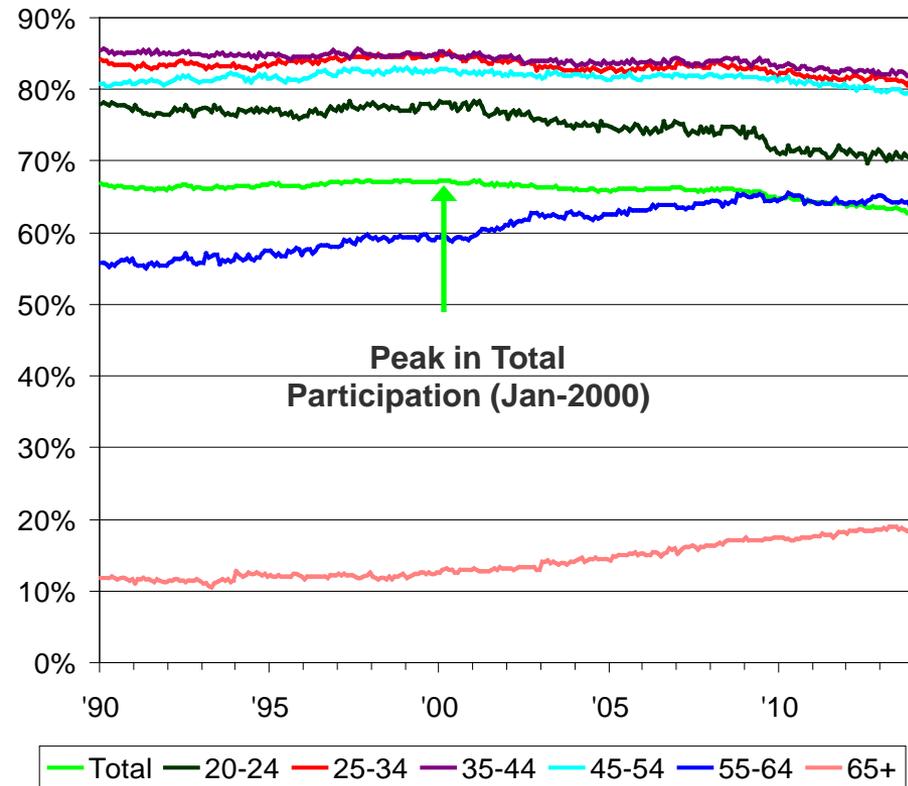


Steady Employment Growth and Falling Participation Push the Unemployment Rate Toward the Fed's 6.5% Threshold

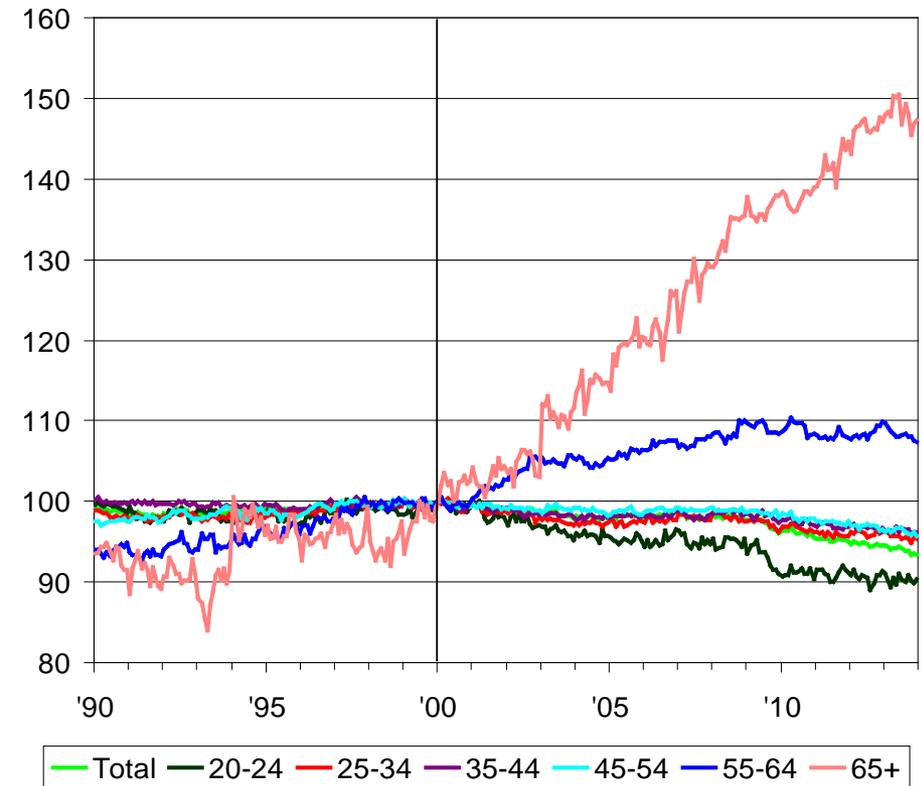


Exodus of Young Pushes Participation Down While Older Age Cohorts Work Longer

Labor Force Participation Rate by Age (SA, %)



Labor Force Participation Rate by Age (SA, Jan-2000 = 100)



Upward Wage Pressure Grows

Average Hourly Earnings for Production and Nonsupervisory Employees (Year-over-Year % Change)

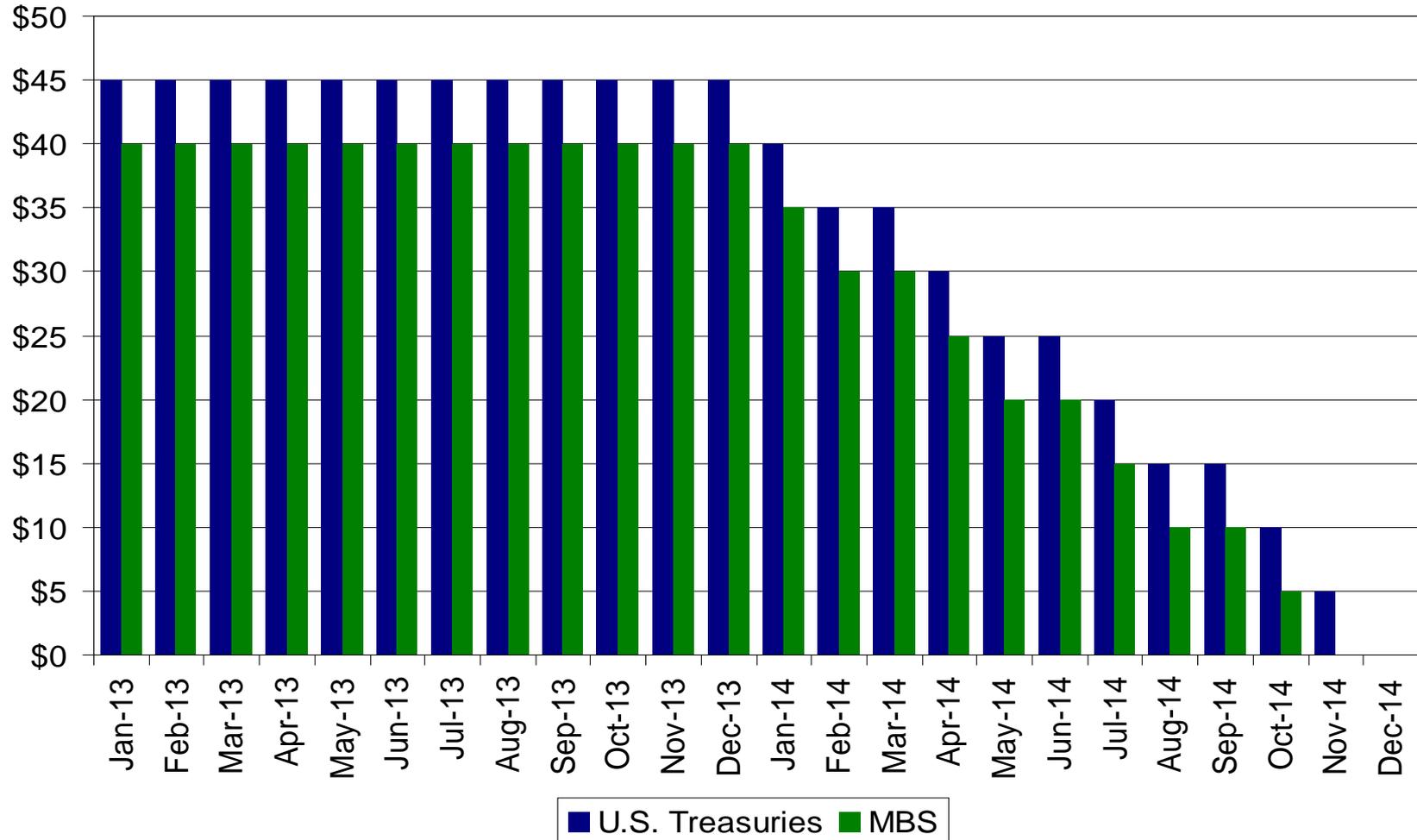


Economic Risks

- Maturing expansion
- Weak household formation
- Geographically uneven recovery
- Household wealth distribution
- Declining labor force participation
- Income growth stagnation and distribution
- Weak job growth
- Weak productivity
- Weak capital investment

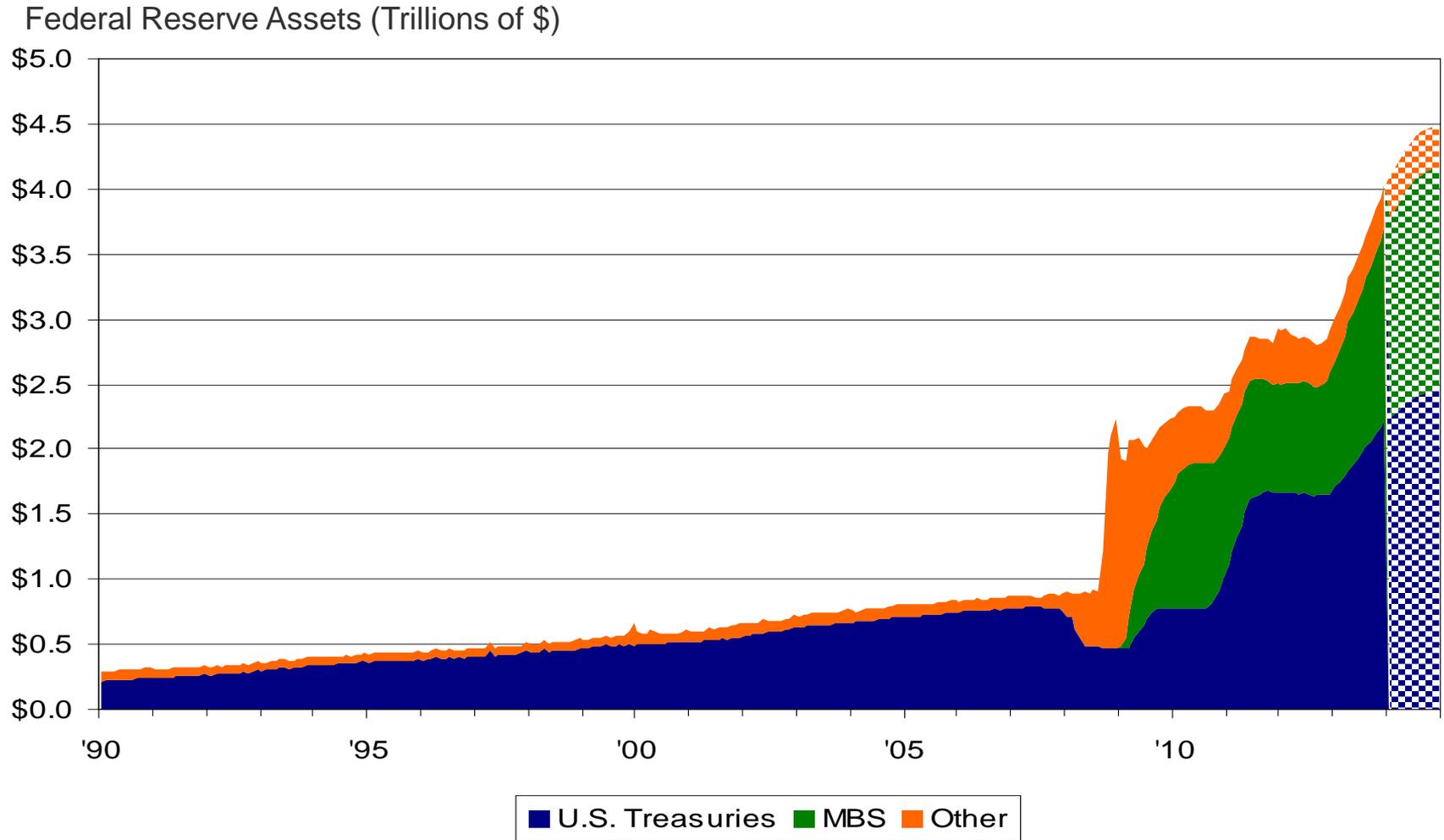
The Fed Plans to Steadily Wind Down Asset Purchases by the End of This Year...

Monthly Asset Purchases by the Federal Reserve* (Billions of \$)



*Data for 2014 is an extrapolation of plans previously announced by the Federal Reserve

...But Not Before the Fed's Balance Sheet Balloons to \$4.5 Trillion



*Data for 2014 is an extrapolation of plans previously announced by the Federal Reserve

Federal Fiscal Imbalances Expected to Weigh on the Economy

Federal Government			
Receipts and Outlays as a Percent of GDP			
	Receipts	Outlays	Deficit
<u>Historical</u>			
1950 to 2008	18.0	19.8	-1.8
<i>Standard deviation</i>	<i>1.1</i>	<i>1.9</i>	
2009-2012	15.4	24.1	-8.7
<u>Forecast</u>			
2013 to 2018	18.3	21.8	-3.5

Policy Choices

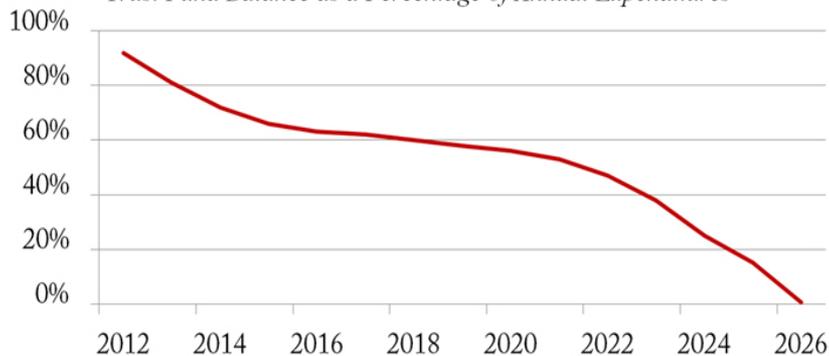
- Higher Taxes
- Less Spending
- Growth
- Inflation

Entitlement Programs Face Serious Medium-Term Concerns

Entitlement Program	Insolvency Year
Social Security	2033
Medicare	2026

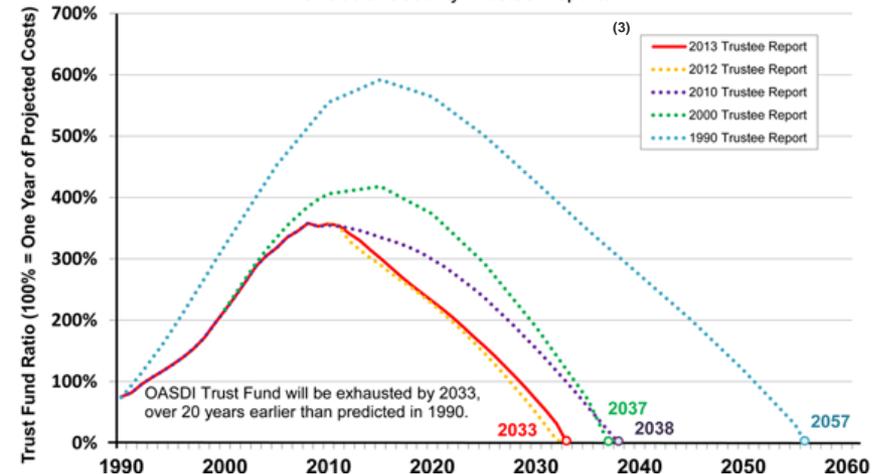
Medicare Trust Fund Fully Depleted by 2026

Trust Fund Balance as a Percentage of Annual Expenditures



Changes in Projected Year of Insolvency

Prior Social Security Trustee Reports



Policy Risks

- Secondary market reform
- FHA reform
- Remaining Dodd-Frank rules
- CFPB Rules
- Principal forgiveness
- Foreclosure laws
- Eminent domain
- Immigration reform

Monetary Policy

- QE tapering
- Timing to tightening
- Non-traditional tools
- FRB membership
- MSR values and cap rates

Fiscal Policy

Short-run

- Debt-ceiling
- Budget negotiation
- State and local pension funding

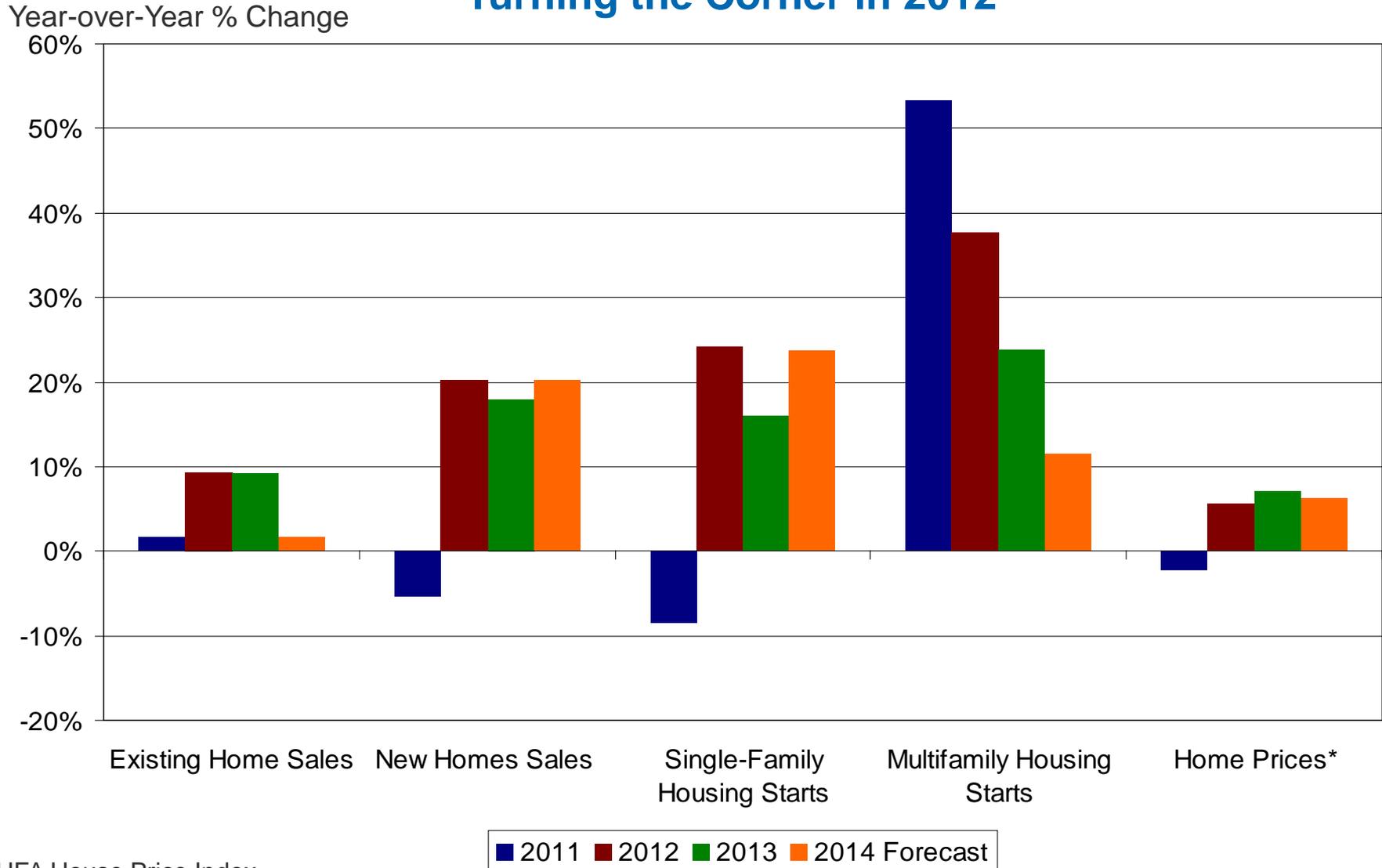
Intermediate-run

- Interest on federal debt
- State and local pension funding

Long-run

- Entitlements

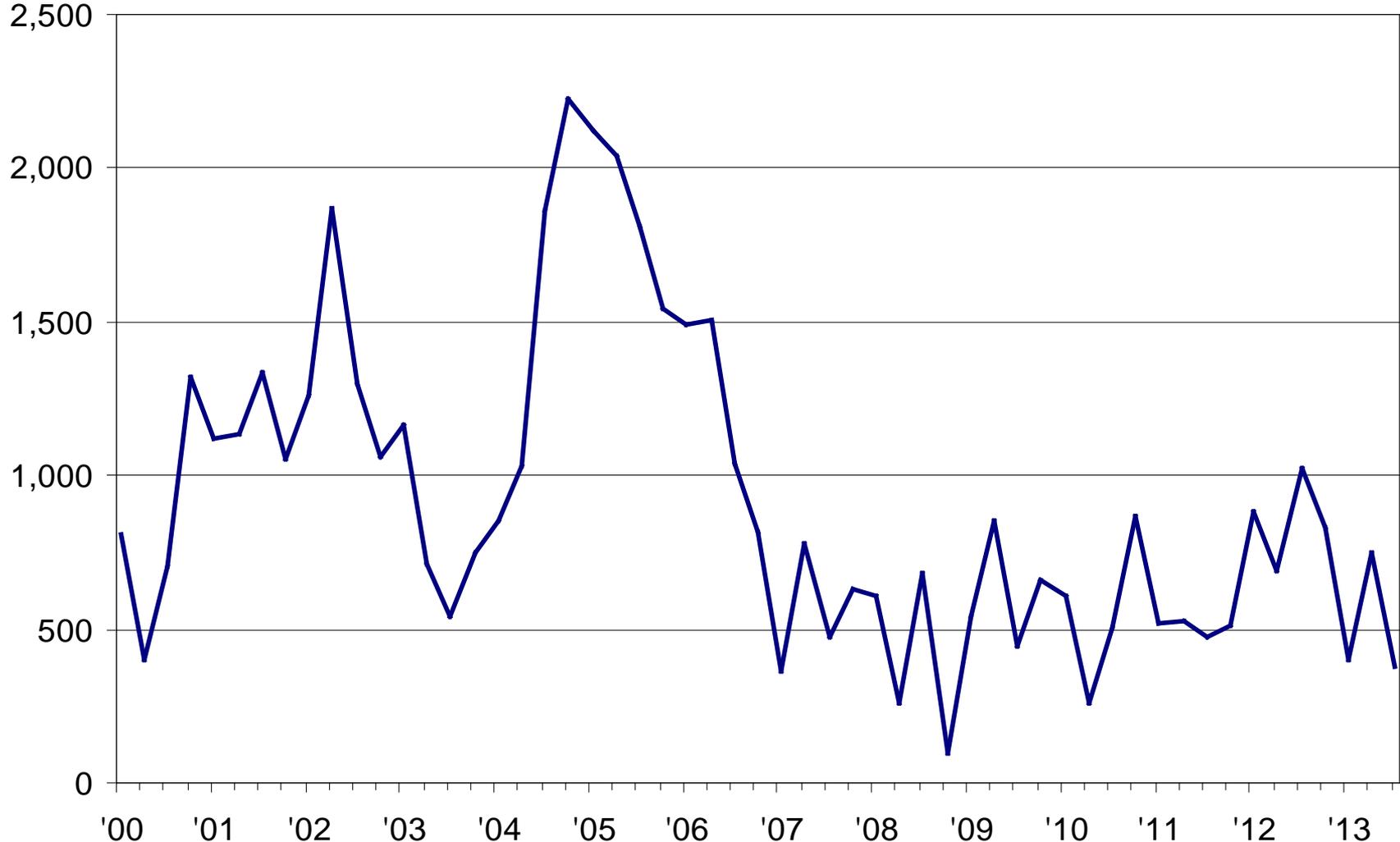
Housing Activity Expected to Continue to Recover after Turning the Corner in 2012



*FHFA House Price Index

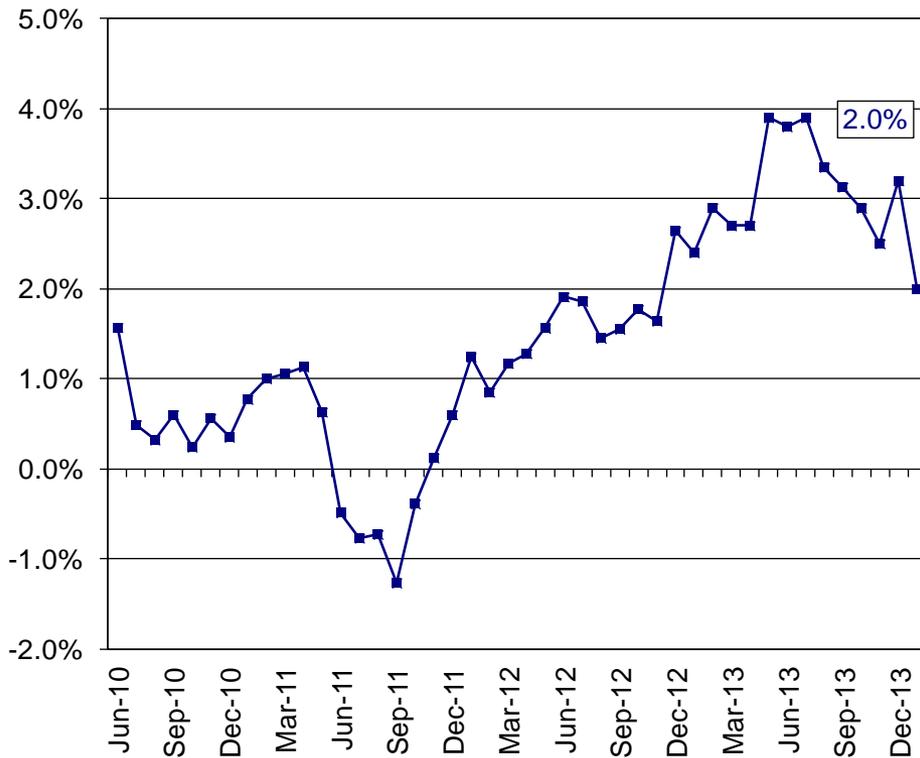
Household Formation Disappoints, Remaining Substantially Below Long-Term Average

Annual Household Formation (Thousands of Households)

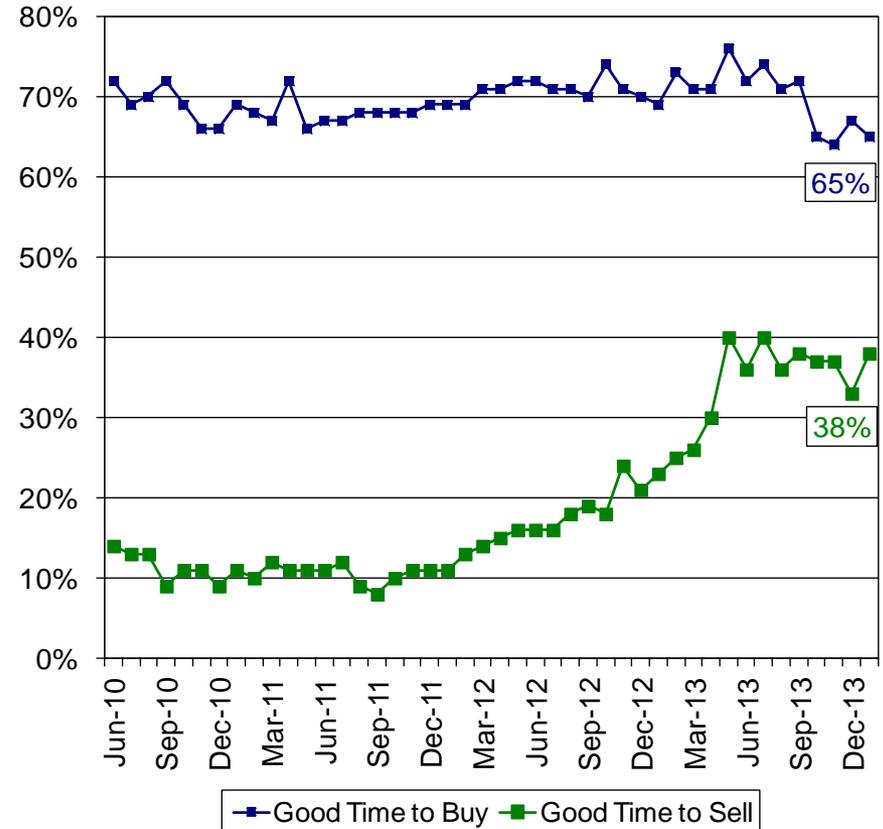


Expectations Regarding the Housing Market Improve Though Price Expectations Fall Back

Average 12-Month Home Price Expectation (%)



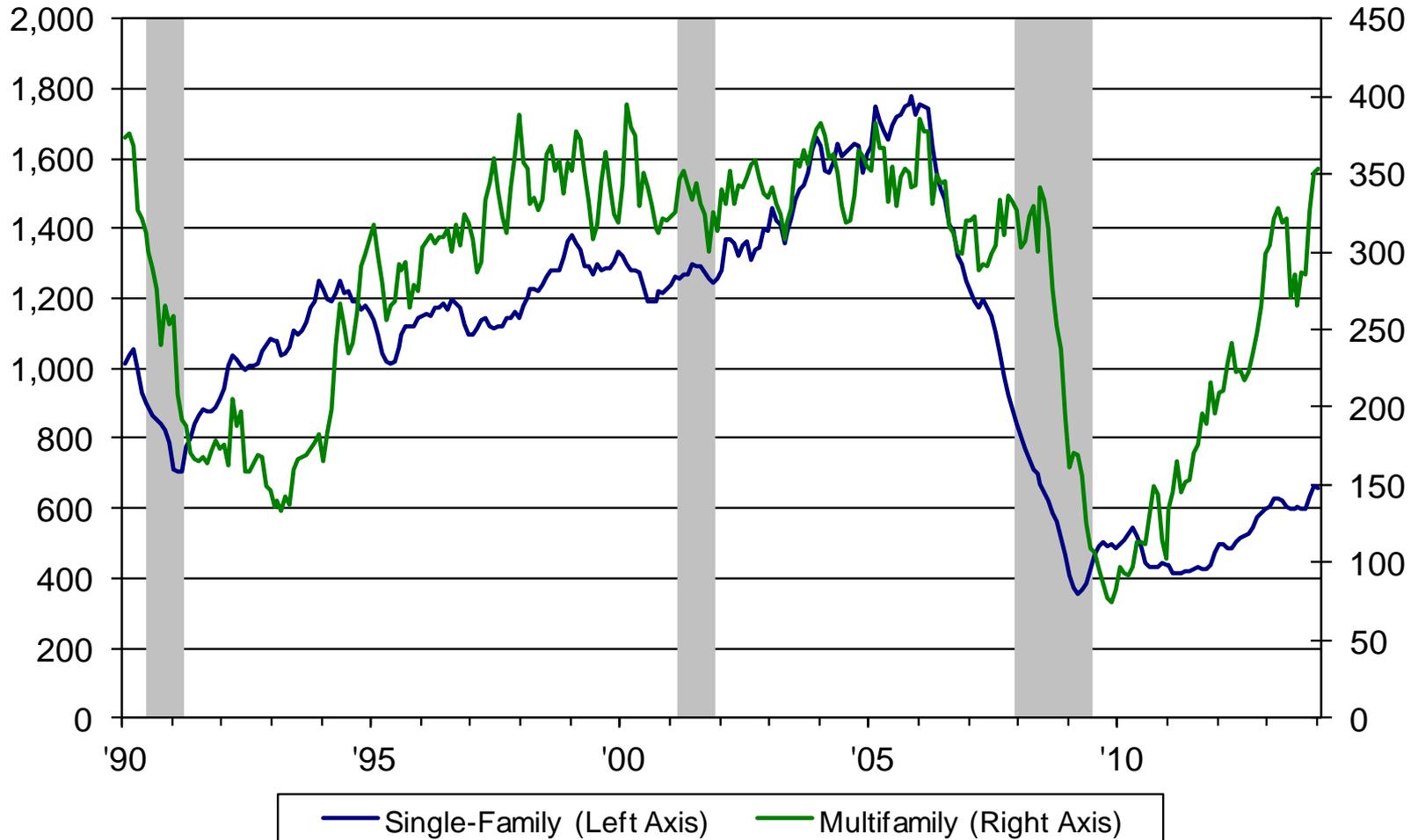
Share of Respondents Indicating it is a...



Single-Family and Multifamily Starts Recover

SA, Thousands of Units

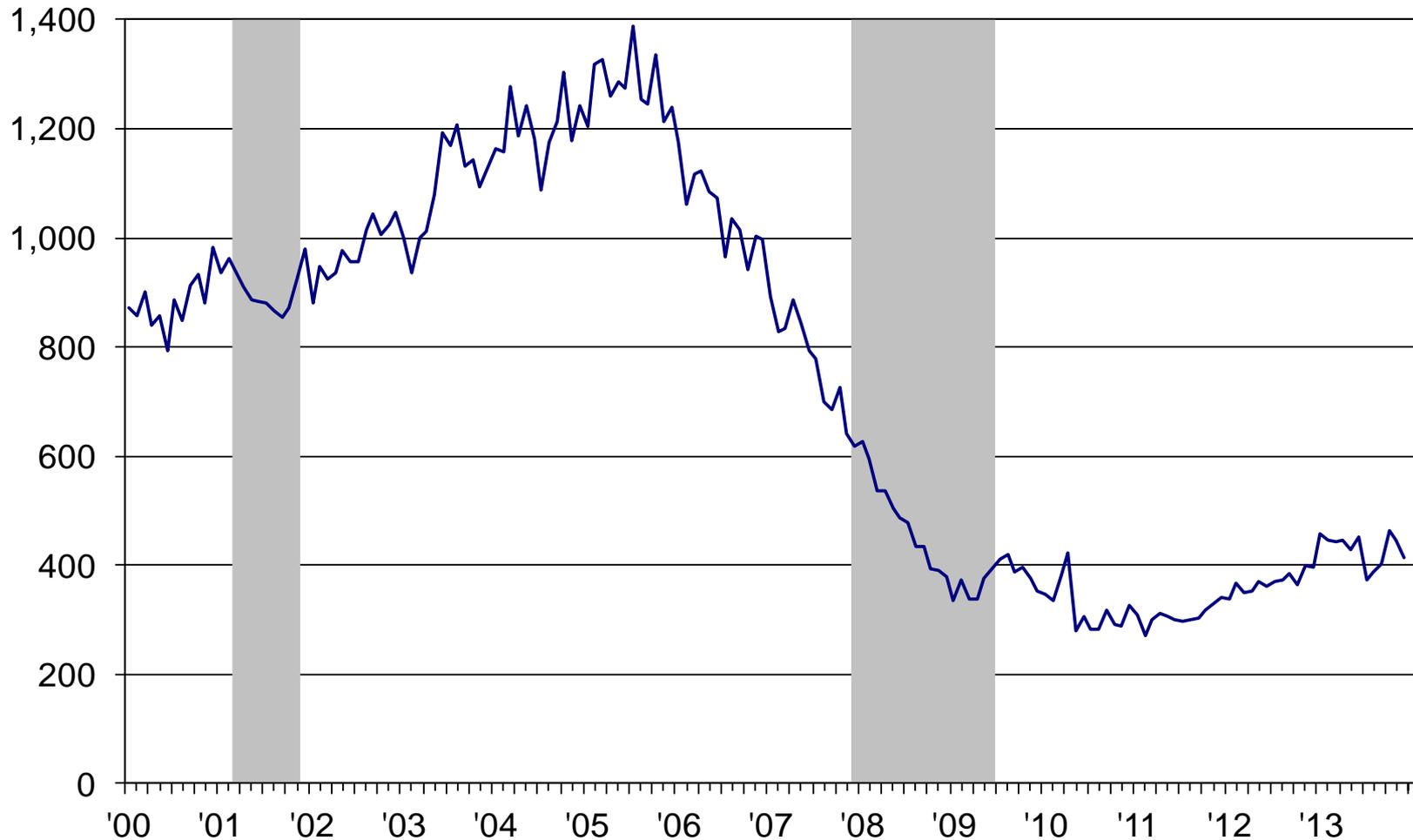
SA, Thousands of Units



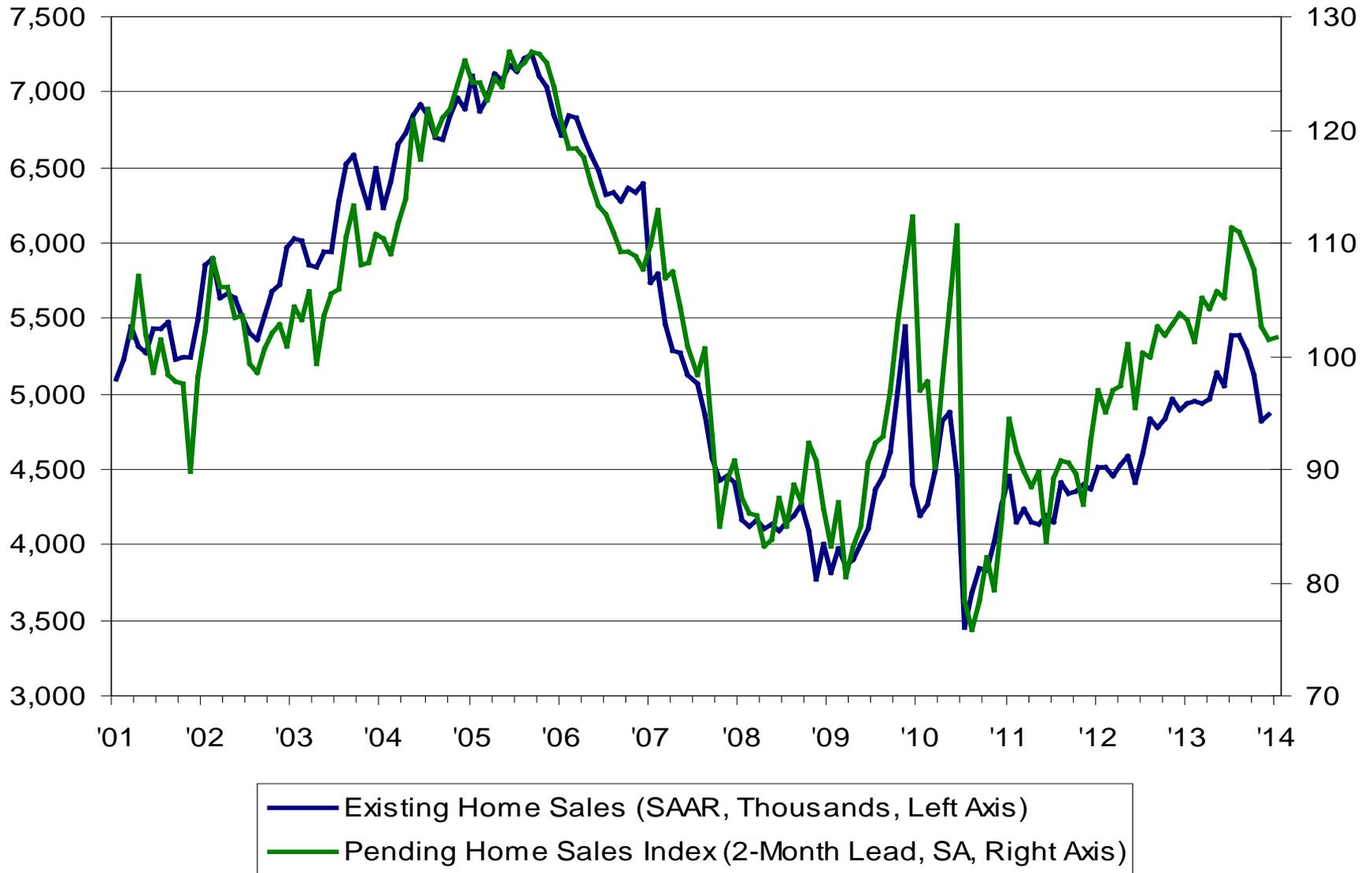
— Single-Family (Left Axis) — Multifamily (Right Axis)

New Home Sales Improve After Summer Lull

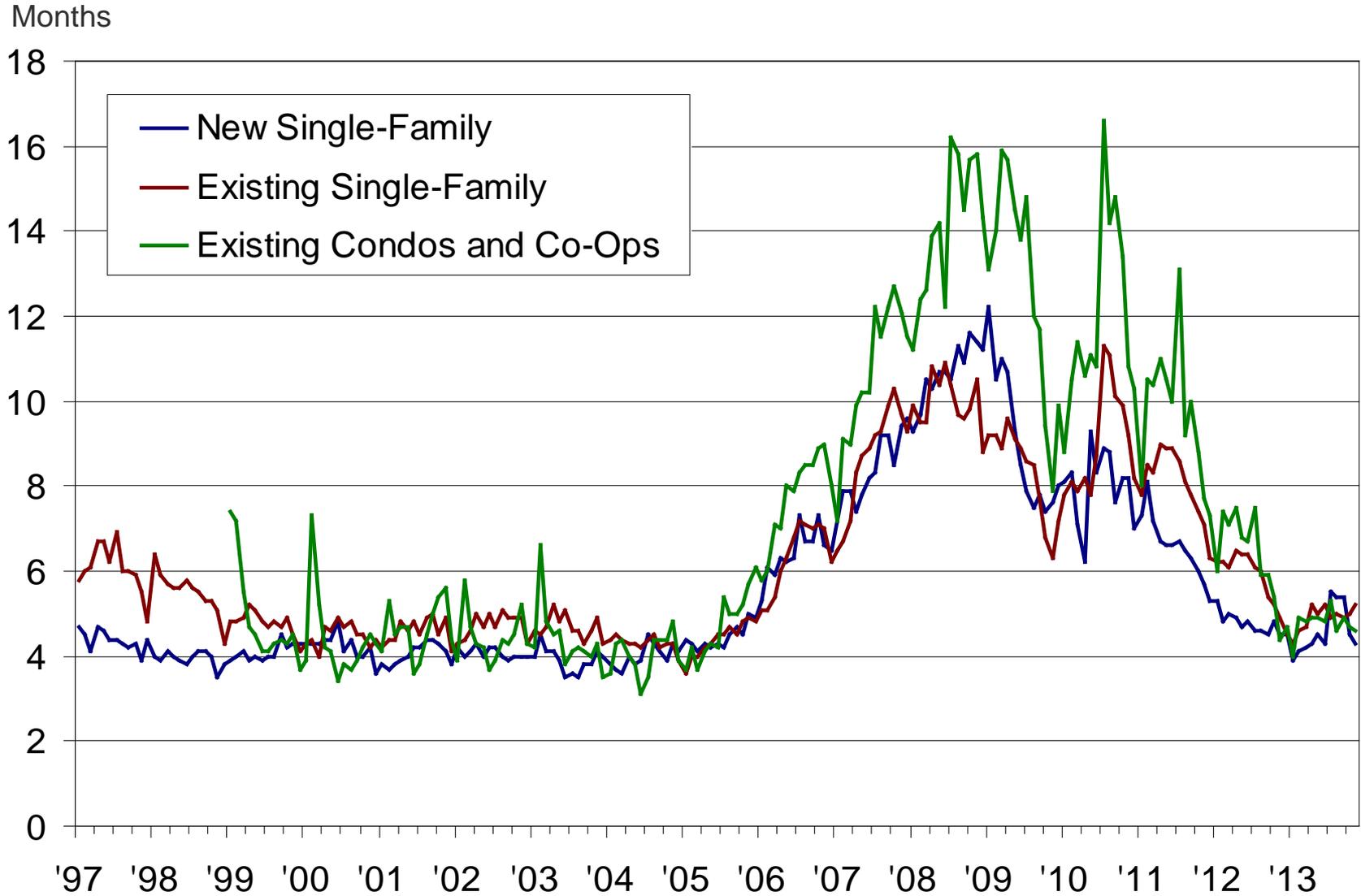
New Single-Family Home Sales (SAAR, Thousands of Units)



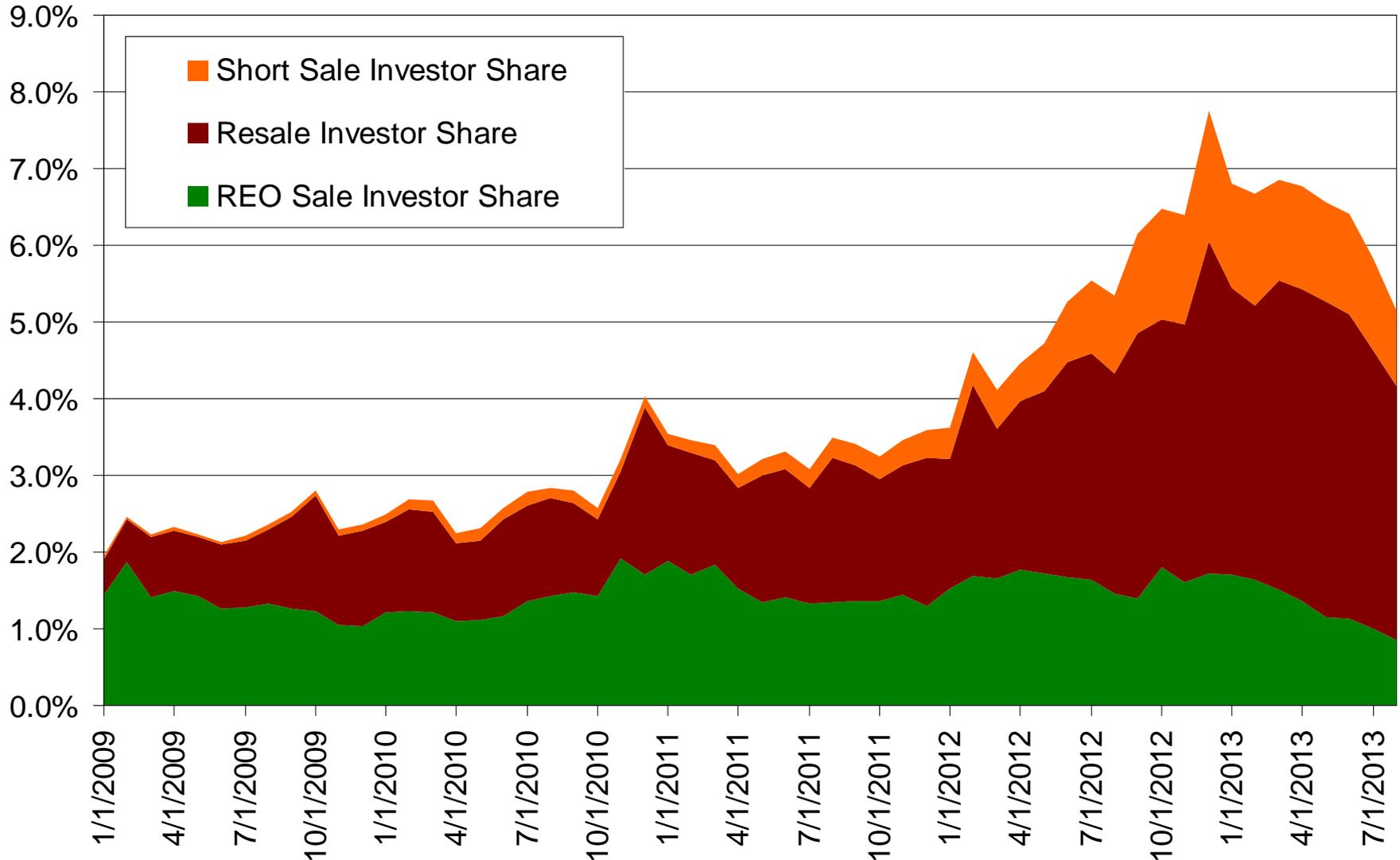
Existing Home Sales Weaken on the Heels of Rising Mortgage Rates



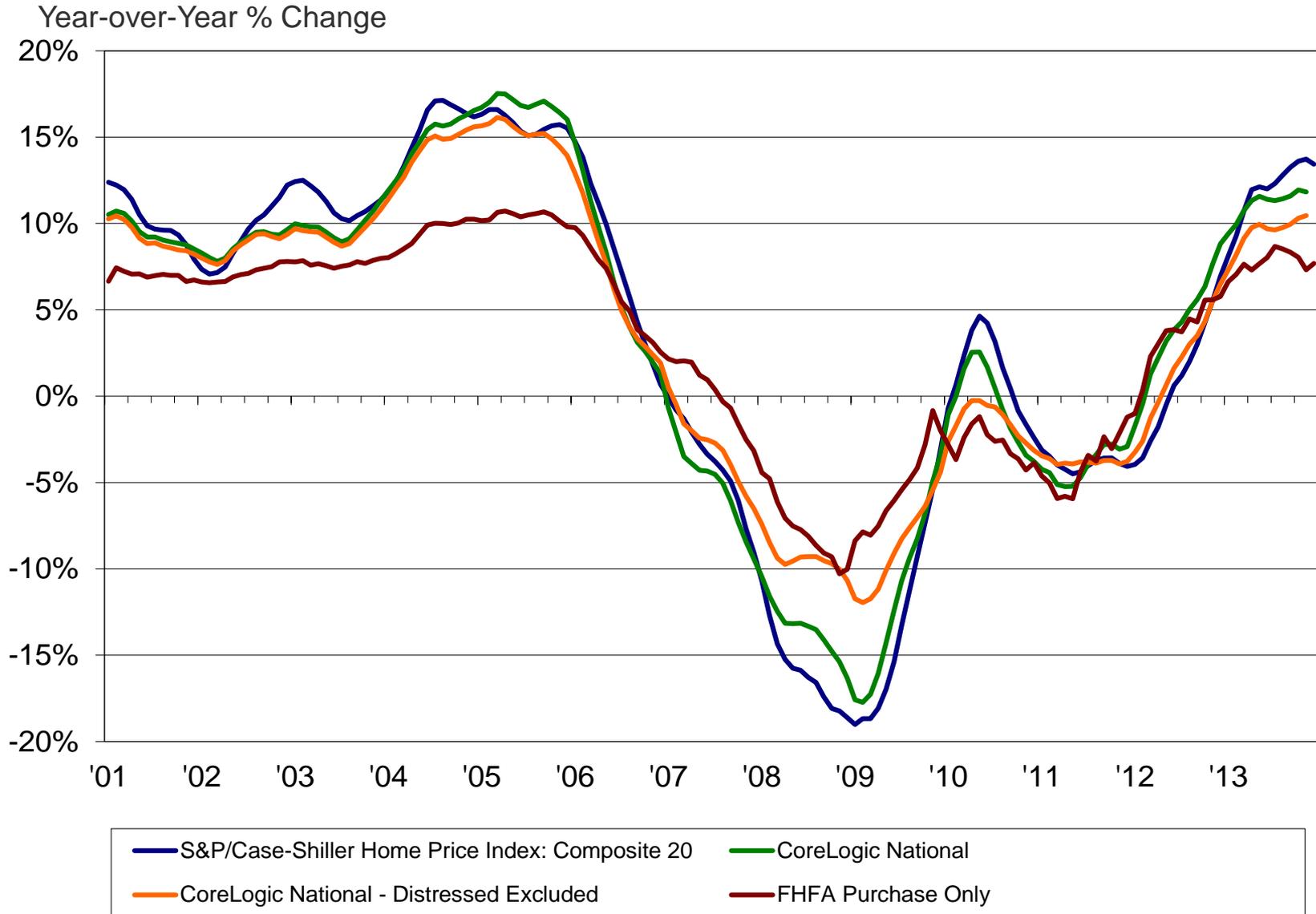
Months' Supply Measures Remain Below Average



Institutional Investor Footprint Is Shrinking

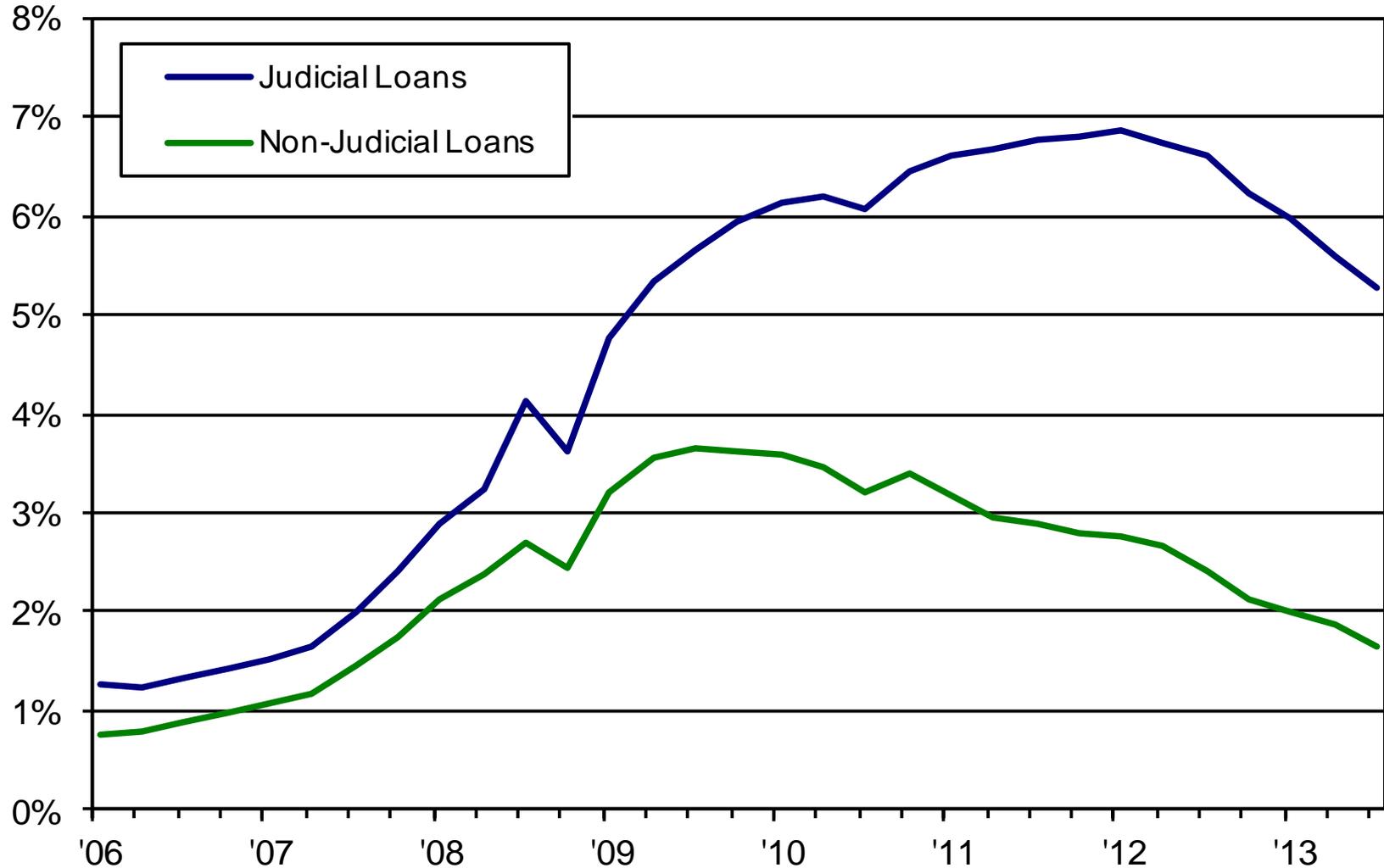


Home Prices Post Robust Year-over-Year Gains

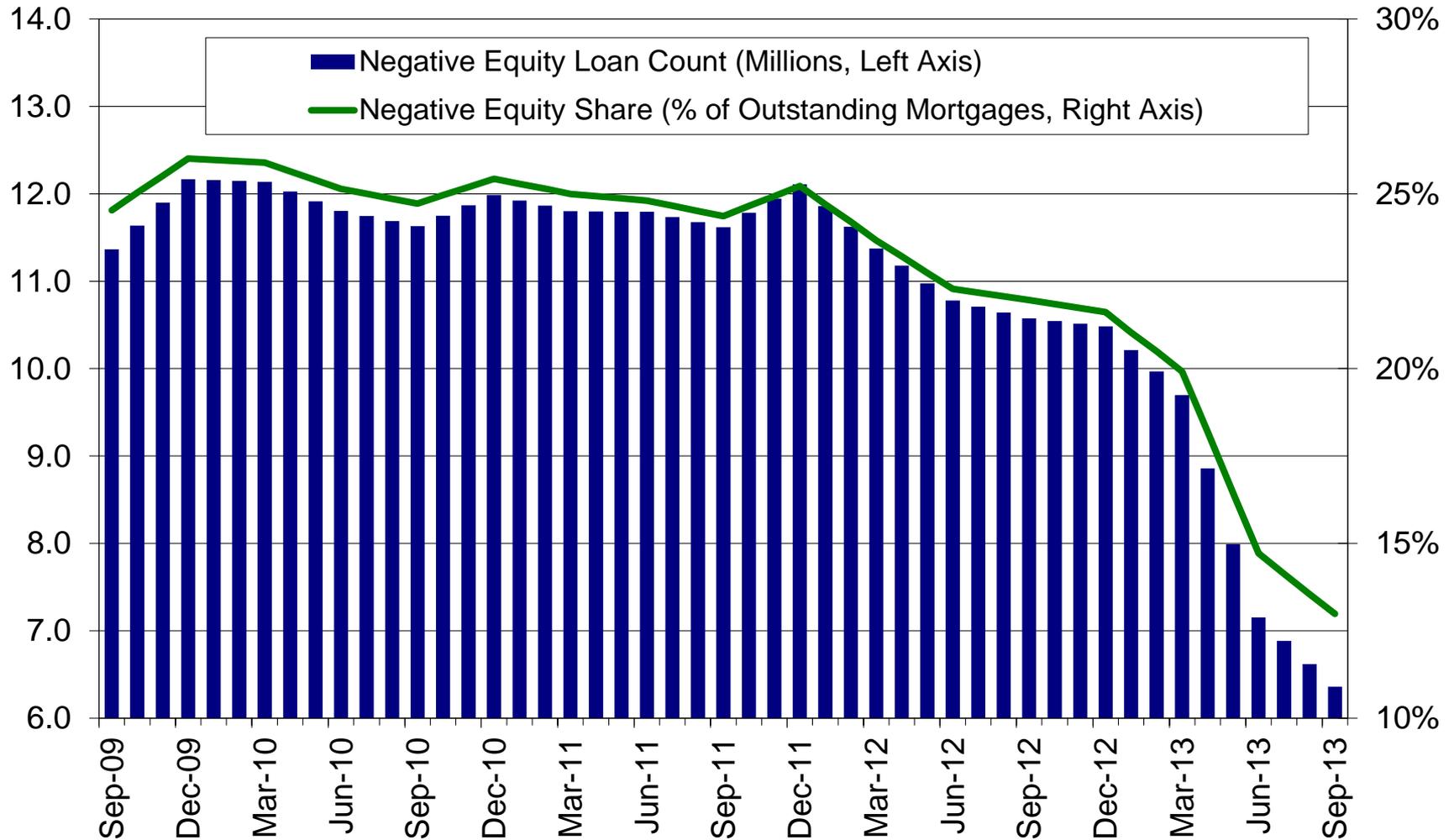


Foreclosure Inventory Has Declined Much Faster in Non-Judicial States

Foreclosure Inventory (NSA, %)

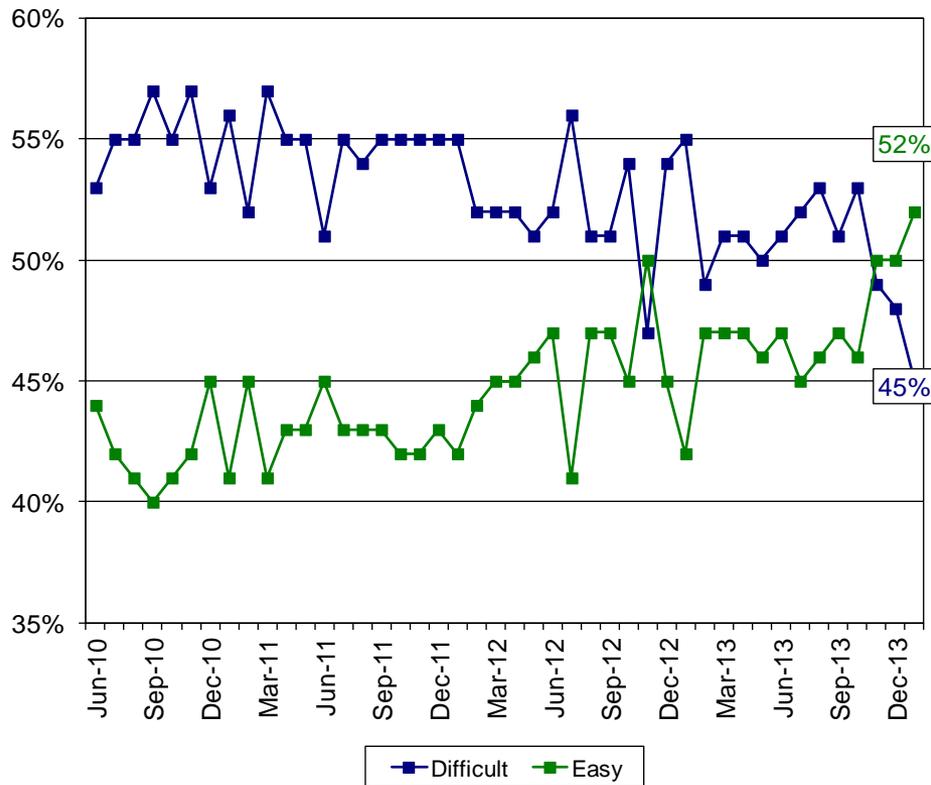


More Homeowners Move into Positive Equity Position, Which Should Lead to Rising Turnover

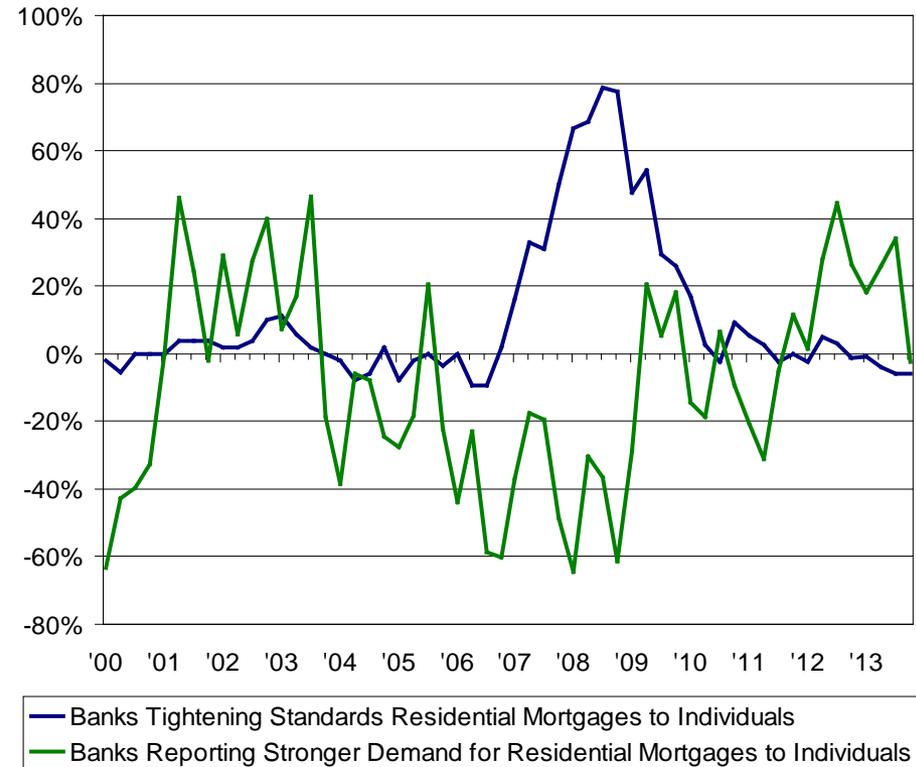


Consumers Believe It's Easier to Get Mortgages While Loan Officers Report Easing Lending Standards

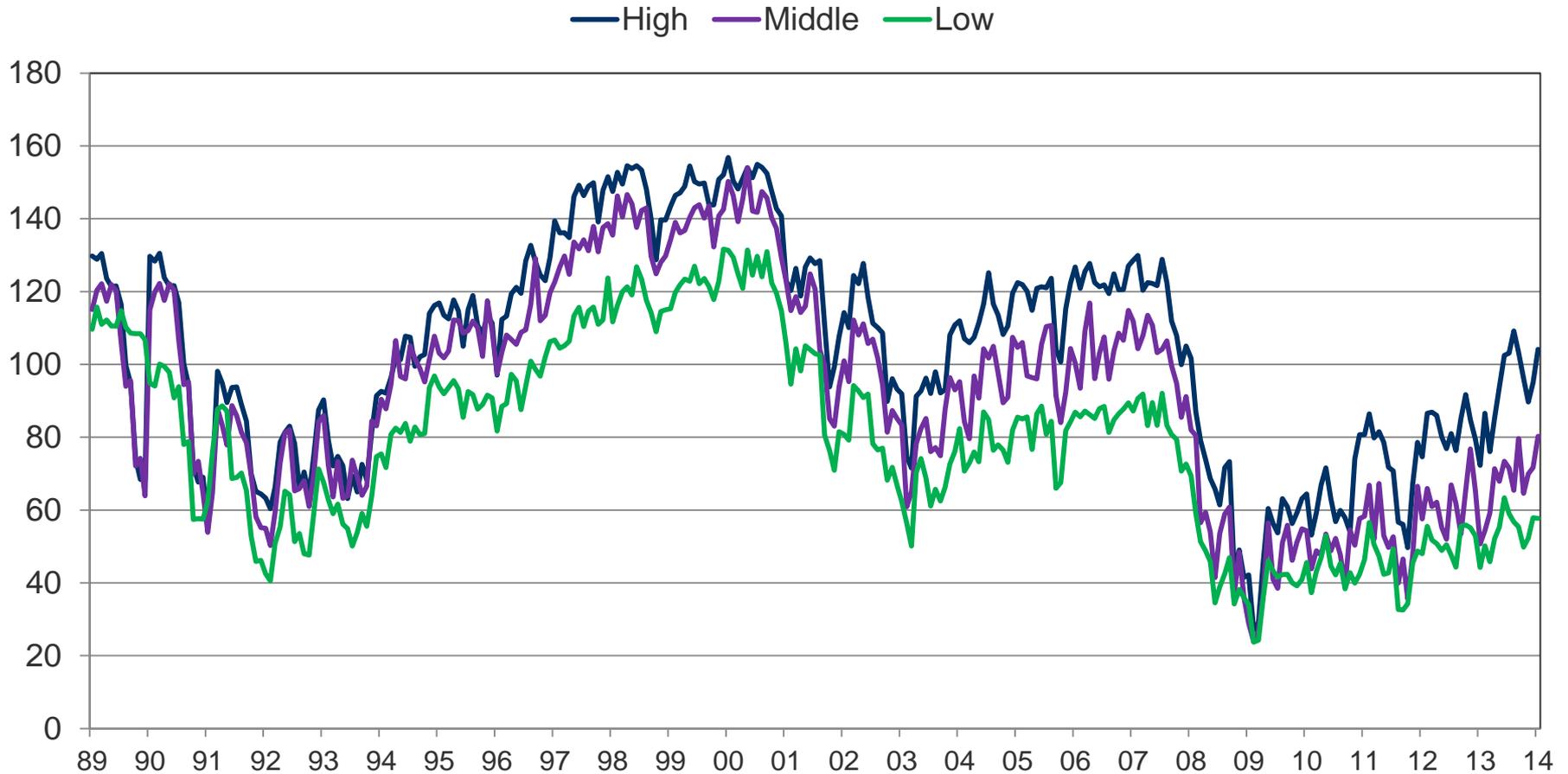
Do you think it will be difficult or easy for you to get a home mortgage today?



Lending Standards for Residential Mortgages (Net, %)

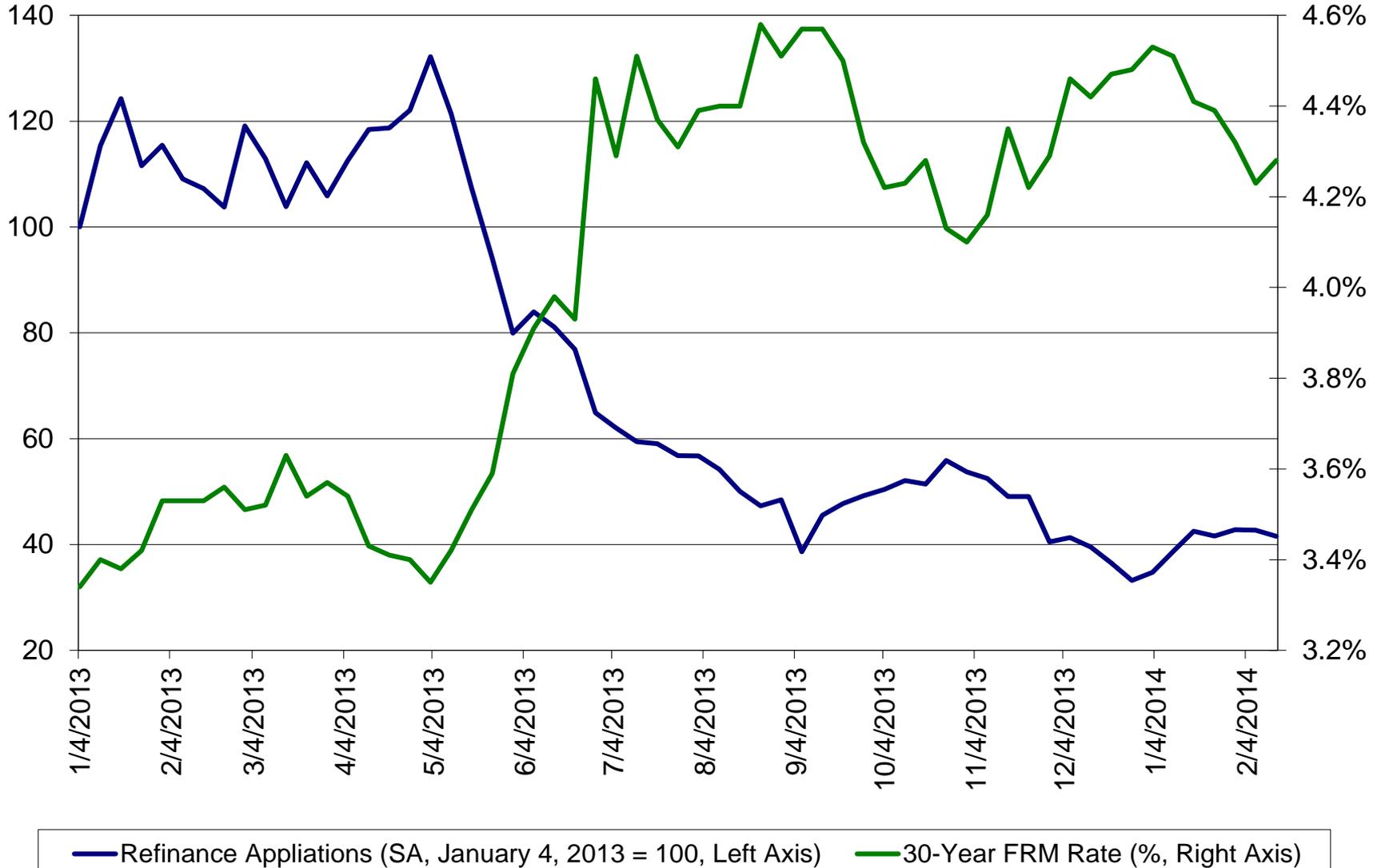


Higher Income Households Have Shown Greater Improvement in Consumer Confidence



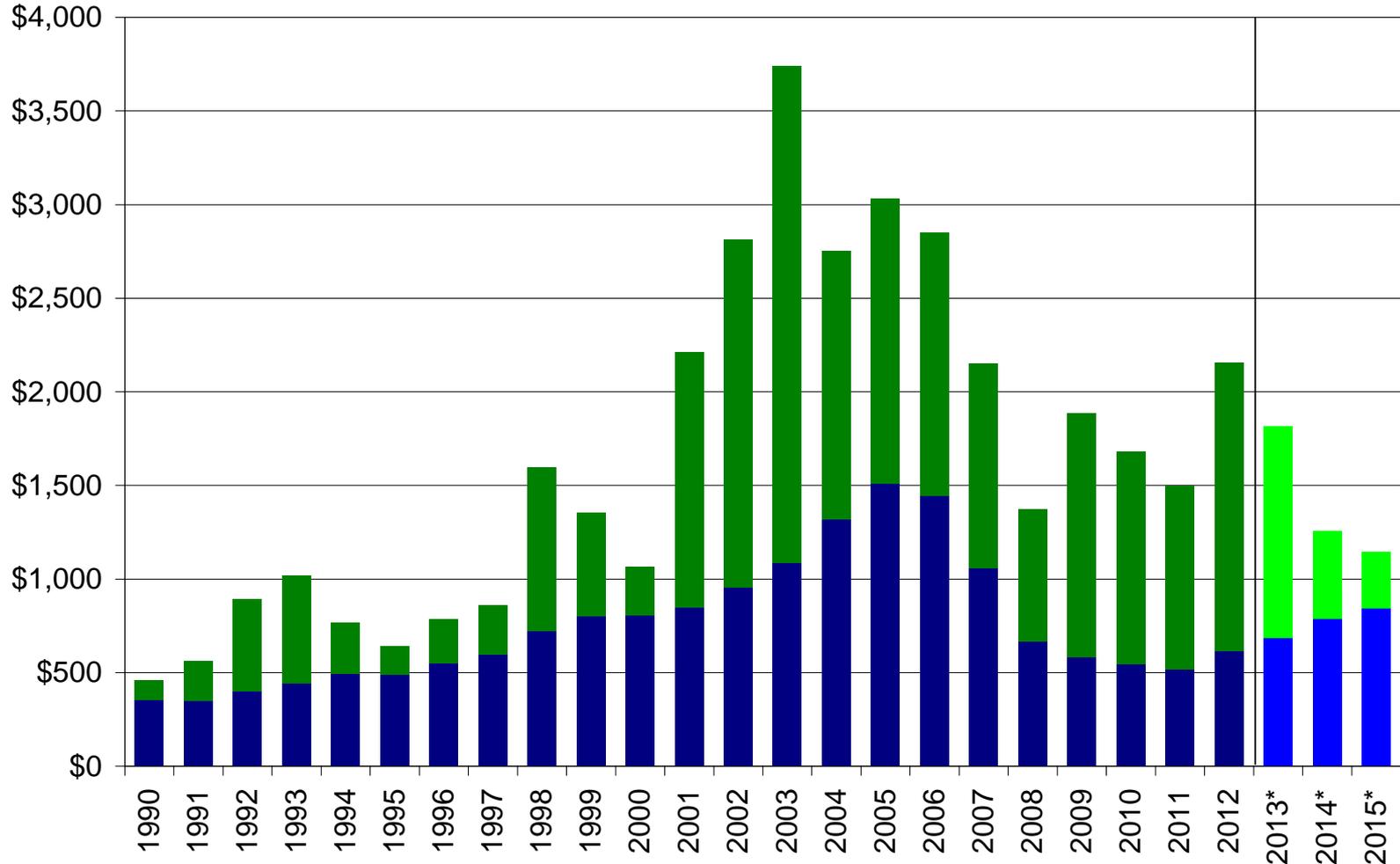
High income is \$50K or greater, Middle is \$35K-\$50K, Low is \$35K or lower

Higher Mortgage Rates Have Curtailed Mortgage Refinance Demand



Mortgage Market Is Switching to a Purchase Market

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



■ Purchase ■ Refinance

*Fannie Mae ESR Group Forecast

Source: ESR, Fannie Mae ESR Group

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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