

## Economic and Mortgage Market Developments

- *Real GDP growth.* Real GDP growth is expected to remain slow in the first half of this year, following the 0.6 percent annualized growth rate recorded for the fourth quarter of last year. The slowdown reflects housing market weakness, deterioration in credit markets, and spillovers from housing and high energy prices that should affect consumer spending. First-quarter real GDP growth is now expected to be around 0.2 percent. Growth should begin to trend up in the second half of the year, with annual GDP growth for 2008 at 1.4 percent.
- *Inflation.* The core rate of inflation continued to rise in January, and is above the top of the Federal Reserve's implicit target range. The slowdown in GDP growth and resulting slack in the labor market should help alleviate some pressure on core inflation. However, there is continued pressure on core inflation from the pass-through of recent energy price increases.
- *Interest rates.* The Federal Reserve lowered the federal funds rate by 125 basis points in January, and continued credit tightness and softening economic conditions should allow them to lower it more this year. We expect the Fed to cut rates by 75 bps in March, and by an additional 50 bps over the next several meetings, bringing the federal funds rate down to 1.75 percent. Nevertheless, long-term rates should edge up from current levels over the year.
- *Housing market.* We project that the combination of below-trend economic growth and continued dislocations in the mortgage market will continue to slow housing starts and sales this year. We expect total home sales to decline by 21 percent in 2008 and single-family housing starts to fall by 32 percent in 2008. We expect housing starts and sales to stabilize in the second half of this year, with sustained gains beginning in 2009. However, the large number of unsold homes on the market is putting downward pressure on house prices. This price weakness is likely to extend through 2009.
- *Mortgage market.* The projected decline in home sales and prices will likely lead to a 28-percent decline in purchase originations to \$0.9 trillion in 2008 (to the lowest level since 2001). While tighter credit standards on mortgage lending will keep some borrowers out of the market, we expect refinancing to remain high this year, at about 53 percent of mortgage originations. Refinance originations are projected to decrease to \$1.0 trillion in 2008 but will be buoyed by borrowers, (especially those with upwardly-adjusting ARMs), taking advantage of the still-low fixed-rate mortgage rates. The ARM share of the number of mortgage applications is expected to increase somewhat over the next several quarters from February's level of about 14 percent due to widening spreads between fixed- and adjustable-rate mortgages and somewhat higher fixed-rate mortgage rates.
- *Mortgage Debt Outstanding.* According to the Federal Reserve's latest *Flow of Funds* report, single-family mortgage debt outstanding (MDO) growth slowed to 6.7 percent year-over-year in the fourth quarter of 2007, and by 4.8 percent on a compound annual basis. The pace of growth recorded over the final three months of last year was the slowest reported in any quarter since the fourth quarter of 1997 and was pushed down by a combination of seasonal factors, weakening home sales, and declines in home prices. We expect this trend to continue, with growth in 2008 projected to slow sharply to around 2.0 percent (which would be the slowest annual pace on record). Home equity MDO growth (including loans made under home equity lines of credit and home equity loans secured by junior liens) slowed sharply in the fourth quarter, down to a compound annual rate of just 2.4 percent. Last quarter's rate of home equity MDO growth was the slowest recorded since the final quarter of 2001.

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Economics and Mortgage Market Analysis

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**Economic and Mortgage Market Forecast: March 2008**

	07.1	07.2	07.3	07.4	08.1	08.2	08.3	08.4	09.1	09.2	09.3	09.4	2006	2007	2008	2009
<b>Macroeconomic Variables</b>																
Real GDP (%) (chain-weight)	0.6	3.8	4.9	0.6	<b>0.2</b>	<b>0.9</b>	<b>2.1</b>	<b>2.3</b>	<b>2.7</b>	<b>2.7</b>	<b>2.8</b>	<b>2.8</b>	2.6	2.5	<b>1.4</b>	<b>2.8</b>
Unemployment Rate (%)	4.5	4.5	4.7	4.8	<b>5.0</b>	<b>5.3</b>	<b>5.4</b>	<b>5.5</b>	<b>5.5</b>	<b>5.5</b>	<b>5.4</b>	<b>5.3</b>	4.6	4.6	<b>5.3</b>	<b>5.4</b>
Consumer Price Inflation (%)	3.7	4.6	2.8	5.0	<b>4.3</b>	<b>3.3</b>	<b>2.7</b>	<b>2.4</b>	<b>2.5</b>	<b>2.4</b>	<b>2.5</b>	<b>2.0</b>	1.9	4.0	<b>3.2</b>	<b>2.3</b>
Consumer Price Inflation (% year-over-year)	2.4	2.6	2.4	4.0	<b>4.2</b>	<b>3.9</b>	<b>3.8</b>	<b>3.2</b>	<b>2.7</b>	<b>2.5</b>	<b>2.4</b>	<b>2.3</b>	3.2	2.9	<b>3.8</b>	<b>2.5</b>
<b>Interest Rates</b>																
Fed. Funds (%)	5.26	5.25	5.07	4.50	<b>3.17</b>	<b>2.07</b>	<b>1.75</b>	<b>1.75</b>	<b>1.75</b>	<b>1.92</b>	<b>2.46</b>	<b>2.96</b>	4.96	5.02	<b>2.18</b>	<b>2.27</b>
1 yr. T-Note (%)	5.01	4.93	4.52	3.62	<b>2.20</b>	<b>1.79</b>	<b>1.86</b>	<b>2.04</b>	<b>2.18</b>	<b>2.38</b>	<b>2.60</b>	<b>2.83</b>	4.93	4.52	<b>1.97</b>	<b>2.50</b>
10 yr. T-Note (%)	4.68	4.85	4.73	4.26	<b>3.68</b>	<b>3.69</b>	<b>3.87</b>	<b>3.96</b>	<b>4.05</b>	<b>4.14</b>	<b>4.23</b>	<b>4.31</b>	4.79	4.63	<b>3.80</b>	<b>4.18</b>
FRM Rate (%)	6.22	6.37	6.55	6.23	<b>5.89</b>	<b>5.99</b>	<b>5.99</b>	<b>6.00</b>	<b>6.02</b>	<b>6.05</b>	<b>6.08</b>	<b>6.12</b>	6.41	6.34	<b>5.97</b>	<b>6.07</b>
ARM Rate (%)	5.47	5.55	5.68	5.55	<b>5.08</b>	<b>4.78</b>	<b>4.57</b>	<b>4.53</b>	<b>4.52</b>	<b>4.55</b>	<b>4.61</b>	<b>4.70</b>	5.53	5.56	<b>4.74</b>	<b>4.59</b>
<b>Housing and Mortgage Markets</b>																
<u>Housing Starts (thous.)</u>																
Single family	1,460	1,464	1,300	1,152	<b>1,002</b>	<b>994</b>	<b>981</b>	<b>1,002</b>	<b>1,018</b>	<b>1,029</b>	<b>1,048</b>	<b>1,075</b>	1,801	1,354	<b>995</b>	<b>1,043</b>
percent change	1,172	1,166	990	826	<b>713</b>	<b>702</b>	<b>699</b>	<b>725</b>	<b>740</b>	<b>750</b>	<b>765</b>	<b>780</b>	-14.6%	-28.6%	<b>-32.1%</b>	<b>6.9%</b>
Multifamily	288	299	310	326	<b>289</b>	<b>292</b>	<b>282</b>	<b>277</b>	<b>278</b>	<b>279</b>	<b>283</b>	<b>295</b>	336	308	<b>285</b>	<b>284</b>
New Home Sales (thous.)	853	855	730	653	<b>581</b>	<b>565</b>	<b>593</b>	<b>621</b>	<b>625</b>	<b>633</b>	<b>643</b>	<b>653</b>	1,051	774	<b>590</b>	<b>638</b>
percent change													-18.1%	-26.4%	<b>-23.8%</b>	<b>8.3%</b>
Total Existing Home Sales (thous.)	6,363	5,870	5,457	4,997	<b>4,593</b>	<b>4,252</b>	<b>4,395</b>	<b>4,587</b>	<b>4,671</b>	<b>4,721</b>	<b>4,791</b>	<b>4,863</b>	6,478	5,652	<b>4,457</b>	<b>4,762</b>
percent change													6,478	5,652	<b>4,457</b>	<b>4,762</b>
Total Home Sales (new + existing)	7,217	6,725	6,187	5,650	<b>5,174</b>	<b>4,817</b>	<b>4,988</b>	<b>5,208</b>	<b>5,296</b>	<b>5,353</b>	<b>5,434</b>	<b>5,517</b>	7,529	6,426	<b>5,047</b>	<b>5,400</b>
percent change													-9.9%	-14.7%	<b>-21.5%</b>	<b>7.0%</b>
<u>Home Prices (NSA, thous. \$)</u>																
Median new	255.9	241.0	241.0	236.2	<b>232.2</b>	<b>228.0</b>	<b>226.7</b>	<b>222.6</b>	<b>219.1</b>	<b>215.3</b>	<b>214.9</b>	<b>212.2</b>	245.1	236.2	<b>222.6</b>	<b>212.2</b>
percent change (from year ago)	4.5%	-2.1%	2.0%	-3.6%	<b>-9.3%</b>	<b>-5.4%</b>	<b>-5.9%</b>	<b>-5.8%</b>	<b>-5.6%</b>	<b>-5.6%</b>	<b>-5.2%</b>	<b>-4.7%</b>	2.1%	-3.6%	<b>-5.8%</b>	<b>-4.7%</b>
Median total existing	213.9	223.9	221.2	207.5	<b>203.2</b>	<b>211.7</b>	<b>208.1</b>	<b>195.5</b>	<b>191.6</b>	<b>199.9</b>	<b>197.3</b>	<b>186.3</b>	219.3	207.5	<b>195.5</b>	<b>186.3</b>
percent change (from year ago)	-1.4%	-1.3%	-1.7%	-5.4%	<b>-5.0%</b>	<b>-5.4%</b>	<b>-5.9%</b>	<b>-5.8%</b>	<b>-5.7%</b>	<b>-5.6%</b>	<b>-5.2%</b>	<b>-4.7%</b>	-2.7%	-5.4%	<b>-5.8%</b>	<b>-4.7%</b>
OFHEO HPI (% change from year ago)	4.6%	3.7%	2.2%	<b>0.8%</b>	<b>-1.2%</b>	<b>-2.8%</b>	<b>-3.8%</b>	<b>-4.6%</b>	<b>-4.5%</b>	<b>-4.4%</b>	<b>-4.1%</b>	<b>-3.7%</b>	5.9%	0.8%	<b>-4.6%</b>	<b>-3.7%</b>
<u>Mortgage Originat'ns (bill. \$, 1-4 fam.)</u>																
Purchase	<b>612</b>	<b>741</b>	<b>608</b>	<b>528</b>	<b>453</b>	<b>533</b>	<b>496</b>	<b>446</b>	<b>373</b>	<b>525</b>	<b>540</b>	<b>476</b>	<b>2,761</b>	<b>2,489</b>	<b>1,928</b>	<b>1,915</b>
Refinancing	<b>274</b>	<b>376</b>	<b>340</b>	<b>258</b>	<b>184</b>	<b>247</b>	<b>248</b>	<b>218</b>	<b>170</b>	<b>256</b>	<b>255</b>	<b>219</b>	<b>1,447</b>	<b>1,247</b>	<b>897</b>	<b>900</b>
Refi Share (%)	<b>55.3%</b>	<b>49.3%</b>	<b>44.0%</b>	<b>51.1%</b>	<b>59.3%</b>	<b>53.6%</b>	<b>50.1%</b>	<b>51.2%</b>	<b>54.4%</b>	<b>51.3%</b>	<b>52.8%</b>	<b>54.1%</b>	<b>47.6%</b>	<b>49.9%</b>	<b>53.5%</b>	<b>53.0%</b>
Liquidations (bill. \$)	<b>439</b>	<b>553</b>	<b>455</b>	<b>411</b>	<b>418</b>	<b>465</b>	<b>439</b>	<b>403</b>	<b>345</b>	<b>434</b>	<b>446</b>	<b>404</b>	<b>1839</b>	<b>1857</b>	<b>1724</b>	<b>1630</b>
Mortg. Debt Outstdg. (bill. \$, 1-4 fam. 1st Lien)	9,558	9,747	9,900	10,016	<b>10,052</b>	<b>10,120</b>	<b>10,177</b>	<b>10,220</b>	<b>10,248</b>	<b>10,339</b>	<b>10,433</b>	<b>10,505</b>	9,385	10,016	<b>10,220</b>	<b>10,505</b>
% change	7.6%	8.1%	6.4%	4.8%	<b>1.4%</b>	<b>2.7%</b>	<b>2.3%</b>	<b>1.7%</b>	<b>1.1%</b>	<b>3.6%</b>	<b>3.7%</b>	<b>2.8%</b>	10.9%	6.7%	<b>2.0%</b>	<b>2.8%</b>
Mortg. Debt Outstdg. (bill. \$, 1-4 fam., 1st + 2nd Lie)	10,627	10,836	11,013	<b>11,136</b>	<b>11,175</b>	<b>11,251</b>	<b>11,315</b>	<b>11,362</b>	<b>11,394</b>	<b>11,495</b>	<b>11,599</b>	<b>11,679</b>	10,444	11,136	<b>11,362</b>	<b>11,679</b>
% change	7.2%	8.1%	6.7%	<b>4.6%</b>	<b>1.4%</b>	<b>2.7%</b>	<b>2.3%</b>	<b>1.7%</b>	<b>1.1%</b>	<b>3.6%</b>	<b>3.7%</b>	<b>2.8%</b>	11.4%	6.6%	<b>2.0%</b>	<b>2.8%</b>
ARM Share of Conventional Applications (% of #)	21.4%	19.0%	17.9%	13.1%	<b>12.9%</b>	<b>15.2%</b>	<b>15.2%</b>	<b>14.6%</b>	<b>15.0%</b>	<b>15.5%</b>	<b>15.8%</b>	<b>15.9%</b>	28.6%	17.8%	<b>14.5%</b>	<b>15.6%</b>

March 11, 2008

Notes: Interest rate forecasts are based on rates from February 29, 2008. Numbers in bold italics represent Fannie Mae Economics and Mortgage Market Analysis estimates and/or forecasts.

Source: Actuals: Census, Bureau of Labor Statistics, Federal Reserve, Mortgage Bankers Association, National Association of Realtors, OFHEO, Forecasts: Fannie Mae Economics and Mortgage Market Analysis