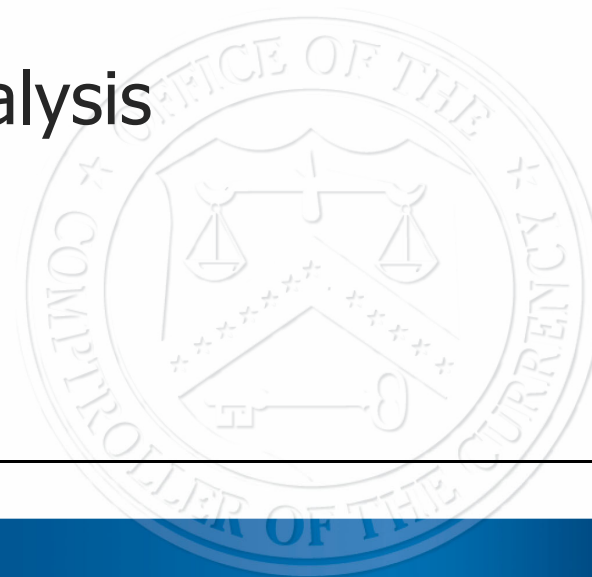


Economic Update for the Mutual Savings Association Advisory Committee



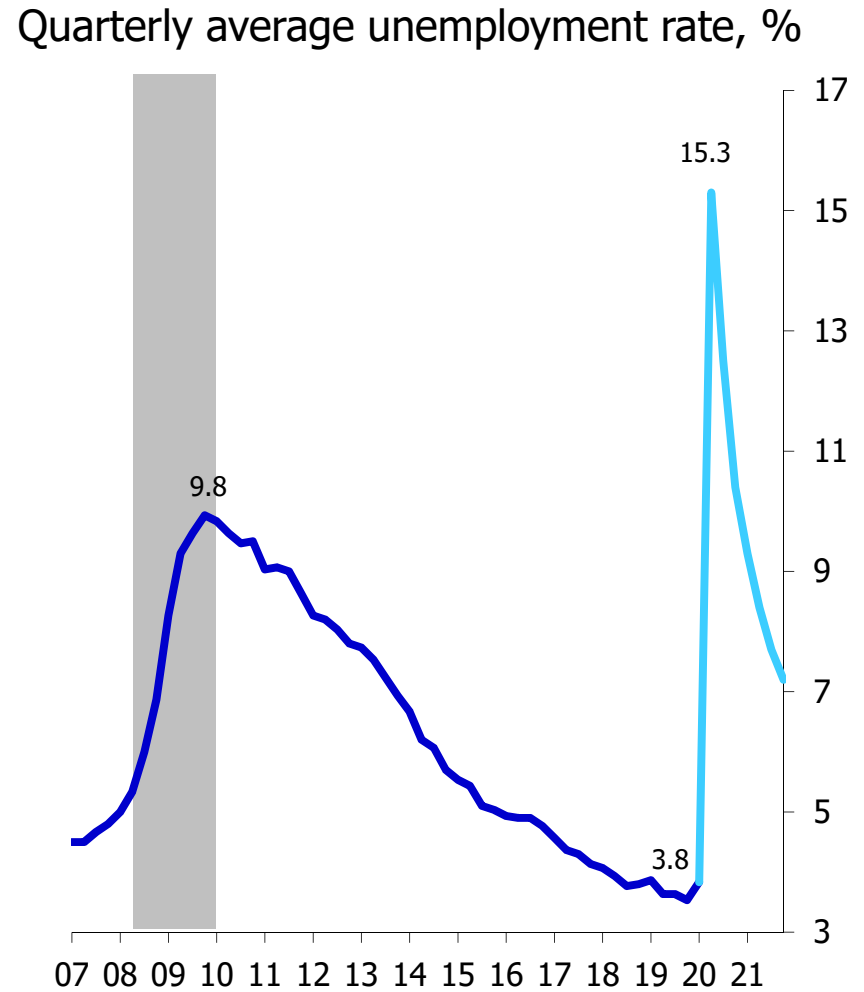
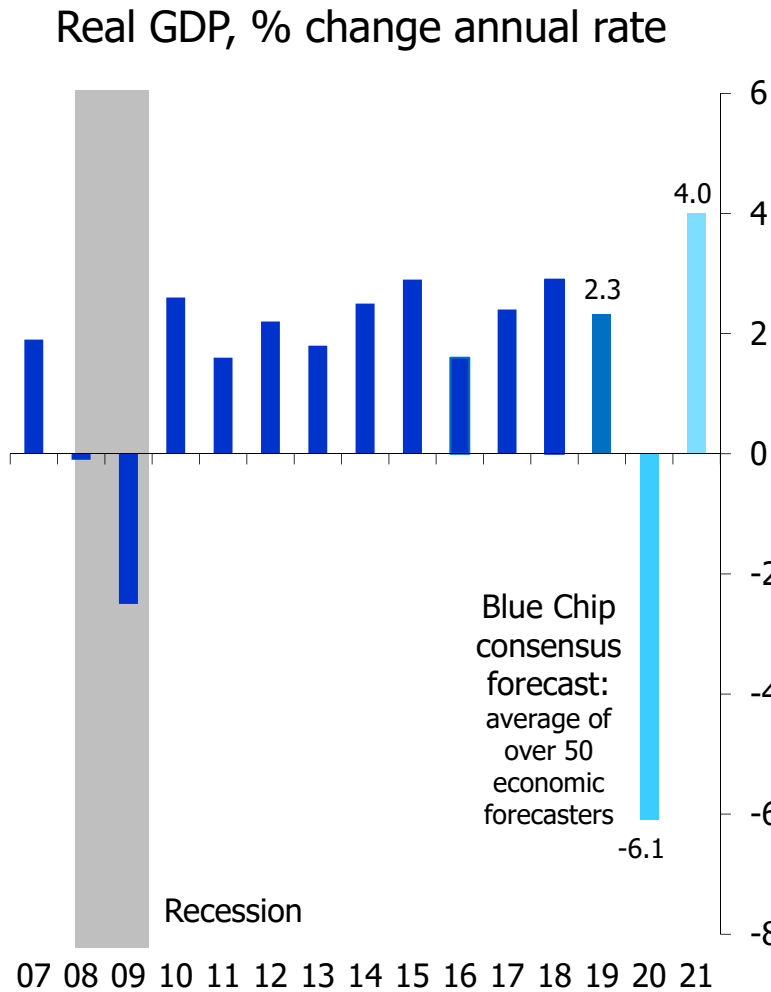
Economic & Policy Analysis
June 29, 2020



Agenda

- Economy beginning to improve; labor market recovery is years away
- Home prices grew across most metros through March 2020
 - Sharp decline in housing permits and starts
 - Minimal home price decline under baseline forecast; 10% national decline under strong COVID-19 second wave
- Mortgage market originations and home sales benefit from low rates; share of loans in forbearance declining

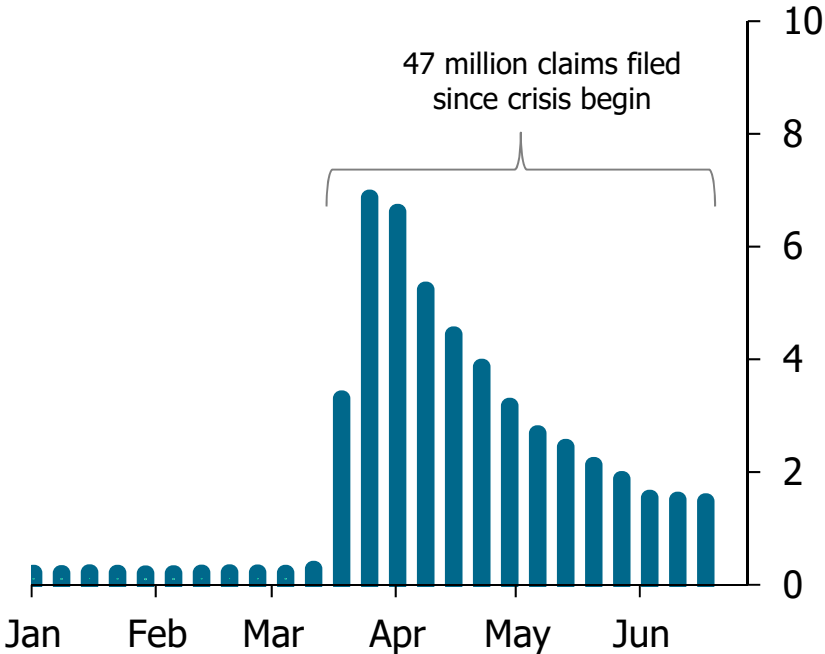
Consensus forecast is for severe recession in 2020 with trough occurring in 2Q20



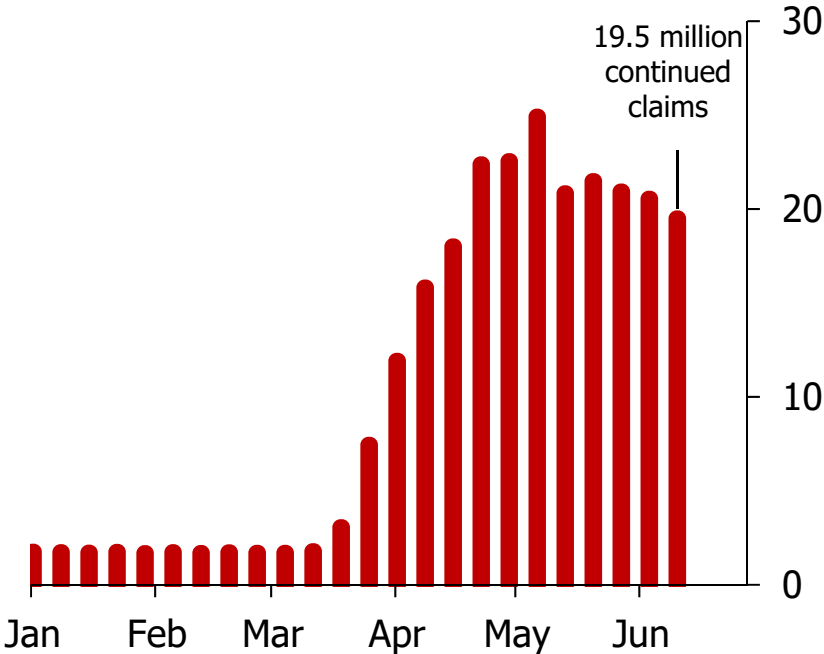
Sources: BEA, BLS (historical through 4Q:19), Blue Chip Indicators (June 2019)

Initial unemployment claims drop for 12th straight week; continued claims top 19 million

Initial unemployment claims, in millions



Continued unemployment claims, in millions

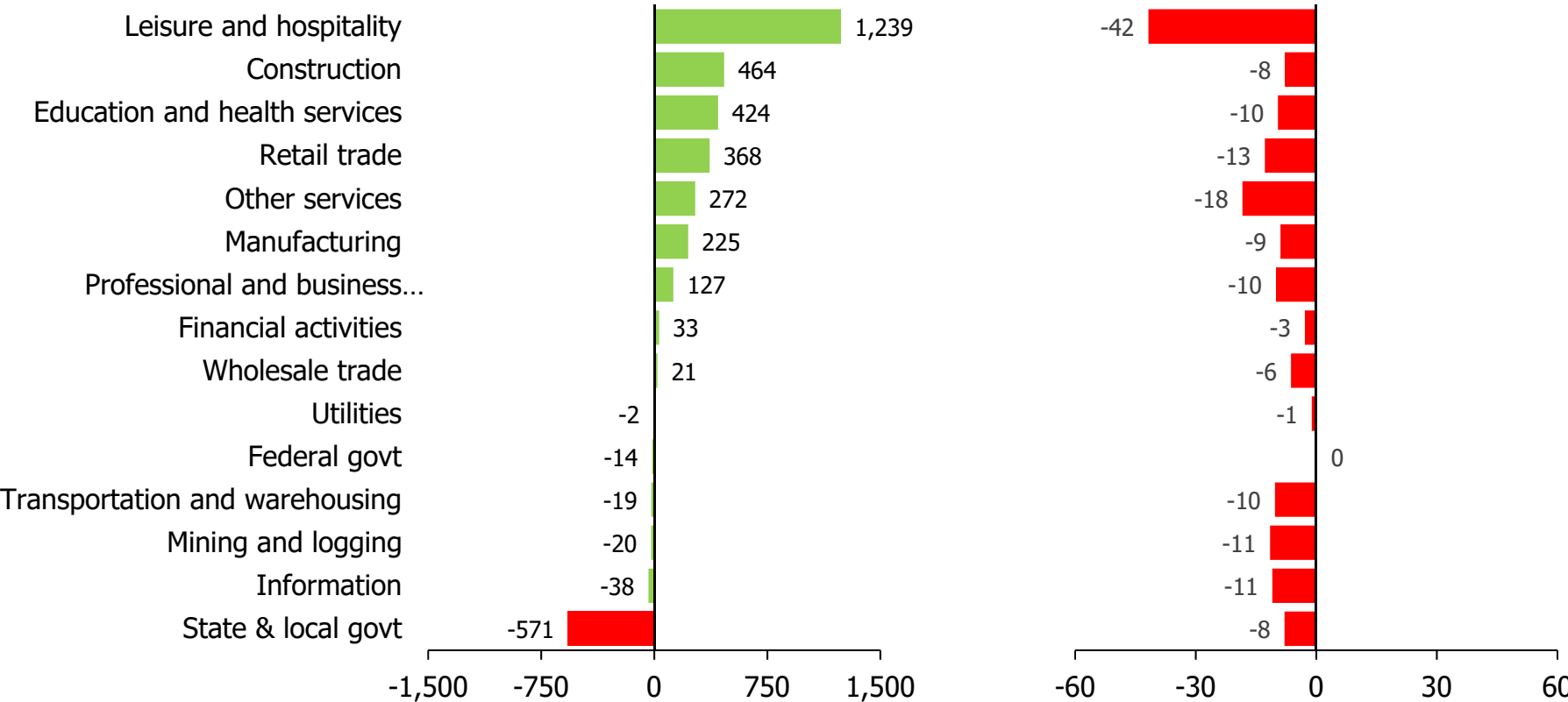


Source: Bureau of Economic Analysis (initial claims data updated through June 20, 2020 and continued claims data updated through June 13, 2020)

Employment rose sharply in May, but remains significantly down from February

April '20 to May '20 change in employment by industry, in 000's

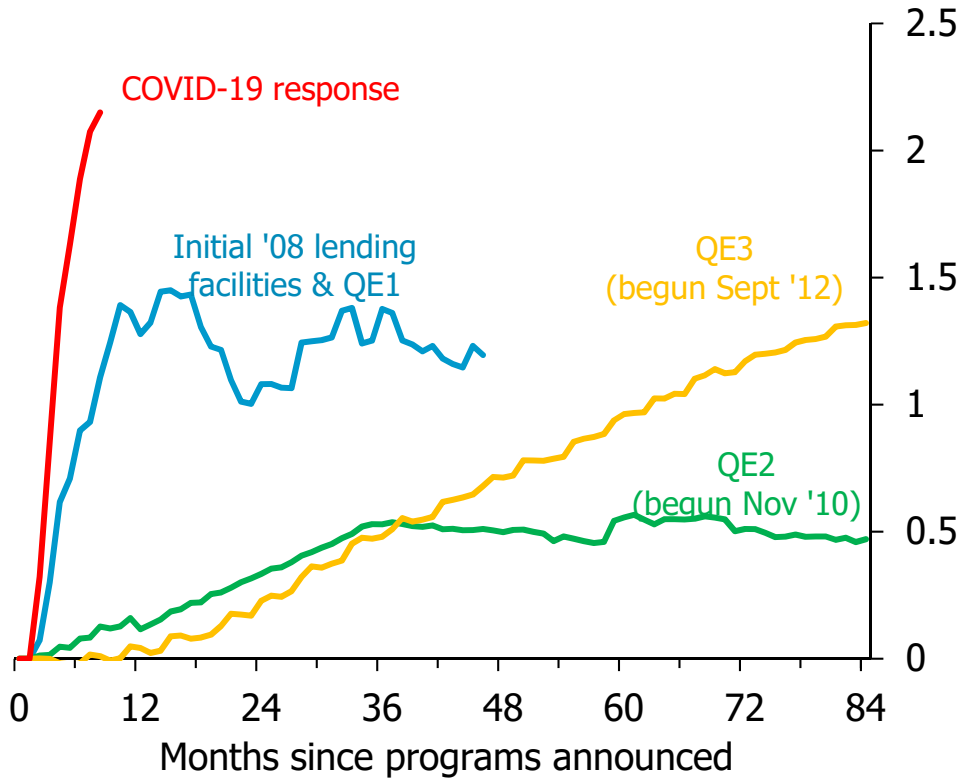
Percent change in employment from Feb '20 through May '20, %



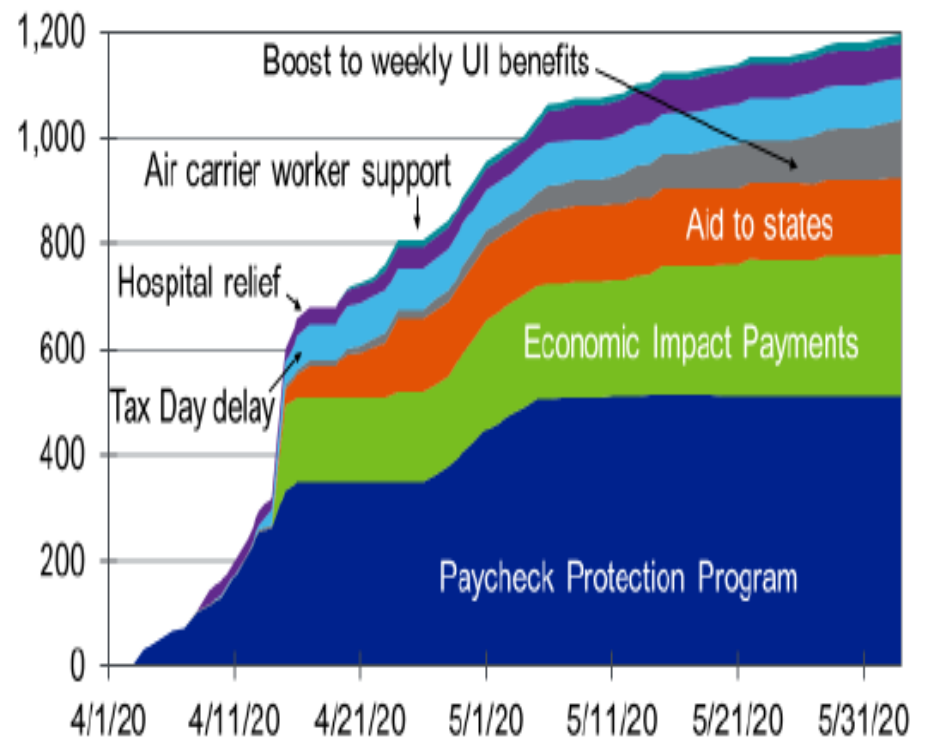
Source: Bureau of Labor Statistics (data updated June 2020)

Monetary and fiscal responses to this downturn were swift and substantial

Change in consolidated Federal Reserve balance sheet, in 2020 \$ trillions



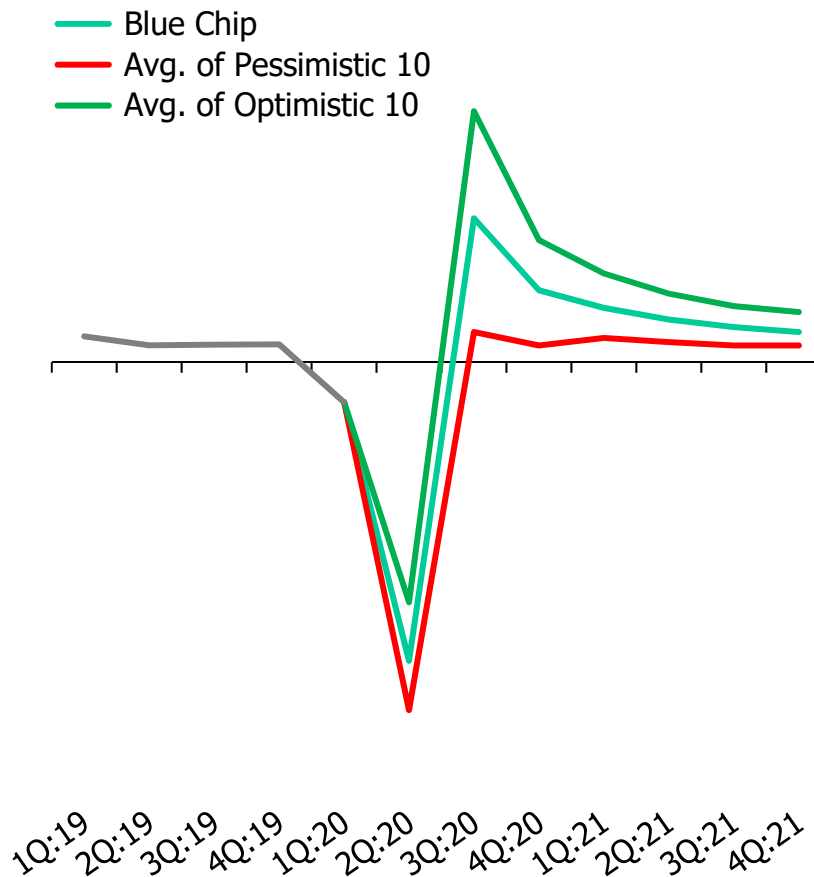
Cumulative federal fiscal pandemic relief, \$ billions



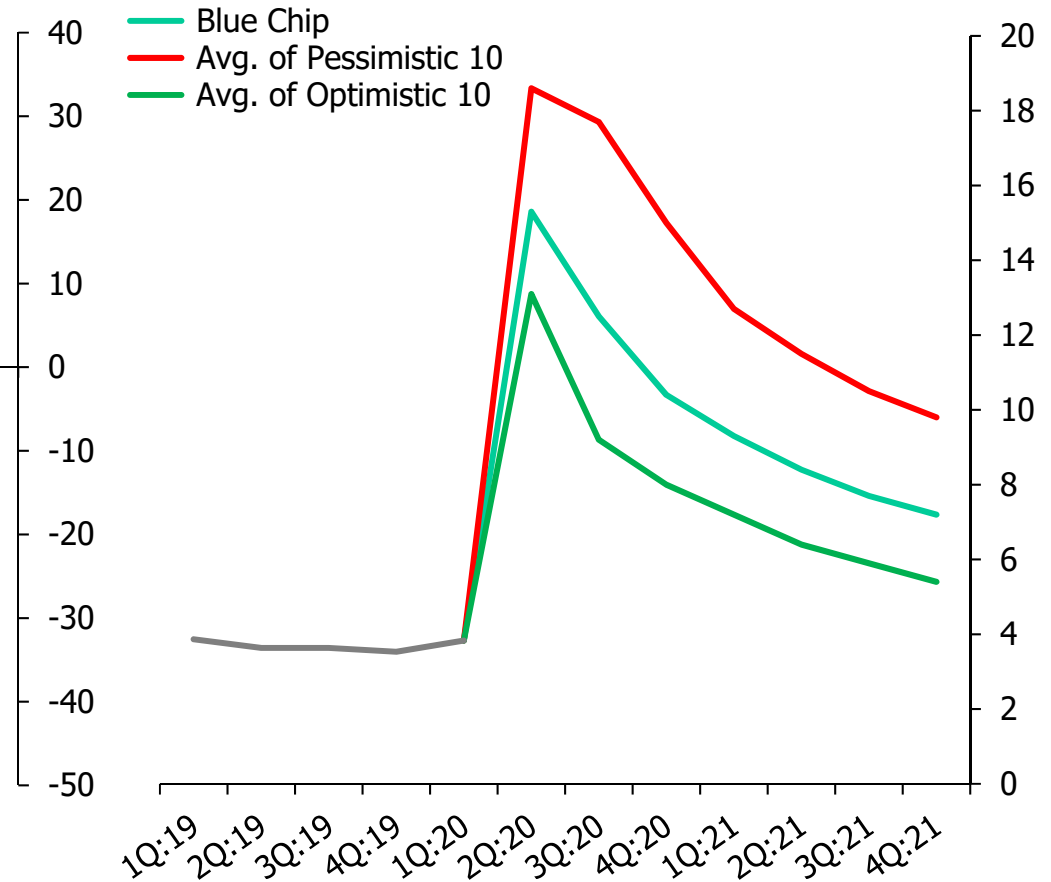
Source: Federal Reserve Board (data updated May 2020); Moody's Analytics

Wide range in forecasts of economic growth and unemployment shows uncertain recovery path

Real GDP growth, quarterly change at an annualized rate, %



U.S. unemployment rate, %

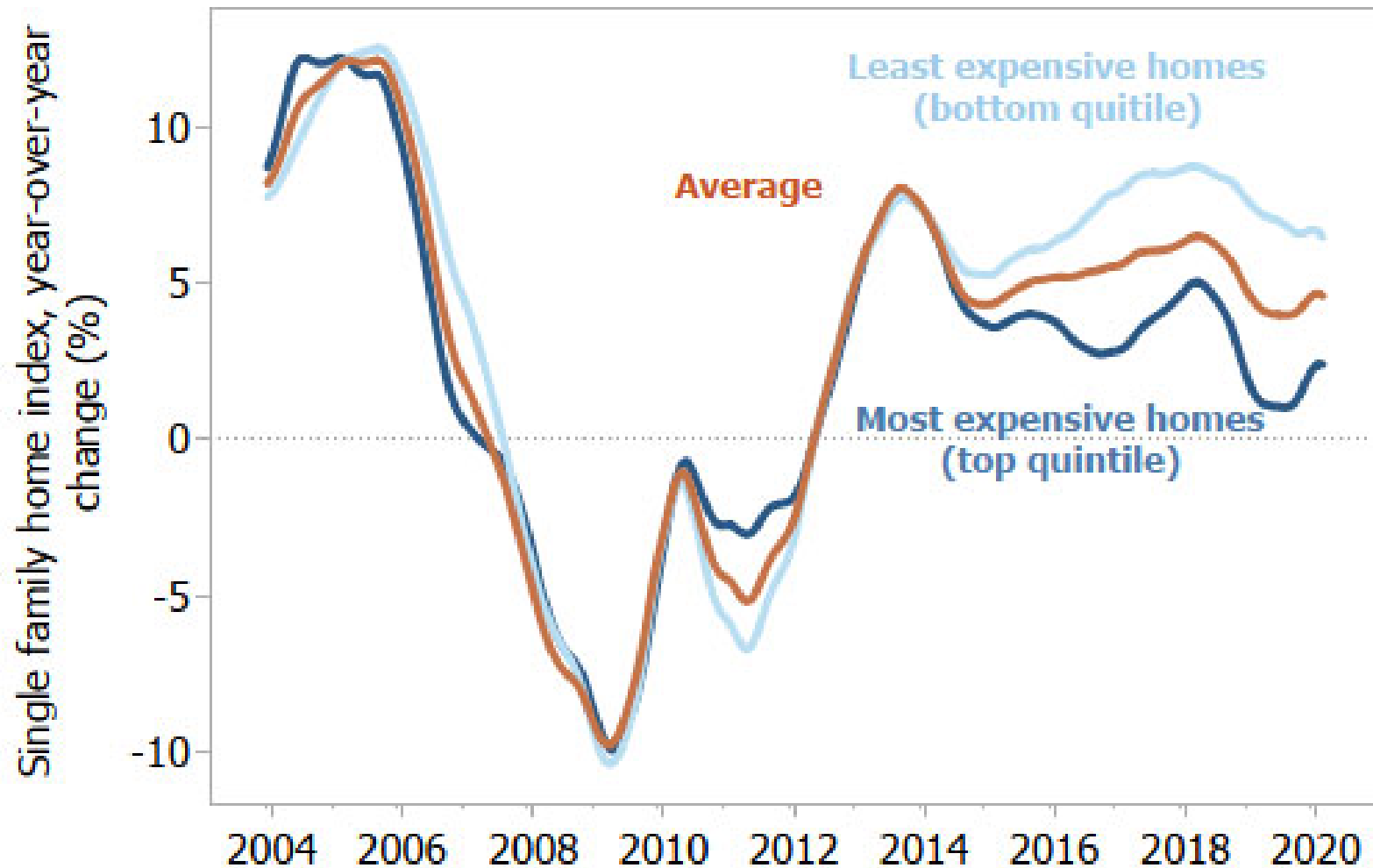


Source: Blue Chip Consensus Forecast (June 2020)

Agenda

- Economy beginning to improve; labor market recovery is years away
- Home prices grew across most metros through March 2020
 - Sharp decline in housing permits and starts
 - Minimal home price decline under baseline forecast; 10% national decline under strong COVID-19 second wave
- Mortgage market originations and home sales benefit from low rates; share of loans in forbearance declining

Single family prices continue to appreciate through March 2020 across all home tiers



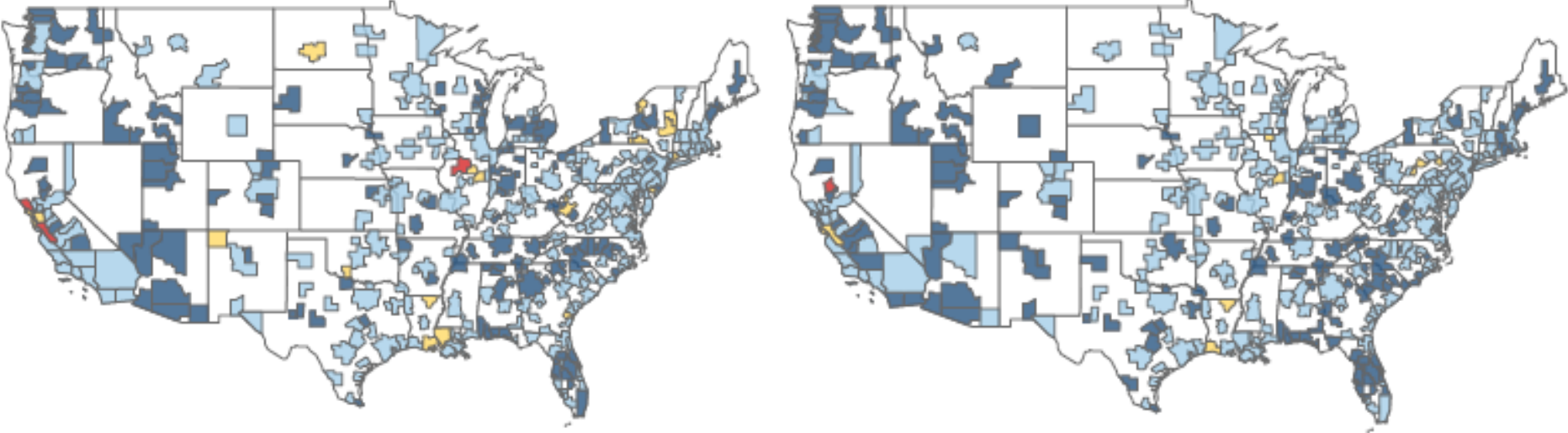
Source: Black Knight (May 2020); represents prices of non-distressed transactions for average, bottom, and top quintiles

Single family home price appreciation grew across most U.S. metros, especially in the west

Average single-family home price, y-y % change

March 2019

March 2020



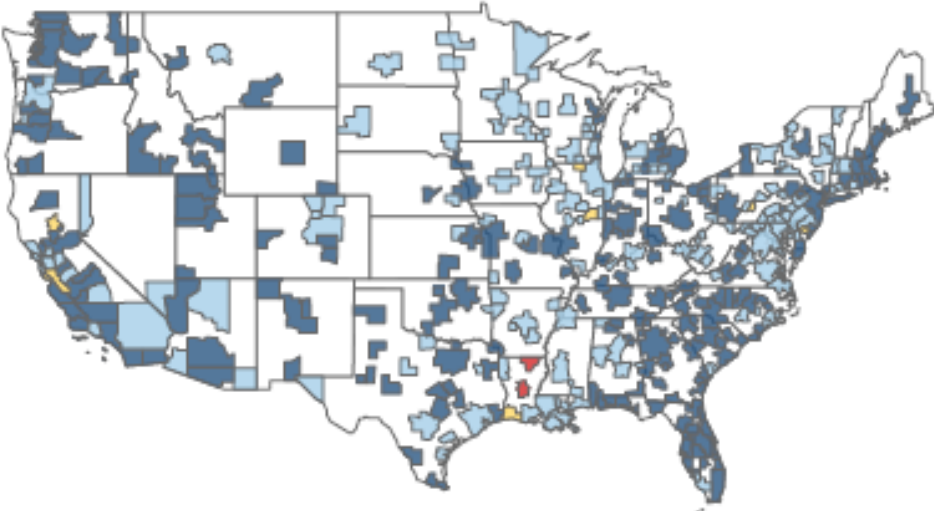
Share of metros, %	■ >1% drop	■ -1% to 1% change	■ >1% to 5% growth	■ >5% growth
March 2019	0.8	4.7	58.3	36.2
March 2020	0.3	2.4	58.3	39.1

Source: Black Knight (data through March 2020)
 Note: Graphic represents prices of non-distressed transactions.

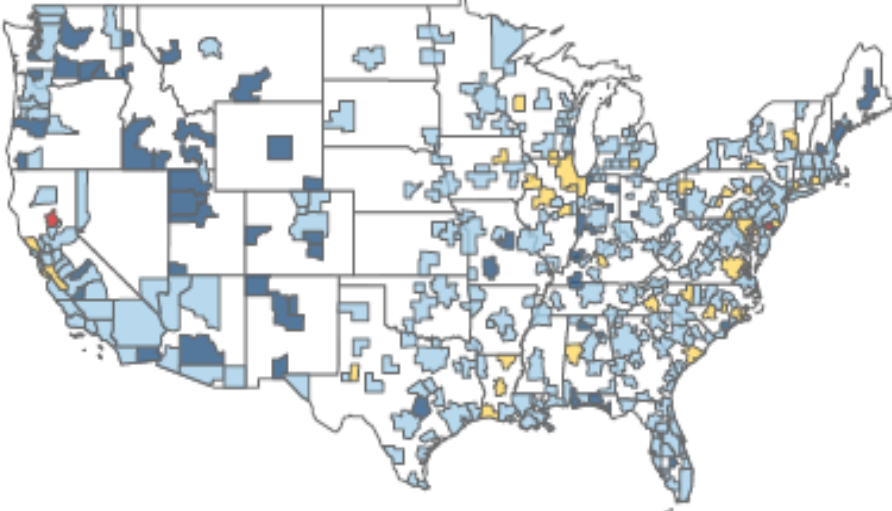
Growth in least expensive home prices outpacing the most expensive homes

Single-family home price, y-y % change March 2020

Least expensive homes



Most expensive homes

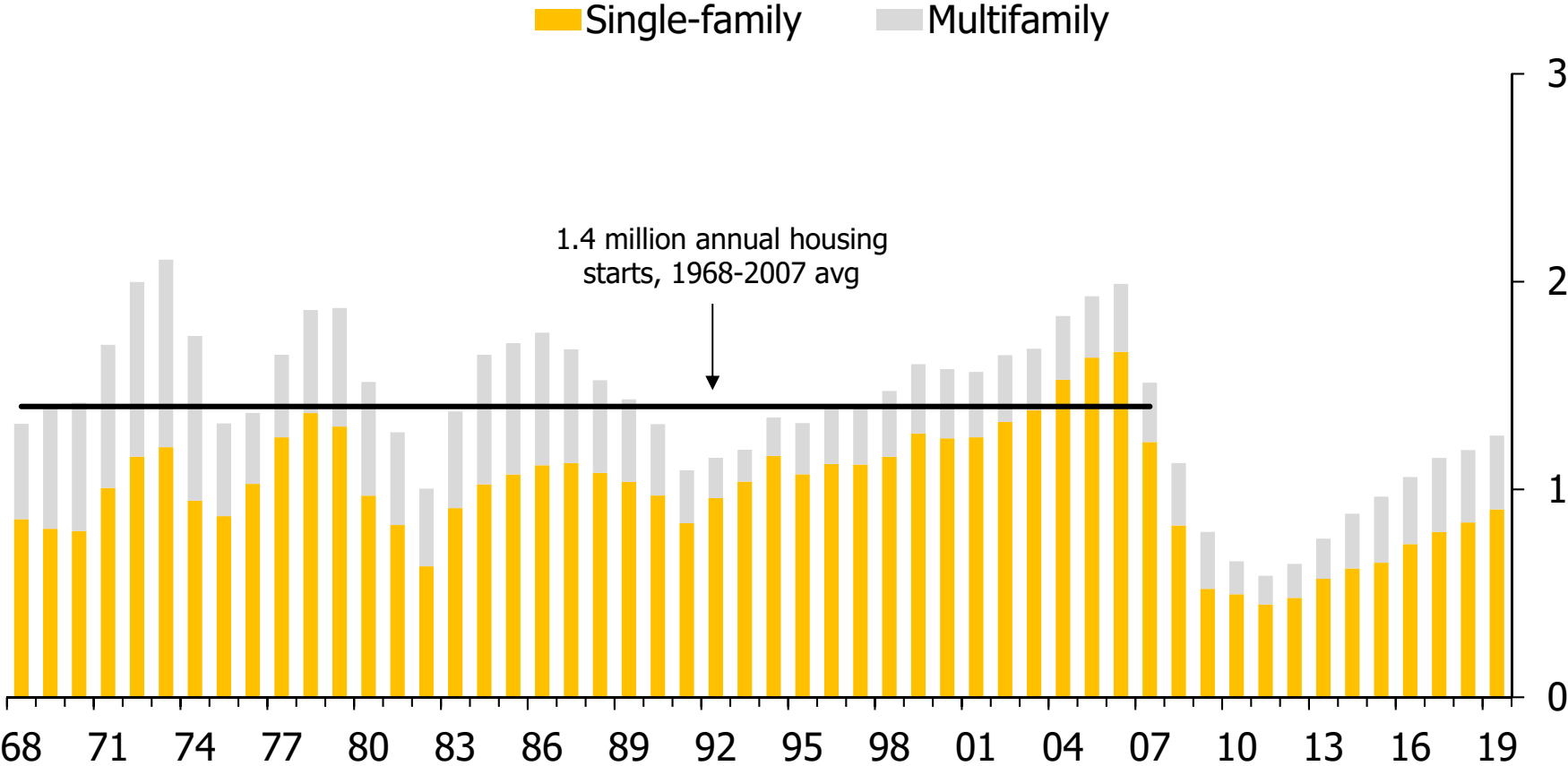


	■ >1% drop	■ -1% to 1% change	■ >1% to 5% growth	■ >5% growth
Share of metros, %				
Least expensive	0.5	2.1	40.9	56.4
Most expensive	0.5	10.0	73.8	15.8

Source: Black Knight (data through March 2020)
 Note: Graphic represents prices of non-distressed transactions.

Housing starts have risen since 2011, but continues to lag 1968 to 2007 average

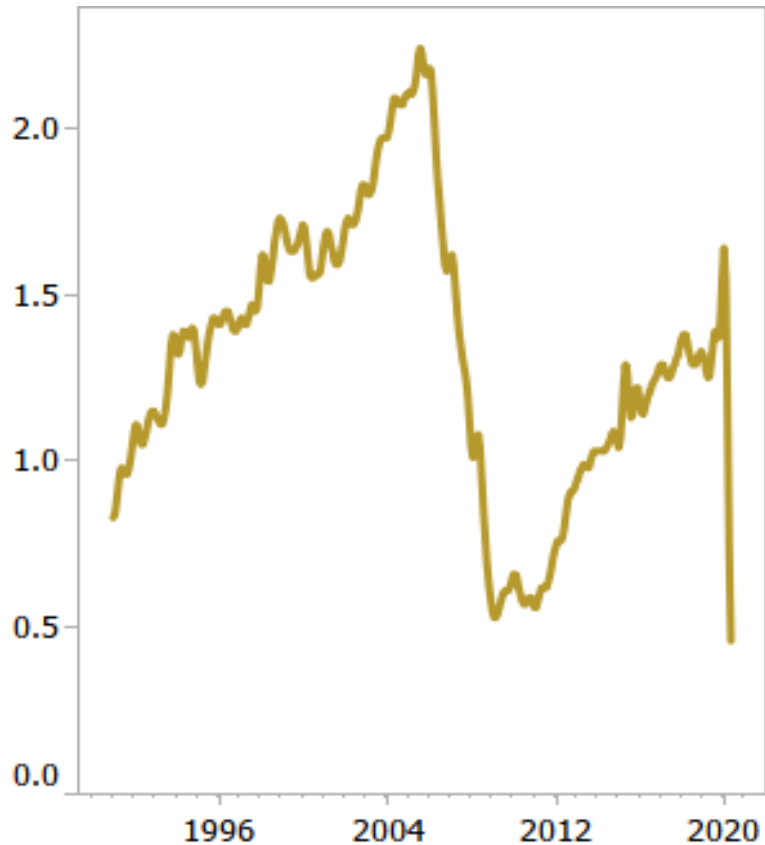
Annual U.S. housing starts, millions



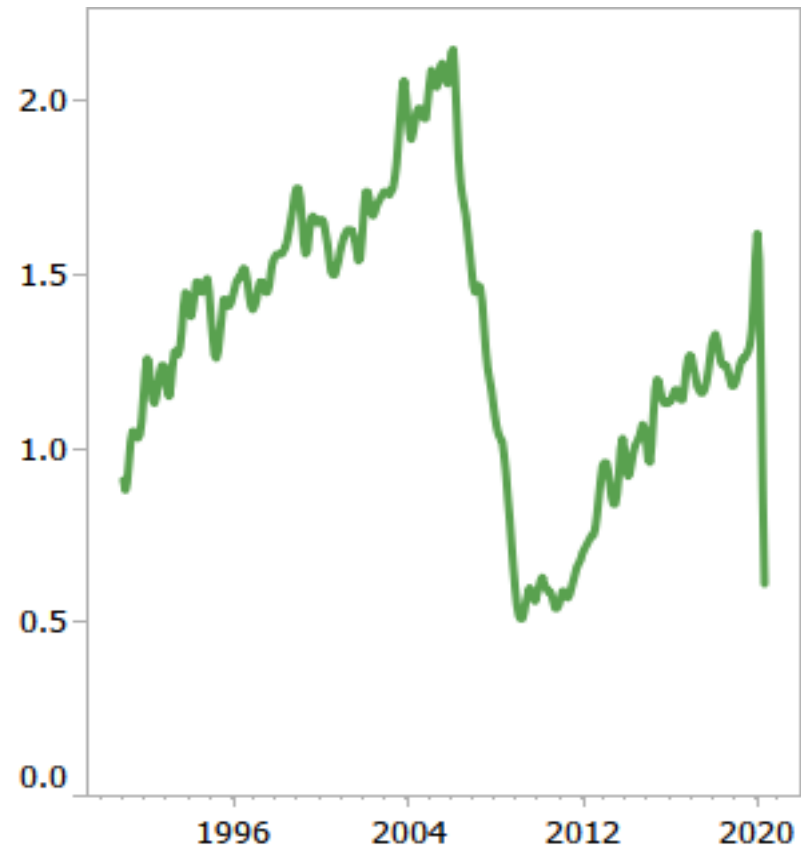
Source: Census Bureau, Moody's Analytics (SAAR, April 2020)

Residential permits plunged in April and May 2020 after starts peaked in March

Residential permits,
millions



Residential starts,
millions



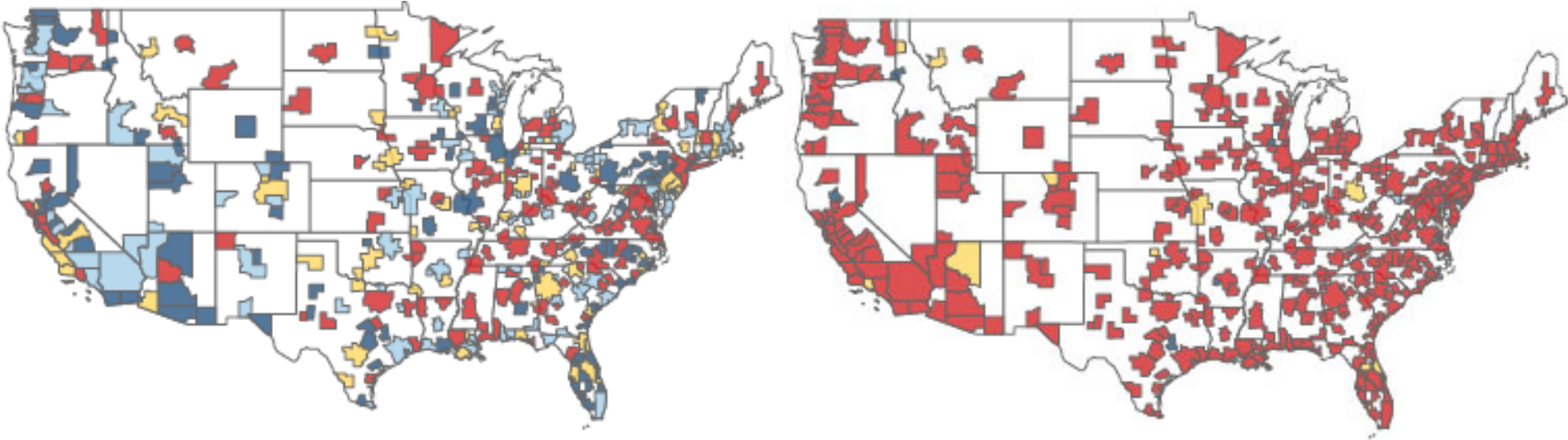
Sources: Census Bureau, Moody's Analytics (SAAR, June 2020)

Residential permits fell first in east coast metros; after 1Q:20 permits declined across the nation

Residential permits year-over-year change

1Q:2020

2Q:2020*



■ > 25% drop
 ■ -25% to 0% change
 ■ >0% to 25% growth
 ■ >25% growth

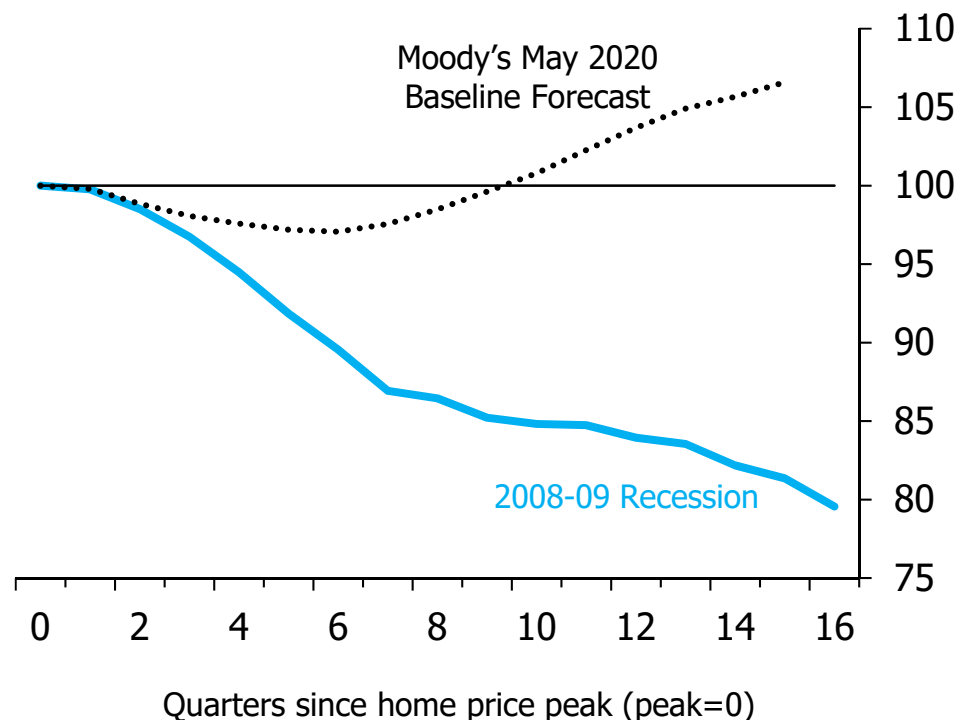
Share of metros, %	> 25% drop	-25% to 0% change	>0% to 25% growth	>25% growth
March 2020	34.4	19.2	21.9	24.5
May 2020	95.1	2.9	0.4	2.1

Sources: Census Bureau, Moody's Analytics (SAAR, June 2020)
 *2Q:2020 represents the difference between permits issued in April and May in 2019 and 2020.

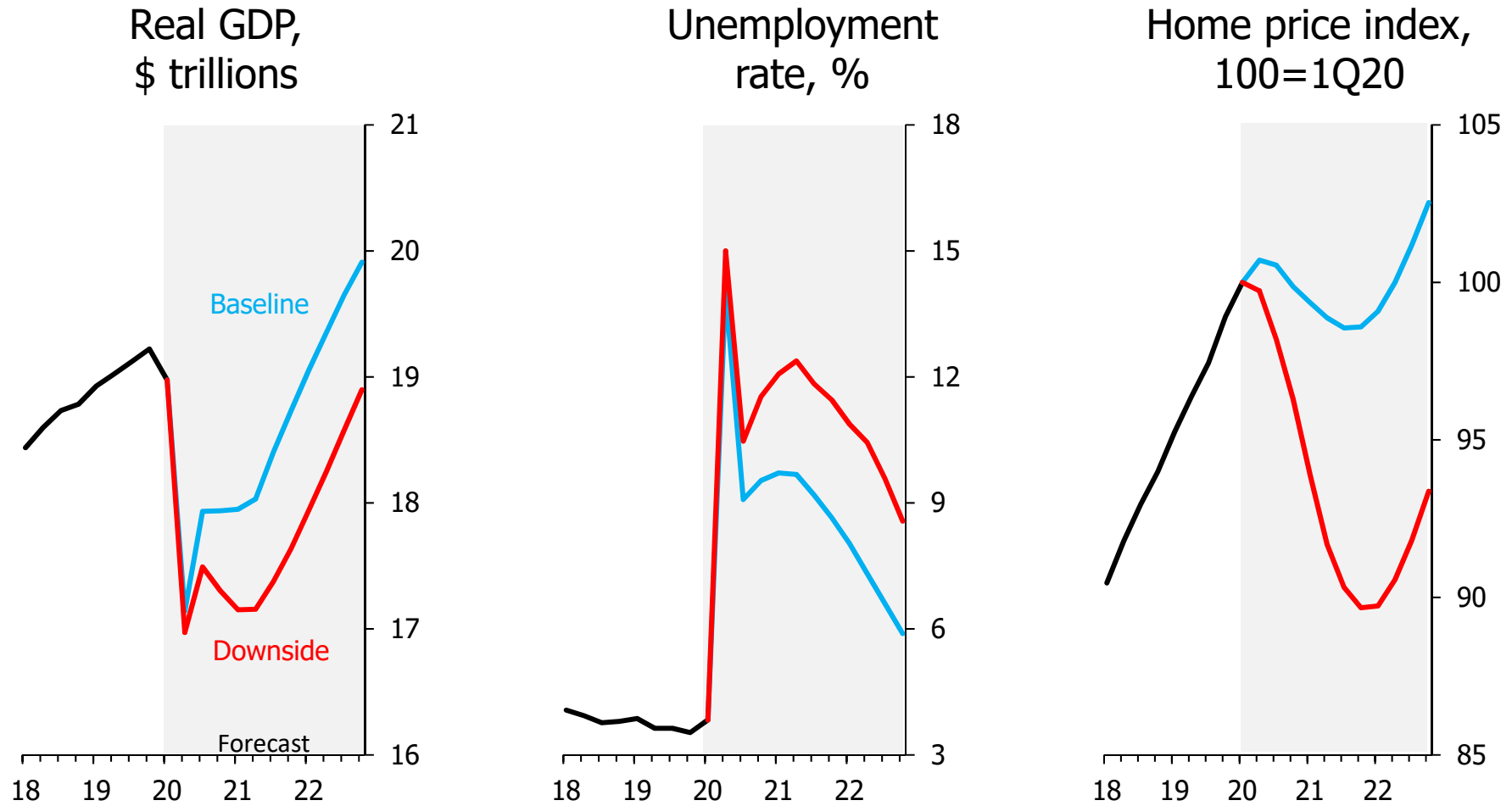
Average U.S. residential real estate prices are forecasted to fall slightly over the next year

FHFA Home Price Index, 100=Recession start

- Moody's Analytics' May 2020 baseline scenario forecasts a 3 percent national peak-to-trough home price decline, with some metros experiencing declines greater than 10 percent.
- Other forecasters are projecting a similar home price path, which contrasts with the Great Recession's steep home price decline.
- More moderate home price declines this cycle predicted due to: forbearance under the CARES Act, low mortgage rates, housing supply shortages, and tighter underwriting.



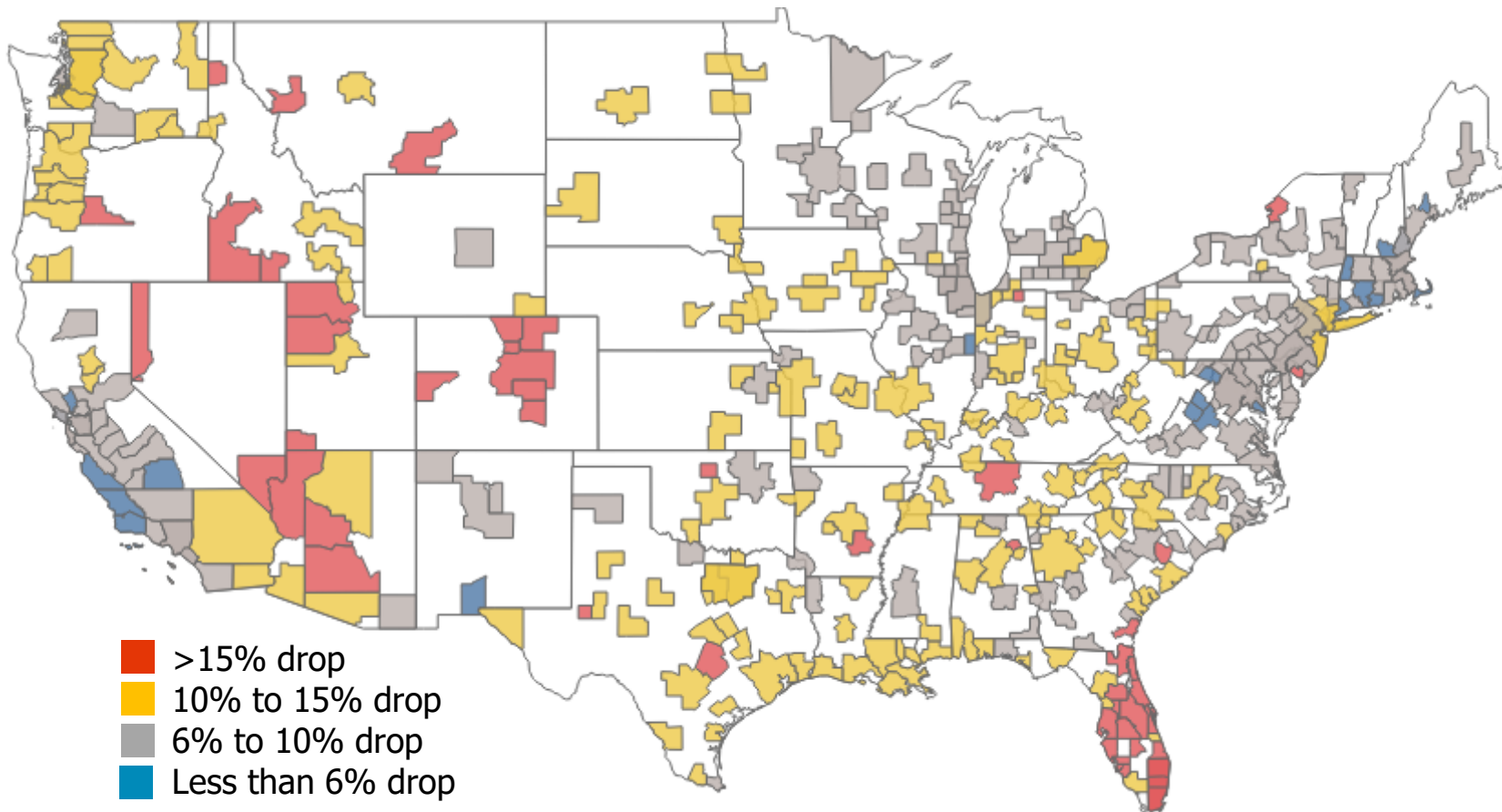
Home prices more vulnerable to strong COVID-19 second wave; 10% HPI drop under downside



Source: Moody's Analytics June 2020 baseline and S3 forecasts.

Metros in FL and the southwest expected to see larger price declines under a downside scenario

Moody's June 2020 **downside** peak-to-trough home price forecast

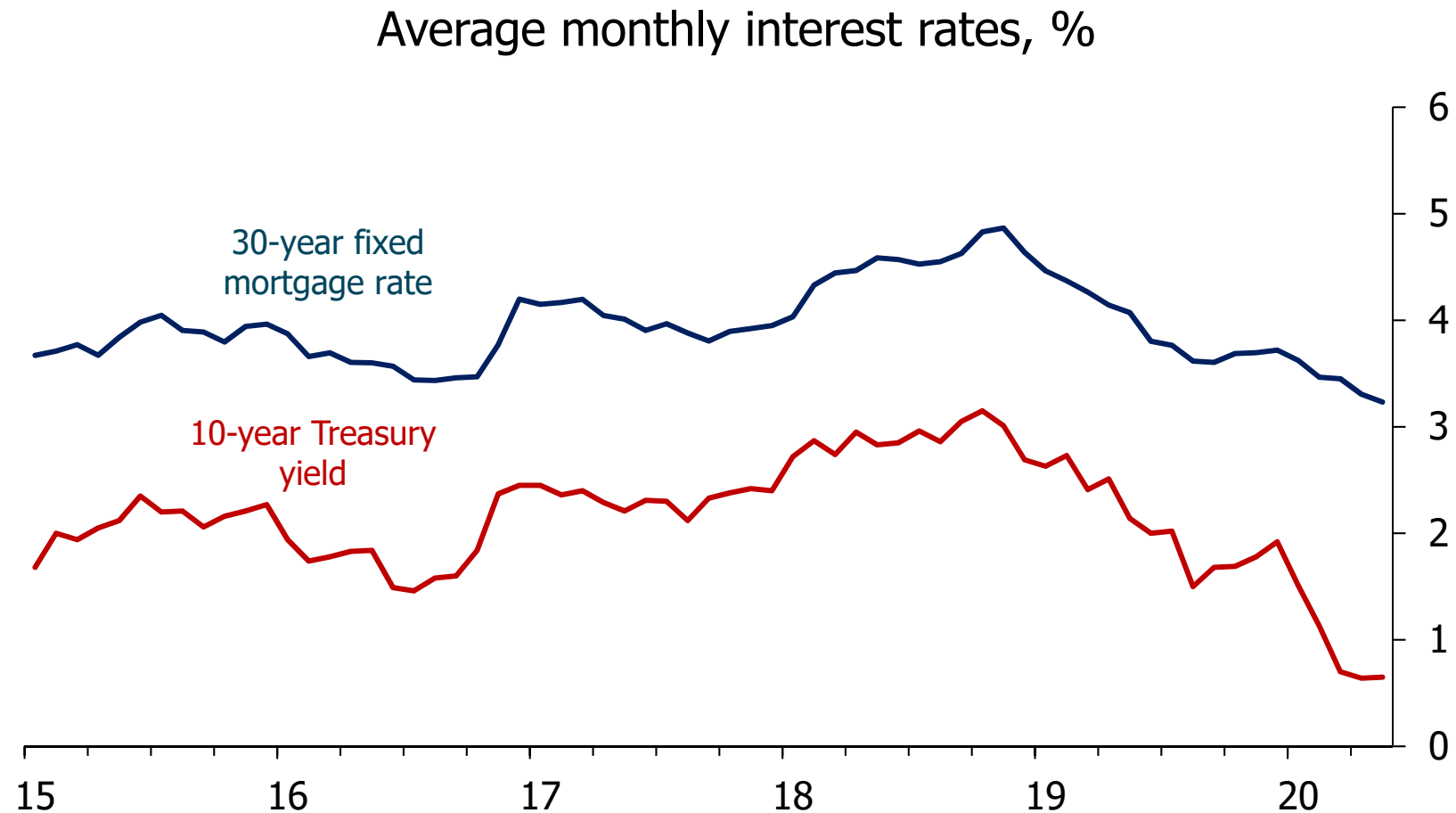


Source: FHFA all transactions
HPI, Moody's Analytics S3
forecast (June 2020)

Agenda

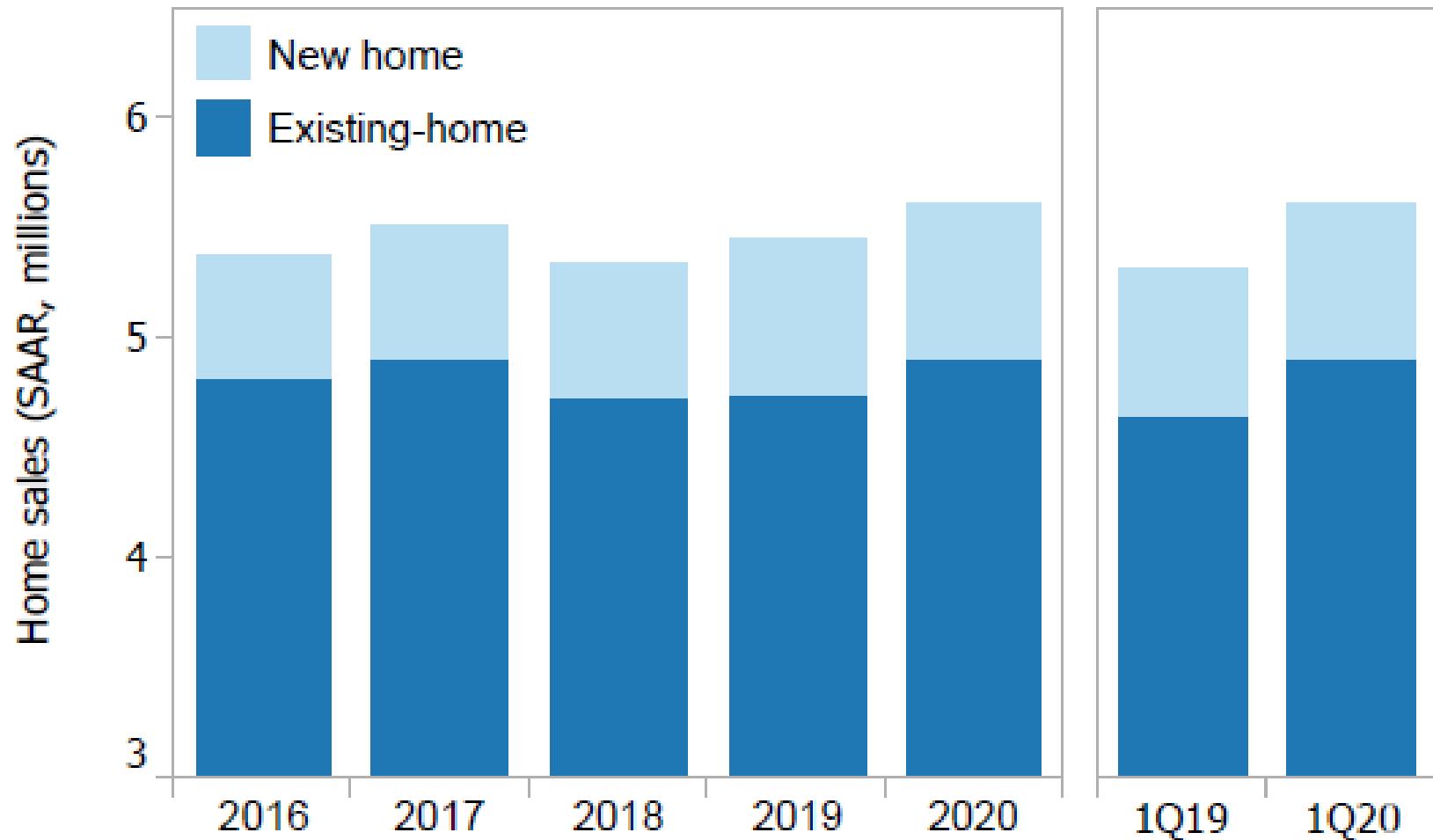
- Economy beginning to improve; labor market recovery is years away
- Home prices grew across most metros through March 2020
 - Sharp decline in housing permits and starts
 - Minimal home price decline under baseline forecast; 10% national decline under strong COVID-19 second wave
- **Mortgage market originations and home sales benefit from low rates; share of loans in forbearance declining**

Gap between the 10-year Treasury yield and 30-year fixed-rate mortgage is historically large



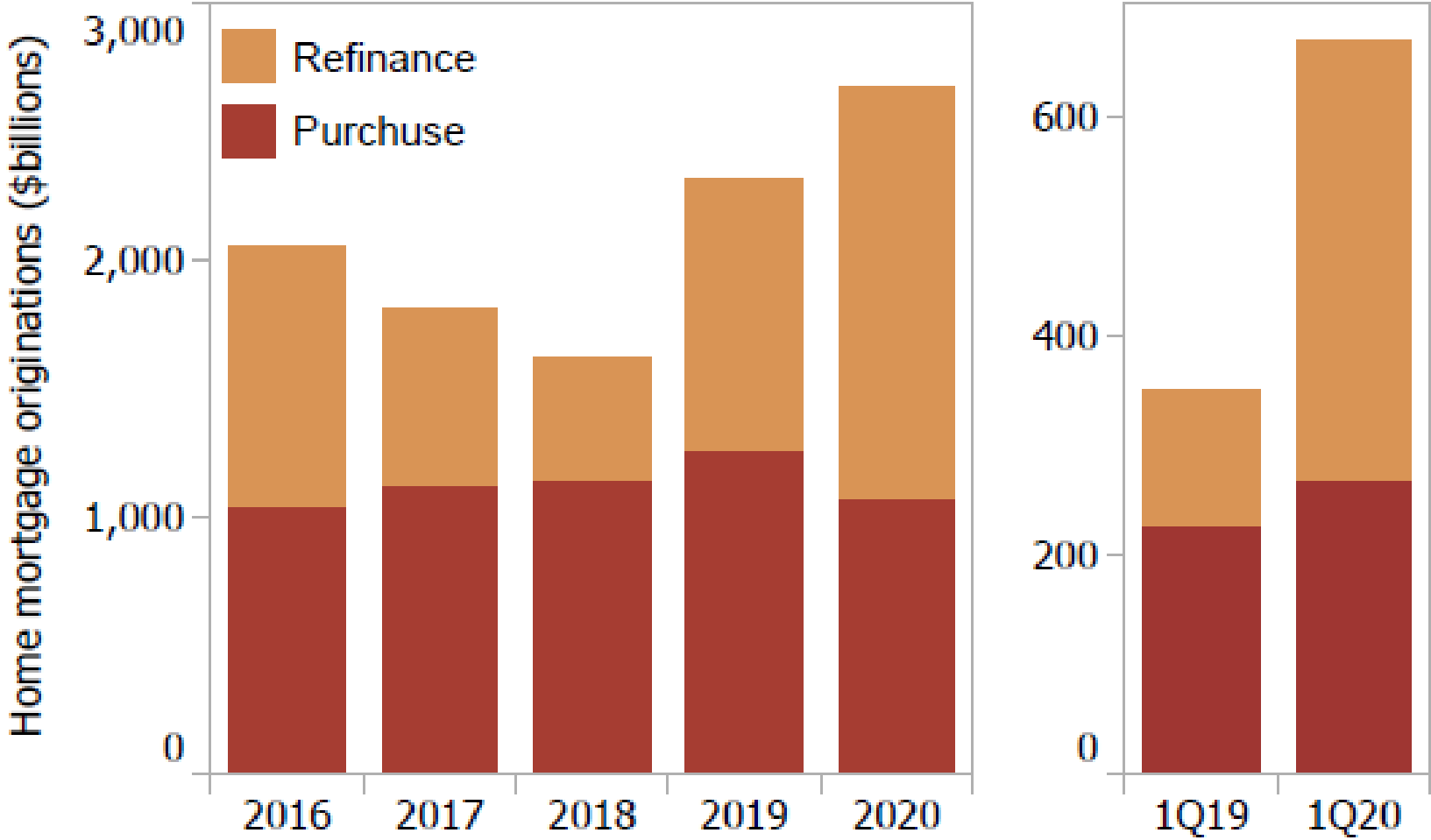
Source: Federal Reserve Board and Freddie Mac (data through May 2020)

Home sales grew in 1Q:20 as buyers benefited from low mortgage rates



Sources: Census Bureau, NAR, Moody's Analytics (June 2020)
2020 is annualized year-to-date data through 1Q:2020

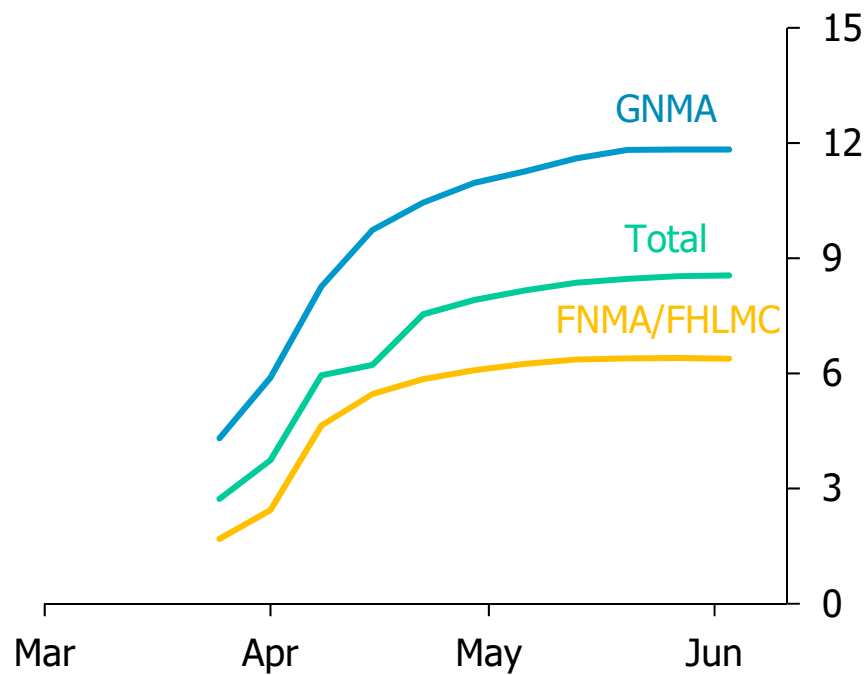
Large refi wave contributes to strong mortgage origination growth during first quarter



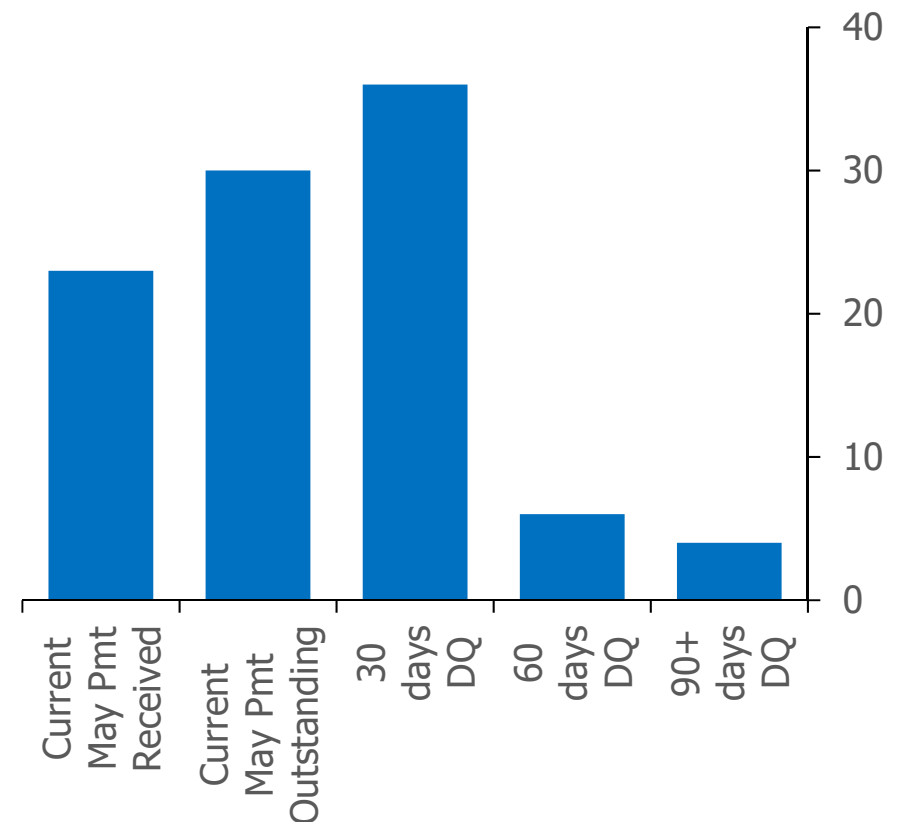
Source: Inside Mortgage Finance (June 2020)
2020 is annualized year-to-date data through 1Q:2020

New forbearance requests slow to 9% of loans; 1/4 of loans in forbearance made May payments

Share of mortgages in forbearance by program, %



Payment status of loans in active forbearance at May 26, 2020, %



Source: Mortgage Bankers Association (data updated June 16, 2020); Black Knight's McDash Flash Forbearance Tracker (data as of May 26, 2020)

Summary

- Economy expected to improve in future quarters barring a strong second wave of COVID-19
- Home permits and sales hit bump this spring, but expected to rebound; major home price declines are not expected
- Lower rates boost mortgage finance market; share of loans in forbearance continues to slow