



Freddie Mac February 2017 Outlook

February 28, 2017

Reflation and the Housing Market

MCLEAN, VA--(Marketwired - Feb 28, 2017) - [Freddie Mac](#) (OTCQB: FMCC) released today its monthly [Outlook](#) for February looking at the potential impact rising inflation could have on the housing and mortgage markets under various scenarios as markets prepare for the start of the spring homebuying season.

Outlook Highlights

- Recent reports indicate that consumer price inflation is rising, reigniting the reflation debate -- are we shifting from a world of low consumer price inflation to one of moderate inflation?
- Rising inflation would have a significant impact on housing markets by driving up mortgage interest rates. There are three scenarios corresponding to higher inflation, lower inflation, and stable inflation.
- **Inflation heads higher:** Expansionary fiscal policy exceeds projections both in magnitude and speed. A large tax cut and major infrastructure bill could surprise markets and stoke a further increase in inflation. Rapidly rising interest rates have a negative impact on housing and mortgage markets causing home sales and mortgage originations to decline significantly.
- **Inflation retrenches:** Fiscal policy expansion falls short of expectations and/or is delayed leading to a lower growth and lower inflation environment. Housing and mortgage markets perform well under this scenario. Falling rates spur home sales and provide relief for prospective homeowners facing rising home prices.
- **Major changes are already baked in:** Fiscal stimulus policy passes leading to a steady rise in inflation as per expectations. Most of the short-term rate increases have been anticipated in long-term yields leading to a flattening of the yield curve. Housing takes a small step back, but the slowdown in home sales is more than offset by higher prices and a slight increase in purchase mortgage activity.

Quote: Attributed to Sean Beckett, Chief Economist, Freddie Mac.

"Which course inflation takes over the next year will have important implications for housing and mortgage markets. On balance, the risks to higher inflation outweigh lower inflation, but in our estimation, most of the reflationary factors have already been baked into current interest rates and inflation is likely to increase only modestly over the next two years.

"With the housing market on the verge of the spring home buying season, this is good news in an environment where historically low mortgage rates will help offset the pace of house price growth and lack of for-sale inventory in many markets."

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