

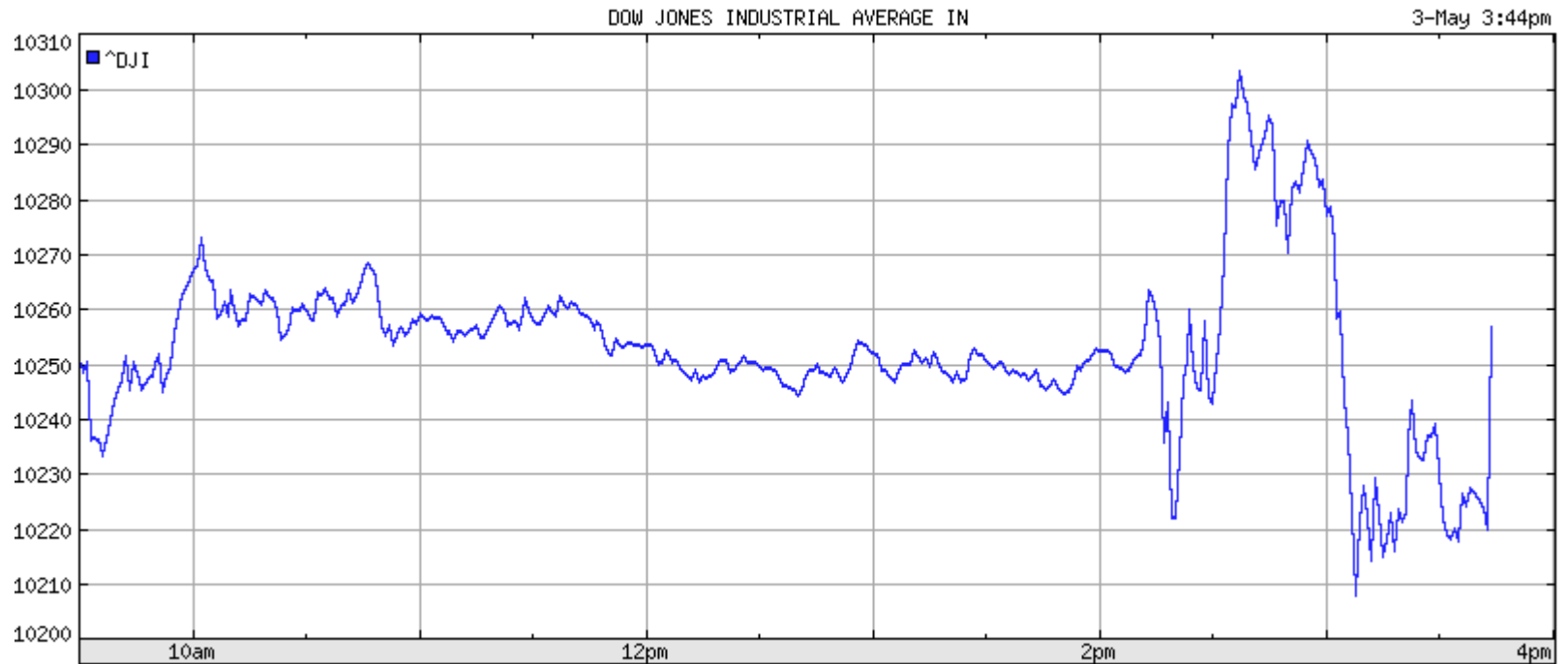
Economic Update

MBA Secondary Marketing Conference

Doug Duncan, MBA Chief Economist

May 4, 2005

DOW JONES INDUSTRIALS – MAY 3, 2005



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Press Release

Release Date: May 3, 2005

For immediate release

(Note: Corrects previous release to add sentence in second paragraph, which was dropped inadvertently.)

The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 3 percent.

The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity. Recent data suggest that the solid pace of spending growth has slowed somewhat, partly in response to the earlier increases in energy prices. Labor market conditions, however, apparently continue to improve gradually. Pressures on inflation have picked up in recent months and pricing power is more evident. **Longer-term inflation expectations remain well contained.**

The Committee perceives that, with appropriate monetary policy action, the upside and downside risks to the attainment of both sustainable growth and price stability should be kept roughly equal. With underlying inflation expected to be contained, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.

Voting for the FOMC monetary policy action were: Alan Greenspan, Chairman; Timothy F. Geithner, Vice Chairman; Susan S. Bies; Roger W. Ferguson, Jr.; Richard W. Fisher; Edward M. Gramlich; Donald L. Kohn; Michael H. Moskow; Mark W. Olson; Anthony M. Santomero; and Gary H. Stern.

In a related action, the Board of Governors unanimously approved a 25-basis-point increase in the discount rate to 4 percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.

[2005 Monetary policy](#)

Fed announces 1/4 point increase in rates.

New concern shown for spending, as high oil prices may be reining in consumers and businesses.

Mirrors remarks on job markets from March statement.

Fed keeps same language on inflation. Confusingly, the Fed's 2:15 EDT statement had omitted the bolded sentence. The Fed issued a corrected statement shortly before 4 p.m.

"Measured pace" language remains, meaning rate increases will likely continue at 1/4 point per Fed meeting.

This caveat, mirroring the March statement, means the pace of rate increases could change depending on future inflation and growth numbers.

Annual Economic Themes

2001 – The NASDAQ meltdown is a good thing (TINHPB)

2002 – The productivity gains are real and sustainable (TINHPB)

2003 – The jobless recovery has a good reason (TINHPB)

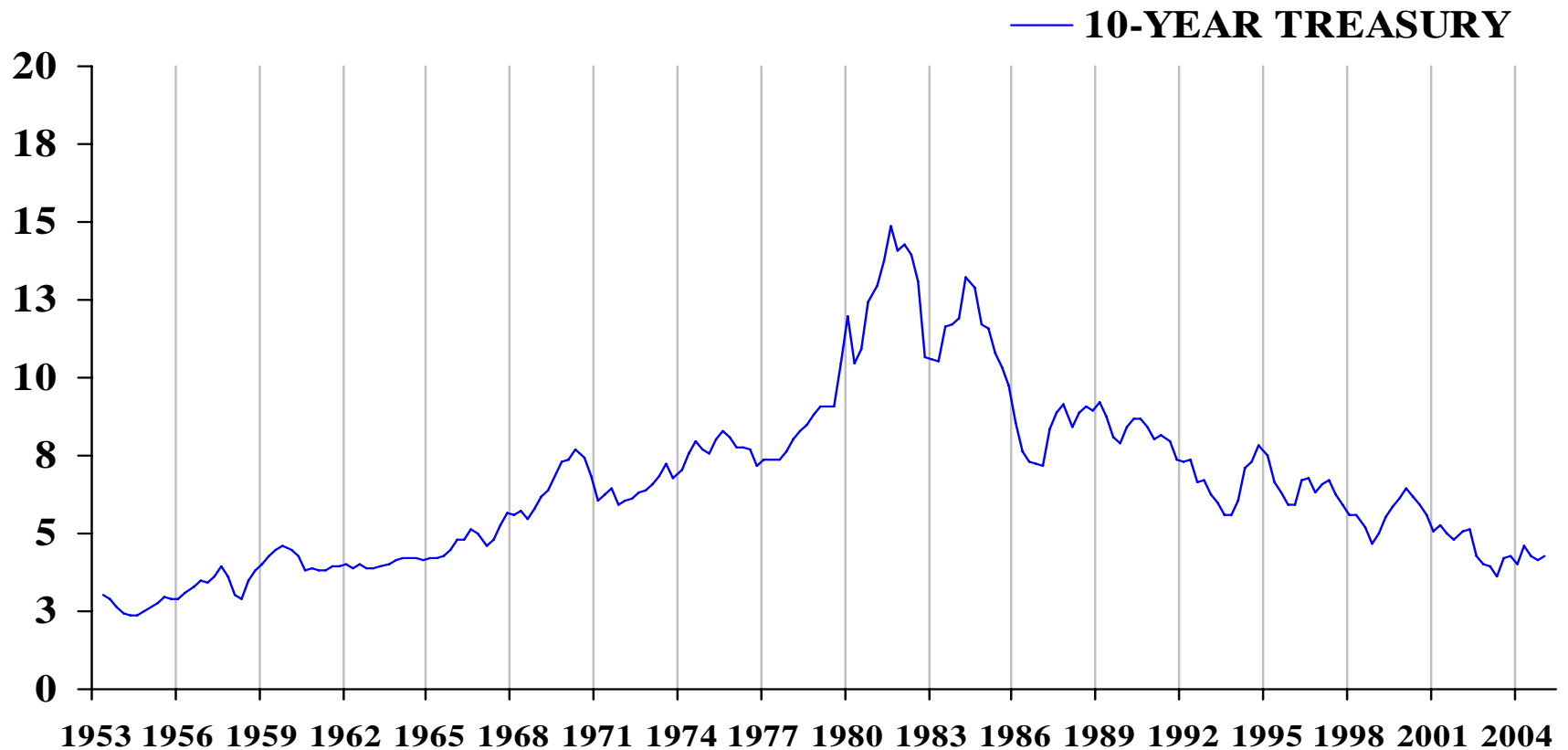
2004 – The end of disinflation/Outsourcing is not new (TINHPB)

2005 – Global issues at the margin (Don Ho)

10-Year Treasury At Constant Maturity

(Through Q1 2005)

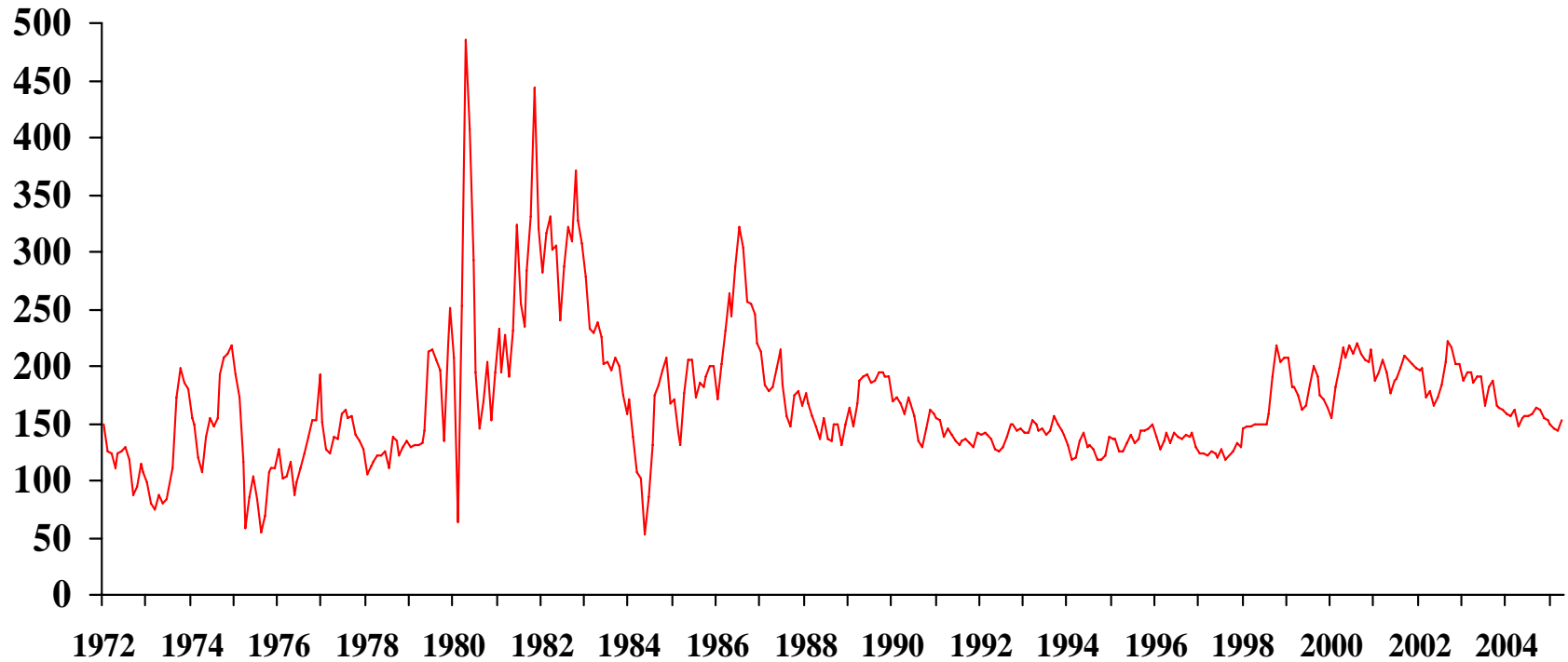
By Quarter



Source: Federal Reserve Board

Mortgage to Treasury Spread

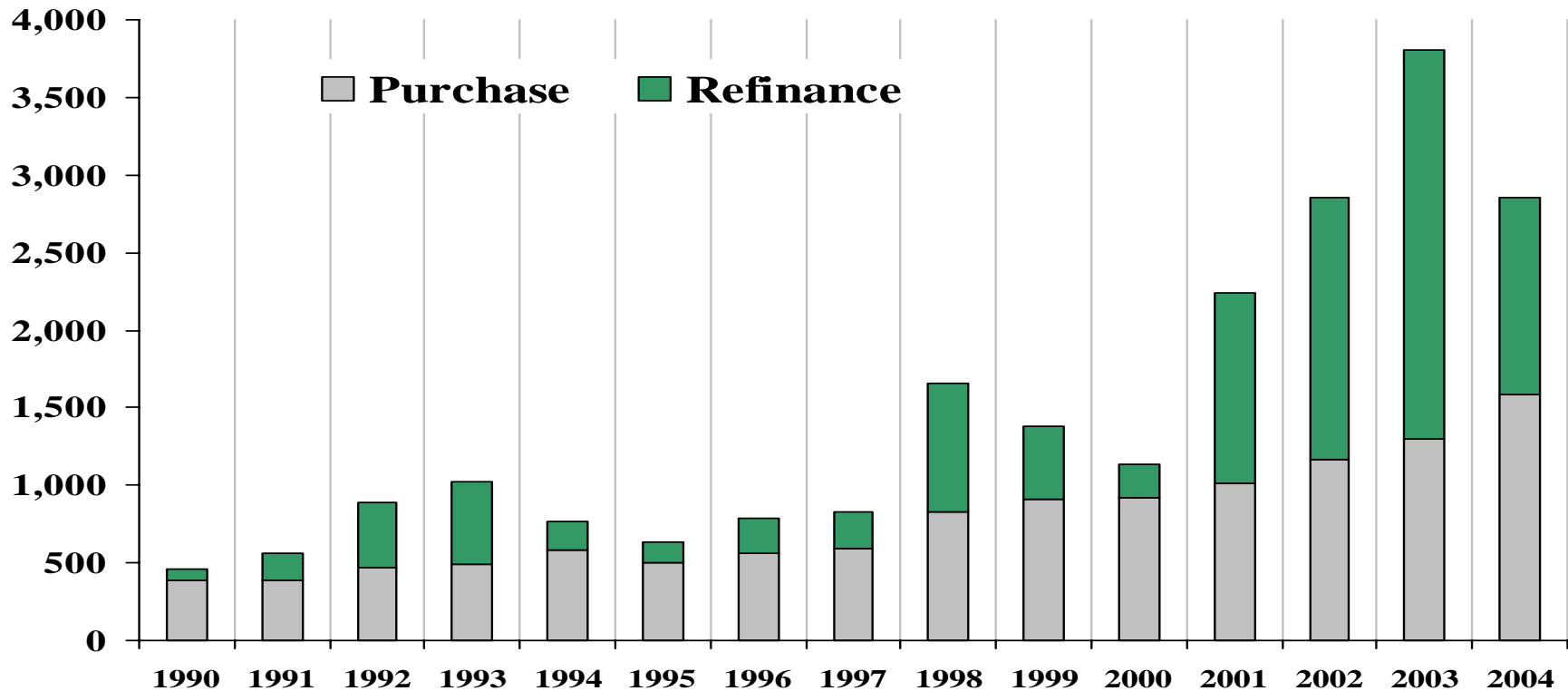
By Month



Source: Federal Reserve Board and Freddie Mac

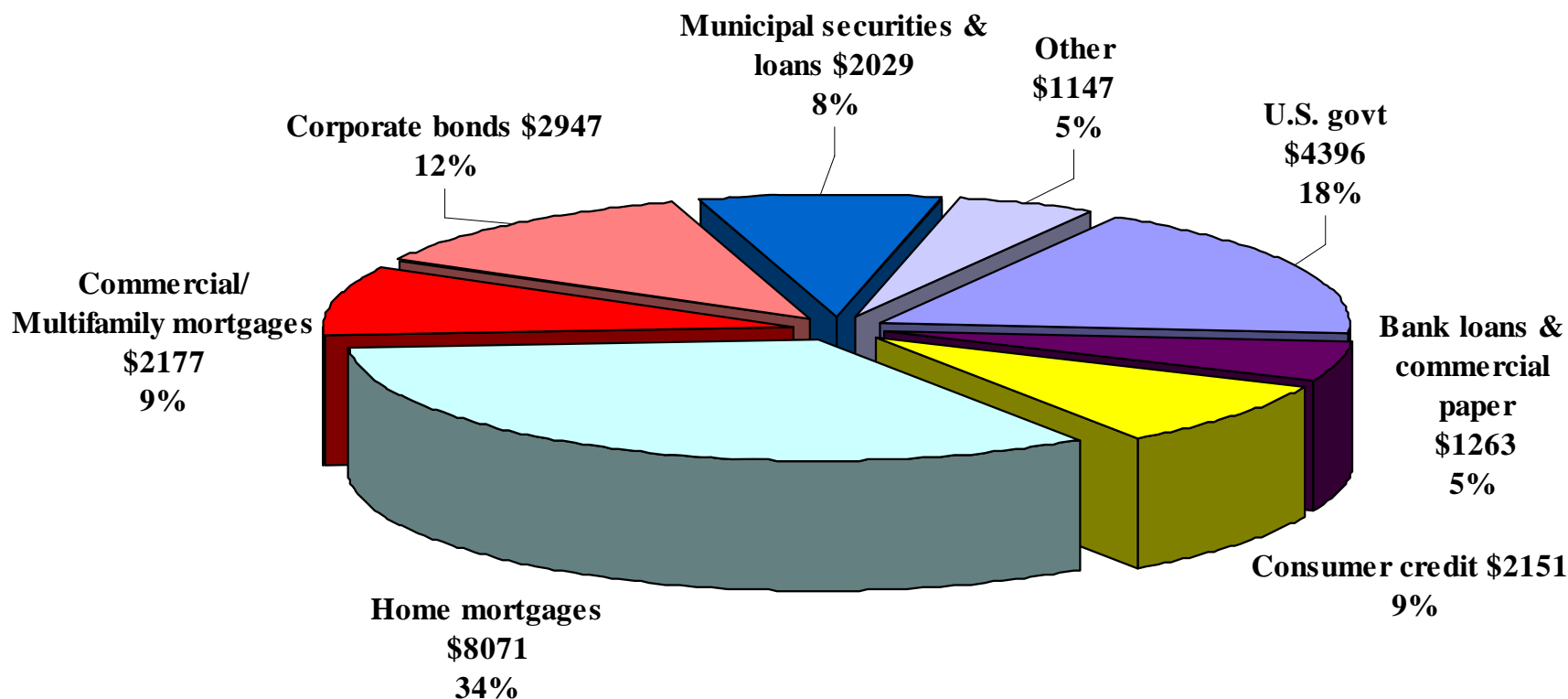
Annual Mortgage Production

Billions of Dollars



Source: Mortgage Bankers Association and
Department of Housing and Urban Development

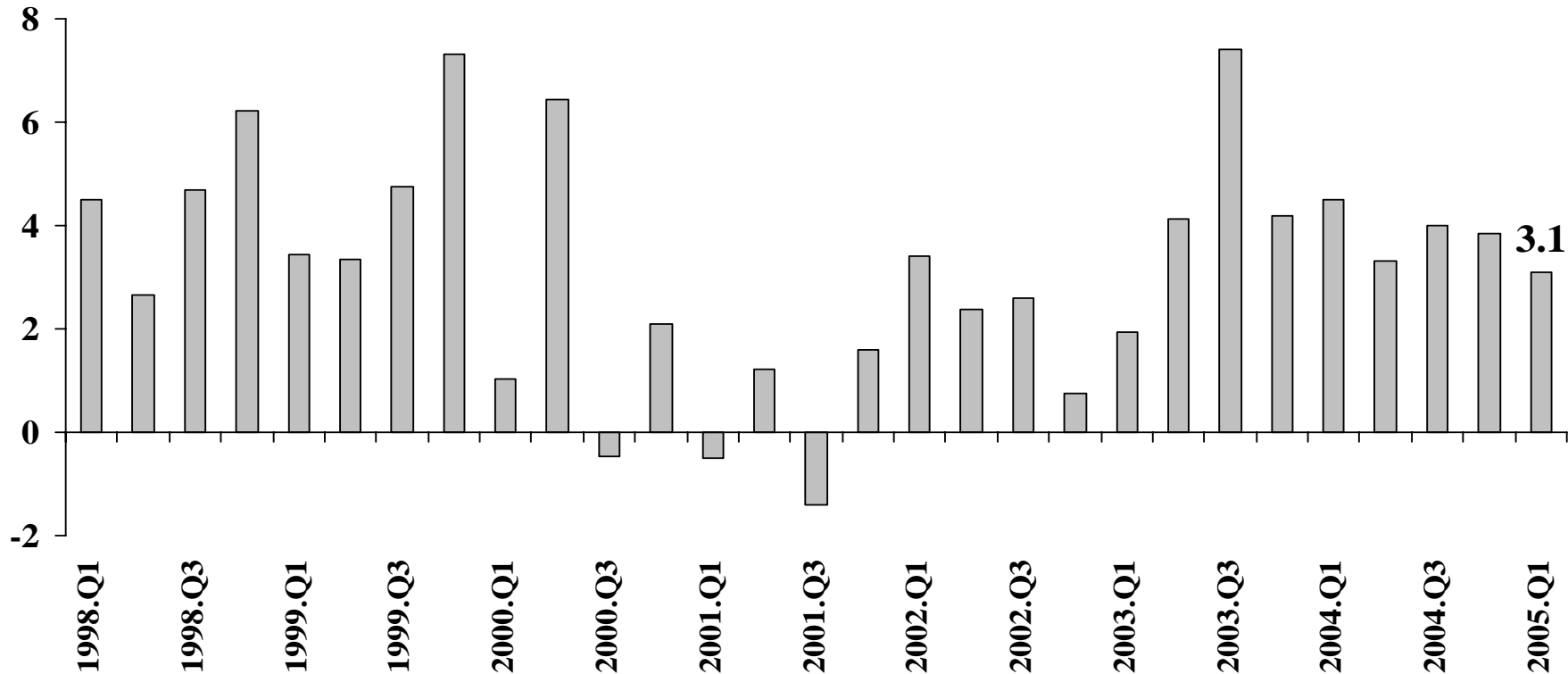
Total Credit Outstanding in the United States as of 2004:Q4 (\$ billion; percent of total)



Source: Federal Reserve Board, Z.1 Flow of Funds

Real GDP Growth

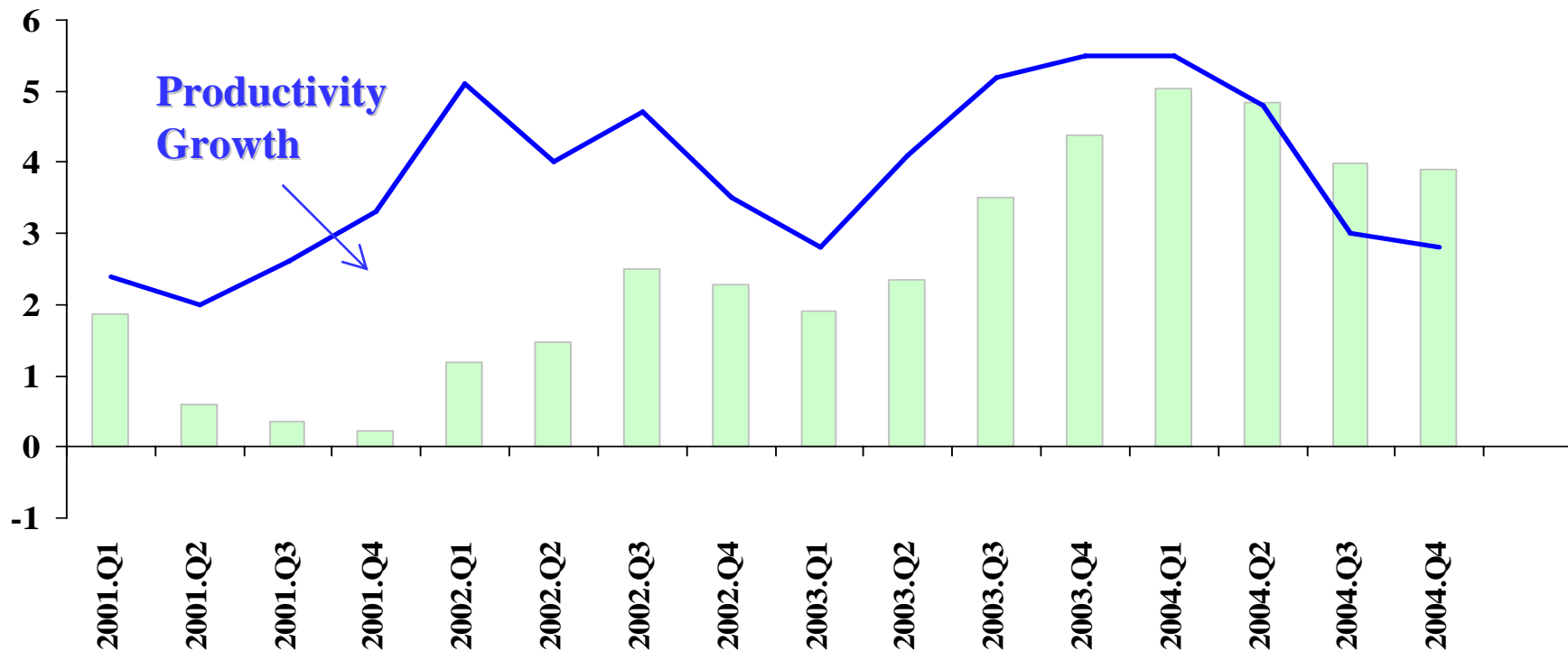
Percent change, Seasonally Adjusted at Annual Rate



Source: Bureau of Economic Analysis

Productivity vs. Real GDP Growth

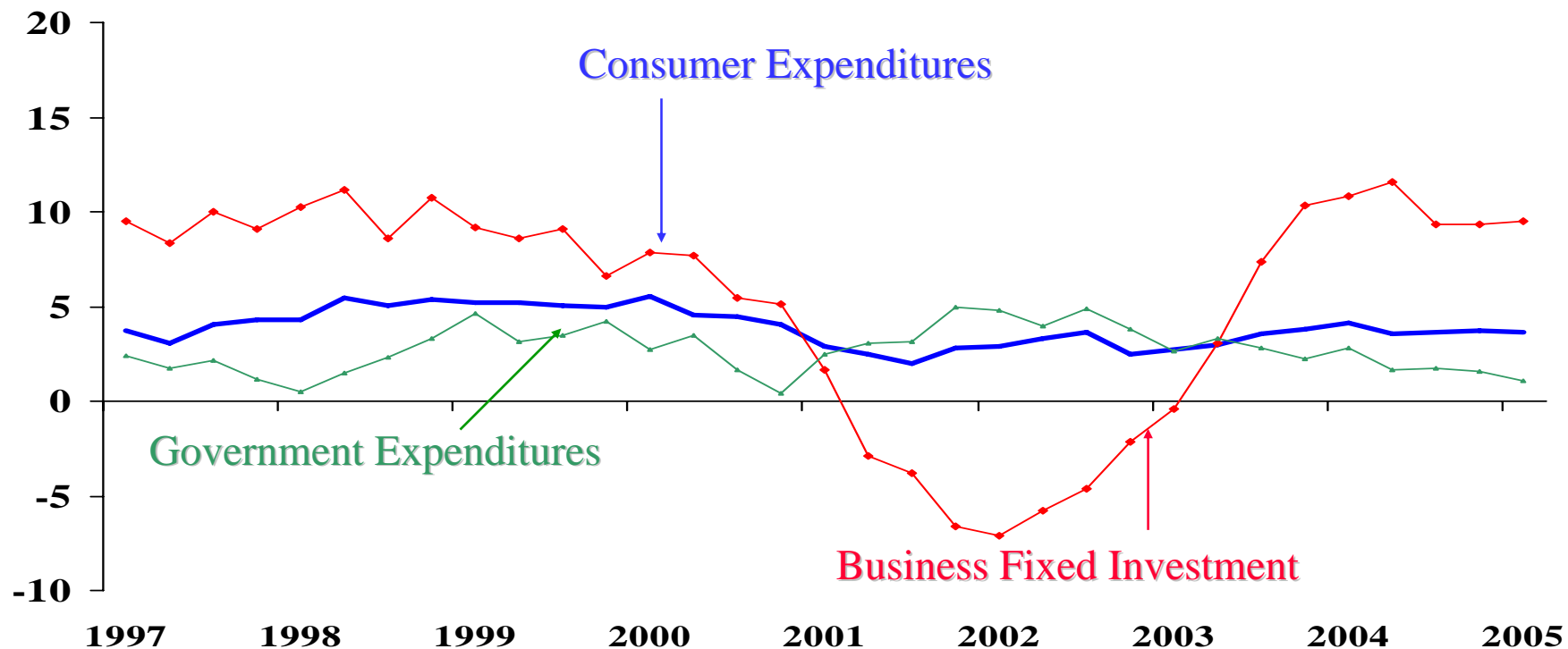
Year-over-Year, Percent change, Seasonally Adjusted at Annual Rate



Source: Bureau of Labor Statistics and Bureau of Economic Analysis

Real Domestic Demand Components

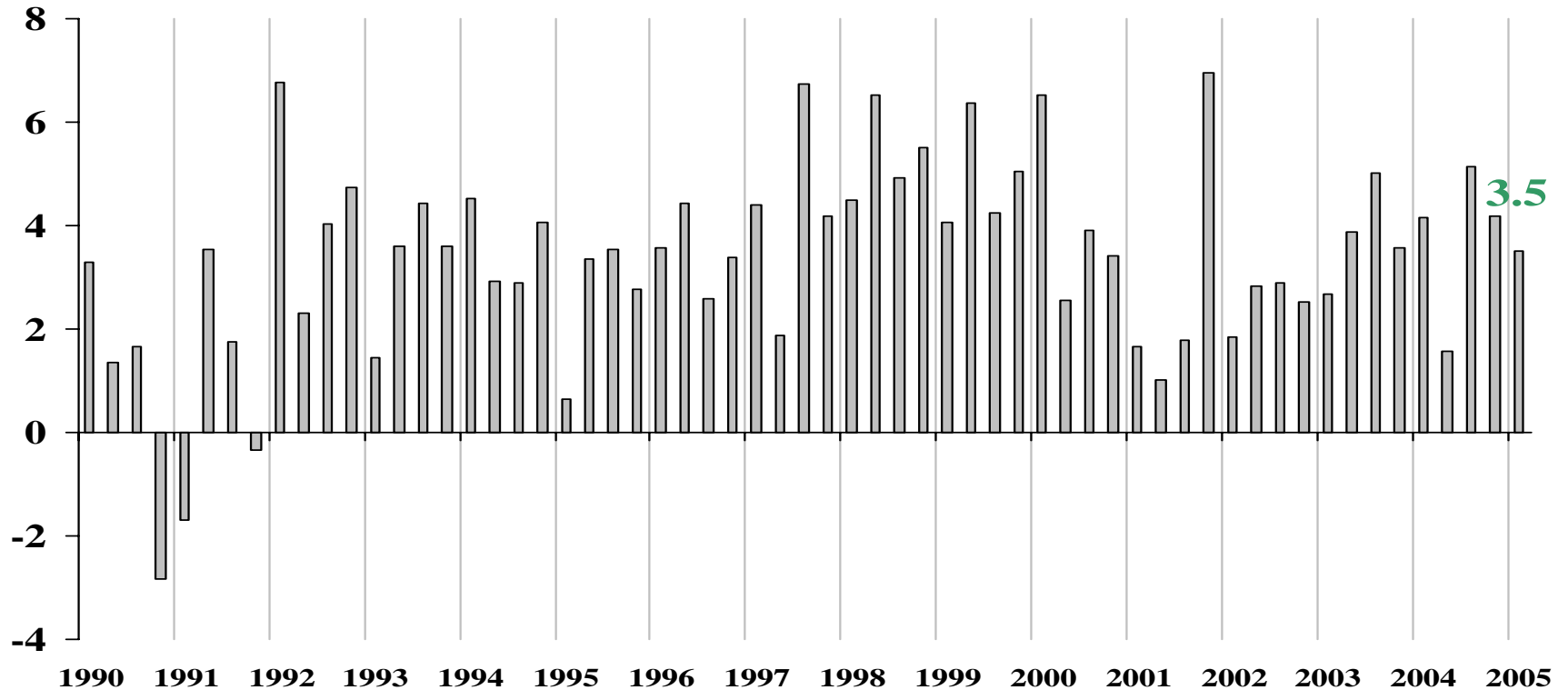
Year-over-Year, Percent change, Seasonally Adjusted at Annual Rate



Source: Bureau of Economic Analysis

Real Personal Consumption Expenditures

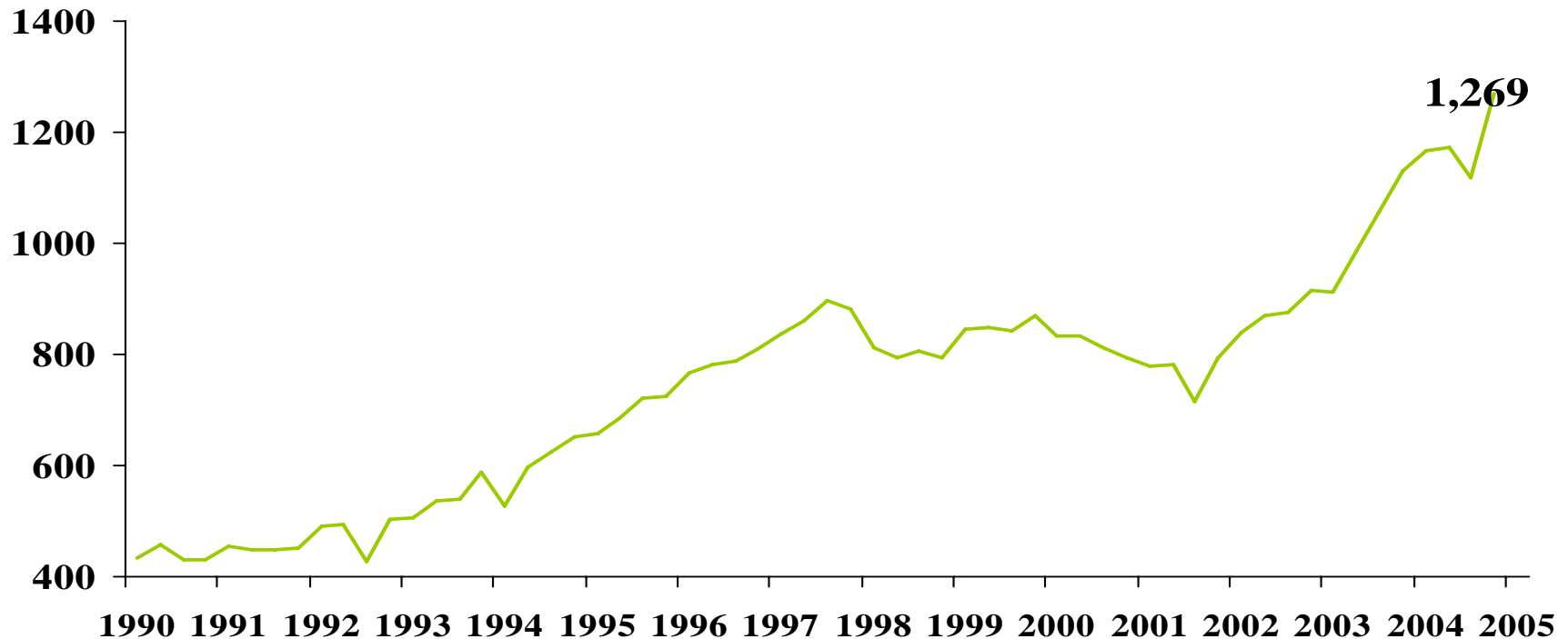
Percent change, Seasonally Adjusted at Annual Rate



Source: Bureau of Economic Analysis

Corporate Profits Recovery

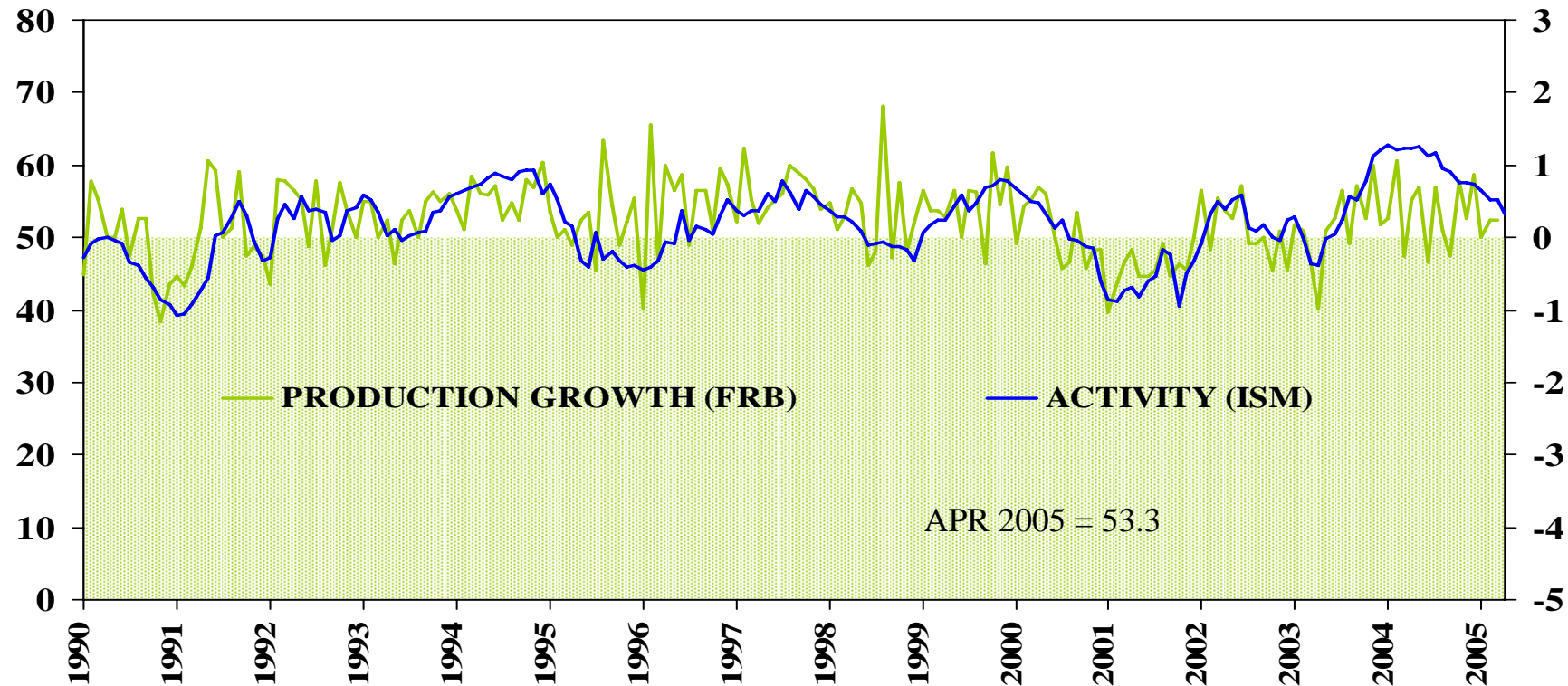
Billions of Dollars, Seasonally Adjusted at Annual Rate, with IVA and CCAAdj



Source: Bureau of Economic Analysis

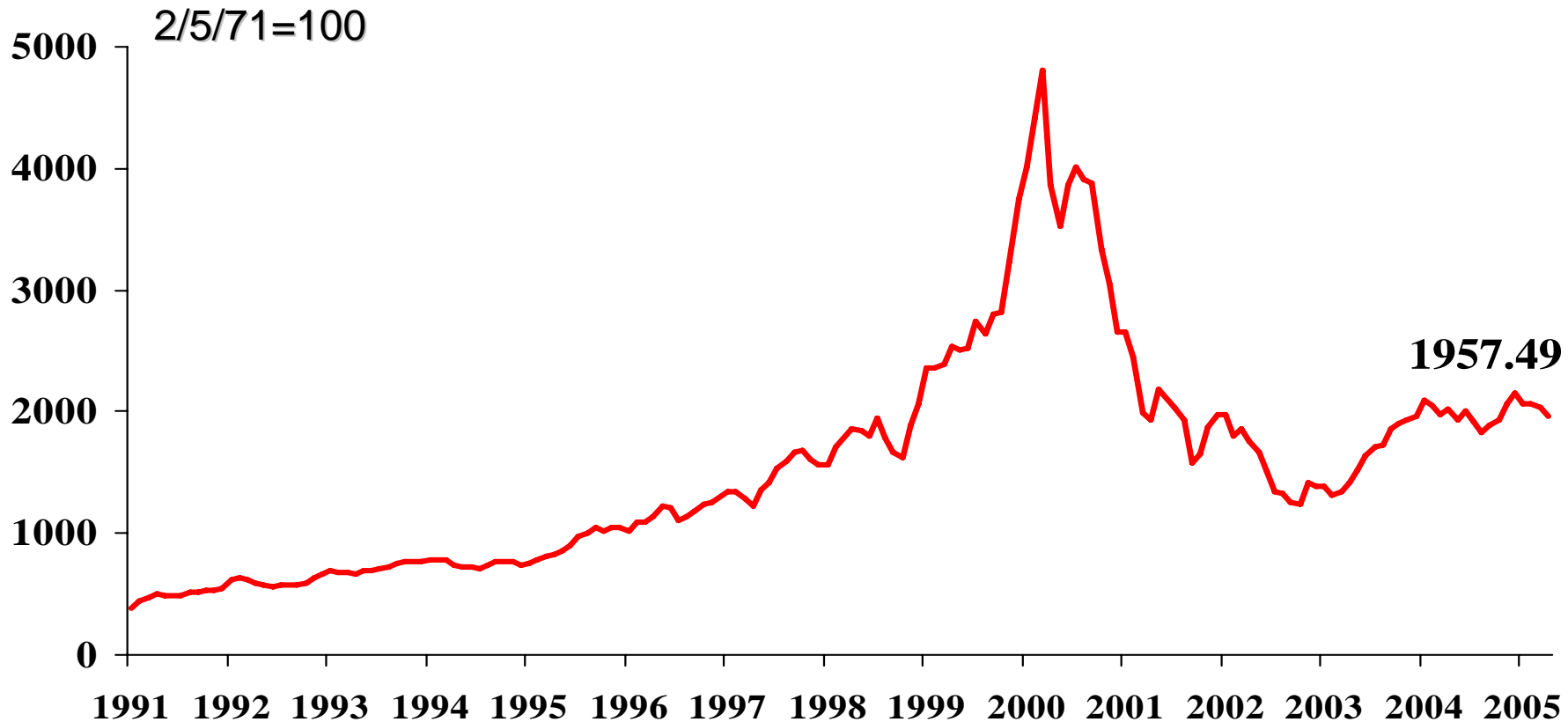
Manufacturing Indicators

Seasonally Adjusted



Source: Federal Reserve Board and Institute for Supply Management

NASDAQ Composite Index



Source: The Wall Street Journal

Unemployment Rate

Percent, Seasonally Adjusted

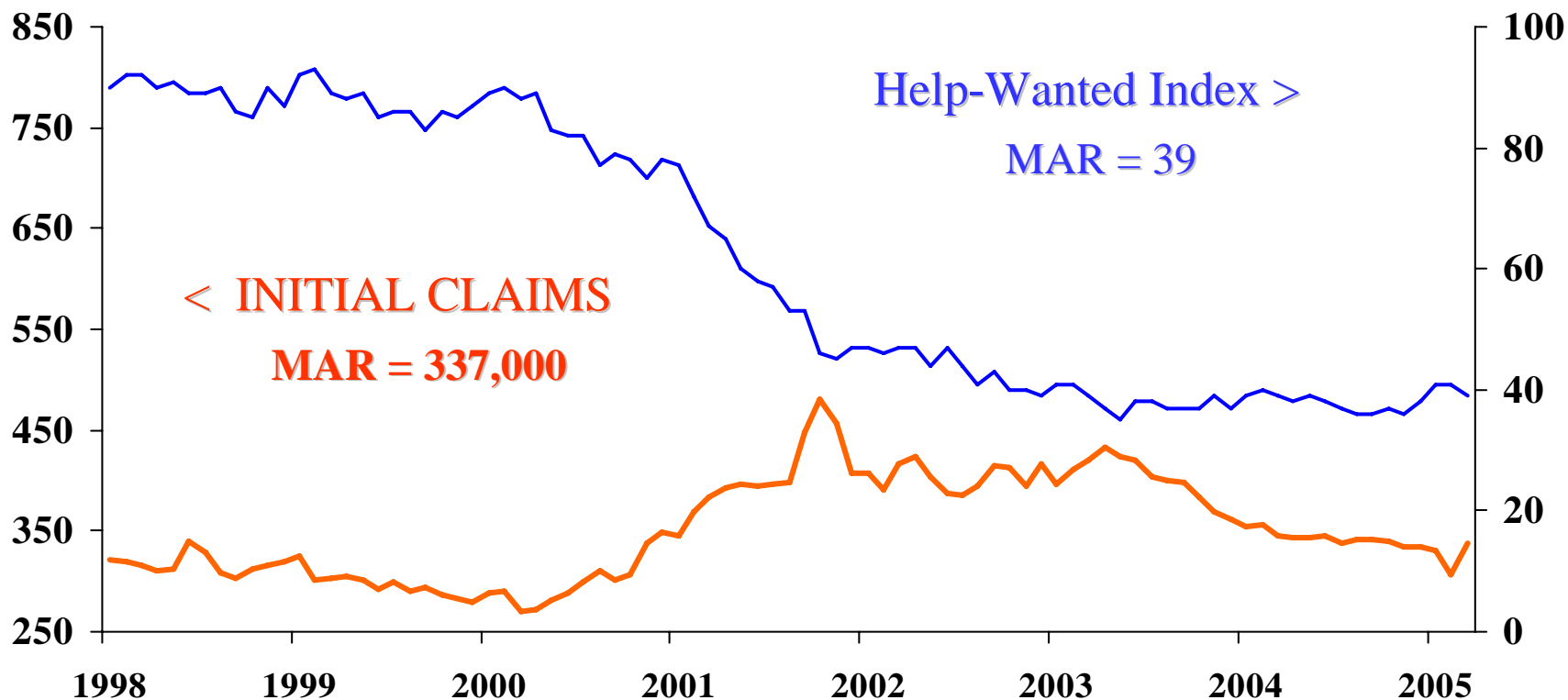


Source: BLS Household Survey

Unemployment Insurance Claims & Help-Wanted Index

THOUSANDS

1987=100



< INITIAL CLAIMS
MAR = 337,000

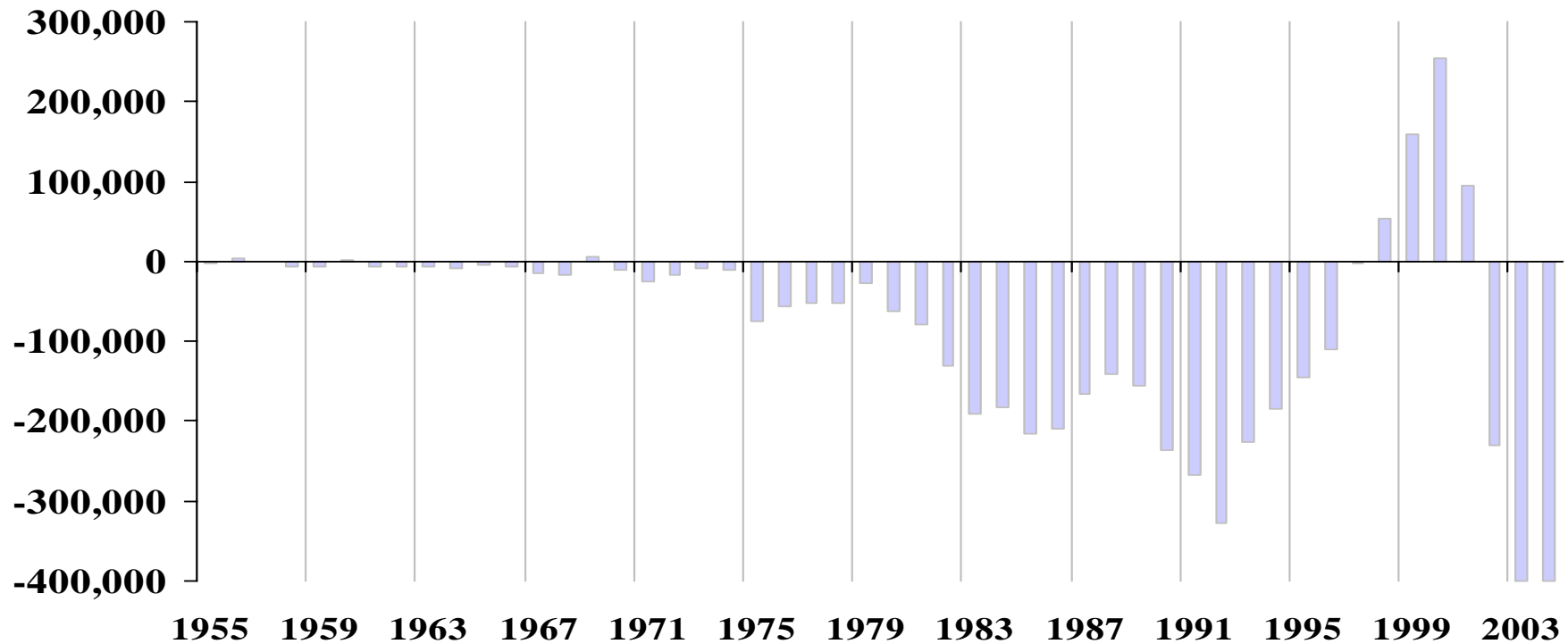
Help-Wanted Index >
MAR = 39

Source: U.S. Department of Labor and The Conference Board



Annual Federal Surplus/Deficit

Millions of dollars



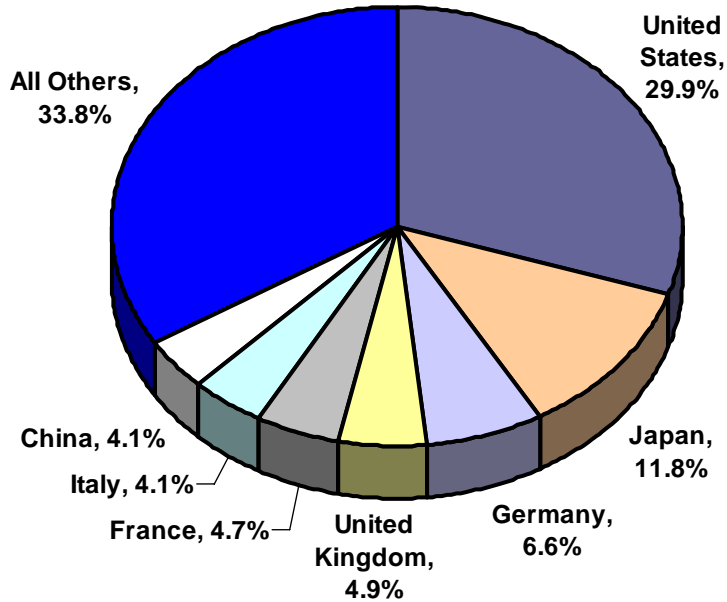
Source: U.S. Treasury

2003 World GDP Estimates



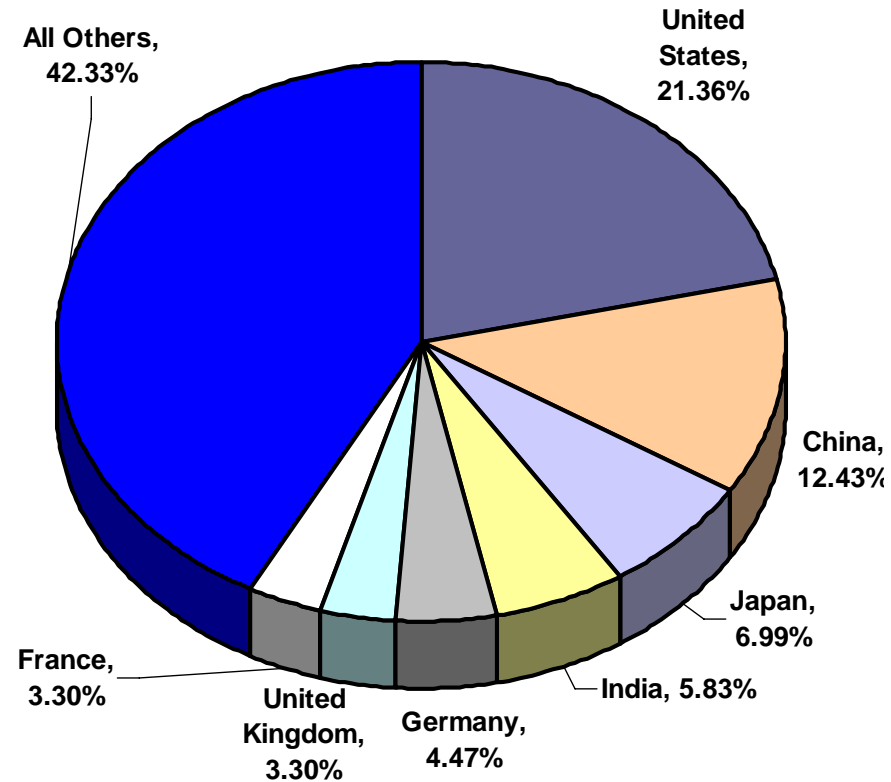
World Bank: 2003 GDP Estimates

World GDP = 36.4 Trillion

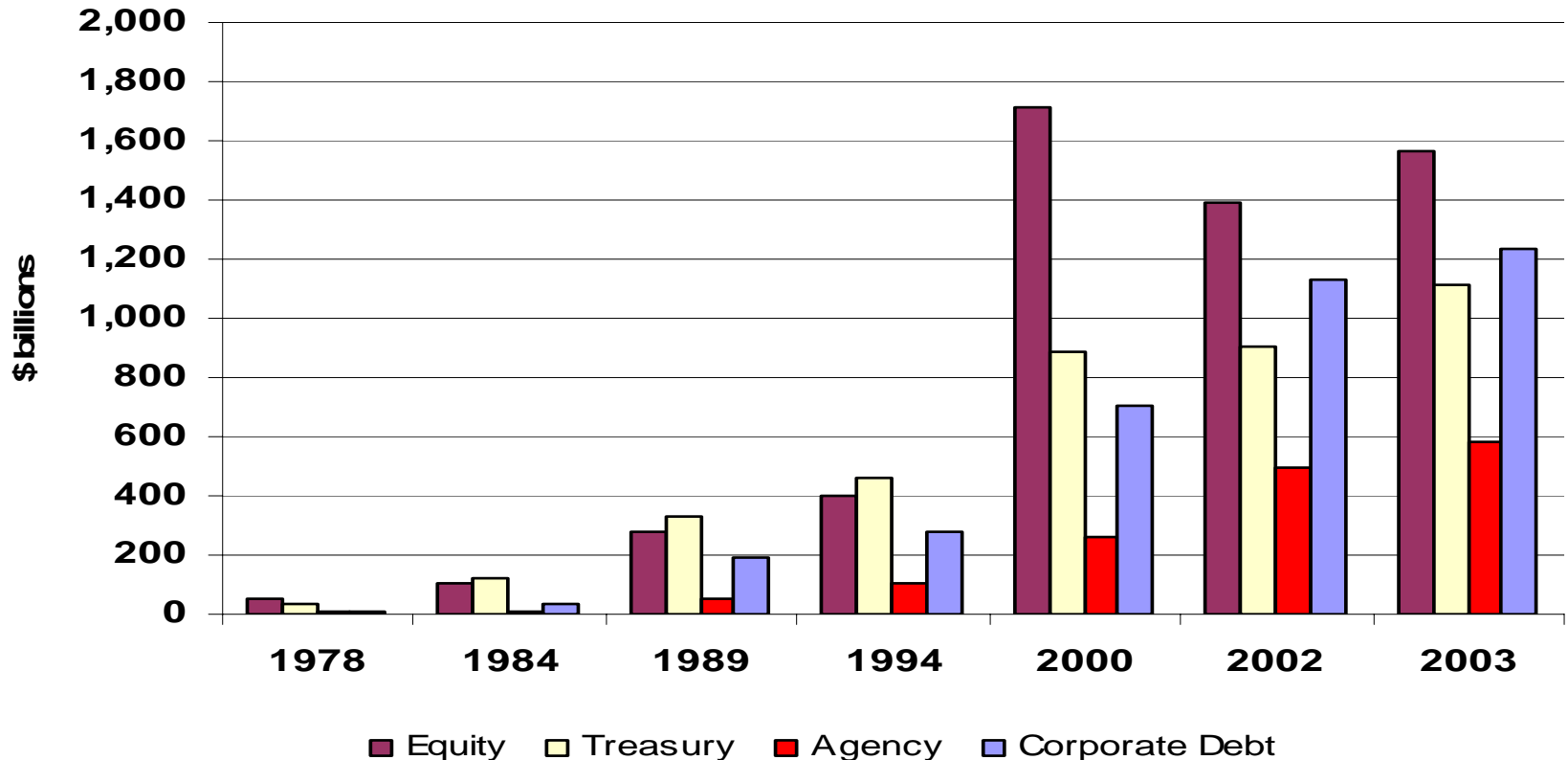


CIA: 2003 GDP Estimates

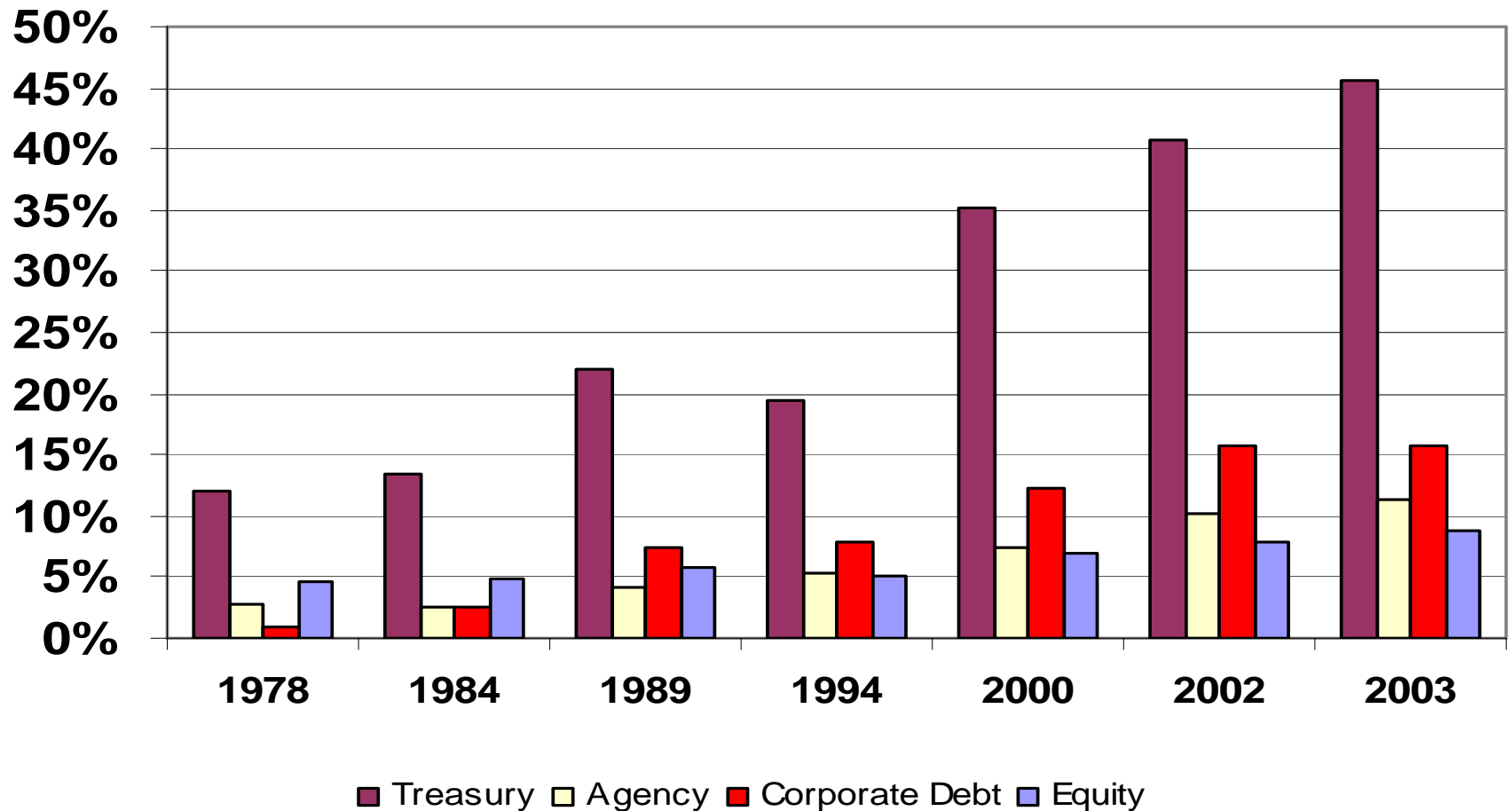
World GDP = 51.5 Trillion



Value of Foreign-owned Long-term US Securities

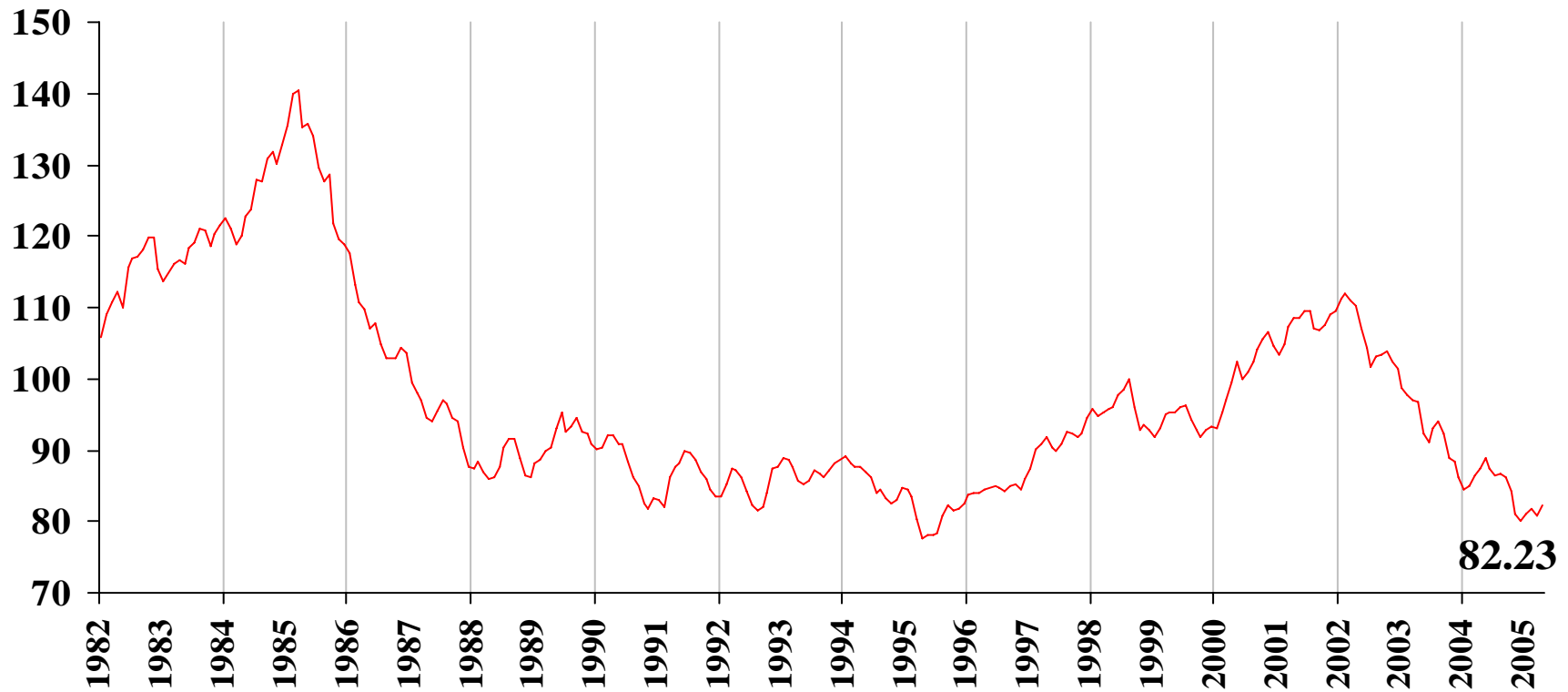


Foreign-owned Share of US Long-term US Securities



Exchange Rate of the U.S. Dollar

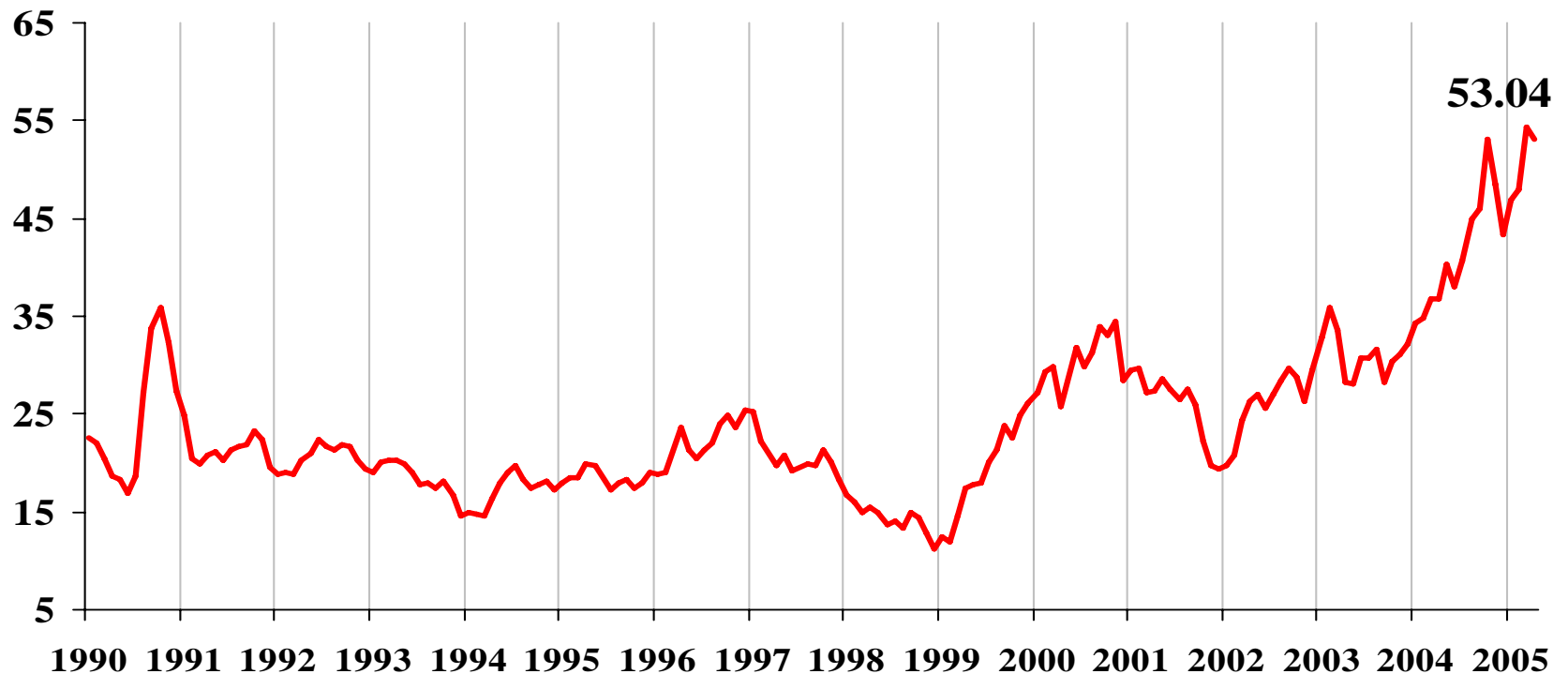
March 1973=100



Source: Federal Reserve Board

Crude Oil Price

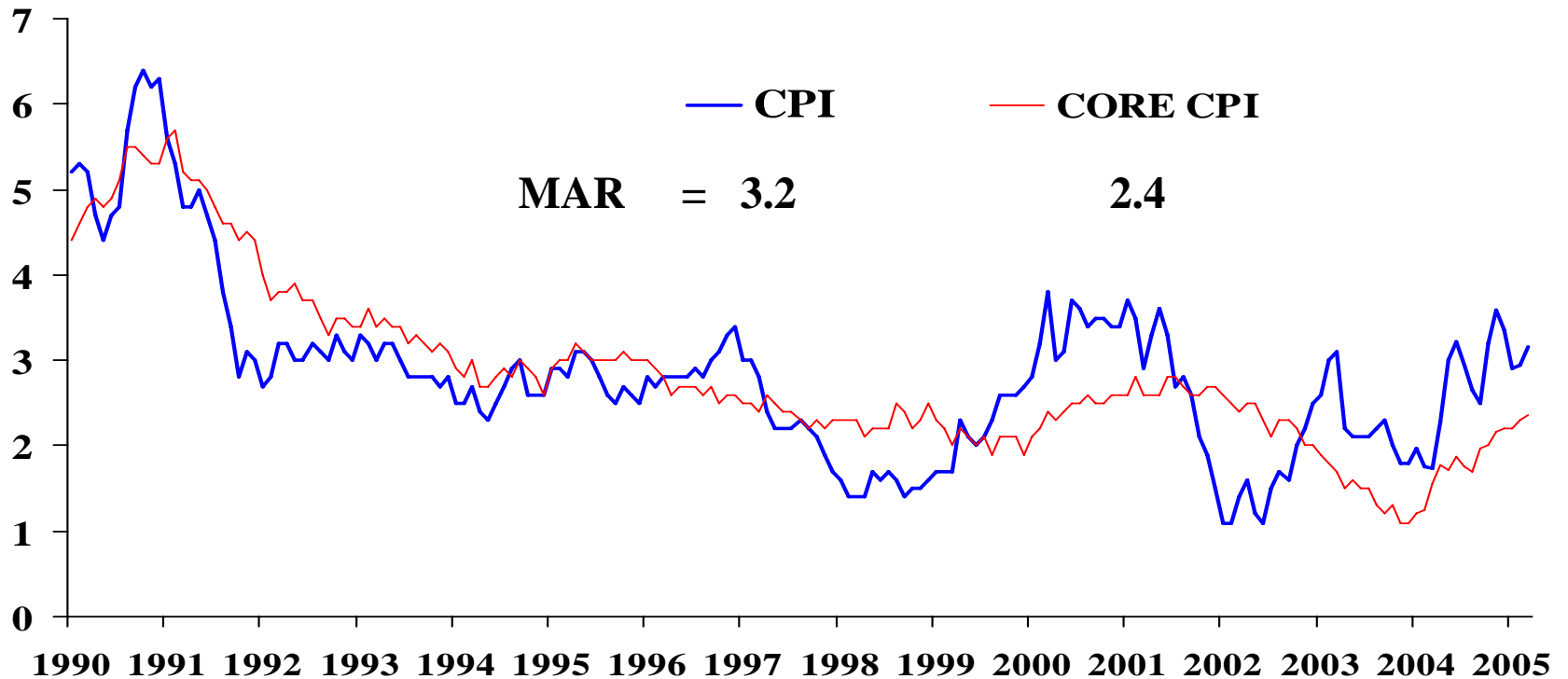
\$ per Barrel, Domestic Spot Oil Price, West Texas Intermediate



Source: The Wall Street Journal

Inflation - CPI

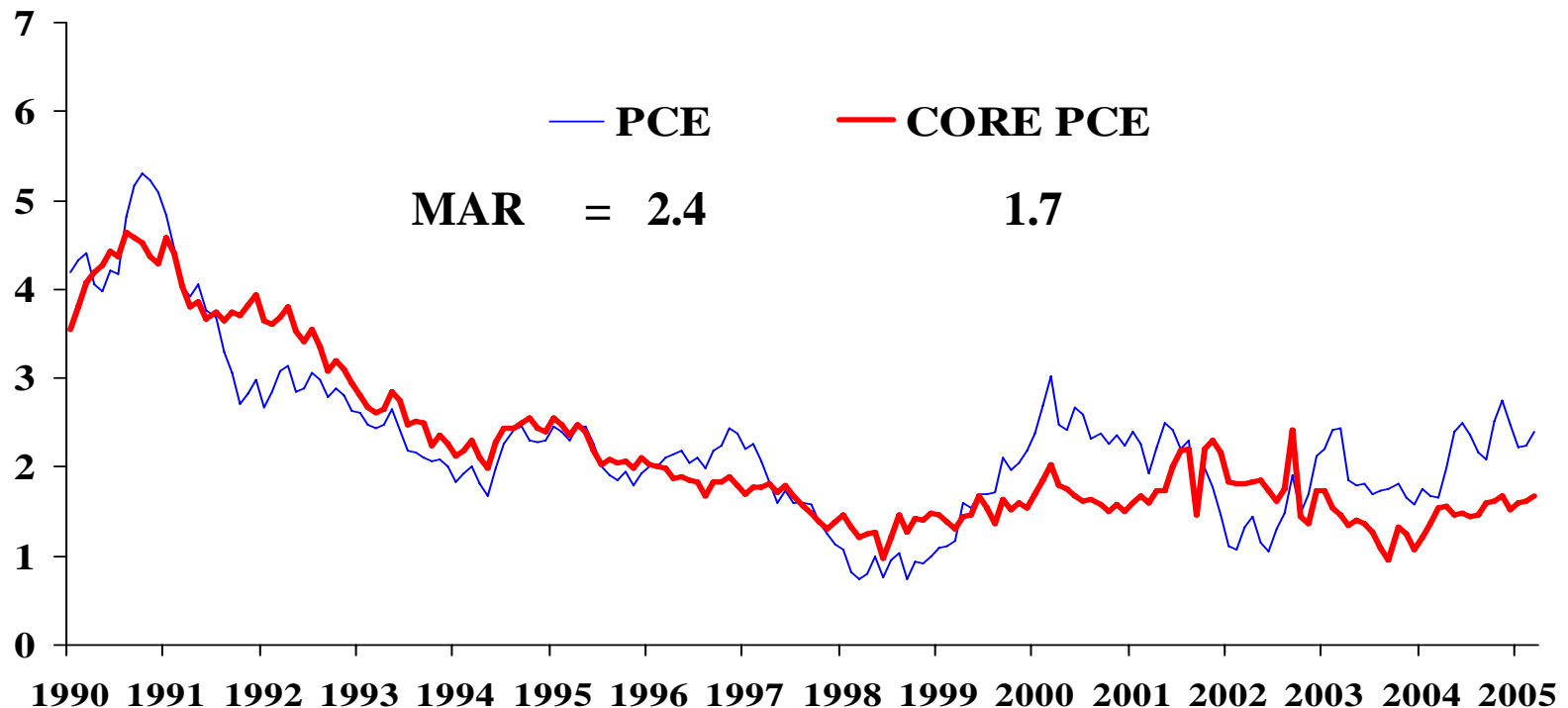
Percent change, Year-over-Year



Source: Bureau of Labor Statistics

Inflation – PCE Chain Price Index

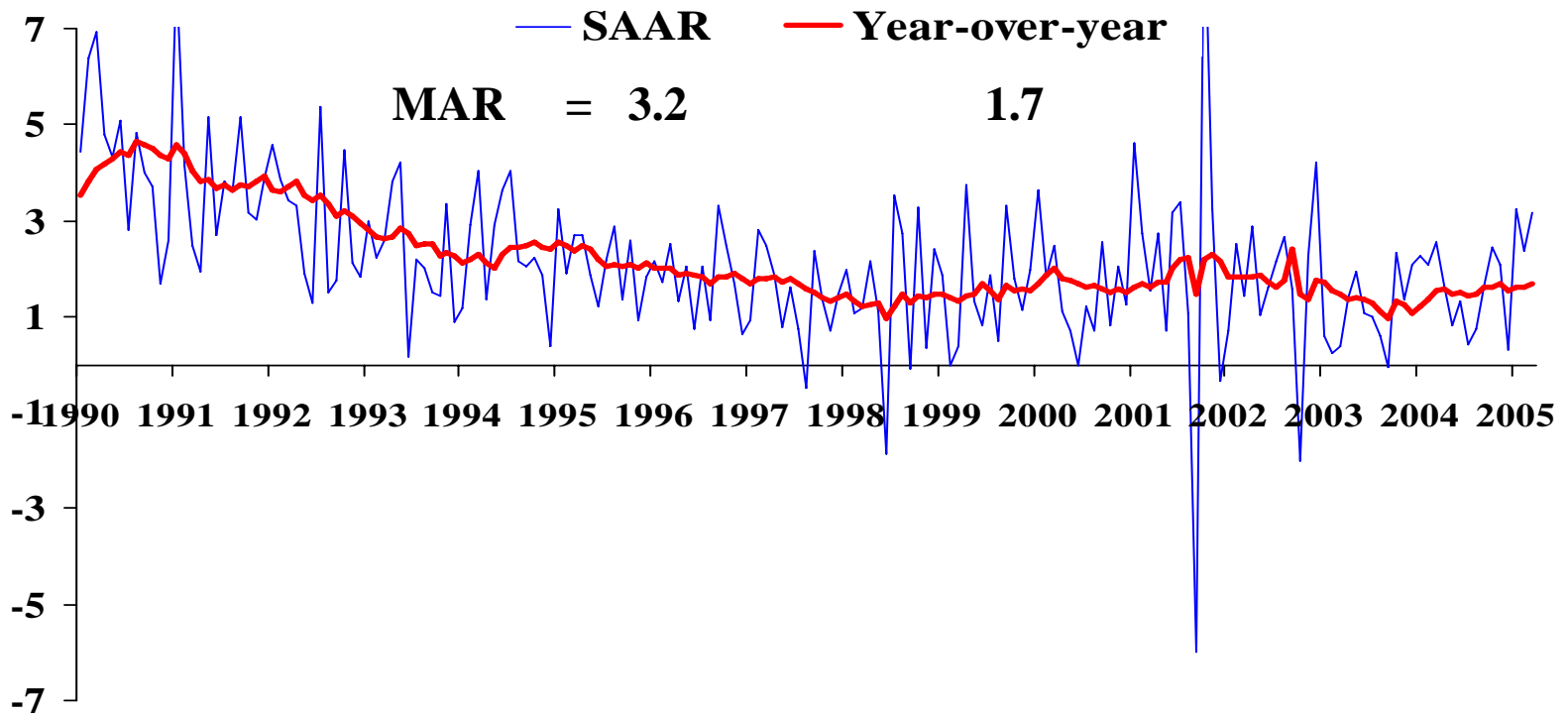
Percent change, Year-over-Year



Source: Bureau of Economic Analysis, NIPA

Core PCE – Annualized vs. Year-over-Year Change

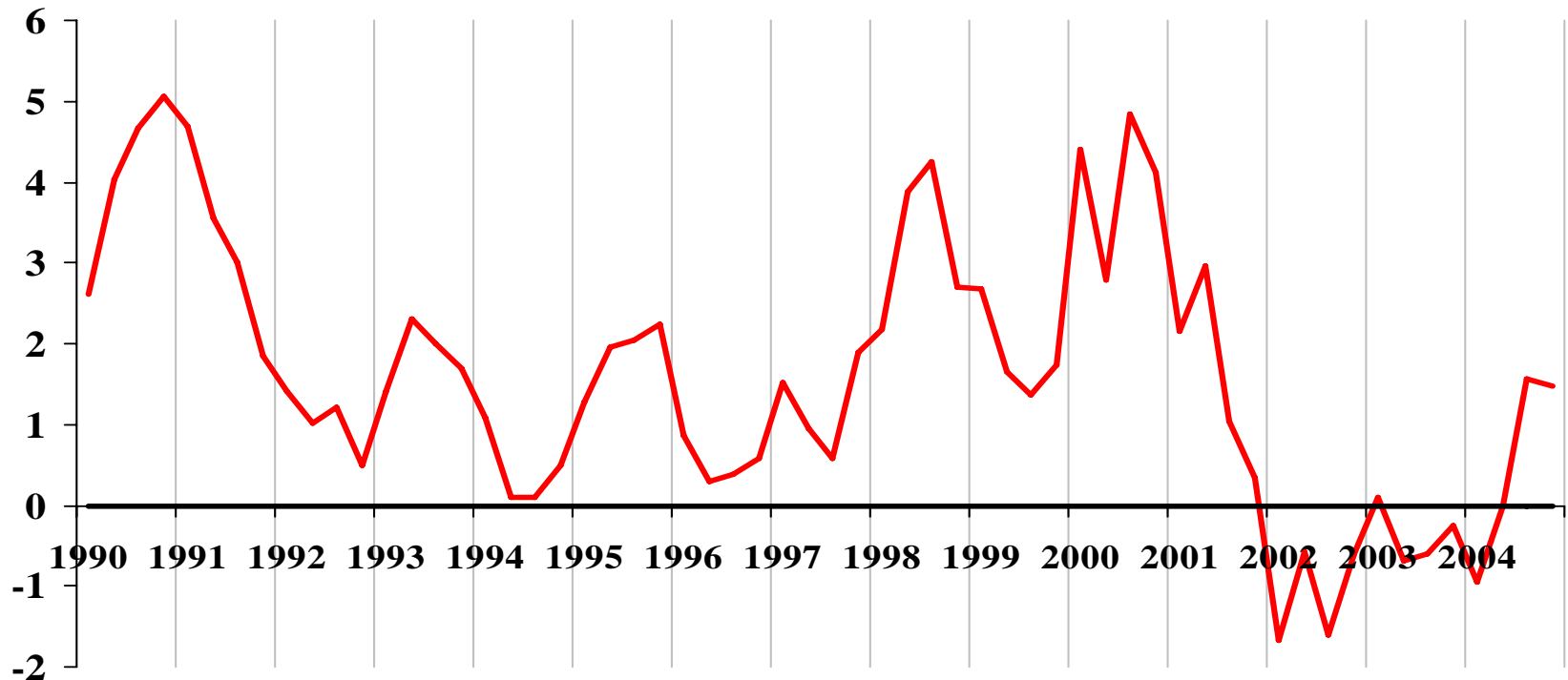
Percent change



Source: Bureau of Economic Analysis

Unit Labor Costs

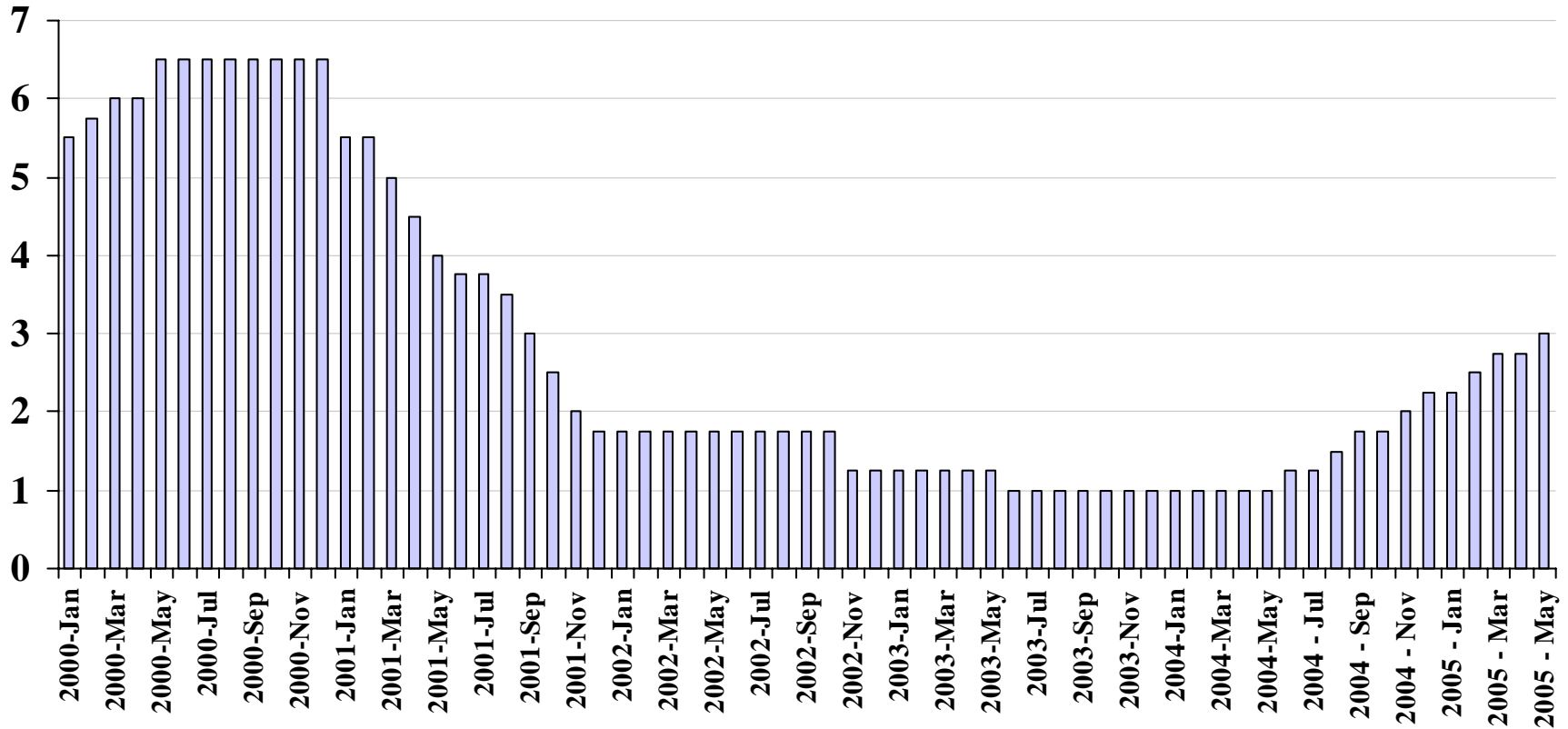
Percent change, Year-over-Year



Source: Bureau of Labor Statistics

Target Federal Funds Rate

Percent, End of month



MBA Long-Term Economic Forecast

April 2005

	2004	2005				2006				2007				Year to Year			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2004	2005	2006	2007
<i>Percent Change, Annual Rate</i>																	
Real Gross Domestic Product	3.8	4.5	3.3	3.2	3.2	3.2	3.3	3.6	3.7	3.6	3.3	3.3	3.3	4.4	3.8	3.3	3.5
Personal Consumption Expenditures	4.2	3.6	2.8	3.1	3.1	3.0	3.0	3.1	3.0	2.8	2.5	2.7	2.5	3.8	3.5	3.0	2.8
Business Fixed Investment	14.5	11.3	10.0	10.7	9.5	9.7	7.4	7.4	7.9	6.3	7.5	6.9	6.6	10.6	11.7	8.9	7.1
Residential Investment	3.4	8.5	2.7	-9.6	-9.7	-10.0	-9.7	-6.9	-1.8	0.3	0.3	1.5	2.6	9.7	2.4	-8.2	-1.4
Govt. Consumption & Investment	0.9	1.6	1.3	1.6	1.7	1.5	1.4	1.4	1.2	1.1	0.8	0.6	0.5	1.9	1.3	1.5	1.0
Net Exports (Bil. Chain 2000\$)	-621	-638	-630	-623	-616	-600	-583	-564	-546	-531	-517	-502	-485	-584	-627	-573	-509
Inventory Investment (Bil. Chain 2000\$)	47	65	55	55	55	50	51	52	50	55	58	58	58	46	58	51	58
GDP Deflator	2.3	2.4	2.0	1.7	1.7	2.2	2.1	2.3	2.4	2.7	2.4	2.5	2.5	2.2	2.1	2.0	2.5
Consumer Prices	3.6	2.2	3.2	2.4	2.2	2.7	2.7	2.9	3.2	3.1	3.3	3.4	3.6	2.7	2.8	2.7	3.2
<i>Percent</i>																	
Unemployment Rate	5.4	5.3	5.2	5.2	5.2	5.2	5.2	5.1	5.1	5.1	5.1	5.1	5.1	5.5	5.2	5.1	5.1
Federal Funds Rate	2.0	2.5	2.9	3.4	4.0	4.3	4.3	4.4	4.4	4.5	4.6	4.6	4.7	1.3	3.2	4.3	4.6
10-Year Treasury Bond Rate	4.2	4.3	4.6	4.8	5.0	5.2	5.2	5.3	5.5	5.5	5.5	5.6	5.6	4.3	4.7	5.3	5.6

All data except interest rates are seasonally adjusted.

Forecast produced with the assistance of the Macroeconomic Advisers' model.

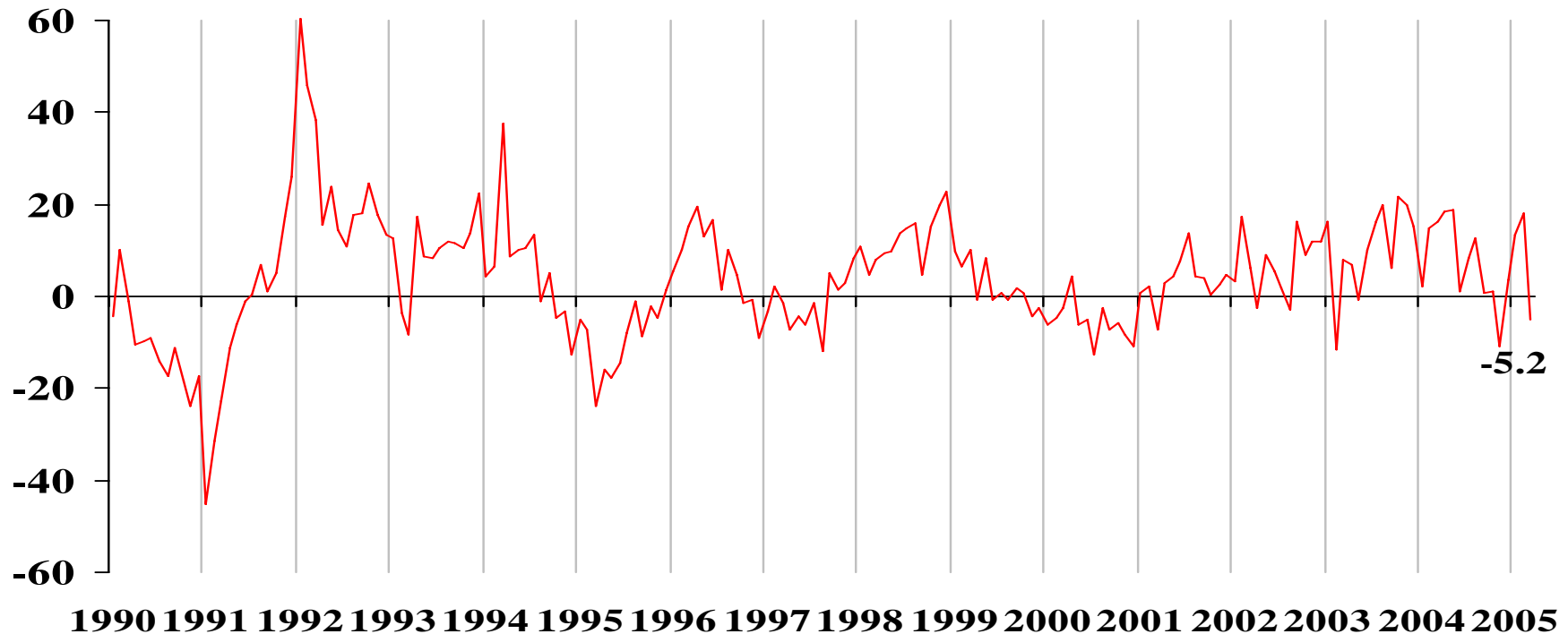
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Single-Family Housing Starts

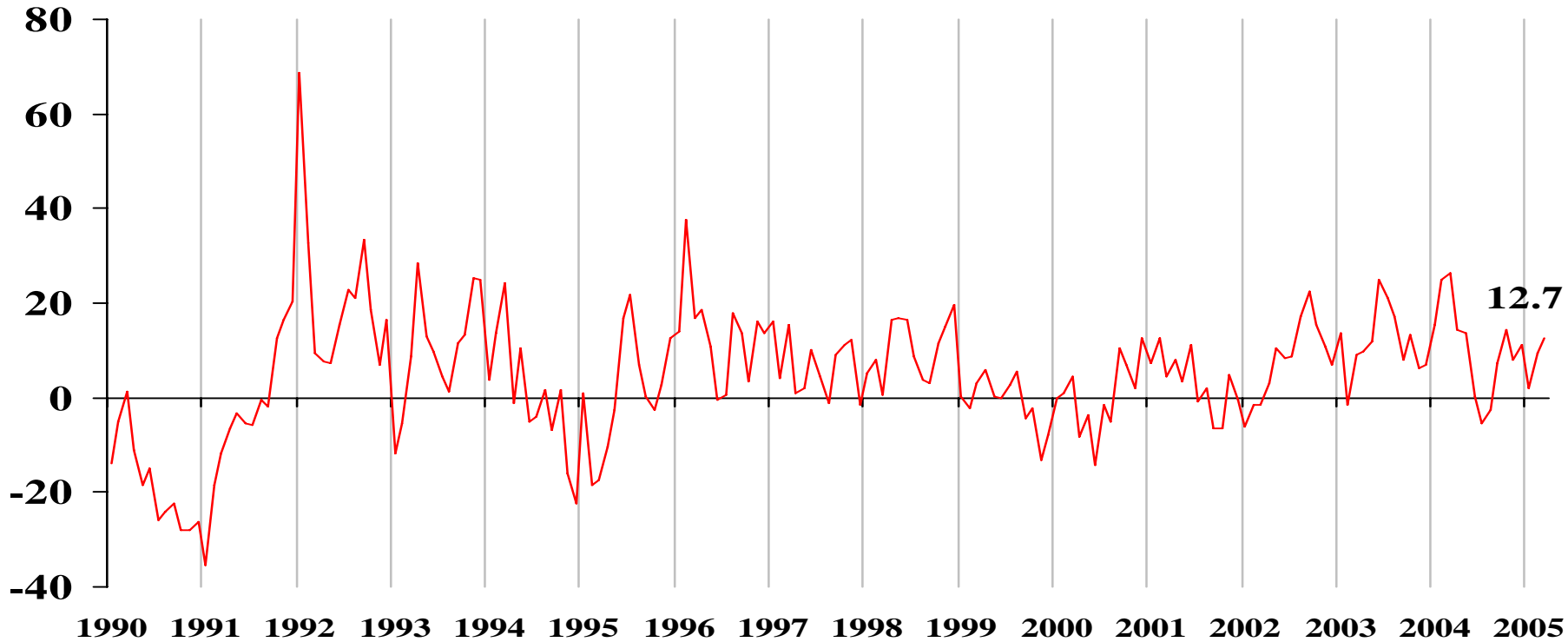
Year-over-Year, Percent Change, SAAR



Source: Census Bureau

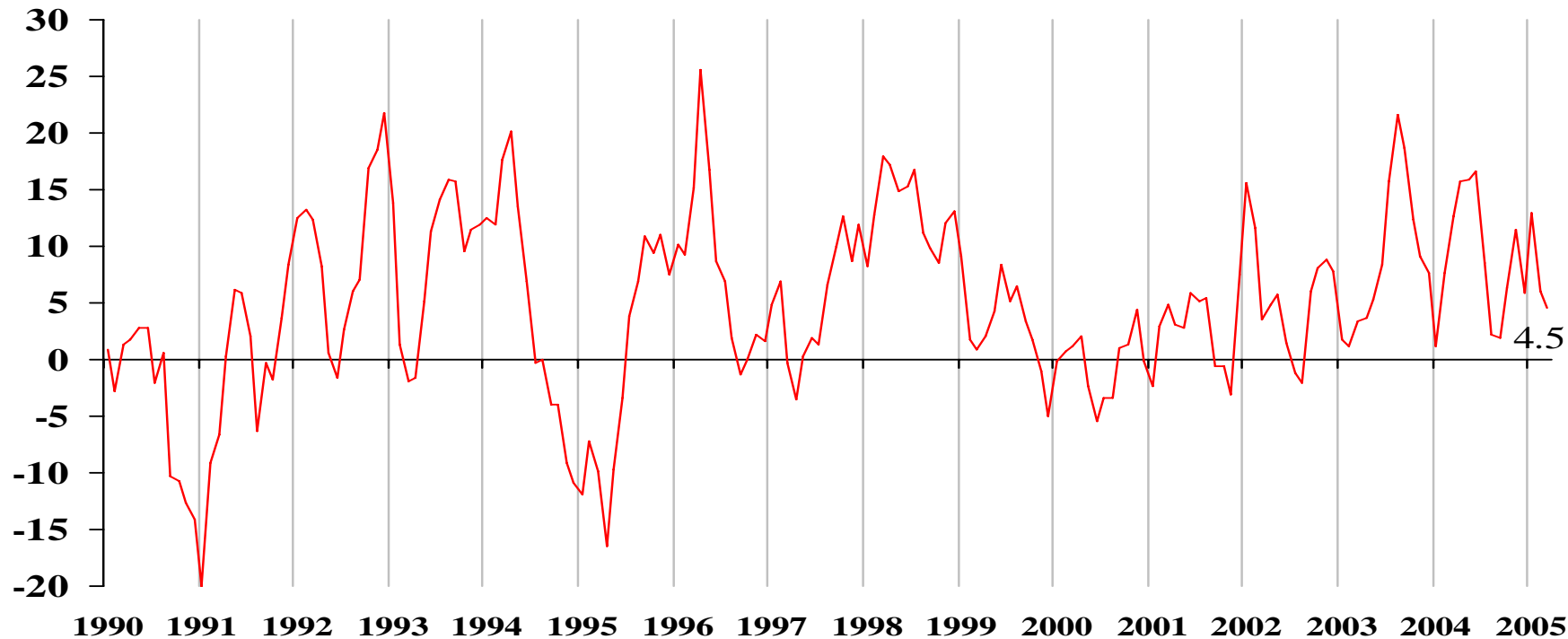
New One-Family Homes Sold

Year-over-Year, Percent Change, SAAR



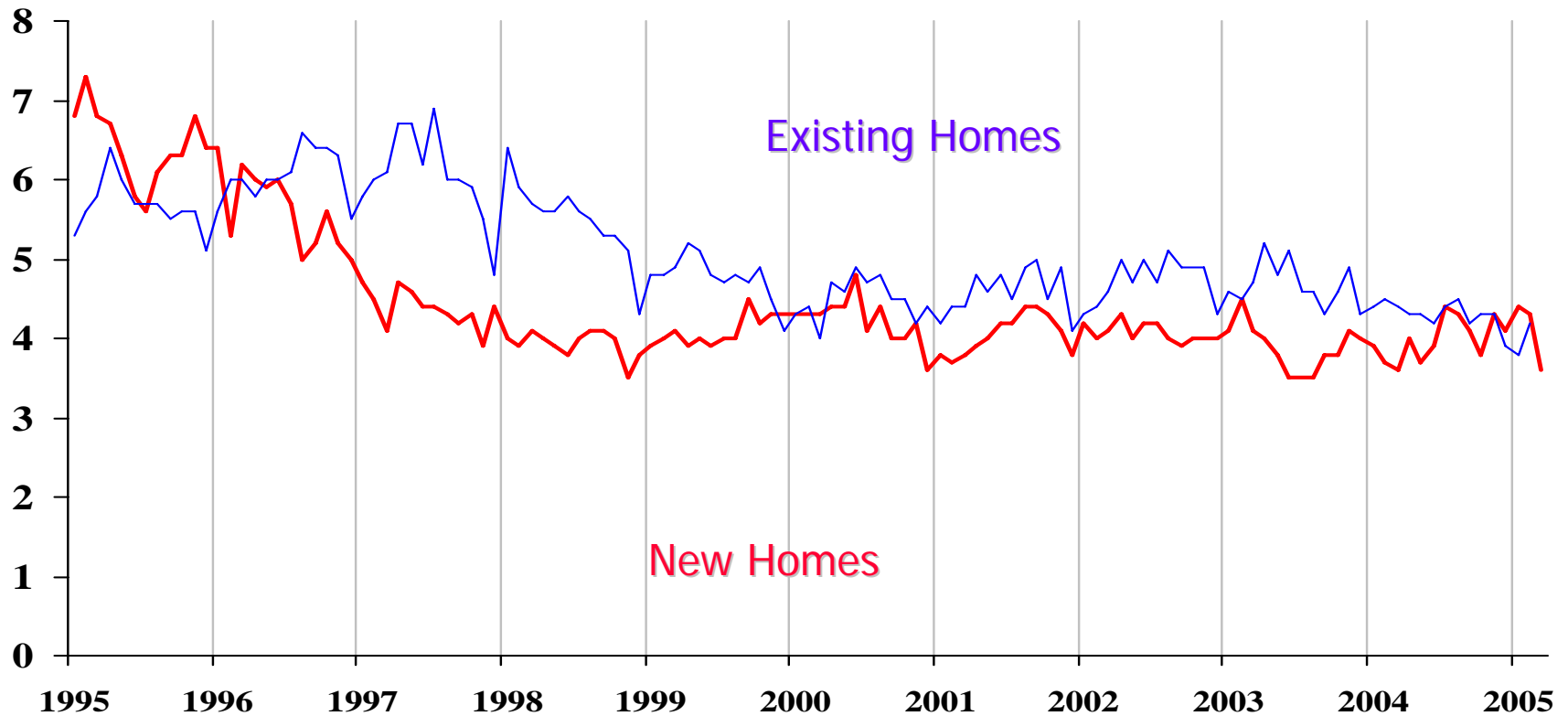
Existing One-Family Homes Sold

Year-over-Year, Percent Change, SAAR



Source: National Association of Realtors

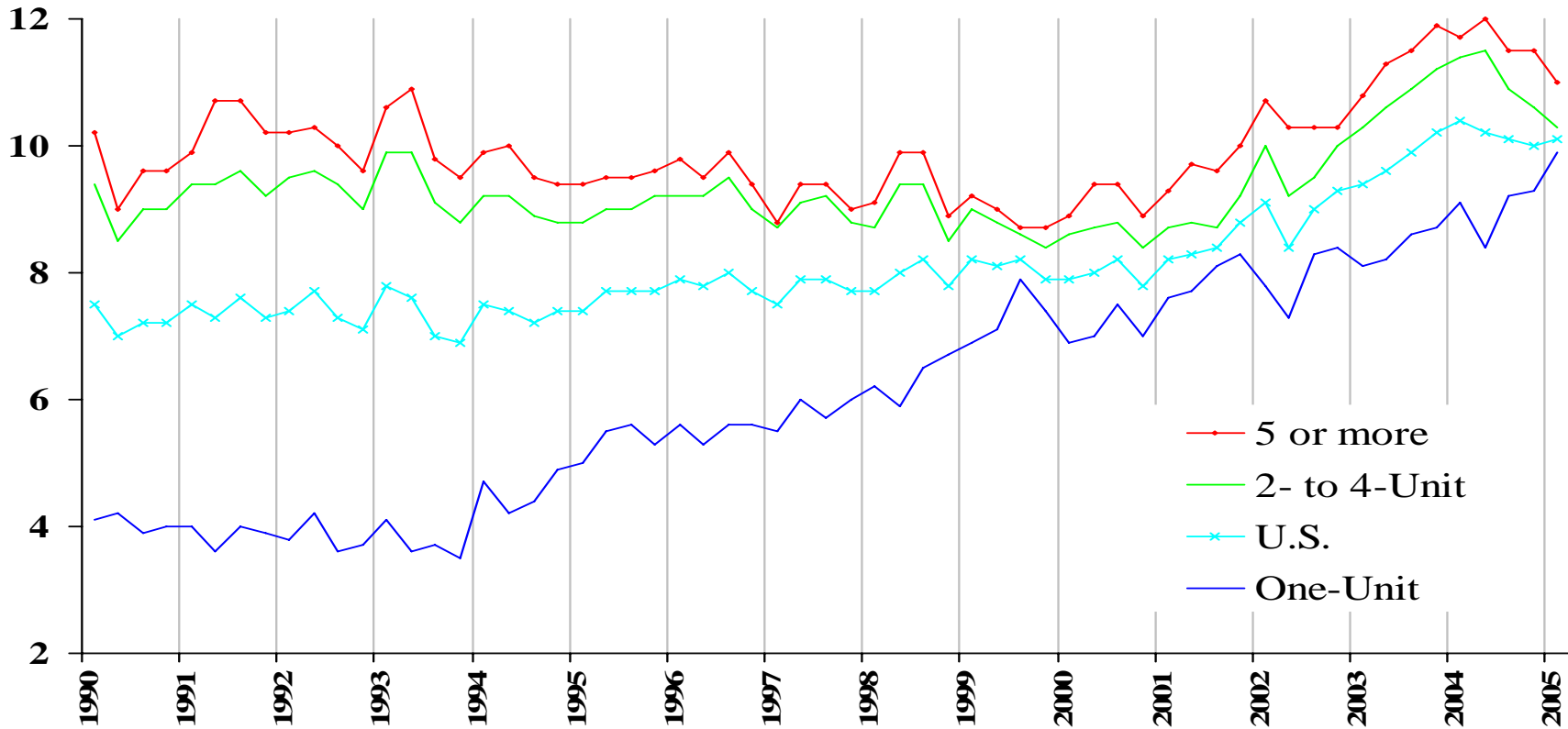
Months' Supply of One-Unit Homes



Source: Census Bureau and NAR

Rental Vacancy Rates

Percent



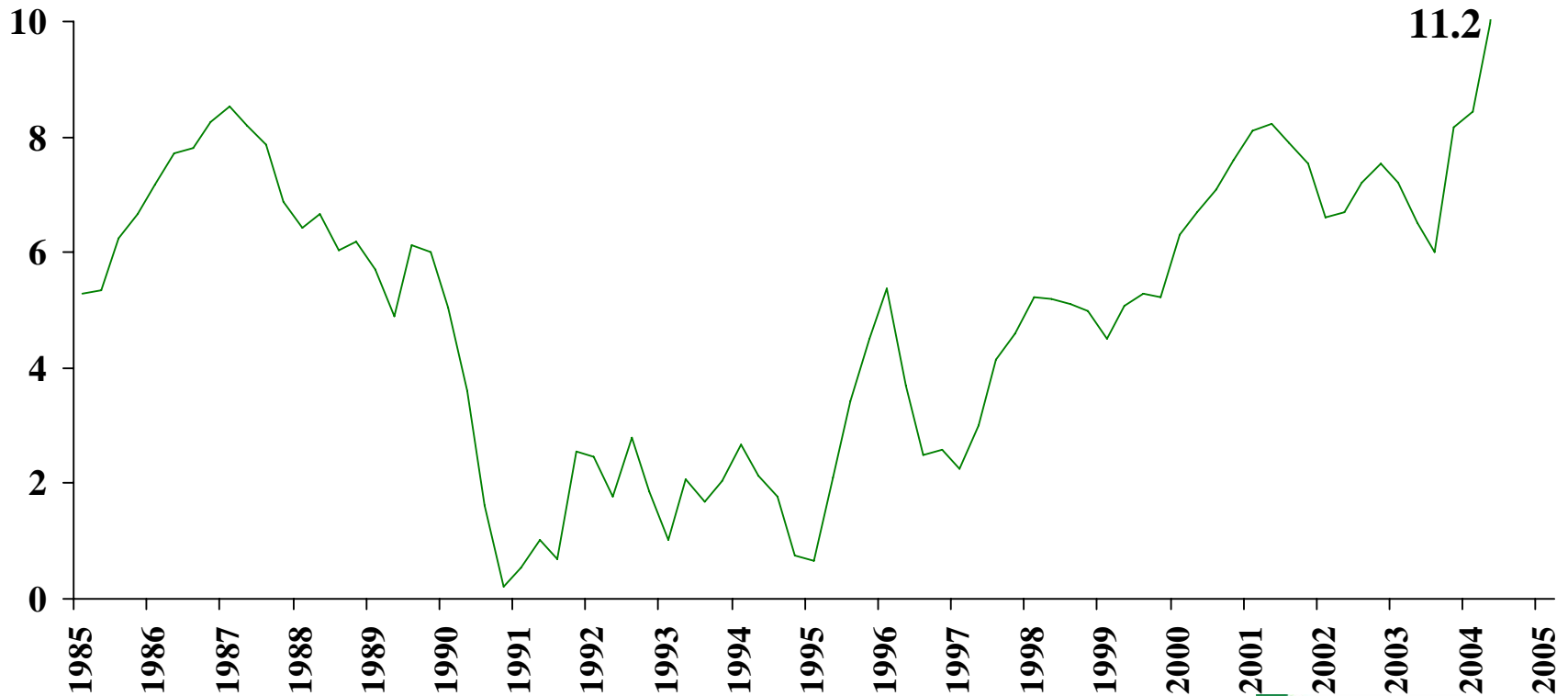
- 5 or more
- 2- to 4-Unit
- U.S.
- One-Unit



Source: Census Bureau

OFHEO House Price Index

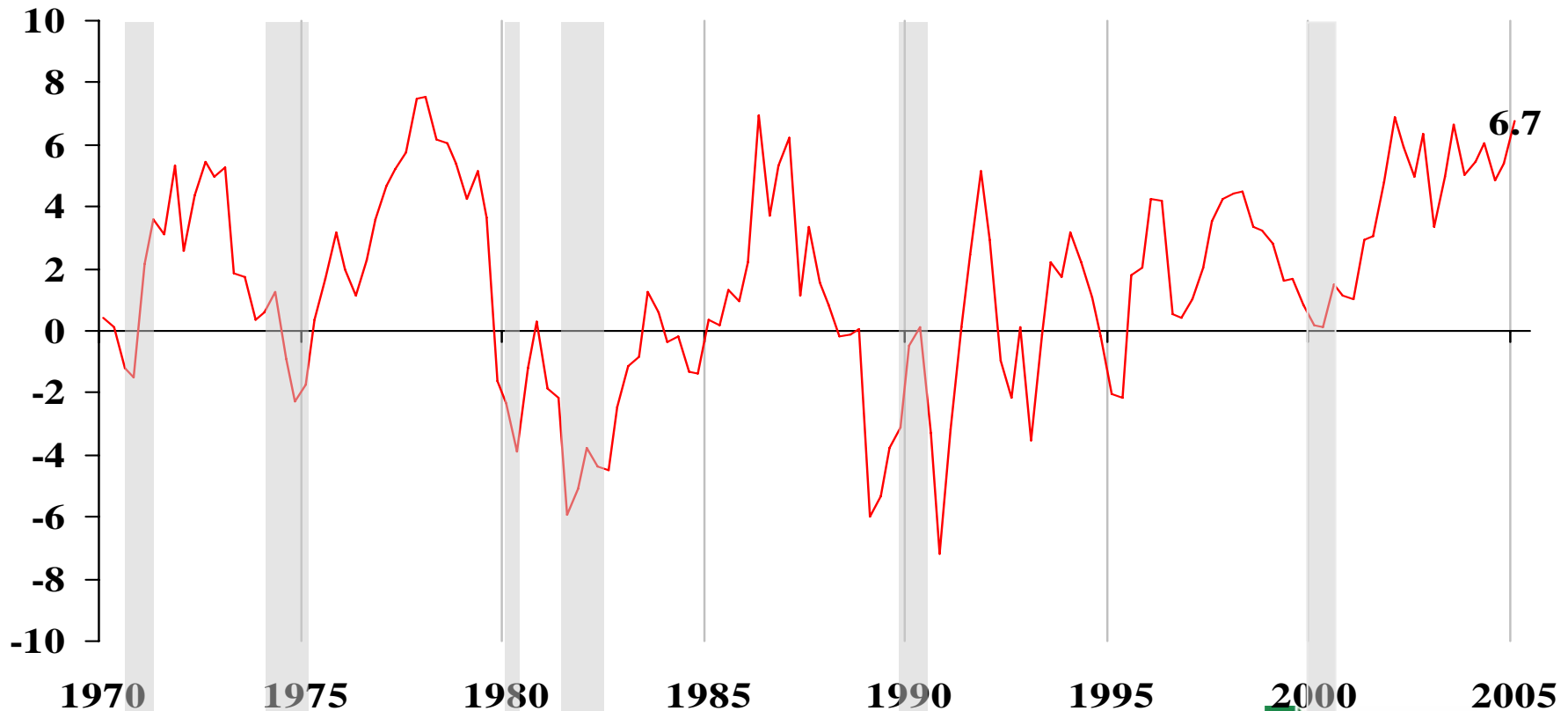
Year-over-Year, Percent Change, Repeat Sales



Source: OFHEO

Inflation-Adjusted Home Prices

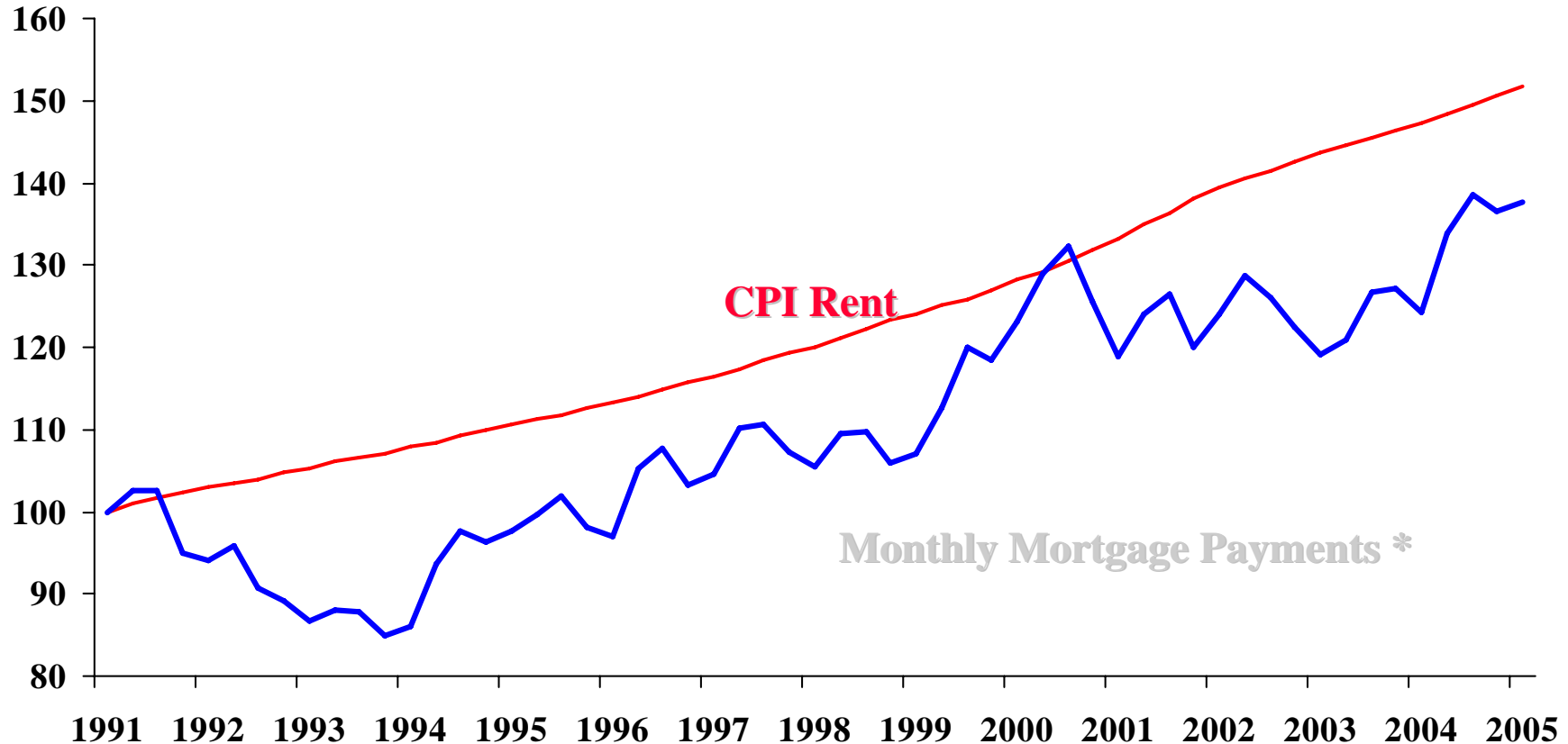
(year/year, percent change by quarter for median priced existing home relative to CPI inflation)



Source: National Association of Realtors, Bureau of Labor Statistics

Rents and Monthly Mortgage Payments

(index; 1991Q1=100)

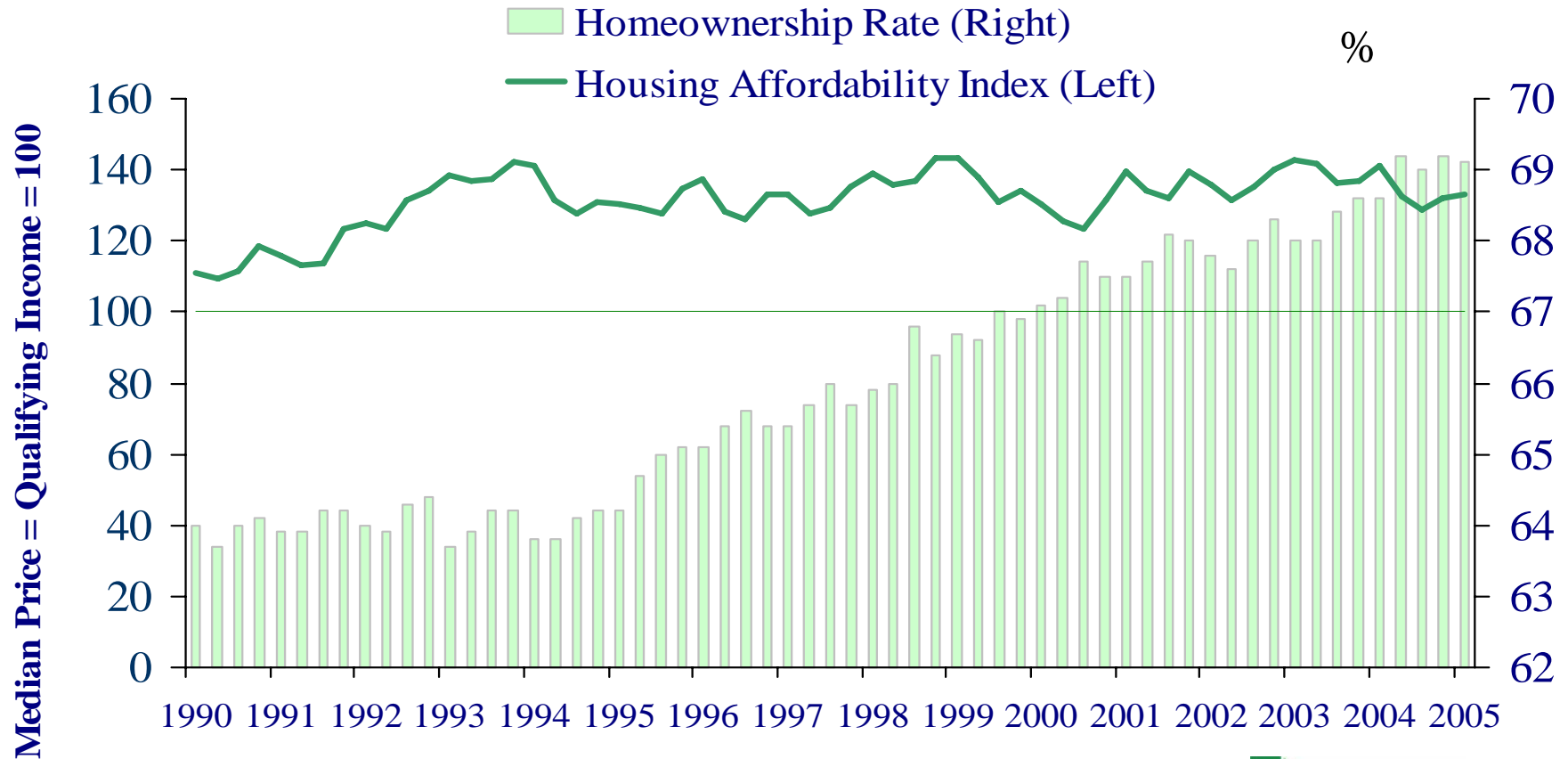


Source: Bureau of Labor Statistics; National Association of Realtors

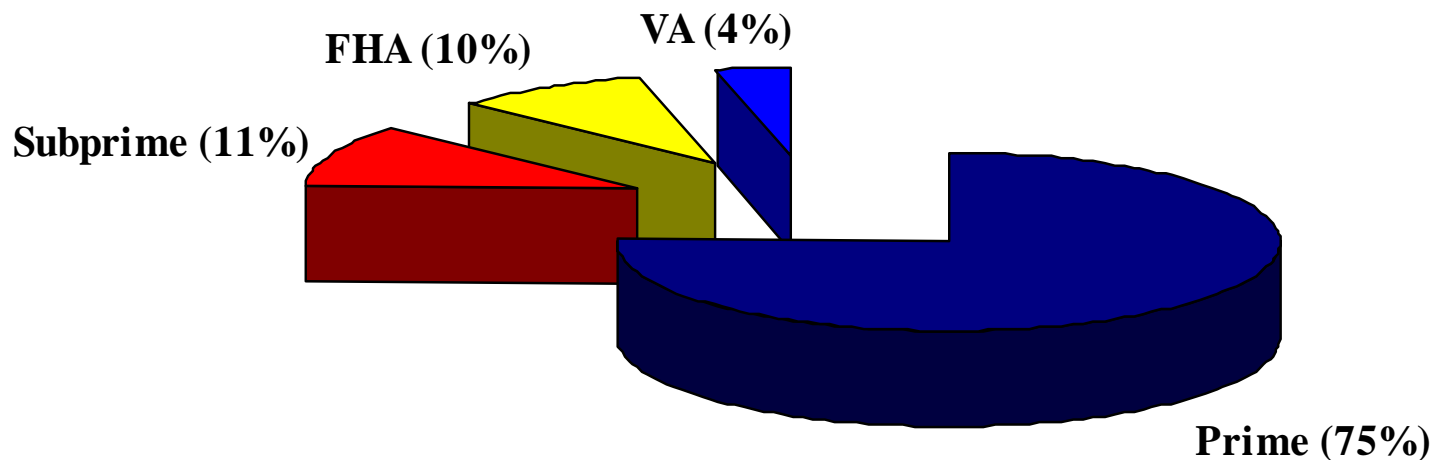


*After-tax payment on median price home with a 30-year fixed rate mortgage at 80 percent loan to value

Affordability and Homeownership Rate

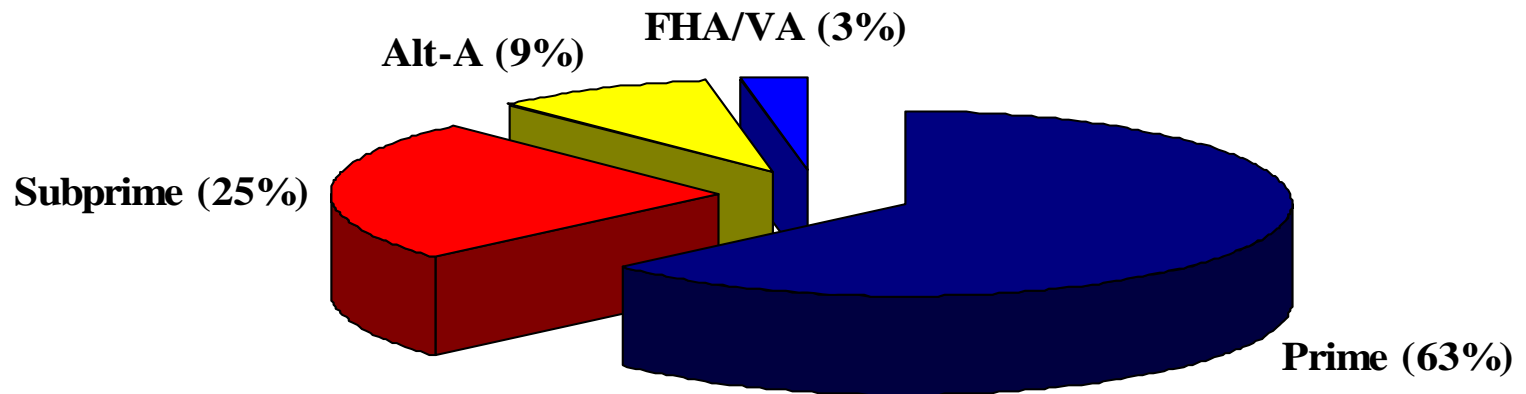


Residential Mortgage Loans Outstanding by Loan Type in 2004:Q4 (Based on # of Loans)



Source: MBA Estimates

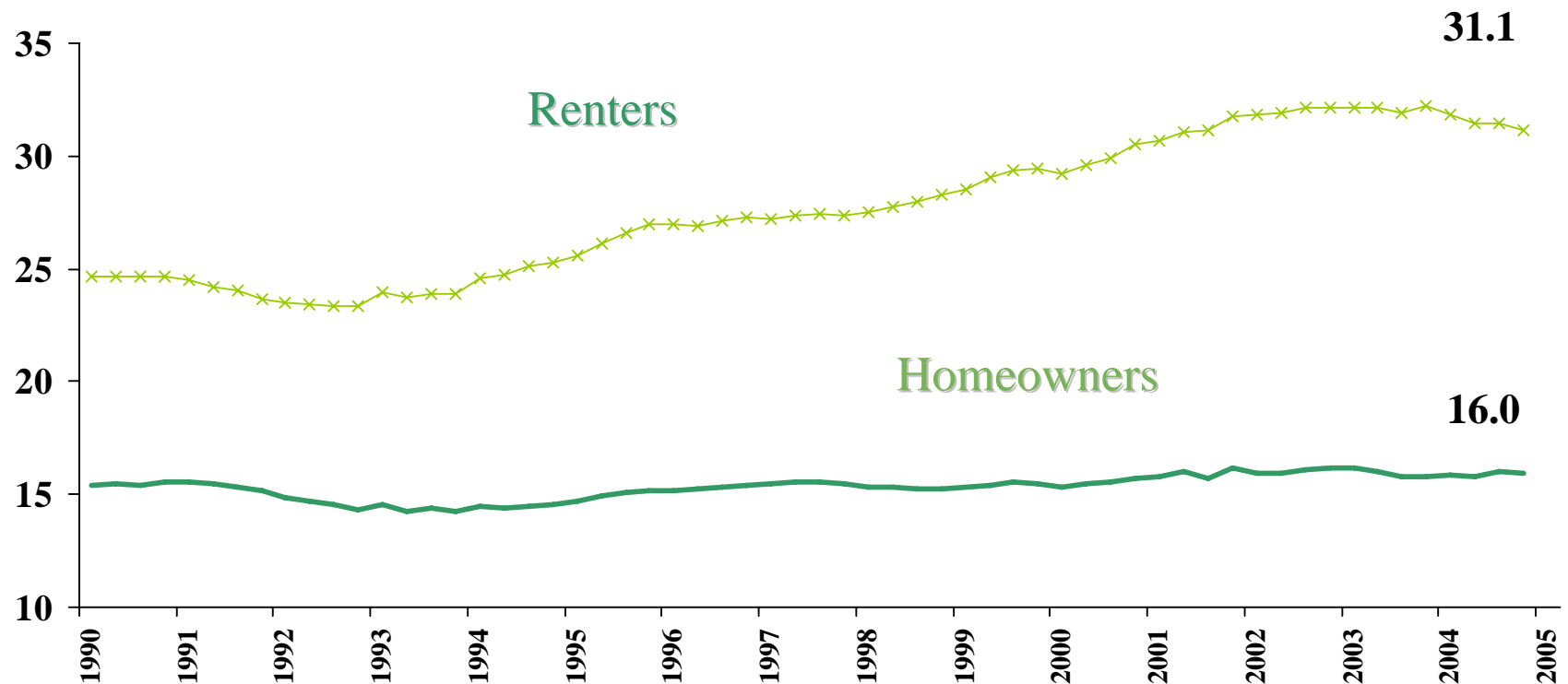
Residential Mortgage Originations by Loan Type in 2004:Q4 (Based on \$ Volume)



Source: MBA Estimates

Financial Obligations Ratio

Obligations as a Percentage of Disposable Personal Income, SA



Source: Federal Reserve Board

Breakdown of Households: 2003

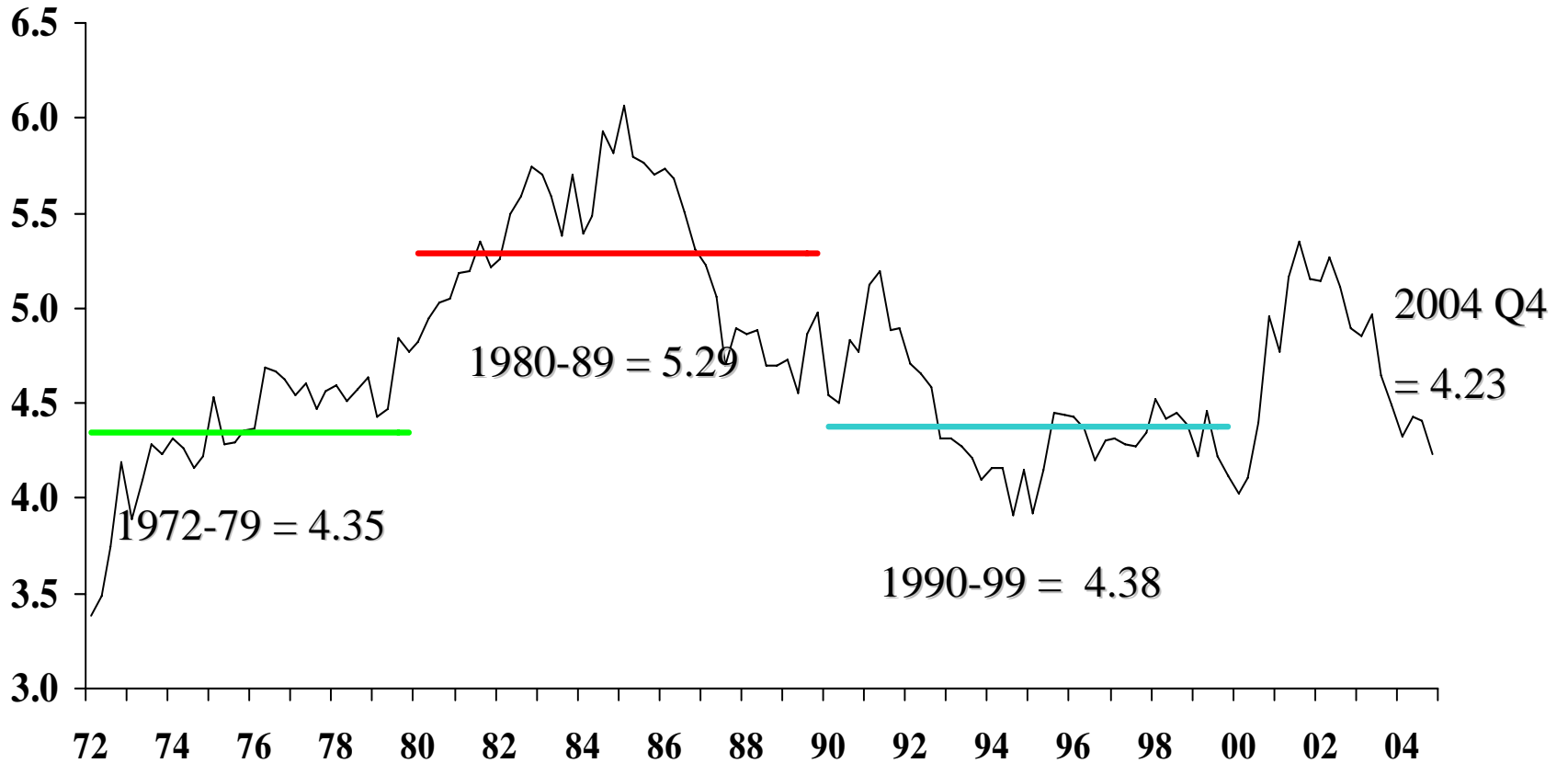
	Number of Households (Millions)	Percent of Total	Percent of Owners
Total	105.6	100.0	
Renters	33.6	31.7	
Owners	72.2	68.3	100.0
No Mortgage	25.0	23.7	34.6
1 Mortgage	33.4	31.6	46.3
2 Mortgages	8.1	7.7	11.2
3+ Mortgages	0.9	0.9	1.2
Not Reported	4.8	4.5	6.6



Source: American Housing Survey

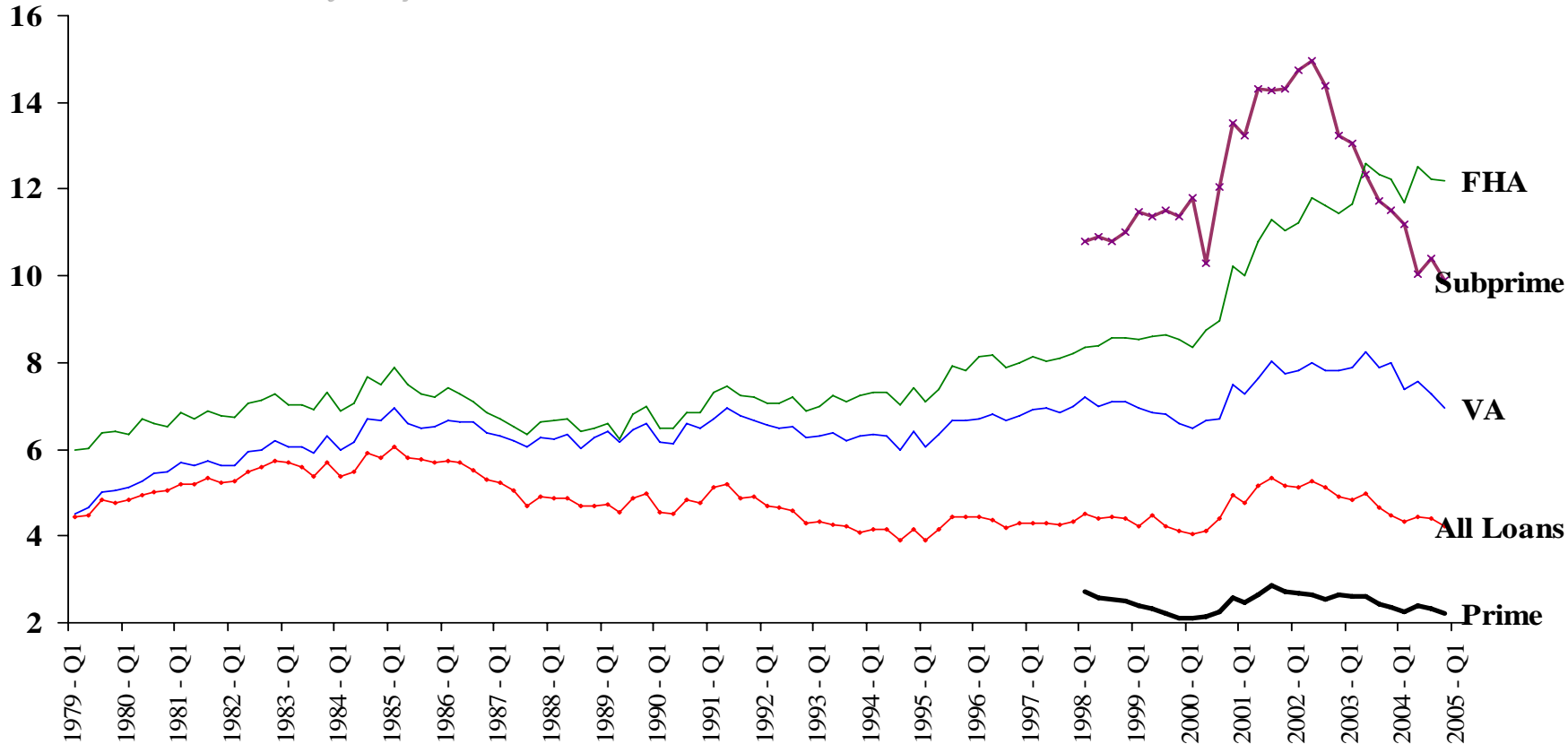
Residential Delinquency Rate

(Percent, Seasonally Adjusted)



Total Past Due for US by Loan Type

Percent, Seasonally Adjusted

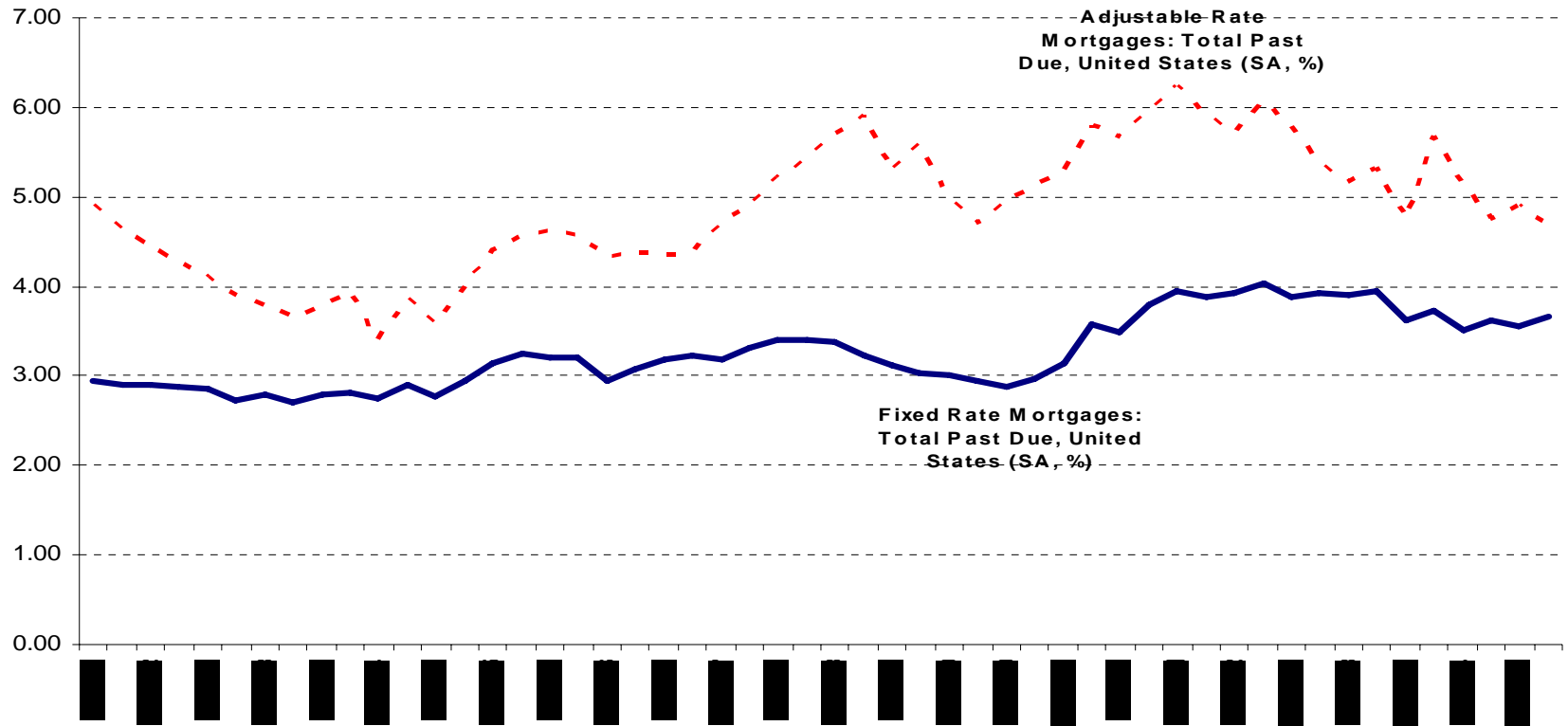


Source: MBA National Delinquency Survey

FRM v. ARM Total Delinquency Rates

FRM v. ARM Total Past Due (All Loans)

Percent Of Loans

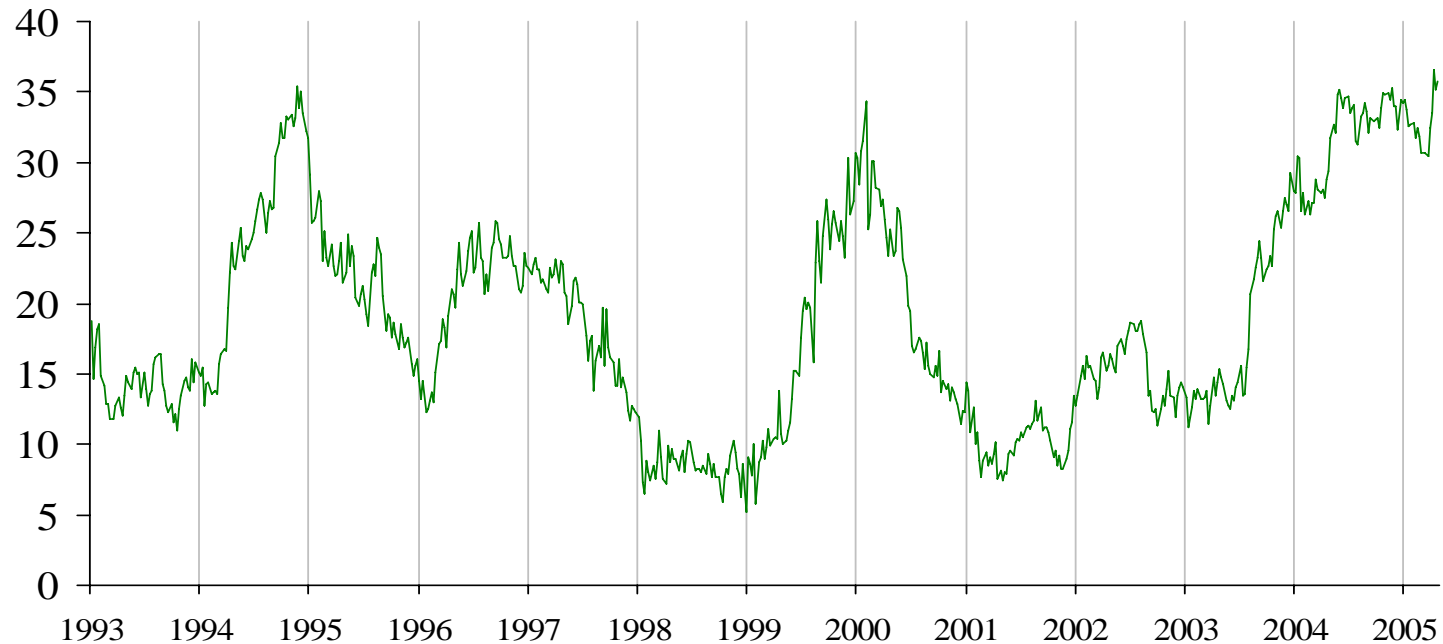


Source: MBA National Delinquency Survey

ARM Share of Mortgage Applications

Percent of Total Loans

By Week



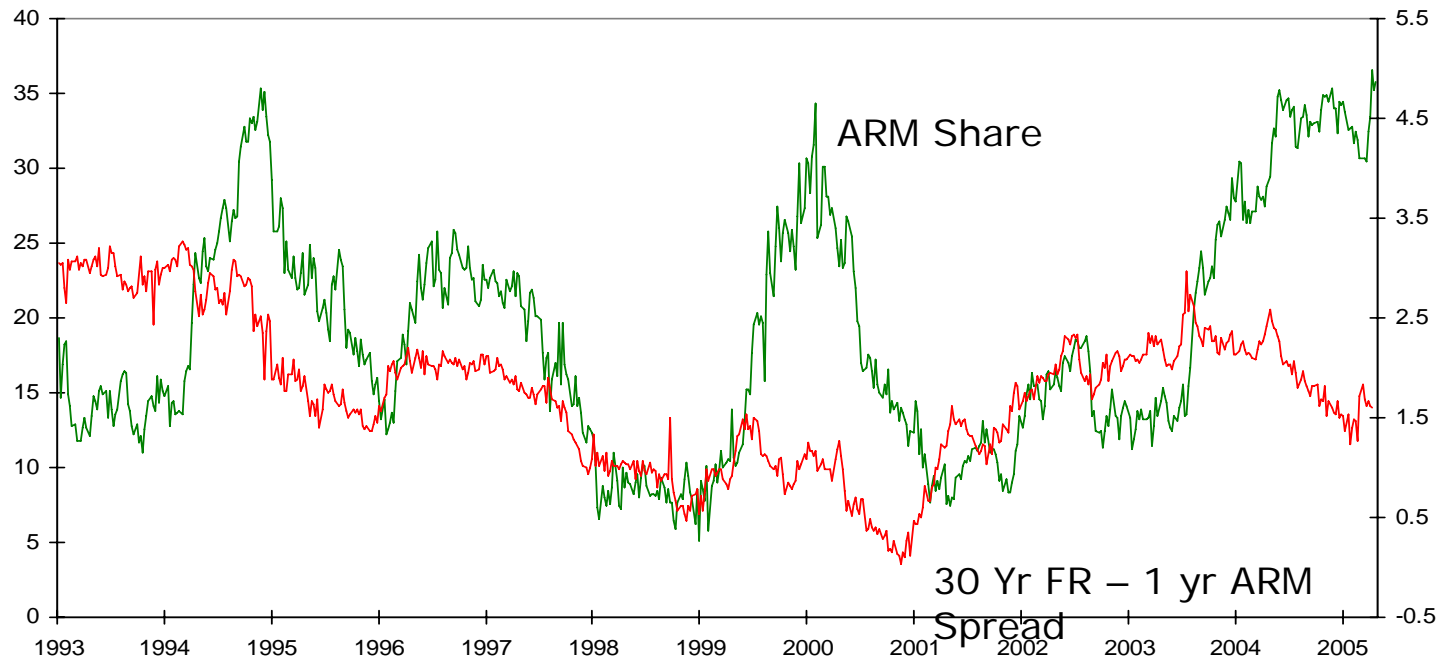
Source: MBA Weekly Mortgage Applications Survey

ARM Share v. Loan/Short Interest Rate Spread

Percent of Total Loans

By Week

Spread



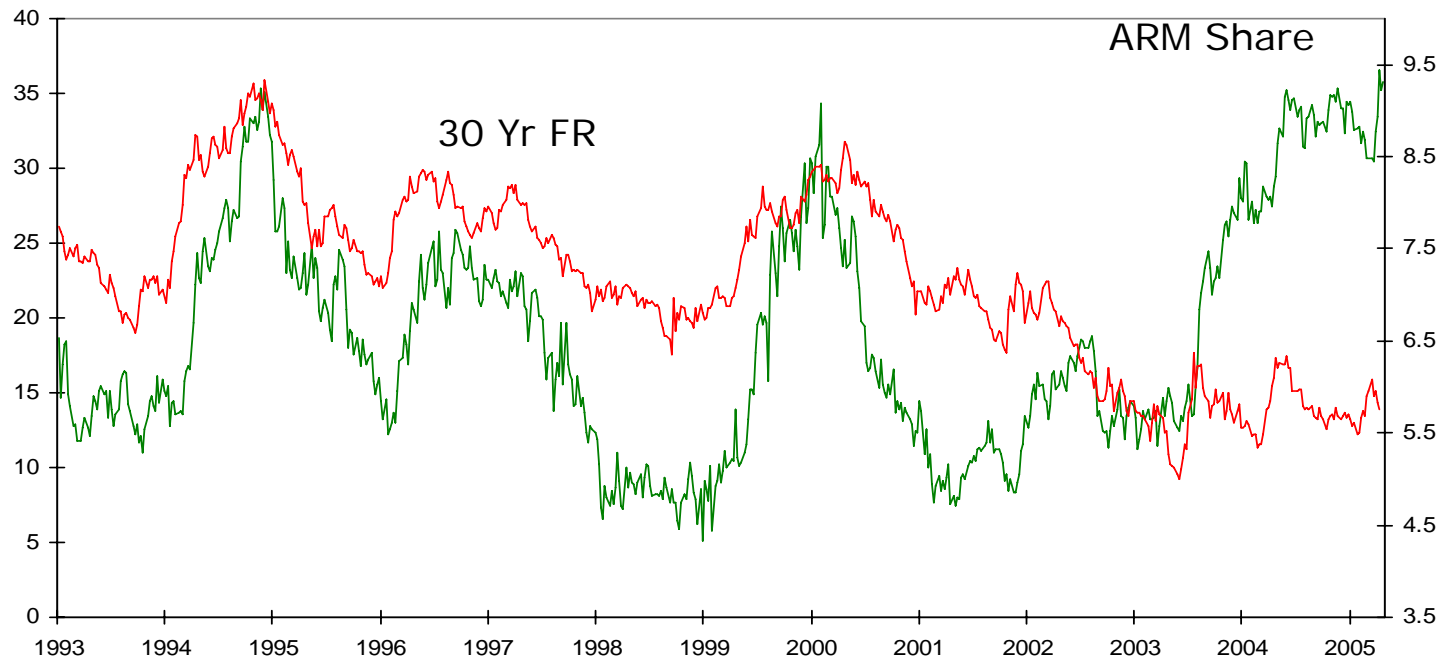
Source: MBA Weekly Mortgage Applications Survey

ARM Share v. 30 Yr FR

Percent of Total Loans

By Week

30 Yr FR



Source: MBA Weekly Mortgage Applications Survey



Payment Dynamics (1)

30 Year FRM vs. 1 Year Treasury ARM

Assume: Loan \$240,000 Short rates rise 1% per year for 3 years
 Principal=
 FRM= 5.8% ***Four Year Horizon**
 ARM= 4.2%

	<u>FRM Payment</u>	<u>ARM Payment</u>	<u>Monthly Difference FRM - ARM</u>	<u>Annual Difference FRM - ARM</u>
Year One	1,408	1,174	234	2,808
Year Two	1,408	1,314	94	1,128
Year Three	1,408	1,459	{51}	{612}
Year Four	1,408	1,606	{198}	{2,376}

Payment Dynamics (2)

30 Year FRM vs. 3/27 Deferred Amortization (FRM)

Assume: Loan Principal= \$240,000

***Four Year Horizon**

FRM= 5.8%

Deferred Amount= 6.0%

	<u>FRM</u>	<u>Deferred Amount</u>	<u>Monthly Difference</u>	<u>Annual Difference</u>
Year One	1,408	1,174	234	2,808
Year Two	1,408	1,174	234	2,808
Year Three	1,408	1,174	234	2,808
Year Four	1,408	1,498	{90}	{1,080}

MBA Long-term Mortgage Finance Forecast

April 14, 2005

	2004		2005				2006				2007				2004	2005	2006	2007
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4					
Housing Measures (Thous)																		
Housing Starts	1,975	2,139	1,961	1,893	1,838	1,784	1,769	1,734	1,745	1,726	1,722	1,730	1,742	1,952	1,958	1,758	1,730	
Single-Family	1,621	1,743	1,619	1,554	1,501	1,450	1,438	1,407	1,413	1,394	1,383	1,387	1,394	1,605	1,604	1,427	1,390	
Two or More	355	395	342	339	336	334	330	327	332	333	339	343	348	347	353	331	341	
Home Sales																		
Existing Homes	6,047	5,930	5,875	5,771	5,581	5,553	5,378	5,373	5,421	5,432	5,497	5,573	5,602	5,913	5,789	5,431	5,526	
New Homes	1,234	1,232	1,208	1,182	1,130	1,121	1,039	1,012	1,009	991	991	990	991	1,198	1,188	1,045	991	
Median Price of Existing Homes (Thous \$)	187.5	183.5	190.8	195.7	194.9	193.3	201.6	206.7	200.9	205.4	212.0	215.8	212.6	182.8	191.3	200.6	211.5	
Median Price of New Homes (Thous \$)	228.0	228.2	230.7	231.1	230.4	235.0	244.4	242.7	238.4	235.6	246.9	248.8	245.1	217.9	230.1	240.1	244.1	
Interest Rates (%)																		
30-Year Fixed Rate Mortgage	5.7	5.8	6.1	6.4	6.6	6.7	6.9	7.0	7.1	7.3	7.3	7.4	7.3	5.8	6.2	6.9	7.3	
10-Year Treasury Yield	4.2	4.3	4.6	4.8	5.0	5.1	5.2	5.3	5.5	5.6	5.6	5.6	5.6	4.3	4.7	5.3	5.6	
1-Year Treasury ARM	4.1	4.4	4.7	4.9	5.1	5.2	5.3	5.4	5.5	5.6	5.6	5.6	5.6	3.9	4.7	5.4	5.6	
1-Year Treasury Yield	2.5	2.9	3.4	3.7	4.0	4.3	4.4	4.5	4.6	4.7	4.7	4.7	4.7	1.9	3.5	4.5	4.7	
Mortgage Originations																		
Total 1-to-4-Family (Bill \$)	626	588	692	672	546	496	593	593	506	459	590	598	526	2,652	2,498	2,188	2,174	
Purchase	363	318	436	430	350	312	421	421	349	317	449	454	379	1,479	1,530	1,499	1,592	
Refinance	263	271	256	242	197	183	172	172	157	142	142	143	147	1,174	968	689	582	
Refinance Share (%)	42	46	37	36	36	37	29	29	31	31	24	24	28	44	39	32	27	
ARM Share (%)	36	32	34	36	37	36	36	37	36	37	38	37	35	34	35	36	37	

Notes:

Housing starts and home sales are seasonally adjusted at annual rate.

Total 1-to-4-family originations and refinance share are MBA estimates. These exclude second mortgages and home equity loans.

Refinance share is percent of total dollar volume of closed loans.

ARM share is percent of total number of closed conventional purchase loans.

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