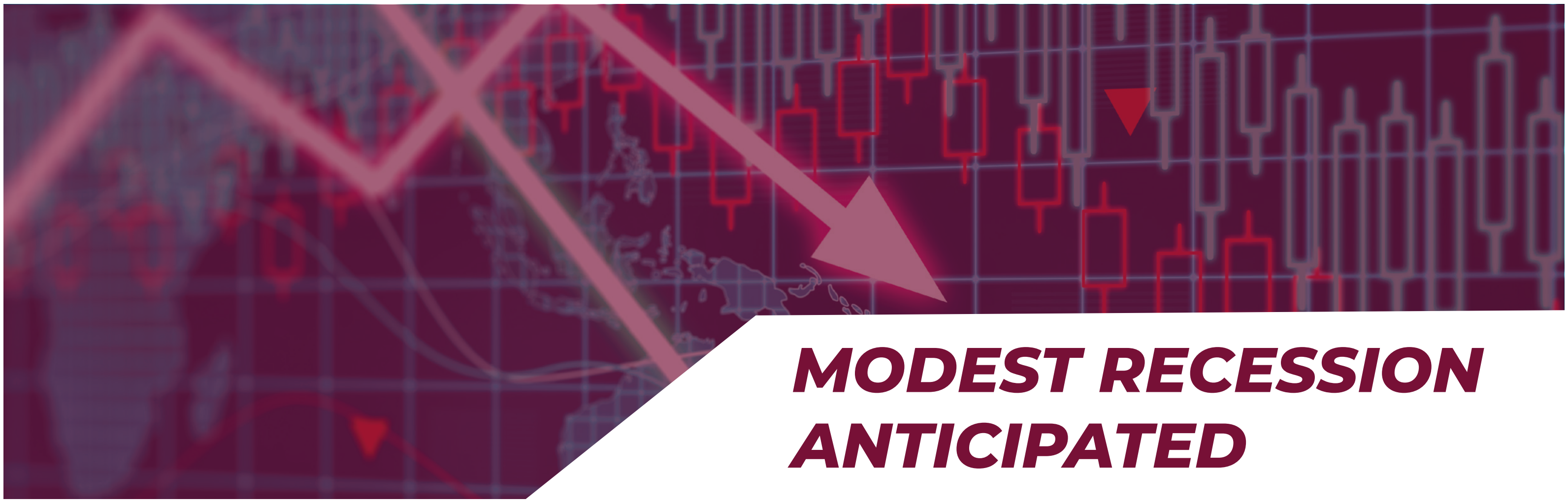

MODEST RECESSION ANTICIPATED

APR 2023 — **Fannie Mae's Economic and Strategic Research (ESR) Group forecast a modest recession in the first half of 2023.** It also said the Federal Reserve likely is near its eventual terminal rate, though noted there was a risk for "tighter-for-longer" monetary policy should a recession be delayed or avoided altogether, or alternatively, if inflation measures do not continue to cool.

According to the group, the current rate of consumption is "unsustainable" relative to disposable income. It forecast an eventual retrenchment of the consumer will be a major factor in the coming economic contraction. **Fourth quarter and fourth quarter GDP growth 2023 is going to be negative 0.6 percent, one-tenth lower than the previous forecast.**

"There are economic signals pointing to recession but also signs that a 'soft landing' may be in the offing," Fannie Mae Senior Vice President and Chief Economist Doug Duncan said in a release. "In our view, the balance still suggests a modest recession, particularly if the Federal Reserve maintains its focus on labor market tightness.

"While limited and tentative signs of a slowing labor market are appearing, overall, labor remains robust," he added. "The market sees the Federal Reserve easing in the second half of the year, which can be interpreted either as a view that the recession is forthcoming or that the slowdown in inflation will lead to a less restrictive monetary posture."

Duncan said if the latter occurs, the lower accompanying rates likely will set the stage for a pickup in housing activity going into 2024. However, if the market is wrong and the Fed does as it has stated it will do and holds the federal funds target at the terminal rate longer to ensure no inflation resurgence, then the accompanying rate decline and associated revival in housing activity likely will be delayed.

Either way, it is expected to be a slow year for the housing market, he concluded.

The ESR group said it is expecting a cumulative 6.7 percent home price decline over the next two years, as the pressure on housing affordability remains. **A repeat of the Great Financial Crisis does not seem likely, and housing affordability should gradually improve over the longer term because of a combination of house price declines, modestly lower mortgage rates, and stronger than usual nominal income growth.**

SOURCE: Valuation Review https://bit.ly/429FEbJ

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