

On Wednesday March 17, 2010, 11:25 am

By Al Yoon

NEW YORK (Reuters) - Fannie Mae, the largest provider of U.S. residential funding, on Wednesday slashed its forecast for residential investment this quarter following a "setback" in home sales, and warned on its impact on the economic recovery.

Fannie Mae ([FNM](#) - [News](#)) also cut its forecast for 2010 mortgage originations for a second month, according to its monthly outlook.

Residential investment is likely to drop 17.2 percent in the first quarter and rebound for the rest of 2010, Fannie Mae economists, led by Doug Duncan, said in their outlook. Just a month ago, they expected the first quarter's residential investment would rise 2.8 percent.

For all of 2010, residential investment will grow 10 percent, slightly below the previous forecast, they said.

Severe weather disrupted activity in the first two months of 2010, while the extension of the U.S. home-buyer tax credits drew fewer buyers than expected, the economists said. With activity waning for the short-term, Fannie Mae lowered its forecast for U.S. gross domestic product to 2.7 percent for the first quarter, from 3.1 percent.

"Unfortunately, despite the high hopes associated with the extended and expanded homebuyer tax credit, housing activity appears to have faced a setback that went beyond the impact of adverse weather conditions," the economists wrote.

"Continued recovery in housing is the key to a durable economic recovery, and a renewed decline in activity adds downside risks to that outlook," they added.

The changes came after new and existing home sales dropped sharply in January. On Tuesday, the Commerce Department said housing starts fell 5.9 percent in February.

Home loan origination volume will likely slide to 1.31 trillion in 2010 from about 1.97 trillion in 2009. That is down from 1.34 trillion in February, and would mark the fewest since 2000, according to Mortgage Bankers Association data.

<http://www.reuters.com/article/idUSN1715886520100317>