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RESEARCH AND ECONOMICS

MBA Forecast Commentary: August 2024

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Summary of the August 2024 forecast

- Recent data have shown that inflationary pressures have been declining and the job market is weakening – slower job growth, slower hiring, higher unemployment, fewer job openings, and slowing wage growth. Additionally, business activity is slowing and consumers, despite their spending habits, are showing increased financial stress.
- The FOMC did not change its target for the federal funds rate following its July meeting but did shift its statement to acknowledge that inflation is slowing, unemployment is rising, and that there are now more balanced risks to the economy. While the Fed still hopes for a slower rate of inflation, there is a greater risk now that keeping monetary policy overly tight for too long could lead to unnecessarily higher unemployment. The FOMC vote to keep rates steady for now was unanimous, but there have been increasing calls from many Federal Reserve officials to begin cutting rates. We expect a first rate cut from the Fed in September of 2024 and a total of three rate cuts this year. As noted in previous months, this rate cutting cycle is likely to be shorter and less steep than prior ones, with the terminal rate remaining above 3 percent and perhaps as high as 3.5 percent.
- The 10-year Treasury yield dropped below 4-percent earlier in the month in response to these various data points and market expectations for the Fed's future policy path, and mortgage rates moved in tandem, dropping below 6.5 percent, which spurred a few weeks of strong refinance activity. We continue to expect that they will likely end 2024 at around 6.5 percent given recent volatility in markets and the how sensitive rates are to incoming data, including potential upside risks in inflation. Our forecast for "higher for longer" path for rates will result in a flatter originations path over the forecast horizon, with 2024 origination volume at just below $1.8 trillion and 2025 volume at around $2 trillion.
- The ISM indexes for both manufacturing and service sectors indicate modest contraction in economic activity, while rising levels of consumer credit usage and climbing delinquency rates point to an impending slowing in consumer spending, as many debt burdens start to increase and consumers shift away from discretionary purchases.
- July's CPI report showed overall inflation at 3.2 percent, core inflation at 2.9 percent, both measures at their lowest since 2021. Shelter price growth saw a 5.1 percent growth rate over the 12-month period and was the fourth consecutive month of deceleration. As asking rents continue to grow at a slower pace, the CPI rent measure should trend lower over time. The weaker job market should continue to push down on wage growth, which will help bring down non-shelter services inflation.

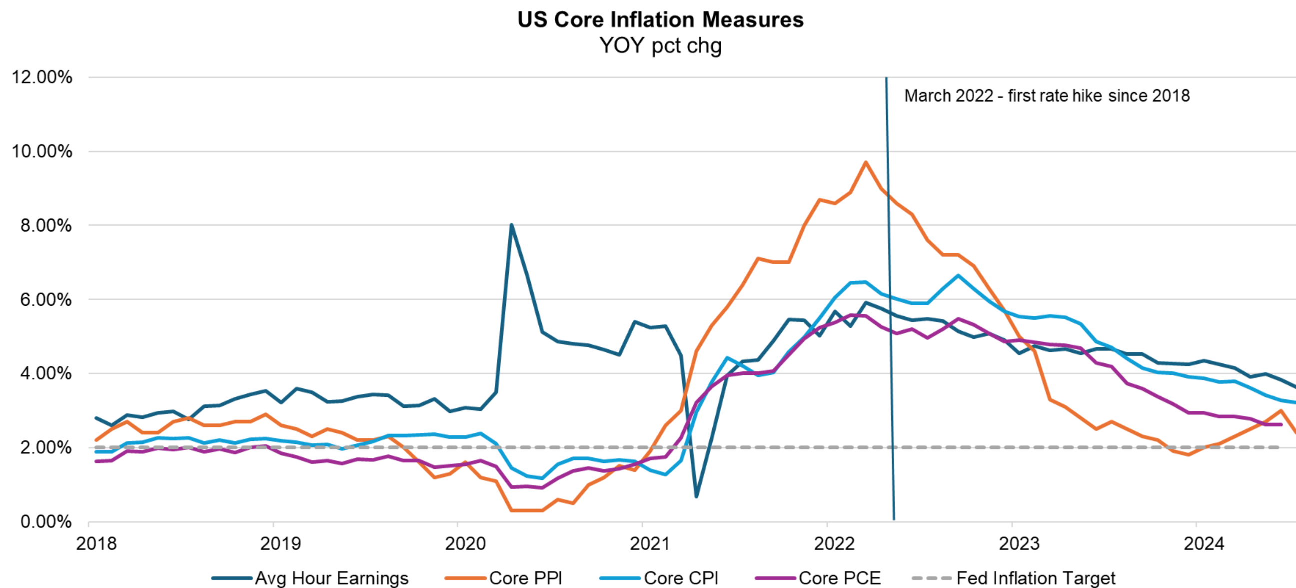
- Nonfarm payroll job growth at 114,000 jobs in July was well below the 12-month average of 215,000, while the unemployment rate moved up to 4.3 percent and wage growth slowed to 3.6 percent. This slowing is consistent with trends in other data including the slower hiring rate, increases in initial claims for unemployment insurance, signs of contraction in the manufacturing sector, and signs of stress for households. Additionally, payroll growth for the prior two months was revised down by a cumulative 29,000 jobs. Job growth was weak across the board, with small gains or losses across the economy. Not only did the headline unemployment rate increase, but the broader U-6 measure showed an even bigger increase, highlighting that more people are struggling in this job market.
- Single-family housing starts slowed in July to a seasonally adjusted annualized pace of 851,000 units, the slowest pace since early 2023. However, much of that drop was driven by a fall in starts in the South, which was likely due to the adverse impact from Hurricane Beryl. Single-family permits were essentially unchanged from the previous month at 937,000 units. Multifamily starts increased to a 387,000 unit pace, the strongest pace in six months. The number of apartment units under construction at 886,000 units, and this pending supply is coming at a time of higher vacancy rates and slowing rent growth in many markets.
- Despite the drop in single-family starts in July, we continue to see strength in newly built homes as shown by our data from builder affiliated mortgage lenders. Purchase applications for new homes were up 9 percent on a year-over-year basis. Given the affordability constraints in the housing market, especially for entry-level, it was also unsurprising to see the FHA share of applications hit its highest level (29 percent) in the survey dating back to 2013.
- Existing home sales in June decreased to 3.89 million units at a seasonally adjusted annualized rate, compared to 4.1 million units in May. Additionally, NAR reported that for-sale inventory increased to 1.32 million units to a 4.1 month supply. This is welcome news but inventory levels remain far below typical levels seen pre-pandemic. New home sales dipped in June to a SAAR of 617,000 units from 621,000 units in May, while for-sale inventory edged higher to 476,000 units, a 9.3 month supply. Given the recent loosening in inventory, we expect home price growth will continue to moderate from the current 6 percent pace down to around 3-4 percent over the next two years.
- 10-year Treasury yields have fallen below 4 percent and we forecast that this rate will hover around this level for the rest of the year as markets grapple with signs of a weakening economy, lower inflation, rate cuts from the Fed, but also upside risks to inflation from resilient sectors of the economy and some uncertainty around job market data. We expect that mortgage-Treasury spreads will tighten further over the forecast horizon but may not quickly return to historical averages of 180 basis points as the Fed plots the next phases of reducing its balance sheet holdings. The combination of these factors implies a 30-year fixed mortgage rate remaining in a 6 to 6.5 percent range through the end of 2024.
- The recent drop in mortgage rates from above 7 percent to 6.5 percent generated a pickup in refinancing activity in recent weeks, mostly from borrowers from recent loan cohorts with

significantly higher rates. This refinance potential is likely to be somewhat limited however, as a majority of borrowers still have rates of 5 percent or less.

- Mortgage origination volume is expected to increase 20 percent in 2024 to $1.76 trillion, although this large percentage growth comes relative to an extremely low base in 2023. In our August forecast, we revised 2023's estimates based on the most recent Home Mortgage Disclosure Act (HMDA) data. Total origination volume is now estimated at $1.46 trillion for 2023, a downward revision from $1.6 trillion. Purchase volume for 2023 is now estimated to have been $1.24 trillion, compared to $1.33 trillion in the previous forecast, and refinance volume was also revised lower to $219 billion vs $314 billion previously.
- In terms of units, we forecast a 5 percent increase in the total number of loans originated in 2024 to 4.4 million units, compared to a downwardly revised 4.2 million units in 2023, which was the lowest level since at least 1997.
- For 2025, we expect an 18 percent increase in total originations, driven by an 11 percent increase in purchase volume and a 37 percent increase in refinances. Home price appreciation, combined with growth in both new and existing home sales, is expected to support purchase growth in 2025. As noted earlier, for-sale inventory continues to recover, but as rates continue to decline, the lock-in effect on inventory should also fade over time.

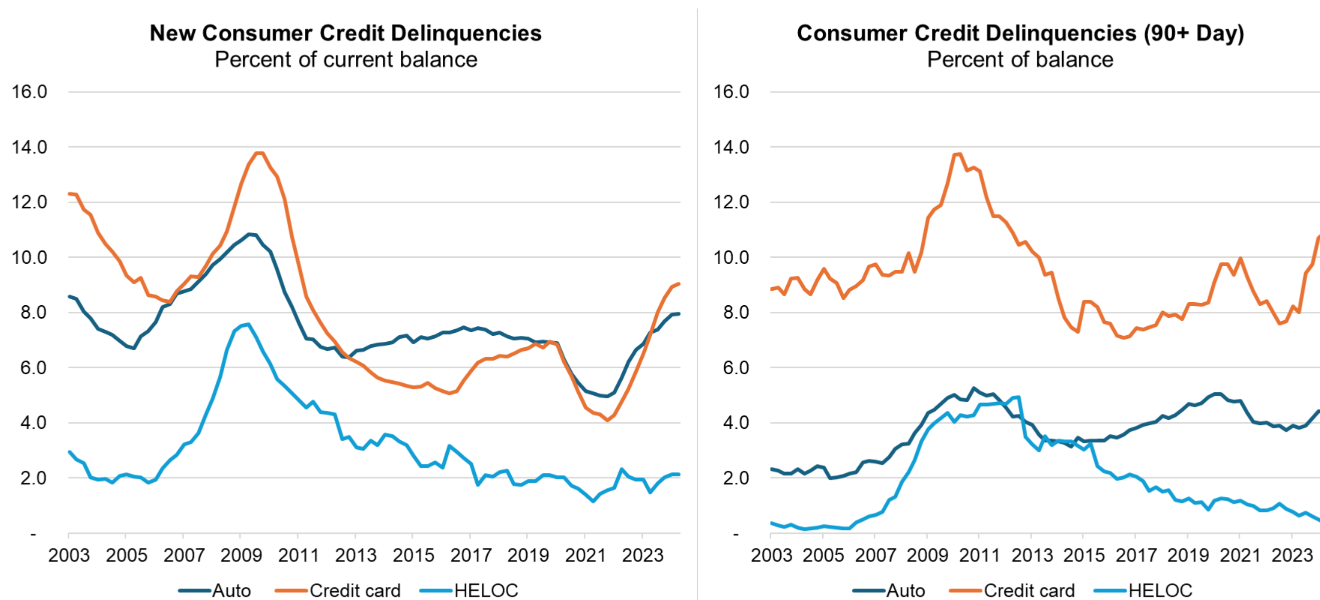
Forecast and Outlook Details

Latest Inflation Data Shows Continued Downward Trend, Still Farther to Go



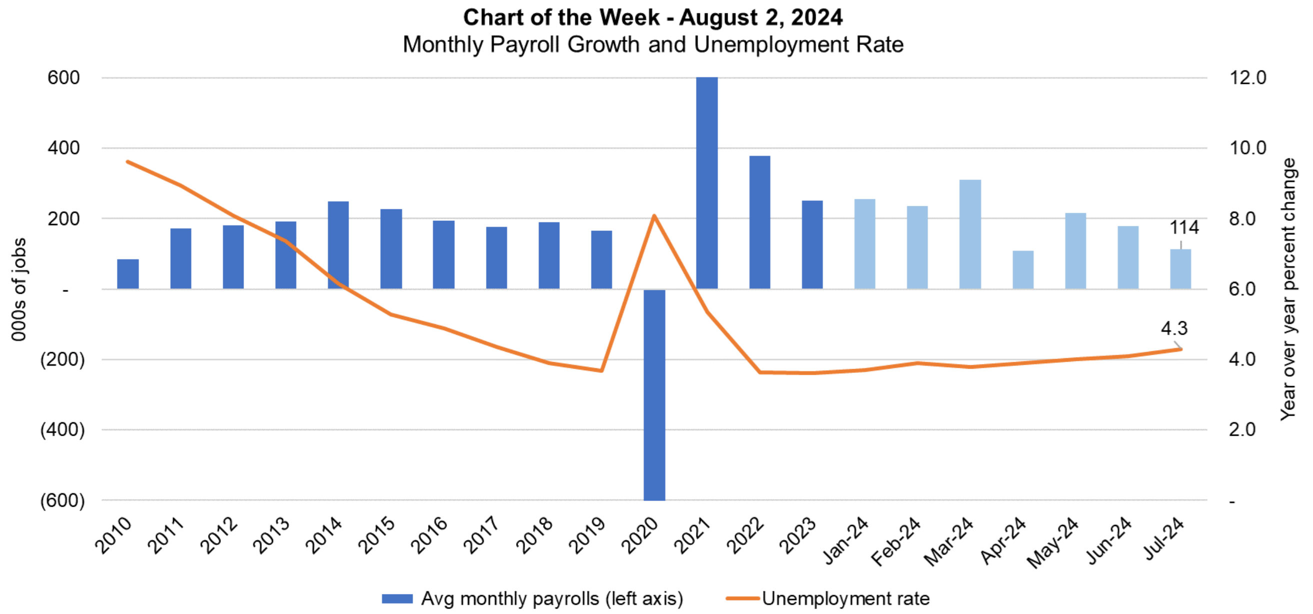
Source: Bureau of Labor Statistics

Signs of Financial Strain for Consumers



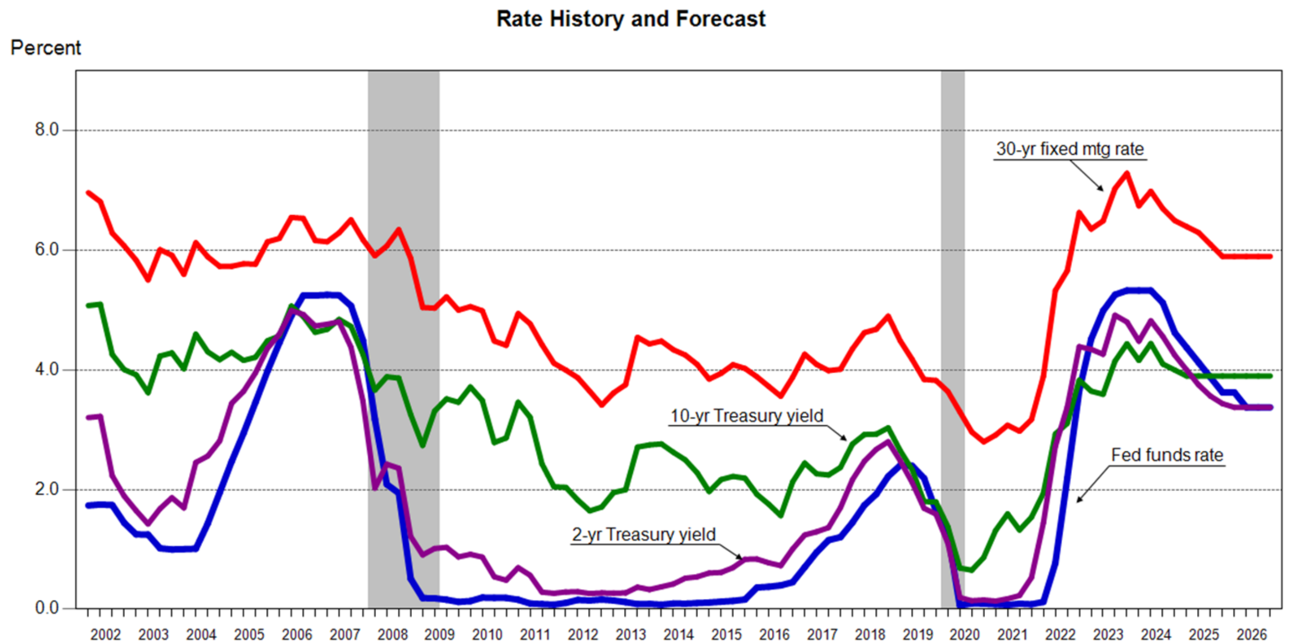
Source: Federal Reserve Bank of New York

Job Market Cooling



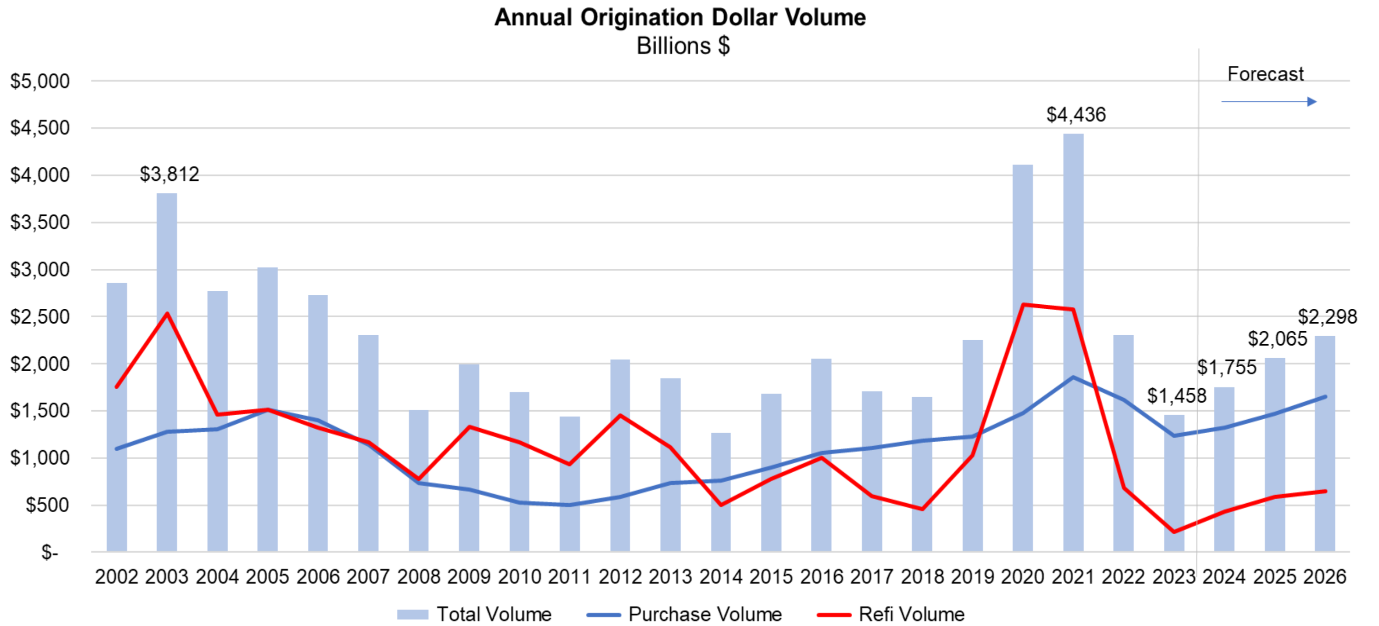
Source: Bureau of Labor Statistics

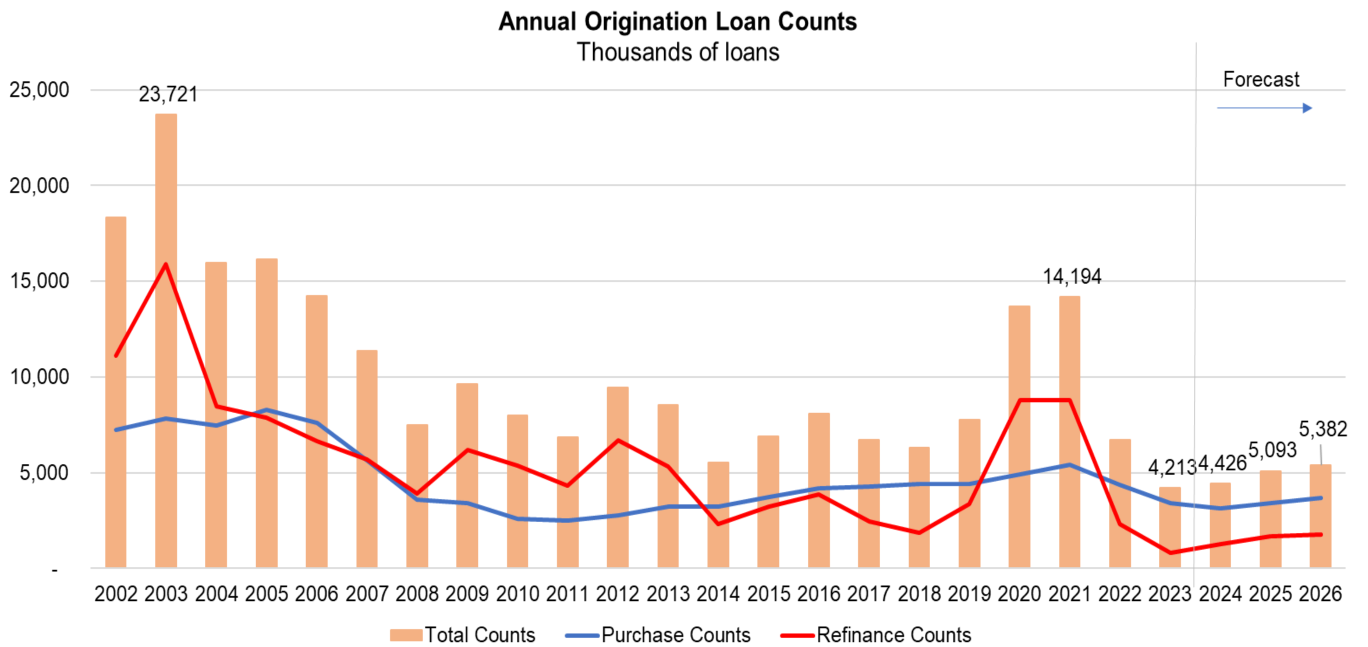
Rates Dropping…Market Volatility And/Or Slowing Economy?



Source: Federal Reserve Board, Freddie Mac, MBA Forecast

Originations Forecast to Increase in 2024; 20 Percent Growth in Dollars, 5 Percent in Units





Revision note – 2023 totals revised as of August 2024 based on 2023 HMDA data

Source: Mortgage Bankers Association