MBA

RESEARCH AND ECONOMICS

MBA Forecast Commentary: November 2024

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Summary of the November 2024 forecast

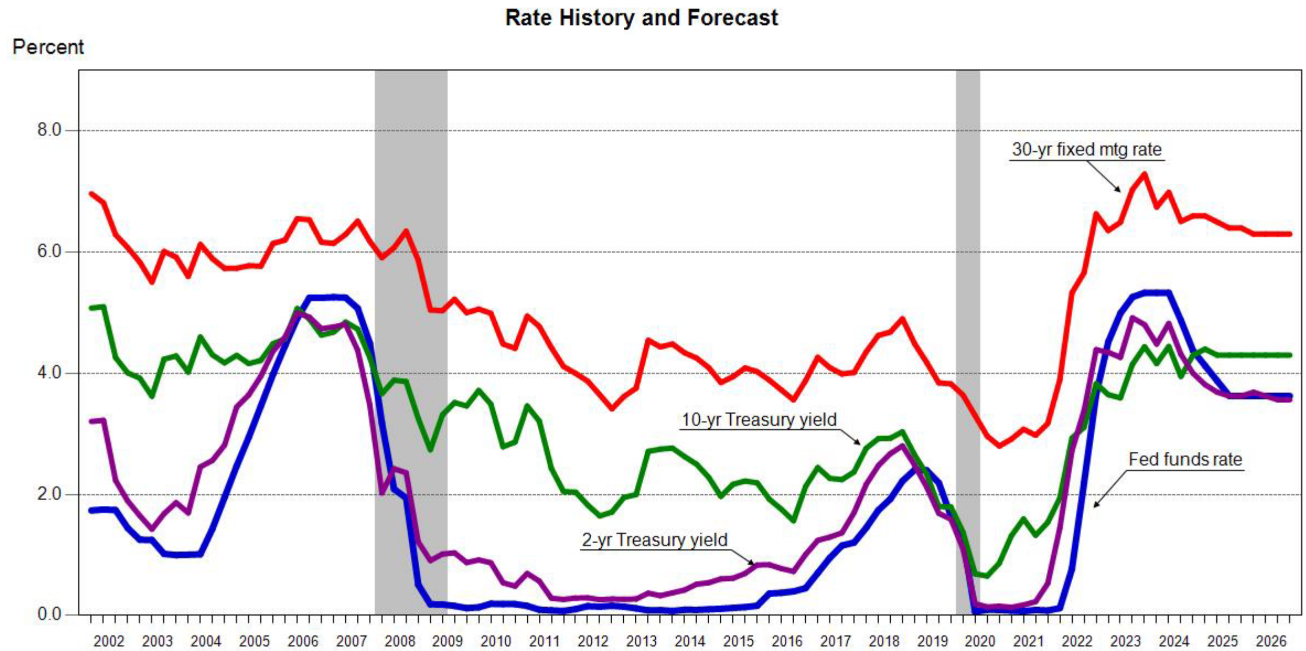
- With an incoming Trump administration and Republican control of the House and Senate, our November forecast reflects faster economic growth, somewhat higher inflation, and larger deficits than the October forecast, all of which leads to a higher path for rates. Markets moved immediately to price in these changes, with the 10-year increasing to over 4.4 percent after election day (November 5th) and staying in the 4.3 percent neighborhood since. Mortgage rates have followed the 10-year up and neared the 7 percent mark again recently. We expect that mortgage rates will range between 6 and 7 percent for the foreseeable future, centered around 6.5 percent.
- Our forecast is for economic growth to average 1.8 percent in 2025, driven by resilient consumer spending, greater optimism and investment from the business sector, and a stock market that continues to outperform expectations. We expect slightly weaker growth in 2026 and 2027, as slower global growth and higher tariffs eventually pose a drag to growth in the US.
- We expect the 10-year Treasury yield to average 4.3 percent for the forecast horizon
- 2025 origination volume will increase to $2.1 trillion, up from $1.8 trillion in 2024. This is a downward adjustment from the $2.3 trillion volume estimated in the October forecast due to the higher path for rates.
- The FOMC cut the fed funds rate 25 basis points at its November meeting, noting that risks to its inflation and employment goals were “roughly in balance”. Financial markets had anticipated this rate cut so there was little impact on financial markets at the time, while the larger influence on longer-term rates came from the results of the election. In more recent communication and speeches from Fed officials, it has been expressed that there is some willingness to be patient with respect to further rate cuts given the stubbornness in disinflation. We forecast that the Fed will slow the pace of rate cuts in 2025, ending this cycle at a 3.75% level for the top-end of the fed funds target.
- October’s CPI report showed that headline CPI increased 2.6 percent from a year ago, the first increase after six months of disinflation. Core CPI stayed at 3.3 percent, essentially where it has been for the past five months.

- Employment increased by a mere 12,000 in October, impacted by two major hurricanes that struck in early October. This brought down the 3-month moving average to 104,000 jobs, from 148,000 the month before and to the lowest level since 2020. While the unemployment rate was unchanged for the month at 4.1 percent, the household survey did show a 368,000 decrease in employment, with an estimate that more than 400,000 individuals left the labor force as job seekers pulled back from the market in the face of a slower pace of hiring across the country. This continues a theme we have seen in recent months, where the labor market is not seeing large layoffs but instead an ongoing reduction in job openings and a reluctance by employers to add workers. That said, wage growth remained steady at a 4 percent annual rate.

- Existing home sales increased 3.3 percent in October to a seasonally adjusted annualized rate of 3.96 million units, its highest level in four months. NAR also reported that for-sale inventory increased to 1.4 million units, which was another welcome data point for the housing market as many potential buyers have remained on the hunt for a home.
- New home sales dropped 17 percent to 610,000 units, based on data from the Census Bureau, although a large portion of this was driven by a 27 percent decline in the South likely due to the impact of recent hurricanes. We expect new home sales activity to increase in the near term as single-family permits and starts remain at healthy levels.
- House price growth in the third quarter was 4.4 percent on a year-over-year basis, a marked deceleration from the 5.9 percent growth rate in the second quarter, based on the FHFA's latest house price index report. The quarterly change was 0.7 percent from the second quarter, the slowest since the end of 2022. Slowing demand caused by rising rates has contributed to the slowing in price growth, but as demand continues to outstrip supply, we expect home price growth will stay positive for the next two to three years.
- The FHFA also announced that the conforming loan limit for 2025 will be $806,500 for most single-family properties, a 5.2 percent increase from the 2024 limits. For high-cost areas, the new loan limit will be $1,209,750.
- 2024 mortgage origination volume is expected to be just below $1.8 trillion, growing to $2.1 trillion in 2025 and further increases to $2.4 trillion in 2026 and 20-27. With demographic support for housing demand and the gradual increase in housing supply that is expected, home sales and purchase originations are expected to grow, increasing to $1.4 trillion in 2025 and increasing to $1.6 trillion and $1.7 trillion in 2026 and 2027, respectively.
- Independent mortgage banks (IMBs) and mortgage subsidiaries of chartered banks reported a simple average pre-tax net profit of 18 basis points, or $701 on each loan they originated in the third quarter of 2024, according to the MBA's Quarterly Mortgage Bankers Performance Report. This marks the second consecutive quarter of average production profits, after eight straight quarters of average net production losses.
- The third quarter of 2024 showed companies at both the median and 75th percentiles reporting net production profits for the first time since 2021, when almost all companies were profitable. The median net production income a year ago, in the third quarter of 2023, was a loss of 24 basis points compared to a gain of 18 basis points in the third quarter of 2024. All percentiles for the third quarter of 2024 were similar to 2018 figures.

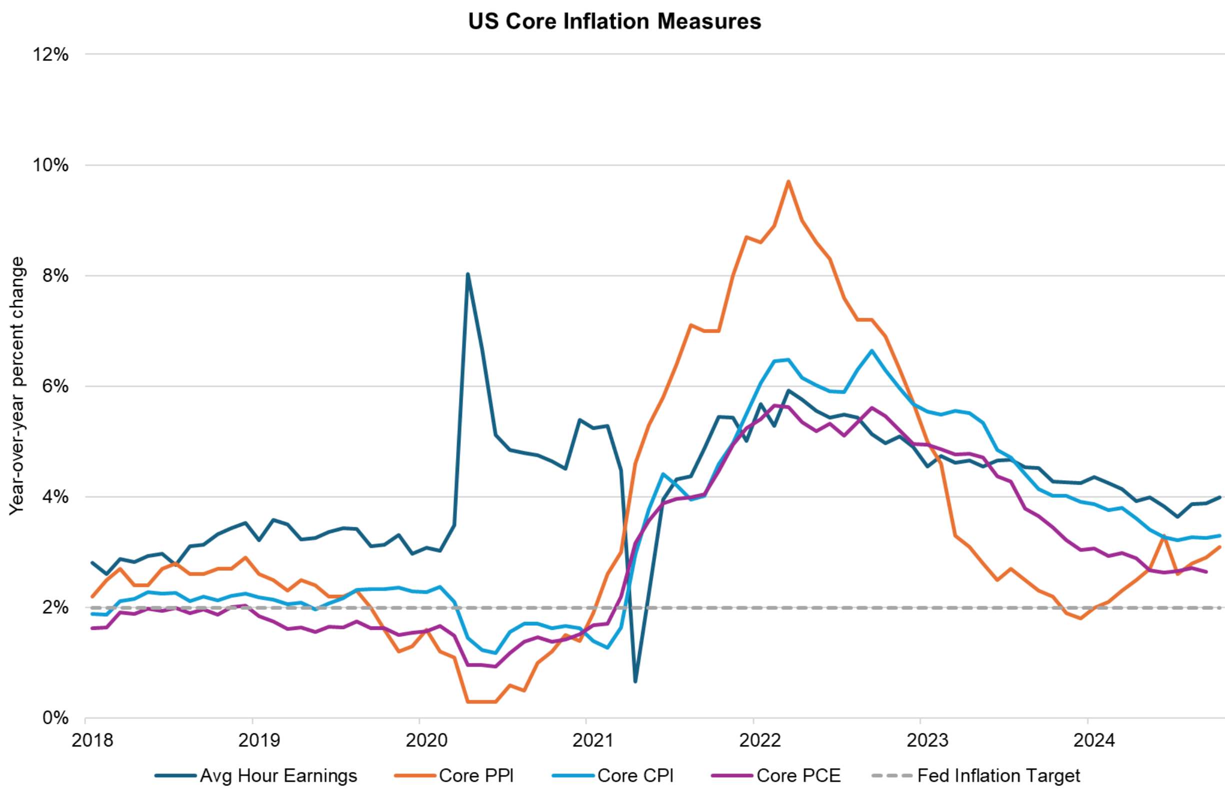
Forecast and Outlook Details

Key Rates Expected to Settle at Higher Level



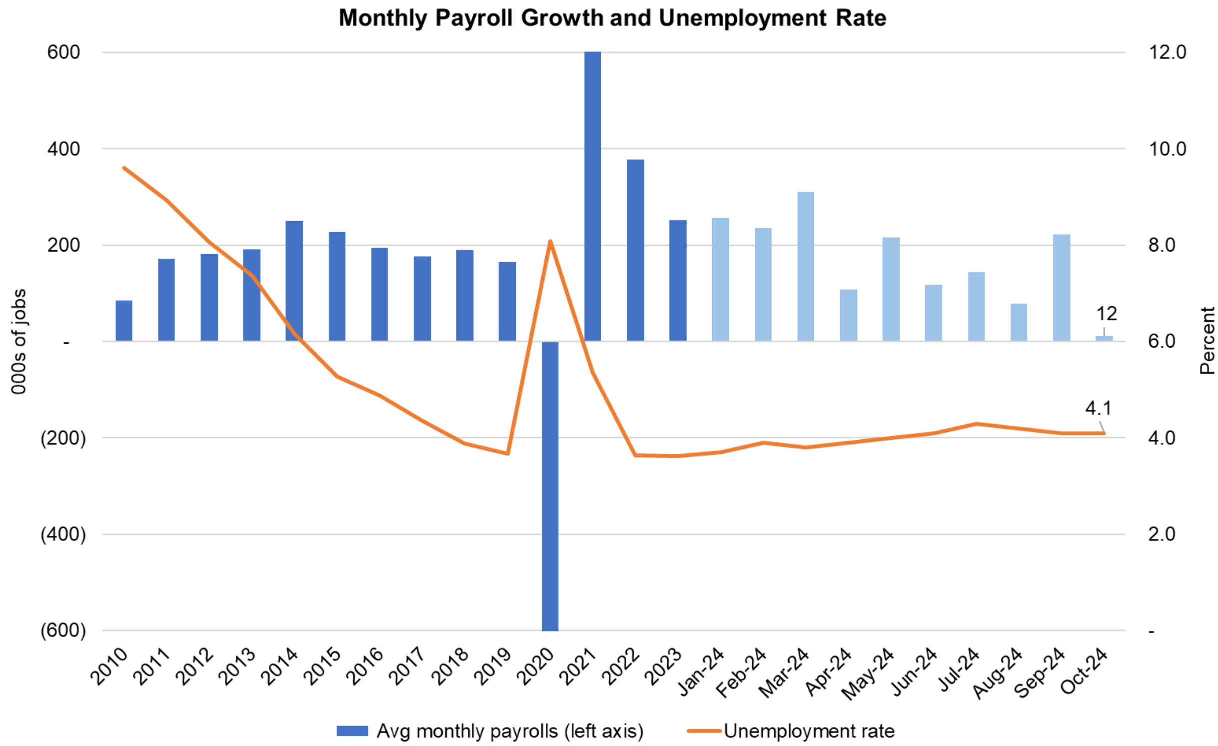
Source: Federal Reserve, Freddie Mac, MBA Forecast

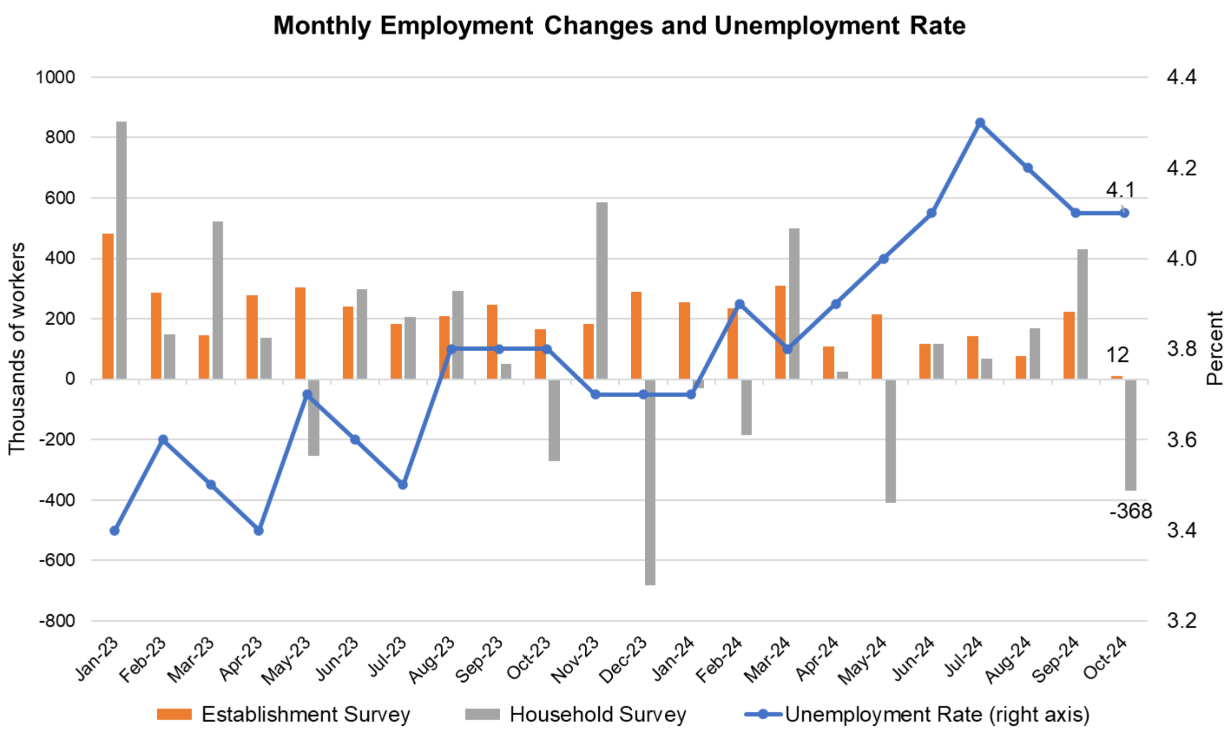
Core Measures of Inflation Remain Sticky



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

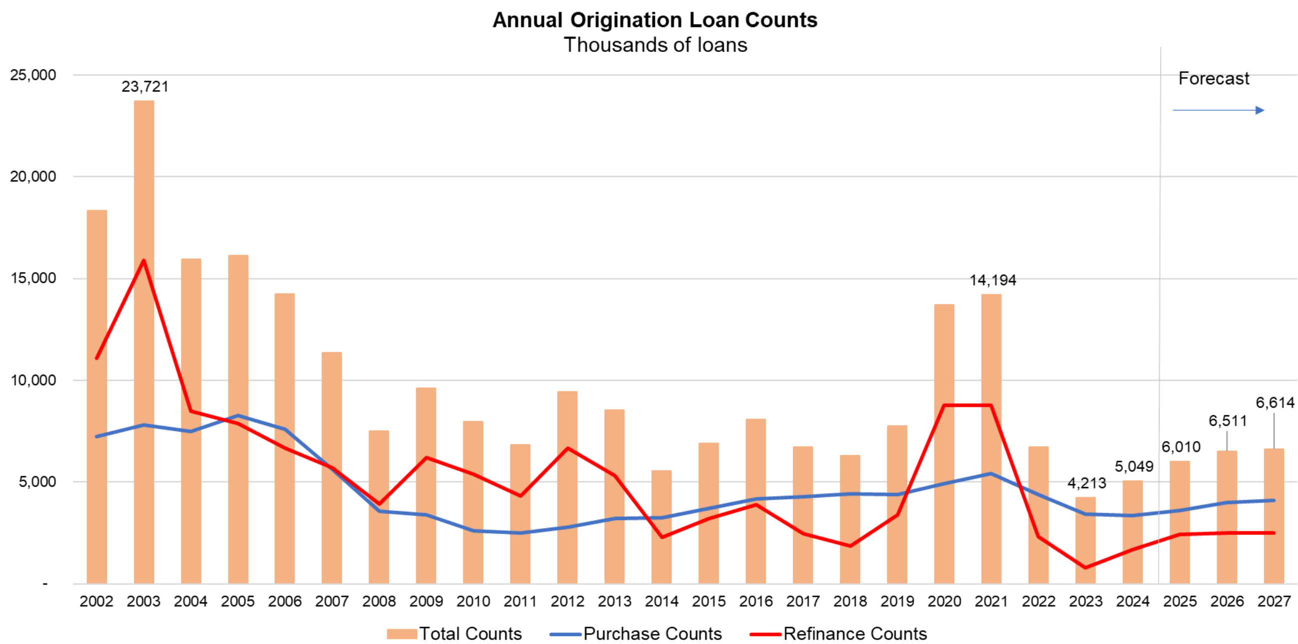
Job Market Showing Signs of Cooling

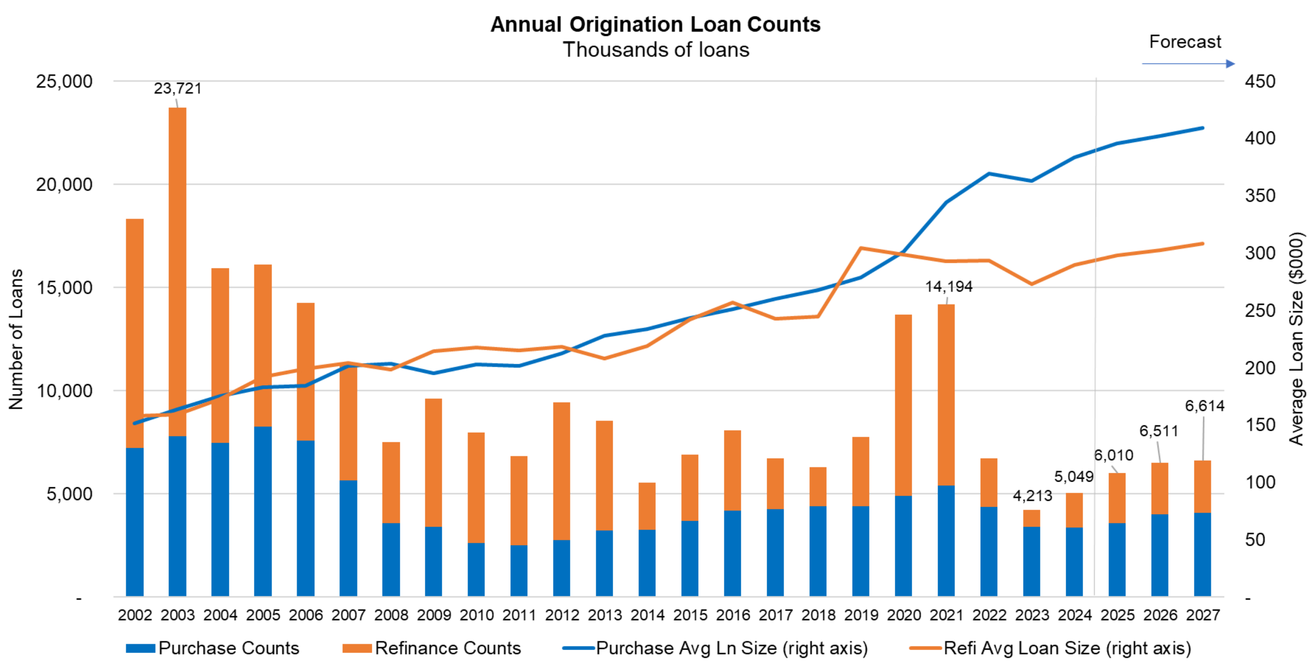




Source: Bureau of Labor Statistics

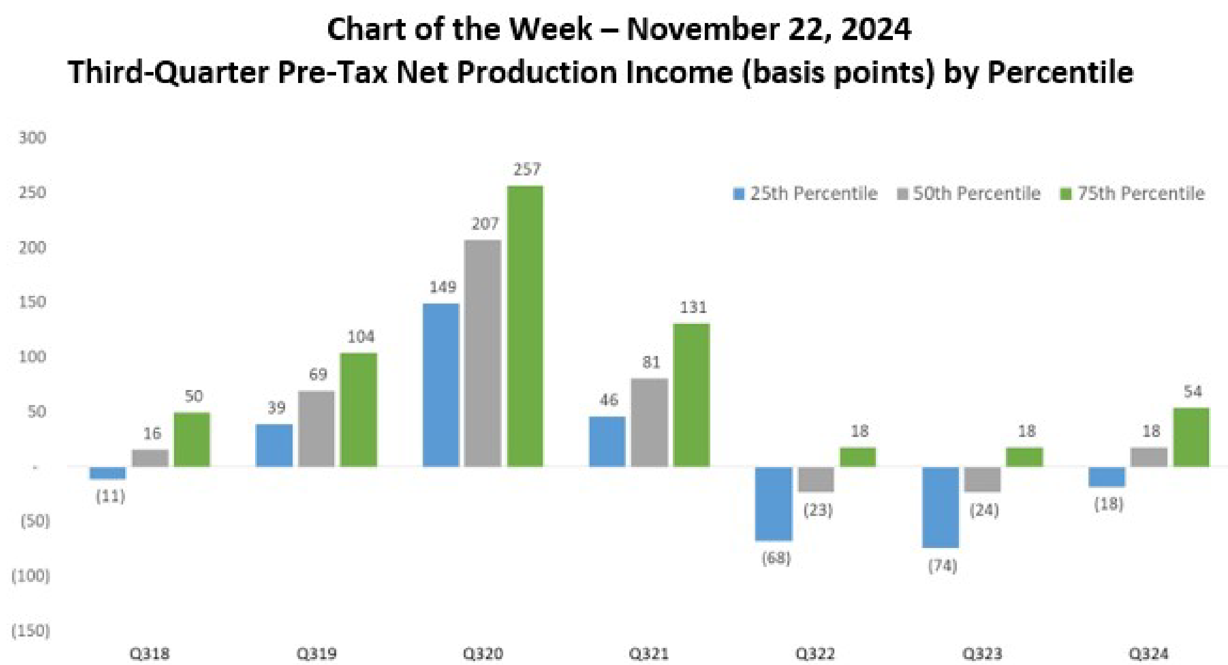
Originations Dollars and Units Expected to Increase Through 2027





Source: MBA Forecast

IMB Profitability Improved in the Third Quarter of 2024



Source: MBA's Quarterly Mortgage Bankers Performance Report