RESEARCH AND ECONOMICS

MBA Forecast Commentary: February 2025

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Summary of the February 2025 forecast

- While daily headlines have certainly increased uncertainty about policy along a number of dimensions, at this point, our forecast is little changed relative to where we were in January. We still anticipate some weakening in the job market in 2025, mortgage rates to average about 6.5 percent for the forecast horizon, and steady growth in origination volume as inventory increases allow for more purchase transactions.
- Our forecast is for economic growth to slow to a little above 2 percent in 2025, as consumer spending and other components increase, but at a slower rate. We expect growth to slow further towards trend in 2026 and 2027.
- For 2025, origination volume is expected to increase to $2.1 trillion, up almost 16 percent from $1.8 trillion in 2024. Purchase originations are expected to total $1.4 trillion compared to $1.3 trillion in 2024, while refinance originations are expected to increase to $640 billion from $491 billion. While housing demand will be crimped by higher mortgage rates, recent signs of loosening housing inventory should help as we approach the critical spring buying season. Refinance activity is expected to stay low given the high share of borrowers who have lower than market rates, but windows of opportunity should present themselves given the volatile rate environment. When mortgage rates dip below 6.5 percent, borrowers will react, quickly.
- Consistent with market expectations, no aspect of monetary policy changed during the first FOMC meeting of 2025. The FOMC sees solid growth, a strong job market, and inflation still above the Fed’s target, indicating that its current target for the federal funds rate is about right, holding back the economy a bit to move inflation down over time.
- Speeches from Fed officials will be closely parsed to determine whether this is just a pause before another cut or two or whether this level of the federal funds rate will be the low point for

this cycle. One such example of that was Chair Powell's testimony to Congress where he was quoted as saying "We're in a pretty good place with this economy. We want to make more progress on inflation. And we think our policy rate is in a good place, and we don't see any reason to be in a hurry to reduce it further".

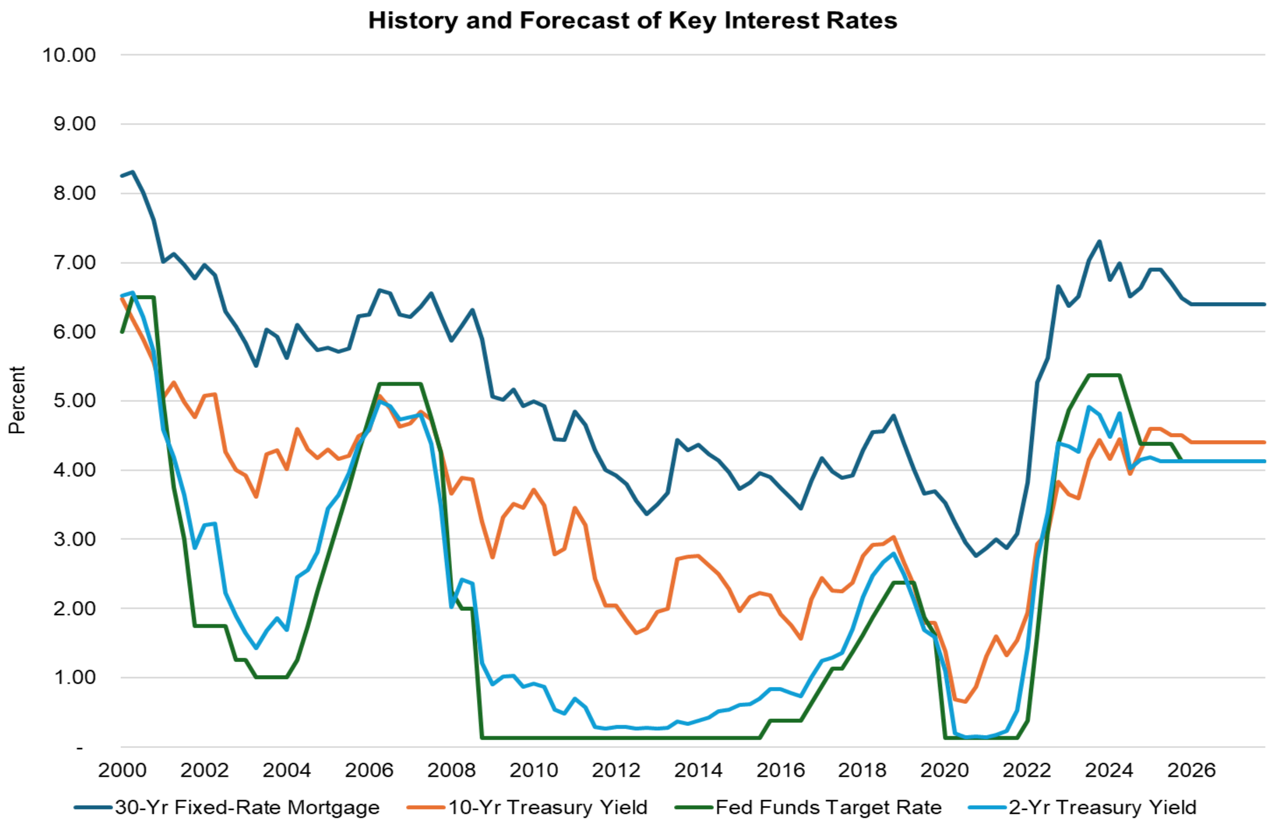
- MBA is forecasting one additional cut to the Fed Funds rate later this year. Quantitative tightening has continued without changes, with holdings of Treasuries and MBS continuing to slowly roll off passively. The minutes from the January meeting indicated that QT may be stopped at some point in the next few months. We would expect that there would still be passive roll off of MBS holdings, but all reinvestments would go into Treasuries.
- With the Fed on hold, we do expect that longer-term rates, including mortgage rates, will also stay within a narrow range for the foreseeable future. We expect the 10-year Treasury yield to average 4.4 percent for the forecast horizon, but that there will be a significant amount of intra-period volatility as markets cope with incoming data and policy uncertainty. We expect the 30-year fixed mortgage rate to decline gradually from its current level of just below 7 percent to 6.5 percent by the end of 2025.
- Inflation data for January seemed to justify the Fed's decision to hold the Fed Funds rate at its current level. Headline CPI inflation showed a 3 percent growth rate compared to a year ago, its strongest reading since June 2024 and the fourth consecutive month of acceleration. The core CPI was up 3.3 percent and has been stubbornly holding in that range for the past 8 months. The core PPI measure released shortly following showed a 3.6 percent annual growth rate, staying close to its highest level since 2023.
- The U.S. economy ended 2024 on a strong note, with the BEA's advance report indicating that GDP grew at a 2.3 percent pace in the fourth quarter. The 2024 growth rate was 2.8 percent, comparable to 2023's growth. Similar to preceding quarters, consumer spending accounted for a significant share, as consumer spending on both goods and services continued to drive a substantial portion of growth. Residential investment provided a slight boost to economic activity in the fourth quarter, consistent with the strong results to end the year for housing starts and new and existing-home sales.
- The January jobs report from the BLS showed a 143,000 increase in payroll employment, a decline in the unemployment rate to 4 percent, and an increase in wage growth to 4.1 percent. At first glance these data indicate a job market that remains reasonably strong. Job growth over

the past three months has averaged a gain of 237,000, likely above what can be sustained this year.

- However, there are several factors working to cloud this picture. First, there were substantial revisions to prior payroll data, with job growth from the most recent months revised higher, but the annual benchmark process showing slower job growth for 2024. Second, the household survey was adjusted in January to recognize the impact of substantial international immigration in recent years, adding 2.9 million people to the population count as of January, which is one factor pushing the unemployment rate down. Finally, the wildfires in Los Angeles and severe winter weather events across the country, while not clearly impacting the results according to BLS, are another source of uncertainty.
- According to MBA's Weekly Applications Survey, refinance applications have been very muted for the past three months as mortgage rates have stayed in the range of 6.8- to 7-percent, which leaves little incentive for most borrowers to refinance. While refinance applications have been ahead of last year's levels, they are still low when compared to historical averages. Purchase applications have generally been close to last year's levels to start 2025.
- Data from a separate survey, the Builder Applications Survey, showed that applications to purchase newly constructed homes rebounded 19 percent from December, but decreased from a year ago, the first annual decline in two years. At an estimated annualized pace of 616,000 units, the new home market was subdued to start the year. It was notable that FHA share of new home financing continued to increase, accounting for a little more than 30 percent of applications, the highest share in the history of the survey, as first-time home buyers continue to account for a large share of application activity.
- Single-family housing starts in January declined to a seasonally adjusted annualized pace of 993,000 units from 1.08 million units in December, as indicated by data from the Census Bureau. Most of the decline was from a 19 percent drop in the South. Single-family permits held at 996,000 units, the strongest pace since the 1 million level a year ago. Multifamily starts declined to 373,000 units from 431,000 units in December. As multifamily starts tend to be volatile, in considering the 3-month moving average, that metric showed a 363,000-unit pace in January, compared to 372,000 units in December, and close to the range observed for the second half of 2024. Multifamily units under construction, which have an impact on the rental housing stock and rental prices, declined to 768,000 units.

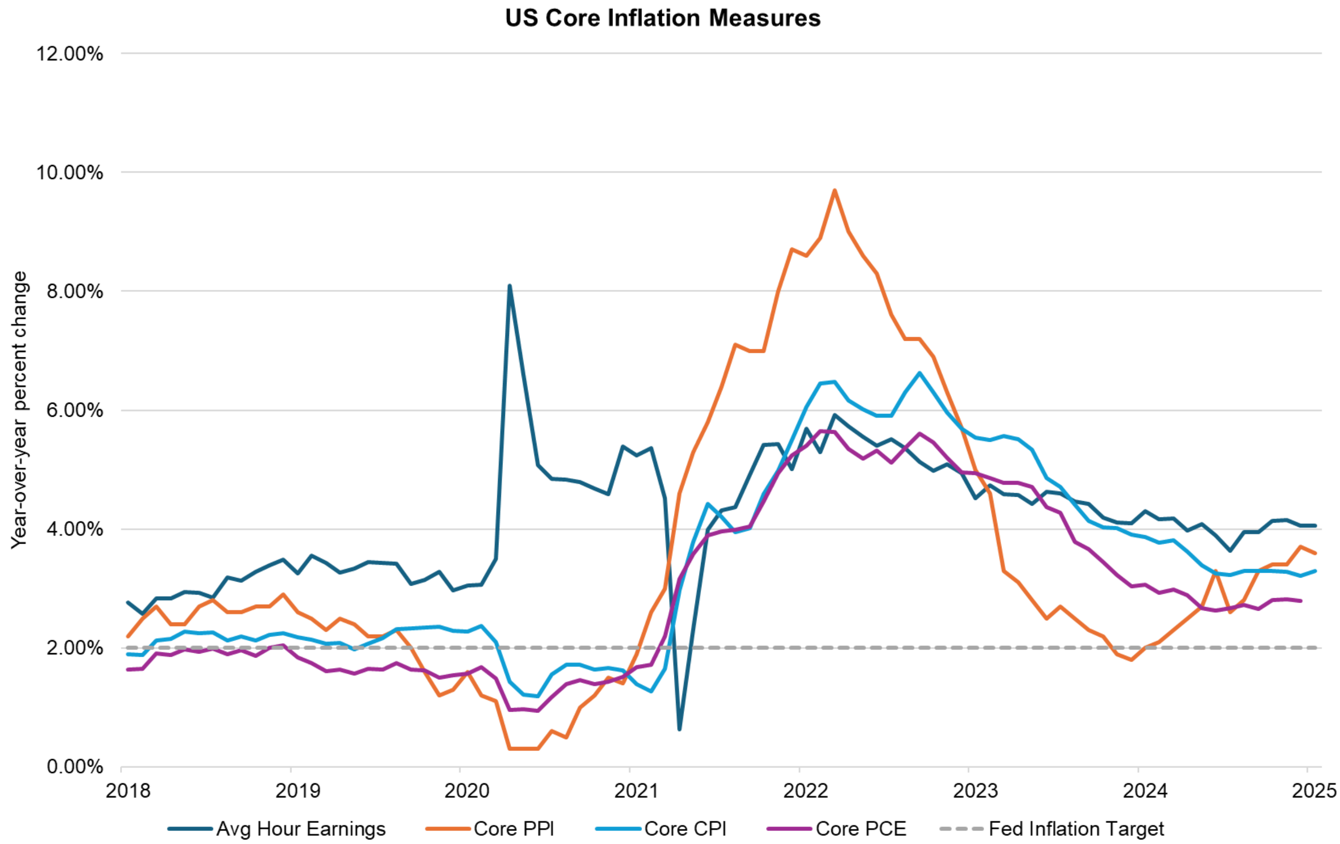
Forecast and Outlook Details

Key Rates Expected to Settle at Higher Level



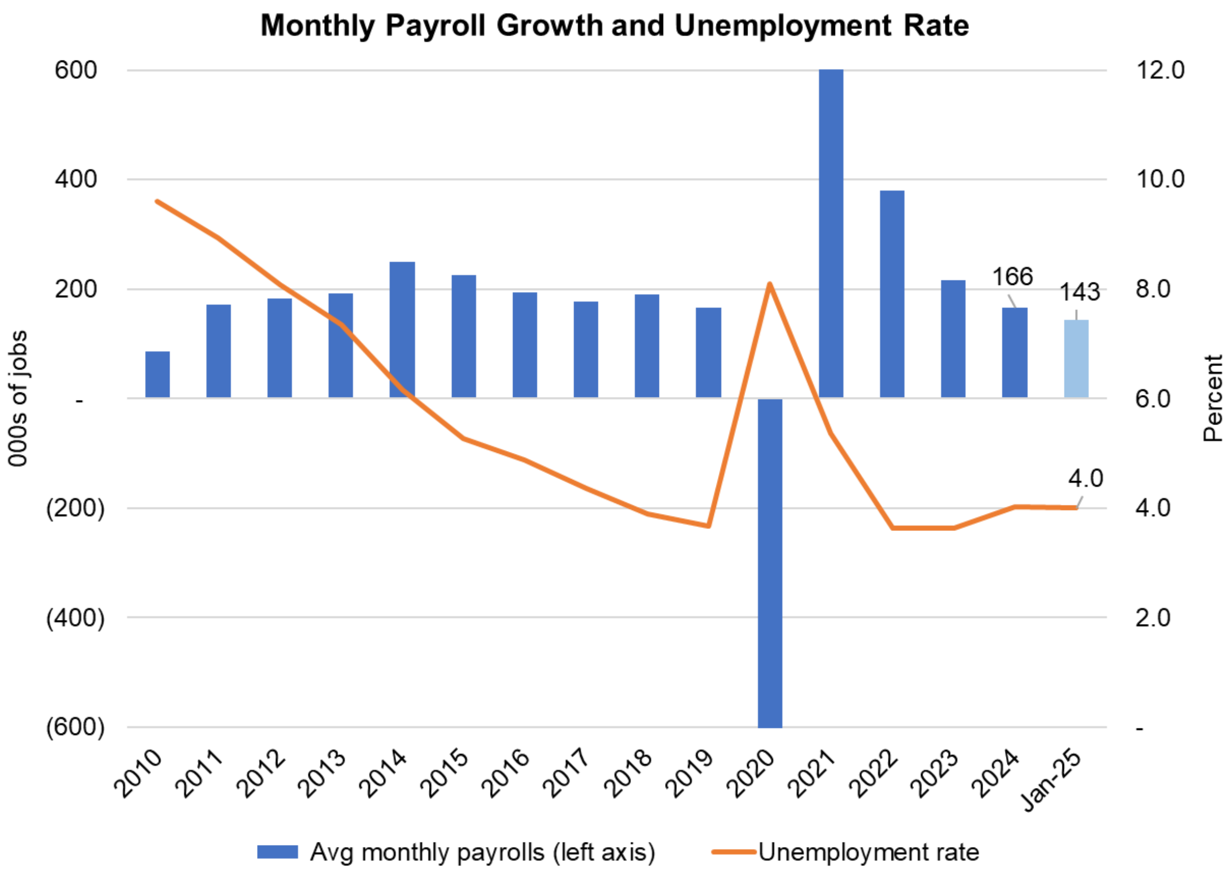
Source: Federal Reserve, Freddie Mac, MBA Forecast

Core Measures of Inflation Remain Sticky



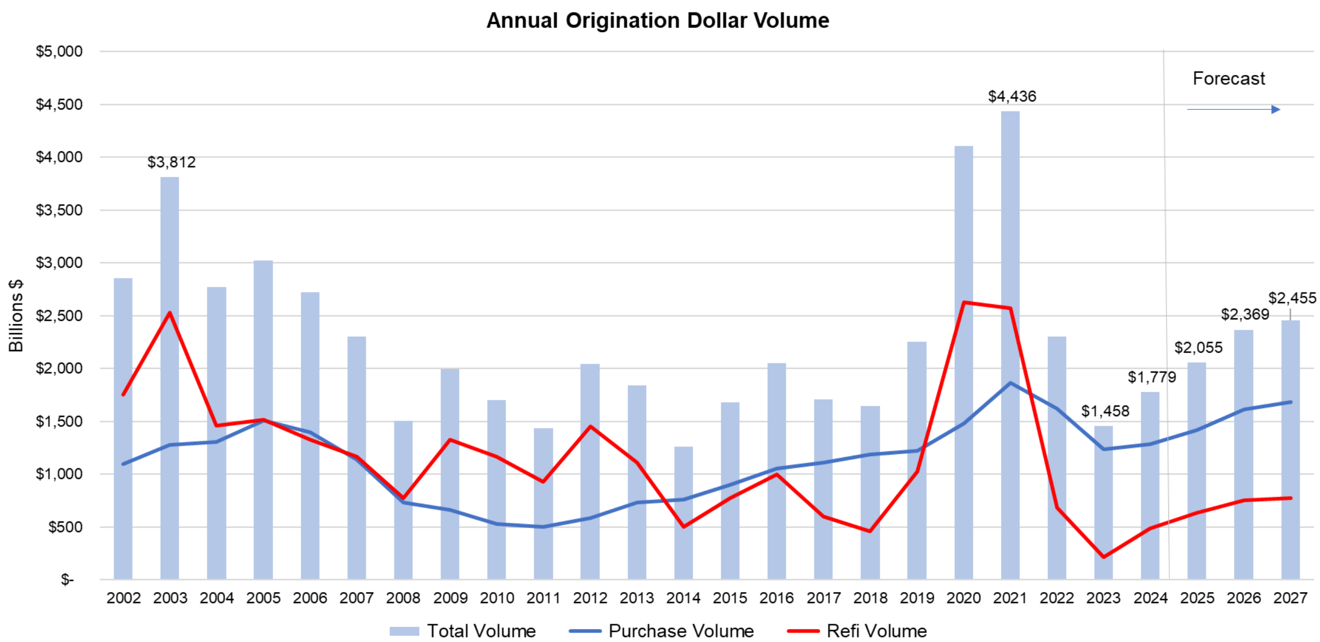
Source: Bureau of Economic Analysis, Bureau of Labor Statistics

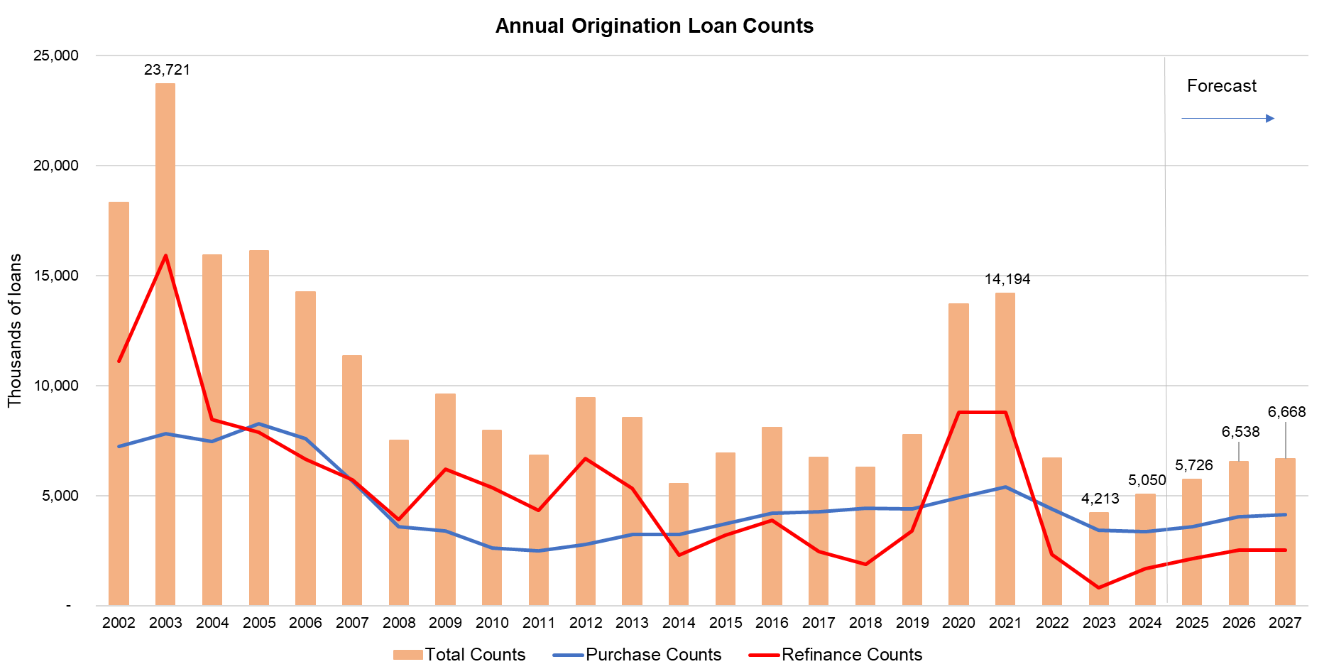
Job Market Showing Signs of Cooling



Source: Bureau of Labor Statistics

Originations Dollars and Units Expected to Increase Through 2027





Source: MBA Forecast