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RESEARCH AND ECONOMICS

MBA Forecast Commentary: July 17, 2020

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Refinance Originations Building, Purchase Activity Booming

Record-low mortgage rates have kept refinance pipelines full and will drive annual originations to their highest level in 15 years. In this month's forecast, we revised our refinance forecast higher by around $200B to end 2020 at $1.5T. Purchase originations are expected to total $1.3T for 2020, a slight increase over 2019, but still a relatively good result given the drastic fall off that we saw in March and April, the recession, and extremely high levels of unemployment. The total of $2.8T in mortgage originations marks the strongest year for the industry since 2005, which was a $3T year.

The economy continued to see positive steps toward recovery based on the June data. Notably, we saw consumer spending rebound as many states reopened and as labor market conditions improved. After a 19 percent year-over-year decline in April, which was to be the worst month for most economic data, May retail sales bounced back to show monthly growth of 2.3 percent. To put this into perspective, in the 12 months prior to the pandemic, YOY retail sales growth averaged around four percent each month. There were also signs of improvement in the business sector, as service and manufacturing sector indicators like the ISM business activity indexes showed positive changes in June after bottoming out in April, a sign that production, new orders, and other business activities saw some revival.

The job market rebounded stronger than anticipated in June, with 4.8 million jobs added over the month and a surprisingly large drop in the unemployment rate to 11.1 percent. A total of 7.5 million people returned to work in May and June following a temporary layoff, however, there are still 10.6 million people with this status, and the longer they remain out of work, the greater the risk that their situation becomes permanent. We are also continuing to see a very high level of new layoffs, with 1.3 million initial claims for unemployment insurance in the most recent week's data. As we noted in a recent Chart of the Week, there have been at least 1.3 million new claimants every week for over four months now, the high coming in the week of March 28, when there were a record 6.9 million claims. This was more than 10 times the highest weekly level seen during the Great Recession in 2009. The total number of claims filed over the four-month period stands at 51.3 million. Even with the recent improvement – with claims edging down for 15 weeks – the current week's level of 1.3 million is about double the 2009 high.

These job market improvements are positive for the housing and mortgage markets, as this will help keep renters paying and homeowners current on their mortgage payments, will support home purchases, and will boost refinance opportunities – which in turn will lower monthly payments. MBA's weekly Forbearance and Call Volume Survey findings have revealed that the number of borrowers in forbearance has declined for five straight weeks, in line with the gradual improvement in the job market. However, the surge in COVID-19 cases throughout the country in recent weeks clouds for the economic outlook.

The housing market continues its recovery and is helping to lead this rebound. Purchase mortgage applications continue to see year over year gains, a run that started in late May, as pent-up demand returned to the market from what would have been the spring home buying season. Mortgage rates reached record lows in MBA's survey and the drop in rates has led to a brisk pace of refinance activity.

The new home market continues to recover – applications to purchase a new home surged 20 percent in June, and although this is not adjusted for seasonal impacts, it is another piece of data indicating that homebuying activity that was delayed by the pandemic in March and April is just being realized later in the season. We estimate that new home sales in June increased 15 percent to a seasonally adjusted pace of 774,000 units – which would be the strongest level of activity since January 2020.

We expect that new home construction will speed up to meet demand. However, with the low level of homes for sale on the market, the sustainability of the upward trend in home purchase activity will hinge on supply ramping up more rapidly. We saw single-family housing starts in June increase strongly, but the annual pace remains behind last year's pace. The growth in construction permits suggests building momentum in the months ahead, which is a positive for the outlook. Additionally, NAHB's latest Housing Market Index revealed rising builder confidence in future demand, another piece of good news, as the rebound in housing demand could be stymied if there is not more inventory on the market soon. Home prices have held up well thus far given the lack of supply, and we expect home-price growth of 4 percent this year.

Mortgage credit supply dropped again in June, as investors further reduced their willingness to purchase jumbo loans and those with lower credit scores. Lenders are navigating a gradual economic and housing market recovery that is still facing headwinds from the ongoing COVID-19 pandemic. The overall credit availability index decreased 3.3 percent to its lowest level since April 2014, with all of the sub-indexes falling to lows not seen since 2014-2015. Credit supply has fallen over 30 percent since February – before the pandemic – with an 18 percent decrease in government loan availability, and a 57 percent drop in jumbo loan availability.

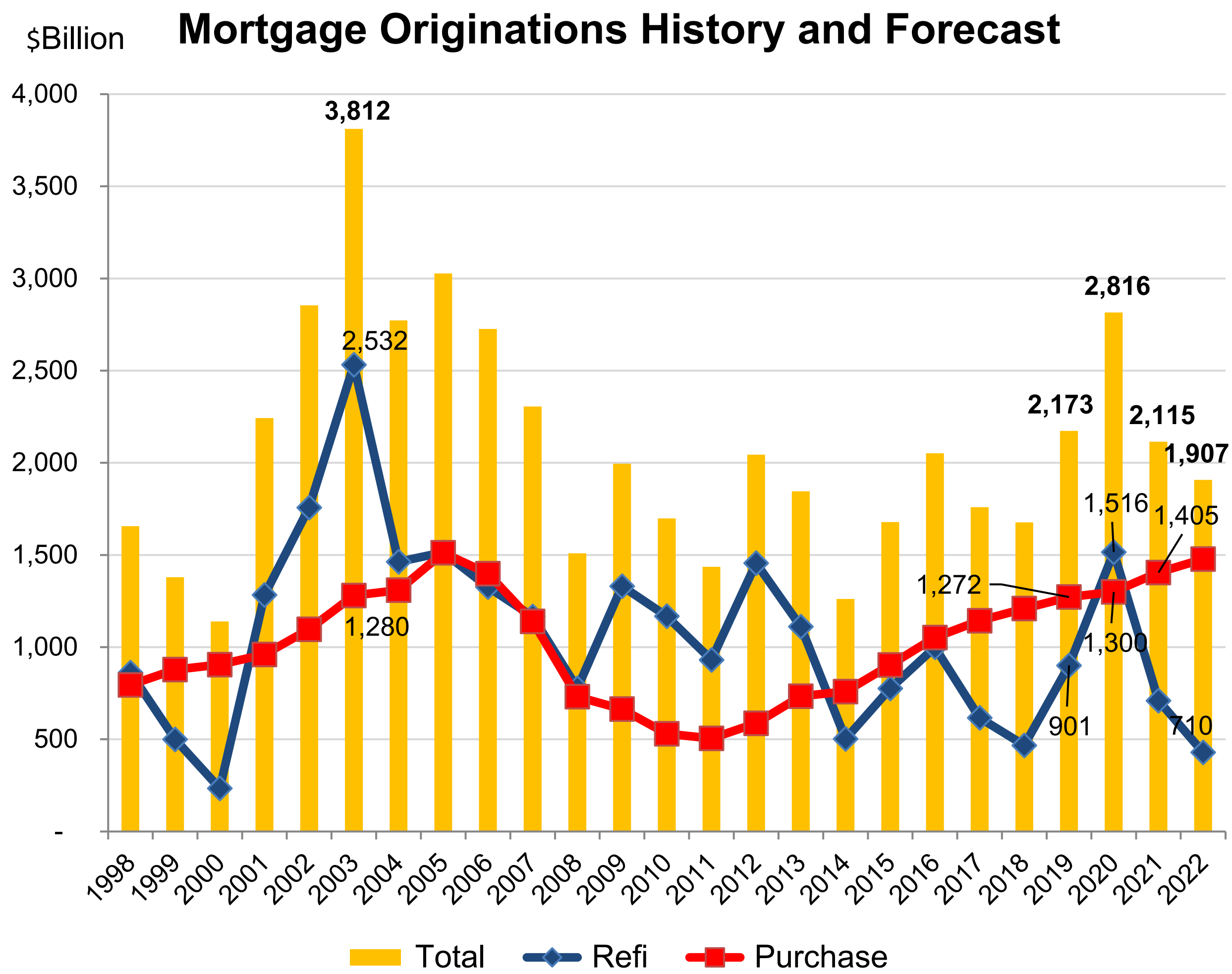
We expect mortgage rates to average 3.3 percent for 2020 and be slightly higher in 2021 at 3.5 percent and given that the current pace of refinance applications has not only picked up again, but is still close to double last year's pace, we anticipate that refinance originations will grow by around 70 percent in 2020 relative to 2019, reaching $1.5T. Mortgage-Treasury spreads remain abnormally wide. These could certainly narrow in the months ahead, particularly if refi volume were to falter. As noted earlier, this forecast was an upward revision from our previous forecast of $1.3T last month. Additionally, the continuing increases in purchase applications over the past two months indicate that housing demand is recovering as more states reopen and both buyers and sellers return to the market. Purchase volume is expected to be up slightly for 2020 when compared to 2019. We expect around $1.3T in purchase originations, a 2 percent increase from $1.27T in 2019.

Figure 1.

	2018	2019	2020	2021	2022
GDP Growth	2.5%	2.3%	-7.9%	5.5%	2.4%
Inflation	2.4%	1.8%	1.1%	2.3%	2.2%
Unemployment	3.9%	3.7%	8.6%	6.6%	5.1%
Fed Funds	2.375%	1.625%	0.125%	0.125%	0.375%
10-year Treasury	3.0%	1.8%	0.9%	1.3%	1.8%
30-year Mortgage	4.8%	3.7%	3.3%	3.5%	3.7%
New home sales (000s)	617	685	698	734	769
Existing home sales (000s)	5,341	5,331	5,127	5,518	5,778
Purchase originations ($B)	1,209	1,272	1,300	1,405	1,478
Refi originations ($ B)	467	901	1,516	710	429
Total originations ($B)	1,677	2,173	2,816	2,115	1,907

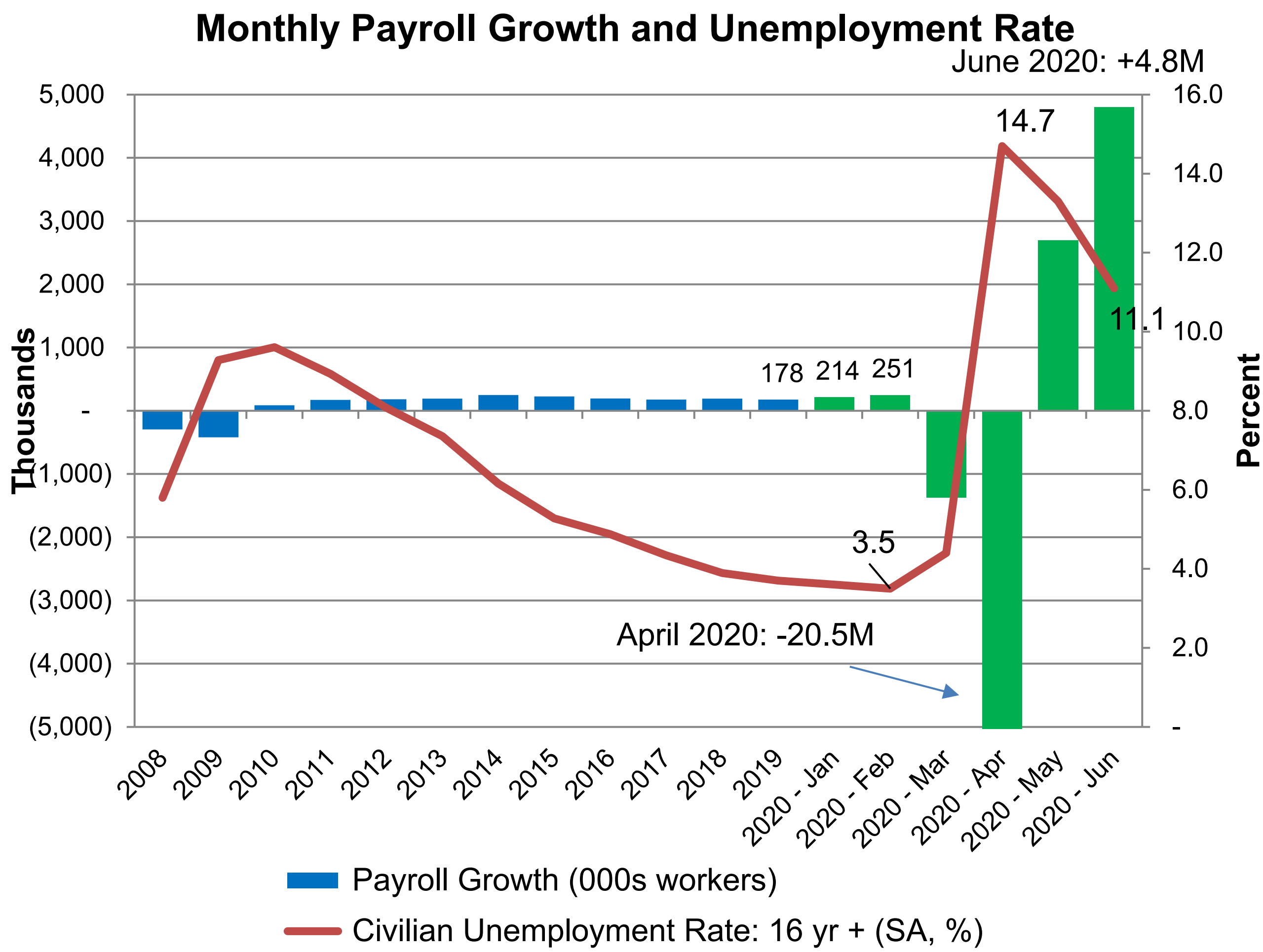
Source: MBA Forecast

Figure 2.



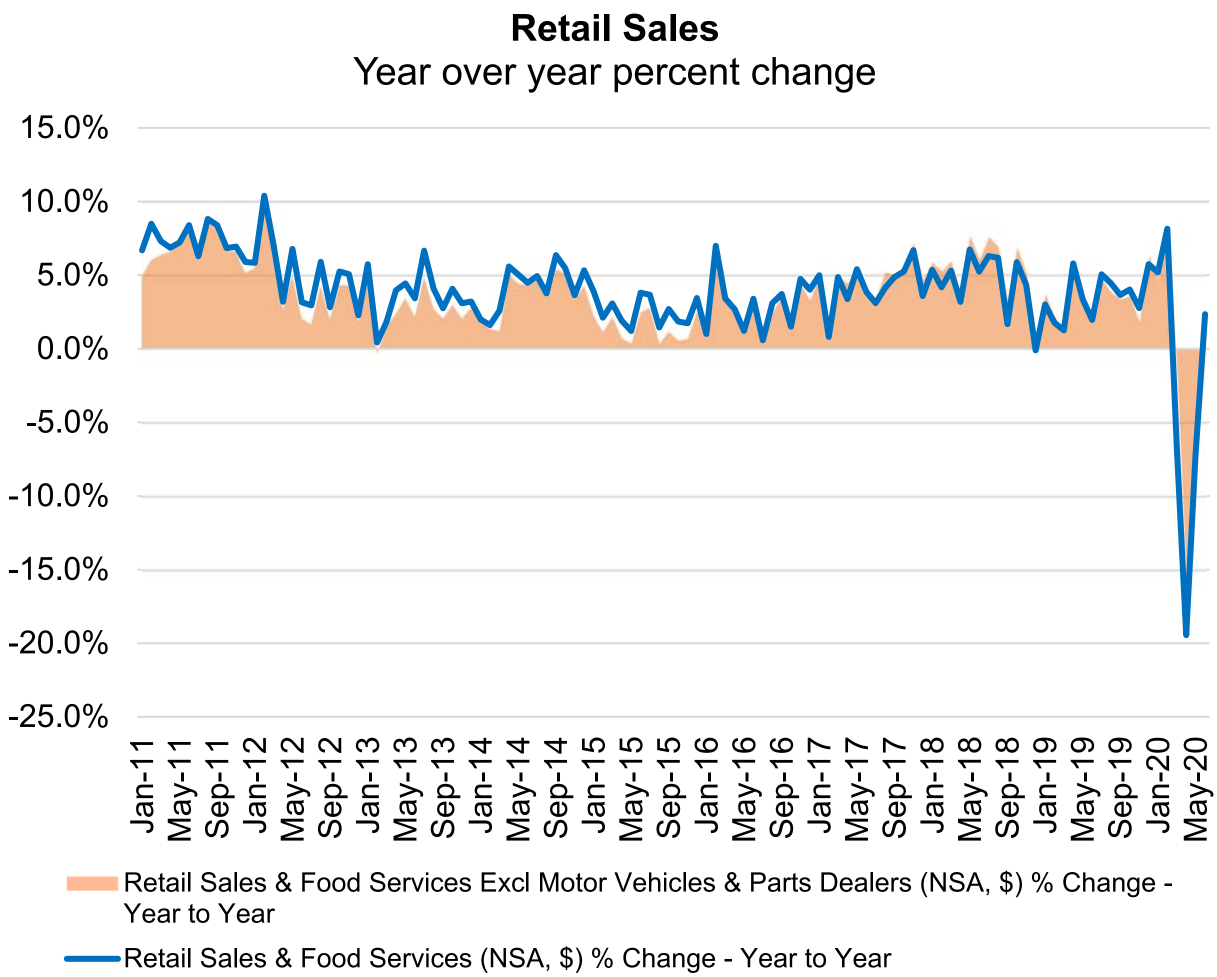
Source: MBA Forecast

Figure 3.



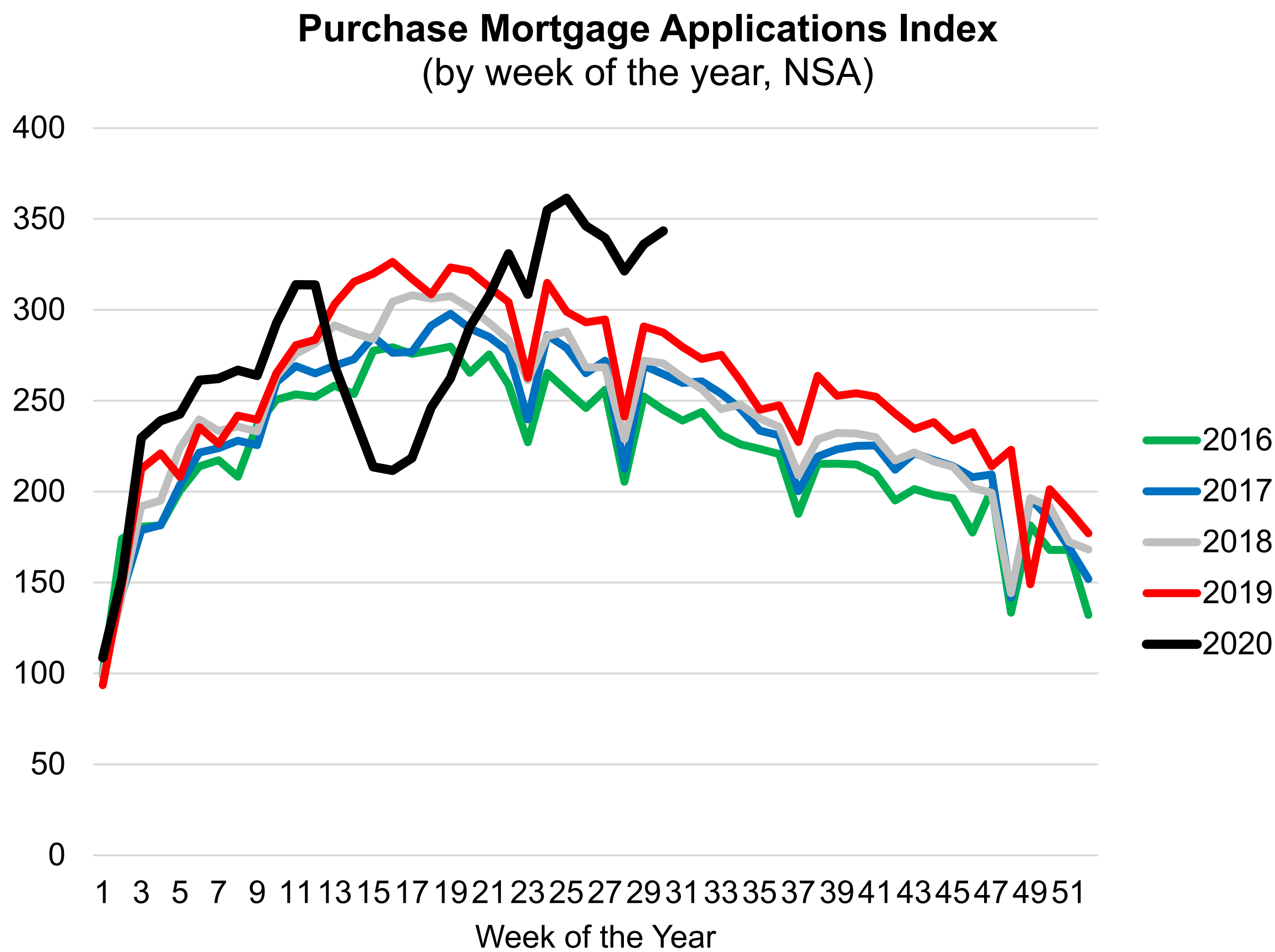
Source: Bureau of Labor Statistics

Figure 4.



Source: Census

Figure 5.



Source: MBA Weekly Applications Survey