MBA Forecast Commentary
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Period of Lower Rates Brings Refi Business Back

MBA Economic and Mortgage Finance Commentary: April 23, 2019

Global and geopolitical concerns continued to weigh on rates and markets. Brexit, trade disputes, and slowing global growth continue to be recurring factors causing concern. These pushed investors to safer US assets and caused rates to decline over the past month. Data indicating softer growth in Europe, primarily Germany, have been a main focus, with rates in Germany even dipping in negative territory for a period.

As a result of these declines in rates, we saw a brief surge in refinance activity. As mortgage rates descended from a recent high in November 2018 (the 30 year fixed rate was 5.17 percent), there was not much of a refinance response. Not until a three-week period when the rate dropped from 4.55 percent to 4.36 percent did we see pick up in refinance applications, especially for high loan balance borrowers. We raised our forecast for 2019 refinance volume by $16 billion as a result (Figure 1). However, it should be noted that during the short surge, the refinance index was only about half of where it was in 2016, the last time we saw a significant increase in refinance activity. This is likely a temporary boost to refinances and has dissipated quickly in the weeks following quarter end, but the lower level of mortgage rates will help to support growth in purchase activity.

- After growing at a 3 percent rate in 2018, the strongest year for GDP growth since 2005, we forecast growth will slow to 2.0 percent in 2019, and 1.4 percent in 2020 and 2021. The first quarter of 2019 is expected to be stronger, however, much of that growth was driven by inventory investment and trade. These tend to shift growth dramatically between quarters meaning a pullback in the second quarter. The net should still be 2.0 percent growth in 2019.

- There is still risk of a recession in the US over the next two years, as global growth remains slow and we see some domestic pullback as the boost from the tax cuts wears off. The March data on retail sales however, was stronger than expected, and that helped to ease some concern at least for the time being. US households have showed some restraint over the past few months as the saving rate remains over 7 percent and at its highest in about three years (Figure 2).
• Job growth rebounded from a mere 20,000 jobs added in February to almost 300,000 jobs in March, bringing the first quarter average to 180,000 jobs, still a healthy pace for payroll growth. The unemployment rate remains low at 3.8 percent. Wage growth continued at a pace above 3 percent, which is a positive sign. As job openings remain near record levels, this will maintain the upward pressure on wage growth. We expect the unemployment rate will decrease to 3.6 percent by the end of 2019 and then rise slightly to 3.7 percent in 2020 and 3.8 percent 2021 as overall growth slows.

• The Federal Reserve has left short-term rates unchanged and has also signaled that the odds of another rate increase in 2019 is low. With the strength of the job market and inflation that has not picked up despite wage growth acceleration, officials seem comfortable leaving rates at their current level. There has been no other communication of any change to the March signal that the Fed will stop allowing their balance sheet to shrink and will begin to allow it to grow again starting this fall. Over time, these changes could put some upward pressure on mortgage-Treasury spreads – and ultimately – mortgage rates.

• Existing-home sales fell almost 5 percent in March after a strong February, driven by declines in the high end and low of the price spectrum, but for different reasons. The decrease in higher priced home sales was caused by weakening demand and less of an appetite for the larger, more expensive homes. This has also translated into slowing in home price growth at the high end and in traditionally high cost areas. We continue to see deceleration in home price growth rates, particularly in states like California and Florida. The weakness in the low price tiers was a reflection of continuing lack of entry level and cheaper homes for sale, despite demand from first time home buyers. New home sales increased 4.5 percent in March, its third straight monthly increased.

• Perhaps another area of concern for the housing market is that housing starts have slowed and even permits have started to show a downward trend (Figure 3). Builders have been constrained by high labor costs, difficulty in finding skilled labor, and availability of lots for development, among other factors. However, the NAHB’s latest survey on homebuilder sentiment did show an improvement in buyer traffic and prospective buyer demand in March, and along with the increasing trend in new home sales, we may see this reverse. Builders have changed the mix of their business more towards entry-level homes, which is lowering the median price for new units.

• We expect moderate growth in home purchase mortgage originations in the coming years, with dollar volume increasing about 5 percent to $1.24 trillion in 2019 from an estimated $1.19 trillion in 2018. There remains healthy housing demand from millennial households who are approaching prime home buying age, and this continues to be supported by a strong economy and job market.

• Refinance activity seemed slow to react even as rates dropped to 50 basis points below their November high, but as rates fell another 30 basis points in late March, we saw a rush to refinance. This was especially so for borrowers with high loan balances, specifically over $400,000, and we saw the average loan size on a refinance application jump to $438,900 after averaging $263,900 in 2018. Figure 4 shows the YOY change in refinance applications by loan size category, and it is clear the higher balance refinances drove much of the increase. Borrowers with higher loan balances tend to be more sensitive to rate changes, and this was clear in the increases that we saw. However, over
the past three weeks, mortgage rates increased 10 basis points and are back to their highest level in a month, and this seemingly small increased caused a 28 percent drop in refinance applications.

- Total originations are now expected to increase to $1.67 trillion in 2019 from $1.64 trillion in 2018 as refinance volume picked up in late March and early April. We expect less of a drop in refinance volume in 2019 compared to 2018 than previously estimated. Our forecast for rates is for the 30 year fixed mortgage rate to reach 4.6 percent in 2020 and remain there through 2021.

Figure 1.

![Recent Originations and Forecast](image)

Source: MBA Forecast
Figure 2.

**Personal Saving Rate**
(SA, as % of disposable income)

Source: BEA
Figure 3.

Single Family Housing Starts and Permits

Housing Starts: 1 Unit (SAAR, Thous.Units)
Housing Units Authorized: 1-Unit Structures (SAAR, Thous.Units)

Source: Census
Figure 4.

Refinance Application Trends, by Loan Size
Non seasonally adjusted, year over year percent change

-100.0% -50.0% 0.0% 50.0% 100.0% 150.0% 200.0% 250.0%

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Source: MBA Weekly Applications Survey