MBA Forecast Commentary
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Broad Economic Strength Eclipsed by Weaker Housing Data

*MBA Economic and Mortgage Finance Commentary: August 25, 2017*

Over the past month, economic growth remained on a steady course of growth, as did employment, but various housing measures raised the possibility of weakness in the housing sector as the fall season approaches. Real GDP growth in the US was estimated to 2.6 percent in the second quarter based on the BEA’s advance estimated of GDP growth. This was significant improvement over the 1.2 percent growth rate in the first quarter, which we attributed to seasonal weakness. US payrolls added 209,000 jobs in July, making it five out of seven months in 2017 with over 200,000 jobs added. The unemployment rate decreased slight to 4.3 percent as well. Despite the big-picture strength, Treasury yields moved 14 basis points lower over the past month, driven by concerns over a US-North Korea conflict, along with US political uncertainty stemming from various issues within the Trump administration.

On the housing front, both new and existing home sales fell significantly in July, with existing home sales falling to the slowest sales pace since August 2016 and new home sales decreasing to its slowest pace since December 2016. The annual change in new home sales actually showed a decrease for the first time in almost two years. Purchase mortgage application activity has also started to slow in recent months, even if it was stronger on a year over year basis. Much of this is due to tight inventories of homes for sale which makes it harder for prospective buyers to close on a home and is exerting upward pressure on home prices (see Figure 1). However, new residential construction for single family homes remained somewhat healthy in July, although homebuilding has not yet recovered to pre-recession levels and is one of the main factors constraining homeownership right now. Multi-family starts decreased to the lowest in 10 months in July and in combination with lower permits, that has caused us to lower our multifamily starts path in this month’s forecast.

We still maintain the view that the Fed will announce the start of its balance sheet reduction in September and raise rates one more time in 2017 following the December FOMC meeting. However, inflation continues to remain weak, which casts some uncertainty on the timing and pace of the Fed’s actions. The CPI measure of inflation (on a year over year percent change basis) was below 2 percent for the third straight month in July and the core measure, which excludes food and energy, remained at 1.7
percent, the lowest since May 2015 (see Figure 2). Weakness in motor fuel prices and a moderation in shelter costs were partly responsible for the soft inflation data.

Our forecast is for the unemployment rate to continue to decline through 2017, reaching a low of 4.1 percent, before slowly inching back up. Job growth should continue in the 150,000 jobs per month range for the next few months before declining to 100,000 in 2018. We still expect wages rates to accelerate, as companies continue to report that jobs are hard to fill and as job openings continue to outpace hiring.

We continue to expect that growth in the purchase market will be driven by increasing household formation and housing demand, given the economic and job market strength. As seen in the first two quarters of 2017, household formation in owner occupied units continues to pick up (Figure 3). A boon for the housing market is that the Millennials are reaching the ages where they are ready to buy a home. A challenge for the market is that over the last decade, the homebuilding industry was decimated by below normal business and is just now beginning to regain the capacity to deliver new homes. We estimate that total originations will be around $1.6 trillion in 2017, driven by $1.1 trillion in purchase volume, and $538 billion in refinance volume. This is unchanged from last month’s forecast. Purchase volume is expected to grow slowly in 2018 and 2019 as the younger generations move into homeownership, but refinance volume will remain low as rates increase (Figure 4).

Figure 1.

**US House Prices vs Single Family Starts**

Source: Census and FHFA
Figure 2.

CPI and Selected Components
Year over year percent change

Source: BLS

Figure 3.

Annual Change in Owner-Occupied and Renter Households

Source: Census
Figure 4.

Mortgage Originations: 2011-2019

Forecast for 2017:
Refinance $538b
Home purchase $1,089b

Source: MBA