MBA Forecast Commentary

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Strong Economy but Housing Market Falling Behind

MBA Economic and Mortgage Finance Commentary: August 15, 2018

- The US economy continues to forge ahead. GDP growth exceeded 4 percent in the second quarter, the strongest quarter since 2014 and the fifth consecutive quarter above 2 percent. We expect growth to average 3 percent for the second half of 2018 and 2.3 percent in 2019, as shown in Figure 1. The economy continues to be driven by consumer and business spending as household wealth remains strong and equity markets have showed little signs of slowing. This strength seems to have offset any jitters about trade tensions between the US and China and other countries, but that remains a downside risk to our forecast.

- Despite a slight slowdown in July, the job market continues to grow robustly, averaging 215,000 jobs added per month so far in 2018 (Figure 2). The unemployment rate remains remarkably low at 3.9 percent, well below the full employment mark of 4.5 percent. Wage growth continues to pick up and is now at 2.7 percent, still below expectation given the low level of unemployment and the number of job openings available. However, there are signs that prime age workers are seeing more wage growth than what the aggregate numbers are showing, as discussed in a recent Chart of the Week. Our forecast is for this strength to continue and the unemployment rate to decrease further to 3.6 percent by the end of 2018.

- With the economy growing, the unemployment rate close to an 18 year low, and with inflation picking up, the Fed raised short-term rates at the June FOMC meeting and we expect another two additional rate hikes this year, followed by three hikes in 2019, bringing the rate target above 3 percent by the end of 2019.

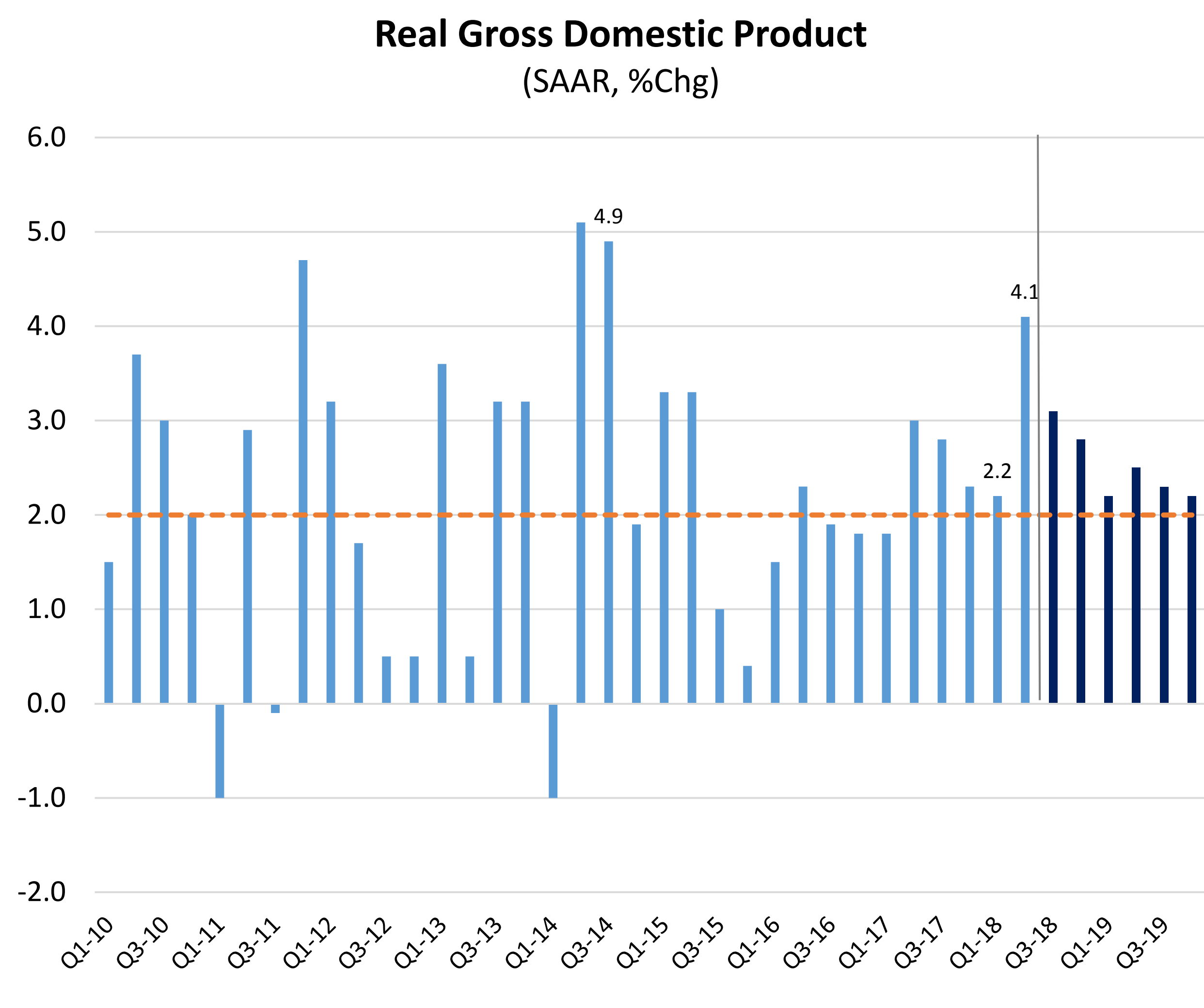
- Trade tensions and concerns over a Turkish currency meltdown have kept rates lower in recent weeks, but positive economic data releases still dominate and should move rates higher. We expect 10 year Treasury yields to increase slowly through 2018 and 2019, reaching 3.1 percent in the fourth quarter of 2018 and 3.4 percent at the end of 2019. The 30 year fixed mortgage rate is expected to reach 4.8 percent at the end of 2018 and 5.2 percent by the end of 2019.

- The housing market, however, has not kept up with the strength of the broader economy. Housing starts and building permits have slowed, with single family new construction varying between 800,000 and 900,000 units (SAAR) this year, well below the historical average of 1 million units.

Home sales, both new and existing, remain held back by the lack of homes for sale, but also by worsening affordability challenges due to rising prices and increasing mortgage rates. Given the weakness in recent data, we lowered our forecast for both starts and sales, expecting only sluggish growth in 2019 in 2020.

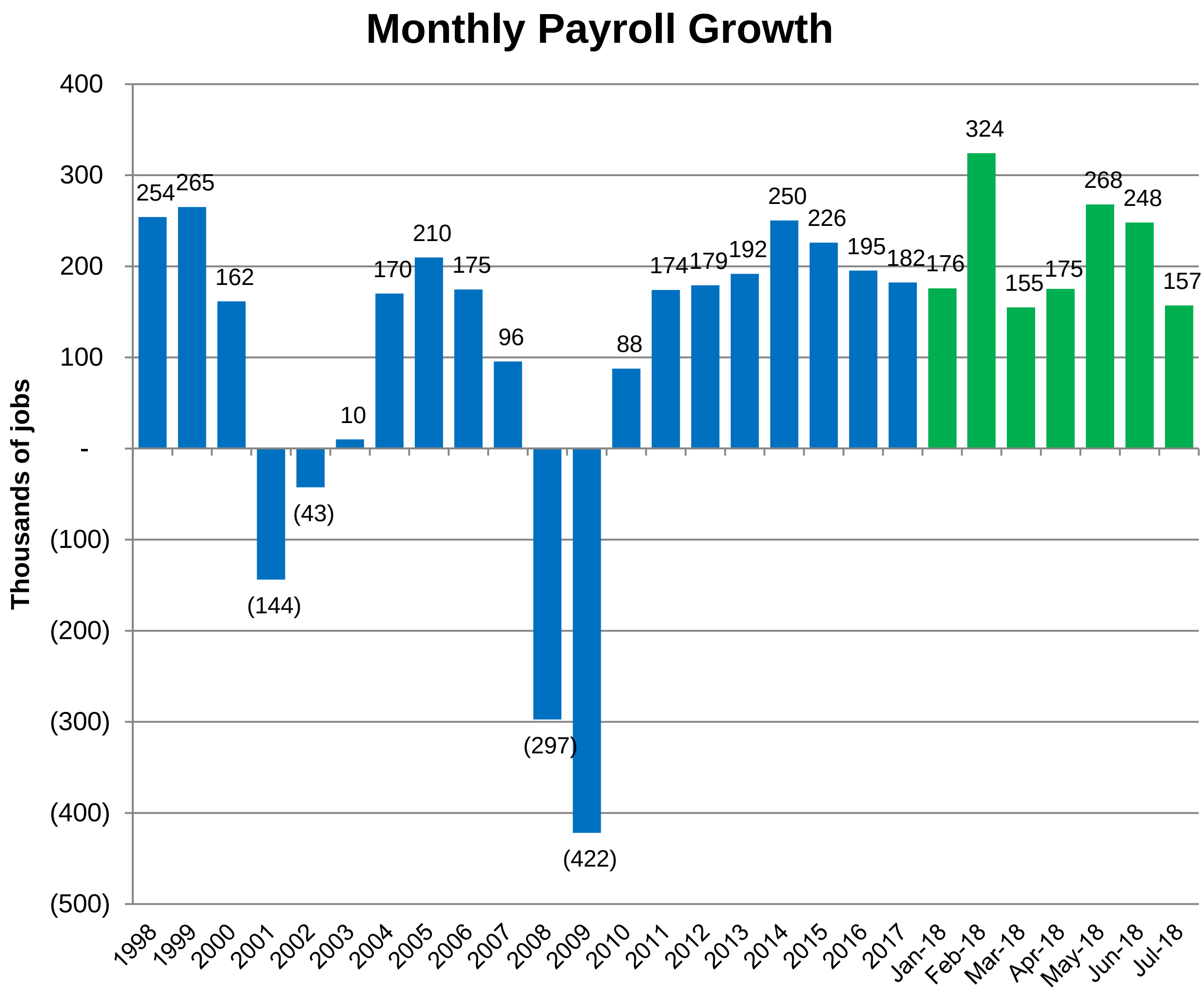
- As a result of the lower expectations for starts and sales, along with weaker data on home purchase applications from our Weekly Applications Survey so far in the second half of this year, we revised our forecast for purchase originations lower in this month's forecast. Purchase applications have started to show year over year decreases over the past few weeks, hampered by the inventory and affordability issues outlined earlier (Figure 4). We now expect $1.15T in purchase originations for originations, a 3.5 percent increase over 2017, and for that to grow around 4 percent in 2019 and 3 percent in 2020 to around $1.2T for each of those years (Figure 5).

Figure 1.



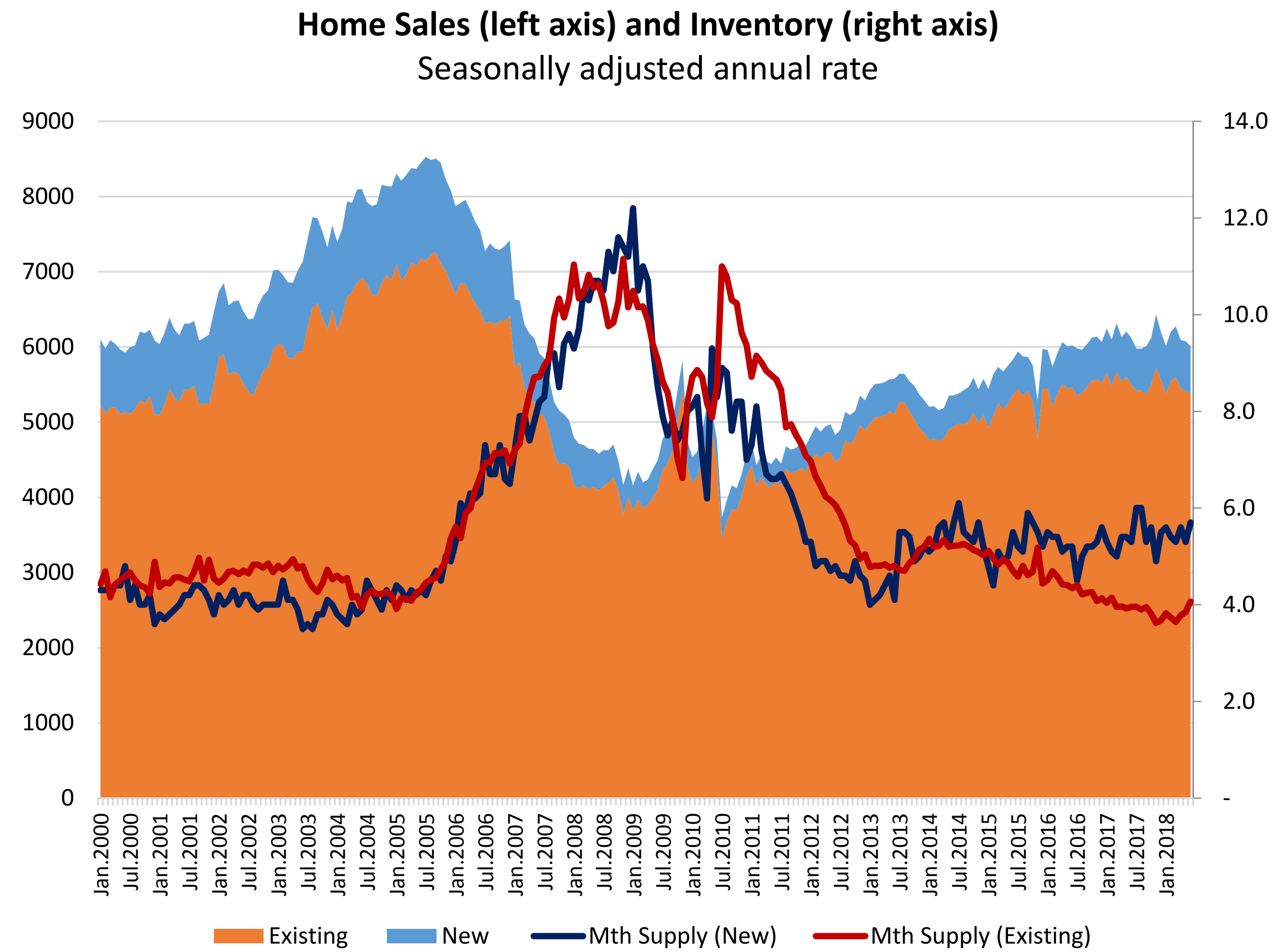
Source: BEA

Figure 2.



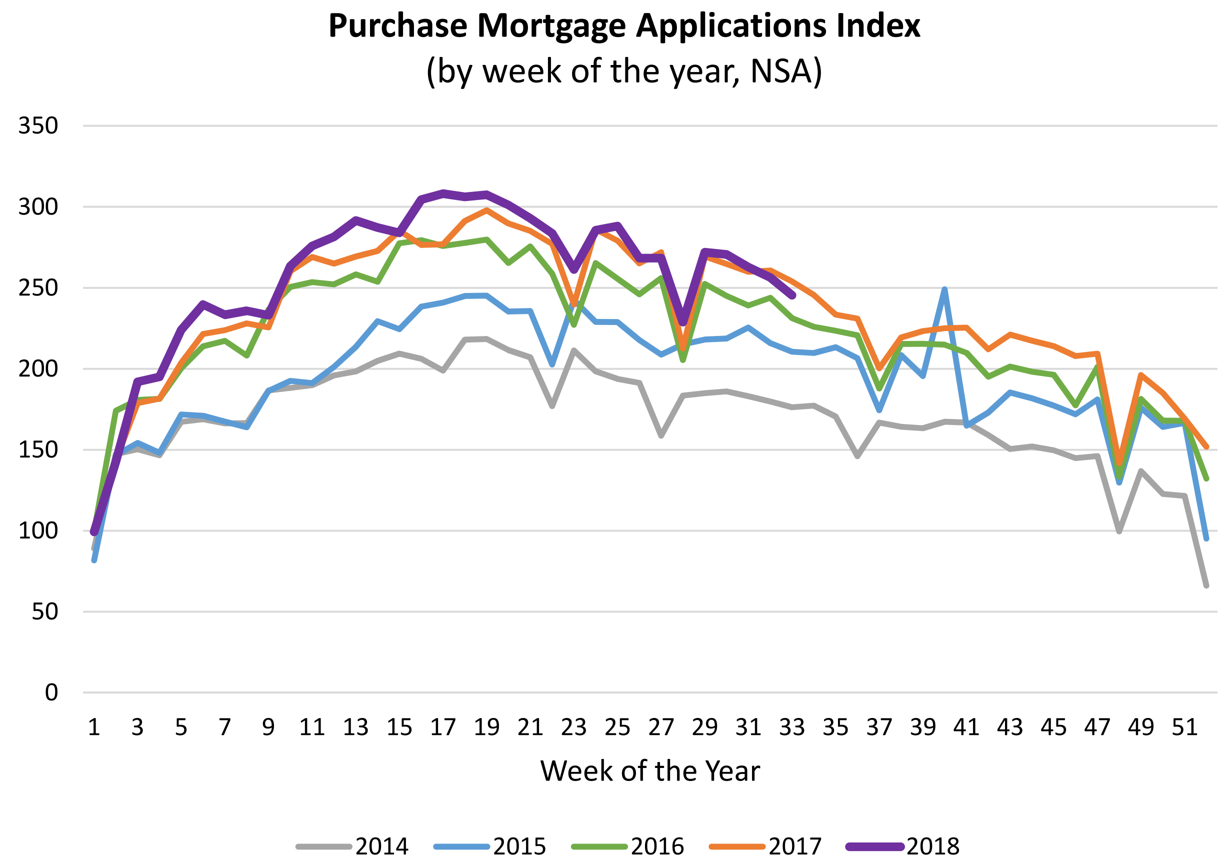
Source: BLS

Figure 3.



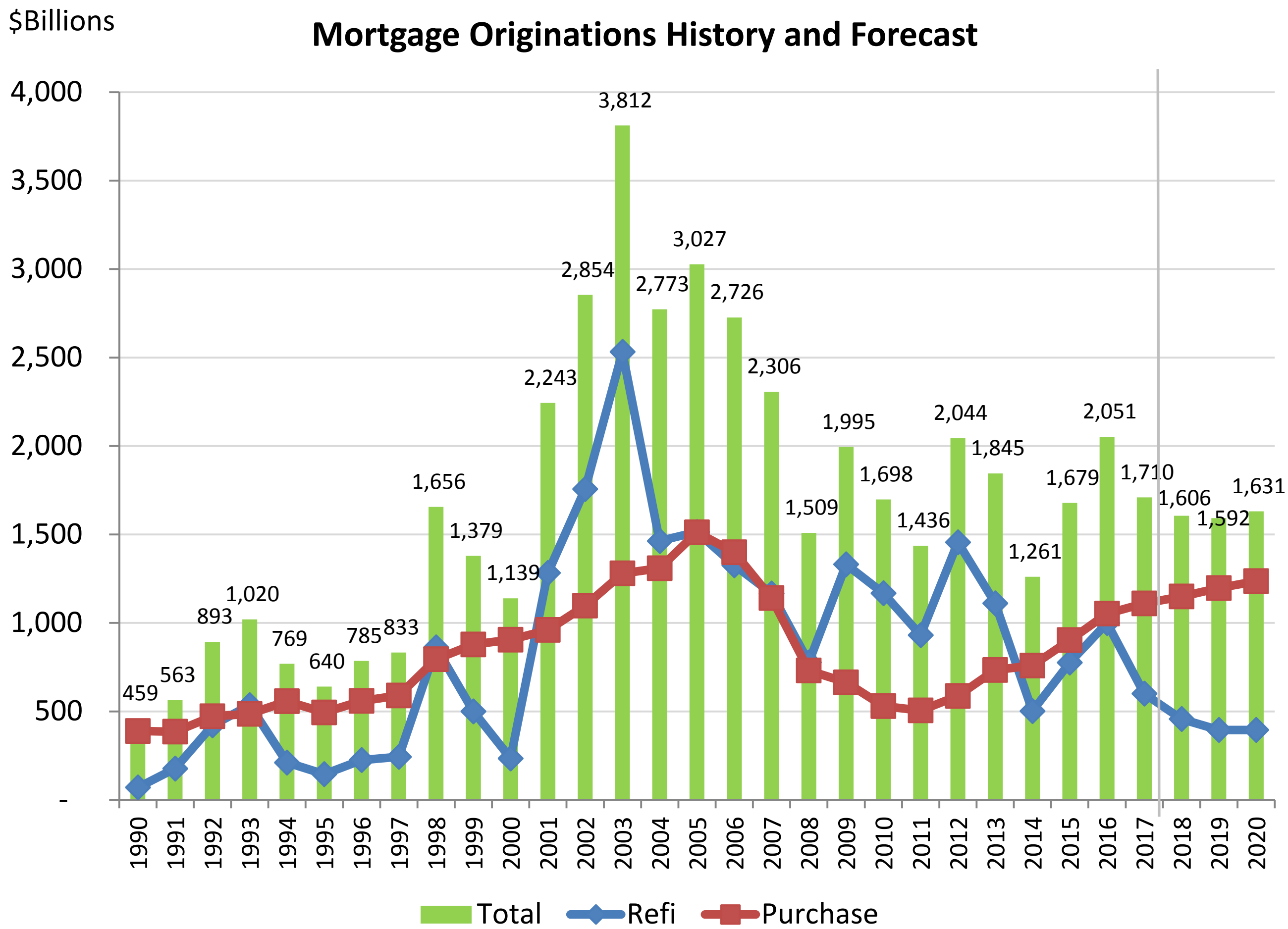
Source: NAR

Figure 4.



Source: Weekly Applications Survey

Figure 5.



Source: MBA Forecast