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MBA Forecast Commentary

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Less Rosy Outlook, But Housing Market Growth Still Expected

MBA Economic and Mortgage Finance Commentary: December 20, 2018

- The outlook for the US economy is somewhat weaker as we end 2018. While we expect a strong finish to the year, we have reduced our growth expectations for 2019, as global growth is expected to slow, financial conditions have tightened, and the effects of domestic fiscal stimulus has already begun to fade. US-China trade tensions remain a risk to the outlook, as they has the potential to cause more volatility in markets, and impact growth and employment. While the robust job market and positive demographic trends remain quite supportive of housing demand, this increased uncertainty in the outlook, and affordability challenges still pose challenges to the housing market.

- In reacting to a noticeable slowdown in global growth, which has resulted in a substantial increase in financial market volatility, the Fed has changed its tune with respect to the future path of hikes for the federal funds rate. As highlighted in recent public remarks, Chairman Powell and the FOMC believe that the fed funds rate is now quite close to the neutral level, the level which would keep the economy at full employment and stable inflation. As the market expected, the Fed did raise rates another quarter point following its Dec 19 meeting. The job market is quite strong, with the unemployment rate below the level that can likely be sustained without inflation rapidly rising. However, with this additional hike, and with the ongoing crimping of liquidity caused by the shrinkage of the Fed's balance sheet, we expect the Fed will pause here for a few meetings, and will likely only hike twice next year. This was also reinforced by Chair Powell's comments in the press conference following the meeting, along with his reiteration of the need for data dependence in the coming months when asked about the course of future rate hikes.

- Our forecast for real GDP growth is for just over 3 percent for all of 2018, the strongest year for GDP growth since 2005. We forecast 2.4 percent growth in the fourth quarter of 2018, as data on retail sales and on the manufacturing industry continue to show strength. However, we then expect a slight slowdown to around 2 percent growth for all of 2019 and 1.4 percent growth in 2020 and 2021. As mentioned above, this will be in part driven by slowing global growth and as the boost from tax cuts starts to fade. While we are not forecasting a recession for 2020, the slow pace of growth means there is a substantial risk of a downturn.

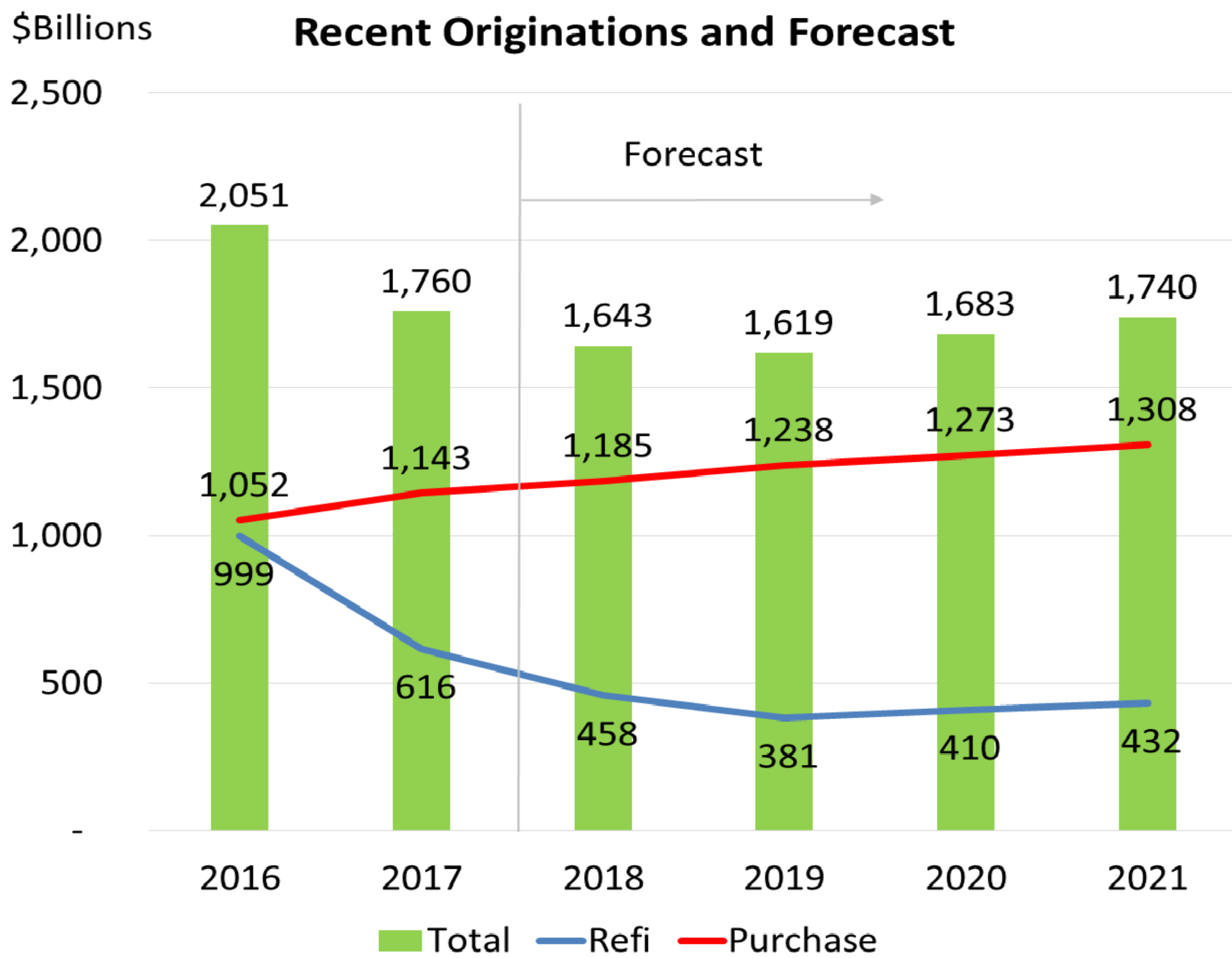
- The unemployment rate remains close its lowest level in almost 50 years and job growth is averaging over 200,000 jobs per month in 2018. We expect the unemployment rate will decrease even further to 3.5 percent by the end of 2019, which along with more rapid wage growth and supportive demographics should continue to keep housing demand at a healthy level, leading to an increase in purchase originations. With the economy running at full employment, monthly job growth is expected to average 120,000 in 2019, down from the monthly gains of 200,000 seen this year. We expect to see the unemployment rate rise slightly to 3.6 percent in 2020 and 3.7 percent 2021 as overall growth slows.

- The supply of homes for sale and lack of affordability continue to be challenges for the housing market. Overall housing starts increased for the first time in three months in November, driven by a surge in new multifamily construction. However, single-family starts dropped over four percent to their lowest monthly level since March 2017, and even more on a year-over-year basis – nearly 13 percent. Homebuilding activity in November was consistent with the less favorable builder sentiment readings we've seen in recent months, as builders are still challenged by several factors, including high input and labor costs. These results also likely reflect slower demand for new single-family homes, as emerging economic and financial market uncertainty, coupled with affordability challenges, are keeping some potential homebuyers away.

- Existing-home sales increased in November, driven by more closings in the Northeast and Midwest. Not surprisingly, the data showed continued deceleration in home-price gains, with the national increase moderating to 4.2%, in line with what we are seeing in other home-price measures. The sharpest deceleration in both prices and sales activity last month was in the West – the region where price appreciation had been the most rapid in recent years. Given the affordability challenges in many of those markets, it makes sense that the region is seeing the most notable slowing of price gains. Inventory typically drops this time of year, and it did again in November, but it is reassuring to see the increase in available homes relative to last year, as the lack of inventory has been a major constraint to purchase activity for quite some time.

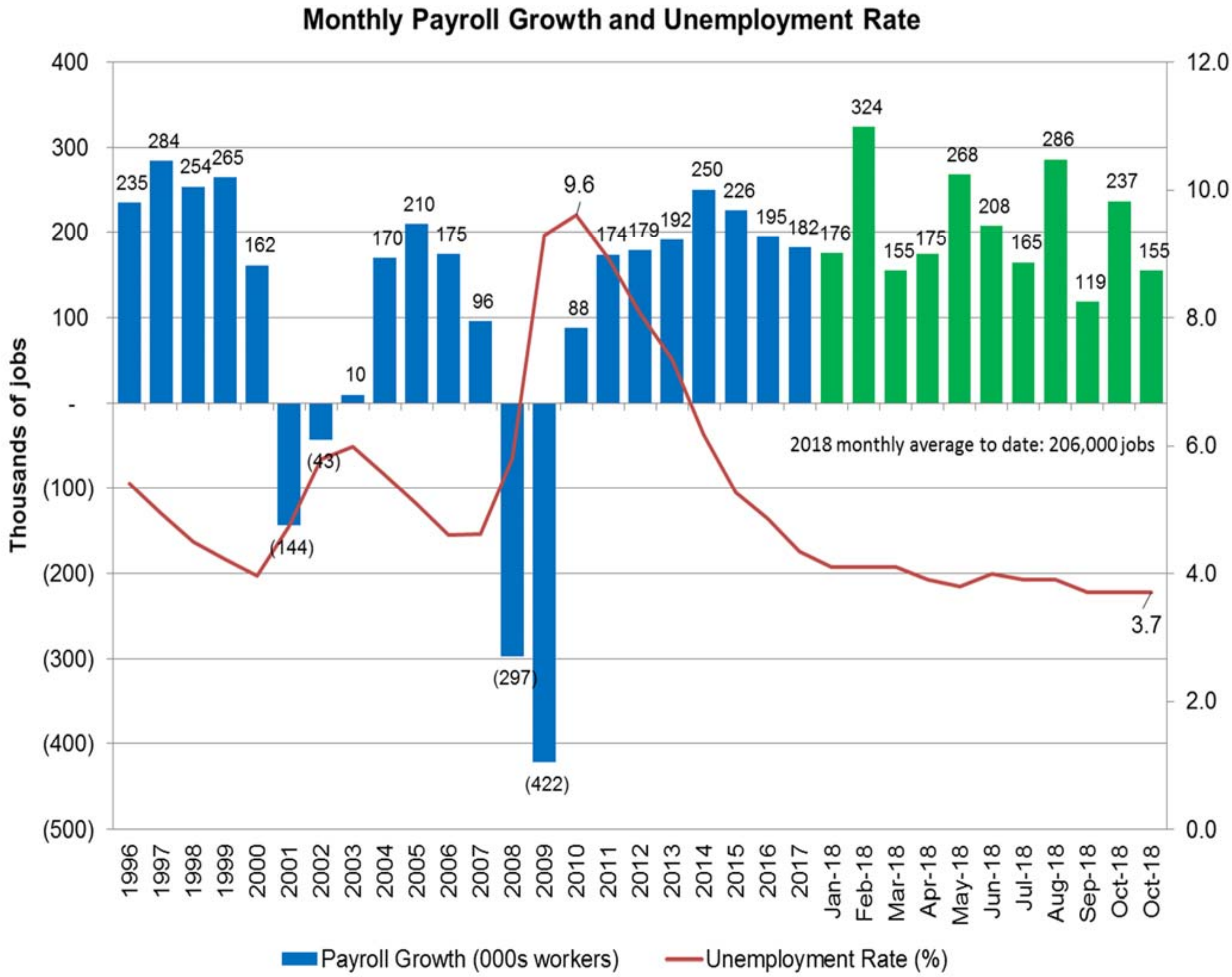
- We still expect moderate growth in home purchase mortgage originations in the coming years, with dollar volume increasing to $1.24 trillion in 2019 from an estimated $1.19 trillion in 2018. The overall total is expected to decrease to $1.62 trillion in 2019 from $1.64 trillion in 2018 as refinance volume continues to decline. Even with the anticipated cooldown in economic growth, we expect that housing demand will remain strong, mortgage rates will stabilize, wage growth will increase, and home price growth will moderate, providing favorable conditions for growth in the home purchase market.

Figure 1.



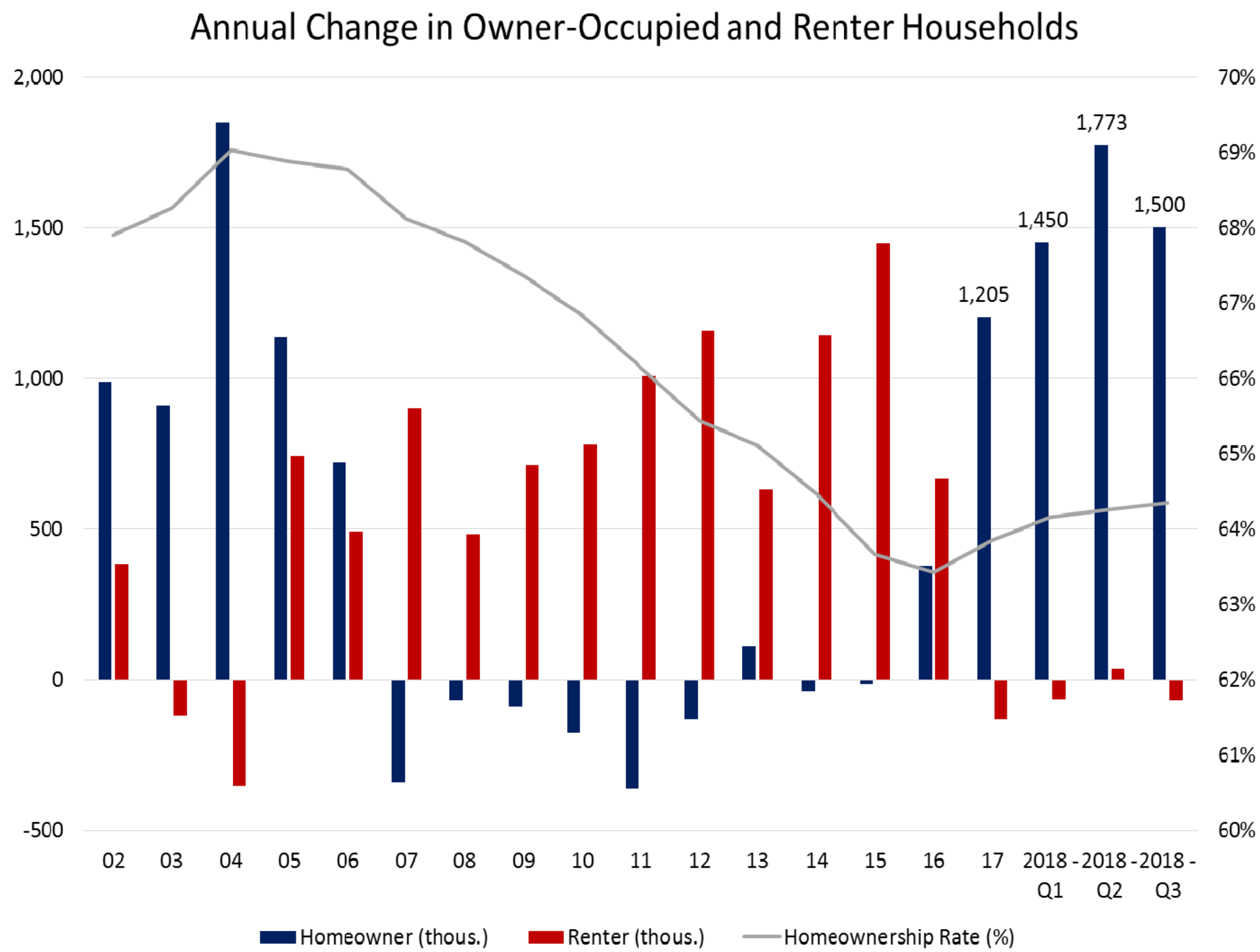
Source: MBA

Figure 2.



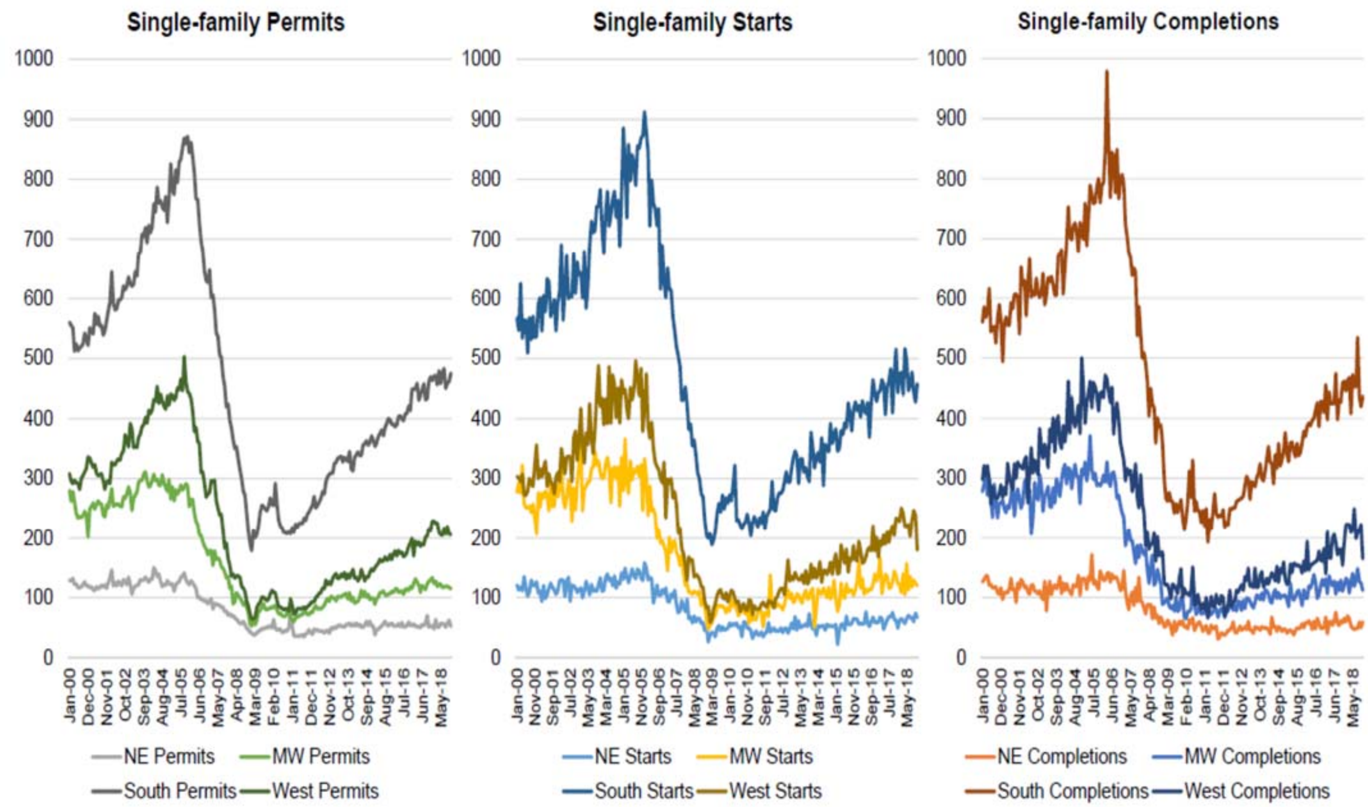
Source: BLS

Figure 3.



Source: Census

Figure 4.



Source: Census