MBA Forecast Commentary
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Trade Tensions Lower Rates

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Global and geopolitical concerns, especially the ongoing trade dispute between US and China, continued to sow market uncertainty. While a broader slowdown in global growth is still having an impact, the stock market and rates recently seem most sensitive to developments in the highly publicized trade negotiations between the two countries. As a result of this deadlock and the uncertainty that it has brought, rates have been more volatile and on net lower for most of the past month.

However, domestic data has mostly been positive, with strong data on the job market, retail sales, and capital goods. The sustained job growth and extremely low unemployment rate in the US, coupled with lower mortgage rates, continue to provide a supportive environment for potential homebuyers and growth in home sales. The Fed’s expected pause through the end of the year will likely also contribute to a more stable rate environment in the coming months.

Following their May meeting, the Federal Reserve left short-term rates unchanged and continued to hint that they will remain patient, which would mean keeping rates at their current level at least through the end of the year. Additionally, the Fed provided more color regarding the pending change with respect to the balance sheet, where they will begin to buy U.S. Treasury securities again this fall, while allowing MBS to continue roll off.

- After growing at a 3 percent rate in 2018, the strongest year for GDP growth since 2005, we forecast growth will slow to 2.3 percent in 2019, 1.5 percent in 2020 and 1.4 percent 2021. The U.S. economy grew at a 3.2 percent rate in the first quarter of 2019 – much faster than anticipated. Growth was driven in the first quarter by an increase in inventories and a strong reading on net exports, two factors which could be reversed in the second quarter. Household spending growth actually slowed a bit in the first quarter, which is a bit contrary to recent strong readings on retail sales. Overall, a solid start of the year for the economy.

- Even with a weaker showing in February, monthly payroll growth has averaged almost 170,000 jobs per month over the past 3 months, and over 200,000 thus far this year. With hiring so strong, the unemployment rate has fallen to the lowest level since 1969, and wages growth has picked up. With job openings remaining 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 homeownership rate decreased to 64.2 percent from 64.8 percent in the first quarter, the first drop in two years. This was likely a temporary blip caused by market volatility and decline in consumer confidence in late 2018 and early 2019. This was also in line with other housing indicators showed: a somewhat slower start to the year for the housing market. A large portion of the change was driven by the younger age groups, both households under 35 and households between 35 and 44 years old. Owner occupied households grew at a slower rate than the past two years, but still exceeded 1 million in the first quarter. Renter households increased almost 500,000 compared to a year ago.

- Existing-home sales fell less than a percent in April, the second monthly decline. Even after a strong February, we have seen three declines out of four months in 2019 thus far. New home sales however, have seen three monthly increases as of March 2019, and pending sales of existing homes have also indicated that increases in existing sales are coming.

- Credit supply increased 2 percent in April, driven by a 7 percent increase in the jumbo index, which reached its highest level since the inception of the index. Investors increased their willingness to purchase more non-QM and non-agency jumbo loans over the month. Before a bounce back in March that coincided with the recent drop in mortgage rates, the highest end of the purchase market had been weakening in the prior months, and investors were likely trying to remain competitive in that segment of the market.

- 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 the millennial generation, which is a large cohort and starting to move into more homeownership. In today’s mortgage market, the purchase share of originations is around three quarters of all dollar volume, much higher than in recent years when we saw more refinance activity. In a purchase-dominated market, first-time buyers become even more important.

- Total originations are expected to increase to $1.68 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. With rates this decade hovering at historical lows, we do not expect any large refinance waves but for the occasional boomlet whenever rates dip significantly. Our forecast for rates is for the 30 year fixed mortgage rate to increase gradually to 4.6 percent in 2020 and remain there through 2021.
Source: MBA Forecast
Figure 2.

Monthly Payroll Growth

Source: BLS
Figure 3.

Annual Change in Owner-Occupied and Renter Households

Source: Census
Figure 4.

Homeownership by Age
Non-seasonally adjusted, percent

Source: Census