MBA Forecast Commentary
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Rates Increase Post-Election

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Following the US presidential elections, the 10 year Treasury yield has increased over 30 basis points, rising from 1.88 percent the day before the elections to almost 2.3 percent at the time of writing. Secondary market yields have been moving roughly in line with these changes, and we saw the 30 year fixed rate mortgage rate increase from 3.77 percent the week before the election to 3.95 percent the week after, an increase of 18 basis points. This impact will be felt by mortgage originations in early 2017, most notably on the refinance side, which were already declining in the months prior. Our November forecast accounts for the near term increase in rates and shows lower refinance volume in the first half of 2017 than previously estimated.

Source: Federal Reserve, New York Stock Exchange
There are several potential explanations for the jump in rates. First, markets are anticipating tax reform and infrastructure investment as well as regulatory changes that may help stimulate economic growth in the near term. These changes could also put upward pressure on inflation. Both factors would lead to higher rates.

Second, global investors may have initially pulled back from US assets to some extent. In last week’s 10-year Treasury auction, the bid-cover ratio was at its lowest level since 2009, and foreign central banks were a smaller proportion of the sale than has been the case recently. The US relies upon substantial flows of global capital to finance our public and private markets. If global investors pull back, rates are going to go up further. Rates on US securities and the value of the dollar are typically closely linked. However, in the tumult immediately following the election there were wild swings in certain currencies relative to the dollar, as investors reassessed which countries represented the safest havens.

Additionally, we have continued to receive good news as far as key economic indicators go. Unemployment insurance is trending lower, wage growth is accelerating, retail sales and housing starts have moved up, and inflation measures are pointing upward. All these factor into a stronger domestic economy and upward pressure on rates.

In Chair Yellen’s testimony to the Joint Economic Committee, she acknowledged these improved economic conditions along with the risks of delaying the tightening of monetary policy for too long. If the Fed waits too long to raise rates, it might have to tighten policy abruptly to keep the economy from overheating, causing more disruption. Chair Yellen also noted that overly accommodative policy conditions could cause excessive risk-taking and as a result, instability in financial markets. She said before the JEC that another rate increase could be warranted “relatively soon”, which we expect will be following the December FOMC meeting.

In the November forecast, we expect $484 billion in refinance originations for 2017, a downward adjustment from $529 billion in the October forecast, as rates have moved higher, forcing a more rapid decrease in an already slow refinance market. However, since there has been no material change to the macroeconomic outlook thus far, we still forecast $1.10 trillion in purchase mortgage originations during 2017, an 11 percent increase from 2016. We are projecting that home purchase originations will increase again in 2017, building on an estimated 10 percent increase in 2016. Strong household formation coupled with further job growth, rising wages, and continuing home price appreciation will drive growth in purchase originations in the coming years. Once we start to receive more information on any possible changes to tax, trade, or government spending policies by the Trump administration, we will reassess these estimates.

In total, mortgage originations will decrease to $1.58 trillion in 2017 from $1.89 trillion in 2016. For 2018, MBA is forecasting purchase originations of $1.18 trillion and refinance originations of $410 billion for a total of $1.59 trillion.
Additionally, MBA upwardly revised its estimate of originations for 2015 to $1.68 trillion from $1.63 trillion, to reflect the most recent data reported in the 2015 Home Mortgage Disclosure Act (HMDA) data release.

Source: MBA Forecast