MBA Forecast Commentary
Lynn Fisher, Mike Fratantoni, Joel Kan

Purchase Originations Projected to Increase Ten Percent in 2016

MBA Economic and Mortgage Finance Commentary: October 2015

In this month’s forecast released at the MBA Annual Convention, we expect $905 billion in purchase mortgage originations during 2016, a ten percent increase from 2015. In contrast, refinance originations are anticipated to decrease by one-third, resulting in refinance mortgage originations of $415 billion for 2016. On net, mortgage originations will decrease to $1.32 trillion in 2016 from $1.45 trillion in 2015.

For 2017, we forecast purchase originations of $978 billion and refinance originations of $331 billion for a total of $1.31 trillion.

We project that home purchase originations will increase in 2016 as the US housing market continues on its path towards more typical levels of turnover based on steadily rising demand and improvements in the supply of homes for sale and under construction. Despite bumps in the road from energy and export sectors, the job market is near full employment, with other measures of employment underutilization continuing to improve. Strong household formation, improving wages and a more liquid housing market will drive home sales and purchase originations in the coming years.

Our projection for overall economic growth is 2.3 percent in 2016 and 2017 and 2 percent over the longer term, which will be driven mainly by consumer spending as households continue to buy durable goods, such as cars and appliances. Consumer spending accounts for almost 70 percent of the level of US GDP and growth in consumer spending is a significant driver of the overall growth rate. Recent months’ data on auto sales have been very robust, a potential sign that consumers have both the means and the confidence to spend on big ticket items.

Looking forward, the housing sector will contribute more to the economy than it has in recent years. We are forecasting a 17 percent increase in single family starts in 2016 and a further increase of 15 percent in 2017. Alongside increasing turnover in existing homes, the Builder Application Survey Index
has been strong, indicating continued strength in new housing financing, sales and housing starts. Homebuilders, too, have been generally optimistic of their prospects in the coming months, as indicated by the NAHB’s Housing Market Index data.

Weaker growth abroad will mean fewer US exports, which will be a drag on growth over the next couple of years. Recurring flights to quality, a demand for safe assets from investors abroad, will keep longer-term rates lower than the domestic growth environment would warrant.

Source: IMF

Coincident with a strengthening economy, we expect the Federal Reserve will begin to slowly raise short-term rates at the end of 2015. Due to the delay in raising rates and continued demand for safe assets, however, we have lowered our overall rate path relative to last month’s forecast.

At some point after liftoff, the Fed will begin to allow their holdings of MBS and Treasury securities to run off, likely beginning in late 2016. Even with these actions, we expect that the 10-Year Treasury rate
will stay below three percent through the end of 2016, and 30-year mortgage rates will stay below 5 percent.

We forecast that monthly job growth will average 150,000 per month in 2016, down from about 200,000 per month in 2015, and that the unemployment rate will decrease to 4.8 percent by the end of 2016, returning to 5.0 percent in 2017 and 2018. The slight rebound will be driven by an increase in labor force participation rates to more typical levels.

Labor force participation has fallen to very low levels in the past few years, but with improving wage conditions on the horizon, we expect that participation will pick up modestly. The pace of job openings has exceeded the pace of hiring and while part of that is due to a skills mismatch between what employers are seeking to fill their open positions and the resumes of job seekers, this will lead to upward pressure on wages.

Source: BLS

© 2015 Mortgage Bankers Association

MBA Mortgage Finance and Economic Commentaries - each month MBA Research provides commentary on the current mortgage finance and economic climates. For more information, please contact Forecasts@mba.org.
Refinance activity will continue to decline as there are few remaining households that can benefit from an interest rate reduction and because rates will gradually begin to rise from historic lows in the coming years. Even as mortgage rates have oscillated around the 4 percent mark over the past year or so, we have not seen any sustained refinance activity. Even within smaller waves of increased activity, the level of refinance applications never surpassed one-half of the levels seen in 2013 when rates first went below 4 percent, as a vast majority of loans outstanding have rates of less than 4.5 percent. Home equity products may see an increase in demand over the next few years as home prices continue to increase albeit at a decreasing rate.

**Distribution of Rates on Agency 30 Yr Fixed**

The housing turnover rate, as measured by the ratio of total home sales to the total housing inventory, has shown signs of an upward trend which we expect to continue in the near term. This is potentially a sign that prospective buyers and sellers are slowly returning to the market as more home sales

Source: MBA calculations based on data from JP Morgan and Deutsche Bank

© 2015 Mortgage Bankers Association
transactions are taking place. Along with a decreasing share of cash sales, this should lead to more home purchase mortgage activity.

**Turnover Rate: Home Sales/Housing Stock**

Source: Census, NAR, MBA

Age has traditionally been a strong determinant of homeownership and with an aging and increasingly diverse population in the US over the next 10 years, we will see an increase in housing demand. The Census Bureau projects that compared to 2014, 2024 will see 20 million more people age 60 and over than there are today (as Baby Boomers age), 4 million fewer people age 45 to 59 (as the large Baby Boomer cohorts are replaced by smaller Gen-X cohorts) and 8 million more people age 18 to 44 (as smaller Gen-X cohorts are replaced by larger Millennial cohorts). Using the Census data, we projected two possible scenarios for homeownership rates and the results suggest a flat or possibly increasing homeownership rate over the next 10 years\(^1\). Among other things, credit availability will be an important factor influencing these outcomes.


© 2015 Mortgage Bankers Association

*MBA Mortgage Finance and Economic Commentaries* - each month MBA Research provides commentary on the current mortgage finance and economic climates. For more information, please contact [Forecasts@mba.org](mailto:Forecasts@mba.org).
We upwardly revised our estimate of originations for 2014 to $1.26 trillion from $1.12 trillion, to reflect the most recent data reported in the 2014 Home Mortgage Disclosure Act (HMDA) data release.

We estimate a total of $1.45 trillion in mortgage originations for 2015, compared to $1.26 trillion in 2014. Purchase originations will drive the increase, increasing to $821 billion in 2015 from $759 billion in 2014. Refinances are expected to be to $630 billion in 2015. For 2016, we expect $905 billion in purchase originations. However, rates will likely continue to rise and cause refinances to decline to $415 billion for a total of $1.32 trillion in origination volume in 2016. The chart below shows historical mortgage originations estimates as well as our forecast. Even with the significant percentage increases in purchase volume expected, the level of purchase originations in 2016 is expected to just match the level of purchase originations in 2000, considerably below levels from 2007. From 2016 on, we expect that the level of purchase originations will continue to increase before reaching the $1 trillion mark in 2018.

Source: Census, MBA
Source: MBA October 2015 Forecast

To receive copies of MBA Forecasts and Commentaries electronically, [click here](please include your name, company and title).