MBA Economic and Mortgage Finance Commentary: October 25, 2016

In the October forecast released this week at the 2016 MBA Annual Convention, we forecast $1.10 trillion in purchase mortgage originations during 2017, an 11 percent increase from 2016. In contrast, refinance originations are anticipated to decrease by 40 percent, resulting in refinance mortgage originations of $529 billion. In total, mortgage originations will decrease to $1.63 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.

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.

Source: MBA October 2016 Forecast
Following the Brexit vote in June 2016, and with the financial market volatility earlier in the year, refinance volume was much higher than anticipated thus far in 2016. The world is an uncertain place, and there is always a chance that rates could drop again in response to global turmoil, but we expect that refinance volume will most likely be much lower over the next few years as homeowners have repeatedly had the opportunity to lower their rates, and there will be fewer households with an incentive to refinance if rates follow the path we are projecting.

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.

Overall economic growth will be in a range of 1.5-2.0 percent over the next three years – not robust, but strong enough to lead to further job and wage growth. We also expect a stronger second half of 2016 than we have seen thus far in the first half of the year. Personal consumption expenditures, which account for over 60 percent of GDP in the US, will continue to drive growth. Since late 2013, annualized PCE growth has been over 2 percent in most quarters and with recent job market health and upward pressure in wages, we expect that trend to continue.

**Personal Consumption Expenditures**
Seasonally adjusted annual rate, percent change

![chart](chart.png)

Source: BEA

Headline inflation, as measured by the Consumer Price Index (CPI), increased by 1.5 percent in September relative to a year ago. This is the CPI’s highest year over year percent increase since October
2014 when oil prices first began to plummet. In the chart below we show the year over year change in motor fuel prices faced by consumers which is an important driver of the overall CPI. Low oil prices were expected to a temporary phenomenon but that has dragged on from late 2014 to present, although we have started to see some of these effects dissipate to a greater degree. Rental costs have been higher, and even though growth there has flattened slightly, that typically accounts for 40 percent of a household’s spending and is still exerting some upward pressure on overall inflation. We anticipate that headline CPI will be over the 2 percent mark in 2017 and for 2018 and 2019 as well.

**Chart of the Week - October 21, 2016**
*CPI and its Motor Fuel Component*
*Year over year percent change*

Source: BLS

With rising inflation and a job market close to full employment, we expect the Federal Reserve will raise rates again at the end of 2016. Rate increases through 2017 and 2018 will likely be gradual, as Chair Yellen and the Fed have indicated that they are going to be cautious going forward.

Historically low, and in some cases negative, rates around the world continue to put downward pressure on longer-term US rates, keeping them lower than the domestic growth environment would otherwise warrant. The market value of negative-yielding sovereign, government-related, corporate and securitized debt peaked at $12.2 trillion in June 2016, up from $3.3 billion in July 2014, according to Bloomberg and Barclays. The chart below shows the levels to which yield have fallen over the past 10 years.
We expect that the 10-Year Treasury rate will stay below three percent through the end of 2018, and 30-year mortgage rates will stay below 5 percent over the same period. As mentioned at the beginning of this commentary, we are still facing uncertain times when it comes to the global economy and financial markets, so rate volatility will continue to be the norm in coming months. While we expect the purchase market to improve further, refinance activity will likely decline with rates having stayed low for an extended period, and fewer borrowers left to benefit from the rate environment.

Source: CNBC, OECD