MBA Forecast Commentary
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Purchase Originations to Increase to $1.2 Trillion in 2018, Refinance Activity Expected to Continue Decline

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Based on the most recent forecast released at MBA’s Annual Convention in Denver, we are projecting that home purchase originations will increase at a faster clip in 2018, nearly double the rate that they increased in 2017. Purchase originations are expected to increase to $1.2 trillion in 2018 from an estimated $1.1 trillion in 2017. In contrast, we expect refinance originations will decrease by 28.3 percent from 2017, to approximately $430 billion, as mortgage increases continue to increase. Our forecast is for the 30 year fixed rate mortgage rate to average 4.6 percent in 2018, a 60 basis point increase from 2017. This will climb further to 5.0 percent in 2019. In total, mortgage originations will decrease to $1.60 trillion in 2018 from $1.69 trillion in 2017 (Figure 1). In addition to the updated forward-looking forecast, MBA upwardly revised its estimate of originations for 2016 to $2.05 trillion from $1.89 trillion, to reflect the most recent data reported in the 2016 Home Mortgage Disclosure Act (HMDA) data release.

The overall job market remains strong, demographic trends are quite favorable, mortgage credit is becoming more available to qualified borrowers, and home prices should continue to rise. We see a large cohort of the population approaching home ownership age in the near future, which will boost the demand for housing, and many of these potential borrowers will have had opportunities to build wealth and credit. All the pieces are in place for stronger growth in 2018 and beyond. Our projection for overall economic growth is 2.0 percent for 2018, slowing slightly to 1.9 percent in 2019 and 1.8 percent in 2020. We still expect long run growth potential in the US to be somewhat lower, as productivity gains have been persistently slow.

Housing however, has been hamstrung by insufficient supply, with inventories of homes remarkably low given the home price growth we have experienced (Figure 2). Existing home sales have dropped off slightly in recent months as inventory of home for sale continues to slide. New home sales have seen a gentle upward trend but have been volatile. The new construction needed to fill that void has been insufficient as builders still face land and labor shortages, coupled with the impact of recent hurricanes on housing markets, which have diverted skill labor to restoration and recovery efforts. Even before the
Hurricanes hit Florida, Puerto Rico, and Texas, we saw significant challenges in the construction labor market (Figure 3 & 4). Housing construction is highly localized and dependent on local networks of a variety of skilled workers, and following the recession, many of these networks were weakened as housing starts slumped and workers sought other alternatives.

Although inflation remains low, a tight job market is likely to increase inflationary pressures in the near term. We forecast that monthly job growth will average 125,000 per month in 2018, down from about 150,000 per month in 2017. The unemployment rate is already in the low 4 percent range, and we expect that the unemployment rate will decrease to 4.0 percent by the end of 2018.

We also anticipate that the Fed will raise rates in December 2017, three times in 2018, and twice in 2019. The Federal Reserve has begun reducing its holdings of Treasury securities and mortgage backed securities, and this will put additional, modest upward pressure on mortgage rates. Our forecast is for the 10-Year Treasury rate to stay below three percent through the end of 2018, before gradually increasing to reach around 3.2 percent by the end of 2019.

We see a number of factors that could impact our forecast positively or negatively, such as changes in Fed leadership, escalation of the North Korean conflict and other global crises, public policy implementation (tax reform and infrastructure spending), and regulatory changes that would further impact the mortgage industry and how lenders do business. Our base forecast presented here does not include these factors explicitly, but we will adjust our outlook accordingly when we do have sufficient information and data to incorporate these effects into our models.
Figure 1.

**Mortgage Originations: 2010-2020**

![Graph showing mortgage originations from 2010 to 2020, with a bar chart that distinguishes between Purchase and Refi originations.](image)

- **Billions of dollars in originations**

Source: MBA

Figure 2.

**Existing Home Sales, Inventory and Months Supply**

![Graph showing existing home sales, inventory, and months supply from 1999 to 2020, with the x-axis representing years and the y-axis representing the number of months supply, with lines for each category.](image)

- **Months supply of existing homes on market (Months, SA, left axis)**
- **Existing Home Sales (Ths., SAAR, right axis)**
- **Number of homes available for sale (Ths., SA, right axis)**
- **EHS Forecast (right axis)**

Source: MBA, NAR
Figure 3.

Construction Labor

- Layoffs and Discharges Rate (12 mo. moving avg., %)
- Hires Rate (12 mo. moving avg., %)
- Job Openings Rate (12 mo. moving avg., %)

Source: BLS

Figure 4.

Share of Single-Family Builders Reporting Labor Cost/Availability Problems

Source: HMI Survey, NAHB EcHp.