MBA Forecast Commentary
Lynn Fisher, Mike Fratantoni, Joel Kan

Hurricanes and North Korean Conflict Take Center Stage

*MBA Economic and Mortgage Finance Commentary: September 15, 2017*

Even as solid economic growth in the US continued, markets were weighed down by the impact of two major hurricanes, along with the ongoing tension surrounding North Korea and its missile testing. The hurricanes will depress economic activity in the second half of 2017, and likely will also result in a boost to growth in early 2018 with rebuilding and recovery efforts. There may be some downside risk to this scenario as the impact to the oil industry in the Houston and surrounding areas started to push motor fuel prices higher, and caused some concern over if and how refining capabilities might be affected going forward. North Korea’s missile testing and bellicose rhetoric continues to be unsettling and the combination of these factors pushed rates lower for most of August and early September, and as a result, we saw a small recovery in refinance volume and raised our originations forecast accordingly.

We expect that the Fed will announce the start of its balance sheet reduction following its September meeting and will likely raise rates one more time in 2017 at the December FOMC meeting. The balance sheet normalization plan announced in June 2017 emphasized that the portfolio will be reduced in a gradual and predictable manner (Figure 1, from a previously published Chart of the Week) so long as economic growth and inflation continue to evolve as expected. Fed communication since then has reaffirmed that the target fed funds rate is still the primary means for monetary policy action. Inflation has been lower than forecast but the most recent release from the BLS pointed to some upward pressure stemming from rising rents and an increase motor fuel prices as crude supplies and refining activity in the Houston area were adversely impacted by Hurricane Harvey. The CPI measure of inflation (on a year over year percent change basis) remained 2 percent but rose to its highest level in four months. The core CPI measure, which excludes food and energy, remained at 1.7 percent for the fourth consecutive month, still at its lowest since May.

Our forecast is for the unemployment rate to continue to decline through 2017, reaching a low of 4.2 percent, before slowly inching back up as labor force participation rebounds somewhat. With an economy at full employment, we have seen monthly payroll growth start to slow (Figure 1) and expect that to continue to moderate. Job growth will likely be in the 150,000 jobs per month range for the next few months before declining to 100,000 in 2018. We expect wage rates to accelerate in the medium
term, as companies continue to report that jobs are quite hard to fill and as job openings remain at record levels and continue to outpace hiring.

In terms of the impact of the hurricanes on the housing market, we used data from our Weekly Applications Survey to take the pulse of the mortgage market in Texas and Florida in order to assess the on-going impact of hurricanes Harvey and Irma on mortgage application activity. For the week following Harvey’s initial landfall ending September 1, application activity in Texas declined by more than 15 percent compared to the same week the year before. In the following week (which included Labor Day), applications rebounded to a 3.5 percent year over year gain on the back of presumably strong activity elsewhere in the state. The state had experienced strong year over year growth in purchase mortgage activity prior to the hurricane, the YOY decline for Texas was the first since February 2017, and in 2017 to date, purchase applications had been increasing 15 percent on average. Shortly after Harvey, Irma made landfall in the Florida Keys and widespread preparation and evacuations in Florida reduced mortgage applications by more than 25 percent before the hurricane arrived as business ground to a halt. We expect application counts in both states to rebound slowly in the coming weeks.

As discussed earlier, we expect some negative impact to real GDP growth from the hurricanes, and lowered our growth estimate to 2.5 percent in the third quarter of 2017 from 2.8 percent in last month’s forecast. GDP growth is estimated to average 2.2 percent in 2017, and 1.9 percent in both 2018 and 2019, still supported by consumer spending, but also with some help from business fixed investment and residential fixed investment as the housing market picks back up. We estimate that total originations will be around $1.65 trillion in 2017, a slight upward revision over last month’s estimates as refinance activity for the third and fourth quarters is expected to be higher than previously estimated; we raised our estimate for refinance originations from $538 billion to $571 billion for 2017. Home price growth (Figure 3) and consequently, home equity growth, also contributed to a slight bump up in refinance activity, as borrowers in weaker equity positions previously have been able to take advantage of still-low rates. We still expect $1.1 trillion in purchase volume as overall economic and job market health continues to support that, even though housing inventory remains extremely tight. Purchase volume is expected to grow further in 2018 and 2019 as the younger age cohorts get older and build more wealth, moving them into homeownership, but refinance volume will remain low as rates increase (Figure 4).
Figure 1.

![Chart of the Week - June 16, 2017](image)

US Treasuries and Agency MBS on Fed's Balance Sheet

Source: FRED, FOMC

Figure 2.

![Average Monthly Payroll Growth](image)

Source: BLS
Figure 3.

**FHFA Expanded House Price Index**

(Quarterly, SA, 1991Q1 = 100)

Source: FHFA

Figure 4.

**Mortgage Originations History and Forecast**

Source: MBA