Coronavirus Emerging as a Global Risk

*MBA Economic and Mortgage Finance Commentary: February 20, 2019*

Starting in the second half of 2019, economic growth slowed around the world due to trade tensions and other factors. This development, along with expectations regarding the path for monetary policy has pulled down the 10-year Treasury rate – and subsequently mortgage rates. Recently, growing fears around the spread of the coronavirus have led to a further slide in rates and the potential for a much broader and severe slowdown in growth in the US and globally. We expect that the Fed will hold rates at current levels through 2020 and into 2021 after its three insurance cuts in 2019. The slowing in global growth, uncertainty over trade, inflation near their 2 percent target, and now the possible impacts from the coronavirus should keep them comfortably on hold.

While there is still much uncertainty surrounding the spread of the coronavirus and its implications for US growth, the main impact to the US has been in financial markets. If things get worse in China, the impact to growth for its trading partners and broader disruptions to global supply chains could impact US growth more significantly.

After growing at an average quarterly rate of 2.5 percent in 2018, it appears that 2019 was almost as strong with a growth rate of 2.3 percent, based on the BEA’s advance estimate of GDP growth. We expect growth to slow to 1.2 percent in 2020 and 1.6 percent 2021. The labor market ended 2019 averaging almost 180,000 jobs added to the economy per month and with the unemployment rate well below the Fed’s measure of full employment at 3.5 percent. Wage growth trended higher in 2019 but appears to have leveled off for now. Low rates and a strong job market have helped household balance sheets and supported consumer spending, along with continued improvement in mortgage performance. As the unemployment rate has reached historically low levels, and overall economic growth slowing, we expect monthly payroll growth to slow and the unemployment rate to drift higher. Job openings have fallen dramatically over the past few months and companies have been pulling back on their capital investment and hiring plans, as the manufacturing sector remains weak and the global outlook has darkened.

Even with slowing economic growth, we still hold to the view that conditions are supportive for home-purchase activity, as there have been signs of housing inventory recovery as new construction has
picked up and increased purchase activity in early 2020. However, it is possible that some of this was
driven by mild winter weather in parts of the country. We still expect gradual growth in home sales and
purchase originations in 2020.

We revised our originations forecast higher in this month’s forecast given the pace of refinance activity
driven by lower rates. We still expect refinance volume will slow in the second half of the year. We
raised our estimate by over $50 billion and now expect that refinance originations will total $665 billion
in 2019, driven by lower mortgage rates. Total mortgage originations likely exceeded $2 trillion in 2019,
the best year since 2007 ($2.31 trillion), and will possibly be just shy of that mark in 2020. In 2021,
purchase origination are expected to total $1.33 trillion, and refinance originations to drop to $432
billion ($1.76 trillion total). Our forecast is that the 10-year Treasury rate will increase gradually to
around 1.9 percent in 2020, and the 30-year fixed-rate mortgage rate will rise slightly to average 3.7
percent, and eventually reaching 4 percent by 2022. However, we are holding to the view that even
though the forecast is for a gradual increase in rates over the next two years, there will be substantial
rate volatility around this path due to ongoing uncertainties that may impact the outlook such as the
spread of the coronavirus.

One encouraging sign for the housing market is how strong new construction activity has been to start
2020. Following a surge of activity in December 2019, housing starts pulled back slightly in January 2020,
but with the current pace over 1.5 million units total, remained close to the highest levels since 2006.
Single family starts were down from December, but exceeded an annual pace of 1 million units for the
second month in a row, the first time since 2007 this has happened. Multifamily starts saw a second
month of over 500,000 units and the strongest month since 1986.

Single family permits for new construction also had a big month, increasing for the third month and to
its highest level since 2007, which is potentially a sign that this strength in homebuilding may continue
for a few more months to come. Similar to the findings in our Builder Applications Survey released
earlier in the month showing very robust levels of new home sales in January, it seems that home
builders are continuing to ramp up production to meet the demand from potential buyers, as well as
milder winter weather helping some of the increased activity in the Midwest. According to NAHB’s
builder sentiment survey, there remain challenges to home building, but this month’s data showed yet
another step in the right direction. Additionally, our data on home purchase applications has exhibited
strong year over year growth over the first six weeks of 2020.

We highlighted last month that a main factor impacting the health of the housing market is how often
households move, with the declining trend of the U.S. mobility rate, defined as the number of movers as
a percentage of the population. This downward trend in the mobility rate means that more households
are staying in place and not selling an existing home, which is a contributing factor to the low inventory
of homes for sale. If this trend continues, we expect a slower pace of existing home sales and longer
housing tenure.
Figure 1.

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth</td>
<td>2.5%</td>
<td>2.3%</td>
<td>1.3%</td>
<td>1.4%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.4%</td>
<td>1.8%</td>
<td>1.9%</td>
<td>2.1%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>3.9%</td>
<td>3.7%</td>
<td>3.8%</td>
<td>4.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Fed Funds</td>
<td>2.375%</td>
<td>1.625%</td>
<td>1.625%</td>
<td>1.875%</td>
<td>2.125%</td>
</tr>
<tr>
<td>10-year Treasury</td>
<td>3.0%</td>
<td>2.7%</td>
<td>1.8%</td>
<td>1.9%</td>
<td>2.0%</td>
</tr>
<tr>
<td>30-year Mortgage</td>
<td>4.8%</td>
<td>3.7%</td>
<td>3.7%</td>
<td>3.8%</td>
<td>4.1%</td>
</tr>
<tr>
<td>New home sales (000s)</td>
<td>617</td>
<td>688</td>
<td>740</td>
<td>761</td>
<td>768</td>
</tr>
<tr>
<td>Existing home sales (000s)</td>
<td>5,341</td>
<td>5,334</td>
<td>5,484</td>
<td>5,635</td>
<td>5,737</td>
</tr>
<tr>
<td>Purchase originations ($B)</td>
<td>1,209</td>
<td>1,272</td>
<td>1,324</td>
<td>1,358</td>
<td>1,370</td>
</tr>
<tr>
<td>Refi originations ($B)</td>
<td>467</td>
<td>796</td>
<td>665</td>
<td>432</td>
<td>429</td>
</tr>
<tr>
<td>Total originations ($B)</td>
<td>1,677</td>
<td>2,068</td>
<td>1,989</td>
<td>1,790</td>
<td>1,799</td>
</tr>
</tbody>
</table>

Source: MBA Forecast
Recent Originations and Forecast

$Billions

Source: MBA Forecast
Figure 3.

US Hiring and Job Openings
Year over year change, thousands

Source: Bureau of Labor Statistics
Figure 4.

Purchase Mortgage Applications Index
(by week of the year, NSA)

Source: Census
Figure 5.

Single-Family New Construction
Seasonally Adjusted Annual Rate

Source: Census Bureau