

MBA Forecast Commentary: September 21, 2021

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Fed Tapering on the Horizon

The job market continues to strengthen with monthly payroll growth averaging 585,000 thus far in 2021 and the unemployment declining further to 5.2%. While this improvement has showed signs of slowing, there are also almost 11 million unfilled job openings in the economy as businesses that want to hire are having difficulty finding the required skillsets or workers willing to accept the positions. Some of this may be due to lingering challenges posed by the pandemic in sectors such as leisure and hospitality, where workers have not returned to fill their old positions. Various data sources show that firms are reporting increasingly more positions as hard to fill and increasing wages and other incentives to recruit workers and much of these costs are beginning to be passed on to consumers.

As a result of these supply chain challenges and persistently strong consumer demand for goods, inflation as measured by the CPI has been over 5% (on an annual basis) for the past four months. Input materials prices have been on the rise as well as hourly wages. The cost of shelter, given high rental costs and accelerating home price appreciation, is likely to add upward pressure to inflation over the next few years. This will push inflation above the Fed's 2 percent target for years to come and this will put pressure on headline inflation given the importance of housing-related spending.

With these headline developments such an improving job market, inflation running hot, it was no surprise that the Fed has made steps toward removing monetary policy accommodation. Following the FOMC's most recent meeting, the committee signaled that a tapering in asset purchases is on the horizon, but the biggest news out of this meeting was the change in FOMC projections. A majority of members now seeing a first interest rate hike in 2022 and possibly three rate hikes in 2023, which is a faster pace than many market participants had previously anticipated.

The pending taper and change to the monetary policy outlook will likely contribute to a modest increase in mortgage rates over the medium term. The biggest challenge to the housing market continues to be the lack of supply, hindered by the same supply chain constraints that are impacting the broader economy. MBA is forecasting growth in home sales and purchase mortgage originations for next year and beyond, but does expect a sharp decline in refinance volumes. Our forecast has the 30-year mortgage rate is expected to rise to 3.1% by the fourth quarter of this year and to 4.0% by the end of 2022. Originations for 2021 are expected to total \$3.74 trillion, with \$1.6 trillion in purchase (an 8% increase over the year) and \$2.14 trillion in refi (a 19% decrease). For 2022, purchase originations are expected to increase to over \$1.7 trillion but refinance volume will decline to \$649 billion as rates continue to increase and much fewer refinance candidates are left at those rate levels.

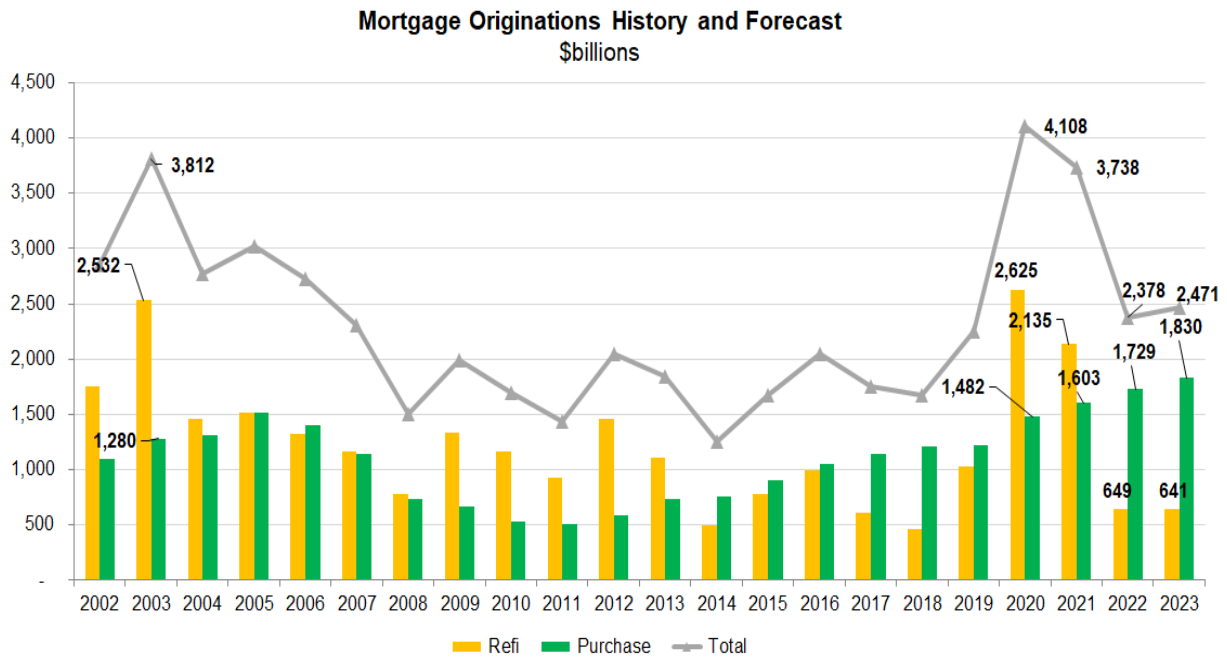
With the release of the 2020 HMDA data, we revised our 2020 total higher to \$4.1 trillion in total originations compared to \$3.8 trillion previously. This is comprised of \$1.48 trillion in purchase volume and \$2.63 trillion in refinance originations.

Figure 1.

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
GDP Growth	2.3%	-2.3%	6.1%	3.6%	2.0%
Inflation	1.8%	1.2%	4.8%	2.7%	2.1%
Unemployment	3.7%	8.1%	5.4%	3.9%	3.8%
Fed Funds	1.625%	0.125%	0.125%	0.125%	0.625%
10-year Treasury	1.8%	0.9%	1.6%	2.3%	2.5%
30-year Mortgage	3.7%	2.8%	3.1%	4.0%	4.3%
New home sales (000s)	685	828	804	988	1,092
Existing home sales (000s)	5,331	5,678	6,080	6,493	6,653
Purchase originations (\$B)	1,225	1,482	1,603	1,729	1,830
Refi originations (\$ B)	1,028	2,625	2,135	649	641
Total originations (\$B)	2,253	4,108	3,738	2,378	2,471

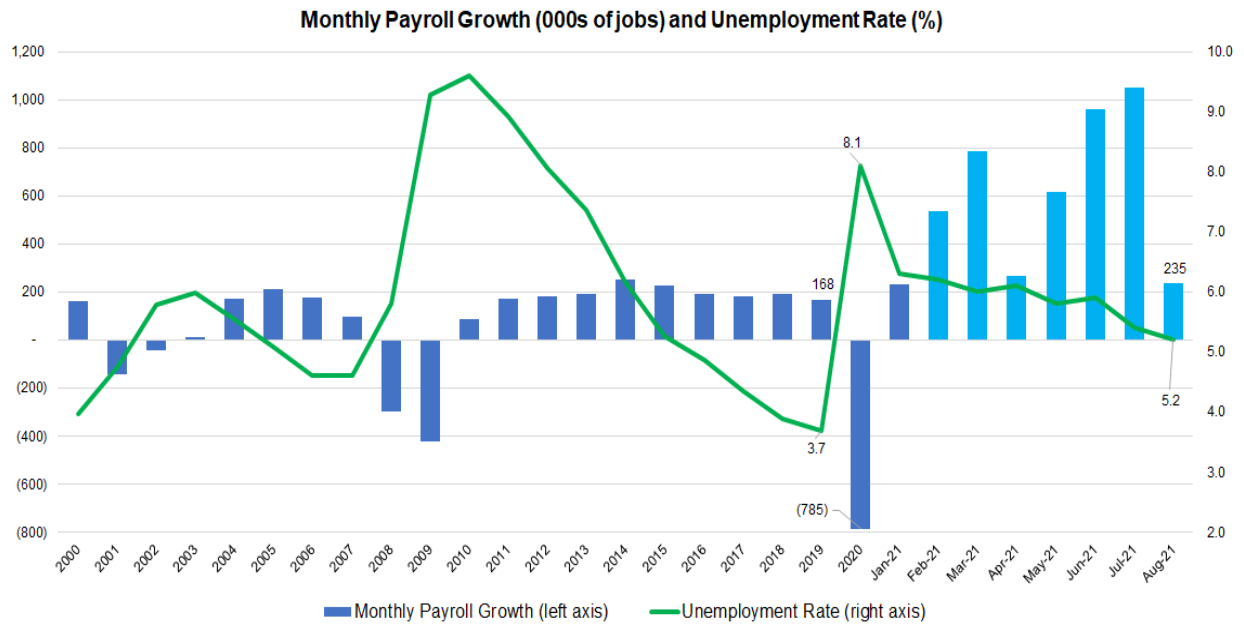
Source: MBA Forecast

Figure 2.



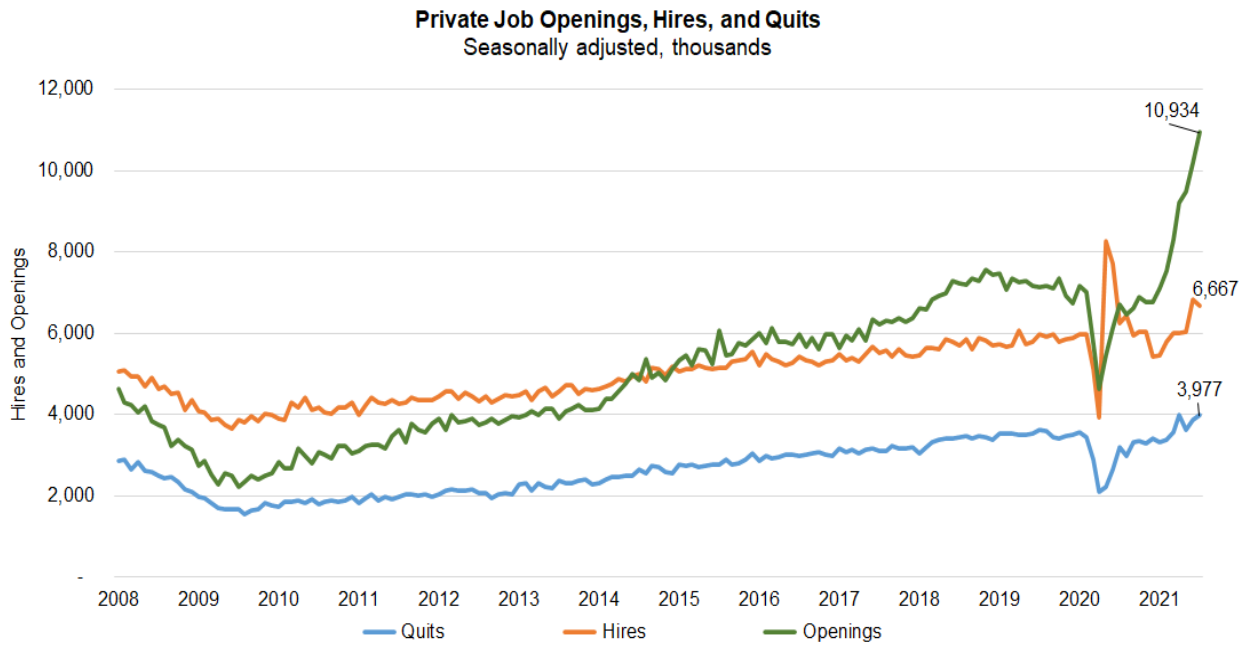
Source: MBA Forecast

Figure 3.



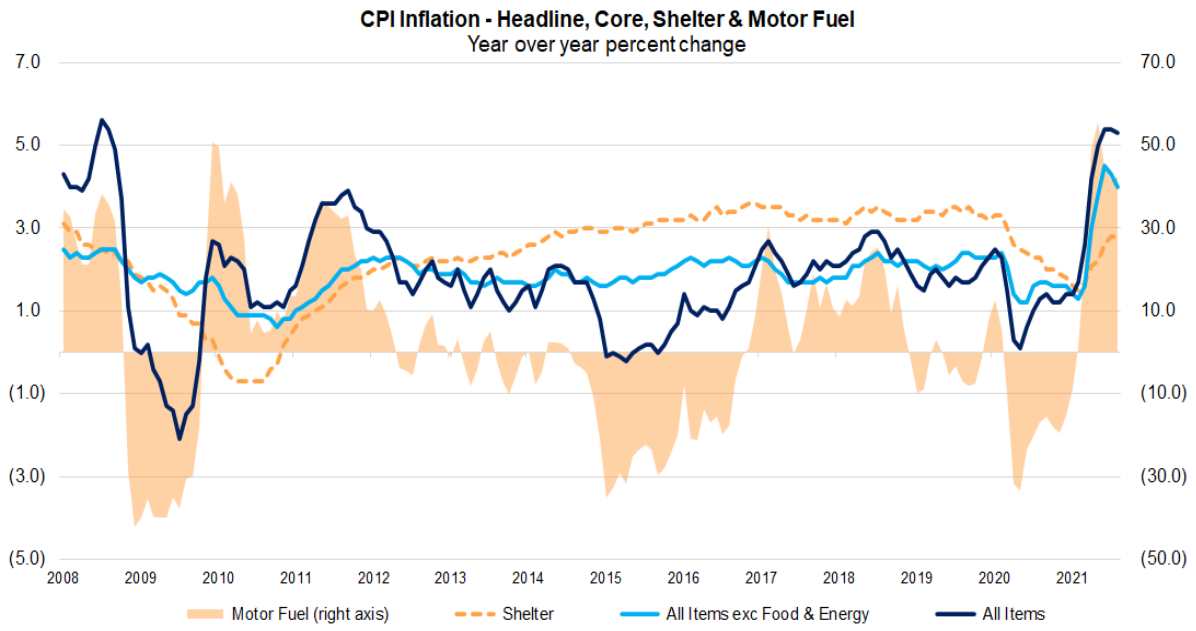
Source: Bureau of Labor Statistics

Figure 4.



Source: Bureau of Labor Statistics

Figure 5.



Source: Bureau of Labor Statistics