MBA Forecast Commentary: December 2023

MBA’s Outlook for 2024

Summary of the December 2023 forecast

- The November data on employment, inflation, and the December FOMC meeting all moved markets to sharply reduce interest rates, a clear positive for the pending spring homebuying market. On balance, the market and the FOMC have moved towards our prior forecasts, and we are holding to our views, so we made only slight changes to our forecast paths.

- We are expecting a mild recession in the first half of 2024, which will result in the unemployment rate increasing from 3.7 percent in November 2023 to 5 percent by the end of 2024.

- The pace of job growth picked up slightly in November, with an increase of 199,000 compared to 150,000 in October. As in recent months, job growth has been concentrated in just a few sectors, notably health care, government, and leisure and hospitality, while employment is little changed or declining in other sectors. Wages increased at a 4% rate over the past year, a pace likely too rapid to be consistent with the Fed’s 2% inflation target. These trends, in combination with the drop in the unemployment rate to 3.7% from 3.9% in October, paint a picture of a job market that is still strong, even though the number of job openings has declined, and at least some sectors are seeing an increase in layoffs.

- Disinflation is the word of the month. Headline CPI inflation has slowed to 3.1 percent year-over-year, while core CPI index has slowed to 4 percent. Annualizing the rate of change over the past 3- or 6-month time periods shows that inflation is likely headed significantly lower in the medium term, particularly as lower market rents work their way in to the shelter components of these inflation measures.

- The FOMC held rates steady as we and many other forecasters had expected. The news from this meeting came from the FOMC’s projections regarding the direction of the economy. As noted in its statement, while inflation has eased, it remains ‘elevated,’ so policy must remain restrictive for now to bring inflation down further. The FOMC projections show a faster pace of rate cuts in 2024. While the projections don’t show much of a change in the committee’s expectations regarding economic growth or the job market, they do recognize the faster pace at which inflation has declined in 2023 and see further slowing back to the 2 percent target.
  - Additional rate hikes no longer appear to be part of the conversation. It is all about the pace of cuts from here.
This is good news for the housing and mortgage markets. We expect that this path for monetary policy should support further declines in mortgage rates, just in time for the spring housing market. We are forecasting modest growth in new and existing home sales in 2024, supporting growth in purchase originations, following an extraordinarily slow 2023.

- Longer-term rates have dropped sharply in response to the Fed’s pivot motivated by these recent incoming data. As of December 14th, 10-year Treasury rates have dipped below 4%. Some of this collapse in rates may well represent short-term positioning, but we do expect that the 10-year rate will spend most of 2024 below 4%, ending the year at 3.7%. Mortgage-Treasury spreads remain wide but have dropped below 300 basis points recently. We expect the spread will tighten closer to 250 basis points by the end of 2024. The combination implies a 30-year mortgage rate closer to 6% by the end of 2024, compared to mortgage rates that are just below 7% as of this writing.

- Mortgage origination volume is expected to increase 22 percent in 2024 to $2 trillion, with a 14 percent increase in purchase and a 56 percent increase in refinance volume (off an extremely low base in 2023). In terms of units, we forecast a 17 percent increase in the total number of loans originated in 2024, above the 4.3-million-unit volume in 2023, the lowest level since at least 1997.

- We are forecasting a 6% increase in existing home sales and a 10% increase in new home sales in 2024. Coupled with ongoing, but slower, growth in home prices, this sales growth will support higher purchase volume. The lock-in effect will continue to suppress existing inventory, which opens the opportunity for builders to provide a higher share of total sales.
Forecast and Outlook Details

**Inflation Has Been Slowing**

- Source: Bureau of Labor Statistics – Consumer Price Index (CPI)

**Mortgage Spread Decreasing But Still Wide**

- Source: Freddie Mac, Federal Reserve
Jumbo-conforming Spread Flips Again

Spread Between Jumbo and Conforming 30 Year Fixed Mortgage Rates

- Source: MBA's Weekly Application Survey

Refi Volume Still Quite Low

Refinance Index and 30-Yr Fixed Rate

- Source: MBA Weekly Applications Survey; www.mba.org/weeklyappros
Purchase Volume Low, Too

[Chart showing mortgage applications index over the year with data points for 2019, 2020, 2021, 2022, and 2023.]

- Source: MBA Weekly Applications Survey: www.mba.org/weeklyapps

Stronger HPA

[Chart showing FHFA Purchase Only House Price Index with data points for 2023 and 2024, with forecasts for Q4 2023 and Q1 2024.]

- FHFA and MBA Forecast
Mortgage Origination Units to Increase 17% in 2024

Mortgage Performance Still Strong Overall

* Source: MBA National Delinquency Survey; www.mba.org/lsds