MBA

RESEARCH AND ECONOMICS

MBA Forecast Commentary: May 2024

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Summary of the May 2024 forecast

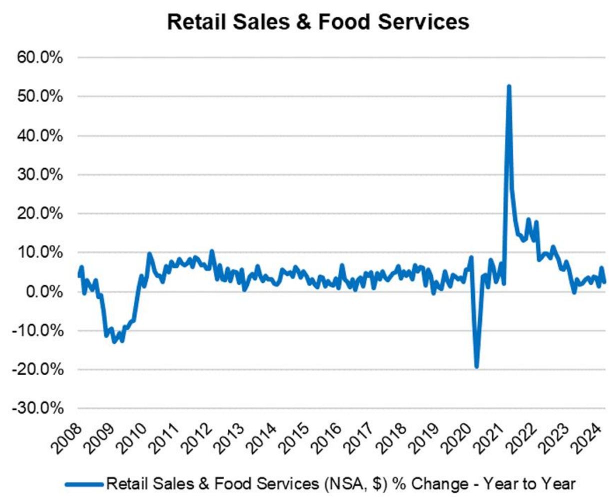
- Our May forecast is quite similar to last month's forecast. Fed officials have reiterated that they will still need to see several months of data indicating softening inflation before moving to an initial rate cut. We are expecting a first rate cut from the Fed in September of 2024 and two cuts this year.
- We are forecasting that mortgage rates will end 2024 around 6.5 percent and expect a flatter originations path over the forecast horizon given higher rates and low levels of housing supply.
- Although the economy continues to grow and the job market remains moderately healthy, there are some signs of strains. For example, the ISM indexes for both manufacturing and service sectors are signaling contraction, while rising levels of consumer credit usage and climbing delinquency rates signal that current levels of consumer spending are not sustainable for too much longer.
- Inflation is still too high and continues to be driven by high service sector prices, but April's CPI report showed some softening in shelter price growth to 5.5 percent relative to a year ago and headline CPI recorded an annual growth rate of 3.4 percent, slightly less than last month's reading of 3.5 percent.
- Non-shelter service prices grew 4.9 percent compared to a year ago, the fourth consecutive month of acceleration and the strongest month since April 2023. Job openings are still elevated in many sectors and this is supporting elevated wage growth, which businesses have to pass on to consumers, keeping prices higher in these sectors.
- Employment growth in April was slightly lower than expected. The economy added 175,000 jobs over the month, lower than the 242,000 average for the 12 months leading up to this. Notably, average hourly earnings grew 3.9 percent from a year ago, a third consecutive deceleration in wage growth and the slowest since May 2021. This slowdown in wage growth indicates there has been some cooling in hiring and will help ease some of the upward pressure on service sector inflation, as discussed above. The unemployment rate ticked up slightly to 3.9 percent, close to the highest level since early 2022 but still low by historical standards.
- Single-family housing starts were at a seasonally adjusted annualized pace of 1.031 million units in April, essentially unchanged from the March level of 1.035 million. This was still 18 percent higher than a year ago and the sixth consecutive month that single family starts have exceeded

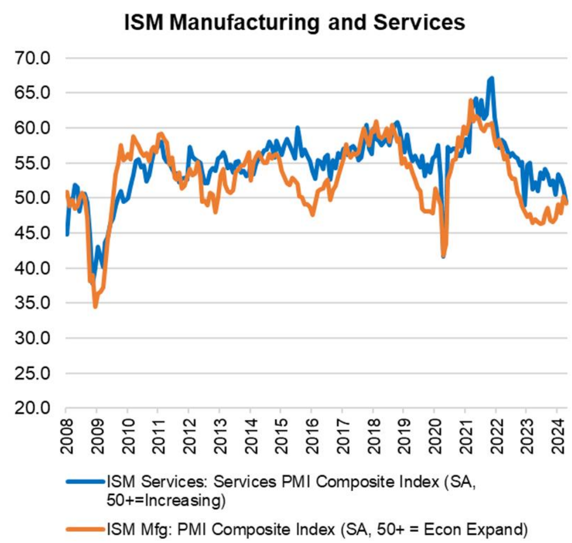
the one-million-unit pace. Permits declined to 977,000 permits. Multifamily starts picked up to 329,000 units, from a downwardly revised 252,000 units in March. The number of apartment units under construction at 934,000 units was the lowest rate of completions since October 2022 but is still high, and this pending supply is coming at a time of higher vacancy rates and slowing rent growth in many markets.

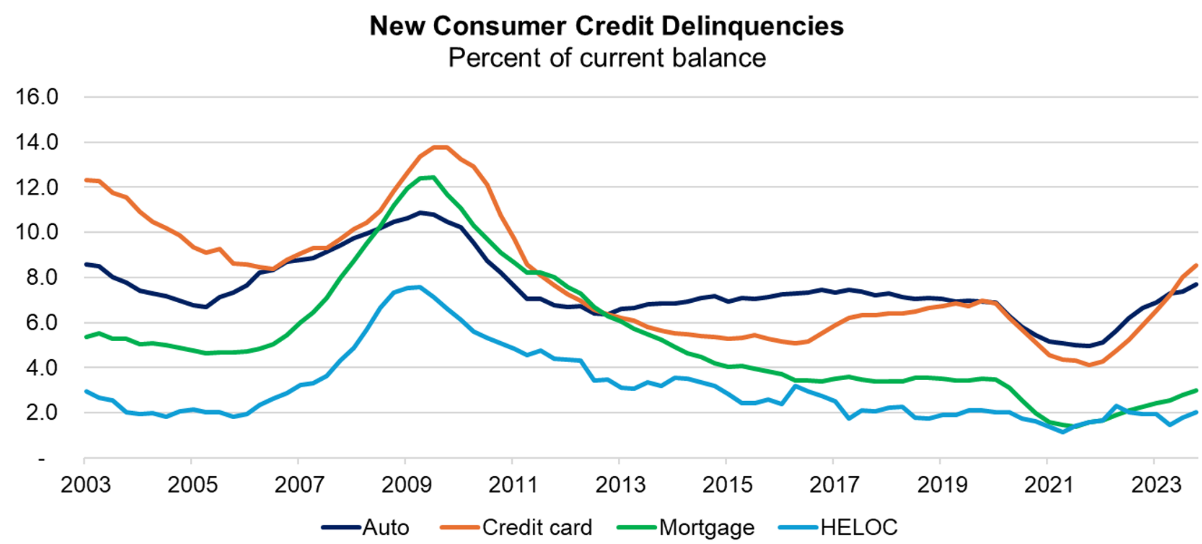
- The 30-year fixed rate was up to 7.3 percent at the end of April but has come back down to 7 percent since and mortgage applications have increased in response, driven by a pickup in refinance activity, particularly in FHA and VA refinances. Purchase applications however, have been relatively flat.
- Existing home sales were down 1.9 percent in April at a seasonally adjusted annualized rate of 4.14 million units. The median sales price was up 5.7 percent from a year ago to $407,600, the highest price since July 2023. For-sale inventory increased to 1.21 million units, a sliver of good news, as more inventory has been sorely needed. New home sales had been the much stronger segment relative to existing given current levels of housing demand and low levels of existing inventory, but saw a 4.7 percent decrease in April to a SAAR of 634,000 units and the first year-over-year decline since March 2023. This may have been a brief hiccup as MBA's Builder Application Survey showed 22 percent year-over-year growth in applications for April, potentially a sign that the new home purchase market will be strong in the months to come.
- Longer-term rates have settled slightly following recent data releases, notably the jobs and inflation reports, with 10-year Treasury yields back in the 4.4- to 4.5 percent range. 30-year mortgage rates are back around 7 percent as a result. Our forecast has the 10-year yield dropping back close to 4 percent by the end of 2024. Mortgage-Treasury spreads have narrowed with recent levels near 250 basis points, still wide relative to historical averages but an improvement over the 300 basis points experienced last year. We expect the spread will tighten further over the forecast horizon but may not return to historical averages of 180 basis points as the Fed plots the next phases of reducing its balance sheet holdings. The combination of these factors implies a 30-year fixed mortgage rate closer to 6.5 percent by the end of 2024.
- Mortgage origination volume is expected to increase 10 percent in 2024 to $1.8 trillion, with a 5 percent increase in purchase and around 30 percent increase in refinance volume (off an extremely low base in 2023). In terms of units, we forecast a 5 percent increase in the total number of loans originated in 2024, above the 4.3-million unit total in 2023, which was the lowest level since at least 1997.
- We are forecasting a 5 percent increase in existing home sales and a 10 percent increase in new home sales in 2024. Coupled with ongoing but moderating growth in home prices, this sales growth will support higher purchase volume. The lock-in effect from rates will continue to suppress existing inventory, but as already observed, this will continue to support a higher share of new home sales as builders maintain their levels of production to meet housing demand.

Forecast and Outlook Details

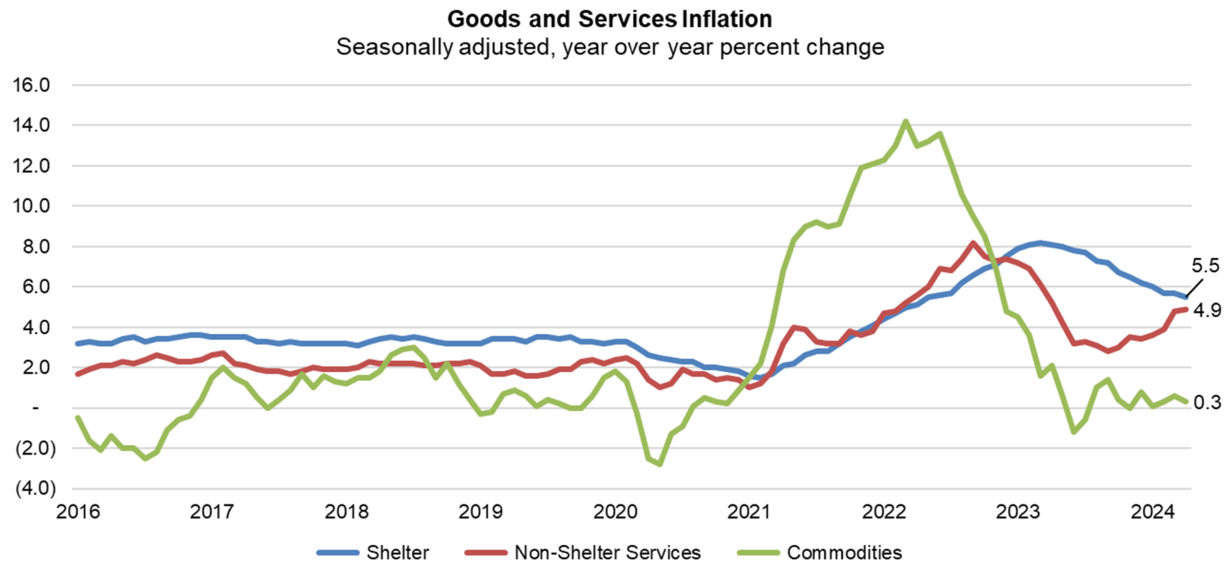
Strains Appearing for Households and Businesses





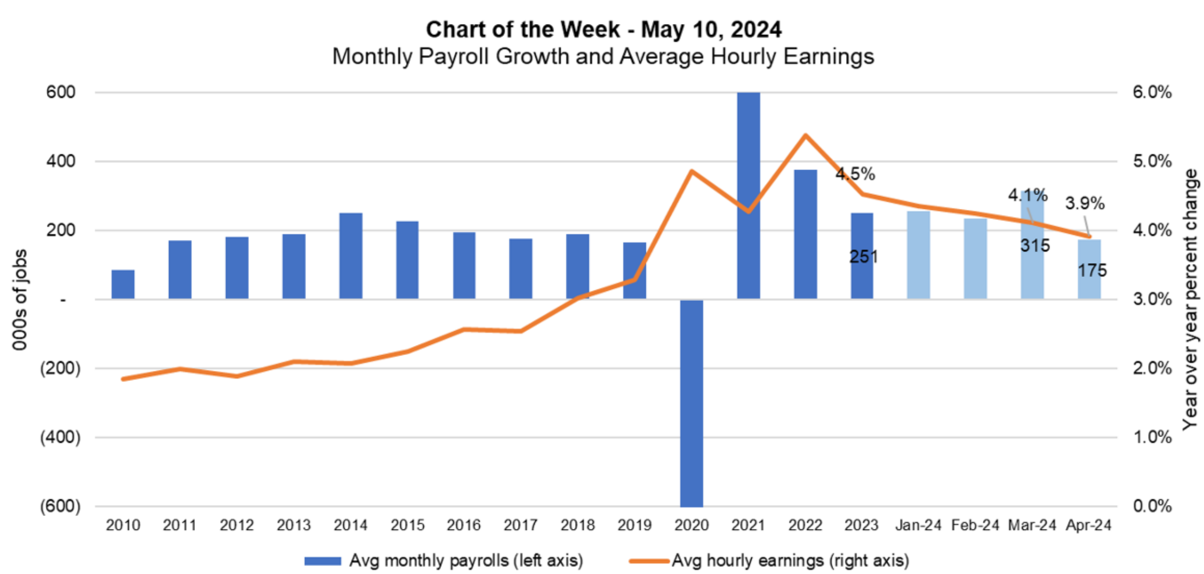


Inflation Remains Stubbornly High Driven by Service Sector Prices



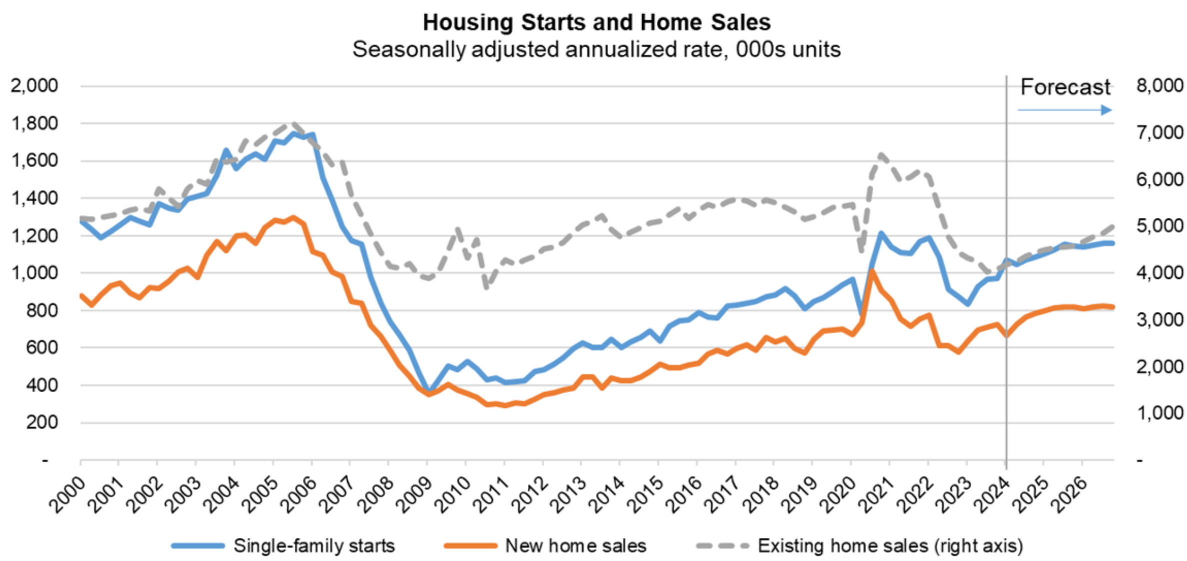
Source: Bureau of Labor Statistics

Job Growth and Wage Growth Cooling Slightly



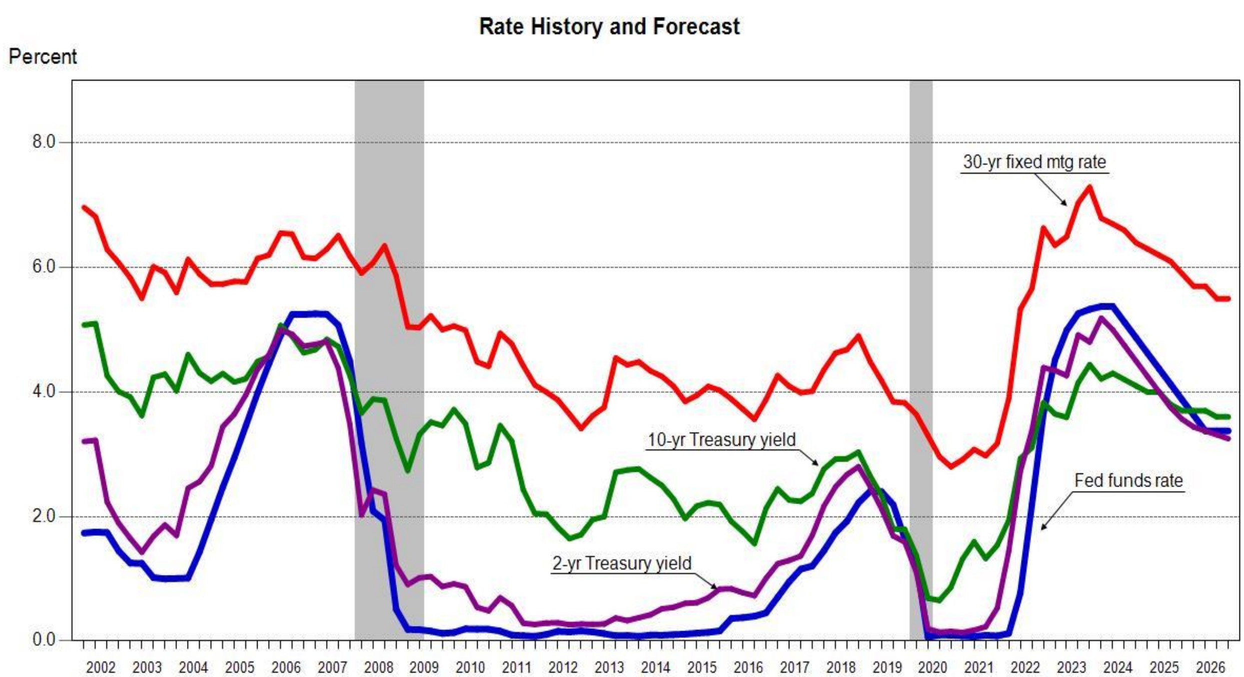
Source: Bureau of Labor Statistics

Gradual Growth Expected in 2024 for Home Sales, Single Family Starts



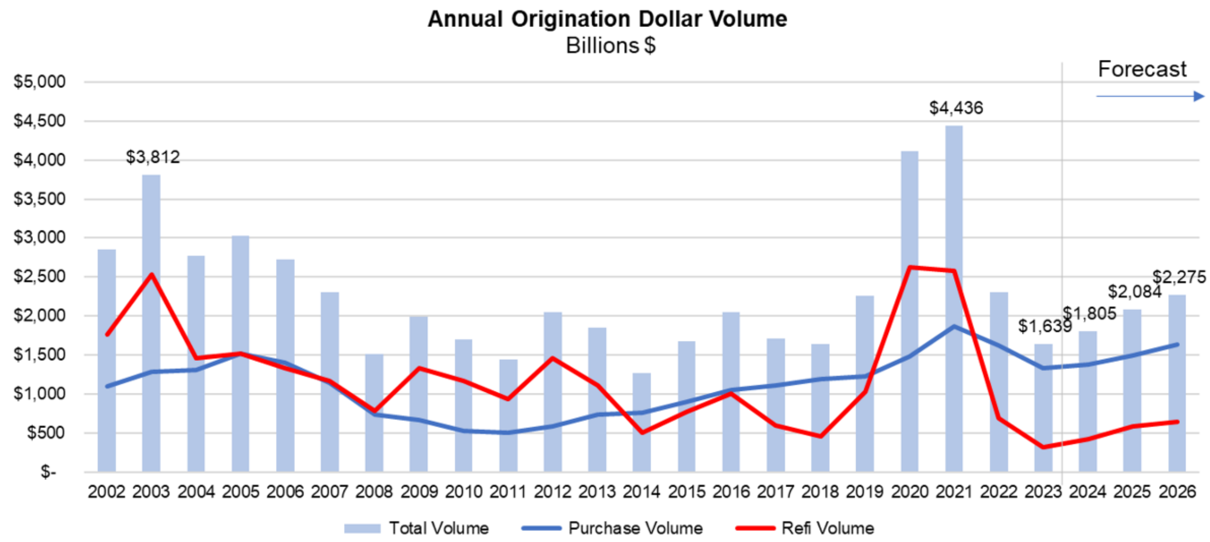
Source: Census Bureau, National Association of Realtors

Ten-Year Treasury, 30-Year Fixed Mortgage Rates to Remain Higher for Longer



Source: Federal Reserve Board, Freddie Mac, MBA Forecast

Mortgage Origination Dollar Volume Expected to Increase 10 Percent in 2024



Source: MBA Forecast