

MBA Forecast Commentary: August 2025

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Key Highlights of the August 2025 forecast

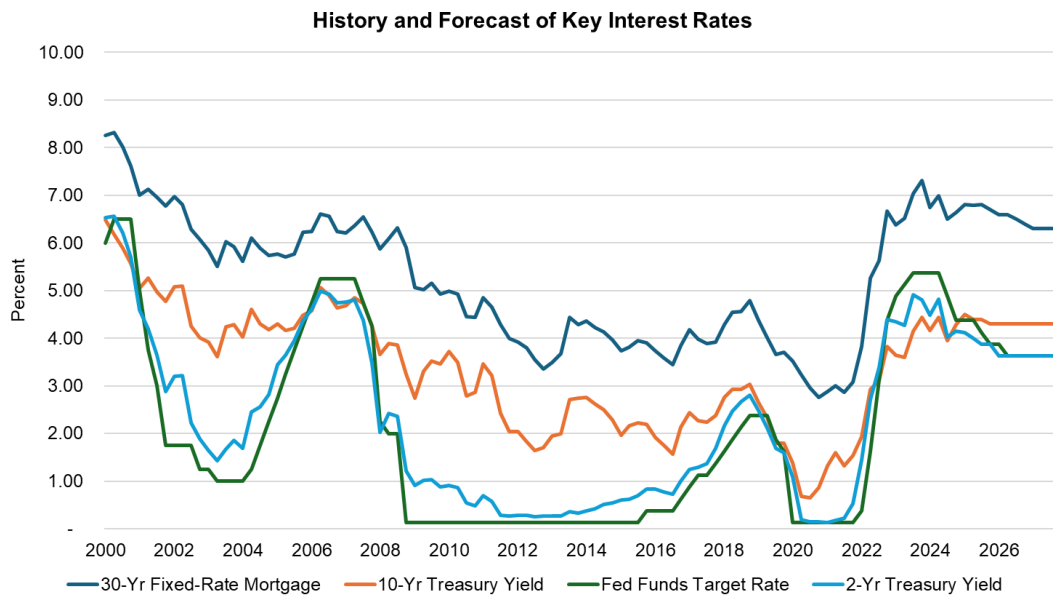
- Two themes continue in the August version of our forecast: 1) We expect that economic growth will slow, the job market will soften further, and inflation will pick up as the tariff shock is incorporated into pricing decisions; and 2) The housing market is cooling and is expected to cool further, with builders tapping the brakes on new construction as inventories of new and existing homes increase and home prices flatten out nationally, with price declines in more markets.
- Following Chair Powell's speech at Jackson Hole, where he hinted at a rate cut as soon as the September meeting, we are holding to our Fed call for two cuts in 2025, starting at their September meeting, and one in early 2026. In his remarks, he acknowledged that while inflation was still above the 2 percent target, the weakening in labor market conditions has made a September rate cut a possibility, should the incoming data support the decision.
- The US has benefitted for decades from a strong and independent Federal Reserve which aimed to conduct monetary policy in the pursuit of the goals of price stability and maximum employment. Without a doubt, the Fed under various leaders made errors along the way. However, a Fed pushed through political pressure to deliver short-term boosts to the economy will undoubtedly lead to investors fearing higher inflation in the future, which will push up longer-term rates, including mortgage rates, today.
- Chair Powell's term ends in May of 2026. We expect that the President will nominate a successor before the end of this year. The names being floated for the position include a number of strong and credible candidates. This choice is very important for the health and stability of the US economy and financial markets.

- While our forecast for mortgage originations in 2025 remained similar to last month's estimates, we revised 2024's totals based on the most recently released Home Mortgage Disclosure Act (HMDA) data for 2024, as part of a benchmarking process that we conduct every year. The 2024 total was revised to \$1.685 trillion from \$1.774 trillion.
- The August forecast shows a GDP growth forecast for 2025 at 1.0 percent, and we estimate a 40 percent chance of a recession over the next 12 months, as it would not take much of a shock to push growth negative in this environment. We expect growth to remain below trend over the next few years, with 1.4 percent growth in 2026 and 1.7 percent in 2027.
- We forecast that unemployment will rise from its current level of 4.2 percent to 4.7 percent at the end of this year before peaking at 4.8 percent in the first half of 2026, as businesses reduce hiring as consumers pull back on spending as inflation pushes past the 3-percent mark over the next 12 months.
- In addition to trade and geopolitical uncertainty, with Moody's downgrade of the US sovereign rating this year following the other major rating agencies, concerns regarding US budget deficits and debt continue to add to interest rate volatility. While we forecast a 10-year Treasury range of around 4.3 percent for the forecast horizon, there will likely be a wide trading range around that average.
- The CPI readings for July showed inflation continuing to edge higher, with headline CPI growth 2.7 percent higher than the same month a year ago and core CPI increasing to 3.1 percent, its highest level since March.
- The employment report for July showed significant labor market weakening over the prior three months, as indicated by job growth slowing to a gain of 73,000 jobs in July and significant downward revisions to the totals for May and June. Notably, goods-producing industries saw contraction for the third straight month. Service industries involved in trade also saw declines in job growth, potentially a result of the uncertain tariff environment, as businesses either put their activity on pause or pulled back altogether. The downward revisions were larger than usual, totaling 258,000 fewer jobs estimated for the prior two months, which dropped the year-to-date average to 85,000 jobs, around half of the monthly average in 2024.
- The unemployment rate also showed signs of deterioration, moving slightly higher over the month to 4.2 percent, while labor force participation continued to decline as more workers dropped out of the workforce.

- Elevated interest rate volatility has kept spreads wider, notably for mortgage-Treasury spreads. Incorporating these into our rate forecast leads to a 30-year mortgage rate expectation of 6.7 percent by the end of the year and declining to 6.5 percent by the end of 2026. As rates remain volatile, we continue to expect that there will be times of limited refinance opportunity, which will have resulted in somewhat higher refinance volume this year relative to 2024.
- Housing inventory continues to increase in many markets around the country, and this increased supply has helped to support some purchase activity as home buyers have more options to choose from and home price growth continues to moderate. The inventory of existing homes for sale was 1.55 million units, a 4.7-month supply, as reported by the NAR for July. Based on Census Bureau data, the unsold inventory for newly built homes was 499,000 units in June, which represented a 9-month supply at the current sales pace.
- We lowered our forecast for home price appreciation slightly in light of these inventory numbers, expecting that price growth will slow to the one percent range by the end of 2025 and dip into negative territory in late 2026, given the combination of high levels of inventory and slower demand. The FHFA's latest release showed that house prices increased 2.9 percent annually as of the second quarter of 2025. The monthly data point for June showed a decline of 0.2 percent, the third consecutive monthly decrease.
- Total origination volume is expected to increase to \$2.02 trillion, up 14 percent from \$1.78 trillion in 2024. Purchase originations are expected to total \$1.4 trillion compared to \$1.3 trillion in 2024, while refinance originations are expected to increase to \$640 billion from \$348 billion.
- As stated earlier in this commentary, the 2024 originations estimates were revised on the HMDA data for 2024. Purchase originations were revised to \$1.338 trillion from \$1.288 trillion and refinance originations to \$348 billion from \$491 billion.
- If the economy does enter recession, mortgage rates are likely to drop faster than in our baseline forecast, which would push up refinance volume, but would lead to a sharper increase in the unemployment rate, which would slow the purchase market. Alternatively, if the tariffs result in stickier inflation rather than just being the result of a one-time price increase, the rate path could go higher, leading to fewer refinances. Contact us if you are interested in our scenario analyses with respect to origination volumes in these alternative paths.

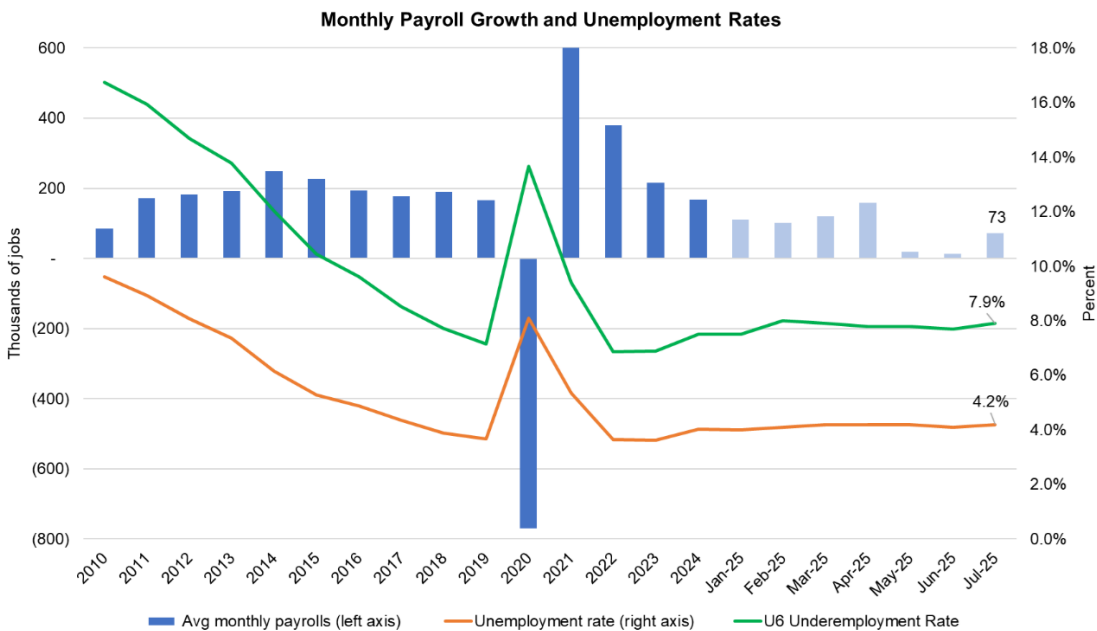
Forecast and Outlook Details

Key Rates Expected to Settle at Higher Level



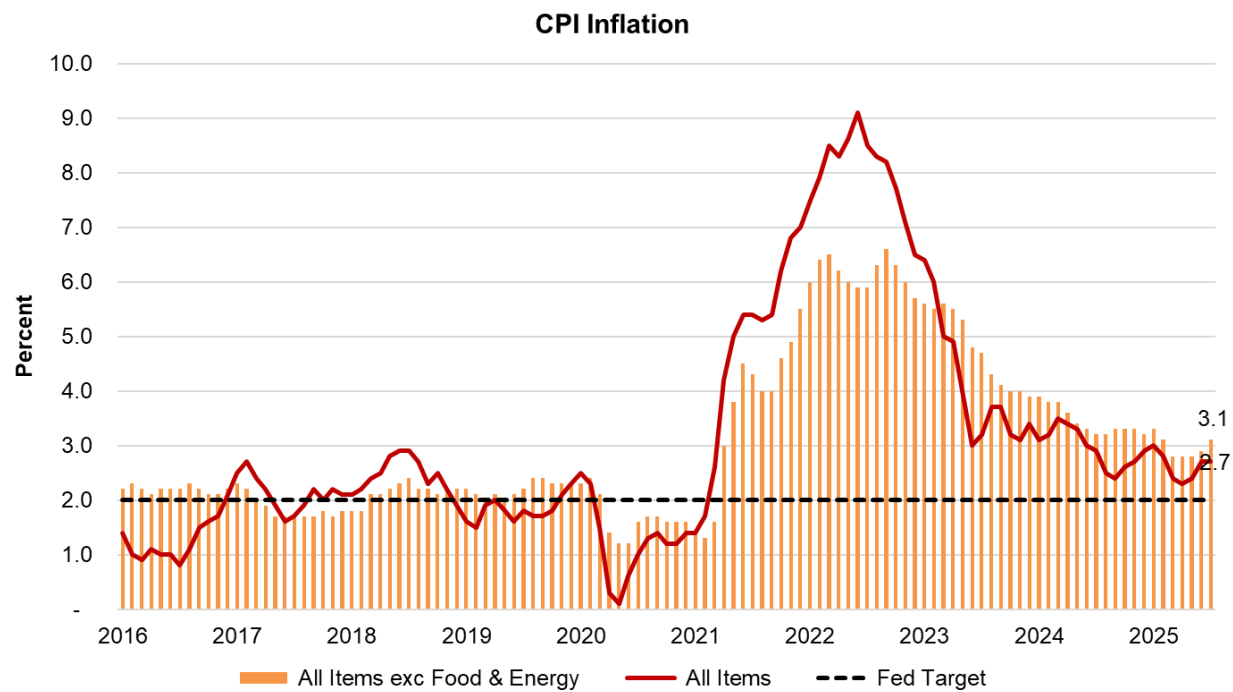
Source: Federal Reserve, Freddie Mac, MBA Forecast

Job Market Showing Signs of Weakening



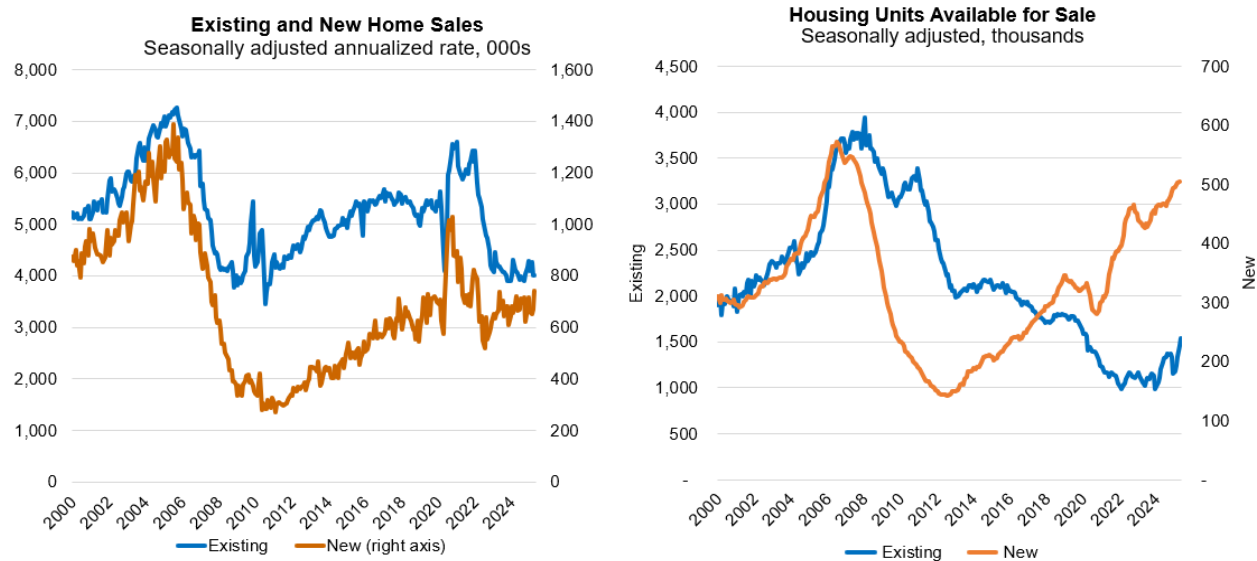
Source: Bureau of Labor Statistics

Inflation Remains Subdued, But Signs of Picking Up Emerging



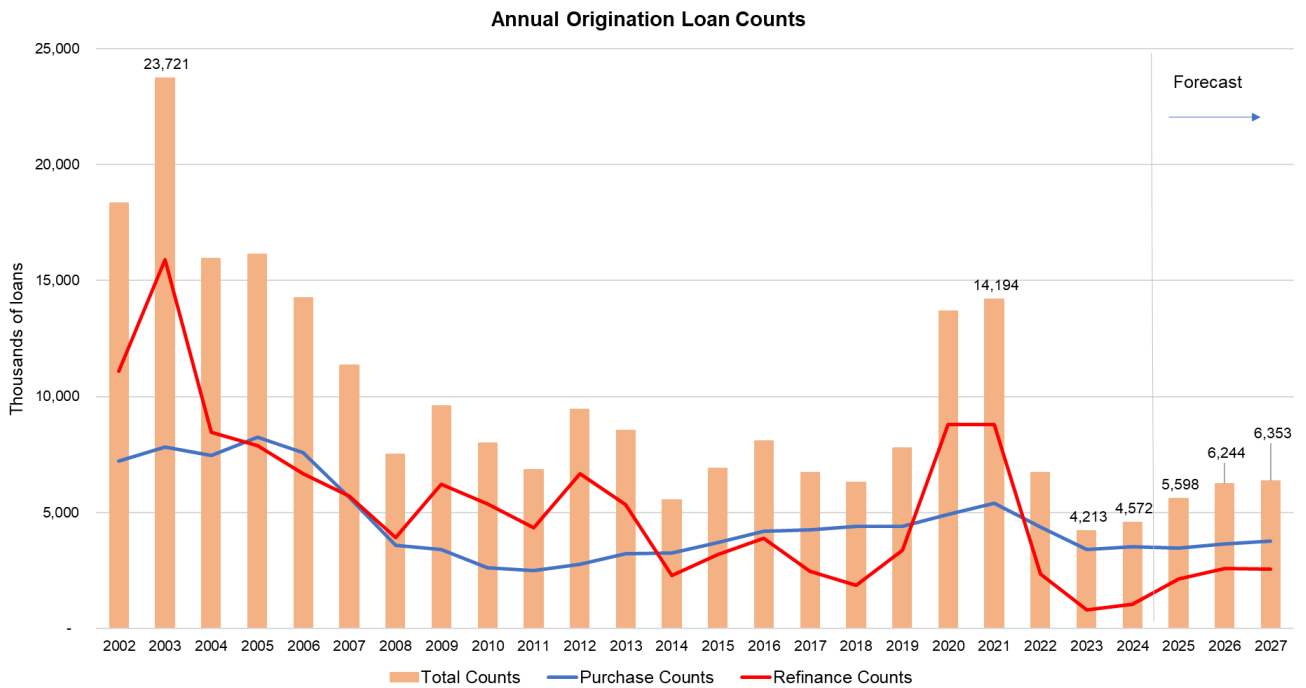
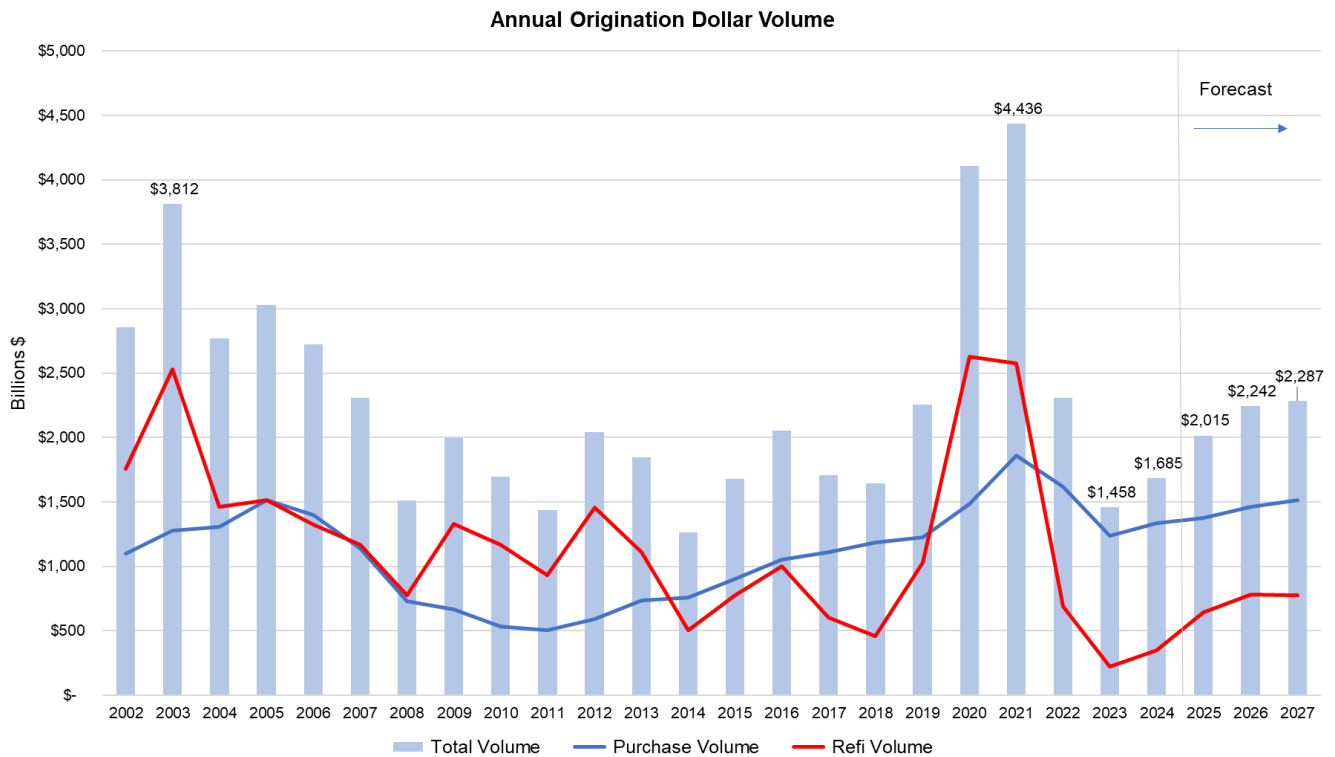
Source: Bureau of Labor Statistics

Home Sales Impacted by Uncertainty; Inventory Increasing



Source: Census Bureau, National Association of Realtors

Originations Dollars and Units Expected to Increase Through 2027



Source: MBA Forecast