RESEARCH AND ECONOMICS

MBA Forecast Commentary: September 2025

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Key Highlights of the September 2025 forecast

- A softening job market and other signs of an economic slowdown prompted a brief refi boomlet, but continuing concerns about tariff-induced inflation have pushed mortgage rates back up again. The government shutdown clouds the outlook given the lack of data reporting, but we don't expect the shutdown to have a dramatic macroeconomic impact, although it will certainly be more of a negative for metros like Washington, DC that are heavily reliant upon federal government spending and activities.
- The FOMC cut the federal funds rate target by 25 basis points at its September meeting, in line with market expectations. The projections show that the median FOMC member anticipates two additional cuts in 2025 and one more in 2026, with the expectation that the job market will remain soft while inflation will return to the Fed's 2 percent target, despite near term upward pressure from tariff-related price increases. While the decision was not unanimous, with one dissent from the newest governor, the strong vote for the 25-basis-point cut suggests that members, while acknowledging that downside risks to the job market have increased, are not panicking about the state of the economy. Chair Powell, in his news conference after the meeting, described this as a "risk management" cut.
- Mortgage rates, along with longer-term Treasuries moving in advance of this dovish shift in monetary policy, reached their lowest point for the year prior to the FOMC meeting, spurring a strong jump in refinance activity. However, rates have risen somewhat since then, putting the brakes on refinances.
- The September forecast shows a GDP growth forecast for 2025 at 1.2 percent, with an estimated 35 percent chance of a recession over the next 12 months. We expect growth to

remain below trend over the next few years, with 1.3 percent growth in 2026 and 1.7 percent in 2027.

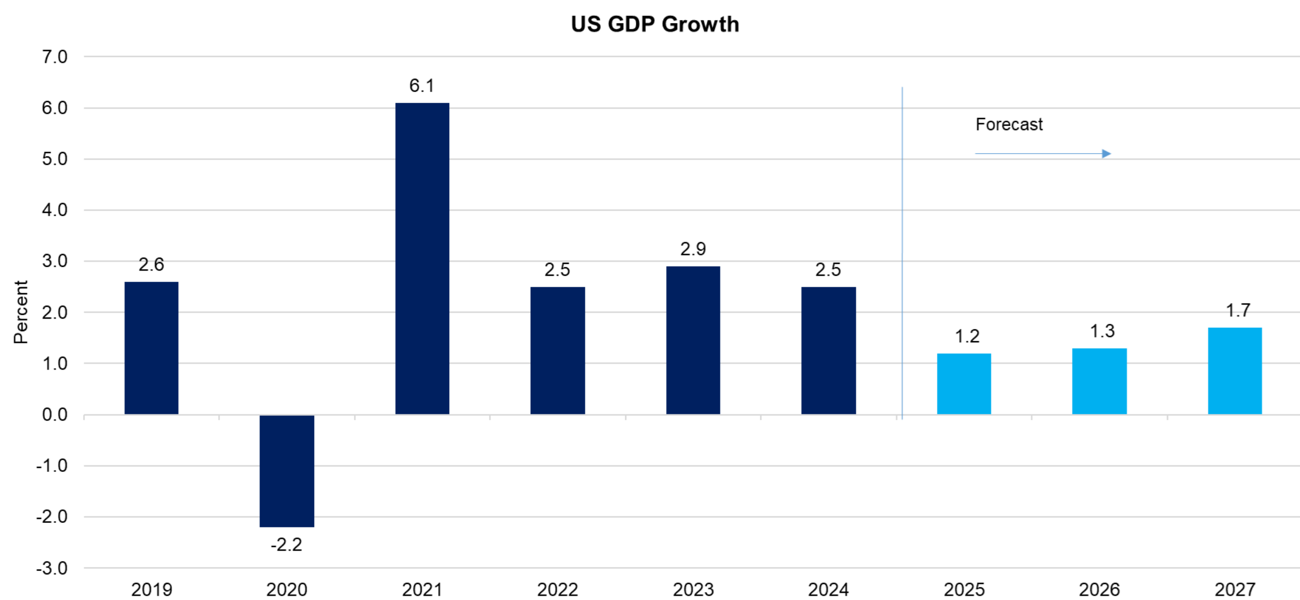
- We forecast that unemployment will rise from its current level of 4.3 percent to 4.8 percent in the first half of 2026, as businesses continue to reduce hiring as consumers pull back on spending as inflation pushes past the 3-percent mark over the next 12 months. There is already some evidence of this with monthly payroll growth currently averaging 75,000 in 2025 thus far.
- Concerns regarding US budget deficits and debt continue to keep the 10-year above the 4-percent market and contribute to interest rate volatility. While we forecast a 10-year Treasury range of around 4.2 percent for the forecast horizon, there will likely be a wide trading range around that average.
- The CPI readings for August showed inflation moving higher, with headline CPI growth 2.9 percent higher than the same month a year ago and core CPI at 3.1 percent for the second straight month, its highest level since March. Non-shelter services continue to experience strong price growth, while goods prices have been gradually moving higher as well, both of which are keeping overall inflation in its current range. Additionally, inflation expectations as measured by the University of Michigan survey remained elevated.
- The employment report for August showed significant labor market weakening, as indicated by job growth showing a gain of 22,000 jobs in August and significant downward revisions to the totals before, with the revised estimate showing a net loss of jobs in June. The job market is softening, with even sectors like health care, which had steadily contributed to job growth, now slowing. Job losses continued in the federal government and manufacturing sectors. Slowing wage growth, as indicated by the BLS report and the Federal Reserve Bank of Atlanta's Wage Tracker reinforce the notion that the job market is softening.
- While the headline unemployment rate increased to 4.3 percent, what was more notable was the larger increase in the U-6 measure to 8.1 percent, with more workers only able to find part-time work or becoming discouraged by the lack of job openings, and the continued increase in the length of unemployment spells. While the pace of layoffs has picked up somewhat, the hiring rate remains quite low. It is increasingly difficult for those laid off, and for new entrants into the job market, to find a position.
- Mortgage-Treasury spreads are still over 200 basis points and incorporating these into our rate forecast leads to a 30-year mortgage rate expectation of 6.5 percent by the end of the year and

declining to 6.2 percent by the end of 2027. Mortgage rates reaching 6.34 percent in September provided a period of limited refinance opportunity for recent loan vintages and borrowers with large loan sizes, but with mortgage rates potentially on their way up again, we saw refinance activity drop significantly in the last week of September.

- Housing inventory continues to grow 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. However, there are also markets in the Northeast and Midwest where inventory is still low by historical standards and home prices are still showing relatively strong annual growth.
- We maintained our forecast for home price appreciation, 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 July showed another small monthly decline and a 2.3 percent annual growth rate.
- The combination of lower mortgage rates, stronger income growth, and slowing home prices have helped affordability conditions improve for the past four months. The national median payment applied for by purchase applicants decreased to $2,100 from $2,127 in August, according to data from MBA's Purchase Applications Payment Index (PAPI).
- Total origination volume is expected to total $2.03 trillion in 2025, up from $1.69 trillion in 2024. Purchase originations are expected to total $1.36 trillion compared to $1.34 trillion in 2024, while refinance originations are expected to increase to $670 billion from $348 billion.
- As stated last month, if the economy does enter recession, mortgage rates are likely to drop faster than in our baseline forecast, which would help drive refinance volume, but would lead to a sharper increase in the unemployment rate, slowing growth in 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.

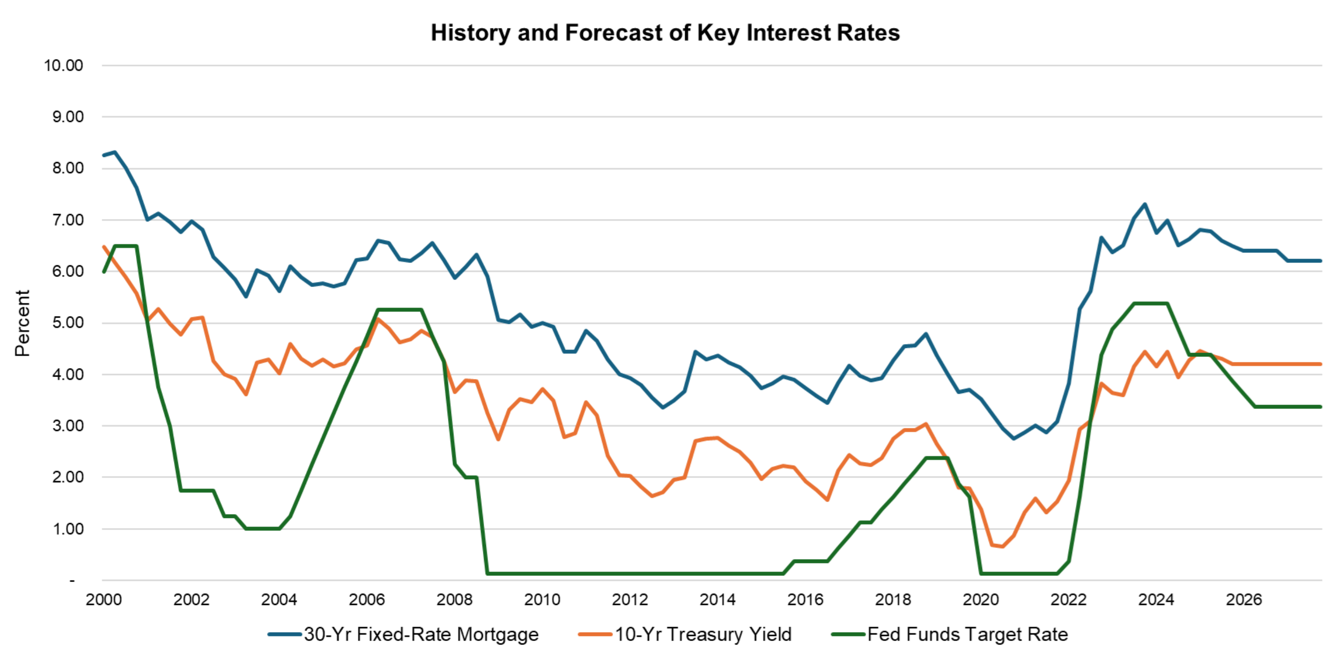
Forecast and Outlook Details

Slower Growth Expected in 2025 and 2026.



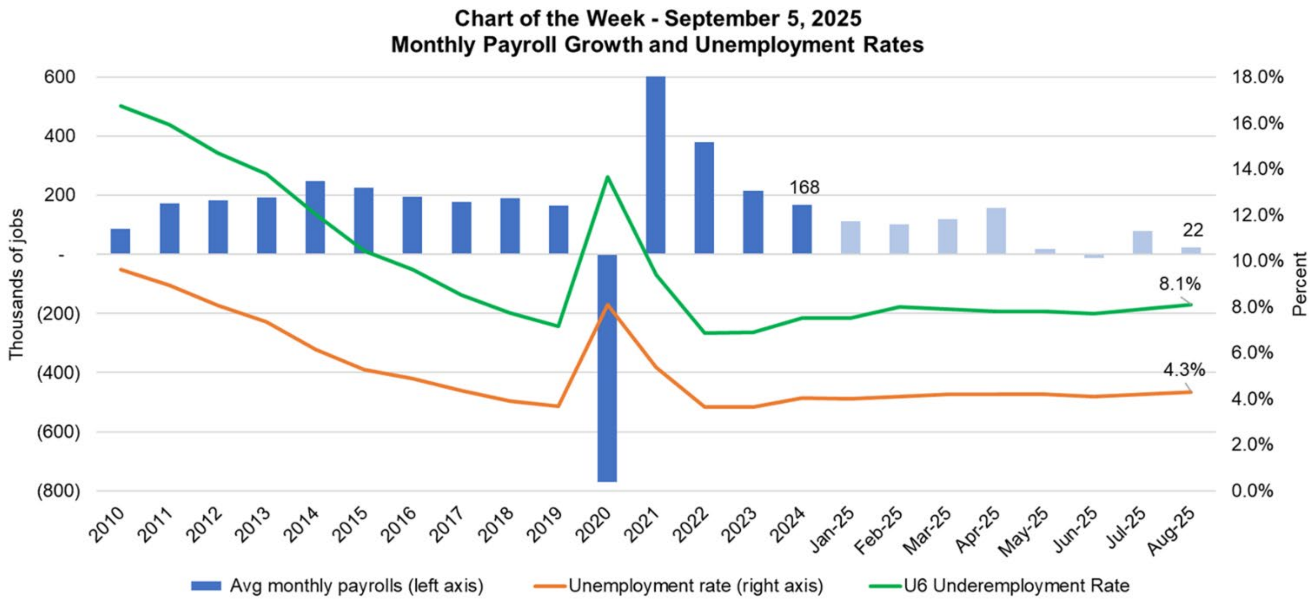
Source: Bureau of Economic Analysis, MBA Forecast

Key Rates Expected to Settle at Higher Level



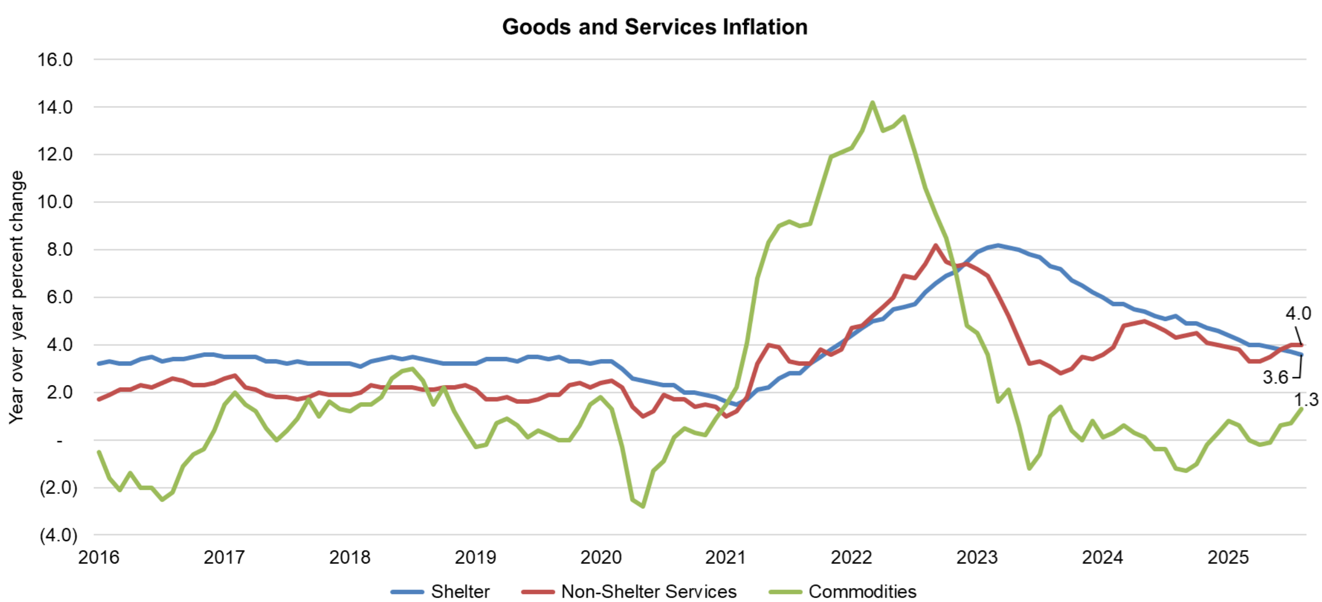
Source: Federal Reserve, Freddie Mac, MBA Forecast

Job Market Showing Signs of Weakening



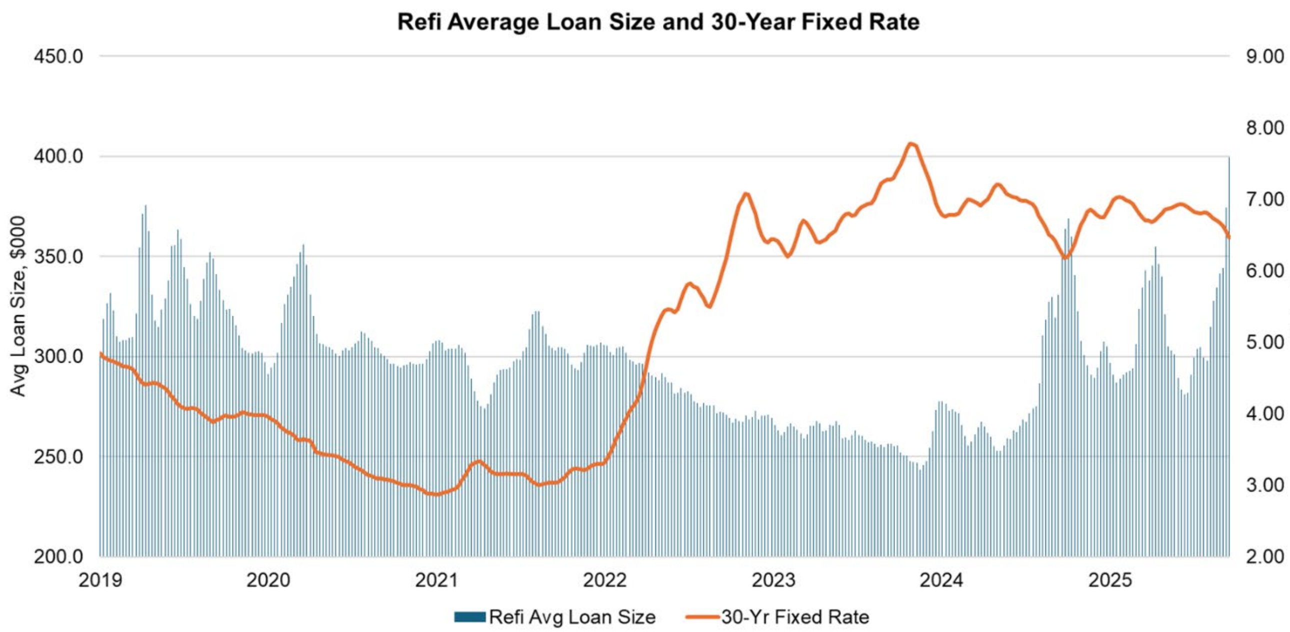
Source: Bureau of Labor Statistics

Signs of Reacceleration in Inflation Emerging



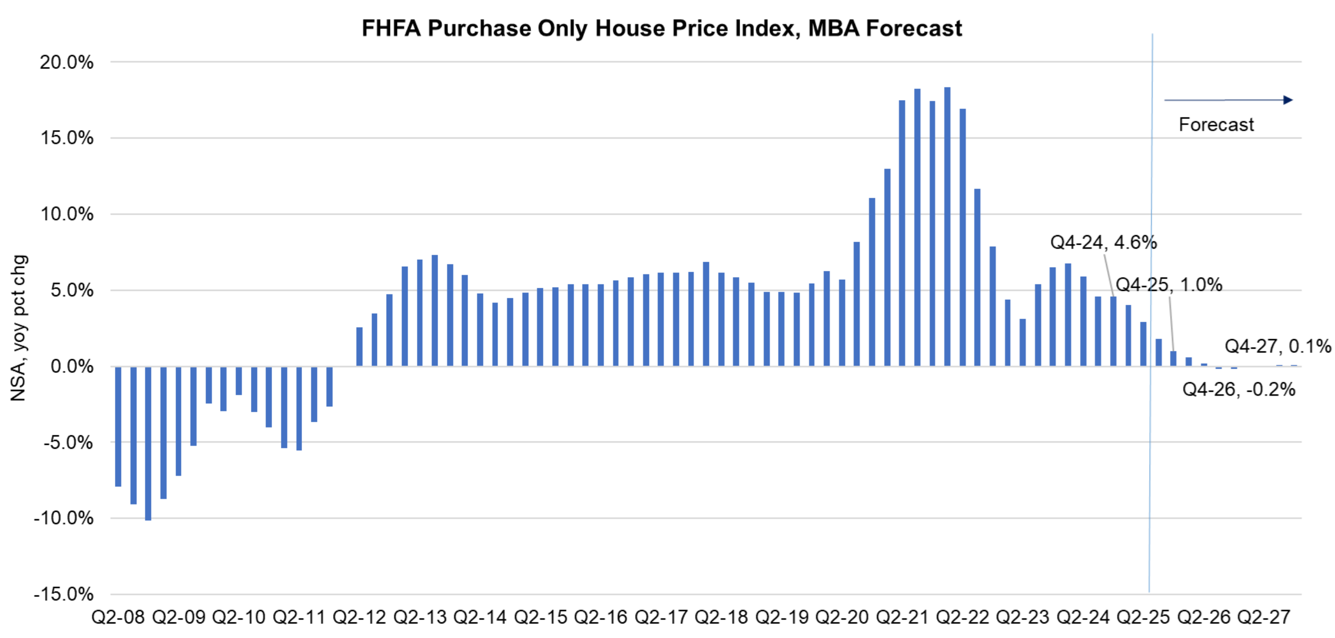
Source: Bureau of Labor Statistics

Refinances Opportunities Emerging But Short Lived



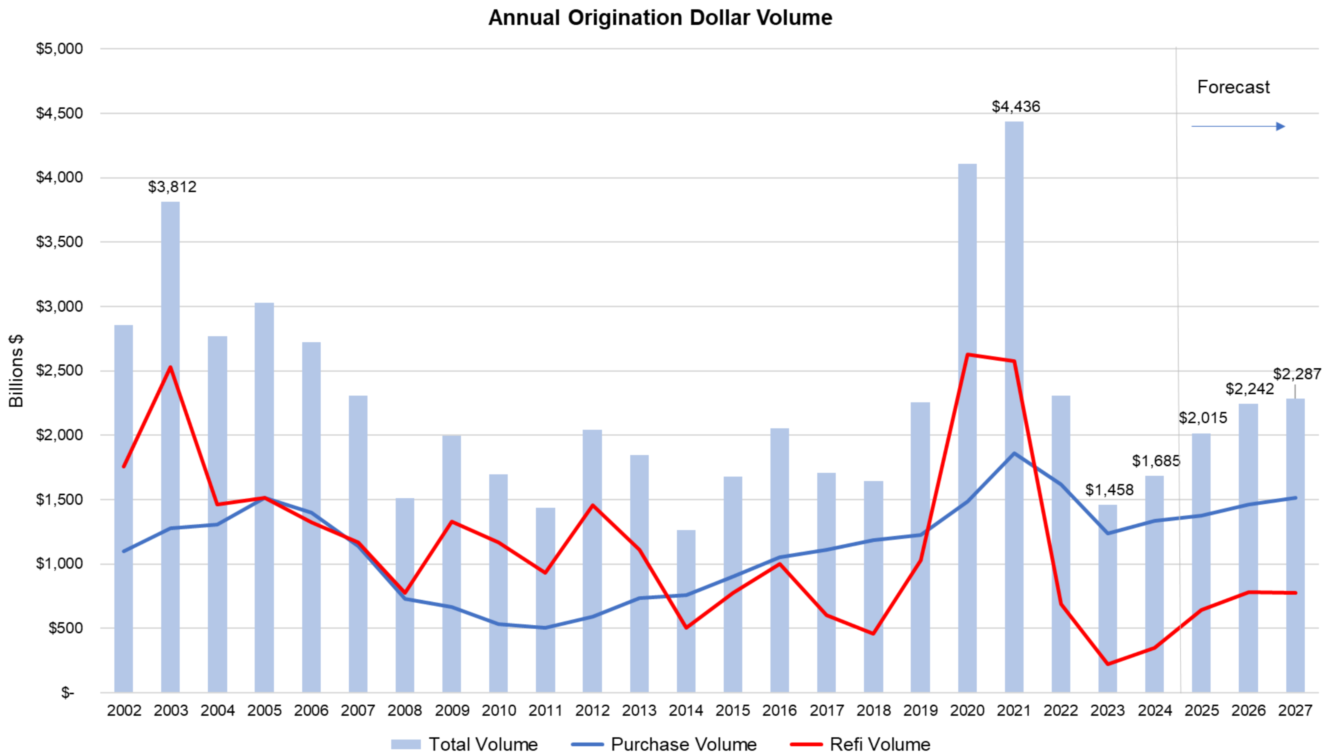
Source: MBA Weekly Applications Survey

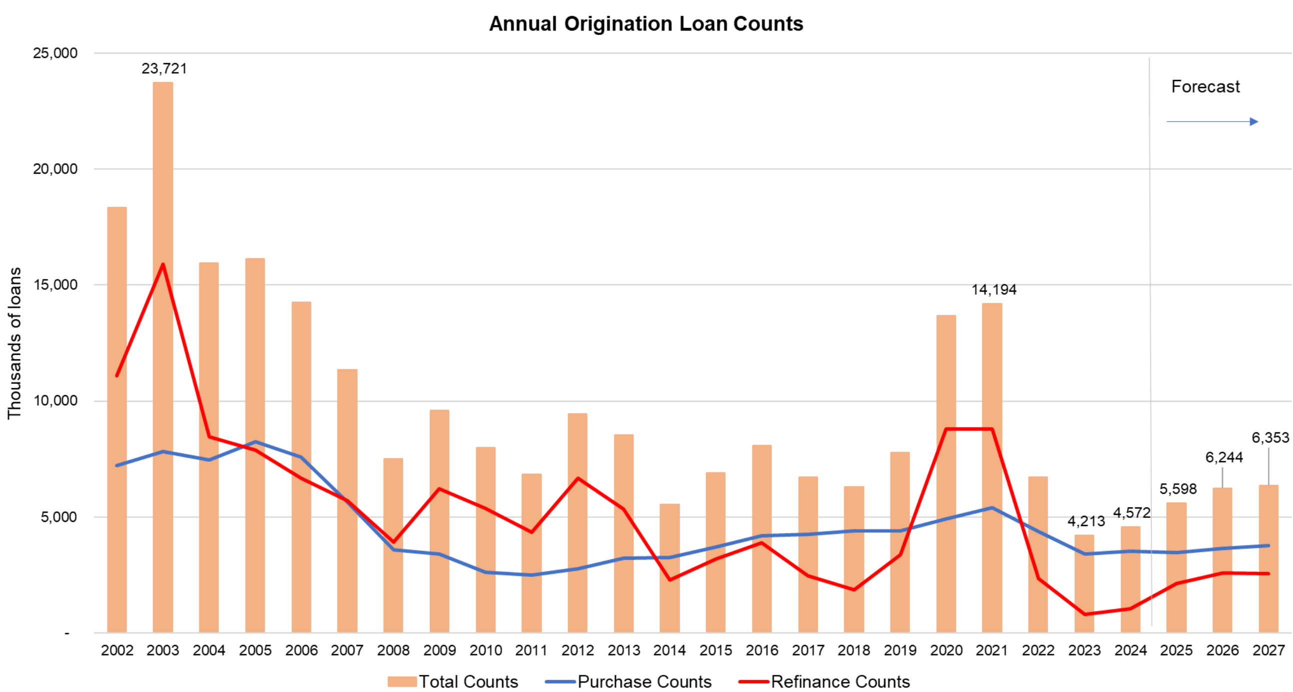
Home Price Growth Expected to Slow



Source: Federal Housing Finance Agency, MBA Forecast

Originations Dollars and Units Expected to Increase Through 2027





Source: MBA Forecast