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MBA Forecast Commentary: August 24, 2020

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Strong 2020 Expected for Housing, Mortgage Originations

Amidst the recession and economic uncertainty because of the pandemic, the housing and mortgage markets have truly remained a bright spot, and lenders are trying to keep up with the volume. Favorable demographic tailwinds and mortgage rates that have plummeted to a record-low of around 3 percent are certainly helping to support housing demand. The nature of this crisis is likely also boosting demand - there is no place like home. This strong resurgence in purchase activity and record-low mortgage rates have kept origination pipelines full and will drive annual origination volumes to their highest level in 15 years. In this month's forecast, we revised our originations forecast higher to total $3 trillion in 2020, as the turnaround in the housing market is expected to drive a 5 percent increase in purchase originations and sustained record low rates will push refinance originations to over 80 percent higher than in 2019. Purchase originations are expected to total $1.34 trillion for 2020, and refinance $1.65 trillion. This would be the strongest year for the industry since 2005, which was a $3 trillion year.

The economic outlook remains largely unchanged – we expect the first half of 2020 to reflect the current recession, followed by a sharp rebound in the second half of 2020 lasting into 2021. However, the depth of the economic contraction in the second quarter cannot be overlooked. Real GDP declined 33 percent, as the pandemic put a halt to essentially all activity consumer and business activity in April, with longer term closings and restrictions still in place for many establishments such as restaurants, entertainment venues, and large swathes of the travel industry. While we do expect much of this growth to be regained in the third and fourth quarters, there are still lasting impacts to businesses and the job market that will take more time to recover from.

The job market did continue to rebound in July, with 1.8 million jobs added over the month and another drop in the unemployment rate to 10.2 percent. After losing 22 million jobs in March and April, we have gained 9.3 million jobs from May through July. There are still many workers classified as being on a temporary layoff and the degree to which this recovery will proceed depends on how quickly these workers return to work. Another key measure of labor market health is the DOL's initial unemployment claims data, which have showed improvement, averaging around 1 million claims over the past four weeks, compared to an average of 2.8 million between March and July. Despite the lower weekly pace, the level is still extremely elevated, especially when compared to pre-pandemic levels of around

200,000 weekly claims. Additionally, given the elevated unemployment rate, the level of continuing claims remains at unprecedented levels, averaging 16 million in July compared to a historical average of 2.8 million.

Homeowners and renters affected by the pandemic through furloughs, unemployment or underemployment continue to feel the pain of the sharp hit to the labor market. The nearly 4 percentage point jump in the mortgage delinquency rate during the second quarter was the biggest quarterly rise since the launch of MBA's National Delinquency Survey in 1979. At the time of this writing, nearly 3.6 million homeowners, 7.2 percent of all mortgages outstanding, are in forbearance plans. According to MBA's weekly Forbearance and Call Volume Survey, the share of loans in forbearance slowly decreased this summer as people were called back to work. That is promising, but the July expiration of enhanced unemployment benefits – and without a resolution from Congress on a next stimulus package – could further slow the already slowing recovery and cause more borrowers to ask their servicers for relief in the coming months.

The boost to the purchase market has come not only from pent demand from delayed spring home buyers, but also from households who have been working from home during the pandemic and yearn for more space. Home builders have pointed to increased activity in less dense areas compared to neighborhoods closer to urban areas as a result. Although the virus continues to lurk as a formidable threat to public health, the economy, and housing markets, home sales are poised to break out in the final months of the year, and did so in July, as both new and existing home sales measures saw sizeable gains and continue to exceed pre-pandemic pace of sales. These have spurred applications for home purchase mortgages which have now seen over three months of year over year gains.

Homebuilders picked up the pace of construction again in July, with both single- and multifamily starts up strongly for the month. This data lines up with the strong gains in MBA's Builder Application Survey and the substantial increase in builder confidence reported by the NAHB. Homebuyer demand remains robust, inventories are tight, and there is a need for new units to keep the pace of sales going. On another positive note, housing permits were running at an even faster pace in July, indicating that builders will continue to increase the pace in the months ahead. Housing is certainly one of the bright spots in a struggling economy. Even with this pick up, the lack of existing inventory is limiting some prospective buyers' choices and weakening their purchasing power. This shortage of housing inventory will also act to keep home price appreciation stable in the immediate months ahead.

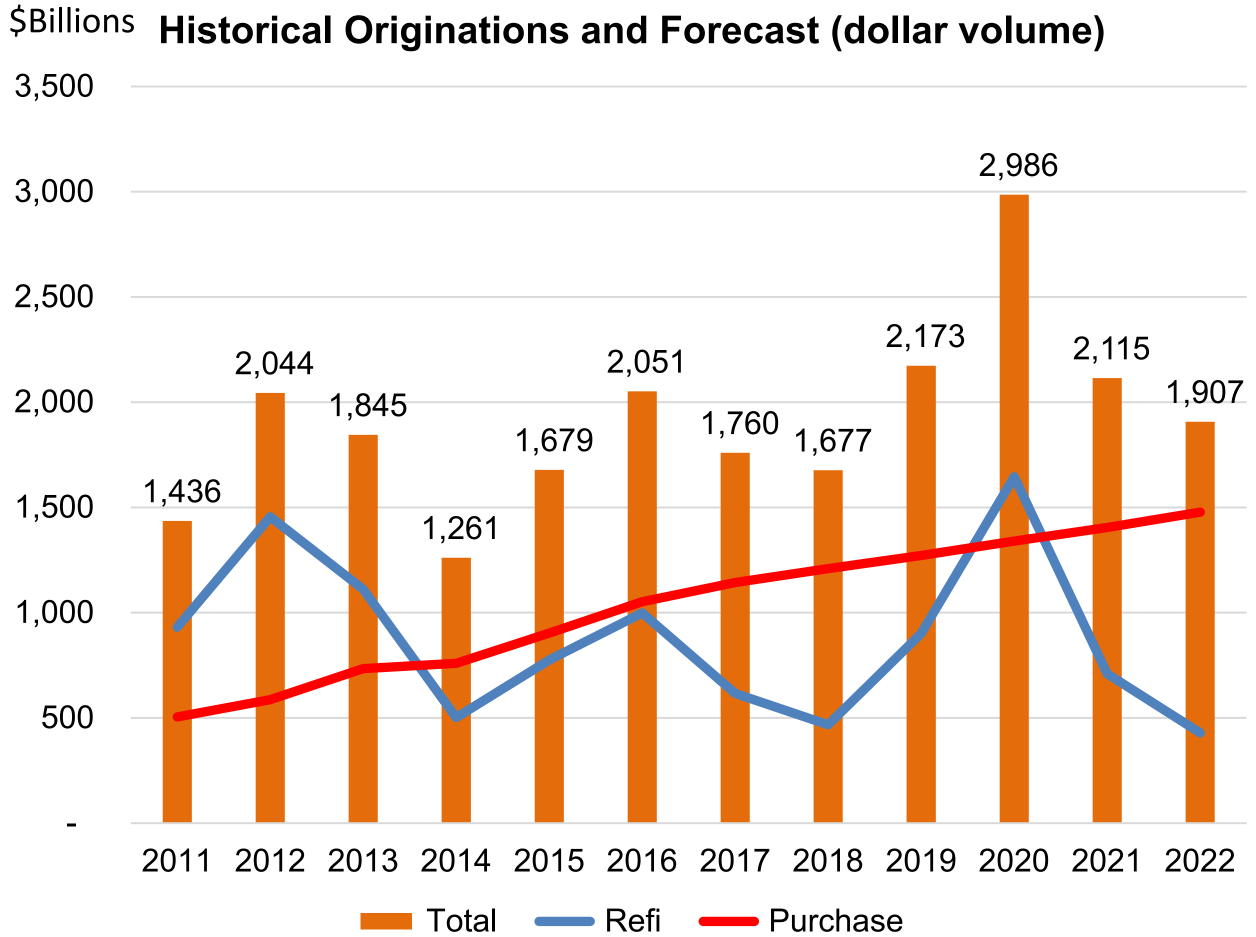
We expect mortgage rates to end the year at 3.1 percent for 2020 and move slightly higher in 2021 to 3.3 percent. Mortgage-Treasury spreads remain abnormally wide and even has Treasury rates get pushed higher due to the economic recovery and increased fiscal spending, the potential narrowing of these spreads as pipelines ease will keep mortgage rates relatively low. As mentioned earlier, refinance originations are expected to exceed $1.6 trillion in 2020 given the benefits that many households stand to gain from refinancing into lower monthly payments during a difficult and uncertain economic period.

Figure 1.

	2018	2019	2020	2021	2022
GDP Growth	2.5%	2.3%	-5.6%	4.1%	2.3%
Inflation	2.4%	1.8%	1.1%	2.7%	2.2%
Unemployment	3.9%	3.7%	8.7%	6.9%	5.2%
Fed Funds	2.375%	1.625%	0.125%	0.125%	0.375%
10-year Treasury	3.0%	1.8%	0.8%	1.3%	1.8%
30-year Mortgage	4.8%	3.7%	3.1%	3.3%	3.6%
New home sales (000s)	617	685	732	761	775
Existing home sales (000s)	5,341	5,331	5,158	5,602	5,834
Purchase originations ($B)	1,209	1,272	1,340	1,405	1,478
Refi originations ($ B)	467	901	1,646	710	429
Total originations ($B)	1,677	2,173	2,986	2,115	1,907

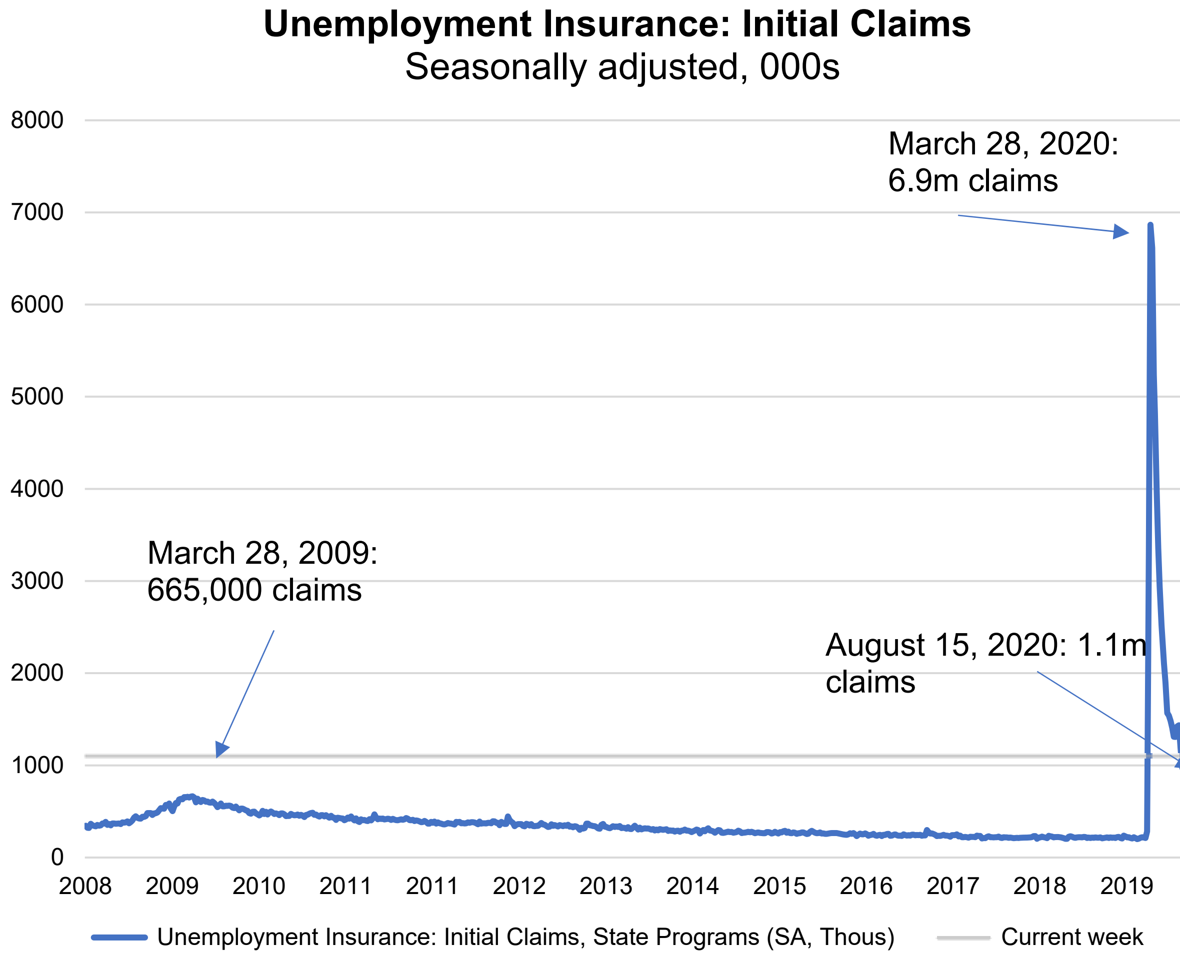
Source: MBA Forecast

Figure 2.



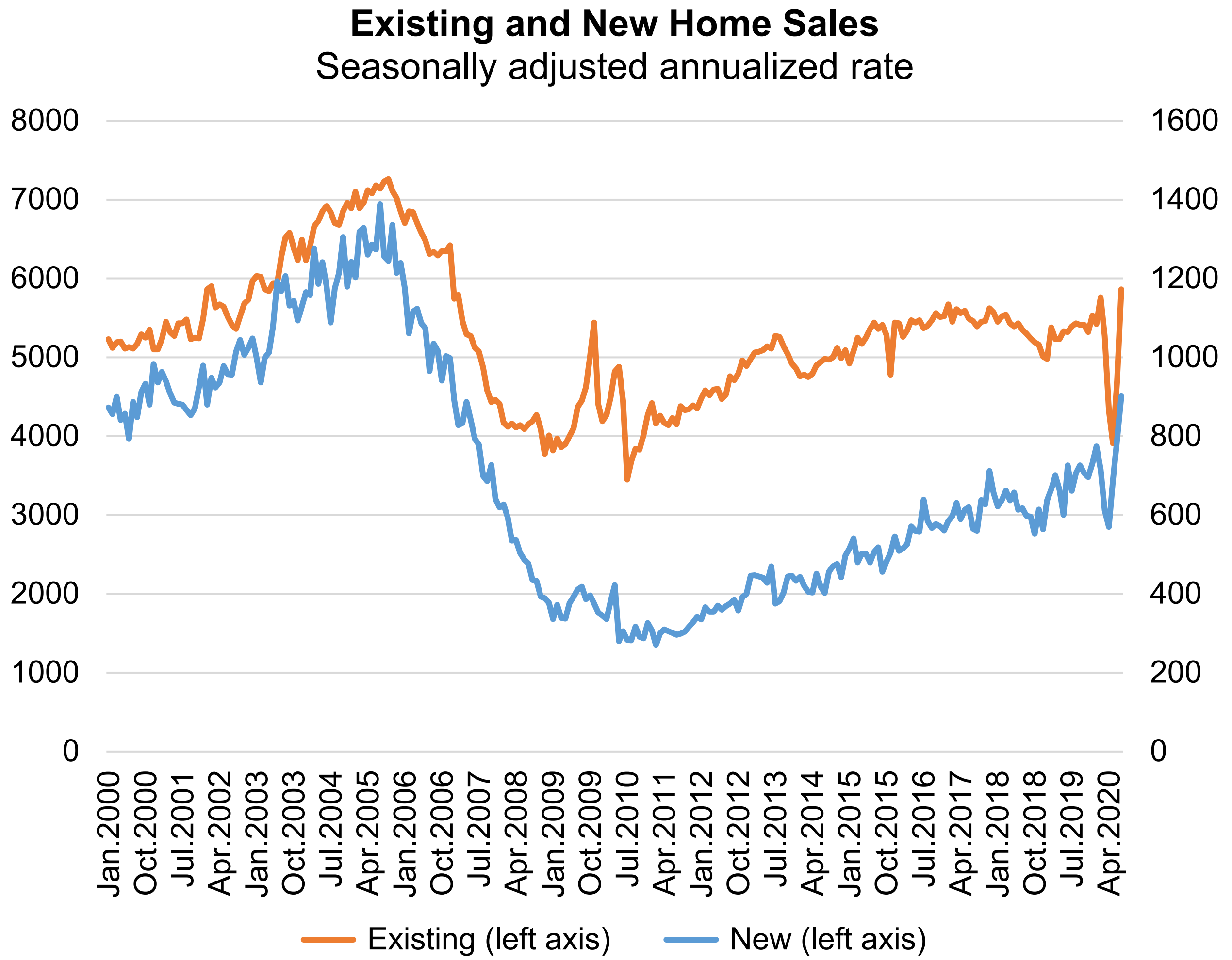
Source: MBA Forecast

Figure 3.



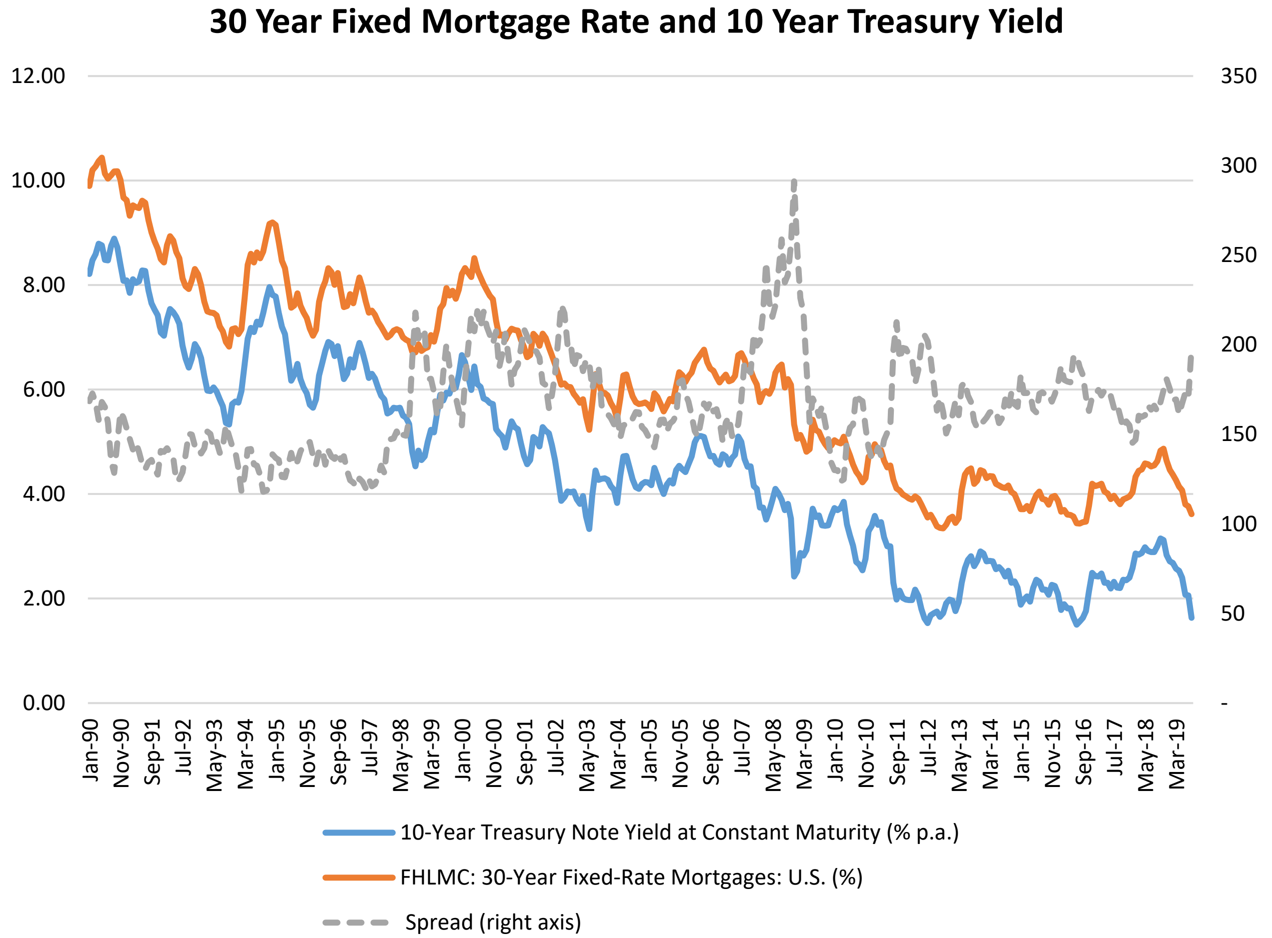
Source: Bureau of Labor Statistics

Figure 4.



Source: Census, National Association of Realtors

Figure 5.



Source: Federal Reserve Board, Freddie Mac