

## **MBA Forecast Commentary: December 22, 2020**

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### **Wrapping Up 2020, Looking Ahead to 2021**

As we look ahead to 2021, we expect the economic and job market recovery to continue, with the housing sector poised for another strong year. Even though we expect economic growth in 2020 to be negative for the year, the remarkable rebound in the second half after a disastrous second quarter will provide some momentum going into the new year. GDP growth in 2021 is expected to exceed three percent and the unemployment rate will decline to below six percent, but will be higher than the pre-pandemic level. Households are still not spending on services as much as they did before the pandemic, but the shift to an increased consumption of goods used at home has helped to offset some of those losses. However, with this reduced spending at service sector businesses, there has been lingering unemployment and loss of income which may take more time to recover, as activities involving travel, entertainment, non-essential medical services, and even education are reduced. Our forecast assumes that both public health and economic conditions will improve slowly going into early 2021, and that the rollout of the coronavirus vaccine is successful for a larger boost to growth in the second half of 2021 as more in-person economic activity can be resumed.

The Federal Reserve this month reaffirmed their commitment to keep short-term rates at zero for the foreseeable future, noting the slowing pace of economic growth due to the intensification of the pandemic. We fully expect that they will maintain rates at this level for years. While the Fed has been clear regarding their plans for the federal funds target, they had been less so with respect to asset purchases. Their most recent statement provided a further commitment that they would continue to purchase Treasuries and MBS at the current pace until there is “substantial progress” towards a stronger economy. With the vaccine distribution commencing, we are hopeful to see such progress over the course of 2021.

Monetary policy has been quite supportive for housing and mortgage markets. Low rates have stimulated an epic refinance wave and have also increased affordability for many potential homebuyers. The Fed again provided additional assurance that supportive policies will remain in place, and there is hope that an additional fiscal stimulus package will soon be passed to support households and businesses currently in distress.

The pace of employment growth slowed in November, partially due to a loss of government jobs tied to the 2020 U.S. Census count, but also reflecting a slowdown in private sector job growth. A notable bright spot was the gain in construction jobs in the residential sector, another sign that the strong housing market continues to lead the overall economy. Over the past three months, the pace of job gains has slowed from the rapid recovery seen over the summer. Similarly, the unemployment rate continues to decline, but at a more gradual pace. Overall employment is 6.5 percent lower than in February (-9.8 million jobs)– and the unemployment rate is at 6.7 percent, almost double the 3.5 percent rate in February. There are still 10.7 million people who are unemployed, and an increasing number of long-term unemployed – those out of work for more than 26 weeks.

At the start of the pandemic, there was a severe spike in the number of workers who were classified as unemployed for less than 14 weeks from April through June, when the pandemic-related closings hit the hardest. While many of those workers have been able to return to work and those levels have come back closer to early-2020 levels, the number of long-term unemployed has risen to 4 million – around four times what it was in February. Many of these workers are in industries that are in-person, service sector jobs, which will likely be slower to come back, as state and local governments maintain mitigation restrictions to slow the current surge in COVID-19 cases. Many of these workers will likely be struggling with rental payments, but also may be behind in their mortgage payments and require forbearance. While mortgage forbearance rates have been lower than in the peaks months of the pandemic from April through June, more borrowers have needed forbearance extensions or loan modifications to exit forbearance as they face ongoing employment hardships.

As mentioned earlier, the housing market is one segment of the economy that continues to thrive. The annual pace of new housing starts remained strong in November, helping to bring more inventory to the housing market to try to keep up with robust demand. Single-family construction slightly climbed to the highest level since 2007 and was 29 percent higher than a year ago – the fifth month of double-digit annual growth. Multifamily starts increased more substantially at 4 percent last month. Driven by

increased demand for more indoor and outdoor space, the second-half of the year continues to see more construction, home sales, and mortgage originations. Additionally, permits for new single-family construction also rose to 2007 highs, potentially an indication that we might see the increase in homebuilding continue into early 2021.

Existing-home sales declined 2.5 percent in November, but at 6.7 million units, the average annual sales pace for the past three months was the strongest stretch since 2006. The annual gain relative to 2019 was the fifth consecutive month of gains, underscoring how strong the second half of 2020 has been. One cause for concern is the lack of inventory and upward pressure it is putting on home prices. The median sales price jumped 14.6 percent, as demand significantly outstripped supply, leading to a 10 percent decline in the number of homes available for sale. The 2.3 months' supply was the lowest on record in NAR's data series. Rising home prices caused by robust demand and tight housing supply could adversely impact lower-income and first-time homebuyers.

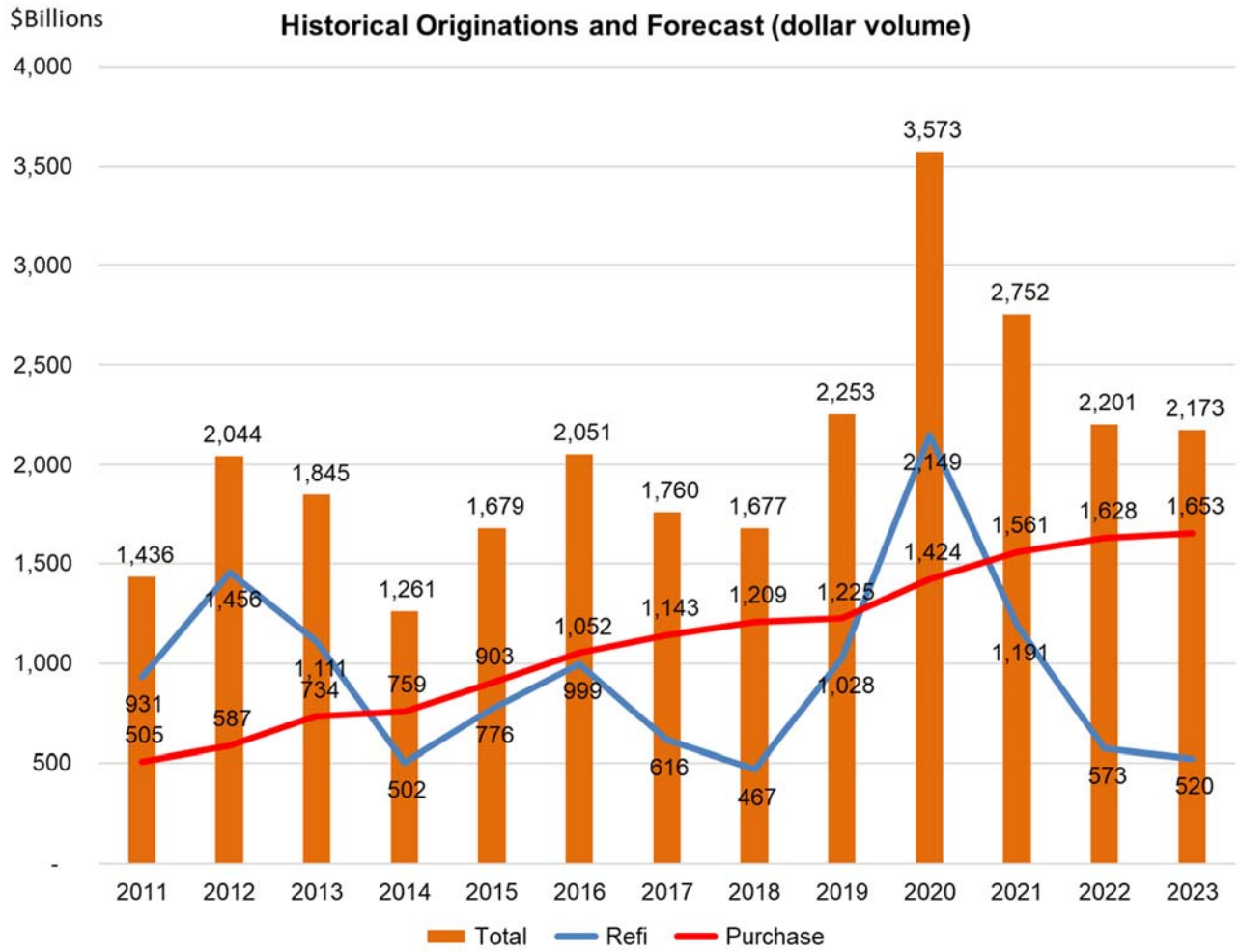
MBA forecasts that 2021 will strong year of purchase originations, home sales, and new housing starts, but more new and existing housing supply is needed to preserve housing affordability. In our December forecast, purchase originations are expected to rise to a record \$1.56T in 2021, which would eclipse the previous all-time high of \$1.51T in 2005. We anticipate refinance originations will slow next year as mortgage rates rise above 3 percent, with volume decreasing to \$1.2T after \$2.1T in 2020. While the rapid pace of refinance activity in 2020 will spill over into the first half of 2021, we expect a slowing in refinances in the second half of the year as mortgage rates rise towards 3.5 percent in early 2022, driven by increasing Treasury rates as the federal budget deficit remains abnormally high, economic growth stays in positive territory, and the job market continues to recover. Overall mortgage originations in 2021 are expected to fall to around \$2.75T from 2020's banner \$3.57T total, but this would still be the second-highest total in the past 15 years.

Figure 1.

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
GDP Growth	2.3%	-2.2%	3.5%	2.3%	1.9%
Inflation	1.8%	1.2%	2.4%	2.7%	2.5%
Unemployment	3.7%	8.1%	5.8%	4.6%	4.5%
Fed Funds	1.625%	0.125%	0.125%	0.125%	0.625%
10-year Treasury	1.8%	0.9%	1.4%	1.9%	2.4%
30-year Mortgage	3.7%	2.8%	3.2%	3.6%	4.1%
New home sales (000s)	685	842	989	1,013	1,036
Existing home sales (000s)	5,331	5,659	6,270	6,295	6,357
Purchase originations (\$B)	1,225	1,424	1,561	1,628	1,653
Refi originations (\$ B)	1,028	2,149	1,191	573	520
Total originations (\$B)	2,253	3,573	2,752	2,201	2,173

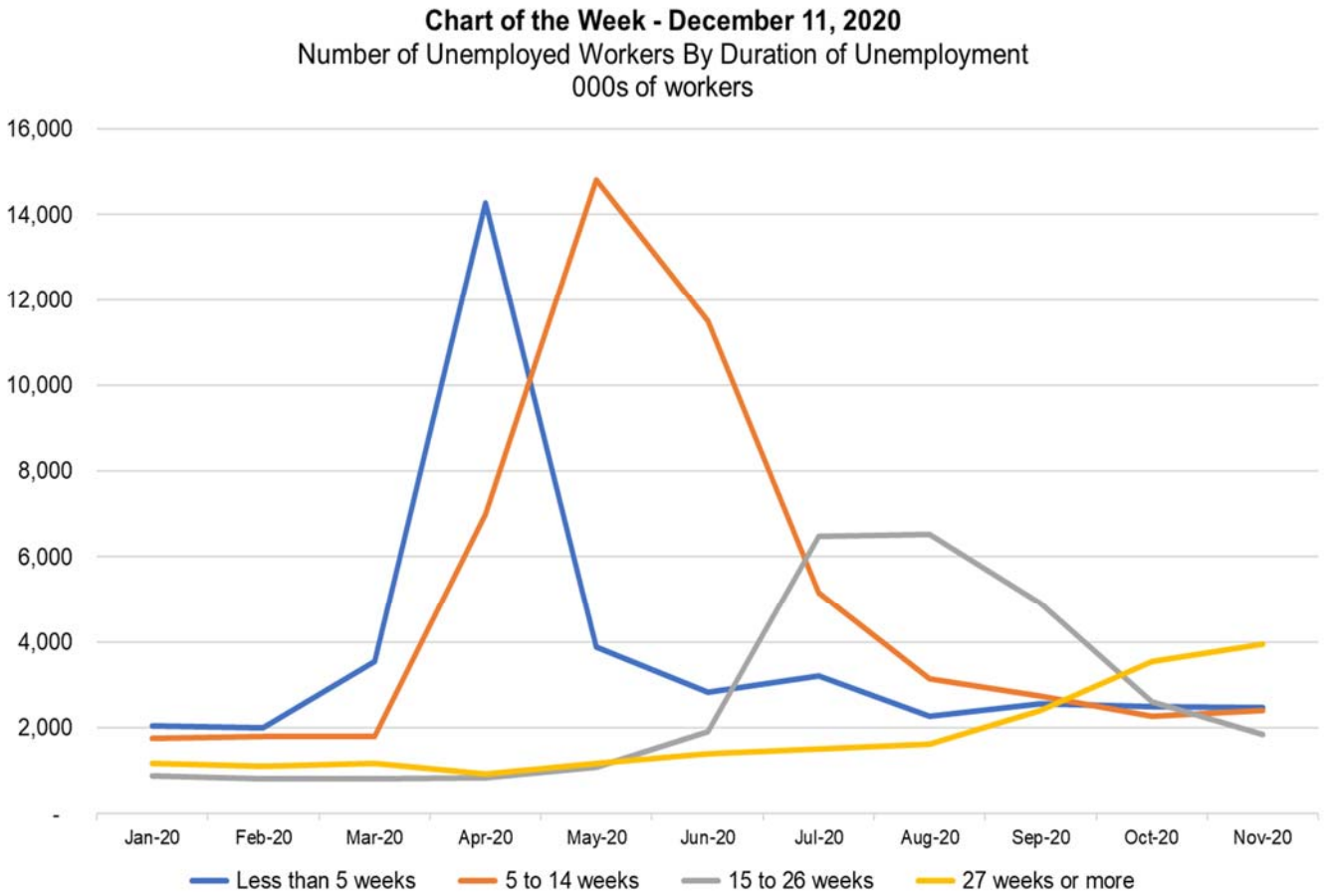
Source: MBA Forecast

Figure 2.



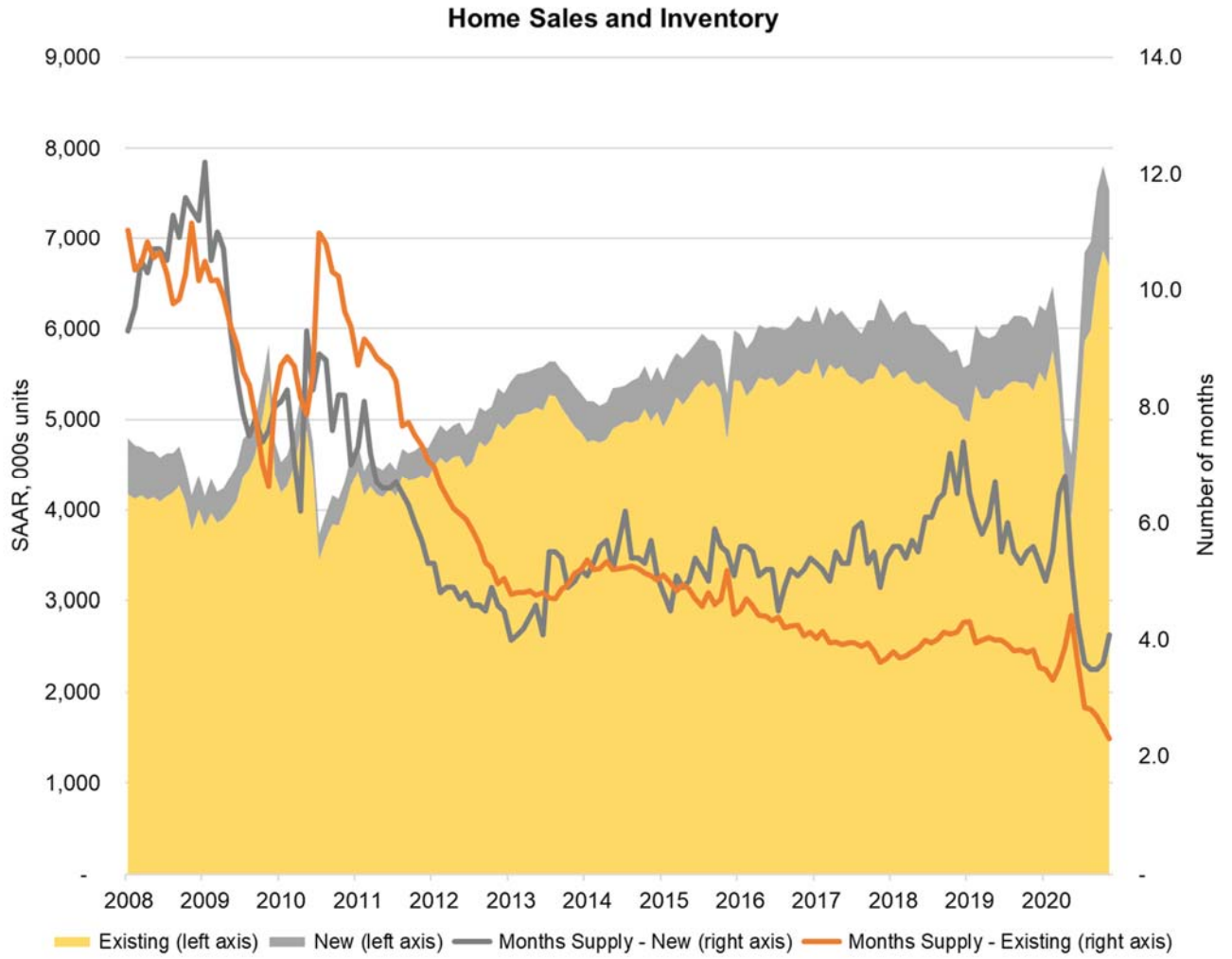
Source: MBA Forecast

Figure 3.



Source: Bureau of Labor Statistics

Figure 5.



Source: Census, National Association of Realtors