

MBA Forecast Commentary: July 23, 2021

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On Track for Robust Growth in 2021

We continue to expect a strong year of economic growth in 2021, driven by robust consumer spending and business fixed investment, as the US economy continues to rebound from its short, but sharp recession in 2020. Our forecast is for GDP growth of 7.3 percent in 2021 following a contraction of 2.4 percent in 2020 due to the pandemic-induced shutdowns in the second quarter. US households will continue to tap pent up savings to spend on goods and services including travel, leading to higher demand for motor fuel and providing a boost to the leisure and hospitality sector. However, even as more of the US economy reopens, a new risk in the form of the COVID-19 delta variant has emerged, which is increasing case counts once again. Given the increase in the vaccinated share of the population, this development is not expected to halt economic activity to the same extent as in the second quarter of last year but is a downside risk for growth.

Fed officials continue to forecast that inflation, while having increased significantly in recent months to levels not seen in 13 years, is still expected to be “transitory”. They view that much of this inflation spike is caused by imbalances brought about by high demand for certain goods, with supply unable to keep pace because of supply chain bottlenecks and disruptions. The elevated prices are expected to reverse once these things get back to normal. However, as we noted in a recent [Chart of the Week](#), other factors, particularly the cost of shelter, are likely to rise above the Fed’s 2 percent target for years to come, and this will put pressure on headline inflation given the importance of housing-related spending.

The job market is still not back to where it was before the pandemic started, with labor force participation rates still lower, and many sectors of the economy seeing levels of employment below what they were in early 2020. Despite the progress made, the committee’s standard of “substantial further progress” has not yet been met. The FOMC is likely to finalize a plan for tapering its asset

purchases soon but might wait another meeting or two until they announce timing to put that plan into action. All eyes will be on them as markets await additional clarity.

A faster rate of job growth in June, which followed slower than expected growth in April and May, leaves the economy 6.8 million jobs short of where it was in February 2020. However, the economy is certainly headed in the right direction when it comes to employment. While job gains in June were the largest in the leisure and hospitality sector, there were also broad-based gains in the service sector.

The unemployment rate inched up to 5.9 percent, but there were developments in the underlying details that indicate more strength than the upward move might suggest. First, there were fewer workers who reported working part-time for economic reasons, suggesting that they may now have full-time jobs. Second, the number of workers reported as “job leavers” increased, lining up with the higher quit rate seen in other data such as the JOLTS report from the BLS. There is a fair amount of churn in the job market right now as workers seek the best match, moving to jobs and sectors that are paying more due to the severe shortages in some segments of the job market. The aforementioned JOLTS data showed that job openings totaled around 9.3 million openings in May. That figure was 1.7 million greater than the series’ previous high point of 7.57 million openings at the end of 2018. It is also more than two million higher than the pre-pandemic level in February 2020.

With respect to the housing market, while total construction employment declined, this was due to a decrease in the non-residential components. There were an additional 15,000 jobs in residential construction, which should benefit the pace of homebuilding. Insufficient housing inventory levels continue to slow what should be a stronger pace of home sales.

Census data on new housing construction saw a 1.64-million-unit pace in June, the strongest pace since January, and up from 1.55 million in May, as the home building sector works to keep up with current levels of housing demand. The June increase was driven by increases in both single- and multifamily starts. While builders face elevated costs and supply chain challenges in obtaining building materials, our forecast is still for housing starts to increase over the next year supported by demographic tailwinds and the need to replenish an aging housing stock.

The current need for greater housing supply can be seen via data on housing costs – home price indexes, median sales prices, and average loan amounts. The NAR’s June report on home sales reported that the median sales price jumped 23 percent from a year ago to \$363,300 – setting another record. Our data

on mortgage applications show that purchase activity has moved lower since March, while the average loan size has stayed elevated at over \$400,000, consistent with the elevated share of all-cash sales and higher median prices reported by NAR. The FHFA's measure of home prices showed a 15.7 percent year-over-year increase in April 2021, the highest change in the data dating back to the early 1990s. This is part of a surging upward trend in home price appreciation caused by robust housing demand and this inventory shortage in homes for sale.

As we outlined in our Chart of the Week, housing costs account for around 40 percent of consumer spending, and while certain components of CPI inflation might prove to be transitory, particularly those components impacted by short-term supply constraints, the housing components of the CPU have thus far not contributed to higher inflation. However, we expect they will be persistently pushing upward on the overall inflation number in the year ahead.

The June existing-home sales report for June did bring some positive news for the housing market. Sales increased 1.4 percent to 6. million units, ending a four-month streak of declines, and there was an improvement in the very tight supply conditions seen over the past year. Inventory increased 3 percent last month, helped by more homeowners listing their home for sale, as well as by increasing single-family starts.

New home sales however, continued to weaken - June data from the Census Bureau showed that the annual pace of sales dropped to its slowest pace since the recent recession at 676,000 units. This was the third consecutive monthly decline and since peaking at a 993,000 unit pace in January 2021, the pace of sales has fallen over 30 percent. Additionally, data from MBA's [Builder Applications Survey](#) (BAS), which are typically released a week before the Census report and a reliable leading indicator of the Census estimates, also pointed to a slowdown in June new home sales. The new home sales estimates from the BAS are calculated using purchase mortgage applications data from home builder affiliate lenders.

Our forecast is for home sales to increase in 2021 and 2022, but this is dependent on both home builders' ability to increase production, and current owners listing their homes for sale. The ongoing surge in economic growth, job market recovery, and demographic drivers are expected to drive purchase growth if housing inventory growth can keep pace. More millennials are approaching peak homebuyer age and they are currently the largest age cohort. This wave of young homebuyers will

support the purchase market for at least the next few years. Additionally, there is still housing demand from people looking to move into homes with potentially larger and more functional space to facilitate remote work and learning. Purchase originations are expected to increase to a record \$1.636 trillion in 2021 and then grow further to \$1.740 trillion in 2022.

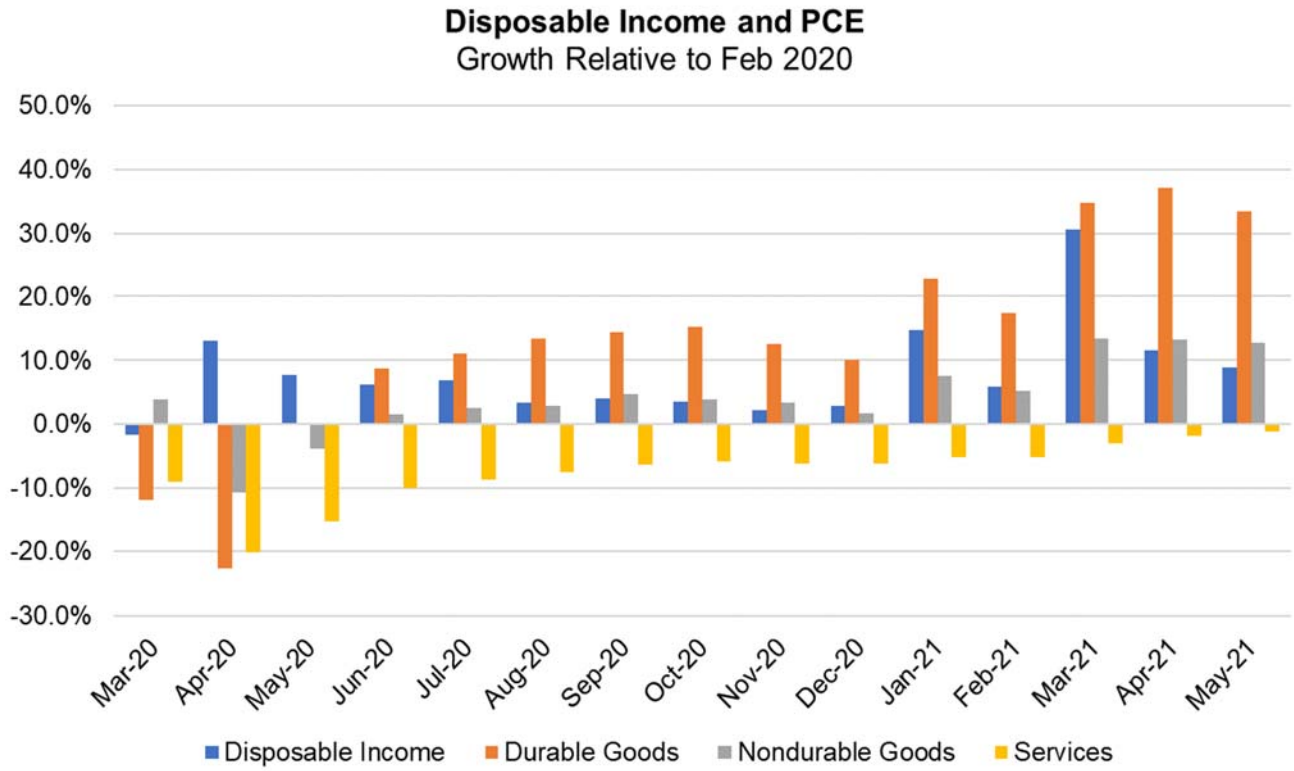
Even with recent volatility and Treasury yields dipping lower, we expect that mortgage rates will rise overall in 2021, which will result in slowing refinance activity through the remainder of 2021. This will remove the refinance incentive for many borrowers who have already taken advantage of lower rates over the past year. Refinance originations are expected to fall significantly in the second half of 2021, and our forecast is for \$1.938 trillion in refinance volume in 2021, down from almost \$2.4 trillion in 2020.

Figure 1.

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
GDP Growth	2.3%	-2.4%	7.3%	2.8%	1.6%
Inflation	1.8%	1.2%	4.4%	2.4%	2.0%
Unemployment	3.7%	8.1%	5.5%	4.2%	4.0%
Fed Funds	1.625%	0.125%	0.125%	0.125%	0.625%
10-year Treasury	1.8%	0.9%	2.0%	2.5%	3.1%
30-year Mortgage	3.7%	2.8%	3.4%	4.3%	4.9%
New home sales (000s)	685	813	886	1,014	1,121
Existing home sales (000s)	5,331	5,678	6,125	6,383	6,579
Purchase originations (\$B)	1,225	1,433	1,636	1,740	1,775
Refi originations (\$ B)	1,028	2,395	1,938	621	603
Total originations (\$B)	2,253	3,828	3,574	2,361	2,378

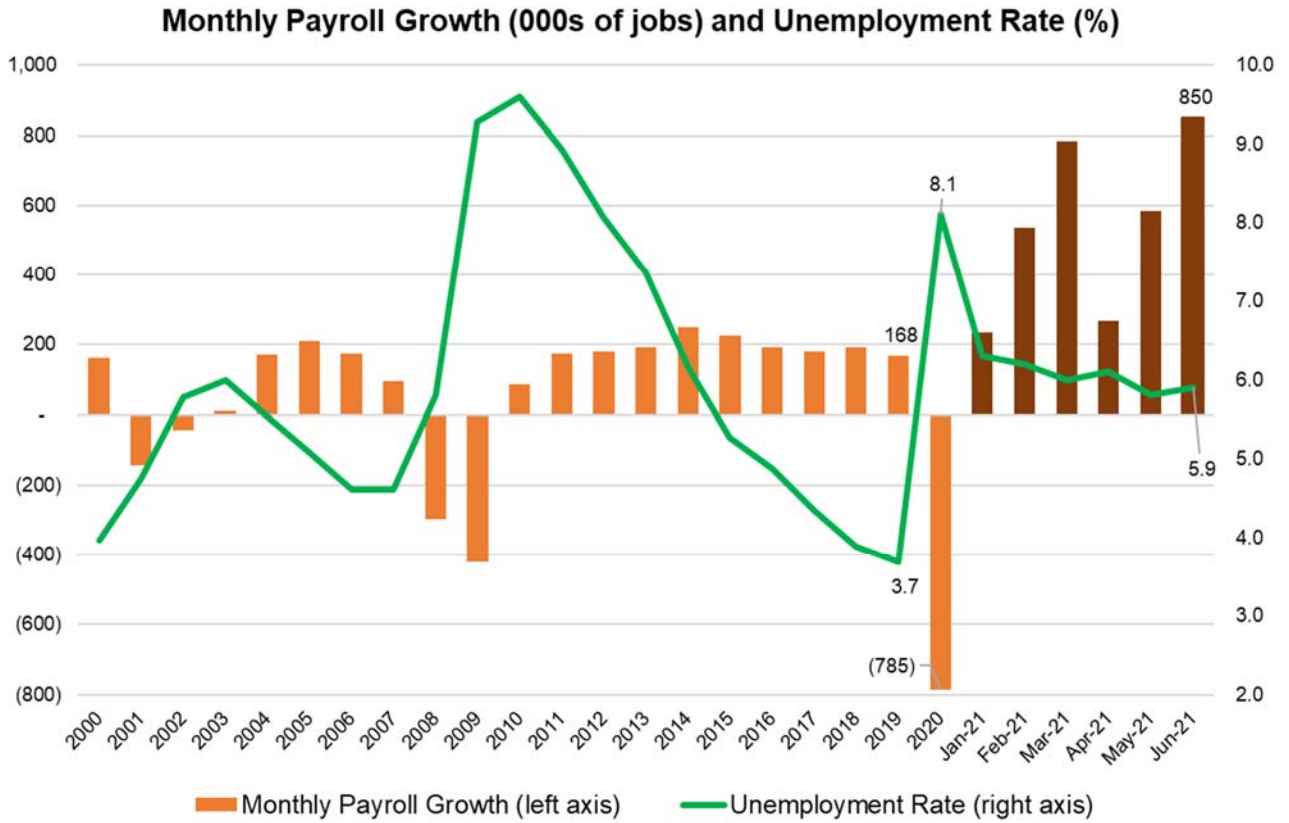
Source: MBA Forecast

Figure 2.



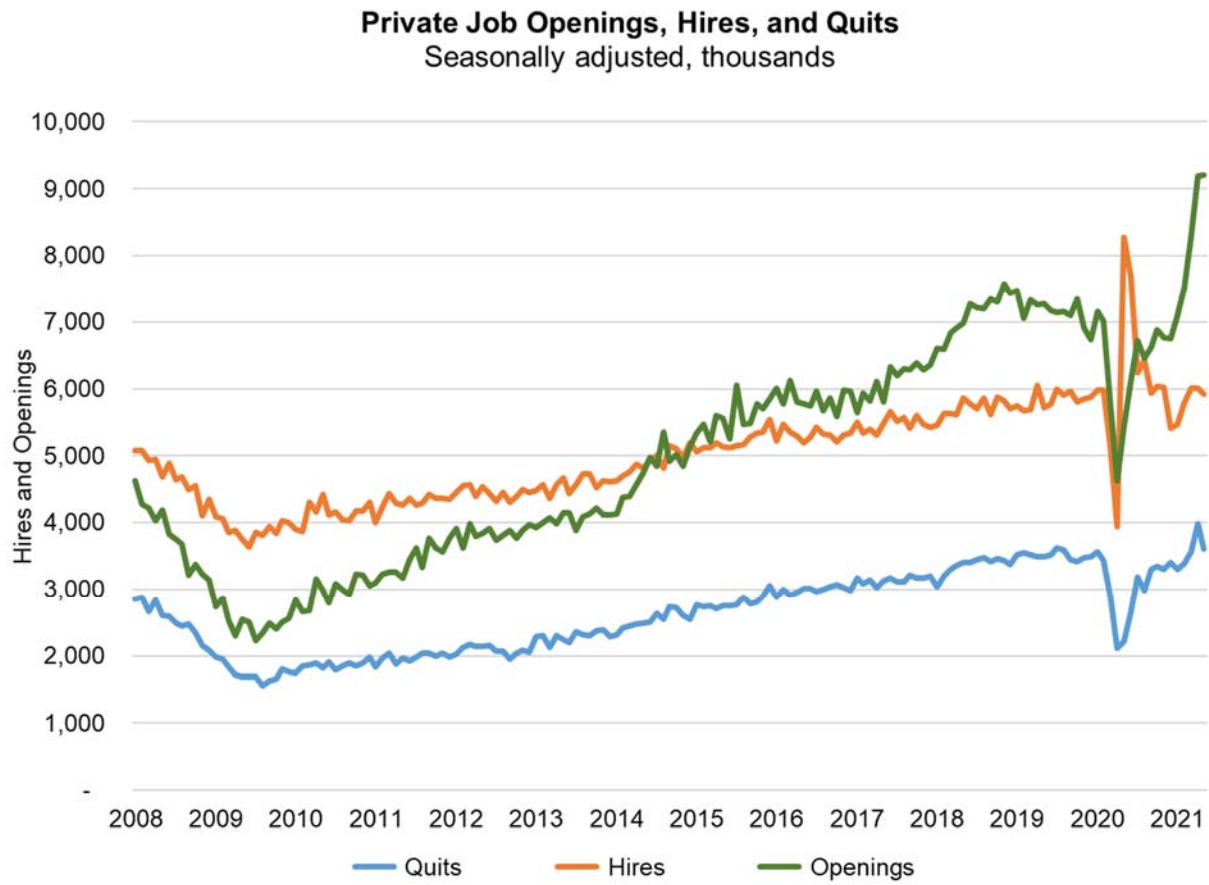
Source: Bureau of Economic Analysis

Figure 3.



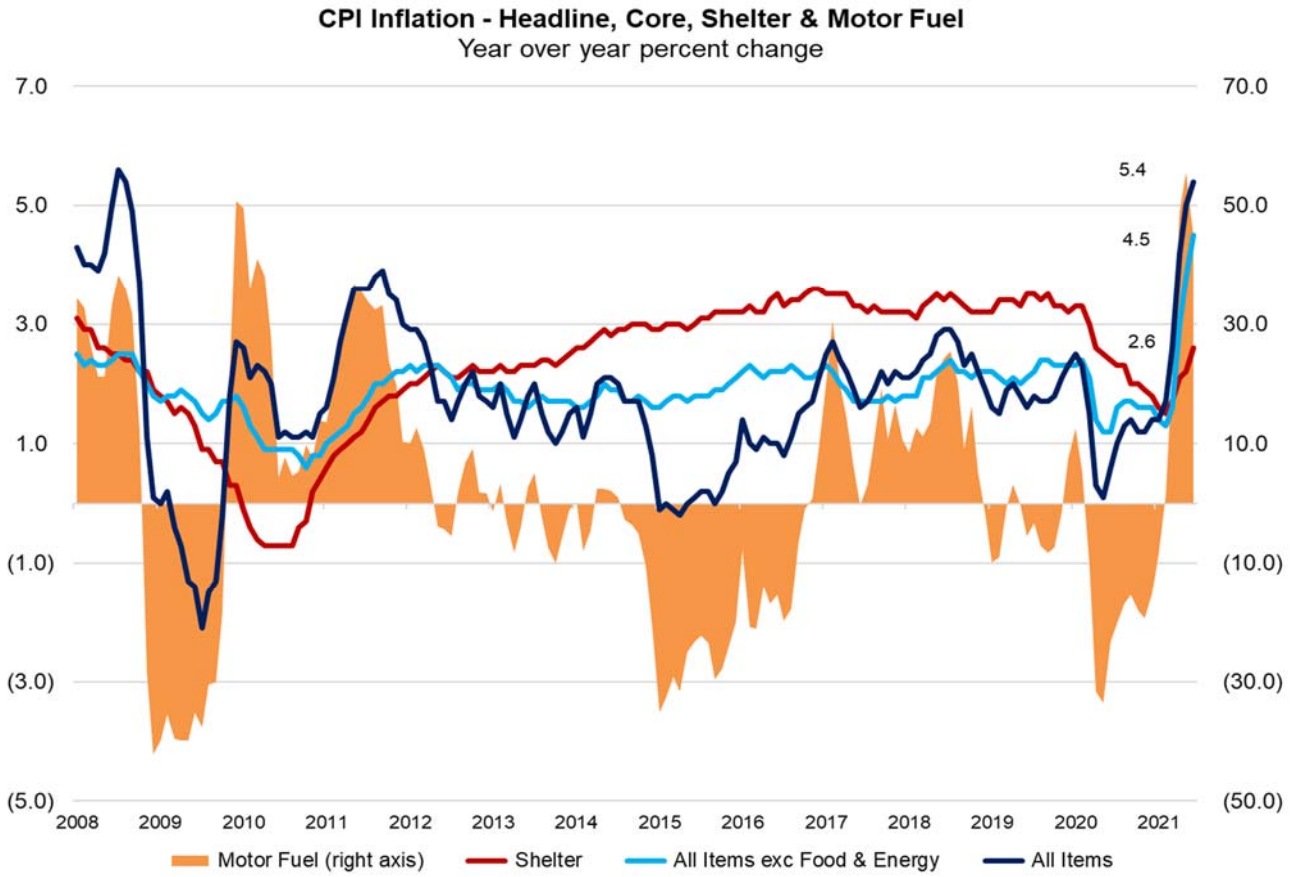
Source: Bureau of Labor Statistics

Figure 4.



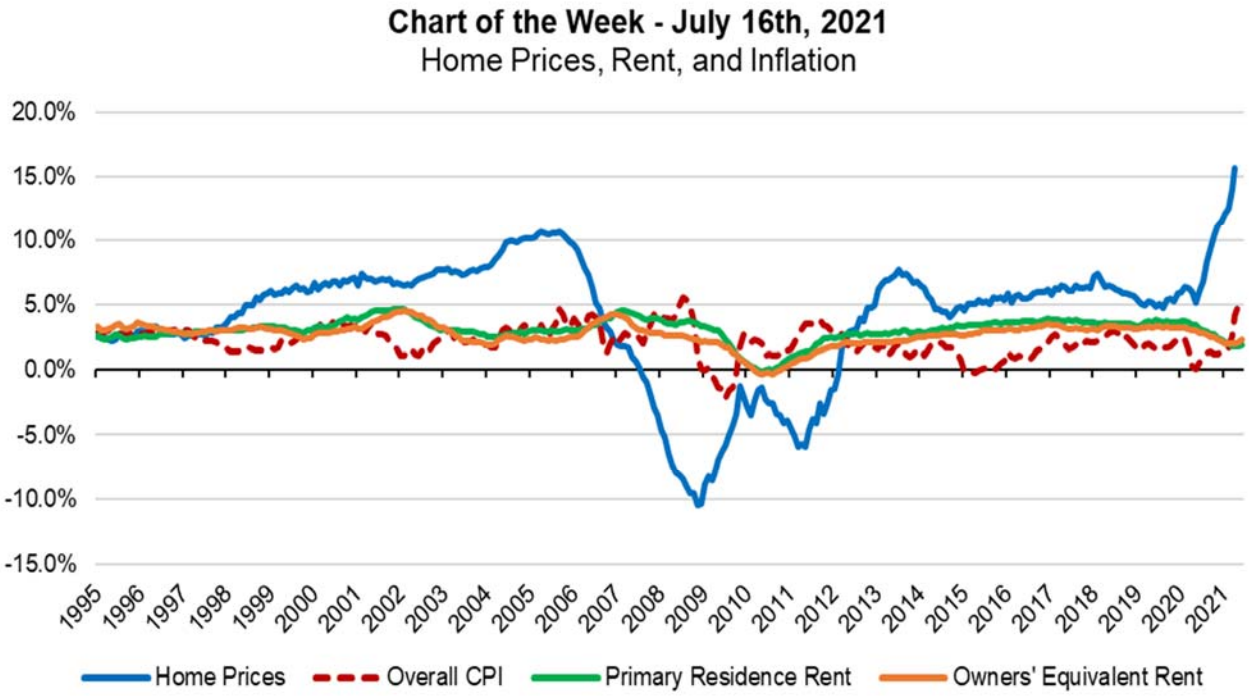
Source: Bureau of Labor Statistics

Figure 5.



Source: Bureau of Labor Statistics

Figure 6.



Source: Bureau of Labor Statistics, Federal Housing Finance Agency