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RESEARCH AND ECONOMICS

MBA Forecast Commentary: April 2024

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Summary of the April 2024 forecast

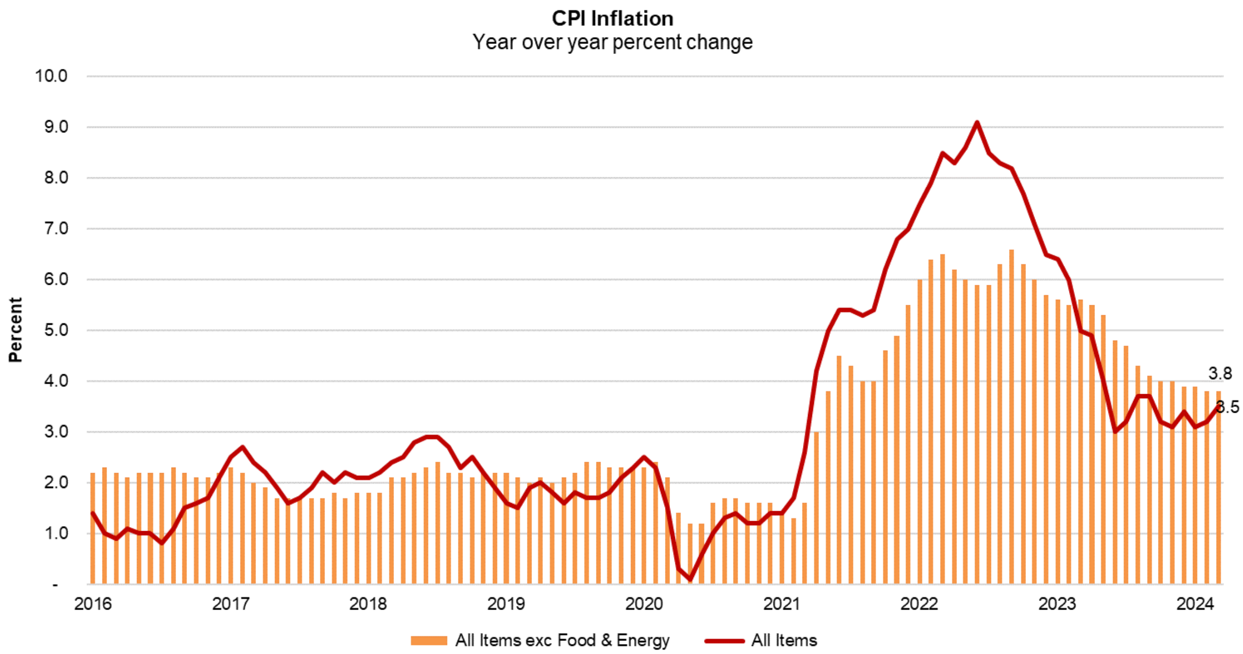
- We made significant changes to our forecast in April as a result of recent data showing surprisingly persistent inflation in the context of a strong job market. Most notably, we are now looking for a first rate cut from the Fed in September of 2024, pushed back from our prior forecast of a June cut, and expecting only two rather than three cuts this year. We are forecasting that mortgage rates will stay higher for longer, and this will result in a lower originations total for the year, and a flatter originations path over the forecast horizon.
- Although businesses large and small (as indicated by the NFIB optimism index at its lowest level since 2012) continue to report that they are cautious regarding the outlook for activity later this year, the economy is growing, companies are hiring, and consumers are spending.
- Inflation is still too high, and some portions of the March CPI data, particularly non-housing services, showed unwelcome strength. Rates were already moving higher following a strong jobs report with some Fed officials signaling the possibility of later and fewer rates cuts in 2024. The headline CPI showed an annual growth rate of 3.5 percent, an acceleration from last month's reading of 3.2 percent and the strongest annual gain since September 2023. Most of the March increase was driven by price increases in service providing industries.
- Non-shelter service prices grew 4.8 percent compared to a year ago, the strongest month since April 2023, driven by categories such as medical care services and transportation services, specifically motor vehicle repair and motor vehicle insurance. Job openings are still elevated in many industries, and this is supporting wage growth of over 4 percent. Businesses have been able to pass some of these costs on to consumers, which is keeping prices higher in many service industries.
- March data showed that the job market is still quite strong, with employment gains at 303,000 jobs, well above what would be expected at this point in the cycle. Although the job gains remain concentrated in sectors like health care, government, and leisure and hospitality, there was also a pickup in construction hires, a positive for the housing market given the lack of supply. On net, the prior two months job gains were revised up by 22,000. The unemployment rate fell just enough for the reported number to round down to 3.8 percent, helped by stronger reported employment growth in the household survey. Wages increased at a 4.1 percent rate over the past year, down a bit from earlier this year, but still a more rapid pace than is likely to

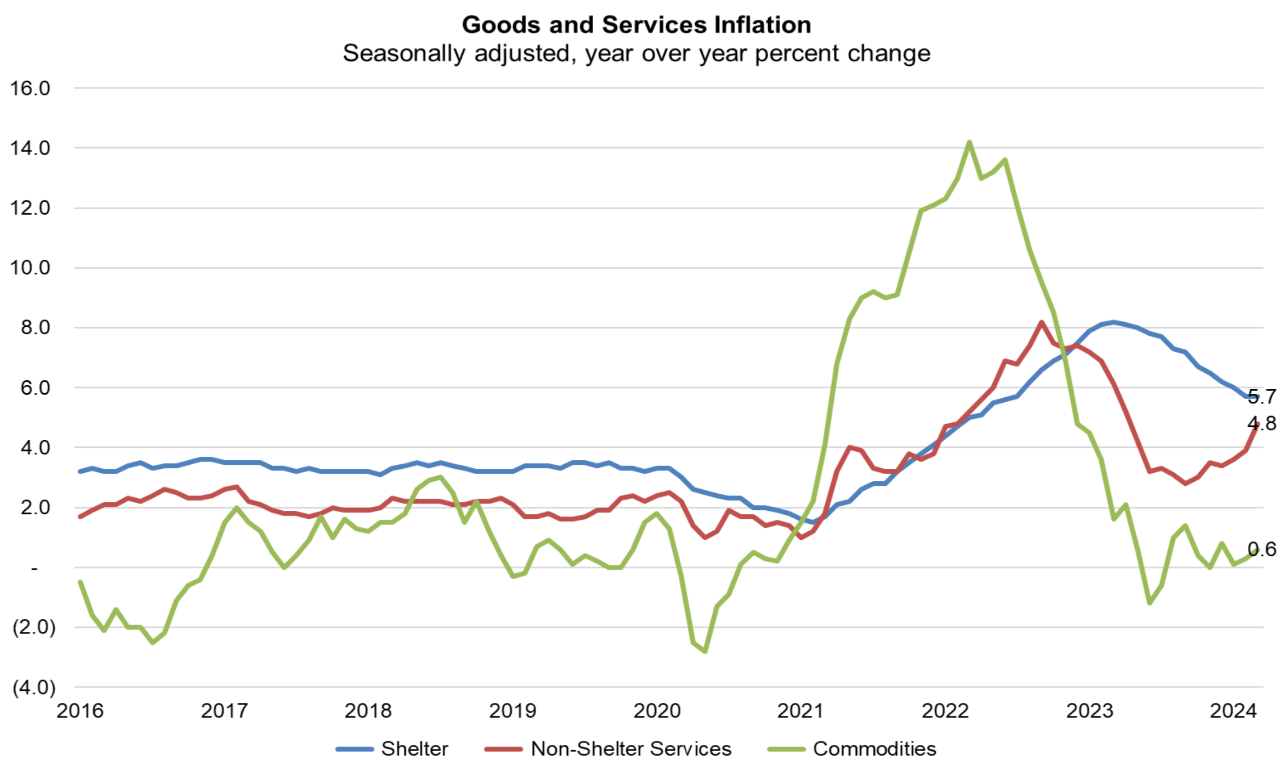
be maintained over the course of this year. Although job openings have decreased from the peak in 2022, there is still strong demand from employers in some sectors of the economy.

- Single-family housing starts were at a seasonally adjusted annualized pace of 1.022 million units in March, down from 1.167 million in February. This was still 21 percent higher than a year ago and the fifth consecutive month that single family starts have exceeded the one-million-unit pace. Permits declined for the first time since late 2022, to 973,000 permits. Multifamily starts were down to 299,000 units, the lowest level of starts since April 2020. The number of apartment units under construction at 957,000 units is still remarkably high, and this pending supply is coming at a time of higher vacancy rates and slowing rent growth in many markets.
- Mortgage applications have increased in recent weeks even with the headwind of mortgage rates moving above 7% once again. There continues to be big differences between relatively weak existing home sales numbers, in the context of very low inventory, and somewhat better new home sales data, which are at least up relative to last year at this time.
- Existing home sales were down 4.3 percent in March at a seasonally adjusted annualized rate of 4.19 million units. The median sales price was up 4.8 percent from a year ago to $393,500, the highest price since August 2023. Perhaps most promisingly, for-sale inventory increased to 1.11 million units. In the new home market, MBA's Builder Application Survey showed 6.2 percent year-over-year growth in applications for March.
- Longer-term rates jumped up following the inflation news with 10-year Treasury yields reaching 4.7 percent as investors around the world reassessed the likely path of rate cuts from the Fed. 30-year mortgage rates breached 7 percent and rose to 7.25 percent for the first time since last fall. Our forecast has the 10-year yield dropping back to 4 percent by the end of 2024. Mortgage-Treasury spreads have narrowed with recent levels near 250 basis points, still wide relative to historical averages but much better than the 300 basis points experienced last year. We expect the spread will tighten further by the end of 2024. The combination implies a 30-year fixed mortgage rate closer to 6.5 percent by the end of 2024.
- With these large revisions to our economic outlook and rate path, mortgage origination volume is expected to increase only 11 percent in 2024 to $1.8 trillion, with a 5 percent increase in purchase and a 34 percent increase in refinance volume (off an extremely low base in 2023). In terms of units, we forecast a 5.6 percent increase in the total number of loans originated in 2024, above the 4.3 million unit total in 2023, which was the lowest level since at least 1997.
- We are forecasting a 5 percent increase in existing home sales and a 9.6 percent increase in new home sales in 2024, slight downward adjustments compared to our previous forecast. Coupled with ongoing, but slower, growth in home prices, this sales growth will support higher purchase volume. The lock-in effect will continue to suppress existing inventory, which opens the opportunity for builders to provide a higher share of total sales.

Forecast and Outlook Details

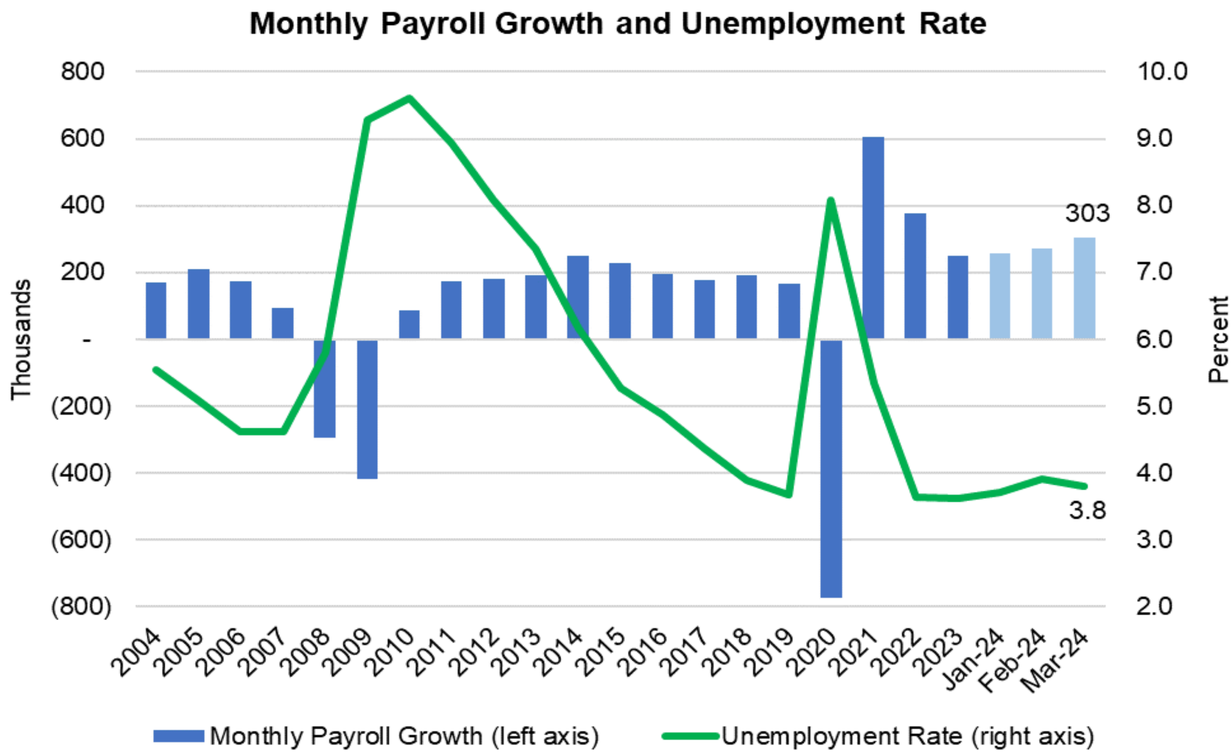
Inflation Remains Stubbornly High





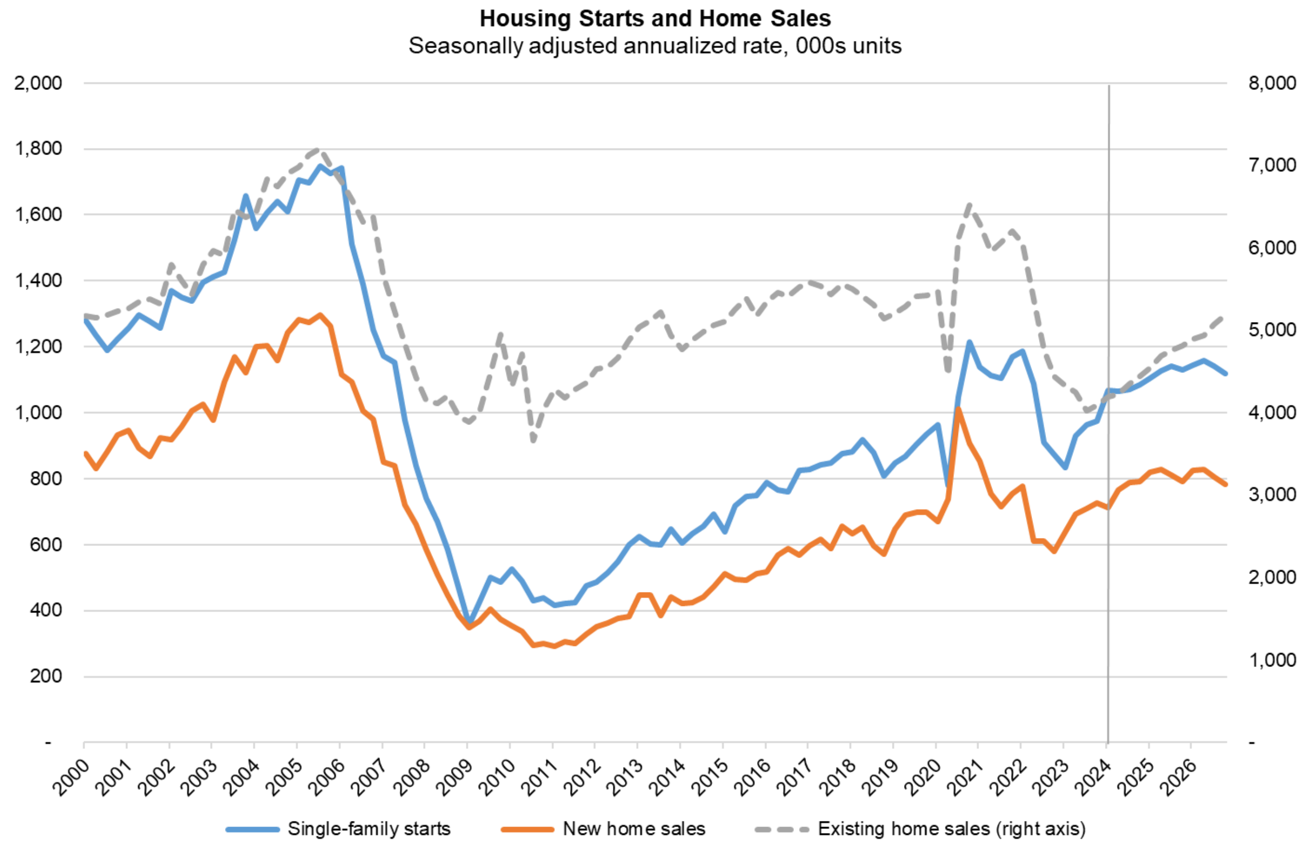
Source: Bureau of Labor Statistics

Strong Job Growth Continues, Unemployment Rate Below 4%



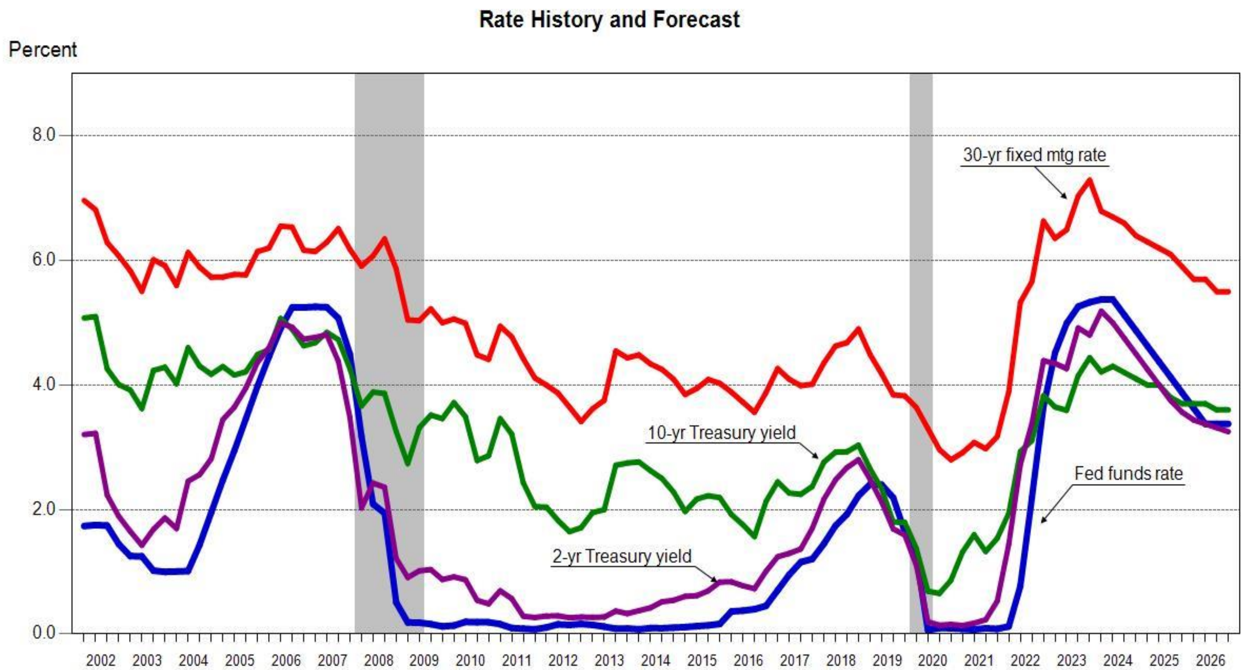
Source: Bureau of Labor Statistics

Gradual Growth Expected in 2024 for Home Sales, Single Family Starts



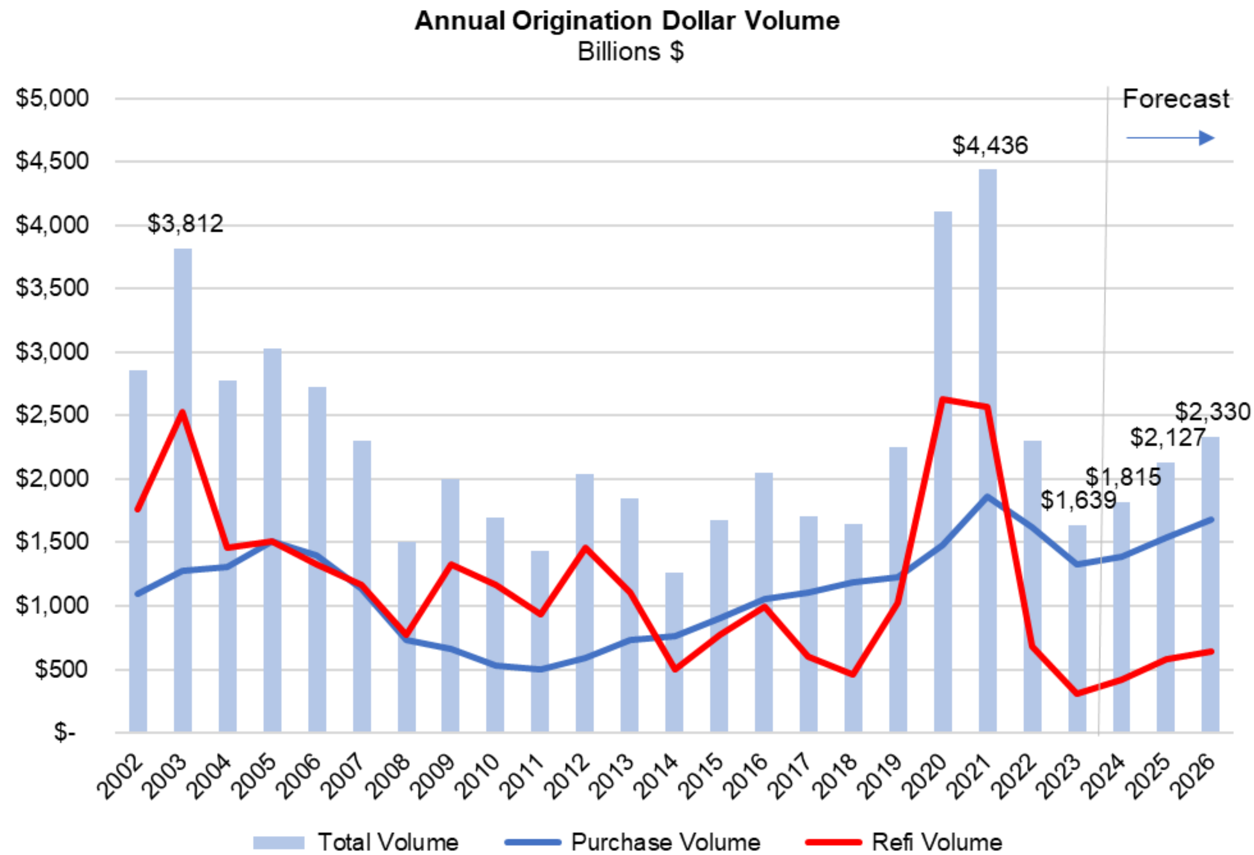
Source: Census Bureau, National Association of Realtors

Ten-Year Treasury, 30-Year Fixed Mortgage Rates to Remain Higher for Longer



Source: Federal Reserve Board, Freddie Mac, MBA Forecast

Mortgage Origination Dollar Volume Expected to Increase 11 Percent in 2024



Source: MBA Forecast