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RESEARCH AND ECONOMICS

MBA Forecast Commentary: April 13, 2022

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Inflation Elevated, Tighter Monetary Policy Ahead

Near Term Housing Demand Impacted by Affordability Challenges

Given the faster than expected increase in mortgage rates, and the likelihood of more aggressive actions from the Federal Reserve to curb inflation, MBA's April 2022 forecast now calls for mortgage originations to total $2.56 trillion in 2022 – a 35.8 percent decline from 2021. Purchase originations are still forecasted to reach a record $1.72 trillion this year – a 4 percent increase from 2021. Refinance originations are now expected to fall 64 percent to $841 billion.

"Mortgage rates have spiked more than 1.5 percentage points thus far in 2022. This rapid increase in rates, caused by a much more rapid pace of rate hikes and balance sheet reduction from the Federal Reserve, is in response to the booming job market and inflation being at a 40-year high. The jump in mortgage rates will slow the housing market and further reduce refinance demand the rest of this year," said Mike Fratantoni, MBA's Senior Vice President and Chief Economist. "Higher home prices and rates as well as ongoing supply constraints are now expected to lead to an annual decline in existing home sales. However, MBA continues to expect purchase originations to reach a new record in 2022. Even though existing sales volume will be slightly lower than last year, the continued growth in new home sales and the rapid rise in home prices should deliver a smaller, but solid, 4 percent annual growth in purchase origination volume."

Added Fratantoni, "Total origination volume is now expected to be at $2.56 trillion this year – down from roughly $4 trillion in 2021."

Key highlights and commentary from our April forecast:

- GDP growth is expected to average 2.5% in 2022, slowing to 2.2% and 1.8% in 2023 and 2024, respectively. These are downward revisions from the March forecast. Forecasted growth was impacted in early 2022 from slower global growth and renewed supply-chain constraints due to the war in Ukraine.

- Inflation is expected to peak in the first half of 2022 and end the year at 5.2%, higher than previously forecasted. Prices of key consumer items such as food, vehicles, and motor fuel remain elevated. With tighter monetary policy and moderating economic growth, we forecast inflation to slow more rapidly in 2023 and 2024. However, the impact of rising shelter costs will continue to exert upward pressure on headline inflation.
- The job market continues to be strong, averaging over 560,000 job gains per month in the first quarter; the unemployment rate continued to drop, reaching 3.6% in March. We expect the unemployment rate to continue to decline to a low of 3.3% in 2022 before rising in 2023 and 2024 to 3.6% and 4.2%, respectively.
- Given that we are past full employment and with inflation running over 8% annually, our expectation is that the Federal Reserve will continue with rapid rate hikes this year, and for the Federal funds rate to reach a range of 2.25% to 2.5% by the end of 2022. We expect the rate hikes to continue through mid-2023. Additionally, the Fed will be announcing plans to reduce the size of their Treasury and MBS holdings at their coming meeting in May, quickly ramping up to reductions of $95 billion per month. This will add additional volatility to the mortgage market and will be another factor keeping mortgage rates elevated.
- The inflation picture and the signals of tightening from the Fed have pushed Treasury yields significantly higher in recent weeks, as well as have added considerable volatility for mortgage rates, which have also spiked. Our forecast is for the 10-year Treasury yield to end 2022 at around 2.8% and remain at those levels through 2023, before falling to 2.5% in 2024. Mortgage rates are expected to end 2022 at 4.8% – and to decline gradually to 4.6% – by 2024 as spreads narrow.
- As for-sale housing inventory remains low, and home price appreciation is elevated, higher mortgage rates have started more significantly impact affordability. Data from our Weekly Applications Survey has shown lower than expected purchase activity for this time of the year. As a result, we lowered our forecast for new and existing home sales for the forecast period, with existing home sales now expected to decline slightly in 2022. A healthy job market, and demographic drivers such as a large cohort of younger home buyers, are still supportive of housing demand, but that is being restrained by the inventory and affordability challenges.
- We now forecast purchase originations to total a record $1.72 trillion in 2022, a 4% increase from 2021. This was lower than our previous forecast of $1.77 trillion, with the downward

revision driven heavily by lower forecast home sales due to higher rates. Purchase volume is expected to grow gradually to new records in 2023 and 2024 ($1.77 trillion and $1.85 trillion, respectively).

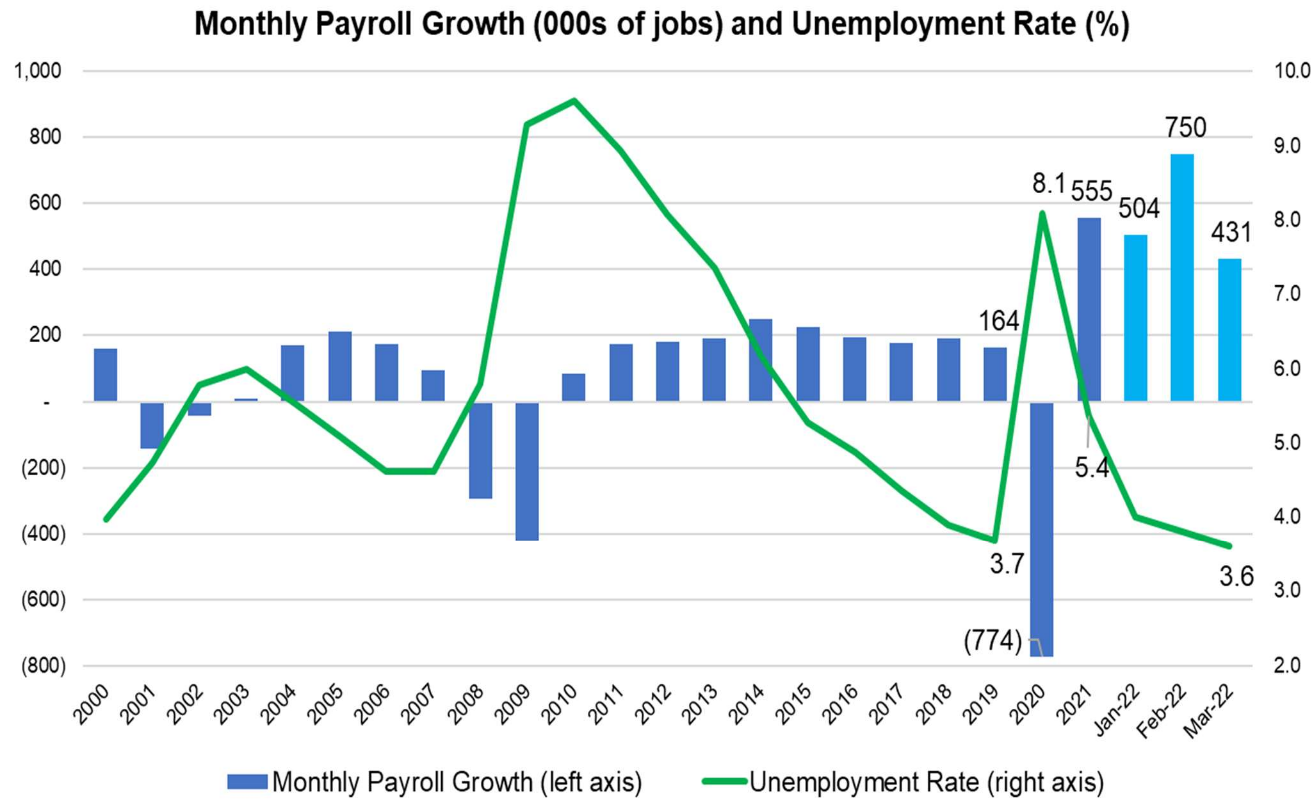
- Refinance originations are forecast to total $841 billion in 2022, a 64% decrease from 2021. Higher rates have reduced the refinance incentive for most borrowers, leading us to anticipate even stronger declines. We expect refinancing to decline another 20% in 2023.
- Total mortgage origination volume is expected to total $2.58 trillion in 2022, a 36% decline from 2021. Total originations are expected to hold close to $2.5 trillion in 2023 and 2024, supported by gradual growth in purchase originations.

Figure 1. Economic Forecast Summary

	2020	2021	2022	2023	2024
GDP Growth	-2.3%	5.5%	2.5%	2.2%	1.8%
Inflation	1.2%	6.7%	5.2%	2.5%	2.0%
Unemployment	8.1%	5.4%	3.5%	3.6%	4.2%
Fed Funds	0.125%	0.125%	2.375%	3.125%	2.375%
10-year Treasury	0.9%	1.5%	2.8%	2.8%	2.5%
30-year Mortgage	2.9%	3.1%	4.8%	4.6%	4.3%

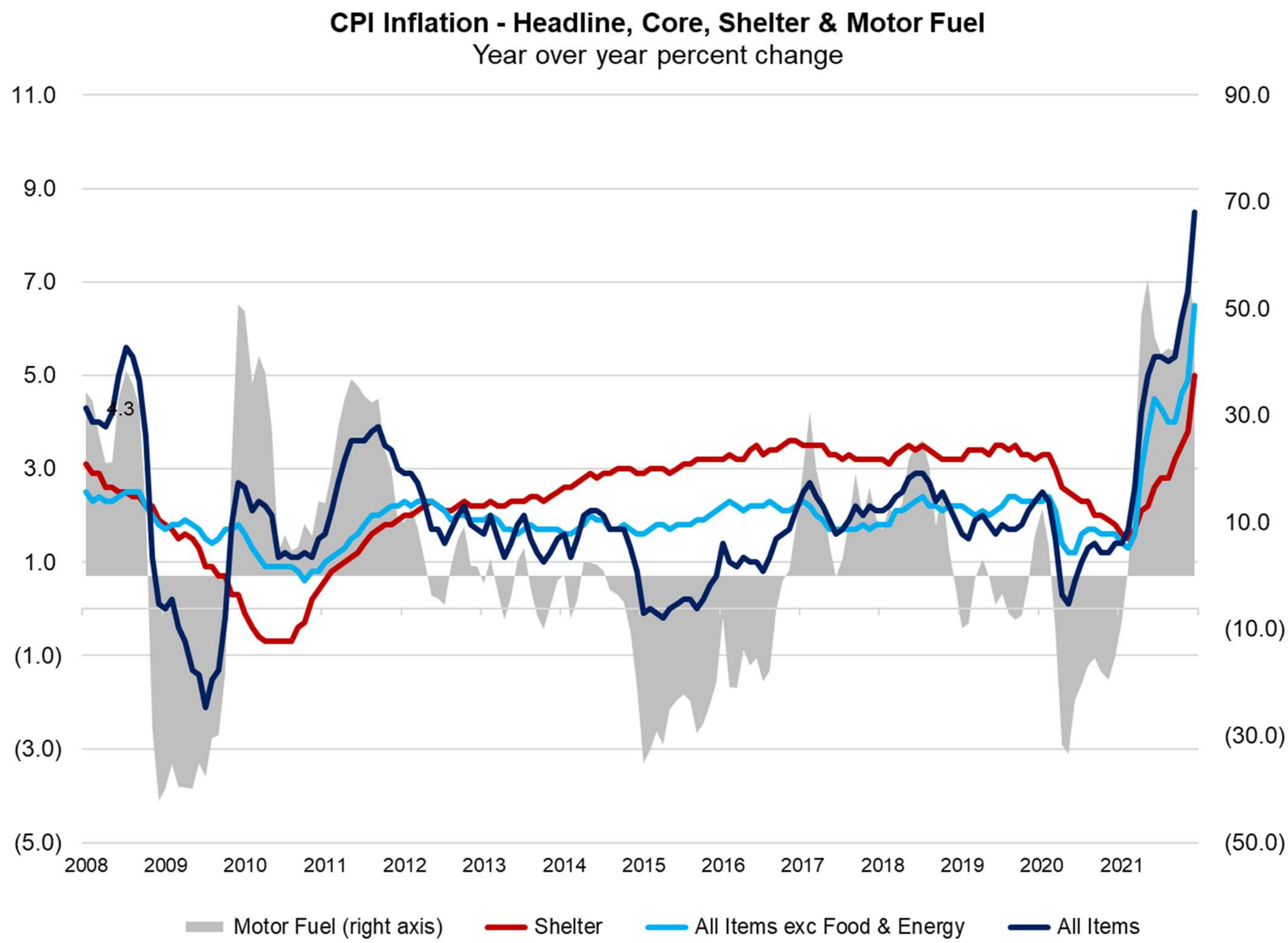
Source: MBA Forecast

Figure 2. Monthly Payroll Growth and Unemployment Rate



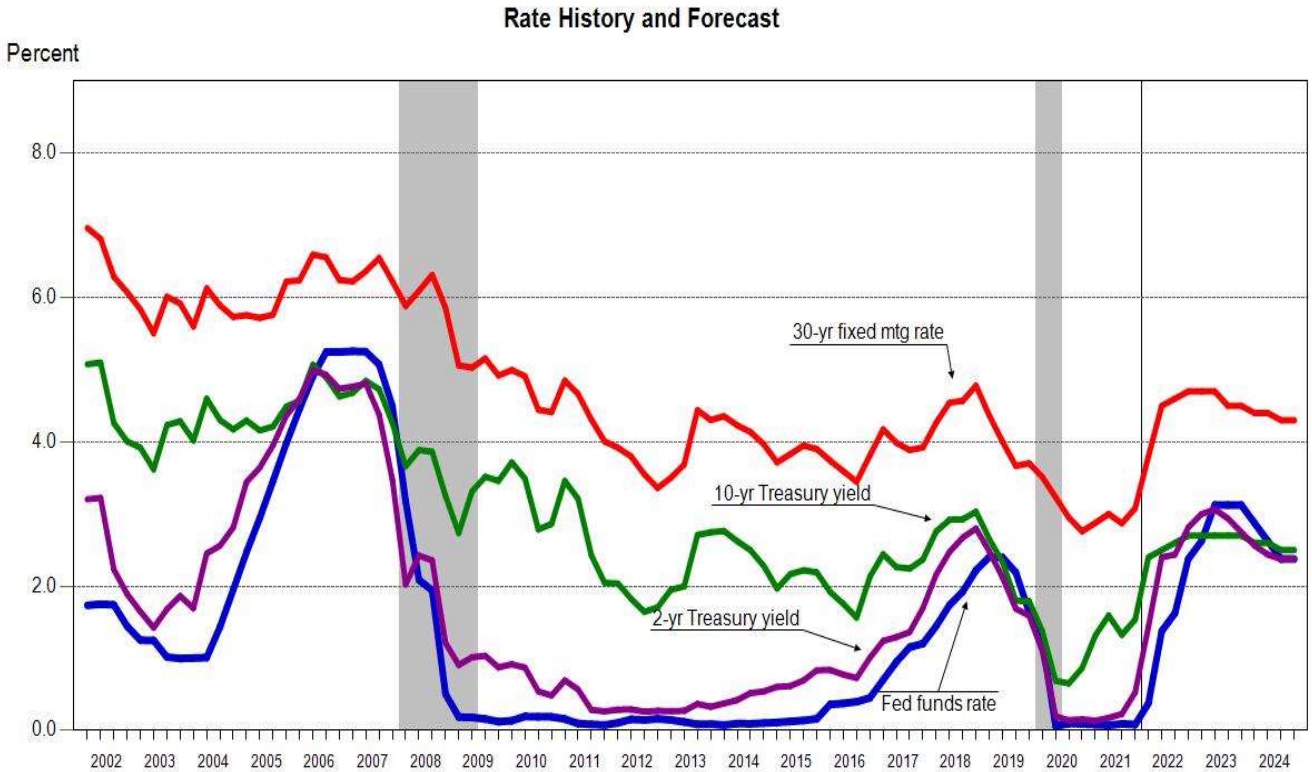
Source: Bureau of Labor Statistics

Figure 3. Consumer Price Index Inflation



Source: Bureau of Labor Statistics

Figure 4. Historical and Forecasted Rates



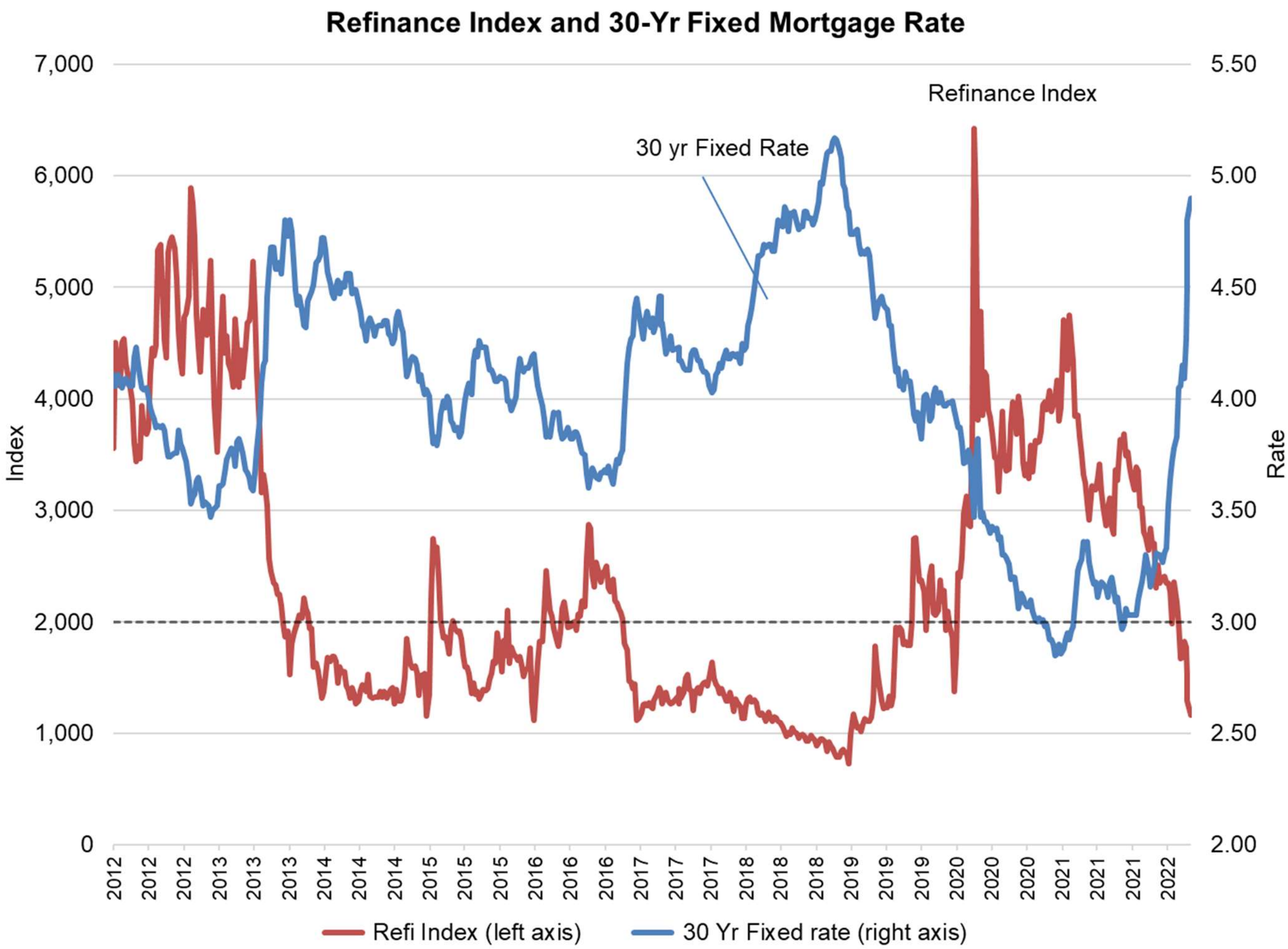
Source: Federal Reserve Board, Freddie Mac, Mortgage Bankers Association, US Treasury

Figure 5. Housing and Mortgage Market Summary

	2020	2021	2022	2023	2024
Total housing starts (000s)	1,397	1,605	1,713	1,772	1,665
Single-family housing starts (000s)	1,004	1,131	1,215	1,327	1,258
New home sales (000s)	828	771	822	909	918
Existing home sales (000s)	5,678	6,127	6,103	6,213	6,435
Home price growth (YOY pct chg)	10.9	17.5	6.2	2.5	4.9
Purchase originations ($billions)	1,482	1,646	1,721	1,773	1,845
Refinance originations ($billions)	2,625	2,345	841	676	746
Total originations ($billions)	4,108	3,991	2,562	2,449	2,591
Purchase originations (000s of loans)	4,917	4,876	4,532	4,497	4,539
Refinance originations (000s of loans)	8,780	6,407	2,266	1,724	1,838
Total originations (000s of loans)	13,696	11,283	6,798	6,221	6,377

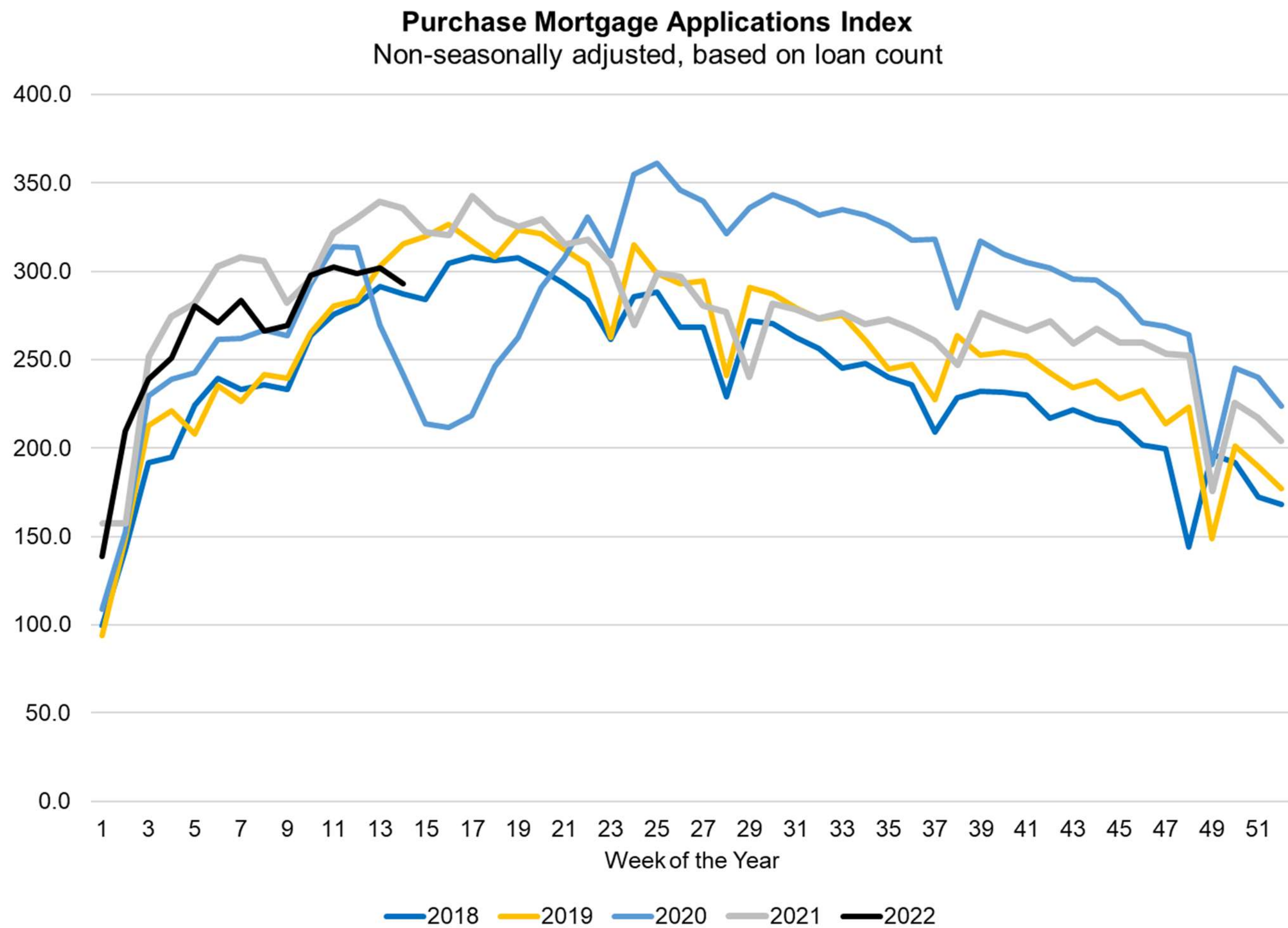
Source: MBA Forecast

Figure 6. Refinance Applications and Rates



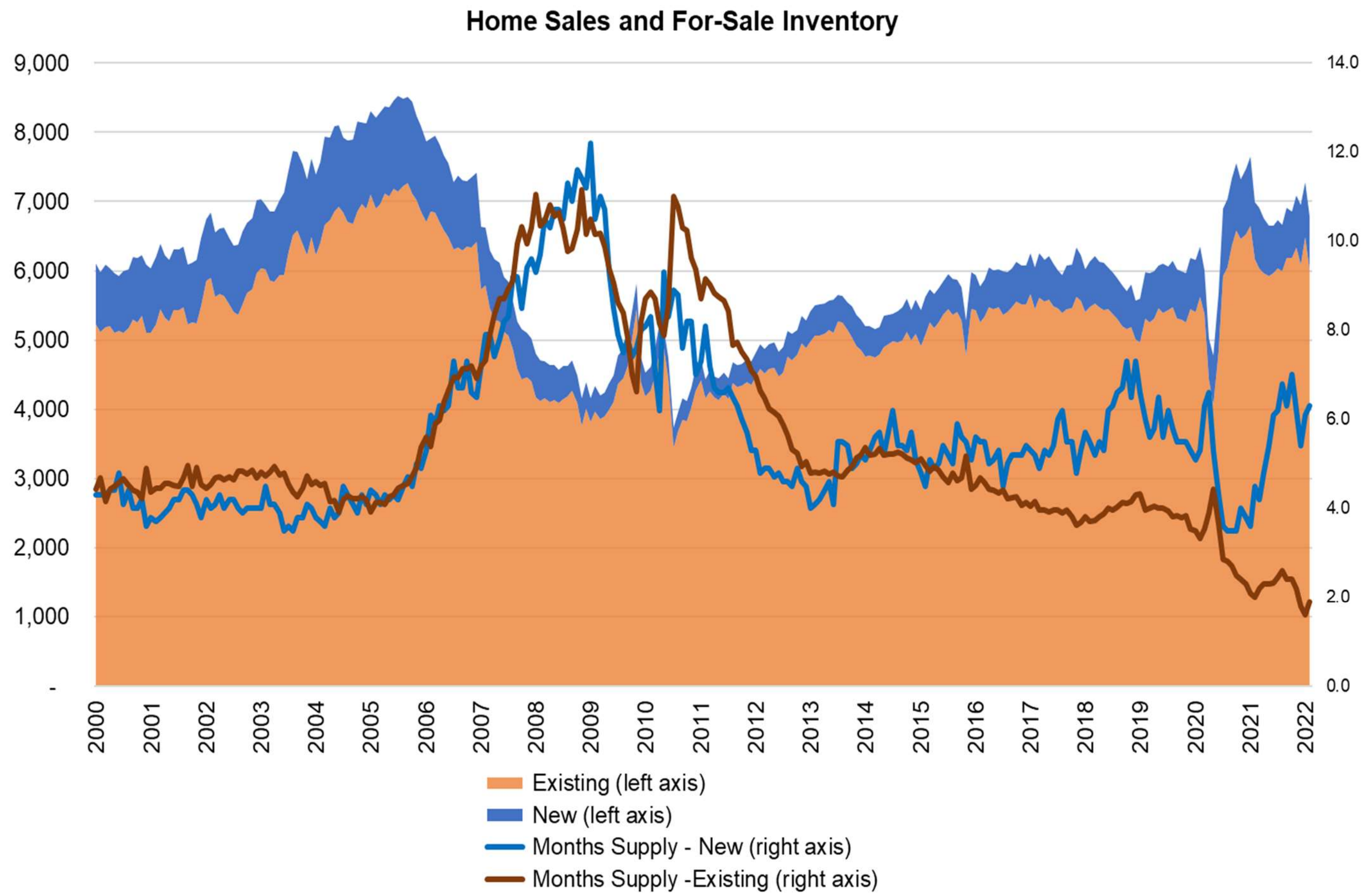
Source: MBA Weekly Applications Survey

Figure 7. Home Purchase Applications by Year



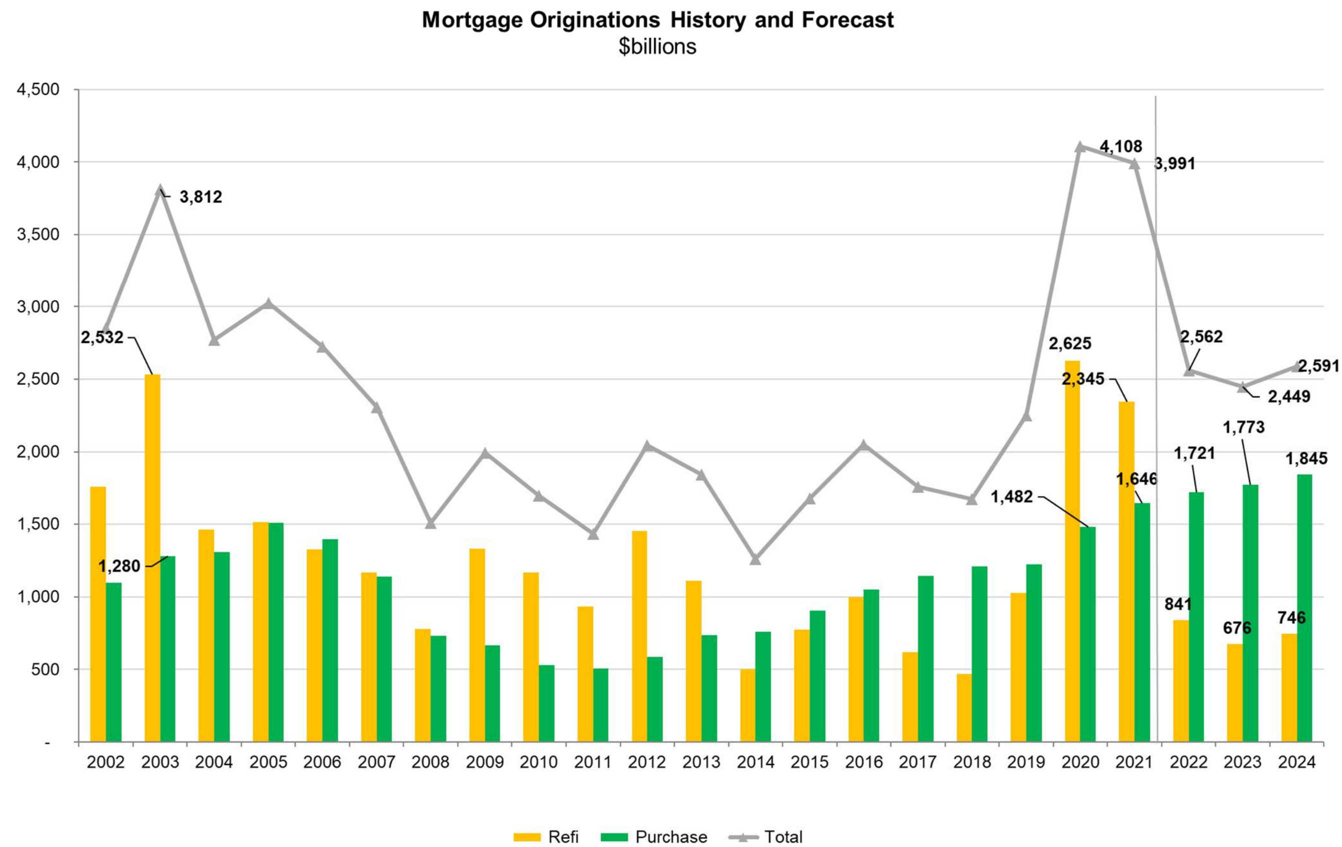
Source: MBA Weekly Applications Survey

Figure 8. New and Existing Home Sales and Months' Supply of Inventory



Source: Census Bureau, National Association of Realtors

Figure 9. Historical and Forecasted Mortgage Originations



Source: MBA Forecast