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RESEARCH AND ECONOMICS

MBA Forecast Commentary: June 2024

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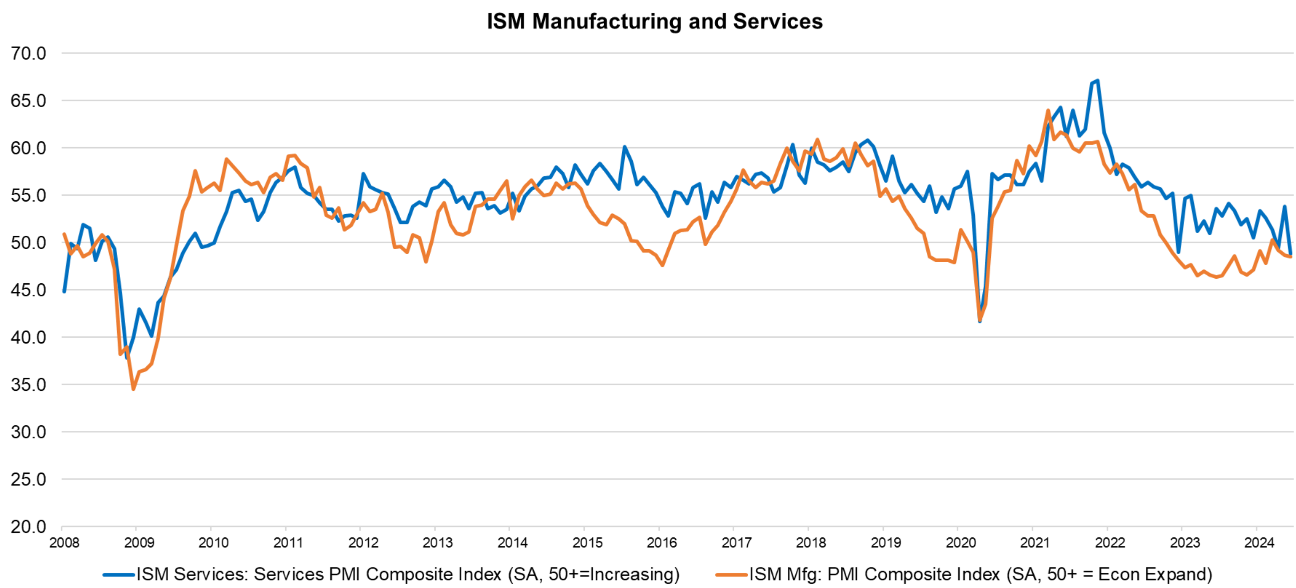
Summary of the June 2024 forecast

- Fed officials continue to note that they will need to see several months of data indicating softening inflation before moving to an initial rate cut. Incoming inflation data appears to meet that test, and we are beginning to see signs that the job market is weakening, amidst measures of business activity which are also pointing towards a slowdown. We are holding to our expectation of a first rate cut from the Fed in September of 2024 and two cuts this year. We do note that this rate cutting cycle is likely to be shorter and less steep than prior cycles, with the terminal rate likely being above 3 percent and perhaps as high as 3.5 percent.
- Mortgage rates are likely to end 2024 a bit above 6.5 percent, and this “higher for longer” path for rates will result in flatter originations path over the forecast horizon. We did slightly mark down our forecast for 2024 origination volume to just below $1.8 trillion.
- The ISM indexes for both manufacturing and service sectors are signaling modest contraction, while rising levels of consumer credit usage and climbing delinquency rates point to slower growth of consumer spending, as many consumers shift away from discretionary purchases.
- May’s CPI report showed overall inflation at 3.3 percent, core inflation at 3.4 percent, some softening in shelter price growth to 5.4 percent relative to a year ago. As asking rents continue to grow only slightly, the CPI rent measure should trend down over time. And the weaker job market should result in slower wage growth, which will help bring down non-shelter services inflation.
- Employment increased by 206,000 in June, but there was a combined 111,000 downward revision to the prior two months’ counts, reducing the three-month average to 177,000 jobs gained. Despite the growth from the establishment survey, the household survey indicated a weaker job market, showing a 116,000 gain in employment. The unemployment rate increased to 4.1 percent. The unemployment rate hit a recent low of 3.4 percent in early 2023 and has continued to move higher in recent months.
- Single-family housing starts slowed in May to a seasonally adjusted annualized pace of 0.982 million units, the first drop below a 1 million pace in 2024. Multifamily starts also declined to 278,000 unit pace, from a downwardly revised 252,000 units in March. The number of apartment units under construction at 898,000 units, and this pending supply is coming at a time of higher vacancy rates and slowing rent growth in many markets.

- The 30-year fixed rate averaged 7 percent in June, down from 7.1 percent in May, and 7.3 percent in April. On a seasonally adjusted basis, purchase applications have been roughly flat for the past 3 months. Refinance applications were up more than 10 percent in June compared to May, but remain at a low level.
- Existing home sales were roughly flat in May at a seasonally adjusted annualized rate of 4.11 million units. NAR reported that for-sale inventory increased to 1.28 million units, consistent with other data sources that are also noting that inventory levels are up considerably from last year, but remain far below typical levels seen pre-pandemic.
- Surprisingly, new home sales dropped 11 percent in May to a SAAR of 619,000 units. By contrast, MBA's Builder Application Survey showed almost 14 percent year-over-year growth in applications for May. This could indicate that market share continues to shift towards larger builders in this environment.
- 10-year Treasury yields averaged 4.3 percent In June and we forecast that this rate should drift down closer to 4 percent by the end of the year. We expect that mortgage-Treasury spreads will tighten further over the forecast horizon but may not return to historical averages of 180 basis points as the Fed plots the next phases of reducing its balance sheet holdings. The combination of these factors implies a 30-year fixed mortgage rate just above 6.5 percent by the end of 2024.
- Mortgage origination volume is expected to increase 10 percent in 2024 to just below $1.8 trillion, with a 5 percent increase in purchase and around 30 percent increase in refinance volume (off an extremely low base in 2023). In terms of units, we forecast a 4 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 will be finalizing our analysis of the 2023 HMDA data in the coming months and will at that point re-benchmark our estimate for 2023 volume, which could impact our forecasts for 2024 and beyond.
- We are forecasting a 4 percent increase in existing home sales and a 8 percent increase in new home sales in 2024. Coupled with ongoing but moderating growth in home prices, this sales growth will support higher purchase volume. The lock-in effect from rates will continue to suppress existing inventory, but as already observed, this will continue to support a higher share of new home sales as builders maintain their levels of production to meet housing demand.

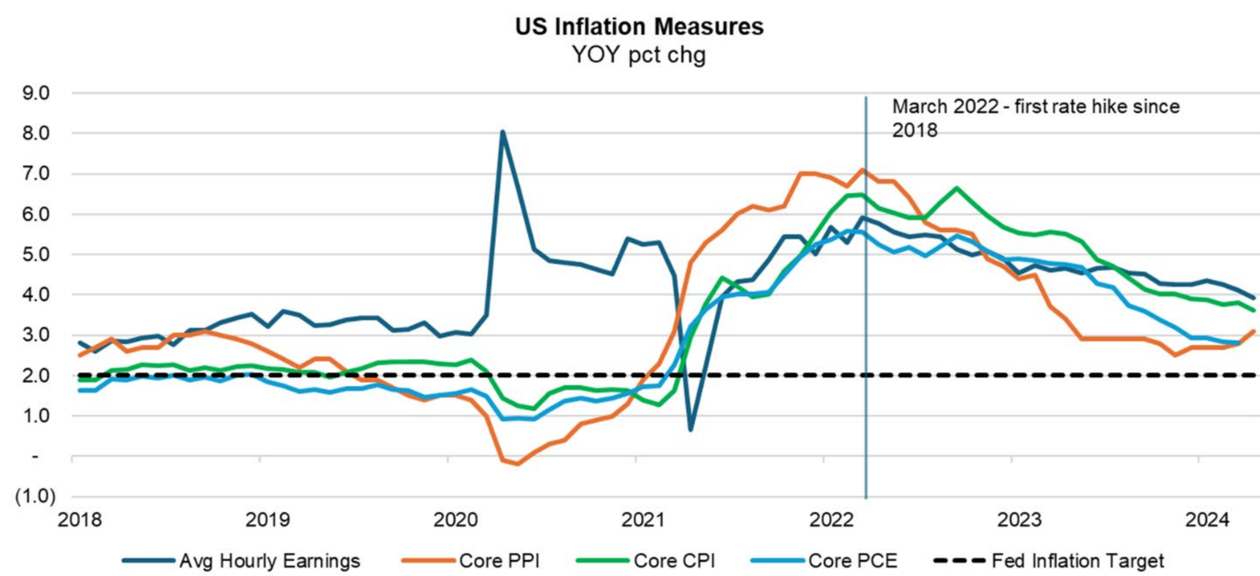
Forecast and Outlook Details

Signs of Slower Economic Activity



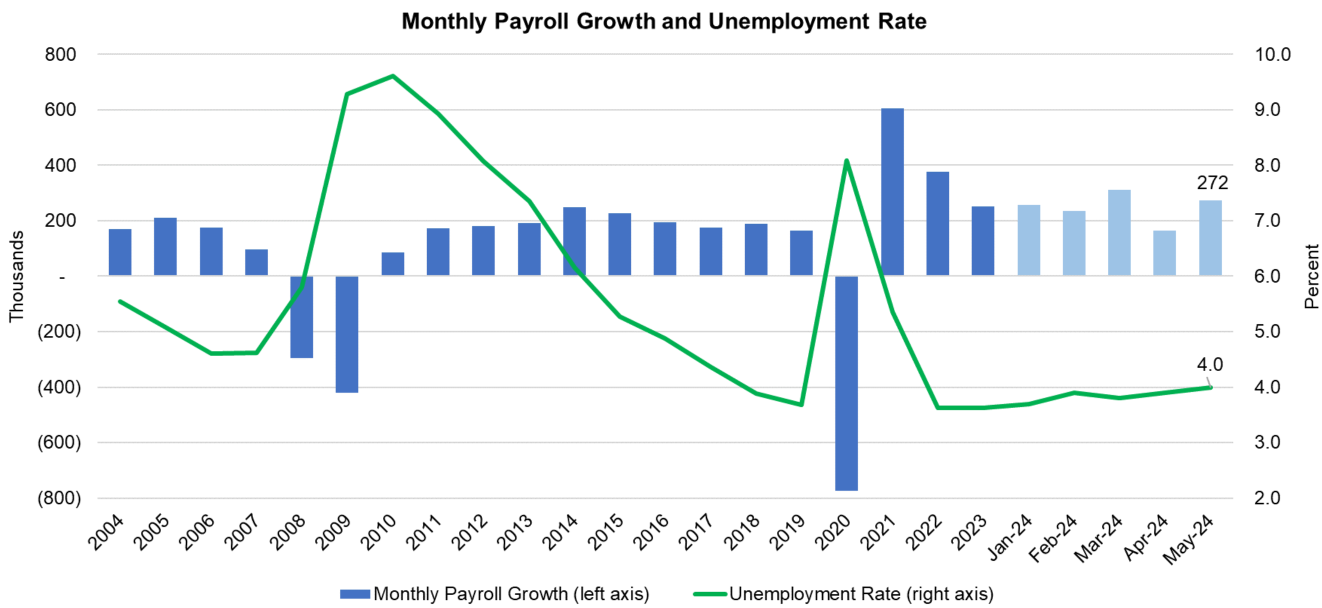
Source: Institute for Supply Management

Latest Inflation News Was Positive, Still Farther to Go



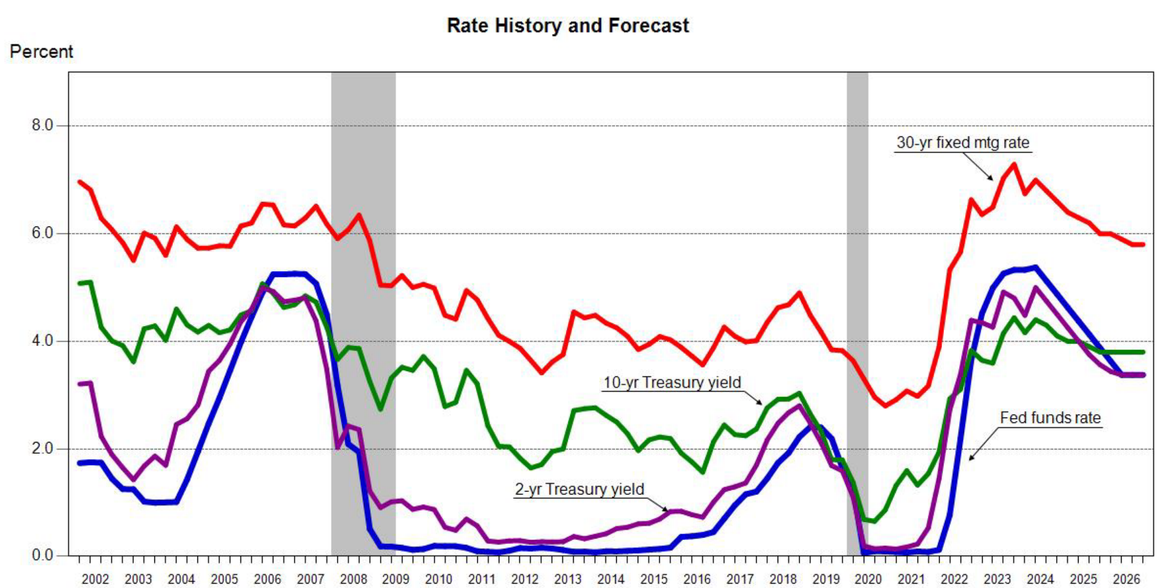
Source: Bureau of Labor Statistics

Mixed Signals from Employment Data



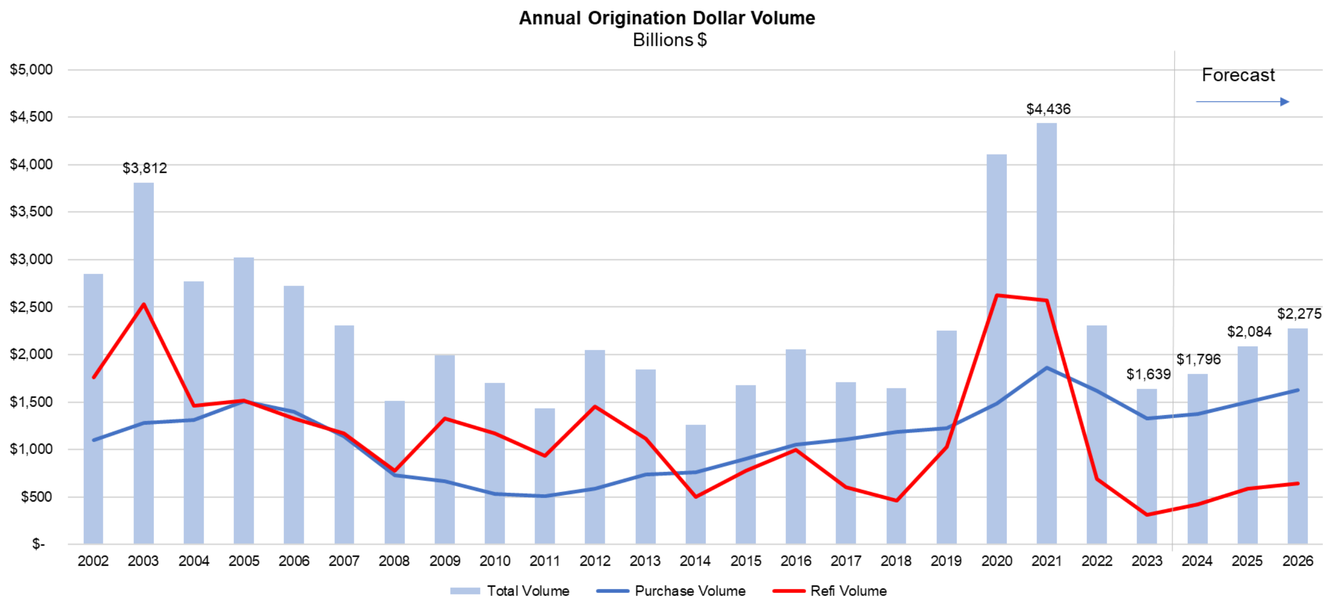
Source: Bureau of Labor Statistics

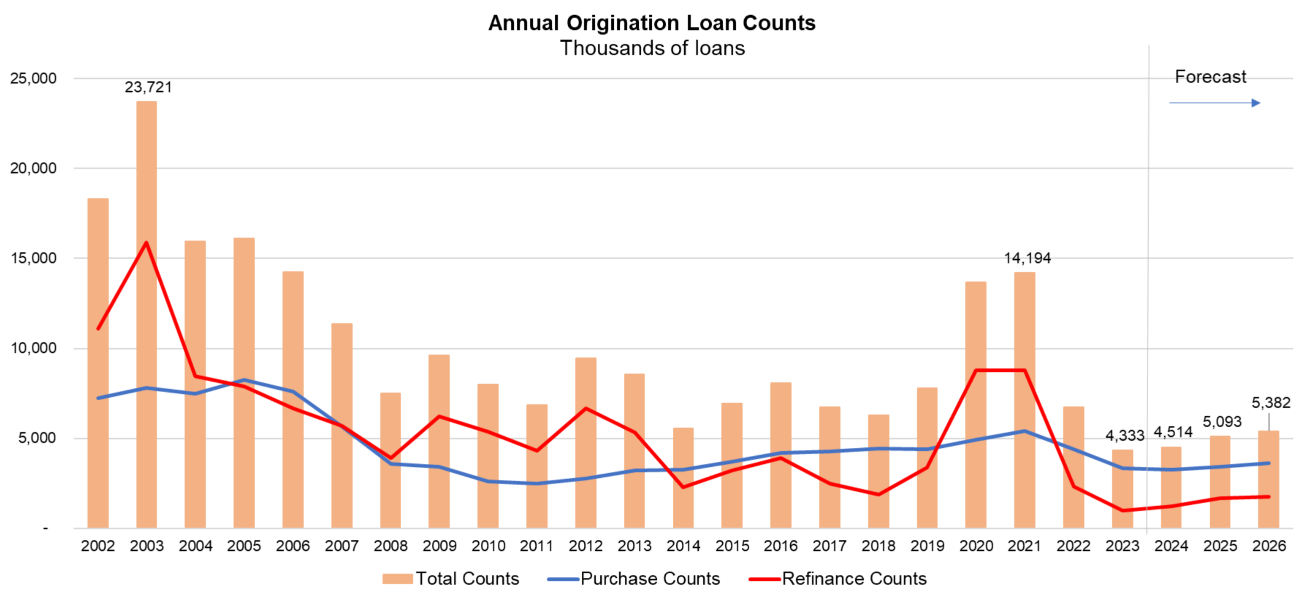
Expected Rate Cuts Later in 2024, but Terminal Rate Likely Higher



Source: Federal Reserve Board, Freddie Mac, MBA Forecast

Originations Forecast to Increase in 2024; 10 Percent Growth in Dollars, 4 Percent in Units





Source: Mortgage Bankers Association