MBA

RESEARCH AND ECONOMICS

MBA Forecast Commentary: March 2024

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MBA's Outlook for 2024

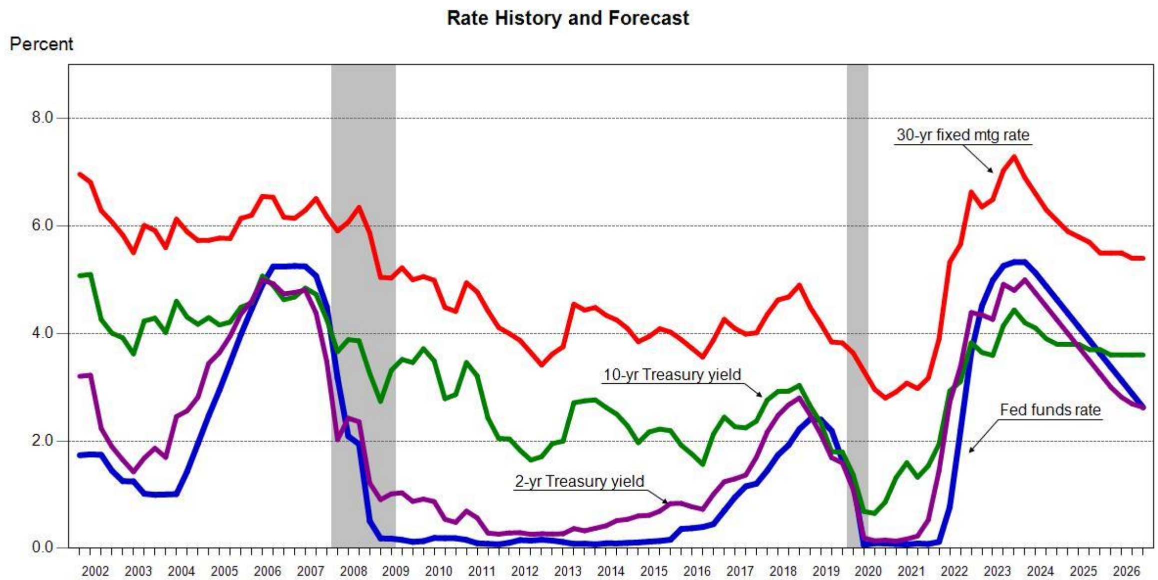
Summary of the March 2024 forecast

- The economy is growing, but there continue to be signs that this growth will slow, including in the job market. Inflation is still too high but appears to be moving in the right direction. Although mortgage application activity remains relatively weak, there are signs of life in the housing market. However, data from the fourth quarter of 2023 continued to paint a pretty dismal picture with respect to lender profitability as the industry adjusts to a lower volume environment.
- The unemployment rate increased for the first time since August 2023, but at 3.9 percent, it is still low by historical standards. Last month's gain of 275,000 jobs outpaced the 12-month average and was largely driven by service sector employment, which accounted for 204,000 jobs added. Annual wage growth slowed slightly to 4.2 percent, but this measure remains above the 3 percent longer-run average. Taken together, this labor market tightness is contributing to upward pressure on inflation, particularly in the service sectors of the economy.
- The strength in the job market, along with an economy that is still growing at a moderate pace, are positives for the housing market, as it supports home purchase activity and helps borrowers to stay current on their mortgage payments. However, the labor market's continued resiliency is one of several factors keeping mortgage rates from declining much further in the near term, as it increases the likelihood that the Fed will not rush to cut rates.
- 12-month inflation did not drop in January as expected and the monthly reading on core inflation increased. Headline CPI inflation was steady at 3.1 percent year-over-year growth, while the core CPI index remained at 3.9 percent. Bond yields have moved higher in response to the job market and inflation data, as these results reduce the chances of a quick rate cut. Inflation is still likely headed lower in the medium term, particularly as lower market rents work their way in to the shelter components of these inflation measures.
- The FOMC held rates unchanged at its March meeting and continued to signal its next move will be a rate cut. The only question is when.
- Their new projections indicate three cuts for 2024, unchanged from their December projections for 2024, but with one less rate cut expected in 2025. We are forecasting that the first rate cut will be in June, and a total of three rate cuts this year.

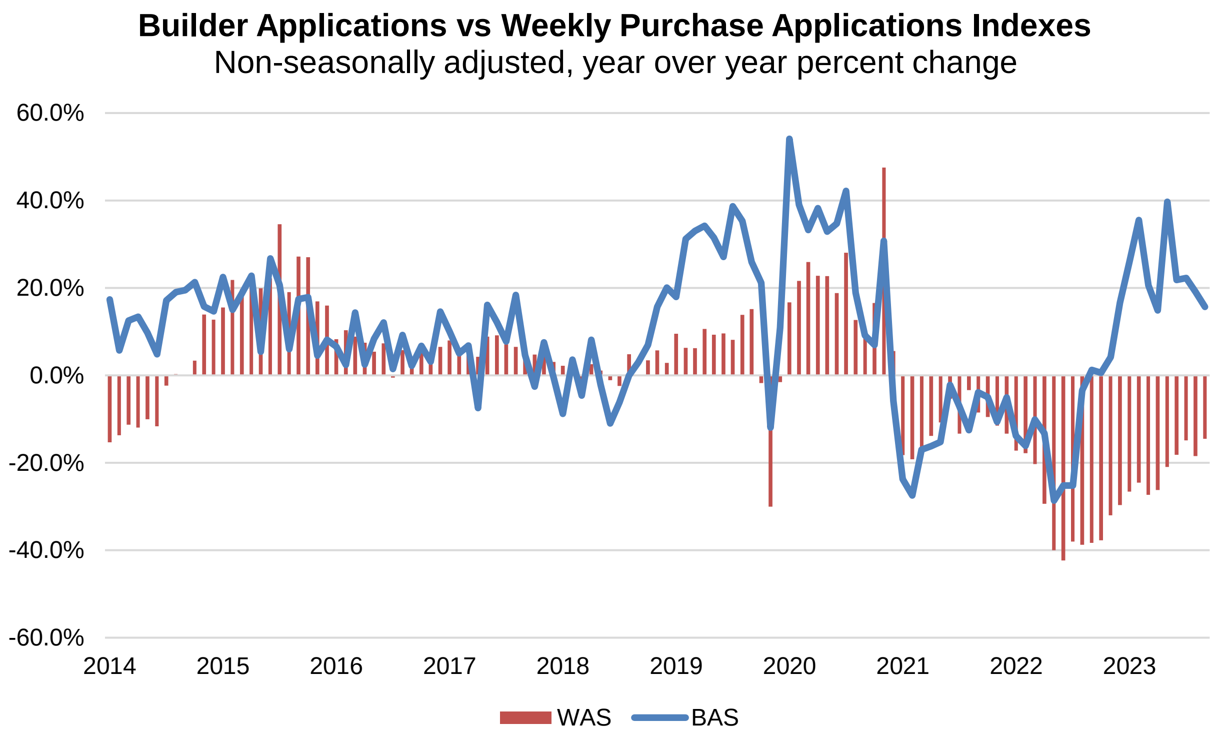
- The committee did not indicate any changes to the pace of quantitative tightening. We continue to expect longer-term rates, including mortgage rates, to decline gradually over the course of this year.
- Existing home sales were up 9.5 percent in February to the fastest pace of sales since February 2023 at a SAAR of 4.38M units. The median sales price was up 5.7 percent year-over-year. Perhaps most promisingly, inventory increased to 1.07M units, up 6 percent monthly and 10 percent compared to a year ago.
- This growth in existing home sales was surprising, particularly as it runs somewhat counter to the trend in purchase applications thus far in 2024. One explanation could be that more business has shifted to the broker channel. Just as a reminder, the Weekly Applications Survey only covers retail and consumer direct business. To the extent that the broker channel share is growing, that could partially explain the divergence between these two measures of purchase market activity.
- Additionally, we continue to see a stark divergence between strength in the new home market, with MBA's Builder Applications Survey (BAS) data showing 15 percent year-over-year growth in February, while the pace of activity in the existing market continues to be constrained by the lack of inventory.
- MBA recently released its latest Quarterly Performance Report for the fourth quarter of 2023. IMBs reported per-tax net production losses of 73 basis points (or $2,109) on each loan they originated. This marks the seventh consecutive quarter of net production losses. Total loan production expenses – commissions, compensation, occupancy, equipment, and other production expenses and corporate allocations – increased to 407 basis points in the fourth quarter of 2023, from 363 basis points in the third quarter of 2023. On a per-loan basis, production expenses averaged $12,485 per loan in the fourth quarter, up more than $1,000 per loan from the previous quarter but lower than the survey-high of $13,171 per loan (426 basis points) in the first quarter of 2023.
- The increase in production cost, along with a concurrent decrease in productivity, reflects excess capacity and the difficulty that lenders face in adjusting resources to align with fluctuating rates and volumes.
- Longer-term rates remained somewhat higher over the past month with 10-year Treasury yields ranging between 4.1 percent and 4.3 percent, while 30-year mortgage rates ranged between 6.7 percent and 7 percent in recent weeks. Our forecast has the 10-year yield moving closer to 3.8 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 an improvement over the 300 basis points experienced last year. We expect the spread will tighten further by the end of 2024. The combination of these developments implies a 30-year mortgage rate closer to 6 percent by the end of 2024.
- Mortgage origination volume is expected to increase 23 percent in 2024 to $2 trillion, with a 16 percent increase in purchase and a 50 percent increase in refinance volume (off an extremely low base in 2023). In terms of units, we forecast a 17 percent increase in the total number of loans originated in 2024, above the 4.3-million-unit volume in 2023, the lowest level since at least 1997.
- We are forecasting a 7 percent increase in existing home sales and a 14 percent increase in new home sales in 2024. 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.

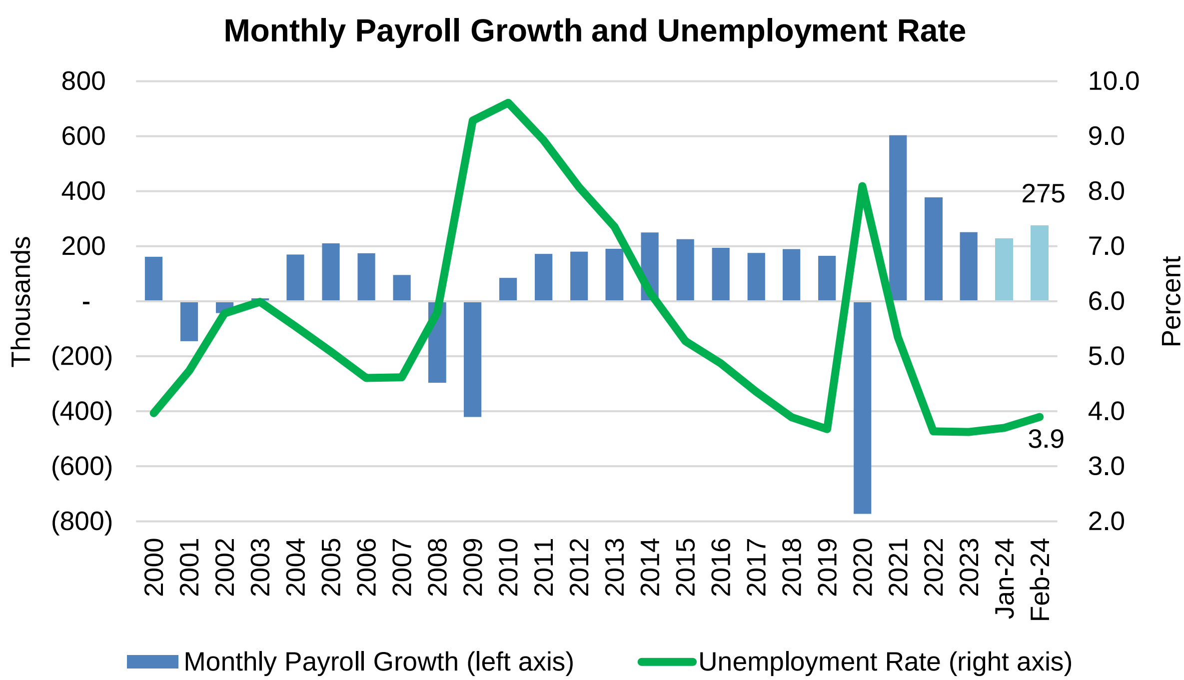
Forecast and Outlook Details



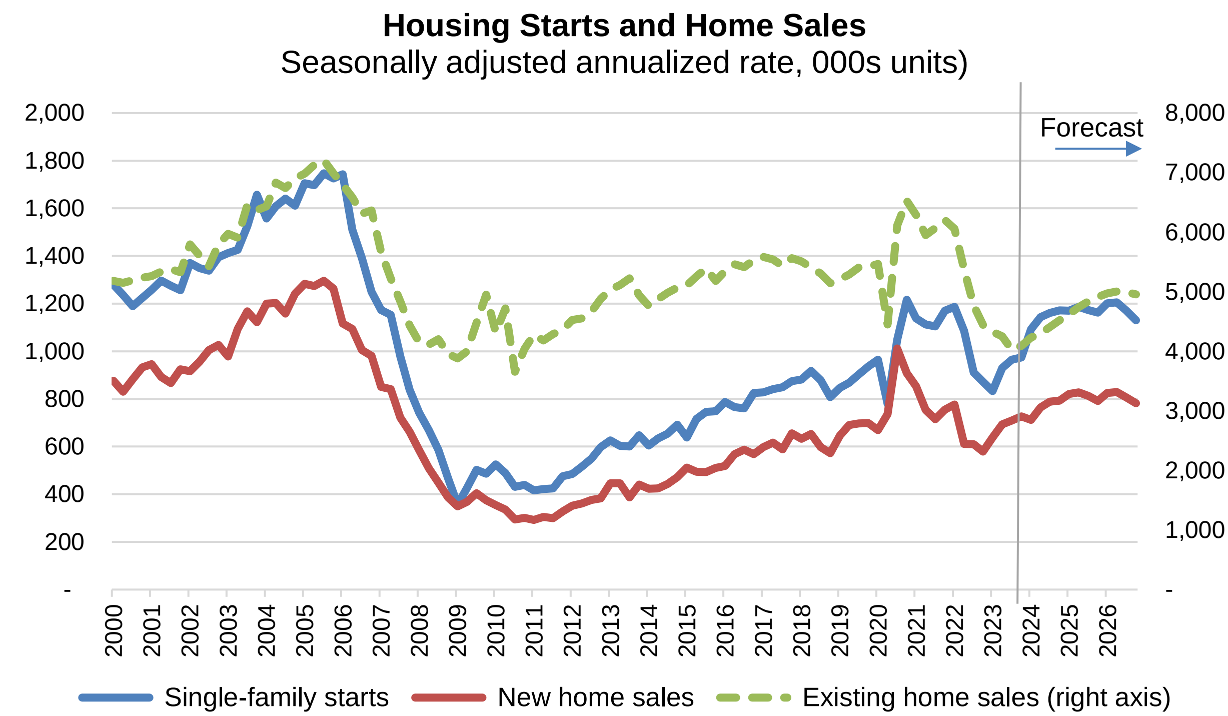
Source: Federal Reserve Board, Freddie Mac, US Treasury, MBA Forecast



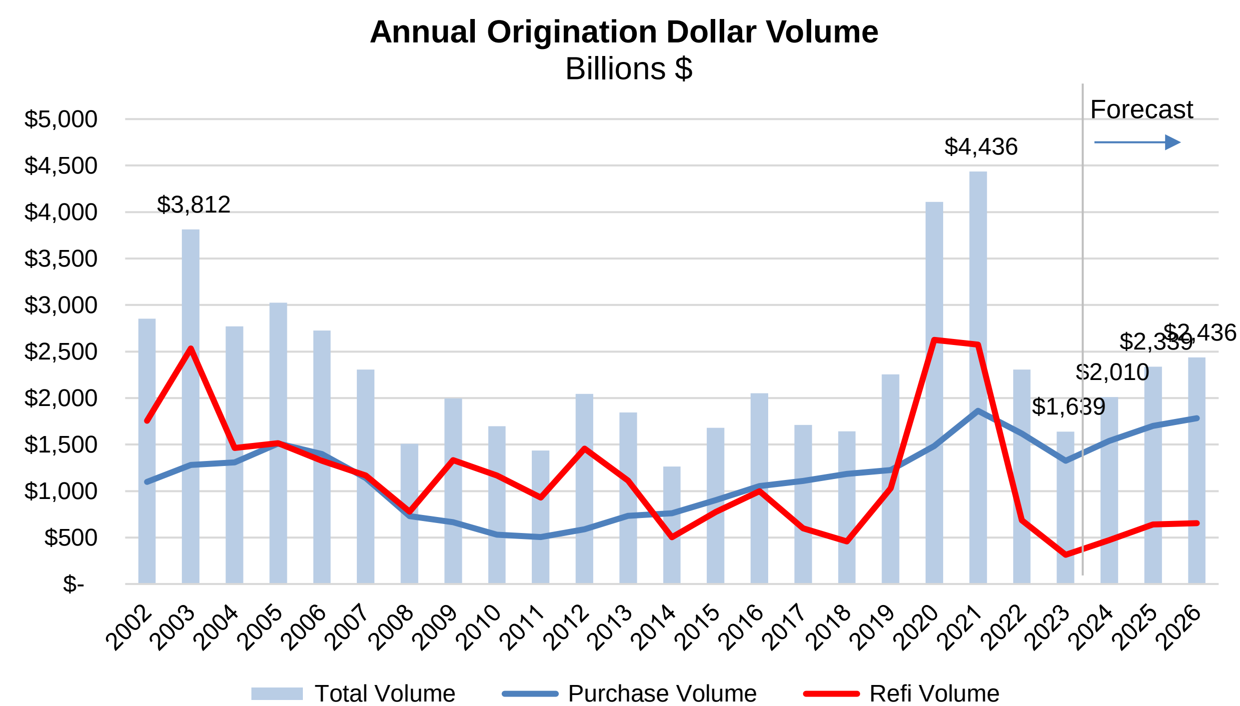
Source: Builder Applications Survey, Weekly Applications Survey



Source: Bureau of Labor Statistics



Source: Census Bureau, National Association of Realtors, MBA Forecast



Source: MBA Forecast