

MBA Forecast Commentary: August 23, 2022

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Continued Tightening of Monetary Policy, Weaker Growth Ahead

Key highlights and commentary from our August 2022 forecast:

- MBA forecasts lower GDP growth in 2022 through 2024 compared to last month's forecast. Slowing global growth, tighter monetary policy and more restrictive financial conditions have lowered our expectations. The BEA estimates for the first two quarters of 2022 have been negative thus far, showing growth rates of -1.6% and -0.9%. Our forecast for 2022 GDP is 0.3%, while growth in 2023 and 2024 will remain below-trend in the 1.5% range.
- We expect the Fed to continue to raise the Fed funds rate in 2022, reaching a range of 3.25% and 3.5% by the end of the year, as they continue to focus their attention on tackling inflation that is still close to 40-year highs. This tightening in monetary policy will drive some of the slower growth outlined earlier. We expect a 50-basis-point increase in September.
- Inflation, as measured by the CPI, is still running higher than 8% on a year-over-year basis, but the rate of inflation may have peaked in July. We expect inflation to slow in 2023 as the Fed's tighter policy kicks in and demand cools.
- Despite other data indicating a higher risk of a recession, the job market remains remarkably strong. Both employment and unemployment have regained their pre-pandemic levels. The US economy added 528,000 jobs in July for a 2022 YTD pace of 470,000 jobs. The unemployment rate was 3.5%, but given our forecast for weaker growth, we have likely reached a trough for unemployment and expect it to gradually increase to over 4% in 2023 and 2024.
- Given the weaker outlook for growth, we continue to estimate a 50% likelihood of a mild recession over the next 12 months. If this materializes with a recession in the first half of 2023, the employment rate is expected to reach 5.5% by the end of 2023 and mortgage rates would fall around 30 basis points from the baseline forecast level.
- Daily swings in the 10-Year Treasury yield show continued volatility, but our forecast is for the 10-year to remain on average at 2.9% through mid-2023 before slowly declining back to 2.5% in 2024.
- In our housing forecast, slowing housing demand due to increased uncertainty over the economy, still-challenging affordability conditions, and weak incoming data on application volume led us to lower our outlook for housing starts and home sales. We now expect a decline of 11% in existing home sales and a decrease of 8% in new home sales in 2022 compared to 2021.
- Additionally, this month's forecast included a revision to 2021 origination volume as part of our annual benchmarking process. Total originations were revised higher to \$4.4T from \$4.0T previously, comprised of purchase originations at \$1.87T and refinance originations at \$2.57T. The annual

revisions are based on MBA's analysis of data from the *Home Mortgage Disclosure Act* (HMDA), along with industry sources such as annual data from the GSEs, FHA, and VA, to name a few sources.

- Our forecast for 2022 originations is a total of \$2.3T, a 47% decrease from 2021's total. Purchase volume is expected to decline 12% to \$1.64T, and refinance volume to decline 73% to \$706B.

Figure 1. Forecast Summary

	2020	2021	2022	2023	2024
GDP Growth	-2.3%	5.5%	0.3%	1.4%	1.5%
Inflation	1.2%	6.7%	6.7%	2.2%	1.7%
Unemployment	8.1%	5.4%	3.7%	4.0%	4.6%
Fed Funds	0.125%	0.125%	3.375%	3.875%	2.875%
10-year Treasury	0.9%	1.5%	2.9%	2.8%	2.5%
30-year Mortgage	2.9%	3.1%	5.2%	4.9%	4.3%
New home sales (000s)	828	769	707	745	787
Existing home sales (000s)	5,678	6,127	5,457	5,360	5,582
Purchase originations (\$B)	1,482	1,863	1,638	1,704	1,806
Refi originations (\$ B)	2,625	2,574	706	540	695
Total originations (\$B)	4,108	4,436	2,344	2,244	2,501

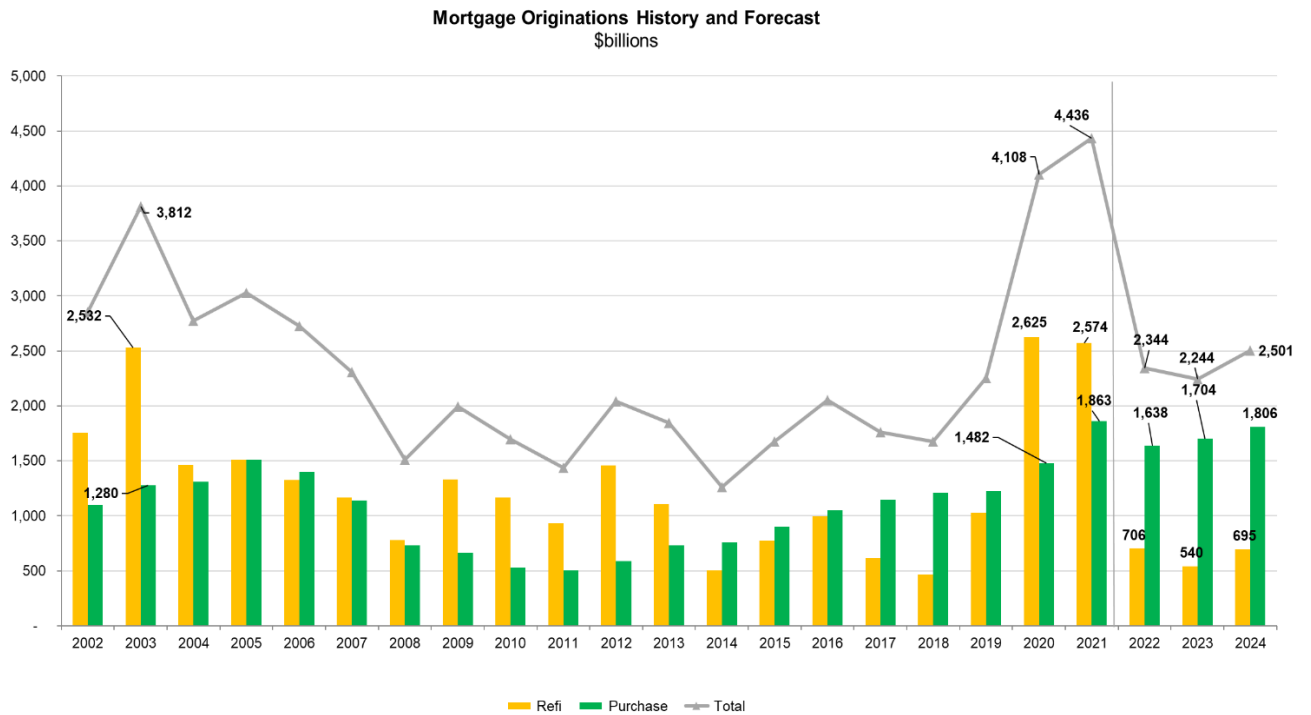
Source: MBA Forecast

Figure 2. Historical and Forecasted Rates



Source: Federal Reserve Board, Freddie Mac, MBA Forecast

Figure 3. Mortgage Originations History and Forecast



Source: MBA