RESEARCH AND ECONOMICS

MBA Forecast Commentary: May 21, 2021

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On Track for Growth in 2021, But Mixed News in Recent Data

Recent economic data show a rapidly improving job market and much stronger consumer spending, reinforcing our expectations that rates will continue to increase by the end of 2021 and into 2022. The BEA's estimate of GDP growth showed a 6.4 percent growth rate in the first quarter, largely driven by consumer spending as households utilized pent-up savings and stimulus income as more of the economy reopened in the first quarter. We expect this growth to accelerate as the savings rate of US households remains high, and with an increasing vaccination rate, there will be a steady increase in in-person activity as more people travel, dine out, attend entertainment venues, to name a few examples. This increase in spending on services will add to the already-strong growth in consumer spending on goods that we saw through much of the pandemic.

In their April FOMC statement, the Federal Reserve recognized this improvement in the economy, but still did not hint at a near-term change in their policy stance – either for short-term rates or quantitative easing (QE) purchases. Although the April jobs report showed slower growth than expected, we expect that job growth will re-accelerate over the next several months leading to a declining unemployment rate. Moreover, inflation readings could rise well above what many market participants are anticipating. Both market and survey-based inflation measures have pointed to faster inflation in the coming months. The growing demand for goods and services, combined with supply chain challenges faced by many sectors, continues to put upward pressure on prices for both consumers and businesses.

It is also likely that mortgage rates are going to be more volatile until the uncertainty around the Fed's next moves are resolved. Treasury to mortgage spreads have narrowed considerably, but this near-term volatility has caused mortgage rates to oscillate from week to week. Given the growth outlook, tremendous fiscal policy support, and expected inflation, we expect rates to rise between now and the end of the year, with 10-year Treasury rates reaching 2 percent, and the 30-year fixed mortgage rate reaching 3.5 percent by the fourth quarter of 2021 and exceeding 4 percent in 2022.

Job growth slowed sharply in April, increasing by only 266,000 new jobs after a gain of 770,000 in March, according to the BLS. This data runs counter to the recent decline in initial claims for unemployment insurance and ADP data, which showed strong growth in private payrolls, as well as JOLTS data showing more openings and reports from various sectors that certain jobs were hard to fill. There were declines in many of the sectors that showed growth in prior months, including manufacturing, retail trade, transportation and warehousing, and temporary help services. Leisure and hospitality, which has lagged most other sectors because of its dependence on in-person interaction and proximity, saw employment increase for the third consecutive month and added over 330,000 jobs in April. Overall leisure and hospitality hiring remains 17 percent, or 2.8 million jobs, below pre-pandemic levels. Local government education employment inched up by 31,000, but remains almost a million jobs below pre-pandemic levels.

Construction employment was unchanged in April, with a slight gain for employment in residential building, including specialty trade contractors involved in residential construction. Similar to the headline counts, this does not match the strong growth in housing starts data, which would imply the need for more workers.

The unemployment rate and the number of long-term unemployed were little changed over the month. The gains in household survey employment were similar to those in the payroll survey, providing additional support for the payroll number. The unemployment rate, which ticked up slightly to 6.1 percent in April, is expected to drop to 4.5 percent by the end of the year, as hiring continues to pick up with the easing and removal of pandemic restrictions. However, the April report suggests that the rate of improvement in the job market is going to be much less consistent than other indicators would suggest.

Turning to housing, both new residential construction and home sales were weaker in April. Single-family starts in April dropped more than 13 percent compared to the previous month, declining to a seasonally adjusted annual pace of 1.087 million units compared to 1.255 million in March. This was consistent with reports that builders are delaying starting new construction because of the marked increase in costs for lumber, appliances, and other inputs. These supply chain constraints are holding back a housing market that should otherwise be picking up speed, given the strong demand for buying fueled by an improving job market and low mortgage rates. Even with these challenges, there are roughly 640,000 new homes under construction right now, a helpful addition to low supply levels.

Similarly, new home sales declined in April to an annualized pace of 863,000 units, compared to 917,000 units the month before. Ther was a shift to increased sales in home for which building was not started and a decline in sales for completed units, an indication that demand remains high, but also a potential sign that completions could be slowing as materials costs and availability pose challenges. The median price of a new home sold increased to $372,400, pushed higher by these higher input costs. There were also downward revisions to prior months' results. Existing home sales fell to a 5.85 million unit pace, the third straight monthly decline since started 2021 at a 6.66 million unit pace. This recent weakness has been attributed to rising sales prices and low inventory across most of the country. The median sales price in April increased 19 percent compared to a year ago to a record high $341,600.

Our forecast is for home sales to increase in 2021 and 2022, but this is dependent on both home builders' ability to increase production, and current owners listing their homes for sale. The lack of inventory on the market is preventing home sales from being much higher. The ongoing surge in economic growth, job market recovery, and demographic drivers are expected to drive purchase growth if housing inventory growth can keep pace. More millennials are approaching peak homebuyer age and they are currently the largest age cohort. This wave of young homebuyers will support the purchase market for at least the next few years. Additionally, there is still housing demand from people looking to move into homes with potentially larger and more functional space to facilitate remote work and learning. Additionally, with more flexible remote work possibilities, there is increased demand for homes further away from urban areas. Purchase originations are expected to increase to a record $1.66 trillion in 2021 and then grow further to $1.74 trillion in 2022.

We expect that rising mortgage rates will result in slowing refinance activity through the remainder of 2021. This will remove the refinance incentive for many borrowers who have already taken advantage of lower rates over the past year. The first half of 2021 will still see significant volume with the spillover of refinancing activity in late 2020, as well as extended application to closing times, but refinance originations are expected to fall more significantly in the second half of 2021. Our forecast is for $1.74 trillion in refinance volume in 2021, a drop of 27 percent from 2020.

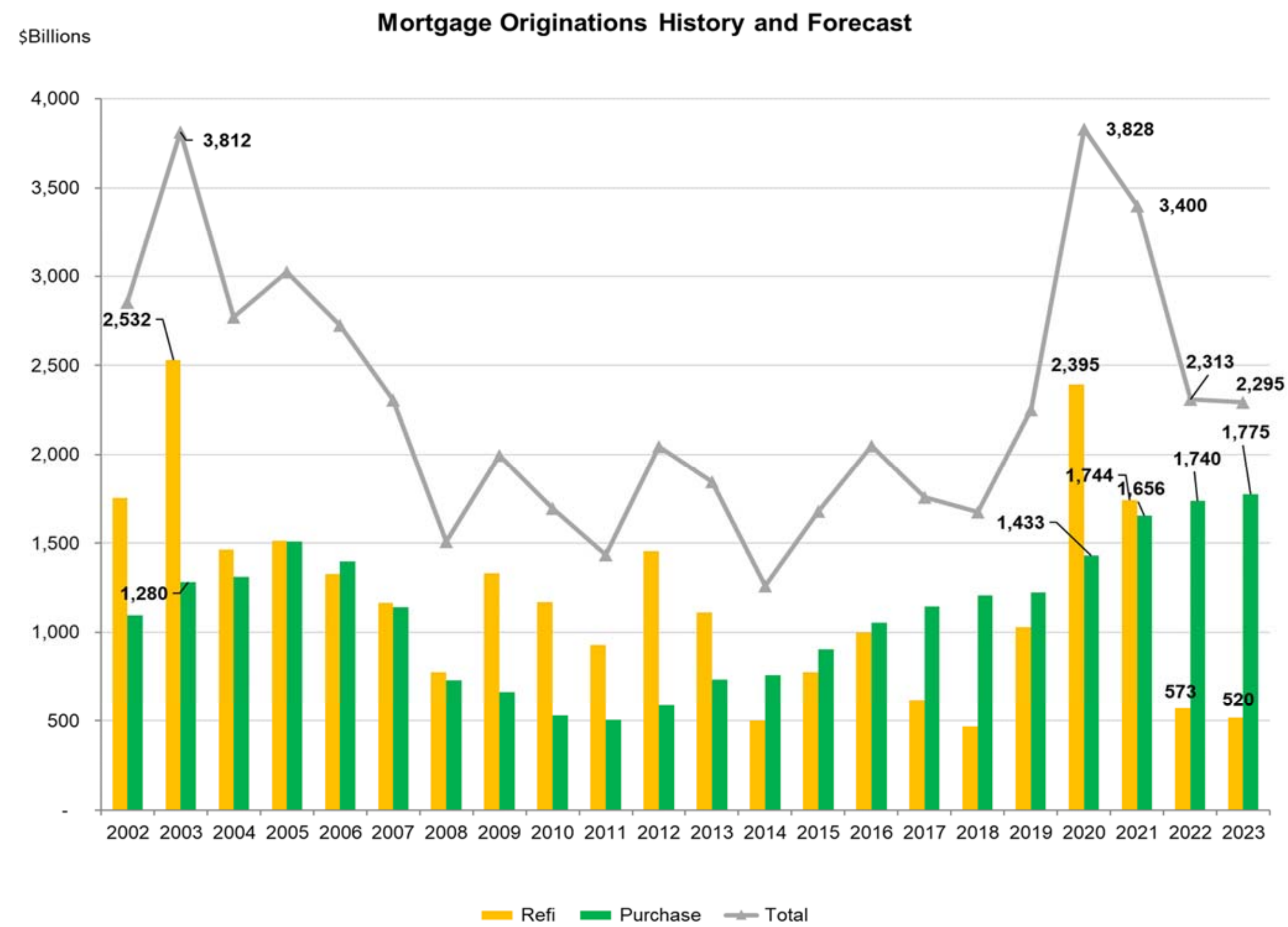
In line with the improving economy and job market, mortgage delinquency rates continued to decrease in the first quarter of 2021. Mortgage delinquencies track closely to the U.S. unemployment rate, and with unemployment declining, this has helped borrowers who were behind on their payments. However, the delinquency rate still remains more than a percentage point higher than its historical average of 5.33 percent, held higher by loans that are over 90 days past due or in the process of foreclosure. This was particularly the case for FHA and VA borrowers. With extended forbearance and foreclosure moratoria still in effect, many of these borrowers are reaching later stages of delinquency. An estimated 2.1 million homeowners were on forbearance plans as of May 2021. For the purposes of the delinquency, MBA asks servicers to report the loans in forbearance as delinquent if the payment was not made based on the original terms of the mortgage.

Figure 1.

	2019	2020	2021	2022	2023
GDP Growth	2.3%	-2.4%	7.0%	2.5%	1.7%
Inflation	1.8%	1.2%	2.9%	1.9%	2.1%
Unemployment	3.7%	8.1%	5.4%	4.4%	4.3%
Fed Funds	1.625%	0.125%	0.125%	0.125%	0.625%
10-year Treasury	1.8%	0.9%	2.0%	2.5%	3.1%
30-year Mortgage	3.7%	2.8%	3.5%	4.2%	4.9%
New home sales (000s)	685	813	916	1,007	1,094
Existing home sales (000s)	5,331	5,678	6,147	6,478	6,624
Purchase originations ($B)	1,225	1,433	1,656	1,740	1,775
Refi originations ($ B)	1,028	2,395	1,744	573	520
Total originations ($B)	2,253	3,828	3,400	2,313	2,295

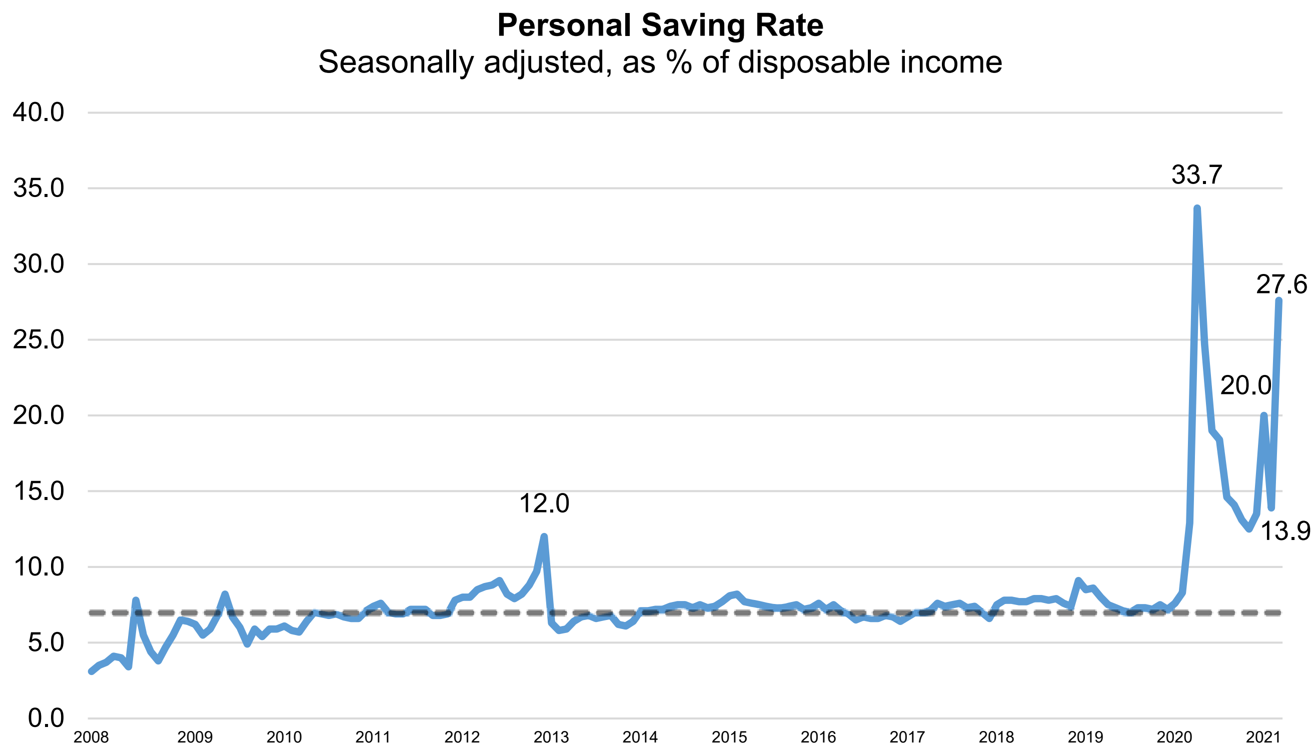
Source: MBA Forecast

Figure 2.



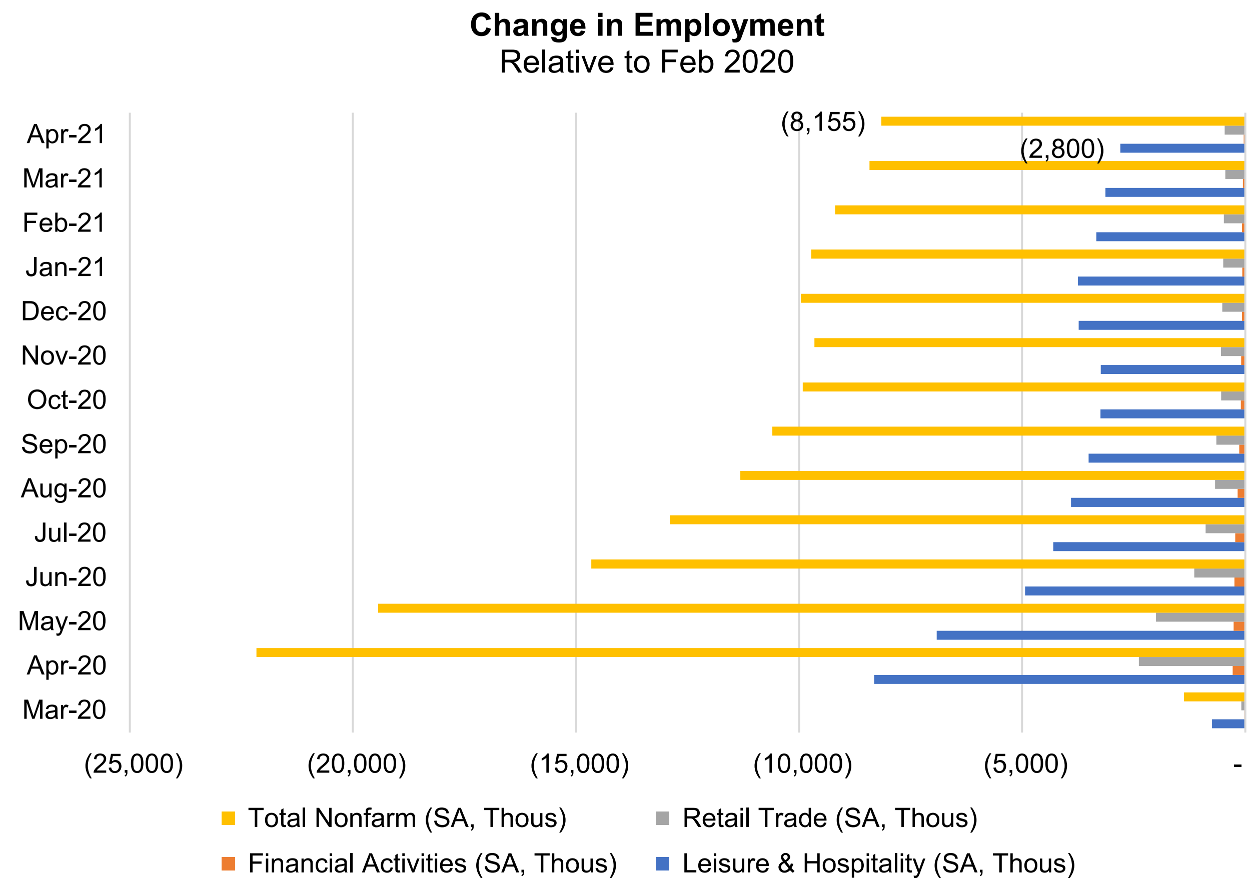
Source: MBA Forecast

Figure 3.



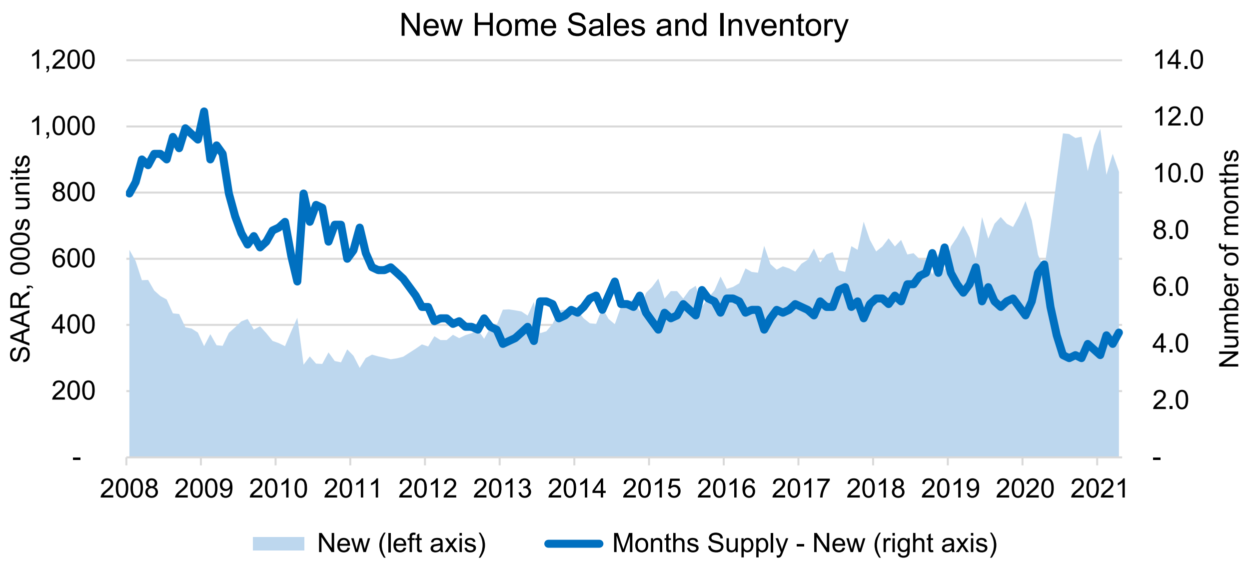
Source: Bureau of Economic Analysis

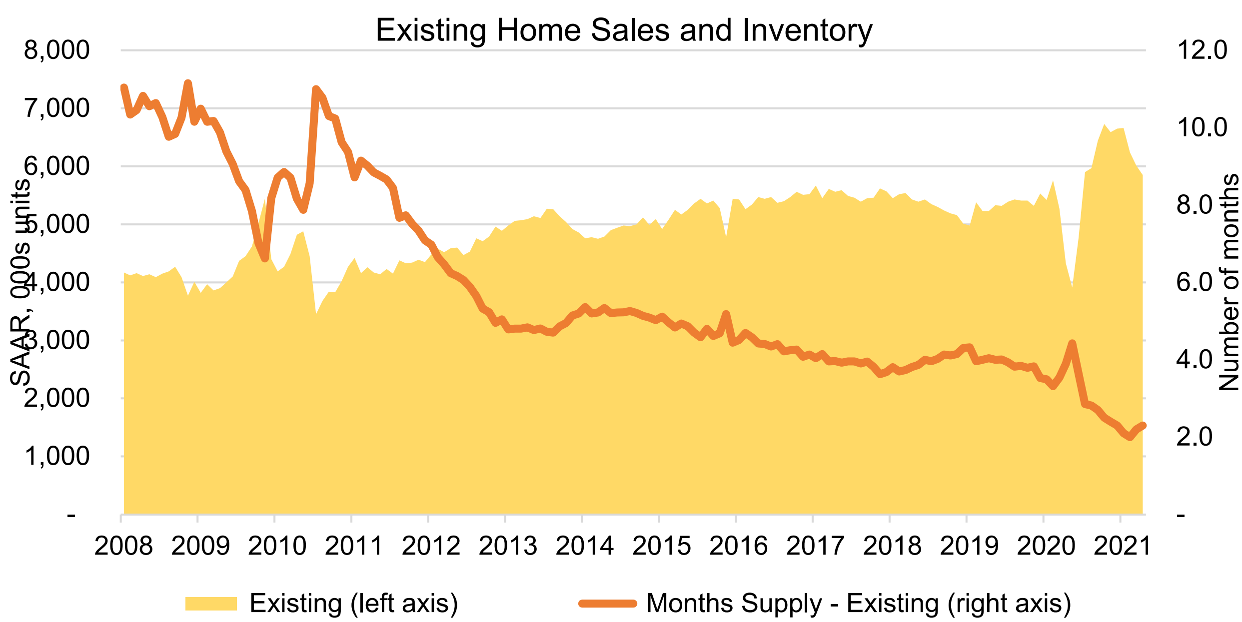
Figure 4.



Source: Bureau of Labor Statistics

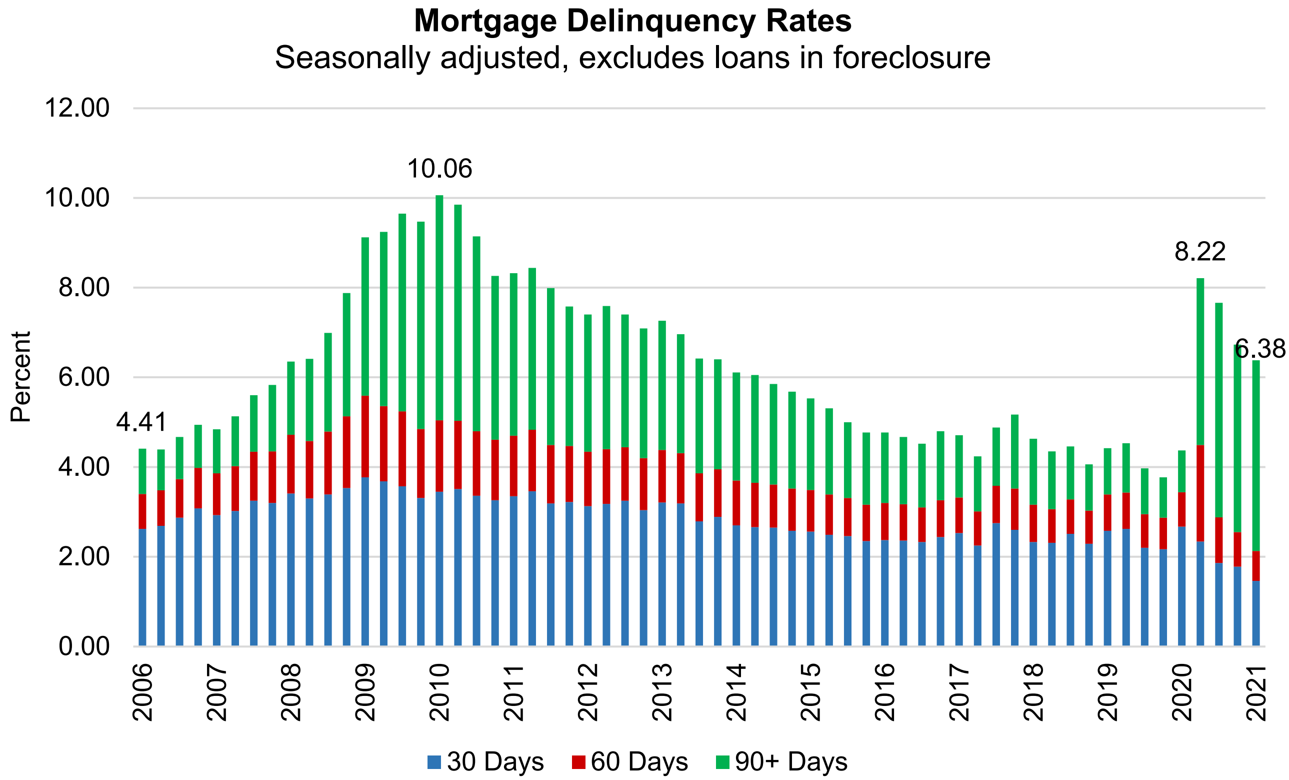
Figure 5.





Source: Census Bureau, National Association of Realtors

Figure 6.



Source: MBA National Delinquency Survey