RESEARCH AND ECONOMICS

MBA Forecast Commentary: September 22, 2020

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A Strong 2020 for Housing and Mortgage Markets

The economic recovery for the US rolls on, albeit at different rates across different sectors of the economy, as indicated by recent data on consumer spending, industrial activity, and the job market. The BEA estimated that the contraction in the second quarter of 2020 was 31.7 percent, and while we expect a 28.7 percent bounce back in the third quarter, growth will like slow to the low single digits after that. Part of the third quarter surge was driven by pent-up demand after households stayed home during the worst months of the pandemic, and as spending was shored up by stimulus checks and enhanced unemployment benefits. Additional fiscal stimulus looks unlikely at this point and even if passed, will likely be less than what we saw previously, which will limit economic growth through the first half of 2021 and the improvement in the job market is expected to slow as well.

Many data sources have highlighted the strong growth in the third quarter. For example, consumer spending on durable goods showed a 13 percent YOY growth rate in July, while July and August combined showed more than 3 million payroll jobs added to the economy. However, the depth of the economic contraction in the second quarter will result in longer term impacts for some sectors. While we expect continued improvement in the job market as more workers who had been temporarily furloughed are called back to their jobs, this improvement is likely to be more restrained in coming months as we are seeing more small businesses close their doors, leading to permanent layoffs of their employees. Additionally, the COVID-19 pandemic is changing the way consumers behave and how business operate. Some sectors of the economy will be able to adapt more quickly, while sectors such as dining, travel, and entertainment are likely to continue to face significant challenges.

The shape of this recovery hinges significantly on the course of the pandemic – particularly how quickly an effective vaccine can be widely distributed. The recovery in those hardest hit sectors of the economy and whether many of those unemployed workers regain employment will not only depend on how businesses adapt to the changing economy, but also if improvement in the public health situation allows for less restricted economic activity again. Our forecast is for 2020 economic growth to average negative 3.7 percent, and for 2021 to see 3.3 percent real GDP growth.

We saw 1.4 million jobs added in August and a significant drop in the unemployment rate to 8.4 percent. After losing 22 million jobs in March and April, we have gained back over 10 million jobs from May through August. Leisure and hospitality, along with the retail trade sector, continued to see job gains over the month, but both remained below pre-pandemic levels of overall employment, as many of these business are operating below capacity either due to having to modify their operations due to public health requirements or slower business in general, or both. Another key measure of labor market health is the DOL's initial unemployment claims data, which have showed improvement, averaging less than 900,000 claims over the past four weeks, compared to an average of 2.8 million between March and July. Despite the lower weekly pace, the level is still extremely elevated, especially when compared to pre-pandemic levels of around 200,000 weekly claims.

The housing and mortgage markets continue to thrive within an otherwise fragile economic recovery, showing much more of a V-shaped recovery than other sectors. Mortgage origination volume this year is on track to be the highest in more than fifteen years, led by a strong wave of refinances. It was 2003 the last time refinance activity was as high as the $1.75 trillion MBA is forecasting for 2020. Refinance volume picked up earlier in the year as rates fell on the uncertainty caused by COVID-19, but fell even further driven by the unprecedented economic weakness when the pandemic hit the US. The Federal Reserve's substantial efforts to keep the economy afloat by cutting short-term rates to zero and purchasing more than $1 trillion dollars of mortgage-backed securities (MBS) also contributed to this. Homeowners who have been able to refinance or who have purchased in this low rate period are benefitting from lower monthly payments, while lenders are struggling to manage high volumes – all during a time when their employees continue to work remotely, and many temporary origination flexibilities remain in place.

The significant growth in the purchase market has come not only from pent up demand from what would otherwise have been spring home buyers, but also from households who have been working from home during the pandemic and yearn for more space. Purchase applications continued to grow on a YOY basis and do not show signs of slowing just yet, with the most recent week showing a 25 percent increase in purchase applications. Additionally, average loan sizes continue to increase to record highs, as much of this growth was driven by larger loan size categories. This was further reinforced with NAR's August existing home sales numbers, which showed the annualized pace of sales hitting the 6-million mark for the first time since 2006, as transactions delayed by the pandemic continued to catch up. August was the second consecutive month of strong year-over-year sales gains, which is noteworthy considering the declines from April through June, and sales being down 31 percent in May. We remain concerned that housing inventory continued to decline last month and was over 18 percent lower than in 2019. This lack of supply continues to push home-price growth higher. The 11 percent gain in August median prices is far above income growth and threatens overall affordability – especially for first-time buyers. Single-family housing starts did hit the 1 million mark for the first time since February, but homebuilders continue to face constraints, including higher production costs. However, more inventory is needed to keep home prices from rising too quickly.

We are currently forecasting over $3 trillion in volume for this year, with refinances accounting for $1.75 trillion of the total. A recovering economy and historically high levels of U.S. Treasury issuance should put some upward pressure on Treasury and mortgage rates, even as the Fed acts to support the economy through keeping short-term rates at zero and making further asset purchases. With even a modest increase in mortgage rates, we expect refinance volume will fall off in 2021 – especially in the second half of the year – to $772 billion in refinances. the near term as rates stay low.

According to MBA's weekly Forbearance and Call Volume Survey, the share of loans in forbearance continues to decrease overall, falling to its lowest level in five months, but not only did the share of Ginnie Mae loans in forbearance increase, new requests for forbearance for these loans have increased for two consecutive weeks. While housing market data continue to show a quite strong recovery, the deceleration of the job market recovery is likely driving this increase in FHA and VA borrowers in the Ginnie Mae portfolio needing forbearance.

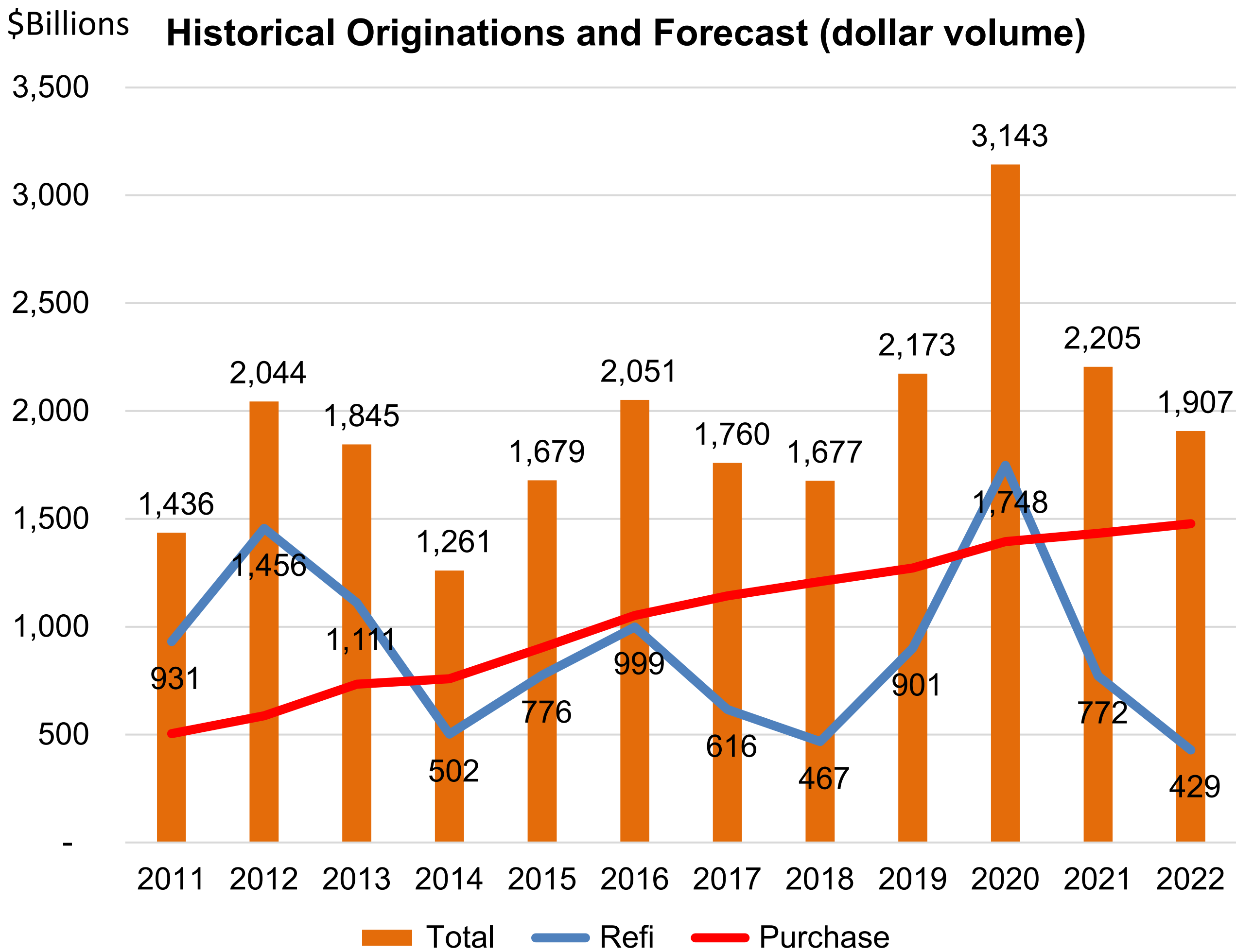
As a result of this, and increasing delinquency rates for FHA borrowers, Ginnie Mae servicing values have certainly been negatively impacted by the costs anticipated as a result of higher delinquency rates, and Ginnie Mae MBS values have also been affected by faster and less predictable prepayment speeds. These factors feed back to the borrower through both more stringent credit requirements and higher rates. August data from our credit availability index showed that credit tightened because of uncertainty still looming around the health of the job market, even as other data on loan applications and home sales show a sharp rebound. A further tightening in conventional and government loan programs with low credit scores, high LTVs, and reduced documentation requirements also continued to drive the overall decline in credit availability.

Figure 1.

	2018	2019	2020	2021	2022
GDP Growth	2.5%	2.3%	-3.7%	3.3%	2.5%
Inflation	2.4%	1.8%	1.2%	2.4%	2.2%
Unemployment	3.9%	3.7%	8.4%	6.7%	5.5%
Fed Funds	2.375%	1.625%	0.125%	0.125%	0.125%
10-year Treasury	3.0%	1.8%	0.8%	1.3%	1.8%
30-year Mortgage	4.8%	3.7%	3.1%	3.3%	3.6%
New home sales (000s)	617	685	760	811	827
Existing home sales (000s)	5,341	5,331	5,338	5,632	5,785
Purchase originations ($B)	1,209	1,272	1,395	1,433	1,478
Refi originations ($ B)	467	901	1,748	772	429
Total originations ($B)	1,677	2,173	3,143	2,205	1,907

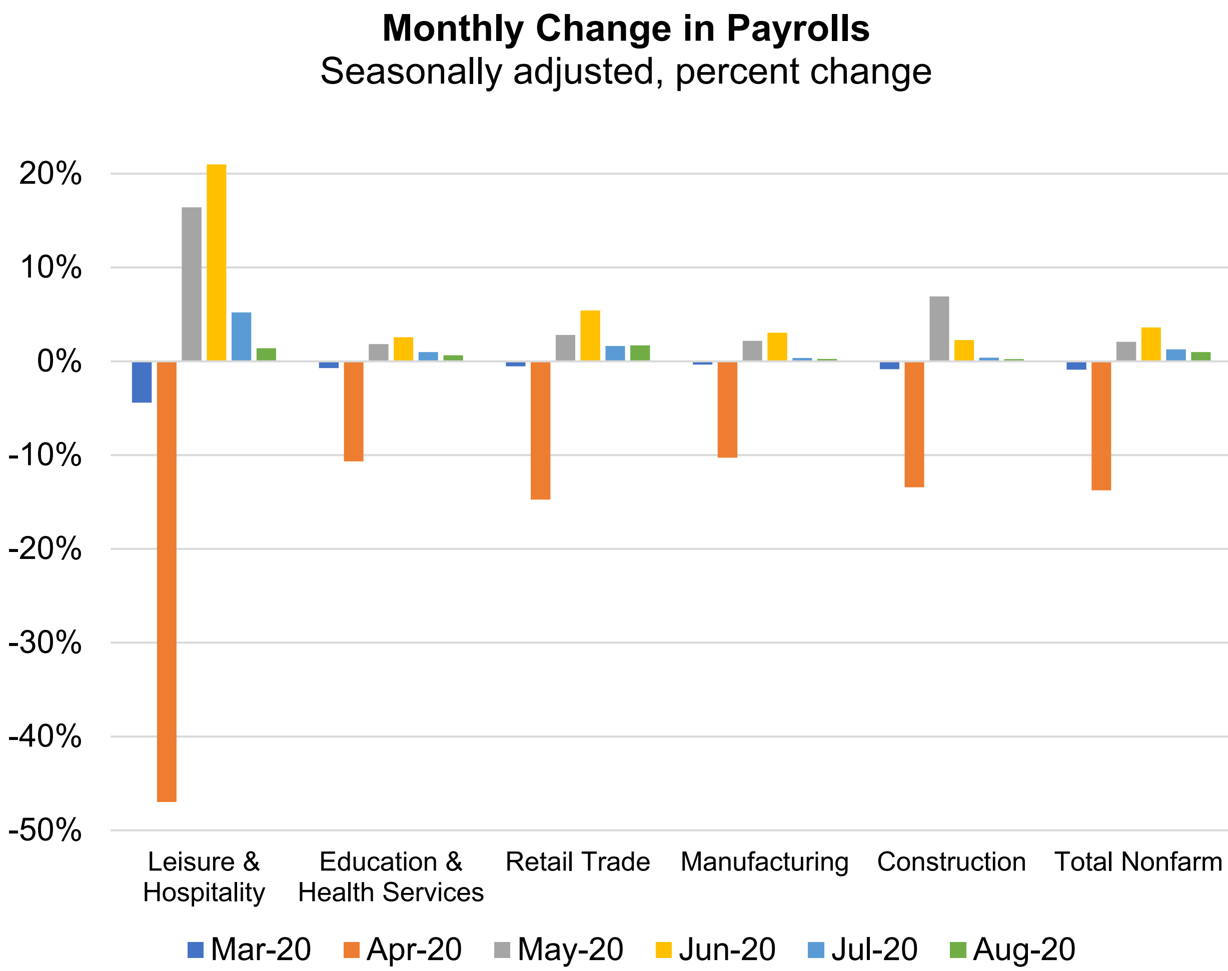
Source: MBA Forecast

Figure 2.



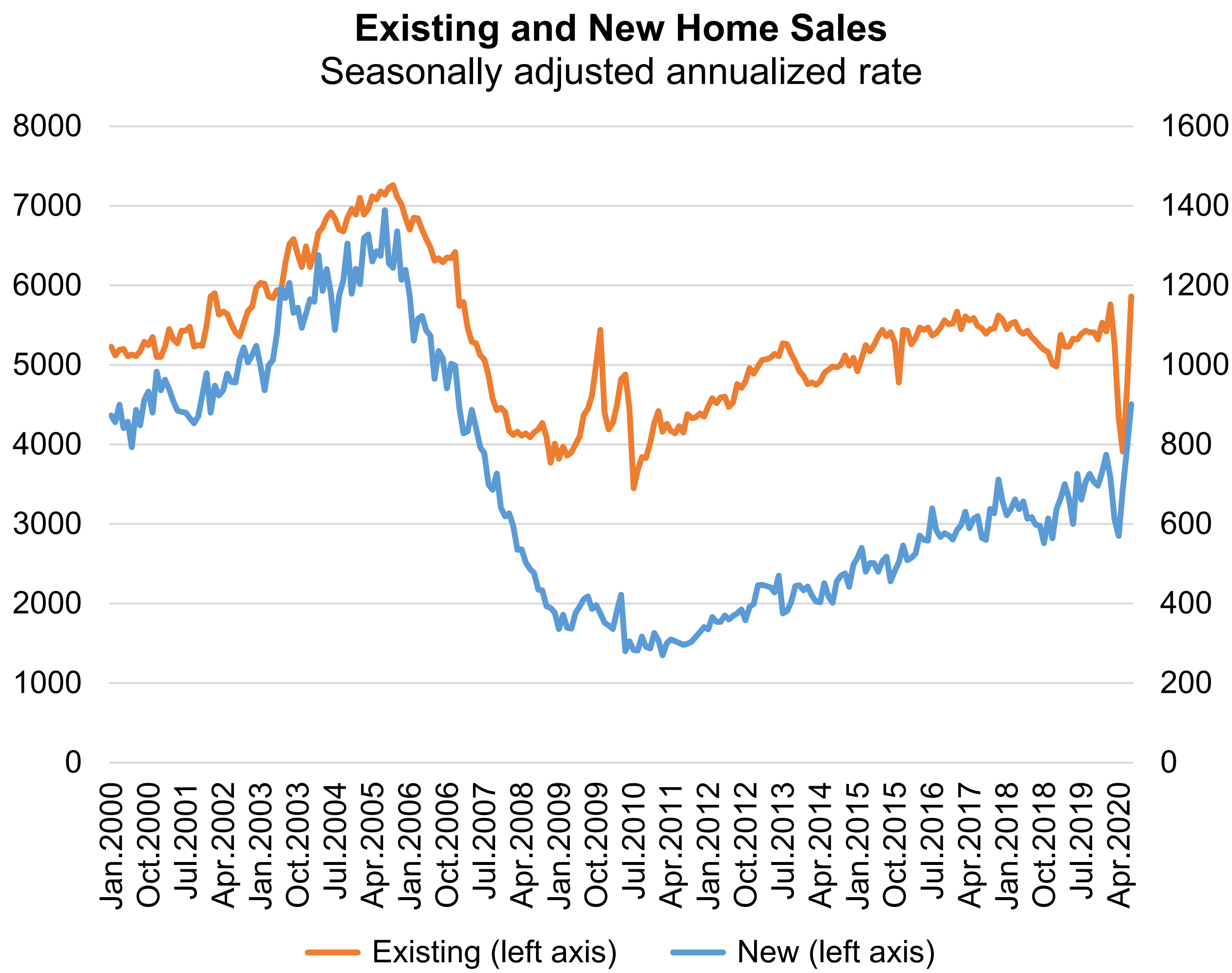
Source: MBA Forecast

Figure 3.



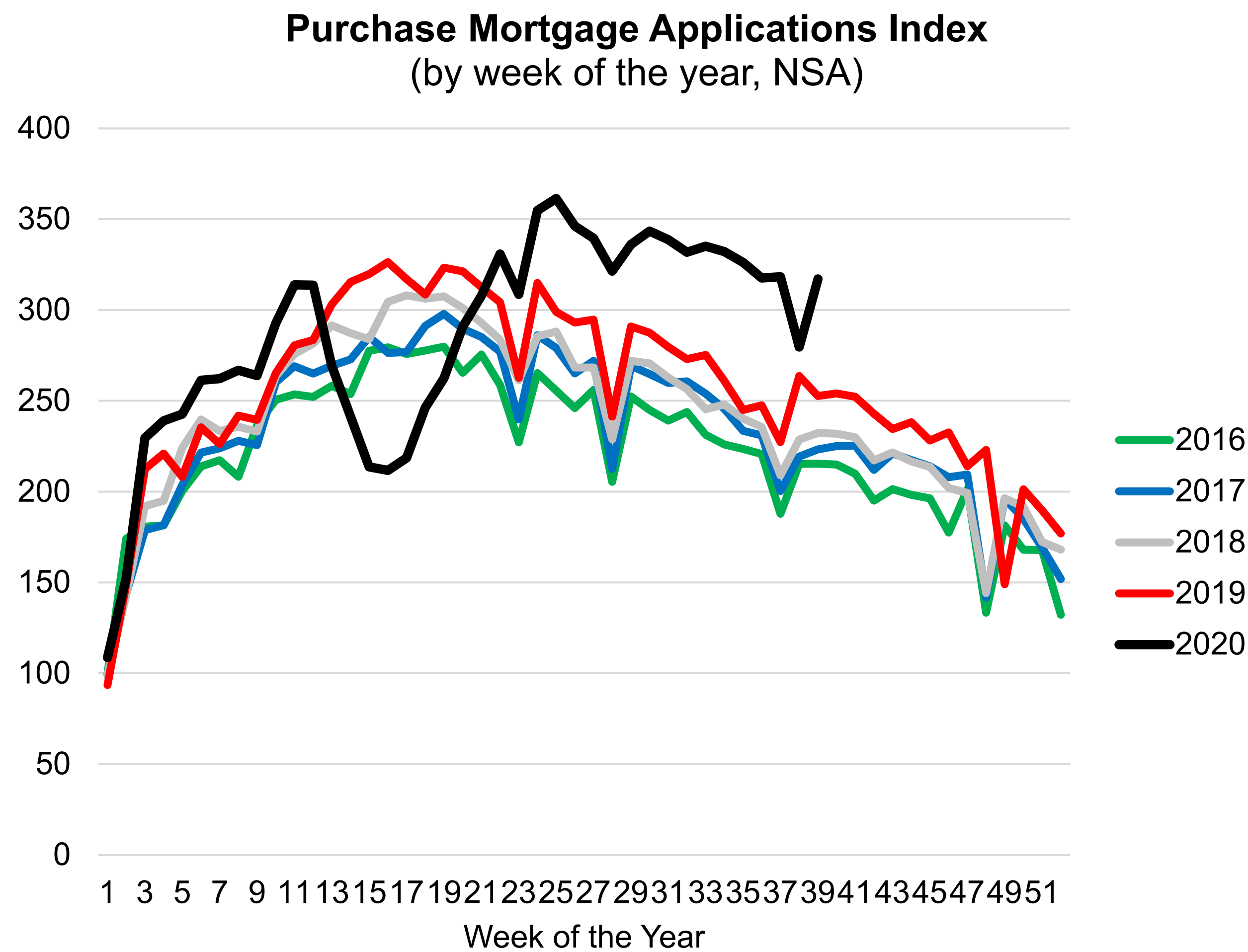
Source: Bureau of Labor Statistics

Figure 4.



Source: Census, National Association of Realtors

Figure 5.



Source: MBA