MBA

RESEARCH AND ECONOMICS

# MBA Forecast Commentary: February 2024

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## MBA's Outlook for 2024

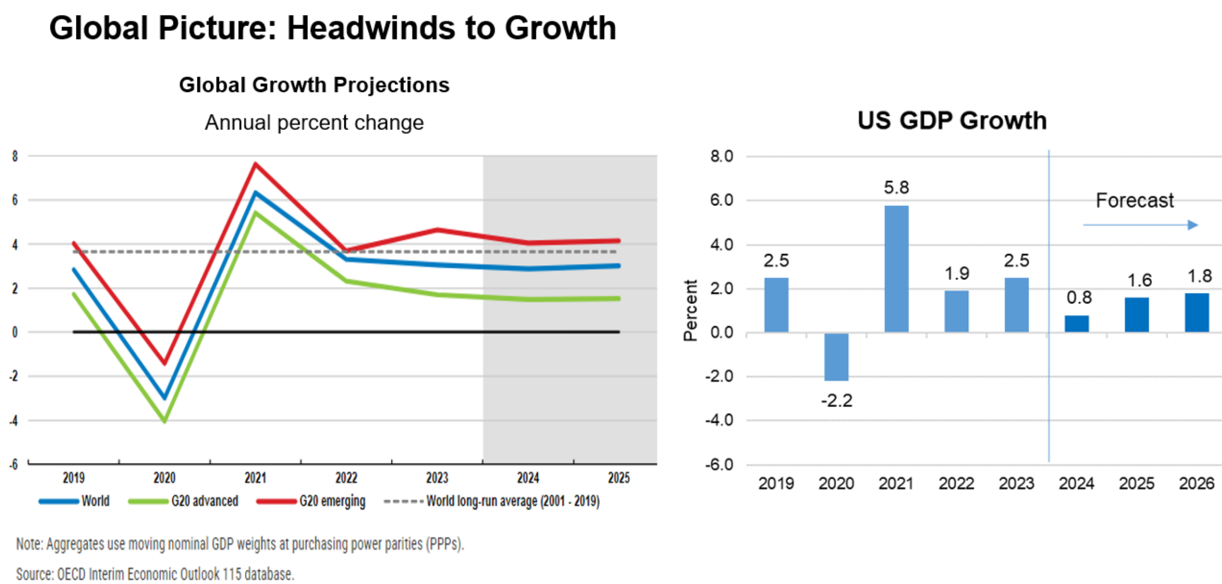
Summary of the February 2024 forecast

- Economic growth remained strong in the fourth quarter, bolstered by solid consumer spending on both goods and services. The pace of growth slowed from the third quarter, but at 3.3%, it remained well above the sustainable long-run trend growth rate of about 2%.
  For the broader economy, 2023 was a much better year than we had expected, even as the housing and mortgage markets were stuck in the doldrums. While we still anticipate that the economy will slow in 2024, this strong momentum from the fourth quarter makes a precipitous decline in the economy less likely. Headwinds for the US economy include very slow global economic growth and growing signs that households are stressed with significantly higher debt levels made more challenging by the increase in rates.
- The job market in January was stronger than expected along every dimension: job growth was faster, December's strong job growth was revised higher, and overall jobs gains were more balanced, with more sectors of the economy experiencing gains than had been seen in prior months. Additionally, wage growth re-accelerated to 4.5% on an annual basis, and the unemployment rate stayed quite low for the third month in a row at 3.7%. These trends align with the pace of economic growth, which showed more momentum in the economy at the end of the year and has carried over into January. However, they contradict the declining trends in job opening and hiring rates. And this news certainly runs contrary to the string of layoff announcements at many companies in recent months. The strong job market is good news for the spring buying season as higher household incomes are a necessary component, but it also means that mortgage rates are not likely to drop much further at this point.
- Although we were expecting a mild recession in the first half of 2024, it may instead just be a period of very weak growth, which is reflected in this month's forecast. We now expect the unemployment rate to reach 4.5% by early 2025, later than our prior forecasts.
- To no surprise, the FOMC held rates steady at their January meeting. However, the statement did confirm that the next move will likely be a cut. While financial markets were expecting rapid cuts in the federal funds target this year, the statement pushes back on that expectation, saying, 'The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%.' The statement also indicated that the Fed expects to continue trimming its balance sheet, allowing for the

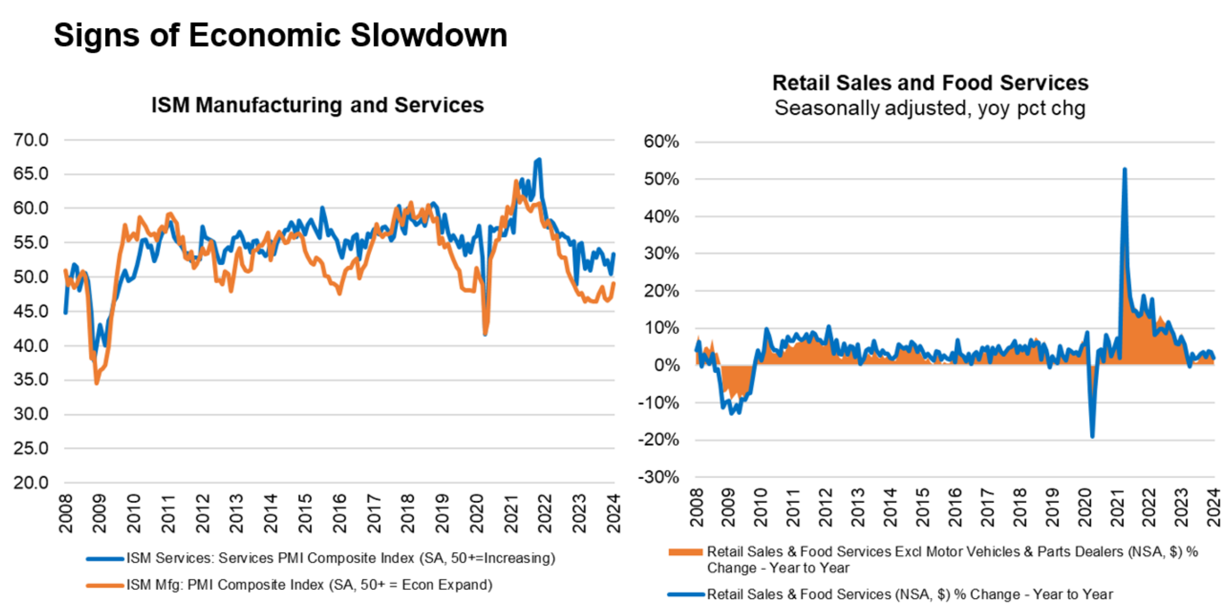
same pace of passive runoff of their Treasury and MBS holdings. This is despite the fact that some Fed officials have recently indicated a desire to begin to slow the pace of runoff.

- The 12-month rate of inflation did not drop in January as expected and the monthly reading on core inflation increased. Headline CPI inflation was steady at 3.1% year-over-year, while core CPI index remained at 3.9%. Bond yields jumped higher in response to this news, as reduces the chances of a quick rate cut from the Fed. Inflation is still likely headed significantly lower in the medium term, particularly as lower market rents work their way into the shelter components of these inflation measures.
- A single data point should not change the direction of policy. However, we expect that the balance of incoming data will keep the Federal Reserve from cutting rates in March, as they were at pains to signal in recent speeches and Chair Powell's *60 Minutes* appearance. We still anticipate that they will wait until the May meeting for a first cut, but that first cut could get pushed back further into the year if inflation does not slow further.
- Market expectations regarding the Fed's next steps remain volatile, with implied probabilities of a first cut at the May meeting changing by the day. The minutes from the January meeting noted that the FOMC will begin discussing a potential taper of quantitative tightening ("QT") at their March meeting. No indications yet have been given with respect to whether the tapering might differentially impact Treasury vs. MBS runoff.
- Longer-term rates dipped at year-end, but have since moved higher with 10-year Treasury yields back above 4.25% and 30-year mortgage rates above 7% in the most recent week. Our forecast has the 10-year yield moving closer to 3.8% by the end of 2024. Mortgage-Treasury spreads have narrowed with recent levels near 250 basis points, still wide relative to historical averages but much better than the 300 basis points experienced last year. We expect the spread will tighten further by the end of 2024. The combination implies a 30-year mortgage rate closer to 6% by the end of 2024.
- Mortgage origination volume is expected to increase 22% in 2024 to $2 trillion, with a 16% increase in purchase and a 50% increase in refinance volume (off an extremely low base in 2023). In terms of units, we forecast a 17% 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 5% increase in existing home sales and a 13% 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

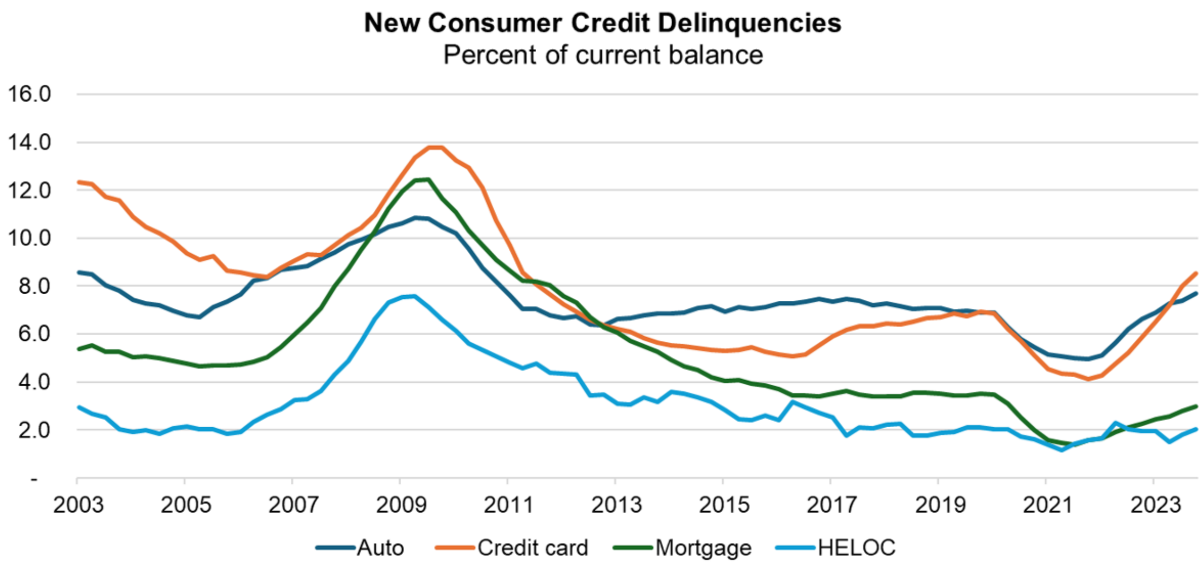



Source: OECD, BEA, and MBA Forecast



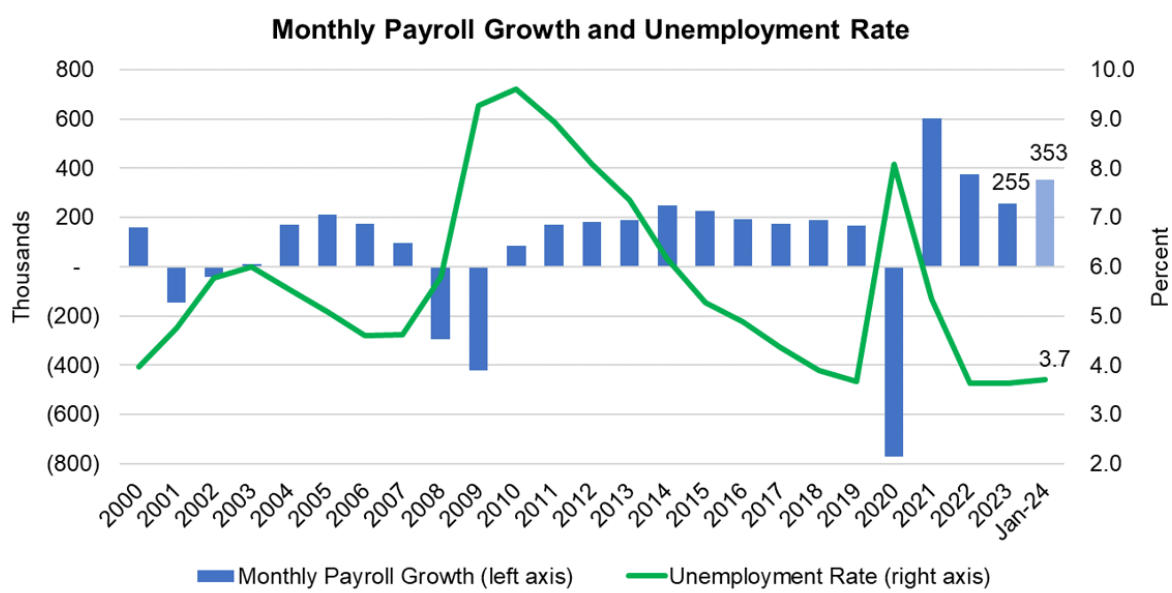

Source: Institute for Supply Management, Census Bureau

## New Consumer Credit Delinquencies Rising



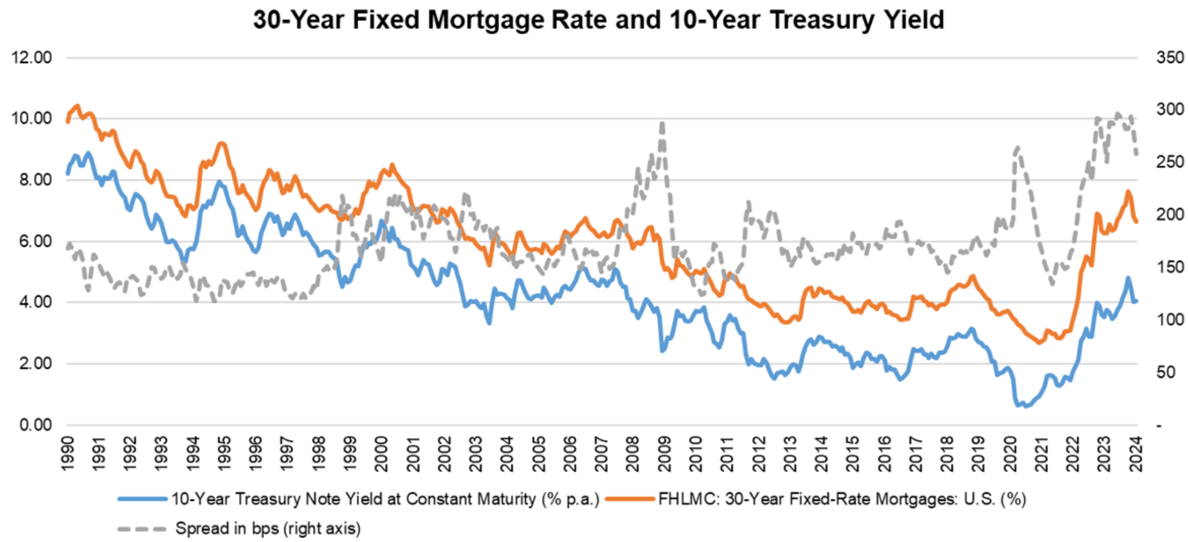

Source: Federal Reserve Bank of New York

## Job Market Cooling?



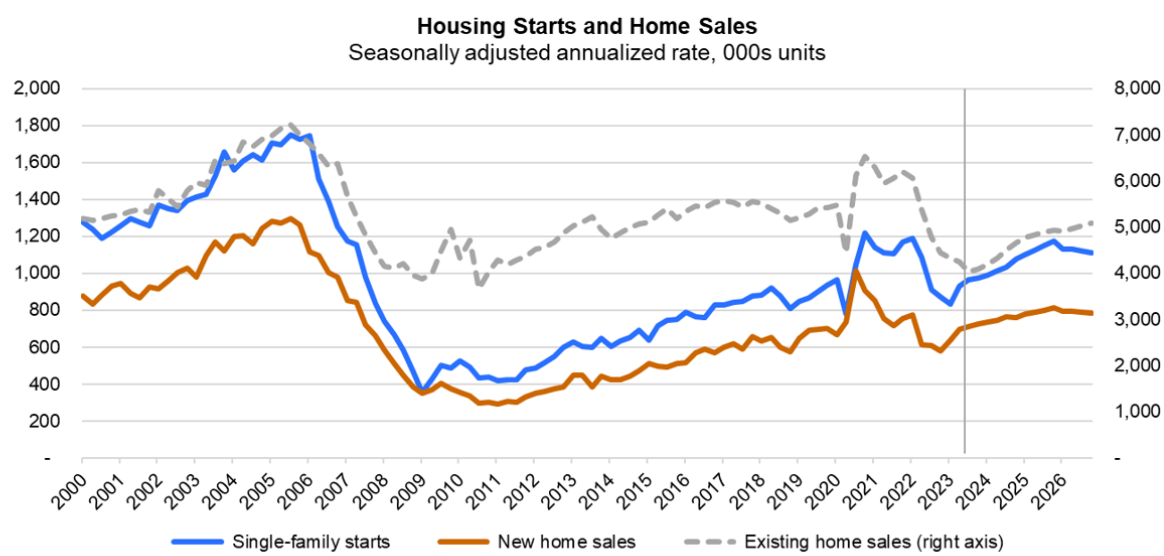

Source: Bureau of Labor Statistics

## Spreads Have Narrowed in Recent Weeks



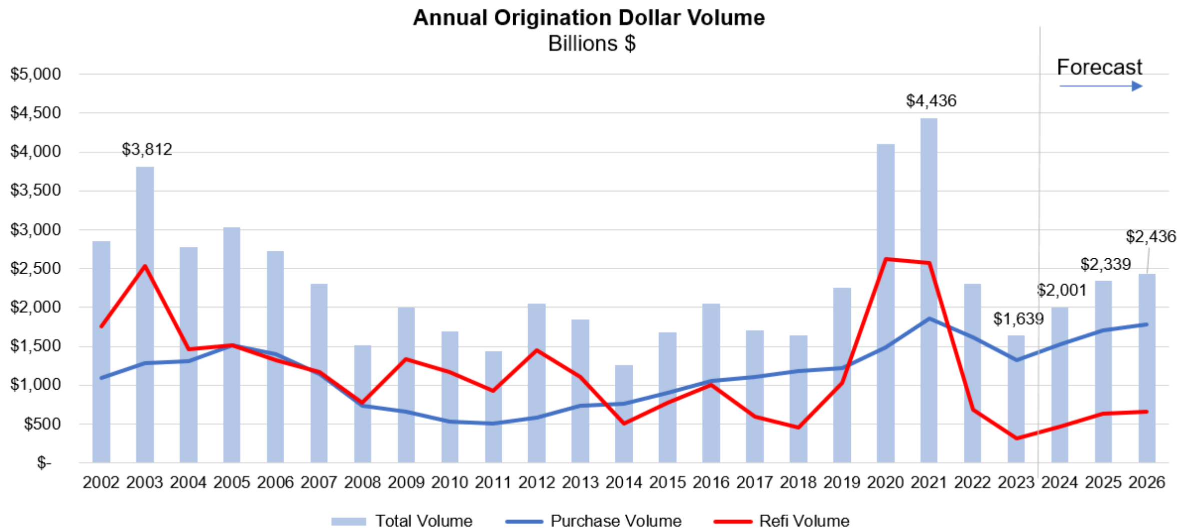

Source: Freddie Mac, US Treasury

## Growth in 1-4 Unit Starts, Home Sales Expected in 2024




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

## Mortgage Origination Dollar Volume to Increase 22% in 2024




Source: MBA Forecast