RESEARCH AND ECONOMICS

MBA Forecast Commentary: January 2024

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MBA's Outlook for 2024

Summary of the January 2024 forecast

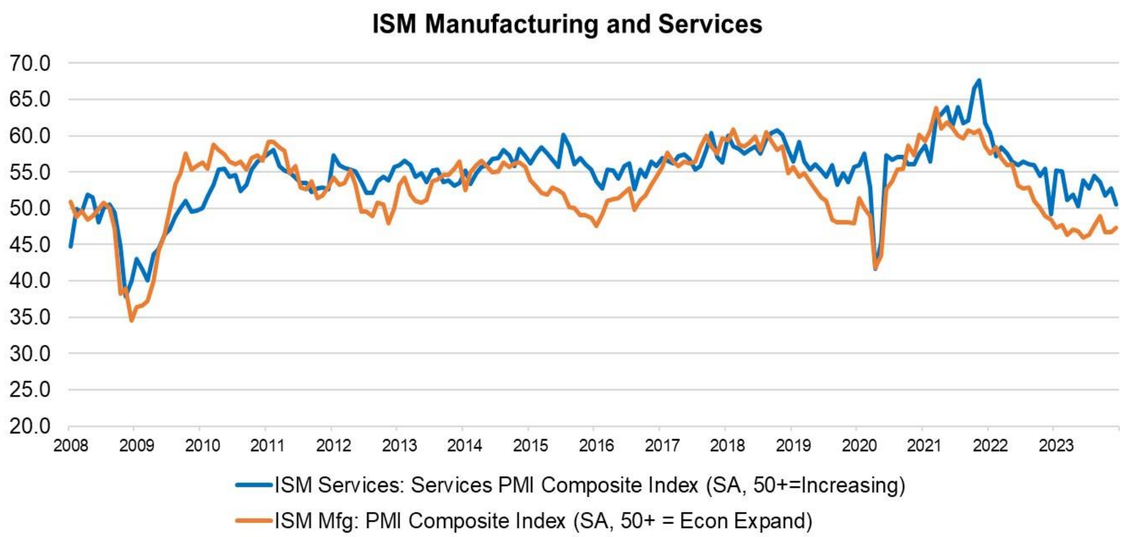
- Incoming data show an economy that is growing but there continue to be indications that the growth is likely to slow. The January forecast includes only a few changes to our December views, most notably a smaller and slower increase in the unemployment rate this year, reflecting a somewhat stronger than anticipated job market report for December.
- Although we are still expecting a mild recession in the first half of 2024, it may instead turn out to be a period of very weak growth. We now expect the unemployment rate to reach 4.5 percent by the end of 2024.
- The job market remained relatively strong in December, with growth in payrolls of 216,000 – just below the monthly average of 225,000 in 2023 – and the unemployment rate unchanged at 3.7 percent. Payroll gains for October and November were revised down by 71,000, countering the somewhat faster pace of job growth in December. As in prior months, the bulk of the job gains were in just a few sectors, with a 52,000 increase in government employment leading the pack. At the same time, businesses are hiring fewer temporary workers, down 33,000 for the month and down 346,000 from its peak – a sign that businesses do not need to expand their production capacity in this market.
- Job openings, the pace of hiring, and the quits rate are all trending down, but layoffs and initial claims for unemployment insurance are not moving higher. Together, these data indicate a market where employers are slower to take on new employees, but are not seeing enough weakness to dramatically cut payrolls.
- Wage growth at 4.1 percent over the past year remains brisk, but we expect this will slow in the year ahead, supporting further reductions in inflation.
- Headline CPI inflation picked up a bit in December to 3.4 percent, on a year-over-year basis, while core CPI index slowed to 3.9 percent. Annualizing the rate of change over the past 3- or 6-month time periods shows that inflation is likely headed significantly lower in the medium term, particularly as lower market rents work their way in to the shelter components of these inflation measures.
- Market expectations regarding the Fed's next steps remain volatile, with implied probabilities of a first cut at the March meeting swinging wildly over time. We continue to expect that the first cut will be at the May meeting, following a continued reduction in inflation and some weakening

in the job market. The minutes from the December meeting hinted at a potential taper of quantitative tightening ("QT") at some point this year, and comments from Fed officials have also highlighted this potential change in policy. No indications have been given with respect to whether the tapering might differentially impact Treasury vs. MBS runoff.

- We expect that this path for monetary policy should support further declines in mortgage rates, coming just in time for the spring housing market. We are forecasting modest growth in new and existing home sales in 2024, supporting growth in purchase originations, following an extraordinarily slow 2023.
- Longer-term rates dipped at year-end, but have since moved up again with 10-year Treasury yields back above 4 percent and 30-year mortgage rates above 6.7 percent. Our forecast has the 10-year yield moving closer to 3.5 percent by the end of 2024. Mortgage-Treasury spreads have narrowed with recent levels near 260 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 of lower 10-year yields and a narrower spread 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 5 percent increase in existing home sales and a 13 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 home builders to provide a higher share of total sales.

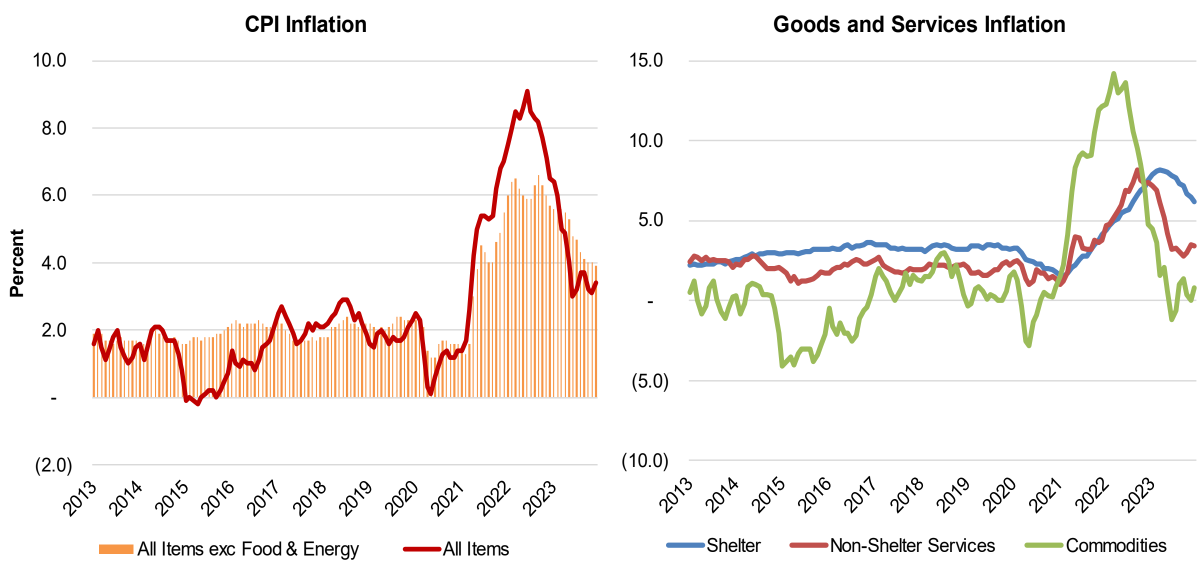
Forecast and Outlook Details

Signs of Weakening Economic Activity



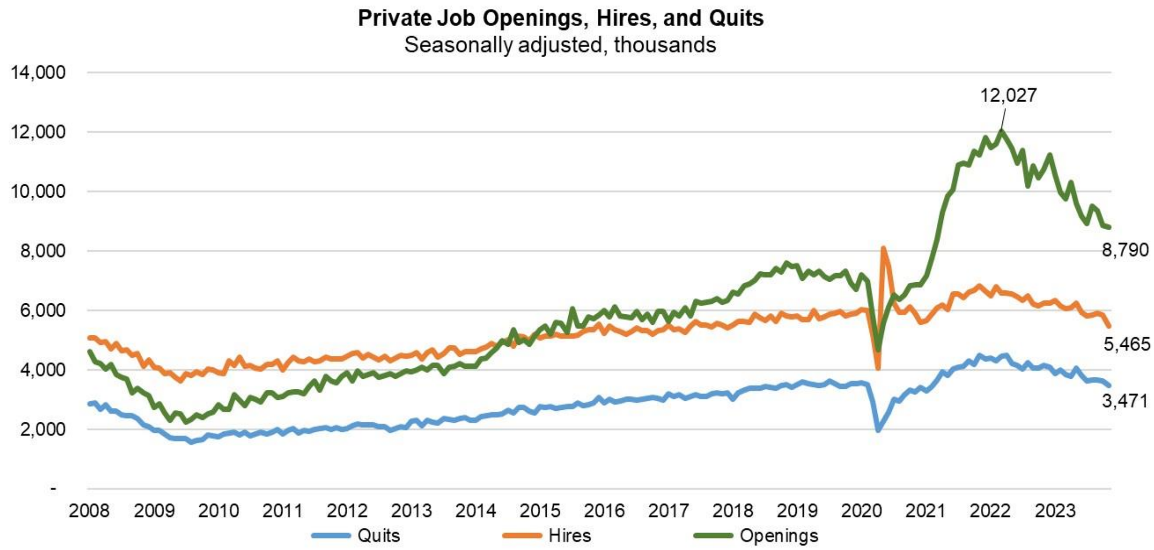
Source: Institute of Supply Management

Inflation Has Been Slowing



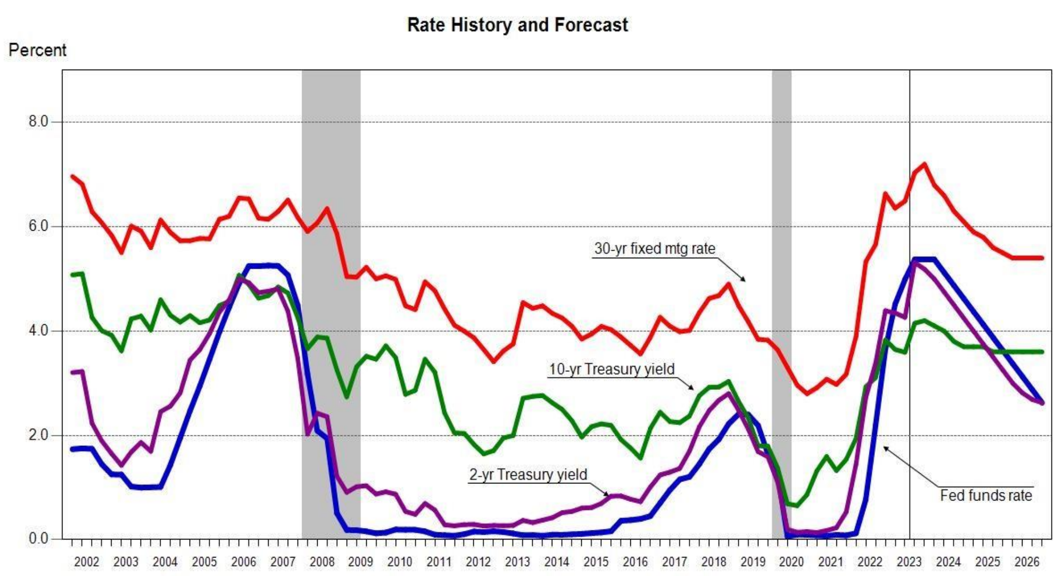
Source: Bureau of Labor Statistics

Job Openings, Hiring, and Quits Moving Lower



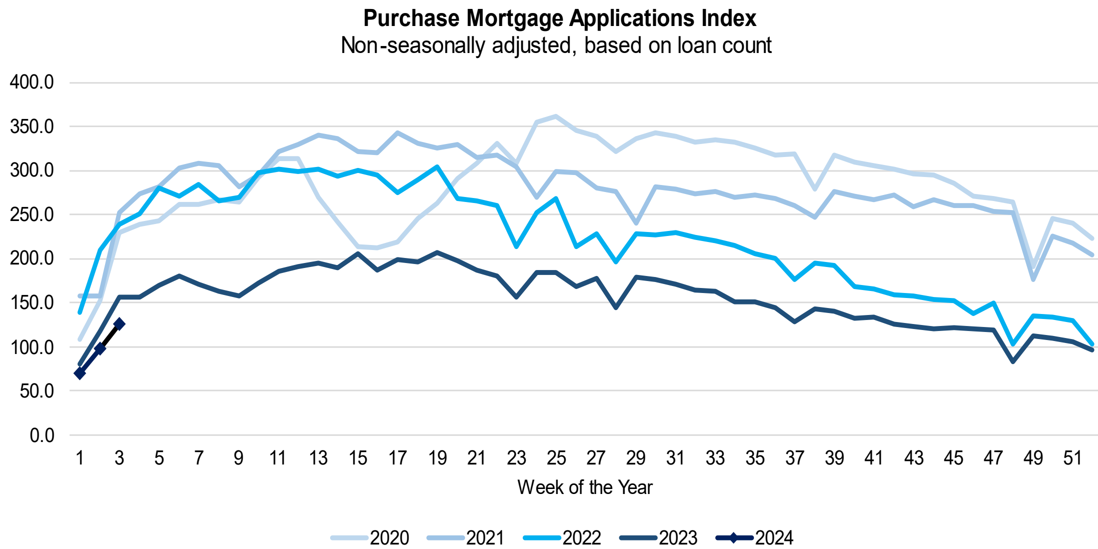
Source: Bureau of Labor Statistics

Fed to Hold Funds Rate Until 2024 Q2, Mortgage Rates Expected to Drift Down



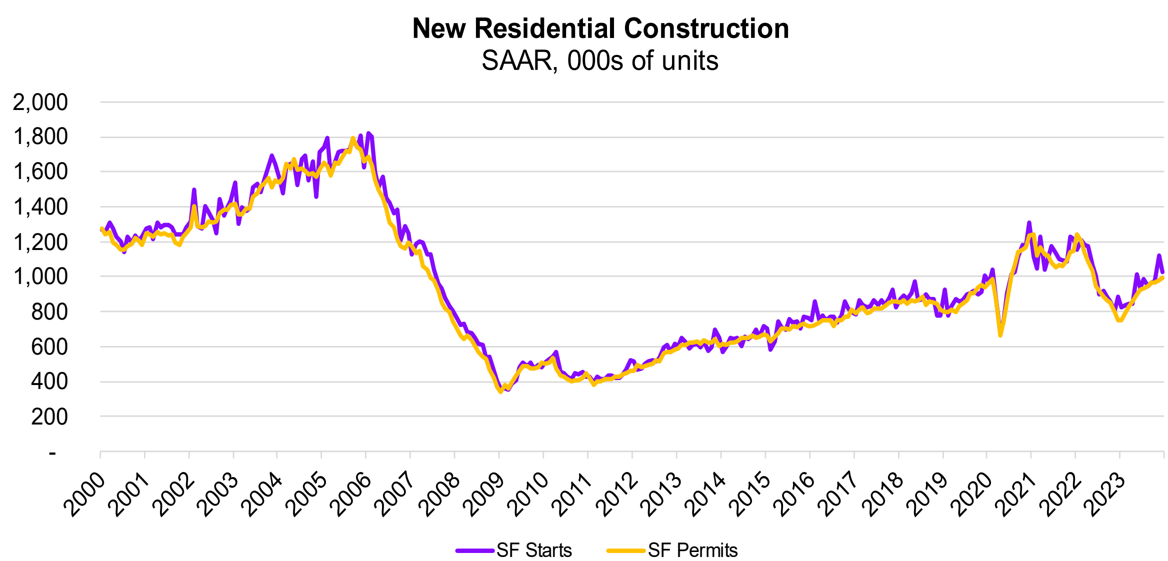
Source: Federal Reserve Board, Freddie Mac, MBA Forecast

Purchase Applications Continue to Lag Past Years



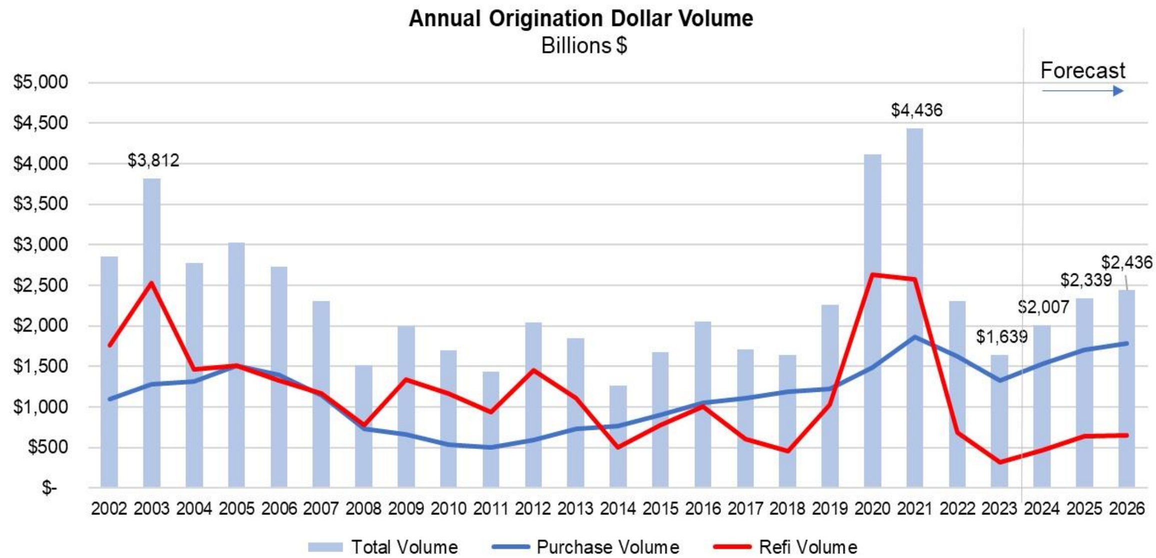
Source: MBA Weekly Applications Survey

Single-family Construction Has Been Strong



Source: Census Bureau

Mortgage Origination Dollar Volume to Increase 23% in 2024



Source: MBA Forecast