

JANUARY 2022

# Quarterly Forecast: The Housing Market Expected to Remain Stable Despite Mortgage Rates and Cooling Price Growth

As the U.S. economy ended 2021 on firm ground, economic growth is expected to be slower in 2022 amid uncertainty and challenges resulting from the ongoing health crisis.

The labor market has continued to recover from the effects of the pandemic, with the unemployment rate reaching 3.9% in December 2021. However, the U.S. economy added only 199,000 nonfarm payroll jobs in December 2021, which was below expectations. To date, job openings remain high at 10.6 million, nonfarm payrolls are down 3.6 million from the pre-pandemic levels (February 2020) showing there is still room for improvement in employment.

Inflationary pressures continue to build as consumer price inflation (CPI) surged in 2021. The all-item CPI hit a 40-year high of 7.0% year-over-year in December 2021, while the core CPI came in at 5.5% year-over-year. We expect the inflationary pressures to moderate this year as the Federal Reserve begins to taper its asset purchases and raise rates. Mortgage rates hovered around the 3% mark in 2021, coming in at 3.1% in December 2021. We forecast rates to average 3.6% in 2022 and 3.9% in 2023.

The demand for housing continues to remain stable, mainly due to low mortgage rates coupled with first-time homebuyers and other demographic tailwinds helping to support stability in the housing market this year. Home sales were strong in 2021, with fourth quarter home sales expected to come in at 7.1 million. We forecast home sales to hit 6.9 million in 2022 and increase to 7.0 million in 2023. Given the expected increase in mortgage rates, we expect some moderation in housing demand, and we forecast house price growth to decrease from 15.9% in 2021 to 6.2% in 2022 and to cool further to 2.5% in 2023.

Based on current demand and continued (though moderating) house price growth, we expect home purchase mortgage originations to grow from \$1.9 trillion in 2021 to \$2.1 trillion in 2022 and \$2.2 trillion in 2023. With a higher mortgage rate forecast for 2022 and 2023, we anticipate refinance activity to slow, declining from \$2.7 trillion in 2021 to \$1.2 trillion in 2022 and \$930 billion in 2023. Overall, we forecast total originations to decline from the high of \$4.7 trillion in 2021 to \$3.3 trillion in 2022 to \$3.1 trillion in 2023.

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## Forecast Snapshot

Summary (annualized)	2021	2022	2023
30-year PMMS (%)	3.0	3.6	3.9
Total home sales (M)	6.9	6.9	7.0
House price growth (%)	15.9	6.2	2.5
Total originations (\$B)	\$4,651	\$3,269	\$3,143



2022 Q1

## Economic and Housing Market Outlook

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	2021				2022				2023				2020	2021	2022	2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
30-year PMMS (%) a.	2.9	3.0	2.9	3.1	3.5	3.6	3.7	3.7	3.8	3.9	3.9	3.9	3.1	3.0	3.6	3.9
Total home sales (M) b.	7.2	6.6	6.8	7.1	7.1	6.9	6.8	6.8	6.9	7.0	7.0	7.0	6.5	6.9	6.9	7.0
House price growth (%) c.	4.3	5.6	3.0	2.2	1.5	1.5	1.5	1.5	0.6	0.6	0.6	0.6	11.3	15.9	6.2	2.5
Total originations (\$B) d.	\$1,305	\$1,230	\$1,195	\$921	\$763	\$881	\$874	\$750	\$680	\$856	\$873	\$734	\$4,441	\$4,651	\$3,269	\$3,143
Purchase originations (\$B) d.	\$375	\$515	\$555	\$461	\$396	\$584	\$604	\$486	\$427	\$621	\$647	\$517	\$1,587	\$1,906	\$2,070	\$2,213
Refinance originations (\$B) d.	\$930	\$715	\$640	\$460	\$367	\$298	\$270	\$264	\$253	\$234	\$226	\$217	\$2,853	\$2,745	\$1,199	\$930

Note: Quarterly and annual forecasts (or estimates) are shown in shaded areas; totals may not add due to rounding; annual forecast data are averages of quarterly values.

a. Quarterly average of monthly interest rates (not seasonally-adjusted); reported as an annual rate.

b. Millions of housing units; total sales are the sum of new and existing single-family, condo/co-op home sales; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).

c. Quarterly growth rate of Freddie Mac's House Price Index; seasonally-adjusted; annual rates for yearly data.

d. Billions of dollars (not seasonally-adjusted). Includes only 1st lien mortgage originations.

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