NationalMI

# ECONOMIC MARKET SNAPSHOT

SUMMER 2022 | ISSUE NO. 19

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## Summer 2022 Edition of the **Economic Market Snapshot**

Economic conditions continue to put pressure on housing affordability and demand. Most recent economic optimism has been offset by cooling demand, higher inflation, projections for a slowing economy, and a dip in consumer confidence.

John Burns Real Estate Consulting (JBREC) expects employment to grow 3.3 percent YOY in 2022, following 3.0 percent growth in 2021. Employment growth will slow slightly into 2023 and 2024 as the Fed attempts to tame inflation. The unemployment rate remained flat at 3.6 percent, and the U6, a broader measure of unemployment that captures underemployment and discouraged workers, also fell to 6.7 percent.

While employment numbers are positive, some continued headwinds in the housing industry are impacting origination activity, as outlined below:

- As of June 2022 – although 30-year mortgage interest rates currently exceed 6.0 percent, the JBREC forecast for rates are anticipated to fall slightly from current levels and result in an annual average of 5.0 percent for 2022 and 5.1 percent for 2023. The bond market is fluid and may impact further mortgage rate adjustments as we progress into 2022.
- Due to slow sales and pricing conditions, current market conditions were downgraded in July, with nearly half of all markets ranked as "slow."
- As of Q1-2022, the median credit score at mortgage origination was 777.
- Current lending standards for Government-backed loans are tight on credit and documentation but not on debt-to-income (DTI) or loan-to-value (LTV).

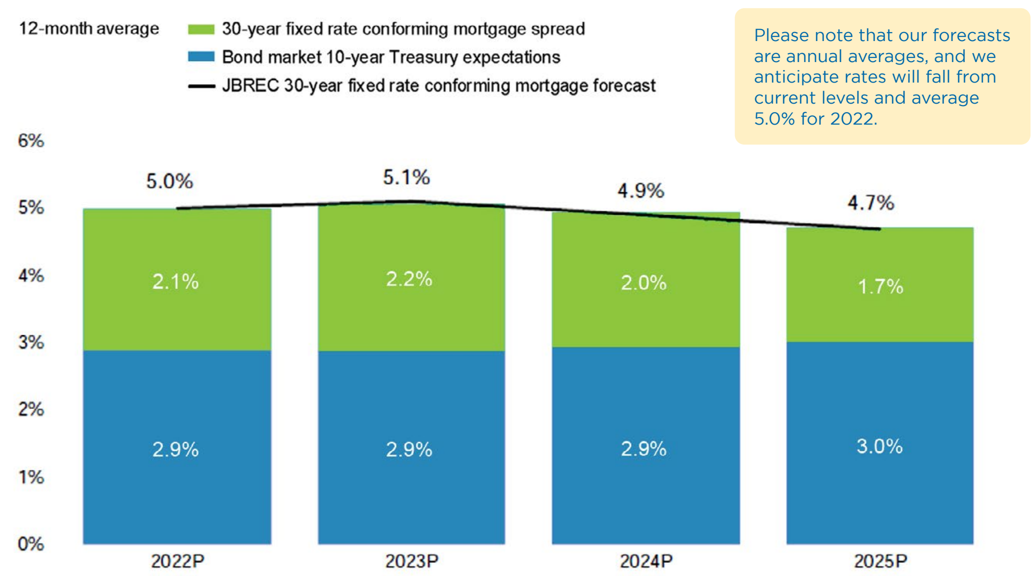
While a rising interest rate environment is contributing to some challenges in the housing industry, there is a slight uptick from Q1 2022 in homeownership for those under the age of 35. The share of first-time homebuyers grew in 2021 compared to 2020, but remains low. The impact for 2022 is still uncertain, given the industry environment overall.

PLEASE REFER TO OUR Economic Market Snapshot webpage for previous editions of this report

# We Base Our Mortgage Rate Forecast on Market Pricing for 10-Year Treasuries and Our View of the Mortgage Premium

The future spread for mortgage rates over 10-year Treasuries should be ~20-30 basis points higher than the historical 170 basis point spread for 3 reasons: 1) mortgage servicing compliance costs have risen ~25bps per year, 2) GSE mortgage fees have increased ~25bps per year, 3) mortgage investing risk has increased as some liability shifts to mortgage owners, but has also decreased due to better documentation and an explicit government guarantee, so assume a negligible net effect. We are calling for slowing economic growth going forward, which should gradually drive premiums higher. The spread can vary widely over time for other reasons.

**30-YEAR FIXED CONFORMING MORTGAGE RATE FORECAST**



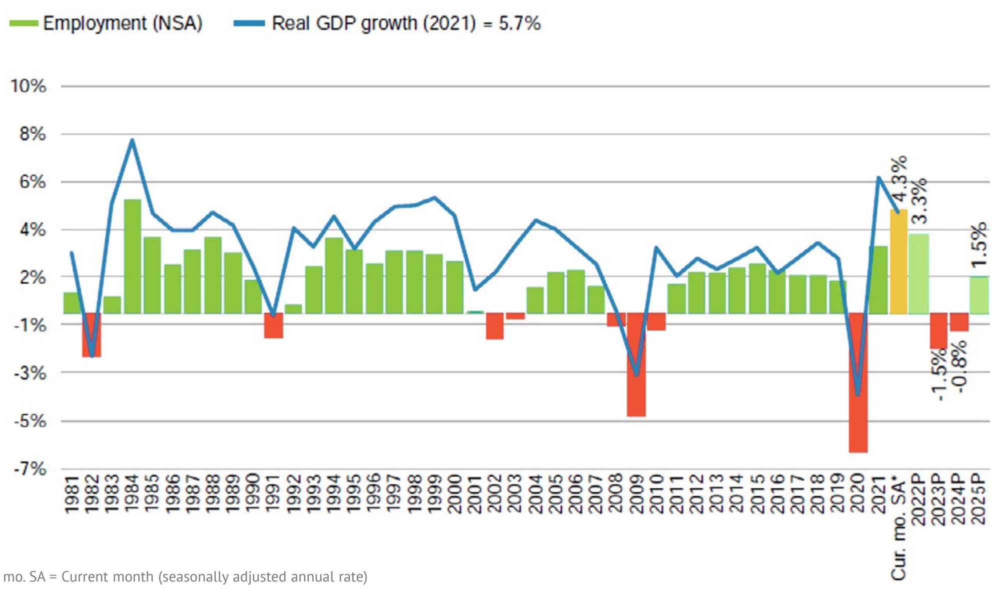

**SOURCES:** Bloomberg; John Burns Real Estate Consulting, LLC (Data: Jun-22, Pub: Jul-22)



# U.S. Employment Growth Rates

We expect employment to grow 3.3% YOY in 2022 following 3.0% growth in 2021. We expect employment will fall slightly on a YOY basis in 2023 and 2024 as the Fed attempts to tame inflation, likely slowing the economy.

**US EMPLOYMENT ANNUAL GROWTH RATES**



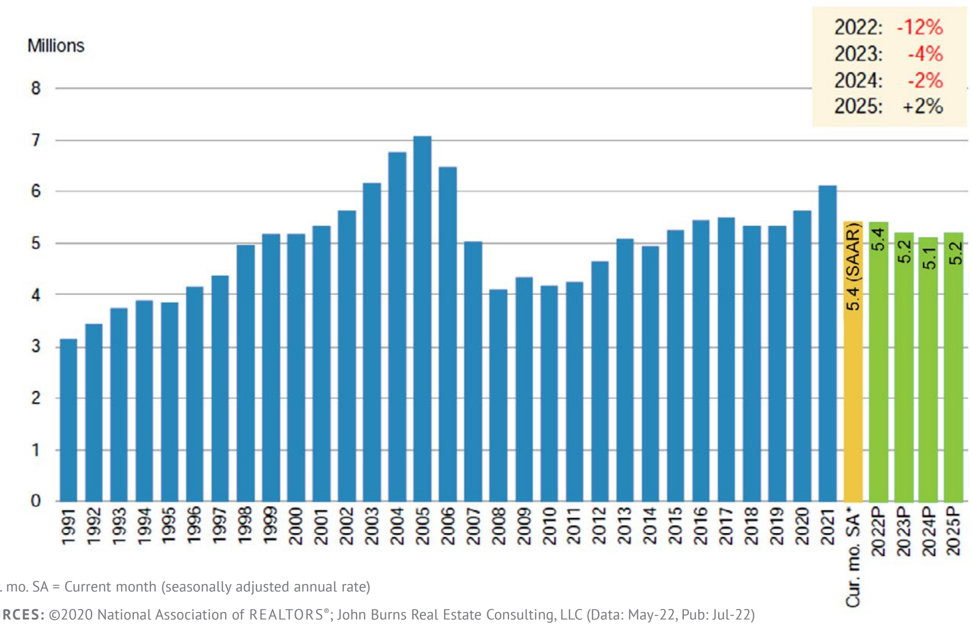

* Cur. mo. SA = Current month (seasonally adjusted annual rate)

**SOURCES:** BLS with JBREC projections (Data: Jun-22, Pub: Jul-22)

## U.S. Existing Home Sale Closings

We forecast existing home sales will fall -12% YOY in 2022 due to rising mortgage rates, cooling demand, and a slowing economy which will hit consumer confidence.

### US EXISTING HOME SALE CLOSINGS




* Cur. mo. SA = Current month (seasonally adjusted annual rate)

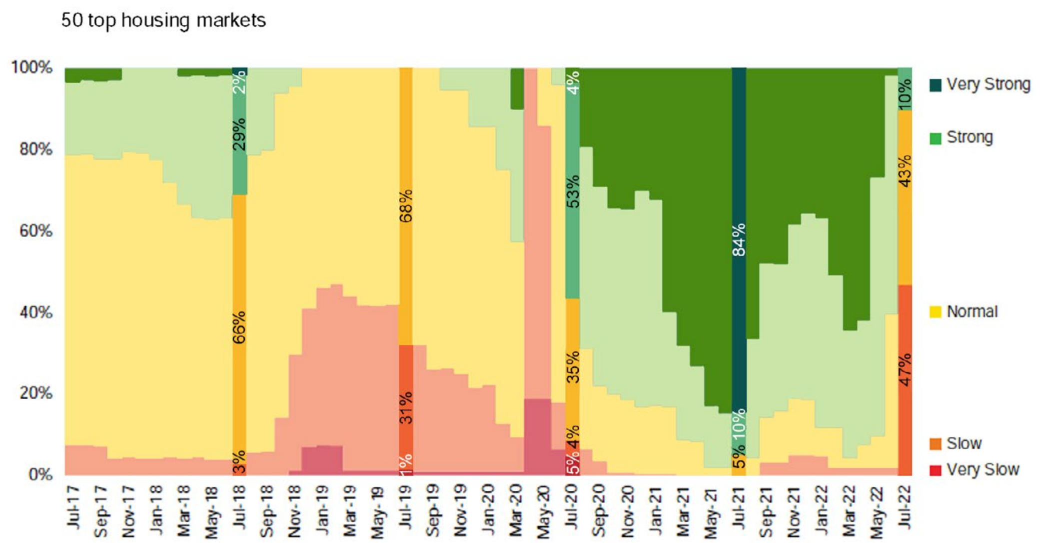
**SOURCES:** ©2020 National Association of REALTORS®; John Burns Real Estate Consulting, LLC (Data: May-22, Pub: Jul-22)



## Current Market Conditions: 47% of Markets are Slow

We downgraded most markets in July due to slowing sales and pricing conditions, and nearly half of markets are now Slow. Normal reflects 2-3/month sales per community with rising net prices.

### CURRENT MARKET CONDITIONS



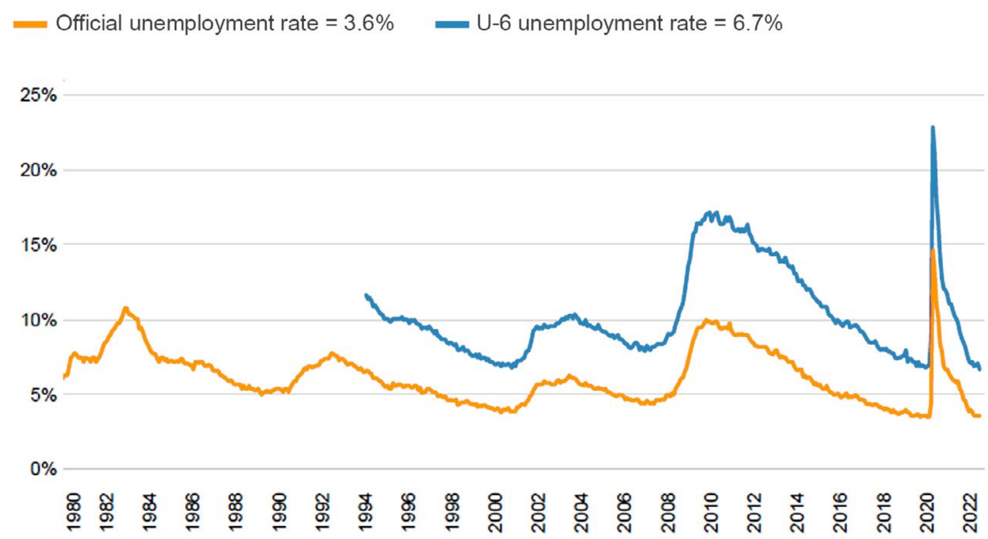

Percentages may not add up to 100% due to rounding, as some months less than 50 markets are rated.

**SOURCE:** John Burns Real Estate Consulting, LLC (Pub: Jul-22)

## Unemployment Rate

The unemployment rate remained flat at 3.6% in June. The U6, a broader measure of unemployment that captures underemployment and discouraged workers, fell to 6.7%.

**US LABOR FORCE UNEMPLOYMENT RATE (SA)**




The U-6 unemployment rate is a broader measure of unemployment that covers part-time workers who would like full-time work and those who have given up looking for work.

**SOURCE:** BLS (Data: Jun-22, Pub: Jul-22)

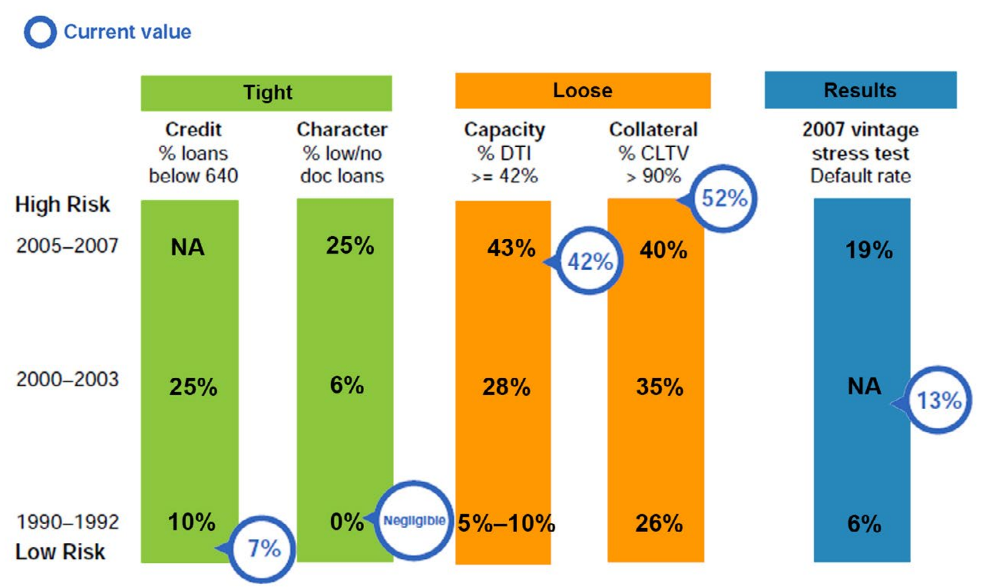


## Lending Standards on Government-Backed Loans: 81% of All Loans

Current lending standards are tight on credit and documentation, but not on DTI and LTV.

This chart only includes primary purchase loans guaranteed by the five government agencies (Fannie Mae®, Freddie Mac, FHA, VA, and RHS). These loans currently account for 70% of all primary purchase loans (by count). Our current percentage of low/no document loans is based on JBREC analysis. The DTI numbers shown include only back-end DTI percentages.

**LENDING STANDARDS**



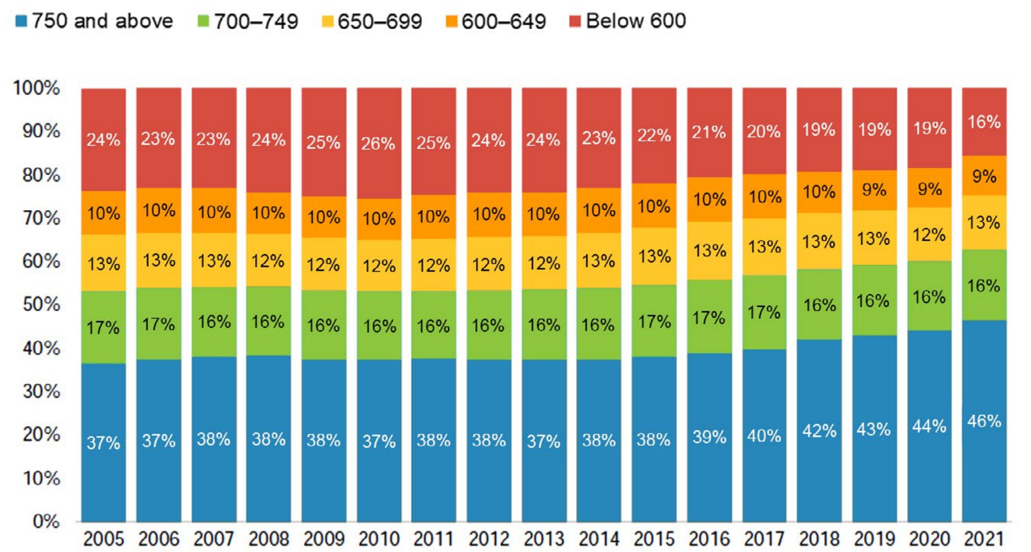

**SOURCE:** American Enterprise Institute, John Burns Real Estate Consulting, LLC (Data: Jan-22, updated quarterly[1]) Pub: Jul-22

# National FICO® Score Distribution

Consumers have slowly rebuilt their credit profiles. In 2021, 62% had FICO scores above 700, and 84% had FICO scores above 600.

Scores are based on the following five categories in order of weighting: payment history (35%), amounts owed (30%), length of credit history (15%), new credit (10%), and types of credit used (10%).

**NATIONAL FICO® SCORE DISTRIBUTION**



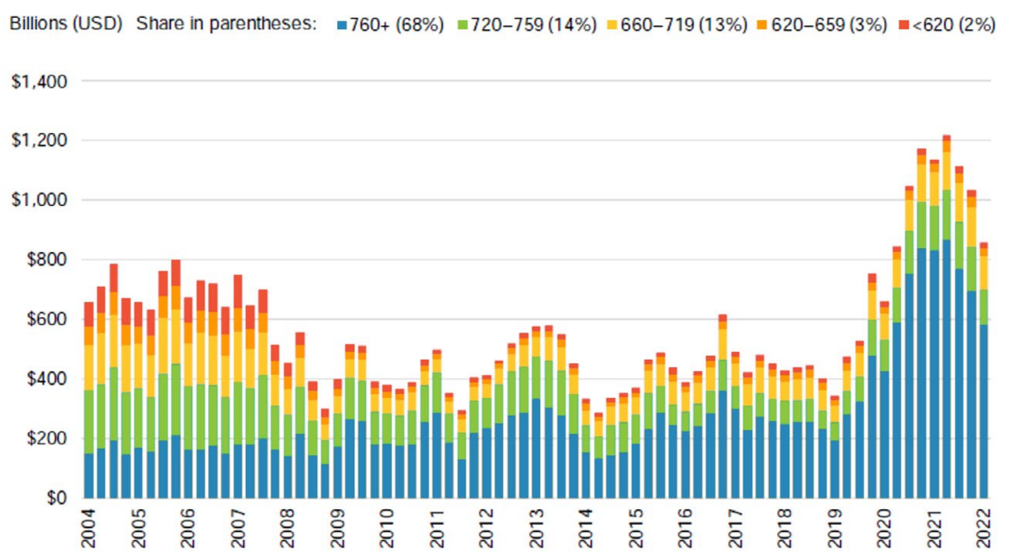

**SOURCE:** FICO® Banking Analytics Blog (Data: Apr-21, updated quarterly[†]) Pub: Jul-22



# Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 1Q22, only 2% of mortgages went to borrowers with a credit score less than 620.

**MORTGAGE ORIGINATIONS BY CREDIT SCORE***



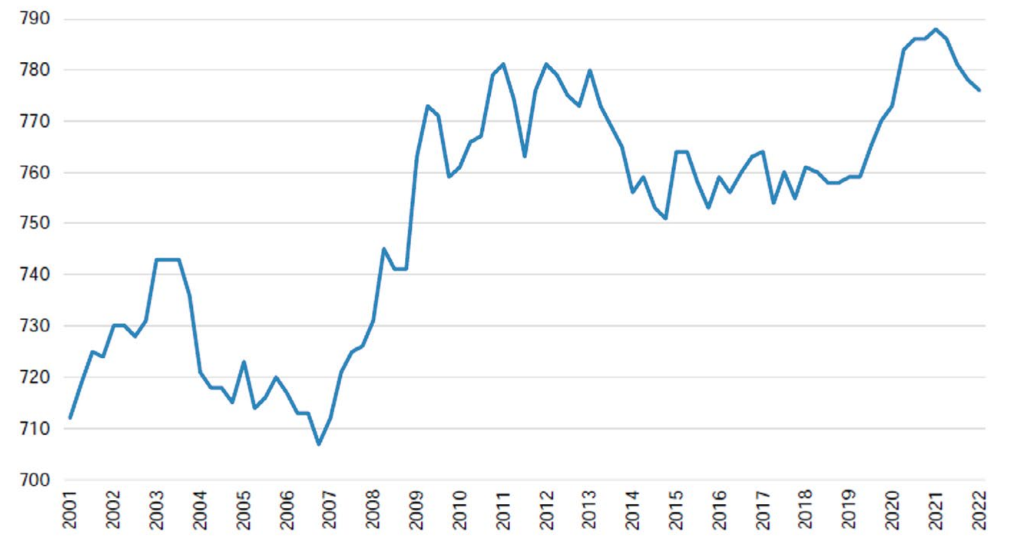

* Credit Score is Equifax Riskscore 3.0

**SOURCE:** FRBNY Consumer Credit Panel/Equifax (Data: 1Q22, updated quarterly[†]) Pub: Jul-22

## Median Credit Score at Mortgage Origination

The median credit score at mortgage origination fell to 707 during the credit heyday of 2006. Since then, creditors have tightened standards. As of 1Q22 median score at origination was 777.

**MEDIAN CREDIT SCORE AT MORTGAGE ORIGINATION***




* Credit Score is Equifax Riskscore 3.0; mortgage include first liens only.

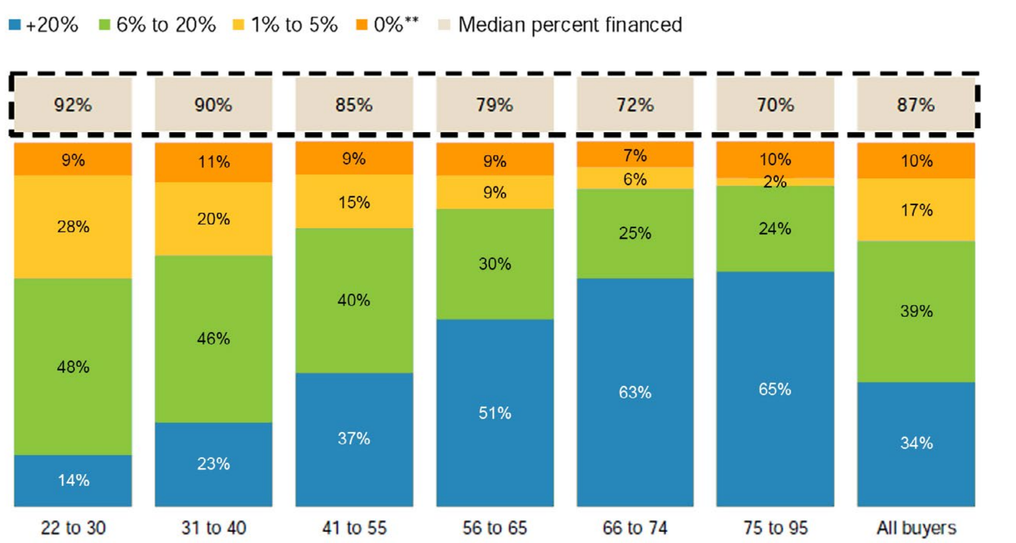
**SOURCE:** FRBNY Consumer Credit Panel/Equifax (Data: 1Q22, updated quarterly†) Pub: Jul-22



## Financing the Home Purchase, by Age Group

27% of all home buyers who use a mortgage are putting 5% or less down. The figure jumps to 37% among those 30 and younger. Only 13% of 66- to 74-year-olds have an LTV of +95%.

**DOWN PAYMENT AS PERCENT OF HOME VALUE BY AGE OF HOME BUYER***




* Percentages only include homes that were purchased with a mortgage.
** 0%: Financed the entire purchase price with a mortgage

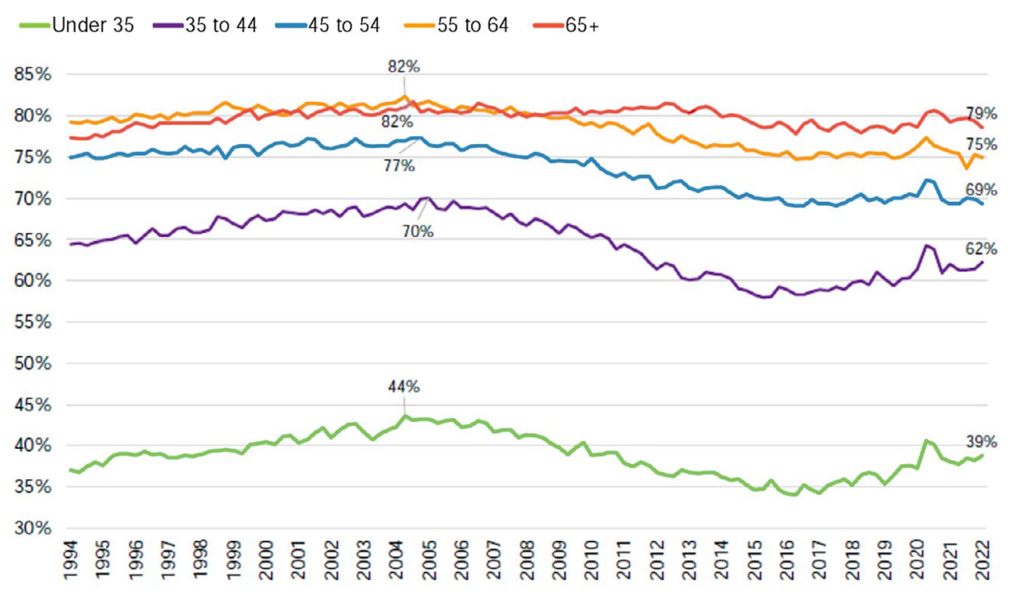
**SOURCE:** ©2021 National Association of REALTORS® Home Buyer and Seller Generational Trends (Data: 2022, updated quarterly†) Pub: Jul-22

# Homeownership Rate by Age

Homeownership is rising for those under 45.

Note: The pandemic complicated the Census Bureau's collection process in 2020. We advise using caution in comparing data from this time period.

**HOMEOWNERSHIP RATE BY AGE**



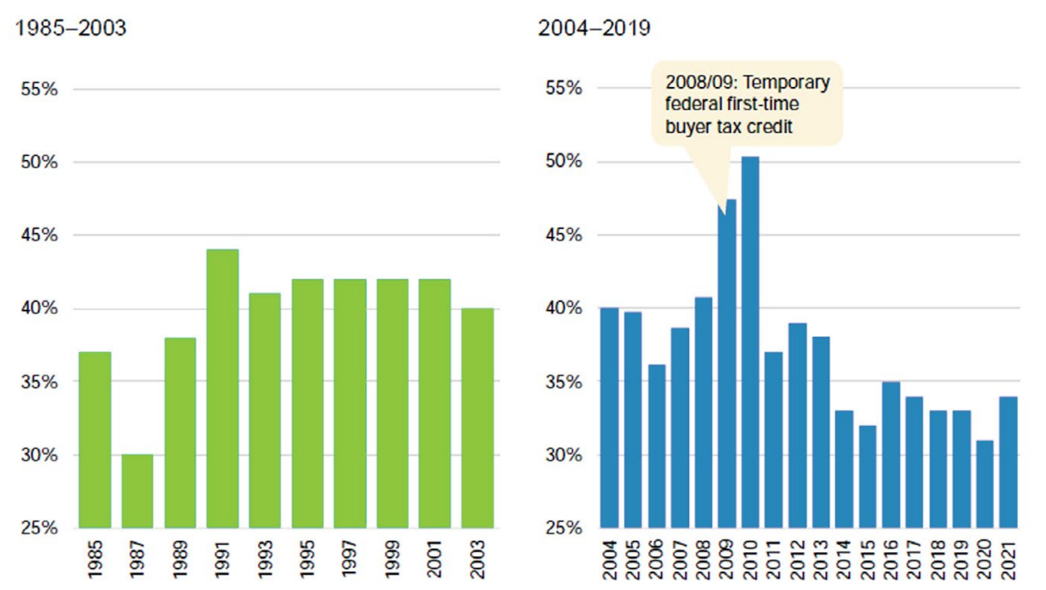

**SOURCE:** U.S. Census Bureau, Housing Vacancies and Homeownership Survey (Data: 1Q22, updated quarterly[1]) Pub: Jul-22



# Share of Homes Sold to First-Time Buyers

The share of existing homes sold to first-time buyers rose in 2021 but remains low. Peak share was reached in 2010 when 50% of buyers were first-time buyers due to temporary tax credits.

**SHARE OF EXISTING HOMES SOLD TO FIRST-TIME BUYERS**




**SOURCES:** NAR; John Burns Real Estate Consulting, LLC (Data: 2021, updated quarterly[1]) Pub: Jul-22

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