NationalMI

ECONOMIC MARKET SNAPSHOT

FALL 2023 | ISSUE NO. 24

NATIONAL MI IS PLEASED TO BRING YOU OUR

Fall 2023 Edition of the Economic Market Snapshot

The pressure of elevated interest rates continues to build, contributing to further uncertainty across the housing market and the broader economy.

Although John Burns Research & Consulting has kept their forecasts mostly unchanged, they are continuing to monitor the 300+ indicators in this report for recession warning signs as the Fed attempts to thread the needle for a soft landing.

Here are the trends we are watching closely:

- Buying a home has never been more challenging.
- Mortgage rates have increased five weeks in a row to 7.6%, the highest level since 2000.
- Affordability keeps breaking records (in a bad way).
- Today, a typical home buyer spends 46% of their income on housing costs—the norm is 32.1%. Even with a mild uptick in inventory over the last few weeks, home prices keep rising in many markets and remain +4% higher than one year ago nationally.

To get back to historical affordability levels, we would need to see some combination of the following scenarios:

- Wages would have to spike +47% (incomes have only risen +42% in the last ten years)!
- Home prices would have to fall -30% (back to December 2019 levels).
- Mortgage rates would have to fall to 3.2% (back to January 2022 levels).

According to John Burns Research & Consulting, affordability will likely remain stretched (housing cost-to-income ratio >40%) for the next several years. The strong +5% wage growth that workers have enjoyed in 2023 should slow in 2024 as inflation normalizes and job growth decelerates, adding some slack to today's tight labor market.

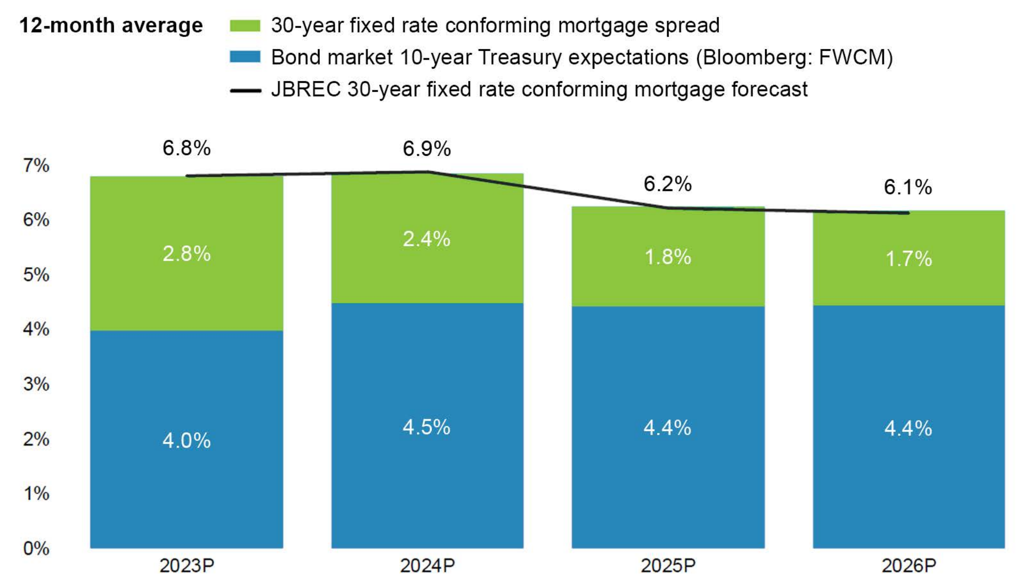
John Burns Research & Consulting forecast existing home sales will remain low relative to history in 2024 due to still elevated mortgage rates, limited inventory, inability to compete with builder rate buydowns, and a slowing economy.

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

Currently, the spread for mortgage rates over the 10-year Treasury is higher than normal (typically 170bps). The elevated spread is due to uncertainty around interest rates and less demand for mortgage-backed securities since the Fed stopped purchasing MBS in 2022. We expect the spread to normalize in the coming years as interest rates stabilize.

ANNUAL AVERAGE 30-YEAR FIXED CONFORMING MORTGAGE RATE FORECAST

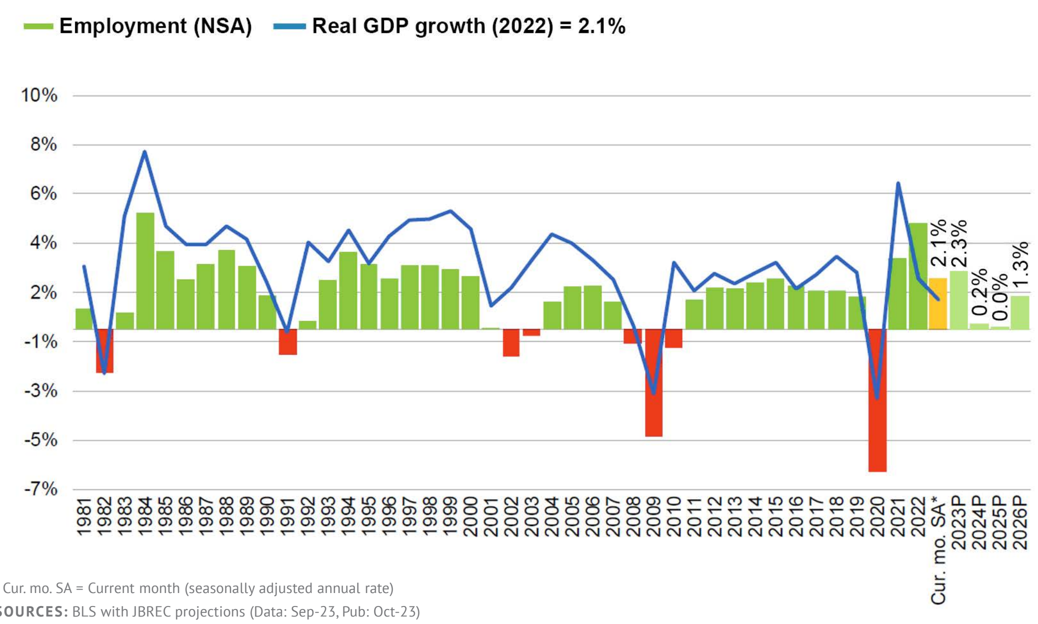


SOURCES: Bloomberg; John Burns Research & Consulting (Data: Sep-23, Pub: Oct-23)

National Employment Growth Rates

We expect employment will remain flat in 2024 and 2025 as the impacts of sustained high-interest rates slow hiring.

NATIONAL EMPLOYMENT ANNUAL GROWTH RATES



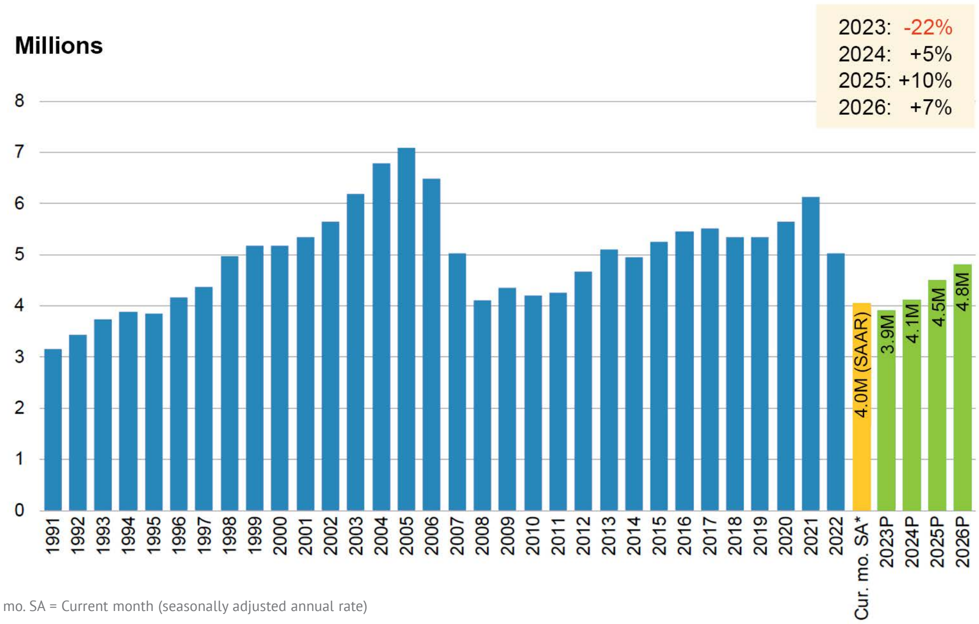
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: BLS with JBREC projections (Data: Sep-23, Pub: Oct-23)

National Existing Home Sale Closings

We forecast existing home sales will remain low relative to history in 2024 due to still elevated mortgage rates, limited inventory, inability to compete with builder rate buydowns, and a slowing economy.

NATIONAL EXISTING HOME SALE CLOSINGS



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

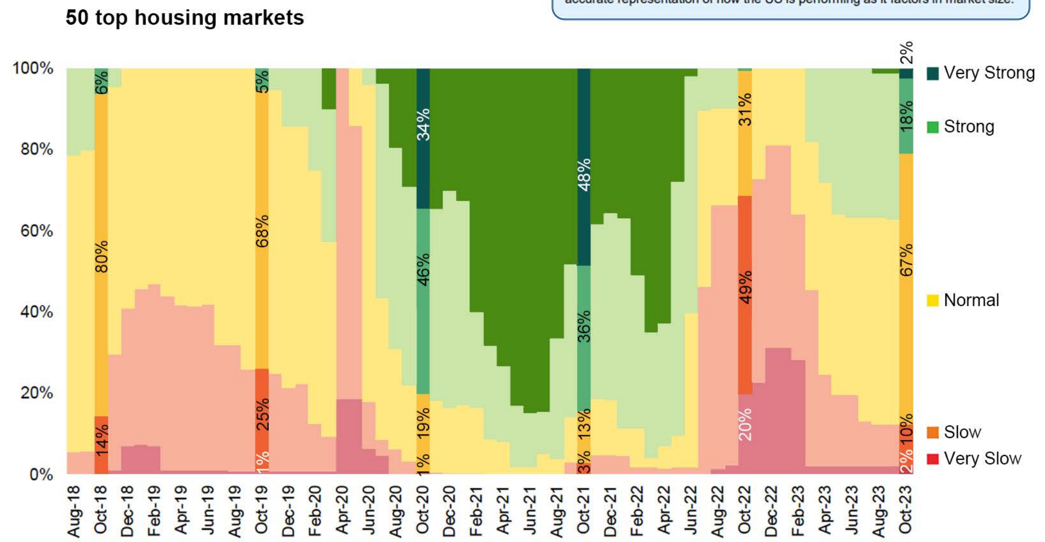
SOURCES: ©2020 National Association of REALTORS®; John Burns Research & Consulting (Data: Aug-23, Pub: Oct-23)

Current Market Conditions: 88% of Markets are Normal to Very Strong

Sales and pricing conditions are Strong or Very Strong in 20% of markets. Two-thirds of markets are Normal, which reflects 2-3/month sales per community with rising net prices.

CURRENT MARKET CONDITIONS

Current market conditions are weighted by new home revenue (new home median price * single-family permits TTM). This calculation allows for more accurate representation of how the US is performing as it factors in market size.



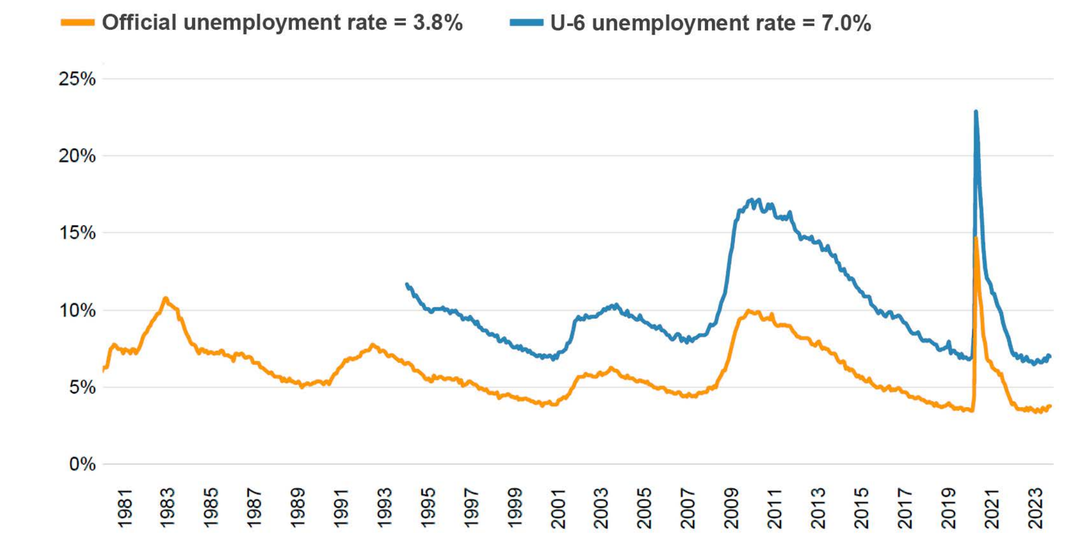
Percentages may not add up to 100% due to rounding, as some months less than 50 markets are rated.

SOURCE: John Burns Research & Consulting (Pub: Oct-23)

Unemployment Rate

The unemployment rate remained flat at 3.8% in September. The U-6, a broader measure of unemployment that captures underemployment and discouraged workers, fell to 7%.

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: Bureau of Labor Statistics (Data: Sep-23, Pub: Oct-23)

Lending Standards on Government-Backed Loans: 80% 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

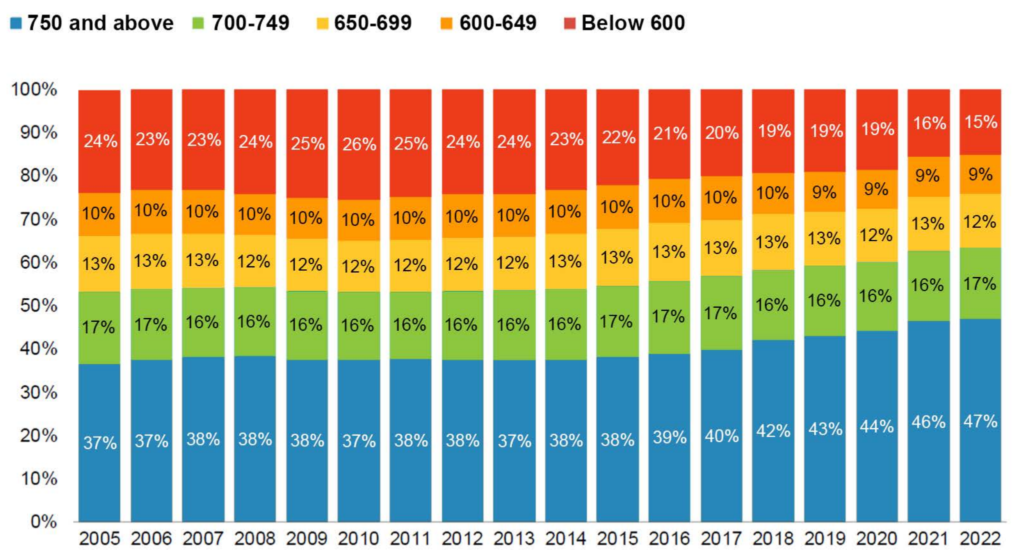
SOURCES: American Enterprise Institute; John Burns Research & Consulting (Data: Apr-23, updated quarterly[1]) Pub: Oct-23

National FICO® Score Distribution

Consumers have slowly rebuilt their credit profiles. In 2022, 64% had FICO scores above 700, and 85% 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 FOR ALL CONSUMERS



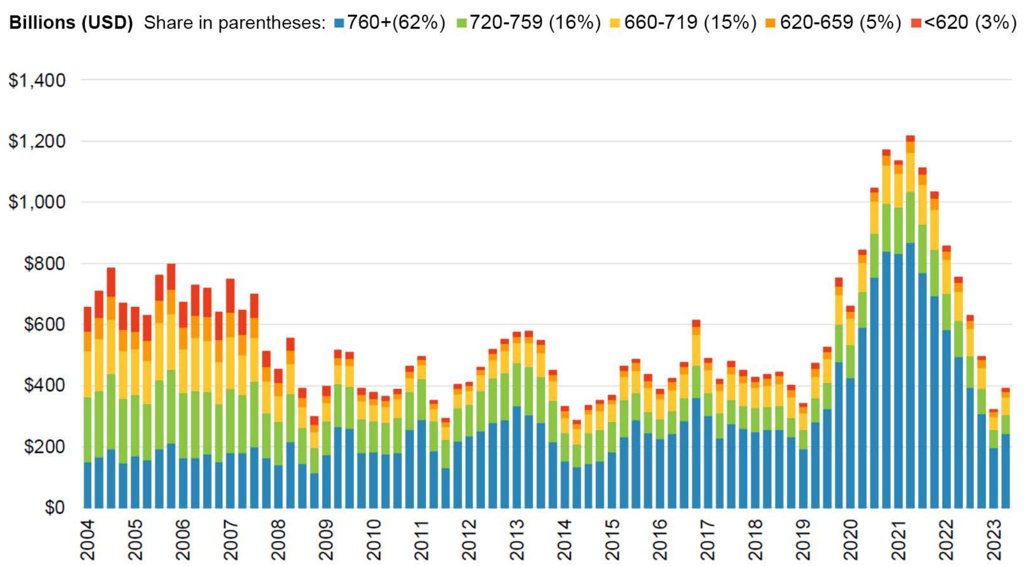
SOURCE: FICO® Banking Analytics Blog (Data: Apr-22, updated quarterly[1])

Pub: Oct-23

Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score less than 620. As of 2Q23, only 3% of mortgages went to borrowers with a credit score less than 620.

MORTGAGE ORIGINATIONS BY CREDIT SCORE*



* Credit Score is Equifax Riskscore 3.0

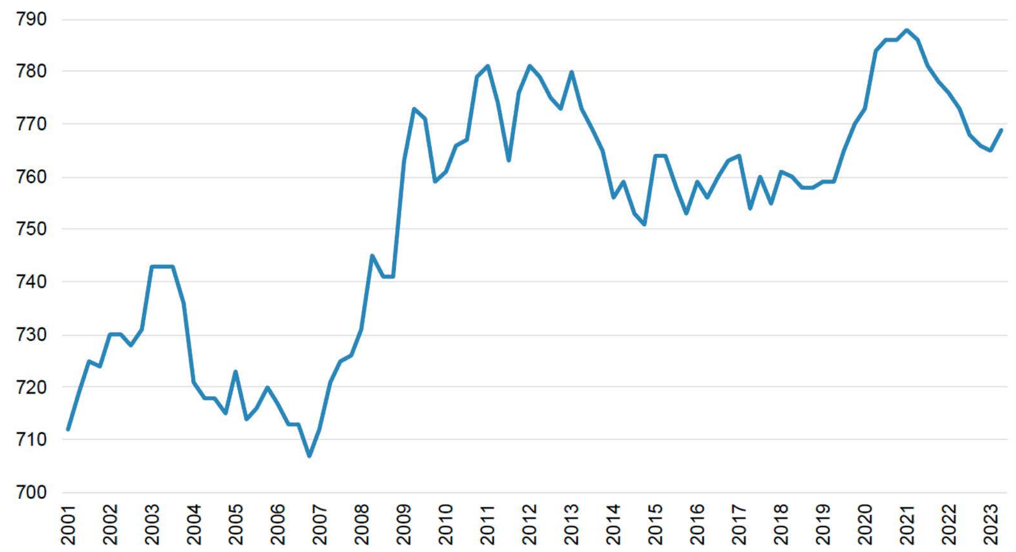
SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 2Q23, updated quarterly[1])

Pub: Oct-23

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 2Q23, the median score at origination was 769.

MEDIAN CREDIT SCORE AT MORTGAGE ORIGINATION*



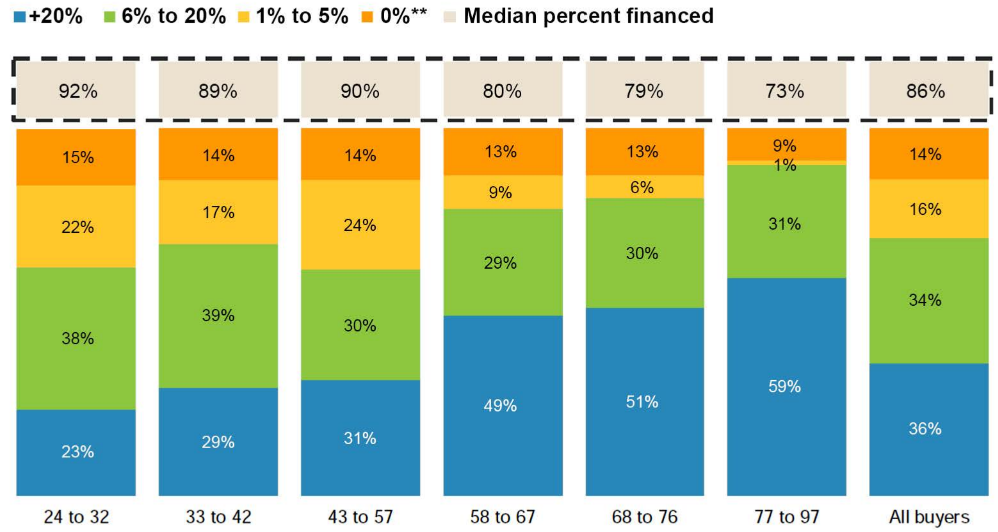
* Credit Score is Equifax Riskscore 3.0; mortgage include first liens only.

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 2Q23, updated quarterly[1]) Pub: Oct-23

Financing the Home Purchase, by Age Group

30% of all home buyers who use a mortgage are putting 5% or less down. The figure jumps to 37% among those 32 and younger. Only 19% of 68- to 76-year-olds have an LTV of +95%.

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



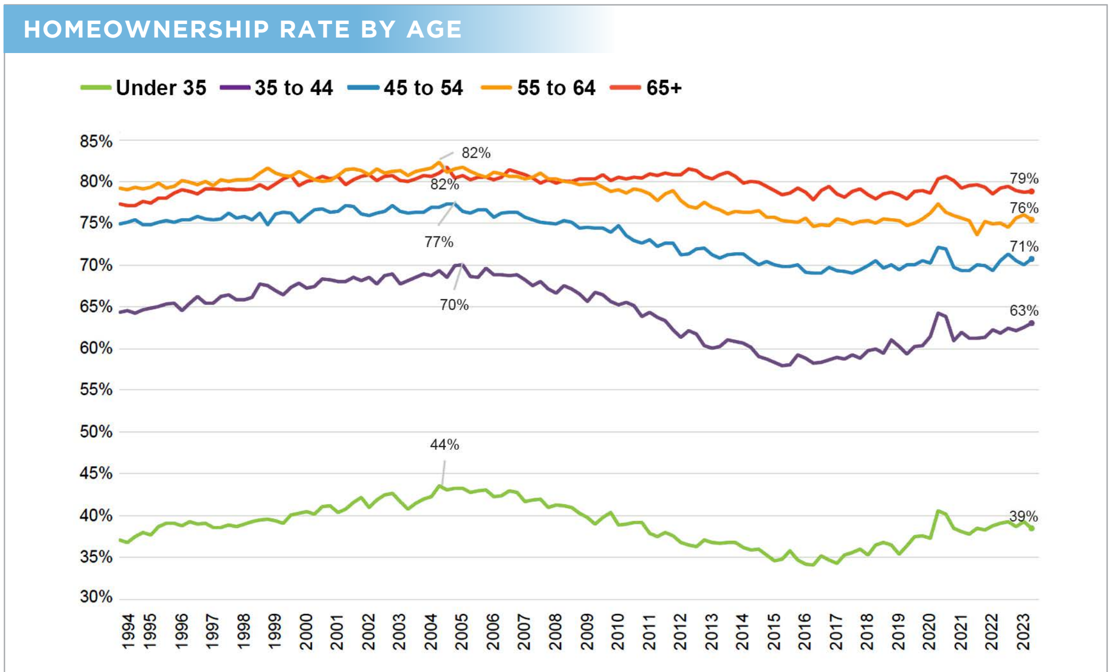
* Percentages only include homes that were purchased with a mortgage.
** 0%: Financed the entire purchase price with a mortgage

SOURCE: ©2023 National Association of REALTORS® Home Buyer and Seller Generational Trends (Data: 2023, updated quarterly[1]) Pub: Oct-23

Homeownership Rate by Age

Homeownership is rising for those aged 35-54.

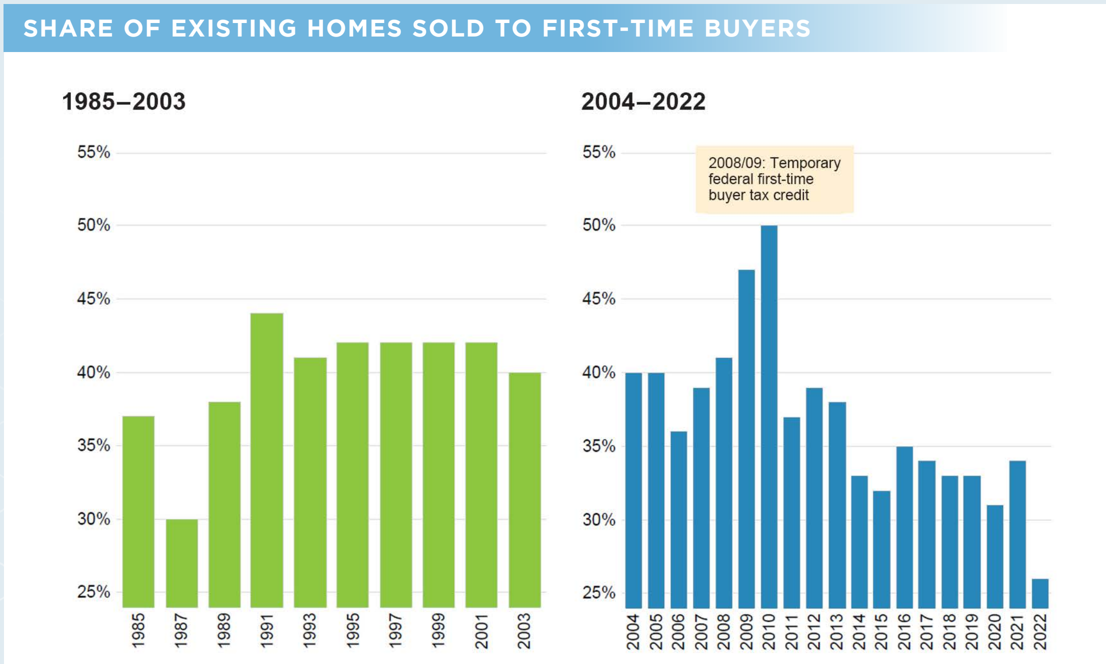
Note: The pandemic complicated the Census Bureau's collection process in 2020. We advise using caution in comparing data from this time period.



SOURCE: Census Bureau, Housing Vacancies and Homeownership Survey (Data: 2Q23, updated quarterly, Pub: Oct-23)

Share of Homes Sold to First-Time Buyers

The share of existing homes sold to first-time buyers fell in 2022 to a record low of 26%. Peak share was reached in 2010 when 50% of buyers were first-time buyers due to temporary tax credits.

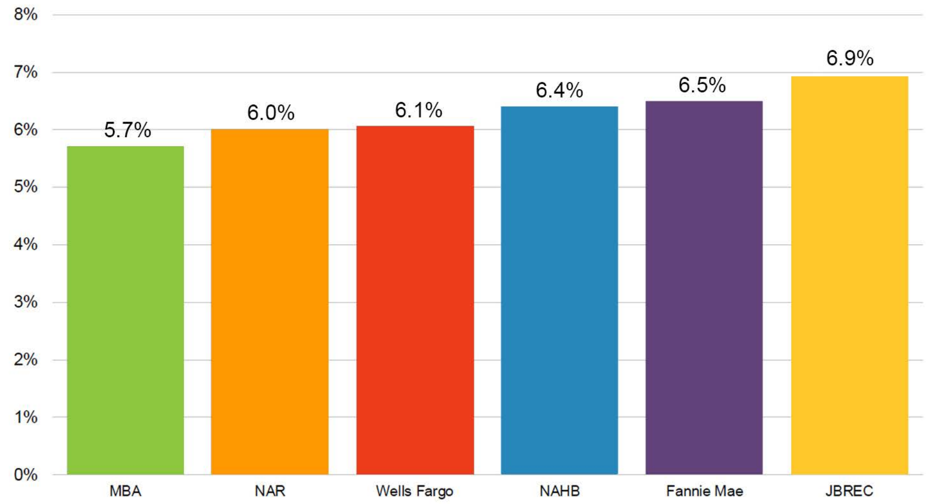


SOURCES: NAR; John Burns Research & Consulting (Data: 2022, Pub: Oct-23)

Key Assumptions for 2024

We are above all forecasters on mortgage rates.

2024 ANNUAL AVERAGE 30-YEAR FIXED MORTGAGE RATES



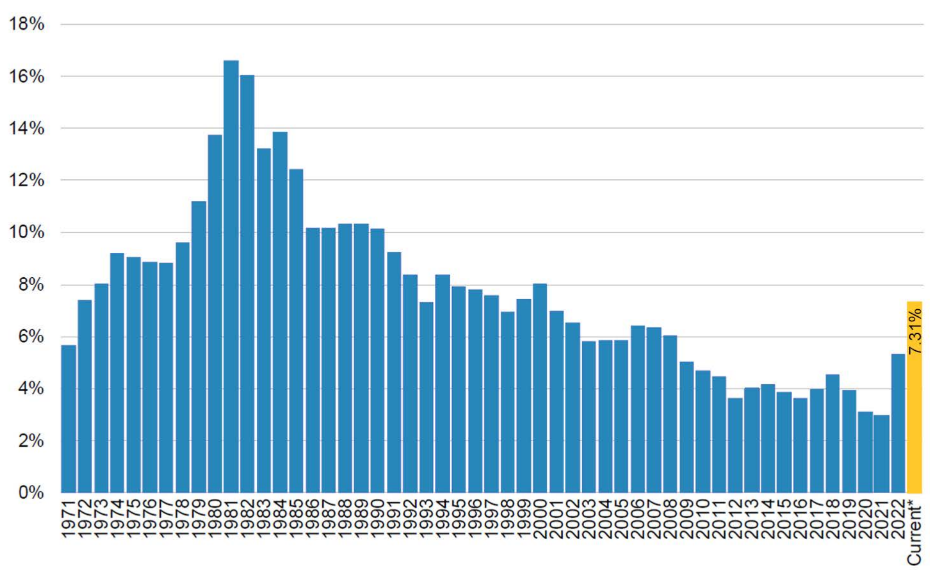
MBA (Sep-23); NAR (Jul-23); Wells Fargo (Sep-23); NAHB (Sep-23); Fannie Mae (Sep-23)

SOURCE: John Burns Research & Consulting (Pub: Oct-23)

Mortgage Rates

The bond market expects mortgage rates will average 6.9% in 2024.

ANNUAL AVERAGE 30-YEAR FIXED MORTGAGE RATES



Current* = last value reported by Freddie Mac during Jul-23

SOURCES: Freddie Mac; John Burns Research & Consulting forecasts (Data: Sep-23, Pub: Oct-23)

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