

Interest Rates Jump on Hot Labor Market and Inflation

Data

Stronger-than-expected economic data, including labor and consumer spending reports along with above-target Consumer Price Index (CPI) readings, have led financial markets to increasingly push back expectations for Federal Reserve rate cuts this year. As a result, long-run interest rates, including mortgage rates, have trended up in recent months. This includes a sharp rise since the start of April, presenting further headwinds to the recovery in home sales and homebuyer affordability.

We continue to forecast moderating economic growth and inflation, though the interest rate environment looks increasingly to be one of “higher for longer.” Thus, we have revised our fed funds rate outlook to just two cuts this year rather than three, starting in September (previously June). We now forecast real Gross Domestic Product (GDP) to rise 1.8 percent on a Q4/Q4 basis in 2024, a slight upgrade from last month’s projected 1.7, but still a deceleration from 2023 growth of 3.1 percent. Our forecast expects core CPI to be 3.1 percent by end of year on a Q4/Q4 basis (up from 2.7 percent), but, here again, a deceleration from 4.0 percent in 2023.

Home sales are expected to remain subdued but drift higher over 2024. Despite continued high mortgage rates, an increasing share of homeowners appear to be acclimating to the higher mortgage rate environment or deciding they can no longer put off the listing of their homes. However, with the 10-year Treasury rising about 40 basis points since the conclusion of our interest rate forecast at the start of April, there is downside risk to our current sales outlook. We have also upgraded our quarterly home price forecast based on recent data. We still expect home price growth deceleration going forward. As measured by the [Fannie Mae Home Price Index](#) (FNM-HPI) we project home price growth of 4.8 percent and 1.5 percent in 2024 and 2025, respectively, on a Q4/Q4 basis. Lastly, total mortgage originations are forecast to be \$1.81 trillion in 2024 (previously \$1.76 trillion) and \$2.26 trillion in 2025 (previously \$2.18 trillion).

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Interest Rate Cuts Appear to Be on Hold, for Now

The Core CPI rose 3.8 percent on an annual basis in March, the third consecutive hot report. While some of the underlying details of the latest CPI report may not translate to the Fed’s preferred core PCE measure of inflation, year-to-date data have failed to boost confidence that inflation is returning sustainably to the Fed’s 2-percent target. Fed Governor Waller recently stated in a speech that there was “no rush” to cut rates given recent indicators, and Fed Chair Powell stated, “The recent data have not given us greater confidence, and instead indicate it’s likely to take longer than expected to achieve that confidence.” Since the start of April, financial markets’ pricing has almost entirely removed the odds of a Fed rate cut by June. We now expect just two 25-basis point rate cuts to the fed funds rate this year, with the first occurring in September. Of course, there remains the possibility that there

year Treasury yield has risen back towards cle highs following hot labor and inflation data

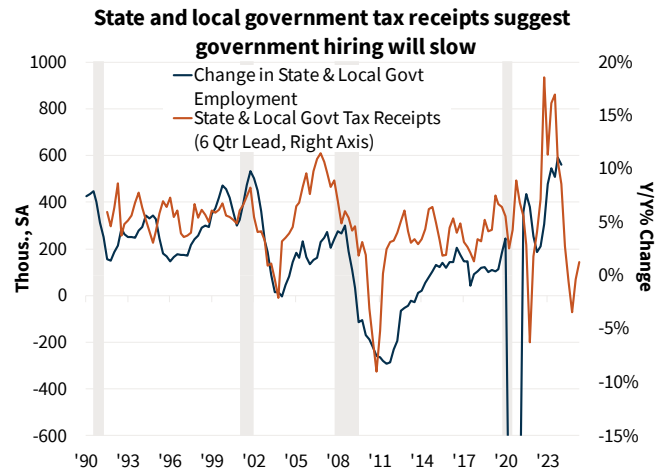




will be no rate cuts in 2024, but that is not our base case forecast. That said, longer duration yields have moved up sharply following the completion of our interest rate forecast. As of this writing, the 10-year Treasury yield is above 4.6 percent, reflecting the market’s expectation of a higher-for-longer short-term interest rate environment. Similarly, the 30-year fixed mortgage rate appears poised to move back above 7 percent, as measured by Freddie Mac’s weekly mortgage rate survey.

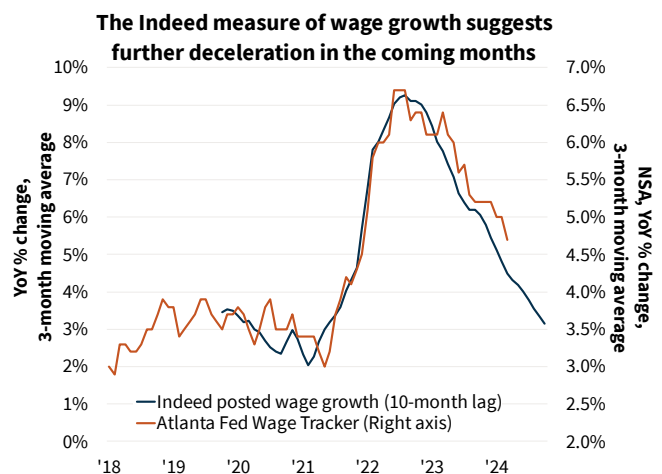
However, We’re Still Anticipating Slower Economic Growth and Moderating Inflation

While payroll employment continues to surprise to the upside, rising by a strong 303,000 in March, we continue to see the current dynamic as only a matter of time before significant deceleration occurs. Business surveys, such as the National Federation of Independent Businesses (NFIB) and the Institute for Supply Management (ISM) Indices, have deviated more than what is typical in recent years from much of the hard data, but recent movements have shown a decline in hiring conditions and plans, suggesting employment growth is poised to slow. Additionally, recent payroll employment strength has disproportionately relied on public sector payrolls, with about 20 percent of all job gains since 2023 coming from the state and local government sector, compared to just 6 percent between 2017 and 2019. Given the slowdown in local and state tax receipt growth last year, we anticipate the pace of the recent government payrolls growth will likely slow by the second half of 2024, contributing to a broader slowdown in hiring.



More broadly for economic growth, recent strength in consumer spending has come at the expense of the personal saving rate dropping to new recent lows, as consumption growth has outpaced the rate of household income gains in recent months. The saving rate declined five-tenths to just 3.6 percent in February, compared to a pre-Covid average of around 7 percent. While strong gains in both the stock market and home prices in recent years would be expected to put downward pressure on the saving rate as households tap these sources of wealth, we see the current level of savings as being unsustainably low. Household debt levels do not appear overly stretched relative to assets or incomes in the aggregate; however, the continued tightening in lending standards and higher interest rates will likely limit growth in debt-financed consumption growth. Some signs of stress are also evidenced by the latest auto and credit card delinquency data. We, therefore, continue to expect softening consumer spending growth, and more largely GDP growth, later this year.

On the inflation front, once the time-lagged effects of heightened shelter inflation flow out of the measure over the course of this year, it will likely be difficult to sustain a heightened level of core inflation if wage pressures are easing. Most measures of nominal wage growth point to softening over the past year, though some remain at a level somewhat elevated from what would be consistent with a 2-percent inflation target. For example, the Atlanta Fed Wage Tracker, which seeks to control for job compositional shifts, shows wage growth to be 4.7 percent on an annual basis in its March reading. However, more timely business survey data and wage levels of job postings suggest further easing is in store back to a sustainable rate. Indeed.com’s measure of job posting wage rates tends to lead the Atlanta Fed measure and, in this case,





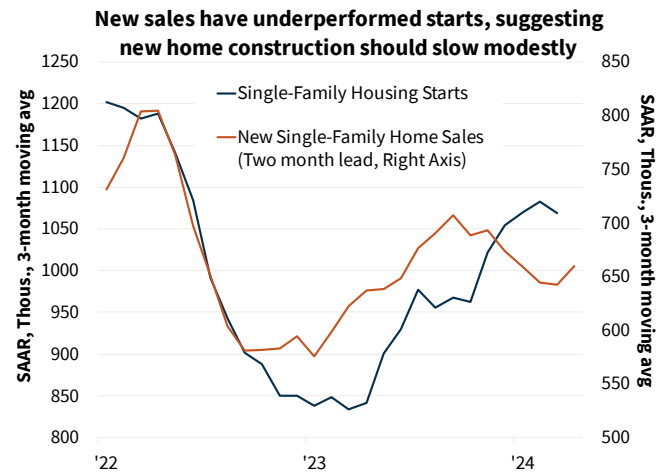
points to a softening of any wage-price related dynamics in the system. We see this as consistent with inflation trending downward towards the 2-percent target over our forecast horizon.

Home Price Growth Comes in Strong but Sales and Starts Likely to Take Breather

As measured by the Fannie Mae HPI, home prices rose 1.7 percent over the first quarter on a seasonally adjusted basis and were up 7.4 percent from a year prior. This was a modest acceleration from 6.6 percent annual growth in Q4 2023. We now project home prices to rise 4.8 percent on a Q4/Q4 basis in 2024 (we previously projected 3.2) and 1.5 percent in 2025 (previously 0.3 percent). However, even with this upgrade, we still anticipate decelerating price growth as the lack of affordability weighs on home purchase demand and the inventory of homes available for sale gradually increases.

While we believe home sales are likely to stay subdued in the near term, listings of homes for sale have been trending upward in recent months and have outpaced sales. The growth in listings is consistent with recent trends in the Fannie Mae [Home Purchase Sentiment Index®](#) showing improved sentiment around home-selling conditions. However, given the ongoing affordability challenges and elevated mortgage rates, this growth in listings is not translating into a one-for-one increase in sales. We expect listings will continue to outpace sales as the year progresses, leading to a gradual loosening of inventory and decelerating home price growth.

New single-family construction continues to be strong, though the relatively slower pace of new home sales points to some softening in the near term. Single-family housing starts fell sharply by 12.4 percent in March, and we are expecting some comparative softness next quarter as the starts to new home sales ratio comes into a more typical alignment. However, over the longer term, the continued tight existing sales market is expected to be supportive of new home sales over the coming years.

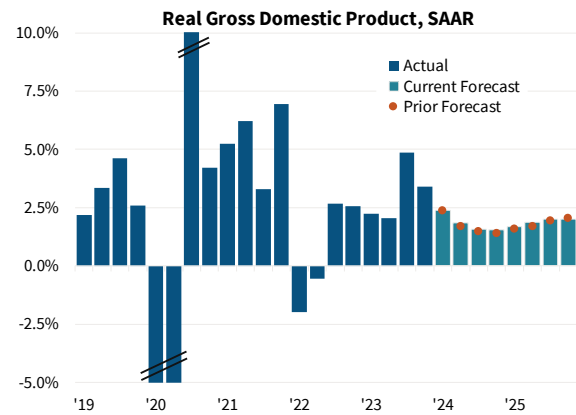




Economic Forecast Changes

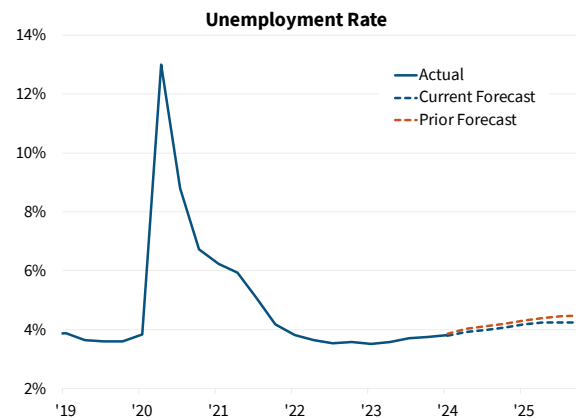
Economic Growth

The third estimate for Q4 2023 GDP growth from the Bureau of Economic Analysis (BEA) showed that GDP grew an annualized 3.4 percent, two-tenths higher than the second estimate. Compared to our previous forecast, GDP growth has been revised up slightly through 2025. We revised upward both our Q4/Q4 2024 and 2025 GDP outlooks by one-tenth to 1.8 percent and 1.9 percent, respectively.



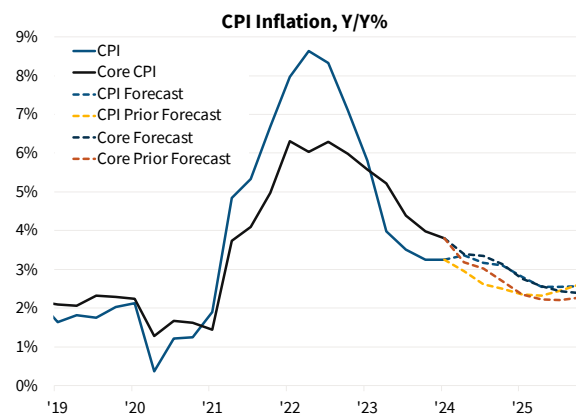
Labor Market

Nonfarm payroll employment growth was 303,000 in March. The unemployment rate ticked down one-tenth to 3.8 percent. Compared to last month, we have lowered our unemployment rate expectations consistent with a modest GDP growth upgrade, though we continue to expect a gradual uptick over time. We project the unemployment rate to gradually trend toward (but still not reaching through 2025) the Non-Accelerating Inflation Rate of Unemployment (or NAIRU), estimated by the Congressional Budget Office to currently be 4.4 percent.



Inflation & Monetary Policy

The March CPI report came in hotter than our expectations. Headline CPI grew 0.4 percent over the month for the second month in a row and grew 3.5 percent compared to a year ago, an acceleration of three-tenths from February. Core inflation remained persistent, rising 0.4 percent over the month for the third consecutive month, with the annual rate unchanged at 3.8 percent as shelter inflation remains hot. A higher energy price outlook and persistent stickiness in the core measure of inflation led to an upward revision to our inflation forecasts this month, though we still forecast inflation to moderate over the forecast time horizon.



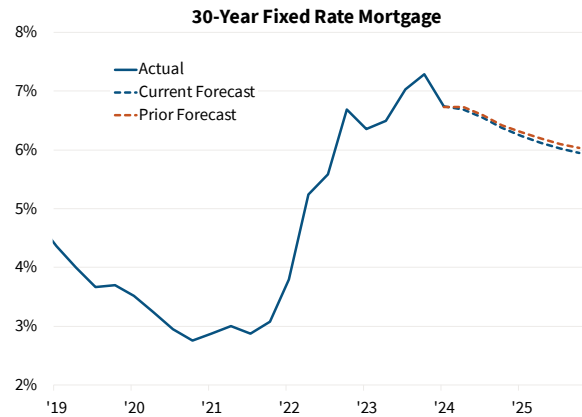
Our baseline expectation is that the Fed will begin rate cuts in September compared to our previous forecast of June. We now only expect two rate cuts this year, instead of three, given the persistence of inflation and the robust labor market.



Housing & Mortgage Forecast Changes

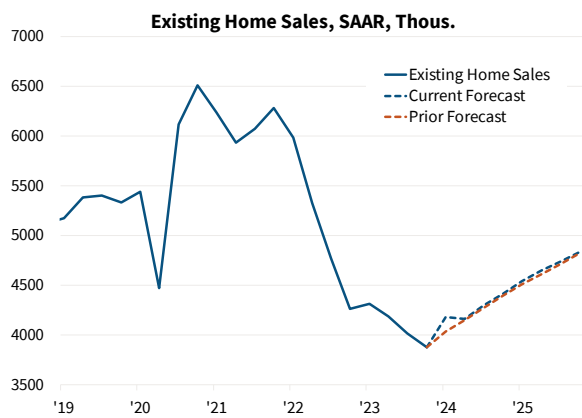
Mortgage Rates

We revised our mortgage rate forecast downward slightly month over month. We now forecast the 30-year fixed rate mortgage rate to average 6.6 percent in 2024, and to average 6.1 percent in 2025. However, interest rates remain volatile, particularly given changes in Fed policy expectations, which adds risk to our outlook. Following the completion of our start-of-the-month interest rate forecast, long-run rates have jumped in response to hot CPI and labor reports, leading to upside risk to our current baseline mortgage rate forecast.



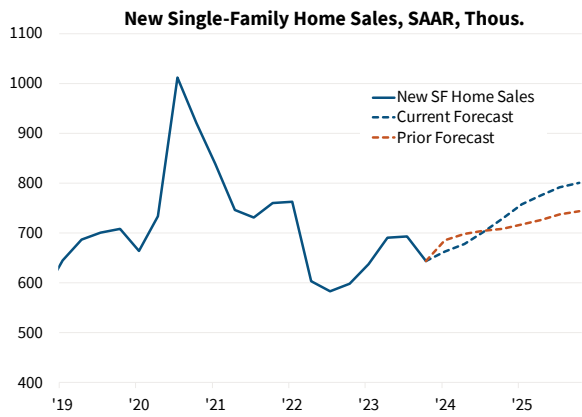
Existing Home Sales

Existing home sales jumped to a seasonally adjusted annualized rate (SAAR) of 4.38 million in February. We revised modestly upward our forecast through 2025, with a jump in Q1 reflecting strength seen in January and February. While we expect a pullback in Q2, we continue to forecast existing sales to trend upward over our forecast horizon.



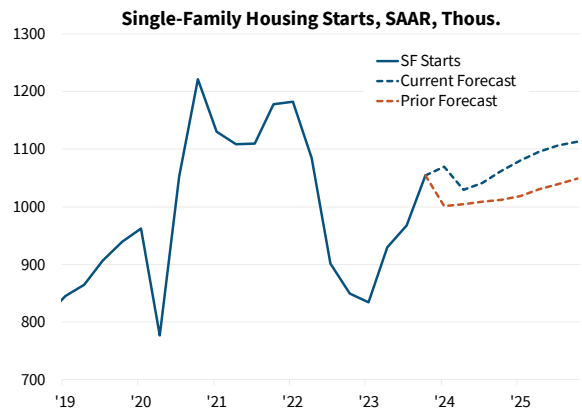
New Home Sales

New single-family home sales were essentially unchanged at a SAAR of 662,000 in February. We have lowered our expectations for new home sales through Q3, though from Q4 onward we've upgraded our forecast following a reassessment of construction trends and the current sales and construction starts relationship. New home sales continue to benefit from the limited inventory of existing homes for sale, which we expect to support demand for new homes over our forecast horizon.



Single-Family Housing Starts

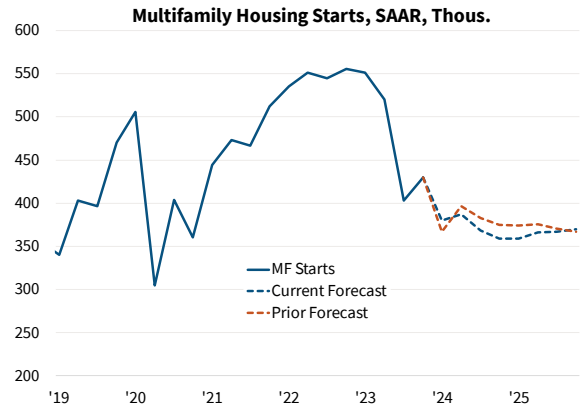
Single-family housing starts fell 12.4 percent to a SAAR of 1.02 million in March, while permits dropped 5.7 percent to 973,000. The weakness is not entirely unexpected given the relative outperformance of starts to sales early this year, and so some comparative softness in the near term is expected. However, we continue to expect that the lack of existing homes available for sale will continue to boost new home construction in the medium term, and we have adjusted upward our expected starts pace over the forecast horizon.





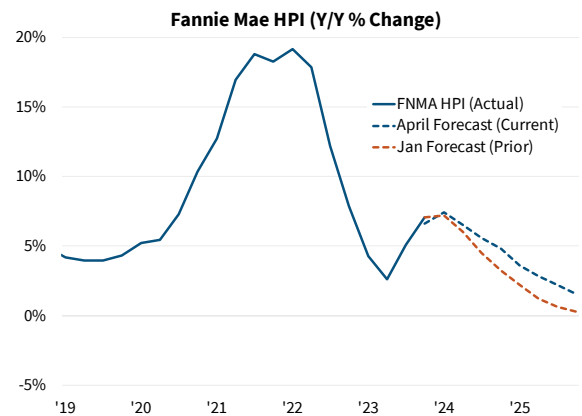
Multifamily Housing Starts

Multifamily housing starts plummeted to a SAAR of 299,000 in March, while permits edged down to a SAAR of 485,000. We have downgraded our forecast through Q3 2025, as we believe multifamily starts remain likely to decline due to muted national rent growth and more multifamily units near completion. However, this series is notoriously volatile, and we anticipate some bounce back from the March reading.



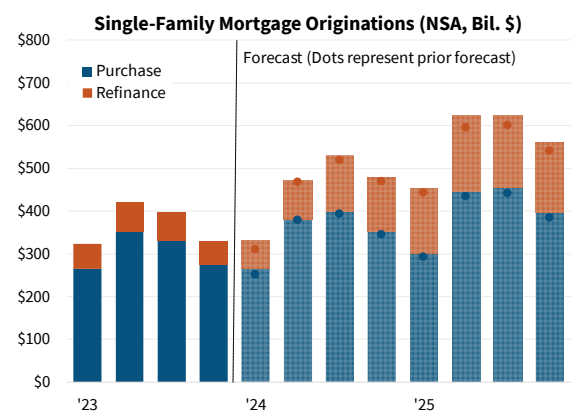
Single-Family Home Prices

According to the most recently published non-seasonally adjusted [Fannie Mae Home Price Index](#) (FNM-HPI), home prices are forecast to rise 4.8 percent in 2024 on a Q4/Q4 basis and 1.5 percent in 2025, upgrades of 1.6 percentage points and 1.3 percentage points, respectively from our prior forecast. Furthermore, after revisions, the FNM-HPI now shows that home prices grew 6.6 percent Q4/Q4 in 2023, a downward revision of five-tenths. Our next home price update will be in July.



Single-Family Mortgage Originations

We have revised upward our expectation for both purchase and refinance mortgage origination volumes this month, due in particular to our more optimistic home price growth expectation and somewhat lower mortgage rate path, along with an upgraded expectation for home sales. We now expect 2024 purchase volumes to total just under \$1.4 trillion, representing a \$31 billion upward revision from last month's forecast and 14 percent growth from 2023. We expect purchase volumes to grow a further 15 percent in 2025 to 1.6 trillion, a further upgrade of \$52 billion from our prior forecast.



In the refinance market, we now expect origination volume to come in at \$415 billion for 2024 and \$657 billion in 2025, both upward revisions from our prior forecast. As with the purchase market, volumes were revised upward primarily due to our stronger home price forecast.

It should be noted however, that given the upside risk to mortgage rates in our forecast, we see downside risk to our originations outlook.



Economic Forecast Table

Economic Forecast: April 2024

	2023				2024				2025				2023	2024	2025
	23.1	23.2	23.3	23.4	24.1	24.2	24.3	24.4	25.1	25.2	25.3	25.4			
Percent Change: Quarterly SAAR, Annual Q4/Q4															
Gross Domestic Product	2.2	2.1	4.9	3.4	2.4	1.8	1.6	1.6	1.7	1.9	2.0	2.0	3.1	1.8	1.9
Personal Consumption Expenditures (PCE)	3.8	0.8	3.1	3.3	2.6	2.2	1.6	1.7	1.9	2.0	2.1	2.1	2.7	2.0	2.0
Residential Fixed Investment	-5.3	-2.2	6.7	2.8	10.4	0.5	0.2	2.5	5.3	6.0	5.4	4.9	0.4	3.3	5.4
Business Fixed Investment	5.7	7.4	1.4	3.7	2.6	2.5	2.6	2.5	2.5	2.6	2.8	2.7	4.6	2.5	2.7
Government Consumption & Investment	4.8	3.3	5.8	4.6	1.7	1.4	0.8	0.3	0.3	0.3	0.3	0.4	4.6	1.1	0.3
Billions of Chained 2012\$															
Net Exports	-1243	-1231	-1236	-1225	-1275	-1300	-1324	-1333	-1350	-1360	-1375	-1386	-1234	-1308	-1368
Change in Business Inventories	28	16	81	57	68	71	85	85	83	80	83	86	45	77	83
Percent Change: Quarterly YoY, Annual Q4/Q4															
Consumer Price Index	5.7	4.0	3.6	3.2	3.2	3.4	3.2	3.1	2.8	2.5	2.6	2.6	3.2	3.1	2.6
Core Consumer Price Index (ex. Food & Energy)	5.5	5.2	4.4	4.0	3.8	3.4	3.4	3.1	2.8	2.6	2.4	2.4	4.0	3.1	2.4
PCE Chain Price Index	5.0	3.9	3.3	2.8	2.5	2.5	2.4	2.5	2.3	2.2	2.2	2.2	2.8	2.5	2.2
Core PCE Chain Price Index (ex. Food & Energy)	4.8	4.6	3.8	3.2	2.7	2.4	2.5	2.5	2.2	2.2	2.2	2.1	3.2	2.5	2.1
Change: Quarterly Avg Mo. Chg, Thous., Annual Mil.															
Employment, Total Nonfarm	305	274	213	212	276	182	153	82	70	62	65	71	3.0	2.1	0.8
<i>Percent Change: Q4/Q4</i>													1.9	1.4	0.5
Percent: Quarterly Avg, Annual Avg															
Unemployment Rate	3.5	3.6	3.7	3.7	3.8	3.9	4.0	4.1	4.2	4.2	4.2	4.2	3.6	3.9	4.2
Federal Funds Rate	4.5	5.0	5.3	5.3	5.3	5.4	5.3	5.0	4.5	4.2	4.1	4.1	5.0	5.2	4.2
10-Year Treasury Note Yield	3.6	3.6	4.2	4.4	4.2	4.2	4.1	4.1	4.1	4.1	4.1	4.1	4.0	4.1	4.1

Forecast values as of April 11, 2024

Note: Interest rate forecasts are based on rates from March 28, 2024; all other forecasts are based on the date above.

Note: Unshaded areas denote actuals. Shaded areas denote forecasts.

Sources: Actuals: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Board. Forecasts: Fannie Mae Economic and Strategic Research



Housing Forecast Table

Housing Forecast: April 2024

	2023				2024				2025				2023	2024	2025
	23.1	23.2	23.3	23.4	24.1	24.2	24.3	24.4	25.1	25.2	25.3	25.4			
SAAR, Thous. Units															
Total Housing Starts	1,385	1,450	1,371	1,485	1,450	1,416	1,410	1,421	1,440	1,461	1,473	1,483	1,413	1,424	1,464
<i>Percent Change: YoY</i>													-9.0	0.8	2.8
Single-Family (1 Unit)	834	930	967	1,055	1,070	1,030	1,042	1,062	1,081	1,095	1,106	1,113	945	1,051	1,099
<i>Percent Change: YoY</i>													-6.0	11.3	4.6
Multifamily (2+ Units)	552	520	403	430	380	387	368	359	359	366	367	370	469	373	365
<i>Percent Change: YoY</i>													-14.4	-20.3	-2.2
Total Home Sales	4,955	4,877	4,713	4,524	4,843	4,841	5,006	5,148	5,298	5,426	5,531	5,637	4,756	4,959	5,473
<i>Percent Change: YoY</i>													-16.1	4.3	10.4
New Single-Family	638	691	693	644	663	678	702	729	758	776	792	801	666	693	782
<i>Percent Change: YoY</i>													3.9	4.0	12.8
Existing (Single-Family, Condos/Co-Ops)	4,317	4,187	4,020	3,880	4,180	4,162	4,304	4,419	4,540	4,650	4,739	4,836	4,090	4,266	4,691
<i>Percent Change: YoY</i>													-18.7	4.3	10.0
Percent Change: Quarterly YoY, Annual Q4/Q4															
Fannie Mae HPI	4.3	2.4	4.6	6.6	7.4	6.5	5.6	4.8	3.6	2.8	2.2	1.5	6.6	4.8	1.5
Percent: Quarterly Avg, Annual Avg															
30-Year Fixed Rate Mortgage	6.4	6.5	7.0	7.3	6.7	6.7	6.6	6.4	6.2	6.1	6.0	6.0	6.8	6.6	6.1
NSA, Bil. \$, 1-4 Units															
Single-Family Mortgage Originations	323	421	397	329	330	471	531	480	454	623	624	561	1,470	1,813	2,261
Purchase	265	351	331	275	267	380	399	353	302	447	457	398	1,222	1,398	1,604
Refinance	58	70	65	54	63	91	133	127	151	176	167	163	248	415	657
Refinance Share (Percent)	18	17	16	16	19	19	25	27	33	28	27	29	17	23	29

Forecast values as of April 11, 2024

Note: The Fannie Mae HPI forecast is updated on the first month of every quarter. Interest rate forecasts are based on rates from March 28, 2024; all other forecasts are based on the date above.

Note: All mortgage originations data are Fannie Mae estimates as there is no universal source for market-wide originations data.

Note: Unshaded areas denote actuals. Shaded areas denote forecasts.

Sources: Actuals: Census Bureau, National Association of REALTORS®, Freddie Mac - Forecasts: Fannie Mae Economic and Strategic Research

Economic & Strategic Research (ESR) Group

April 16, 2024

For a snapshot of macroeconomic and housing data between the monthly forecasts, please read ESR's [Economic and Housing Weekly Notes](#).

Data sources for charts: Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau, Indeed.com, National Association of REALTORS, Federal Reserve, Atlanta Federal Reserve, Freddie Mac, Fannie Mae

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