

Further Declines in Mortgage Rates Needed to Address Affordability and Spur Home Sales

Despite a meaningful pullback in mortgage rates over the past few months, home purchase activity continues to be unresponsive, with existing home sales remaining near cycle lows. Lock-in effects and affordability constraints are keeping many would-be homebuyers on the sidelines. While we have made little change to our macroeconomic outlook, we have revised downward our near-term home sales forecast. We now expect 2024 total home sales to be 4.7 million (previously 4.8 million), down 0.3 percent from their 2023 total; notably, we also expect 2024 existing home sales to fall to the slowest annual pace since 1995. We forecast sales to then pick up by 9.8 percent in 2025 to a pace of 5.1 million units; with the majority of that increase coming in the second half of 2025 if mortgage rates decline sufficiently to end 2025 at 5.7 percent, as we currently project. Our forecast for total single-family mortgage originations was revised downward modestly for 2024 to \$1.68 trillion (previously \$1.70 trillion), while the outlook for 2025 was moved slightly higher to \$2.16 trillion (previously \$2.15 trillion), principally due to a rise in refinance volumes from anemic levels. For economic growth, we expect 2024 Real Gross Domestic Product Growth (GDP) to be 2.0 percent on a Q4/Q4 basis (1.9 percent previously) and 2025 growth to be 1.8 percent (unchanged), and for the unemployment rate to gradually drift upward to 4.6 percent by end of 2025.

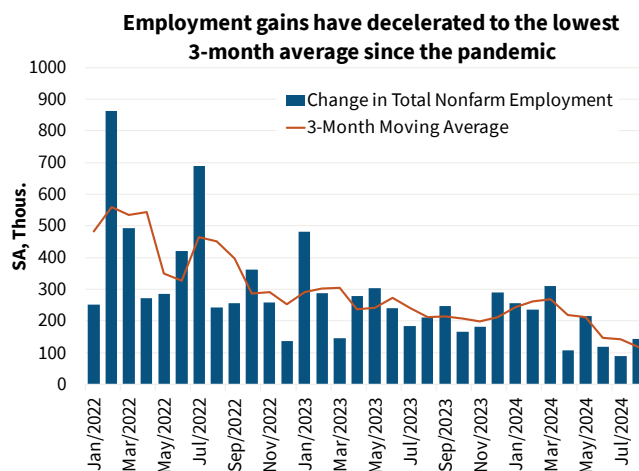
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Economy Downshifts as Post-Pandemic Imbalances Fade

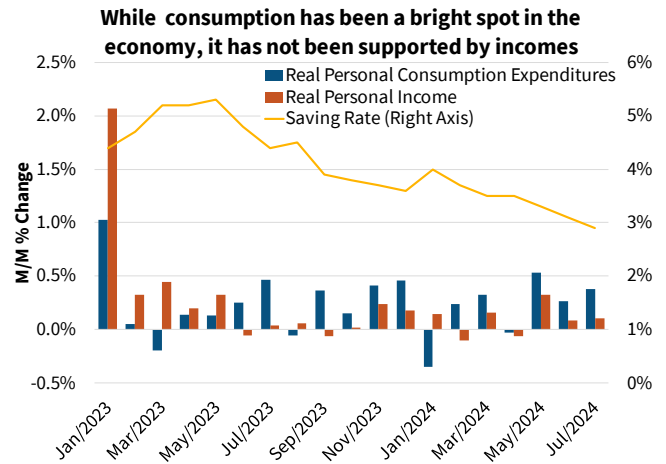
With inflation continuing to move toward the Federal Reserve’s target and most labor market data softening, we believe economic growth is in the process of downshifting, even though consumer spending to date has remained more resilient than previously expected. Fed commentary has stated that risks to their dual mandate – maximum employment and stable prices – are now better balanced and a rate-cutting cycle is imminent.

The Consumer Price Index (CPI) fell four-tenths to 2.5 percent compared to a year ago in August, a new cycle low and roughly even with pre-pandemic readings. While core inflation remains somewhat stickier, 2.3 percentage points of the 3.2 percent year-over-year increase in core prices is due to lagged shelter prices, which are widely expected to converge to lower measures of rents on newly signed leases over time. On the employment side, the 142,000 increase in payroll employment in August represented an improvement from July’s downwardly revised estimate of 89,000 jobs added, but the three-month moving average of job gains declined to just 116,000, the lowest level since the start of the labor market recovery following the pandemic. The unemployment rate fell back one-tenth, as expected, to 4.2 percent due in part to a reversal in those reporting temporary unemployment in July, but it remains five-tenths higher than in January. Data from the July Job Openings and Labor Turnover Survey (JOLTS) also showed a slowing labor market as job openings declined to their lowest level since February 2021, layoffs moved up to their highest level since March 2023, and the quits rate remained below its pre-pandemic level. Varying business surveys also show softening in hiring.





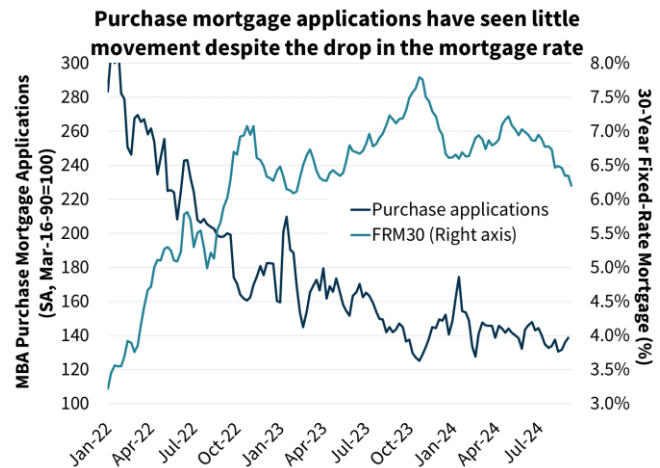
Despite this, real Personal Consumption Expenditures (PCE) have remained robust to date. Second quarter PCE was revised upward by six-tenths to a 2.9 percent annualized gain in the second release of GDP and monthly data showed another 0.4 percent increase in real consumption in July. As has been the case over the past half-year, the strong consumption occurred without a corresponding large increase in real disposable personal income, which grew at just a 0.9 percent annualized rate in the second quarter. This dynamic has pushed the saving rate down to just 2.9 percent in July, the lowest level since June 2022 and several percentage points below its pre-pandemic level. We continue to believe that the current rate of spending relative to incomes is unsustainable, and therefore expect consumption will slow by the end of the year. However, the exact timing of this downshift presents risk to our forecast.



On balance, our growth forecast is largely unchanged compared to last month. While we have upgraded our third quarter growth expectations due to stronger base effects from the higher second quarter reading, we continue to expect that growth will slow in line with business surveys and signs of a weaker labor market. We now forecast 75 basis points of fed funds rate cuts by the end of the year, spread evenly between the Fed’s three remaining meetings. We anticipate that rates will continue to decline through next year and, with a lag, will provide a boost to the economy as monetary policy transitions from a restrictive to a neutral stance. We expect GDP growth will return to roughly its long-term potential by the end of 2025.

Rising Regional Variation in Housing Market as Sales Fail to Respond to Easing Mortgage Rates

Existing home sales continue to be weak despite the pullback in mortgage rates over the past few months. While existing home sales edged upward by 1.3 percent in July, the pace remained at a subdued 3.95 million units annualized, near the cycle low. Furthermore, pending home sales, which lead sales on average by 30-45 days, fell back by 5.5 percent in July, pointing to likely further weakness in August and September. Higher frequency data such as purchase mortgage applications and Redfin’s Home Search Demand Index, also show little signs of a pickup in sales. Therefore, we have downwardly revised our near-term existing home sales forecast and now expect existing home sales to average only around 4 million annualized units for the remainder of 2024 and for the year to be slightly below the 2023 sales pace.



Despite an easing in mortgage rates, the lock-in effect remains strong as the bulk of existing mortgage borrowers still have notes with rates well below current market rates. This is likely continuing to keep many would-be homebuyers and home-sellers on the sidelines. Based on Fannie Mae’s book of outstanding single-family mortgage loans, as of June 30, 2024, approximately 80 percent of 30-year fixed rate loans had note rates at least 100 basis points below the average 30-year fixed-rate mortgage rate of 6.20 percent, as of September 12, 2024, as measured by Freddie Mac’s weekly mortgage rate survey. More than 60 percent had a note rate greater than 200 basis points below the current average market rate. Affordability constraints also continue to be a challenge aside from any lock-in disincentives.



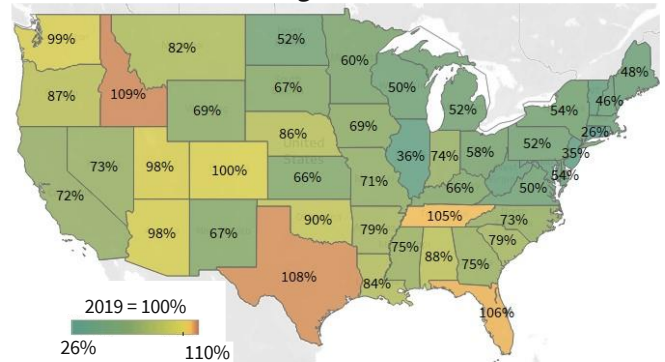
On a national basis, the inventory of homes listed for sale continues to nudge upward. According to the National Association of REALTORS®, the number of homes on the market at the end of July was up 19.8 percent from a year prior. However, this rise in homes on the market is not occurring because of a significant increase in new listings. Rather, the pace of sales has been so weak that new listings on average are remaining on the market longer.

The rise in the inventories of homes for sale has not been uniform across geographies, and we believe this geographic variation is a significant factor as to why home sales have not responded meaningfully to the pullback in mortgage rates. Most of the rise in homes for sale have occurred in Sun Belt and a few Mountain West states. Some of these states now have for-sale inventories near or even above what was available pre-pandemic at the end of 2019. However, most of the Northeast and Midwest continue to have near cycle lows of homes available for sale.

While there are likely many factors driving this divergence, an examination of the states driving the rise in homes for sale shows that these they tend to have two characteristics in common. First, the cumulative home price gains since the pandemic have tended to be some of the largest, creating a larger relative shock to affordability for residents in these states. Second, these states have had comparatively strong new home construction since the pandemic, causing existing home listings to face greater competition from homebuilders offering new homes. We interpret the lack of a sales pick up in these states, despite the increase in for-sale listings, as meaning there are no longer enough borrowers able or willing to transact at current price points and mortgage rates, whether because affordability is now binding for the marginal buyer, because new home sales are more attractive, or some other reason, such as concern about availability and cost of insurance. To date, the decline in mortgage rates has not helped affordability enough to generate sales in these markets. This can be seen in the scatterplot chart above, where states in the top right quadrant are those with comparatively high recent homebuilding and comparative large post-pandemic home price gains. These states are driving the bulk of the national rise in active for-sale listings of existing homes.

In contrast, inventories remain subdued in most other states. Listings being put onto the market are continuing to find adequate buyer interest either because the relative affordability shock in recent years has been comparatively small (as is the case in much of the Midwest), and/or there has been limited new home construction as an alternative (as is the case in the smaller states in the Northeast, which has also seen some of the strongest home price gains as demand shifted away from the New York and Boston metro areas). These dynamics appear to have affected household attitudes. In recent months there has been a widening regional divergence of consumer sentiment on whether it's a "good time to sell" in Fannie Mae's [Home Purchase Sentiment Index®](#). Respondents in the Northeast are

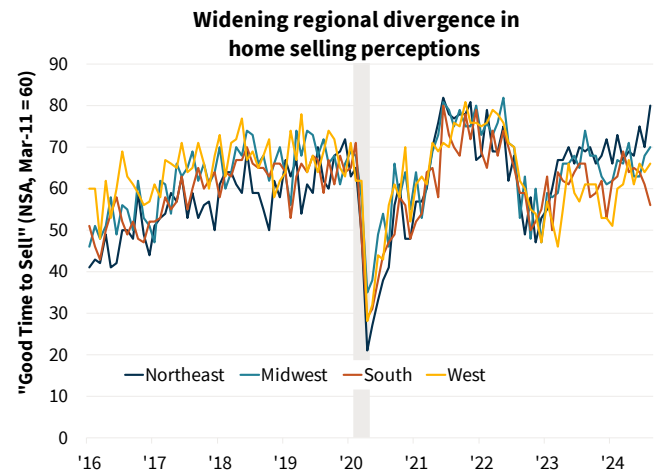
Sun Belt and Mountain West states have the highest active listings relative to 2019





increasingly saying it's a good time to sell, perhaps indicating the ongoing tight inventories and shorter time on the market, while respondents in the South have become more downbeat about selling conditions.

As time progresses, more households will likely initiate moves because they can't put off various life events any further; however, as long as the lock-in effect remains as strong as it currently is, we do not expect a large increase in transactions broadly. For the states that are seeing rises in active inventories, we expect a combination of easing mortgage rates and soft home price growth relative to income growth will be needed before existing home sales begin to meaningfully rise, as affordability constraints appear to be a large driver. While it will likely take some time before sales recover to a more "normal" pace, we forecast existing home sales to begin moving up in a meaningful way in mid-2025 as mortgage rates ease further and home price growth decelerates, as shown in our forecast. While we have softened our new home construction forecast over the past couple months, we continue to expect comparatively robust activity in the new home sales market as elevated existing home prices will continue to make new homes attractive, especially as homebuilders continue to offer concessions and rate buy downs.

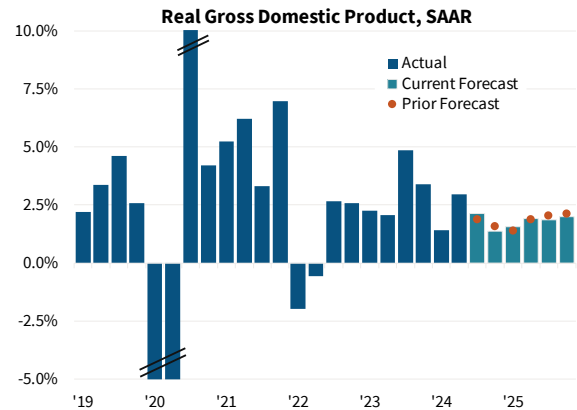




Economic Forecast Changes

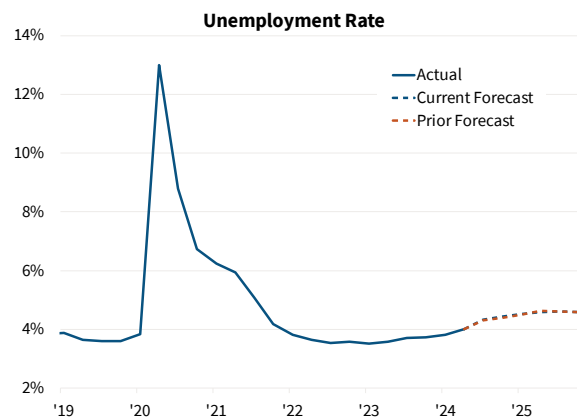
Economic Growth

The second estimate of Q2 2024 GDP was revised upward by two-tenths to an annualized 3.0 percent, driven by an upward revision to consumption. This higher starting level led to an upward revision to our Q3 forecast, though we maintain our expectation of weakness in Q4 and the first quarter of 2025. Our GDP forecast for total yearly growth in 2024 on a Q4/Q4 basis was revised upward one-tenth to 2.0 percent. Our forecast for growth in 2025 was unchanged at 1.8 percent Q4/Q4.



Labor Market

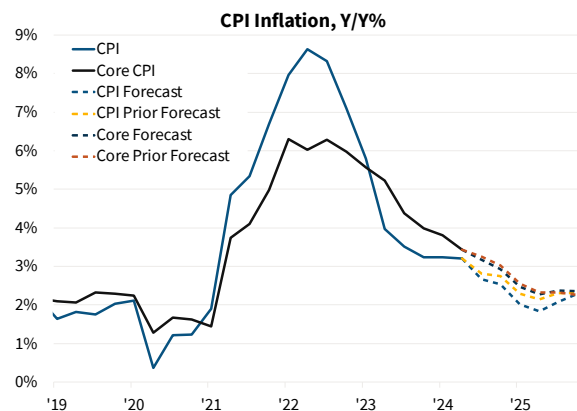
Nonfarm payroll employment growth was muted in August, growing by just 142,000, while the June and July employment figures were revised downward by a combined 86,000. The unemployment rate fell one-tenth to 4.2 percent, ending a four-month string of increases. Given this, our unemployment rate expectations were unchanged, and we continue to expect the labor market to cool at a gradual pace.



Inflation & Monetary Policy

Our inflation outlook was revised downward following a downward revision to our oil price outlook. The August Consumer Price Index (CPI) report was in line with our expectations for further deceleration in inflation. We continue to forecast inflation to moderate over our forecast horizon.

Given the inflation numbers and signs of cooling in the labor market, our baseline expectation remains that the Fed will begin to cut the federal funds rate in September by 25 basis points, followed by 25-basis point cuts at both the November and December meetings.

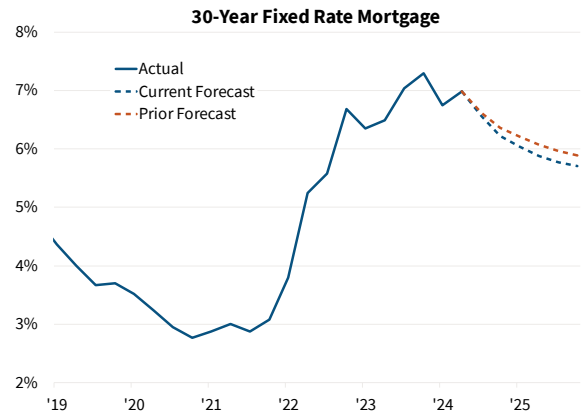




Housing & Mortgage Forecast Changes

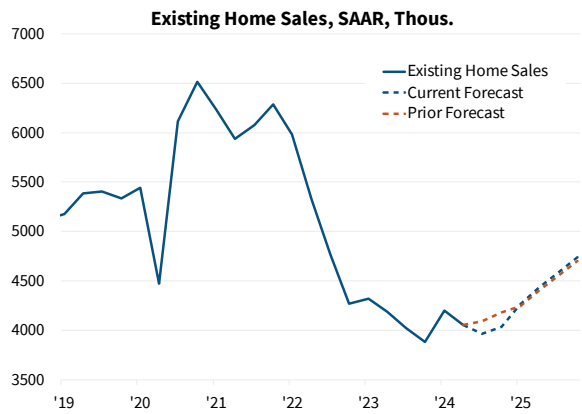
Mortgage Rates

We revised downward our mortgage rate forecast for 2024 given the recent decline in longer-term interest rates. We now forecast the 30-year fixed mortgage rate to average 6.6 percent in 2024 (down one-tenth from last month’s forecast) and to average 5.9 percent in 2025, down one-tenth. However, interest rates remain volatile, particularly given changes to Fed policy expectations, which adds risk to our outlook. Following the completion of our beginning-of-the-month interest rate forecast and as of this writing, 10-year Treasury rates have decreased approximately 26 basis points, leading to some downside risk to our current baseline mortgage rate forecast.



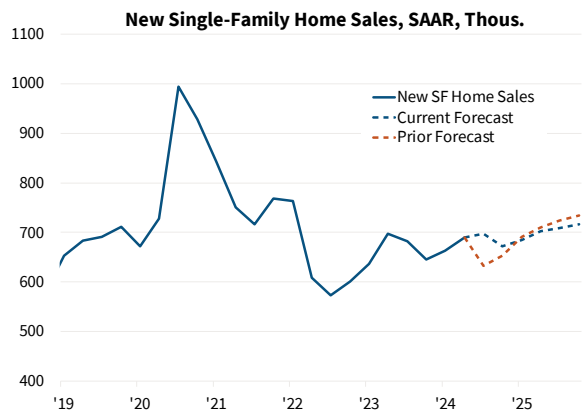
Existing Home Sales

Existing home sales rose 1.3 percent to a seasonally adjusted annualized rate (SAAR) of 3.95 million in July. We revised downward our near-term outlook for existing home sales, despite the lower mortgage rate path, given the weakness in recent high-frequency indicators, such as purchase applications, which have shown little movement despite the drop in mortgage rates. However, we continue to forecast existing sales to trend gradually upward over our forecast horizon as affordability slowly improves and lock-in effects weaken.



New Home Sales

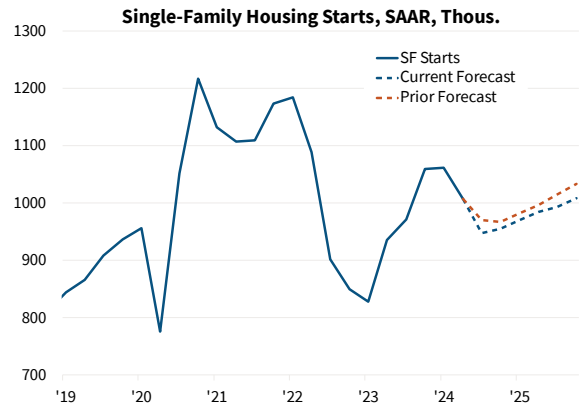
New single-family home sales jumped 10.6 percent in June to a SAAR of 739,000. We have upwardly revised our new home sales outlook following the strong July report, and we continue to expect the dearth of existing homes being listed for sale to help support new home sales and lead to a gradual increase over the forecast horizon.





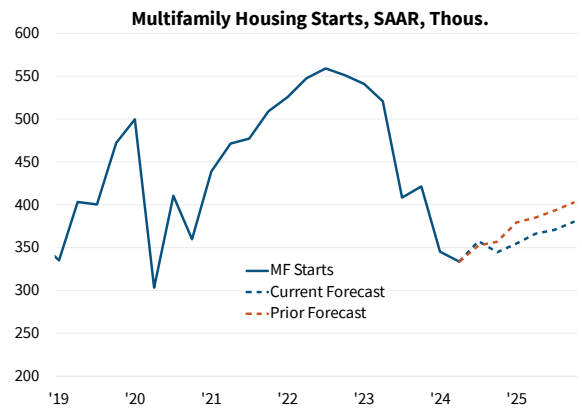
Single-Family Housing Starts

We've revised downward our expectation for single-family housing starts, as incoming data point to a weaker near-term outlook for single-family construction, as well as a growing stock of homes for sale already started. Starts fell sharply in July, and other indicators, such as permits along with low homebuilder confidence, continue to suggest a lower path.



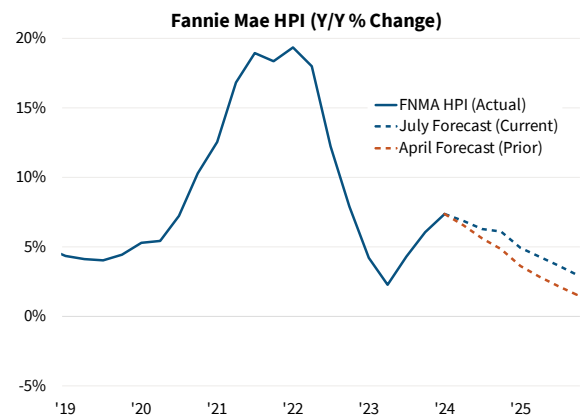
Multifamily Housing Starts

We have downgraded our multifamily housing starts forecast. While the multifamily starts series is notoriously volatile, we continue to believe demographic trends will be supportive of multifamily construction further out in the future once the current high level of units in the construction pipeline work their way onto the market over the next couple of years.



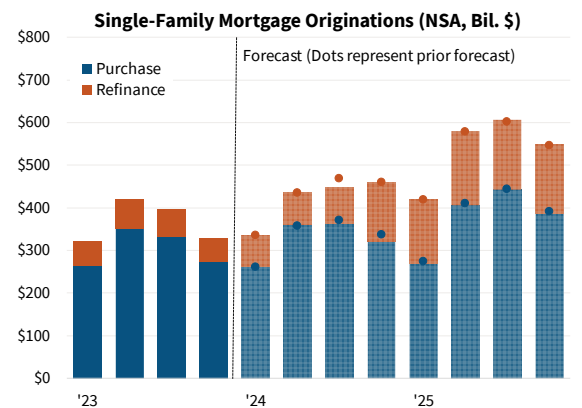
Single-Family Home Prices

Our most recent home price forecast was in our July forecast, where we forecast national home prices to rise 6.1 percent in 2024 and 3.0 percent in 2025 on a Q4/Q4 basis. Our next home price update will be in October.



Single-Family Mortgage Originations

We expect 2024 purchase origination volume to be \$1.3 trillion, a downward revision of \$20 billion from the prior forecast. This revision is driven by a somewhat weaker expectation for existing home sales. In 2025, we expect purchase volumes to grow by 15 percent year over year to \$1.5 trillion.



For refinances, we now expect 2024 volume to be \$375 billion, a slight upward revision from last month's forecast given the lower mortgage rate path. We expect 2025 volumes to come in at \$649 billion, an upward revision of \$23 billion from the prior forecast, again driven by the lower expected mortgage rate path. These upward revisions are consistent with a slight uptick in



refinance application activity lately compared to earlier in the summer, as seen in the Fannie Mae [Refinance Application-Level Index](#) (RALI).



Economic Forecast Table

Economic Forecast: September 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	1.4	3.0	2.1	1.4	1.6	1.9	1.9	2.0	3.1	2.0	1.8
Personal Consumption Expenditures (PCE)	3.8	0.8	3.1	3.3	1.5	2.9	3.2	2.0	1.8	1.8	1.7	1.9	2.7	2.4	1.8
Residential Fixed Investment	-5.3	-2.2	6.7	2.8	16.0	-2.0	-7.7	-5.5	-3.0	4.4	7.5	7.3	0.4	-0.2	4.0
Business Fixed Investment	5.7	7.4	1.4	3.7	4.4	4.6	4.0	1.4	2.4	2.6	2.2	2.1	4.6	3.6	2.3
Government Consumption & Investment	4.8	3.3	5.8	4.6	1.8	2.7	0.7	1.3	0.7	0.6	0.6	0.5	4.6	1.6	0.6
Billions of Chained 2012\$															
Net Exports	-1243	-1231	-1236	-1225	-1272	-1329	-1369	-1374	-1373	-1384	-1397	-1404	-1234	-1336	-1390
Change in Business Inventories	28	16	81	57	30	72	77	69	66	74	83	88	45	62	77
Percent Change: Quarterly YoY, Annual Q4/Q4															
Consumer Price Index	5.7	4.0	3.6	3.2	3.2	3.2	2.7	2.5	2.0	1.8	2.1	2.3	3.2	2.5	2.3
Core Consumer Price Index (ex. Food & Energy)	5.5	5.2	4.4	4.0	3.8	3.4	3.2	2.9	2.5	2.3	2.4	2.4	4.0	2.9	2.4
PCE Chain Price Index	5.0	3.9	3.3	2.8	2.6	2.6	2.3	2.3	2.0	1.8	2.0	2.1	2.8	2.3	2.1
Core PCE Chain Price Index (ex. Food & Energy)	4.8	4.6	3.8	3.2	2.9	2.6	2.6	2.6	2.3	2.1	2.1	2.1	3.2	2.6	2.1
Change: Quarterly Avg Mo. Chg, Thous., Annual Mil.															
Employment, Total Nonfarm	305	274	213	212	267	147	116	105	109	111	121	127	3.0	1.9	1.4
Percent Change: Q4/Q4													1.9	1.3	0.9
Percent: Quarterly Avg, Annual Avg															
Unemployment Rate	3.5	3.6	3.7	3.7	3.8	4.0	4.3	4.4	4.5	4.6	4.6	4.6	3.6	4.1	4.6
Federal Funds Rate	4.5	5.0	5.3	5.3	5.3	5.3	5.3	4.9	4.5	4.2	4.0	3.7	5.0	5.2	4.1
10-Year Treasury Note Yield	3.6	3.6	4.2	4.4	4.2	4.4	4.0	3.9	3.9	3.9	3.9	3.9	4.0	4.1	3.9

Forecast values as of September 10, 2024

Note: Interest rate forecasts are based on rates from August 30, 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: September 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	1,369	1,455	1,380	1,481	1,407	1,340	1,305	1,300	1,325	1,351	1,364	1,389	1,420	1,338	1,357
<i>Percent Change: YoY</i>													-8.5	-5.8	1.4
Single-Family (1 Unit)	828	935	972	1,060	1,062	1,007	948	955	970	984	993	1,009	948	993	989
<i>Percent Change: YoY</i>													-5.7	4.8	-0.4
Multifamily (2+ Units)	541	520	409	421	345	334	358	345	355	366	371	380	472	345	368
<i>Percent Change: YoY</i>													-13.7	-26.9	6.6
Total Home Sales	4,953	4,885	4,702	4,526	4,863	4,877	4,659	4,708	4,949	5,138	5,295	5,451	4,756	4,742	5,209
<i>Percent Change: YoY</i>													-16.1	-0.3	9.8
New Single-Family	636	698	682	646	663	690	697	672	685	702	709	717	666	680	703
<i>Percent Change: YoY</i>													3.9	2.2	3.3
Existing (Single-Family, Condos/Co-Ops)	4,317	4,187	4,020	3,880	4,200	4,187	3,962	4,036	4,264	4,436	4,587	4,735	4,090	4,062	4,505
<i>Percent Change: YoY</i>													-18.7	-0.7	10.9
Percent Change: Quarterly YoY, Annual Q4/Q4															
Fannie Mae HPI	4.2	2.3	4.3	6.0	7.3	6.9	6.3	6.1	4.9	4.3	3.7	3.0	6.0	6.1	3.0
Percent: Quarterly Avg, Annual Avg															
30-Year Fixed Rate Mortgage	6.4	6.5	7.0	7.3	6.7	7.0	6.6	6.2	6.0	5.9	5.8	5.7	6.8	6.6	5.9
NSA, Bil. \$, 1-4 Units															
Single-Family Mortgage Originations	323	421	397	329	335	438	448	460	419	580	607	549	1,470	1,680	2,155
Purchase	265	351	331	275	261	360	363	321	270	406	442	388	1,222	1,305	1,506
Refinance	58	70	65	54	75	78	85	138	150	174	164	161	248	375	649
Refinance Share (Percent)	18	17	16	16	22	18	19	30	36	30	27	29	17	22	30

Forecast values as of September 10, 2024

Note: The Fannie Mae HPI forecast is updated on the first month of every quarter. Interest rate forecasts are based on rates from August 30, 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

September 15, 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 Labor Statistics, Bureau of Economic Analysis, Mortgage Bankers Association, Freddie Mac, Realtor.com, Federal Housing Finance Agency, US Postal Service, Census Bureau, Fannie Mae Home Purchase Sentiment Index

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