Economic Growth, Inflation Still on Track to Slow as Interest Rate Volatility Continues

Our May forecast maintains our previous outlook for Q4/Q4 real Gross Domestic Product (GDP) growth of 1.8 percent in 2024 and 1.9 percent in 2025. We expect payroll growth to decelerate and the unemployment rate to drift upward to 4 percent by the end of the year. Longer-term interest rates, including mortgage rates, have been volatile the past two months – first rising in response to stronger than expected economic data, and then a more recent decline on weaker readings. Despite this, we view economic growth and inflation as being on the same track as our prior outlook, and we continue to anticipate moderation as the year progresses. We also continue to expect the Federal Reserve to implement the first of two rate cuts this year in September as inflation measures moderate, gradually trending toward the Fed's 2-percent target. However, we believe the Fed is likely to remain cautious as there are still signs that inflation may remain stickier than anticipated.

We revised modestly lower our total home sales forecast, primarily due to the higher mortgage rate forecast compared to last month's projection – although we still expect an upward trajectory in sales through our forecast horizon, and recent downward movements in mortgage rates following the conclusion of our interest rate forecast present slight upside risk to housing activity. We now project 2024 total home sales to be 4.89 million (4.96 million previously), followed by 2025 total sales of 5.29 million (previously 5.47 million). Consistent with the slower sales outlook, our forecast for total mortgage originations was downgraded modestly to $1.73 trillion for 2024 ($1.81 trillion previously) and $2.08 trillion in 2025 ($2.26 trillion previously).

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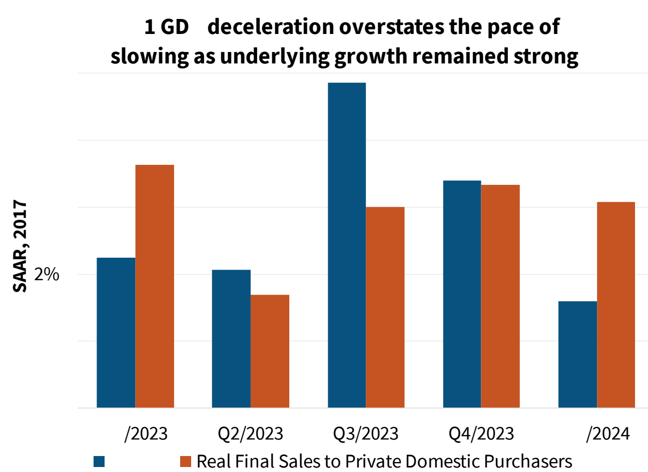
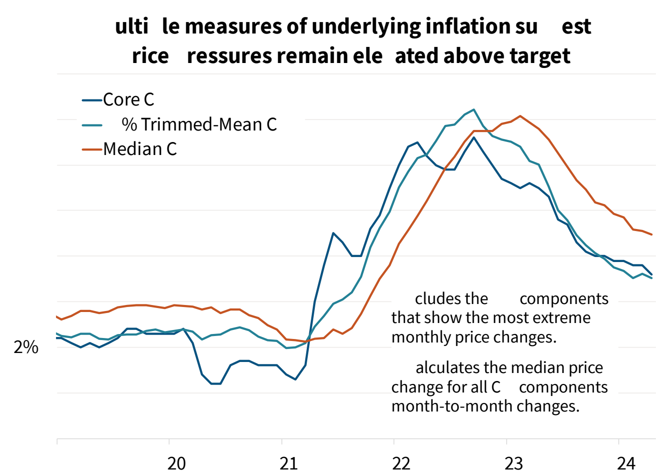
Underlying Growth Remained Steady Through Q1 but Slowing Still Likely

First quarter 2024 GDP increased at a 1.6 percent annualized rate, below both consensus and our expectations. However, the headline miss was due almost entirely to the volatile net exports and business inventory investment categories; real consumption growth and private fixed investment were in line with our forecast. Real final sales to private domestic purchasers, the sum of personal consumption and gross private fixed investment, increased at a solid 3.1 percent annualized rate, nearly identical to each of the prior two quarters. While we see the underlying growth trend modestly decelerating, the weak Q1 topline figure likely overstates the pace of deceleration, and we expect a solid snap back in Q2, which we have upwardly revised in our outlook. However, on net, this quarterly change has no material impact on our full-year 2024 total growth forecast.



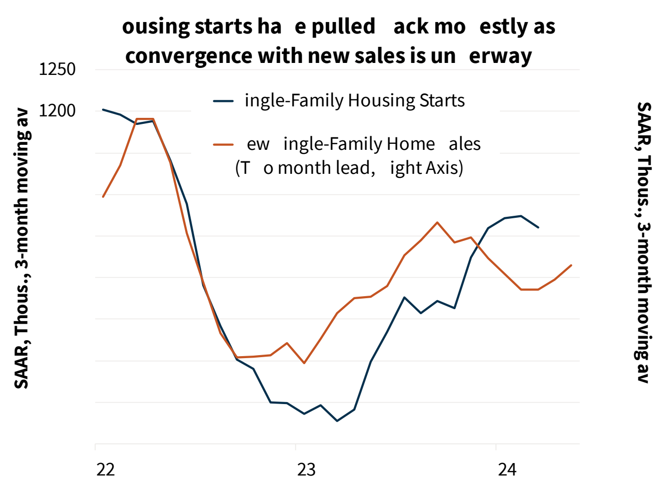
Putting aside near-term volatility, we do expect continued deceleration in growth as the year progresses. Strong consumer spending growth in February and March was not matched by income growth and, therefore, came at the expense of savings. We think growth in consumption is likely to slow, and the most recent pullback in core retail sales in April, which fell by 0.3 percent over the month, is supportive of this view. While revolving consumer credit balances remain normal relative to incomes, higher interest rates are likely putting some consumers under stress: Personal interest payments on all non-mortgage debt as a percentage of total personal outlays has been at its highest level since 2008 over the past three quarters, and recent data show an uptick in credit card and auto loan delinquencies. Additionally, we expect further softening in labor market conditions, which will likely limit consumption growth. The April employment report showed nonfarm payroll growth slowing to 175,000, a marked slowdown compared to the 269,000 average jobs added each month in the first quarter. While additional data will be necessary to definitively establish that the trend is slowing, a downshift in hiring would be consistent with other labor market indicators, such as the Job Openings and Labor Turnover Survey's (JOLTS) job openings and quits rates, which have shown cooling labor market conditions for several months.

We believe the combination of softer labor market conditions and weaker consumption growth should flow through to lower inflation prints in the second half of the year. Further, we continue to expect measures of shelter inflation to weaken over time as measures of new tenant rents, including the Bureau of Labor Statistics' (BLS) own series, show near-zero rent growth over the past two quarters. While these "fundamentals" point to decelerating inflation moving forward, releases to date have highlighted the risk that inflation pressures remain sticky. The Fed's preferred core Personal Consumption Expenditures (PCE) inflation averaged an annualized rate of 4.4 percent through the first three months of the year. While this strength can be explained away by idiosyncrasies in measuring items such as auto insurance and healthcare costs, alternative inflation measures, including the median Consumer Price Index (CPI), also point to some price stickiness that we believe will likely give the Fed and financial markets pause. Additionally, while most labor market indicators are pointing to softening, the Employment Cost Index (ECI) increased 1.2 percent in Q1, an acceleration of three-tenths compared to the prior quarter. As such, we still expect that the Fed will hold off on rate cuts until September and only cut twice this year. We view risks as weighted toward fewer than two cuts rather than three or more cuts. While the 10-year Treasury rate has pulled back after peaking around 4.7 percent at the end of April, the trend in 2024 has clearly been upward. Our May forecast shows a higher interest and mortgage rate path this year and next relative to our prior forecast.



Home Sales Forecast Lower on Higher Mortgage Rates, but Recent Data Coming in as Expected

Existing home sales fell back 4.3 percent in March to an annualized pace of 4.19 million, in line with our expectations. While we expect home sales to remain sluggish going forward, the flow of new listings has remained steady in recent months despite generally rising mortgage rates, suggesting that additional sizeable sales declines are unlikely. We suspect that, for a myriad of reasons, enough would-be sellers are deciding they can no longer put off moving. In April, the supply of active listings, according to Realtor.com, was up 30.4 percent from a year prior. While the higher mortgage rate forecast this month translates into a modest downgrade to 2024 sales, we see the flow of for-sale listings in the near term as being relatively resilient to recent mortgage rate moves. We forecast a modest drift upward in existing home sales over our forecast horizon.

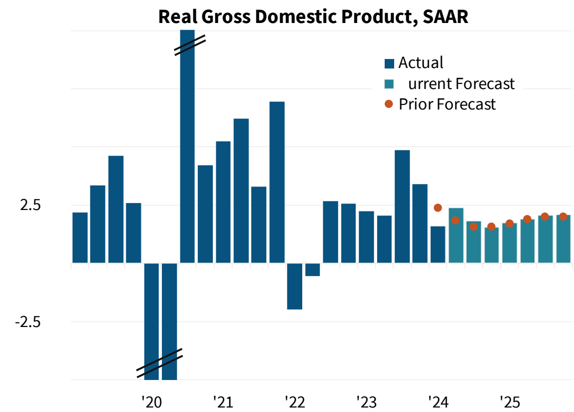


New home construction and sales look to be converging as expected. We had previously noted that the pace of starts has been elevated relative to the new home sales pace in recent months. Single-family starts fell in March by 8.7 percent, followed by a 0.4 percent decline in April, while new sales rose 8.8 percent in March. We expect this convergence to continue in the near term via a combination of homebuilders offering incentives to move existing inventories and a modest slowing in the pace of starts. While existing home sales listings are loosening somewhat, the housing market remains tight in most metros. As such, we continue to expect a solid pace of new home construction over the next two years as buyers look to new homes due to the limited existing home supply.

Economic Forecast Changes

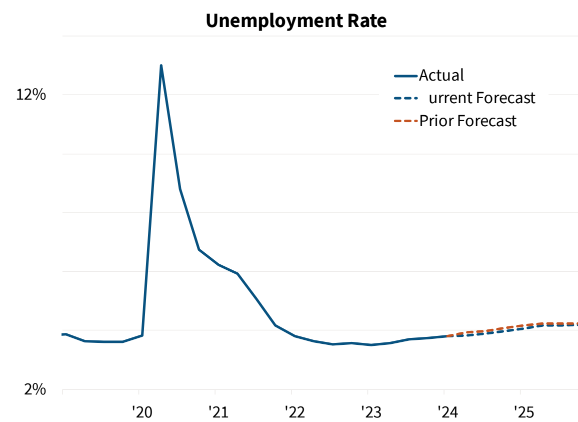
Economic Growth

Q1 2024 GDP grew at an annualized 1.6 percent, well below the consensus and our estimate of 2.4 percent, with the difference driven mostly by net exports and the change in business inventories. Due to stronger "core" GDP we anticipate a rebound and, therefore, have revised upward our Q2 and Q3 forecasts, but our forecast for total yearly growth in both 2024 and 2025 is unchanged at 1.8 percent Q4/Q4 and 1.9 percent Q4/Q4, respectively.



Labor Market

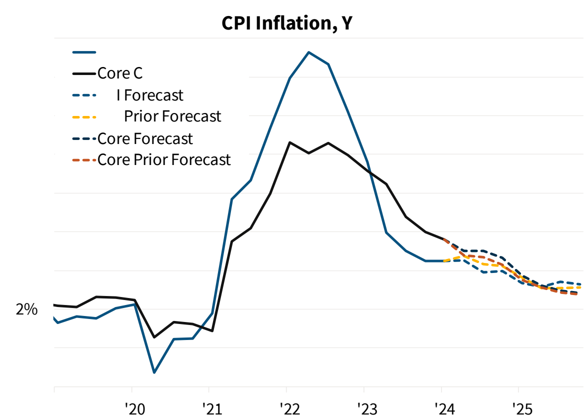
Nonfarm payroll employment growth was 175,000 in April. The unemployment rate ticked up one-tenth to 3.9 percent. Compared to last month, we have lowered slightly our unemployment rate expectations consistent with a modest GDP growth upgrade in Q2 and Q3, though we continue to expect a gradual uptick over time. We continue to project the unemployment rate to gradually trend upward over the course of our forecast horizon.



Inflation & Monetary Policy

A lower near-term energy outlook led to a slight downward revision in the headline CPI outlook, though the persistent stickiness in the core measure of inflation led to a slight upward revision to our core inflation forecasts this month. However, we still forecast inflation to moderate over the outlook time horizon.

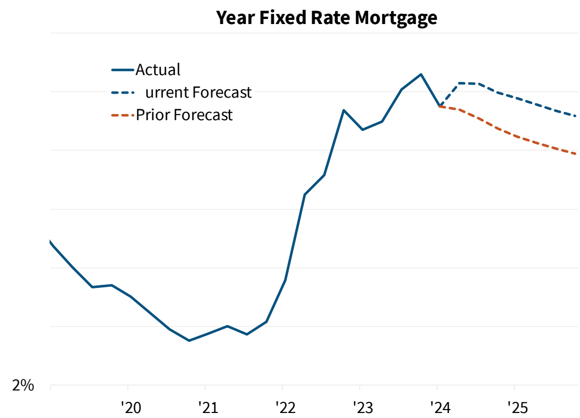
Our baseline expectation continues to be that the Fed will begin rate cuts in September, with only two rate cuts this year given the persistence of inflation and the robust labor market.



Housing & Mortgage Forecast Changes

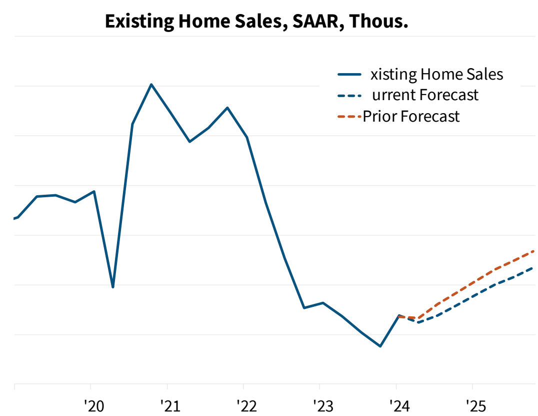
Mortgage Rates

We revised our mortgage rate forecast upward month over month. We now forecast the 30-year fixed mortgage rate to average 7.0 percent in 2024 and 6.7 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 pulled back around 20 basis points, leading to some downside risk to our current baseline mortgage rate forecast.



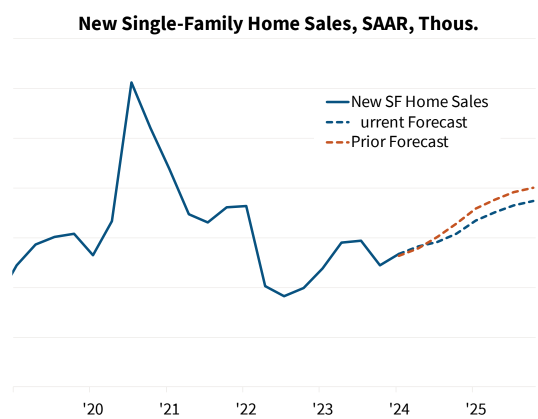
Existing Home Sales

Existing home sales fell to a seasonally adjusted annualized rate (SAAR) of 4.19 million in March. We revised modestly downward our forecast through 2025, mostly driven by the change in mortgage rate expectations. While we expect a pullback in Q2, due to a strong start at the beginning of Q1, we continue to forecast existing sales to trend upward over our forecast horizon on a monthly sequential basis.



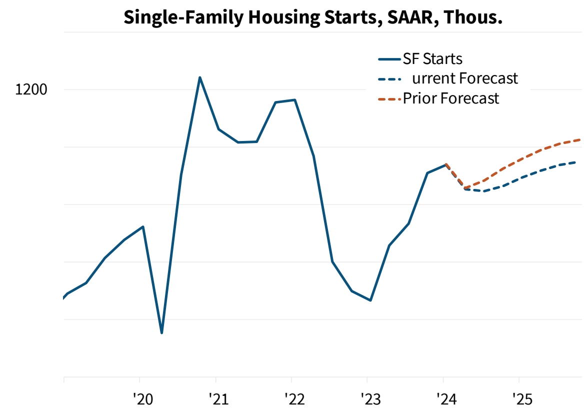
New Home Sales

New single-family home sales jumped 8.8 percent in March to a SAAR of 693,000. Similar to our existing home sales outlook, we have lowered our expectations for new home sales primarily due to the higher interest rate outlook. However, 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.



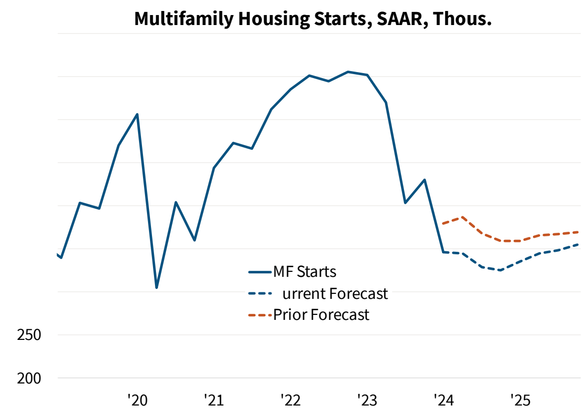
Single-Family Housing Starts

We continue to expect that the lack of existing homes available for sale will continue to boost new home construction in the medium term, though we have lowered our expected starts pace over the forecast horizon due to the higher interest rate path.



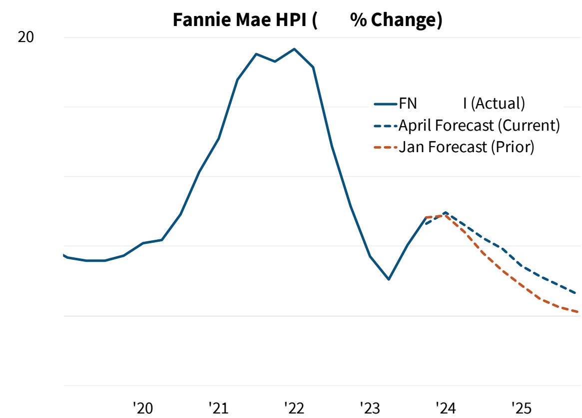
Multifamily Housing Starts

We have downgraded our forecast through the forecast horizon, as we believe multifamily starts remain likely to decline due to muted national rent growth, the large number of multifamily units near completion, and a higher interest rate outlook.



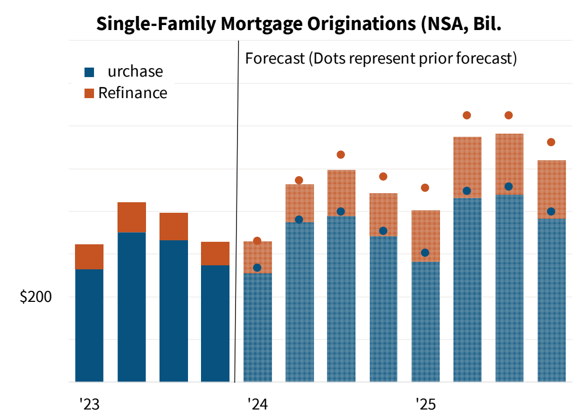
Single-Family Home Prices

Home prices grew 6.6 percent Q4/Q4 in 2023, according to the most recently published non-seasonally adjusted [Fannie Mae Home Price Index](#) (HPI) and are forecast to rise 4.8 percent in 2024 and 1.5 percent in 2025 on a Q4/Q4 basis. Our next home price update will be in July.



Single-Family Mortgage Originations

We have revised downward our expectation for purchase originations this month, consistent with the upward revisions to our mortgage rate forecast. In particular, we now expect market purchase volumes to be $1.4 trillion in 2024, representing 14 percent growth from 2023 but a downward revision of $35 billion from last month's forecast. In 2025, we expect purchase volumes to grow a further 13 percent.



For refinances, we have revised downward our expectation for 2024 volumes to $368 billion, $47 billion lower than the prior months' forecast, with revisions again driven by the higher mortgage rate expectation. This higher interest rate path has also caused us to revise downward refinance volumes in 2025, to $539 billion.

Economic Forecast Table

Economic Forecast: May 2024

	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**	**2023**	**2024**	**2025**
Percent Change: Quarterly SAAR, Annual Q4/Q4															
Gross Domestic Product	2.2	2.1	4.9	3.4	1.6	2.4	1.8	1.5	1.7	1.9	2.1	2.1	3.1	1.8	1.9
Personal Consumption Expenditures (PCE)	3.8	0.8	3.1	3.3	2.5	3.4	2.0	1.6	1.8	1.9	2.0	2.0	2.7	2.4	1.9
Residential Fixed Investment	-5.3	-2.2	6.7	2.8	13.9	-3.6	-1.7	-1.9	3.9	5.5	5.2	5.0	0.4	1.4	4.9
Business Fixed Investment	5.7	7.4	1.4	3.7	2.9	2.1	2.4	3.0	3.0	2.9	2.7	2.6	4.6	2.6	2.8
Government Consumption & Investment	4.8	3.3	5.8	4.6	1.2	0.8	1.3	0.6	0.6	0.3	0.3	0.4	4.6	1.0	0.4
Billions of Chained 2012$															
Net Exports	-1243	-1231	-1236	-1225	-1286	-1316	-1343	-1357	-1375	-1384	-1390	-1394	-1234	-1326	-1386
Change in Business Inventories	28	16	81	57	37	47	64	75	79	81	88	92	45	56	85
Percent Change: Quarterly YoY, Annual Q4/Q4															
Consumer Price Index	5.7	4.0	3.6	3.2	3.2	3.3	3.0	3.0	2.7	2.6	2.7	2.7	3.2	3.0	2.7
Core Consumer Price Index (ex. Food & Energy)	5.5	5.2	4.4	4.0	3.8	3.5	3.5	3.3	2.9	2.6	2.5	2.4	4.0	3.3	2.4
PCE Chain Price Index	5.0	3.9	3.3	2.8	2.6	2.6	2.5	2.6	2.4	2.3	2.3	2.3	2.8	2.6	2.3
Core PCE Chain Price Index (ex. Food & Energy)	4.8	4.6	3.8	3.2	2.9	2.7	2.8	2.8	2.5	2.3	2.2	2.2	3.2	2.8	2.2
Change: Quarterly Avg Mo. Chg, Thous., Annual Mil.															
Employment, Total Nonfarm	305	274	213	212	269	179	158	136	131	127	127	123	3.0	2.2	1.5
Percent Change: Q4/Q4													*1.9*	*1.5*	*1.0*
Percent: Quarterly Avg, Annual Avg															
Unemployment Rate	3.5	3.6	3.7	3.7	3.8	3.8	3.9	4.0	4.1	4.2	4.2	4.2	3.6	3.9	4.1
Federal Funds Rate	4.5	5.0	5.3	5.3	5.3	5.4	5.3	5.0	4.9	4.8	4.8	4.8	5.0	5.2	4.8
10-Year Treasury Note Yield	3.6	3.6	4.2	4.4	4.2	4.6	4.7	4.6	4.6	4.6	4.6	4.6	4.0	4.5	4.6

Forecast values as of May 13, 2024

Note: Interest rate forecasts are based on rates from April 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: May 2024

	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**	**2023**	**2024**	**2025**
SAAR, Thous. Units															
Total Housing Starts	1,385	1,450	1,371	1,485	1,415	1,371	1,353	1,358	1,383	1,404	1,418	1,430	1,420	1,374	1,409
Percent Change: YoY													*-8.5*	*-3.2*	*2.5*
Single-Family (1 Unit)	834	930	967	1,055	1,069	1,026	1,024	1,032	1,048	1,059	1,069	1,075	948	1,038	1,063
Percent Change: YoY													*-5.7*	*9.5*	*2.4*
Multifamily (2+ Units)	552	520	403	430	346	345	329	326	335	345	349	355	472	336	346
Percent Change: YoY													*-13.7*	*-28.8*	*2.8*
Total Home Sales	4,955	4,877	4,713	4,524	4,857	4,803	4,879	5,003	5,137	5,248	5,344	5,443	4,753	4,886	5,293
Percent Change: YoY													*-16.1*	*2.8*	*8.3*
New Single-Family	638	691	693	644	667	682	691	708	735	750	765	773	666	687	756
Percent Change: YoY													*3.9*	*3.2*	*10.0*
Existing (Single-Family, Condos/Co-Ops)	4,317	4,187	4,020	3,880	4,190	4,121	4,188	4,295	4,402	4,498	4,579	4,670	4,087	4,198	4,537
Percent Change: YoY													*-18.7*	*2.7*	*8.1*
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	7.1	7.1	7.0	6.9	6.8	6.7	6.6	6.8	7.0	6.7
NSA, Bil. $, 1-4 Units															
Single-Family Mortgage Originations	323	421	397	329	329	463	497	442	402	575	582	518	1,470	1,730	2,076
Purchase	265	351	331	275	256	377	389	342	282	432	441	383	1,222	1,363	1,537
Refinance	58	70	65	54	73	87	108	100	120	143	141	136	248	368	539
Refinance Share *(Percent)*	18	17	16	16	22	19	22	23	30	25	24	26	17	21	26

Forecast values as of May 13, 2024

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

May 16, 2024

For a snapshot of macroeconomic and housing data between the monthly forecasts, please read R’s Economic and Housing Weekly Notes.

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

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