HOUSING CONNECTION
Mortgage and Real Estate News That Matters

Home Prices May be "Exhausting" Buyers

The rapid run up in house prices **may be starting to exhaust potential homebuyers** according to the quarterly forecast from Freddie Mac's Economic and Housing Research (EHR) Group. The economists say recent indications are of softening demand in home purchase mortgage applications, and the pace of sales, while still elevated from before the pandemic, have cooled since the first of the year and have been slowing for the last four months. Accordingly, the EHR Group is forecasting home sales will decline to 6.9 million from seasonally adjusted rates of 7.6 million in the fourth quarter of 2020 and 7.2 million in Q1 of 2021.

They also expect home prices to moderate from the 17 percent year-over-year gains reported in the May release of Freddie Mac's House Pire Index (FMHPI), the highest growth in the index's history going back to 1975. According to economist Robert Shiller, current inflation-adjusted prices are the highest they have been in records dating back to 1890. Home price appreciation **will average 12.1 percent this year then moderate to 5.3 percent in 2022.**

Strong home sales and rapid price growth will take home purchase originations from $1.8 trillion this year to $1.9 trillion next year, but refinance activity should soften from $2.2 trillion in 2021 to $713 billion in 2022. Total originations will decline from $3.9 trillion to $2.6 trillion by next year.

The group expects that other parts of the economy will continue to mend. While non-farm payrolls are still down 6.8 million jobs from February 2020, there are a record 9.2 million job openings. Consensus estimates put the 2021 real GDP growth over 6 percent, which they say would help close the large gap between the current level of economic activity and potential output.

Consumer price inflation surged in May, and the all-item Consumer Price Index increased 5.0 percent on an annual basis while the index for all items less food and energy gained 3.8 percent. The Personal Consumption Expenditures (PCE) price index for May showed 3.9 percent annual growth and the core PCE price index which also excludes food and energy and is the Federal Reserve's preferred measure of price inflation, grew 3.4 percent. The report says **many economists consider the increased inflation to be transitory** and expect the numbers to fall back towards 2 percent over the next two years.

The bond market appears to have shrugged off these inflation readings, and long-term interest rates have fallen recently. The U.S. weekly average 30-year fixed-rate mortgage was 2.9 percent for the week of July 8, 2021. While Freddie Mac's economist are forecasting an increase in rates later this year, it will not be a rapid one. By the end of the year 30-year rates will be around 3.4 percent, rising to 3.8 percent by the fourth quarter of 2022.

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