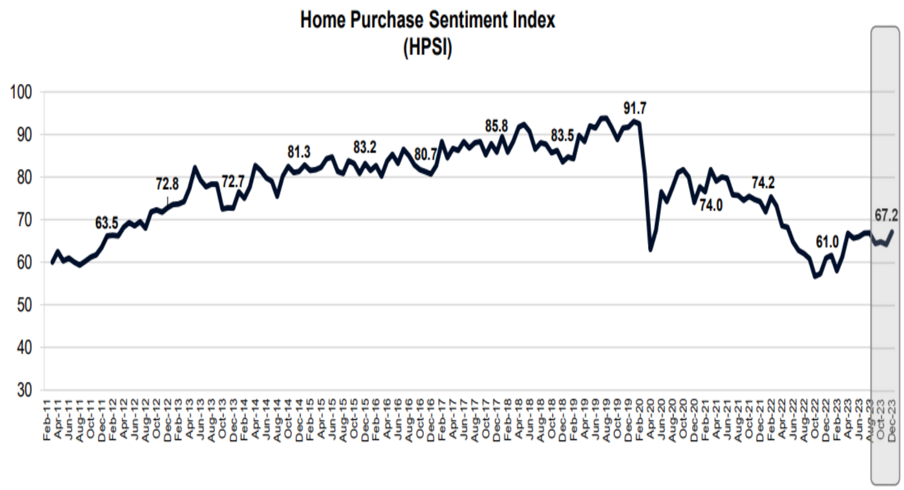
Interest Rate Hopes Send Fannie Mae Index Higher

Even as consumer sentiment about housing remained generally pessimistic, a change in perceptions about the future of mortgage interest rates did a lot to brighten the mood of consumers responding to Fannie Mae's National Housing Survey (NHS). The company says its Home Purchase Sentiment Index (HPSI) based on that survey rose 2.9 points in December. That month's reading of 67.2 is the highest for the index since the spring of 2022 and 6.2 points higher than in December 2022.



The increase was largely due to consumers' expectations that interest rates, already down more than a point from their November levels, would continue to decline over the next 12 months. Thirty-one percent of those responding to the rate prediction question said they expected a decrease, 31 percent said rates would increase, and 36 percent expected no change for a net positive response of 0 percent. This is 22 points higher than in November and a 37-point increase year-over-year.

It may have been rate prospects that also gave a slight lift to consumer attitudes toward home buying. The question as to whether it is a good time to do so has been generating a net negative score hovering around a survey low of 70 percent for the last three months. That number rose 5 points in December to a negative net of 66 percent. As for selling, 57 percent of respondents viewed those conditions as good versus 42 percent who did not for a net positive of 17 percent, down 5 points for the month.

The HPSI is derived from the responses to six questions on the monthly NHS. The other component directly related to housing is the future direction of home prices, Thirty-nine percent of respondents expect prices to continue to rise, 24 percent expect them to decline, and 36 percent expect no change. The net of 15 percent expecting increases is 2 points lower than in November.

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"Mortgage rate optimism increased dramatically this month, with a survey-high share of consumers anticipating mortgage rate declines over the next year," said Mark Palim, Vice President and Deputy Chief Economist at Fannie Mae. "This significant shift in consumer expectations comes on the heels of the recent bond market rally and an already-significant downtick in 30-year mortgage rates, from their high of nearly 8 percent in early November to 6.62 percent as of this past week. Notably, homeowners and higher-income groups reported greater rate optimism than renters; in fact, for the first time in our National Housing Survey's history, more homeowners, on net, believe mortgage rates will go down than go up." Palim continued: "A more optimistic rate outlook among consumers may signal an expectation that home affordability pressures will ease in 2024. Homeowners have told us repeatedly of late that high mortgage rates are the top reason why it's both a bad time to buy and sell a home and so a more positive mortgage rate outlook may incent some to list their homes for sale, helping increase the supply of existing homes in the new year. Of course, that's likely dependent on the extent to which mortgage rate expectations are met with actual mortgage rate declines. Like many others, even if rates fall further, we continue to believe that affordability will be tempered in part by elevated home prices, especially for first-time homebuyers, and we expect the pace of home sales improvement to be modest in 2024."

The remaining components of the index are concerned with consumers' attitudes toward their personal financial situation. Twenty percent reported significantly higher income than 12 months earlier while 13 percent said their income had fallen. The net of those who were not worried about losing their job was 50 percent.

The NHS, from which the HPSI is constructed, is conducted monthly by telephone among 1,000 consumers, both homeowners and renters. In addition to the six questions that are the framework of the index, respondents are asked about the economy, personal finances, attitudes about getting a mortgage, and questions to track attitudinal shifts.

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