Fannie Mae sees dark days ahead for the housing market

Economic and Strategic Research Group expects total home sales to decrease 16.2% in 2022

It will get worse for the housing market – and mortgage industry – before it gets better. That's the takeaway from a group of economists at **Fannie Mae** who slashed their forecast for 2022 home sales this week.

"Housing remains clearly on the downtrend — and has been for several months now — due to the combined effects of outsized home price increases and the significant and rapid run-up in mortgage rates," Fannie Mae's Chief Economist Doug Duncan said in a statement.

Fannie Mae's Economic and Strategic Research Group expects total home sales to decrease 16.2% in 2022, a further downward revision from July's projected drop of 15.6%.

The latest forecast also projects total mortgage origination activity at $2.47 trillion in 2022, down from $4.47 trillion in 2021. The mortgage market is projected to slip even further in 2023, dropping to $2.29 trillion.

A brutal housing market has already tested the business models of mortgage lenders, and it will be a while before conditions improve. In the second quarter of 2022, nonbank mortgage lenders on average lost $82 per loan, according to the **Mortgage Bankers Association**. Combining both production and servicing operations, only 57% of companies in the MBA report were profitable in the second quarter.

On average, IMBs generated $705 million in origination volume in the second quarter, down from $808 million in the previous quarter. Total production revenue for IMBs, which includes fee income, net secondary marking income and warehouse spread, decreased to 335 bps in the second quarter, down from 350 bps a quarter prior. On a per-loan basis, production revenues declined to $10,855 per loan in the second quarter, down slightly from $10,861 per loan in the first quarter.

Many lenders have been cutting hundreds or thousands of staffers amid the dip in origination volume.

Fannie Mae forecasters said that despite mortgage rates settling in the low 5% range over the past month, recent incoming data has led them to revising the home sales forecast, notably because of a drop in new home sales.

New homes sold at an annualized pace of 590,000 units in June, the lowest sales pace since April 2020. ESR Group researchers now expect new home sales to finish the year at 632,000 units, down from 668,000 in last month's forecast. New home sales are now projected to fall 18% from last year, while existing home sales are expected to fall by 16% in 2022 to 5.143 million.

Fannie Mae's ESR group also said it expected real gross domestic product growth for the full year 2022 and 2023 to remain flat from last month at 0.0% and negative 0.4%, respectively.

"The continued expectation that real GDP growth will be negative beginning in 2023 is due to the combined effects of tighter monetary policy weighing on business and residential investment and still-elevated inflation weighing on consumer spending," Fannie Mae wrote in the report.

The ESR group wrote that it expects inflation to tick down gradually, ending 2022 at 7.2% and 1.8% by the end of 2023.