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ORIGINATIONS

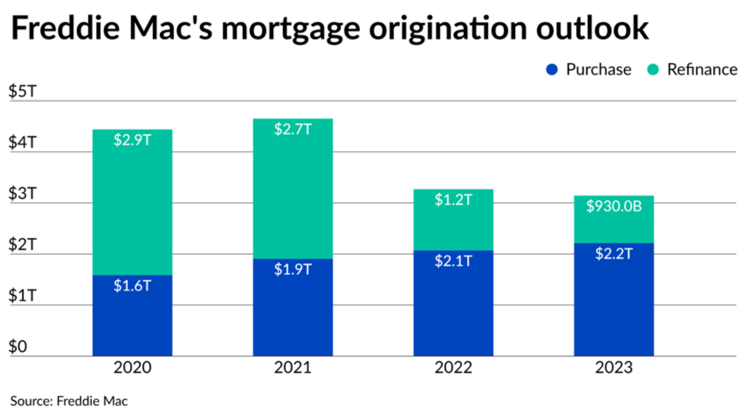
Freddie Mac raises 2022 outlook but expects housing demand to soften

By Brad Finkelstein January 24, 2022, 2:33 p.m. EST 3 Min Read

Even though Freddie Mac expects housing demand to ease up in 2022, the government-sponsored latest quarterly forecast predicts $3.27 trillion in mortgage originations this year. This is up from its September outlook of $3.11 trillion.

Freddie Mac now estimates that 2021 finished with $4.65 trillion in volume, also increased from September's $4.46 trillion.

"As mortgage rates rise, we do expect some moderation in housing demand, causing house price growth to temper," Sam Khater, Freddie Mac's chief economist, said in a press release. "However, the combination of a large number of entry-level homebuyers facing a shortage of entry-level inventory of homes for sale should keep the housing market competitive."



Fourth quarter home sales are expected to come in at a seasonally adjusted annual rate of 7.1 million. For the full year 2021, they are projected to run at a pace of 6.9 million following second and third quarters where the pace was 6.6 million and 6.8 million respectively. Freddie Mac's forecast calls for 6.9 million SAAR units in 2022 and an increase to 7.0 million in 2023.

As a result, it is predicting purchase origination activity to increase to $2.07 trillion this year and $2.21 trillion in 2023 from $1.91 trillion for 2021. But rising mortgage rates will take their toll on refinancings, going from $2.75 trillion last year to $1.2 trillion in 2022 and $930 billion in 2023.

The effect of rising rates on home purchase affordability should not be discounted, First American Chief Economist Mark Fleming said in the company's Real House Price Index release for November.

If rates remain in the current 3.5% range into the spring home buying season, compared with November, purchase power falls by approximately $25,000.

"If rates increase to the anticipated end of 2022 level of 3.7%, house-buying power would fall by $36,000," Fleming said. "Finally, if mortgage rates reach 4% as some industry experts anticipate, house-buying power would fall by nearly $52,000 compared with November 2021."

Consumer concern about reduced affordability could affect the decision to buy.

"The fear of missing out, or 'FOMO,' on low rates and the potential loss of house-buying power may supercharge the housing market ahead of the spring home-buying season," said Fleming. "While home buyers may have FOMO because of rising rates, they may not want to succumb to the fear of better options, or 'FOBO,' because there may be a better home option or options when there's more homes for sale [during the spring purchase season], even if it means they may pay more."

The Mortgage Bankers Association also updated its forecast for 2022, reducing it by a scant $9 billion from December to $2.6 trillion this year. Refi production is now expected to come in at $851 billion instead of $860 billion. Its purchase outlook for 2022, as well as full year total volume outlooks for 2023 and 2024 were unchanged.

Meanwhile, the MBA now says 2021 finished with $3.99 trillion in volume, compared with December's estimate of $3.93 trillion.

The organization's economists are more conservative in their forecasting than their counterparts at Fannie Mae and Freddie Mac. Although further revisions are likely as more data comes in, right now, the MBA is the only one of the three that says 2021 originations were lower than 2020's. Its 2020 data shows $4.11 trillion in origination for that year.

Freddie Mac said $4.44 trillion in mortgages were originated in 2020, with 2021 coming in $210 billion higher. Fannie Mae's latest forecast puts 2021's volume at $4.44 trillion, compared with $4.37 trillion in 2020. In 2022, Fannie Mae is predicting $3.34 trillion in originations.