

# The Economists' Magic 8 Ball: What to Expect for the Rest of the Year



**MAY 6**  
**11:30 a.m. – 12:30 p.m.**

**Mark Vitner**, *Managing Director & Senior Economist, Wells Fargo Securities, LLC*

**Rick Sharga**, *EVP, RealtyTrac*

**Mike Fratantoni**, *Chief Economist, SVP, Research & Industry Technology, Mortgage Bankers Association*

**Chris Michaels**, *Chief of Staff, Calterra Capital*



# Speakers

## MODERATOR:



**SARAH WHEELER**  
Editor in Chief  
HousingWire



**MIKE FRATANTONI**  
Chief Economist, SVP,  
Research and Industry  
Technology  
Mortgage Bankers Association




**CHRIS MICHAELS**  
Chief of Staff  
Calterra Capital



**RICK SHARGA**  
EVP  
RealtyTrac



**MARK VITNER**  
Managing Director and  
Senior Economist  
Wells Fargo Securities, LLC



# WHAT TO EXPECT FOR THE REST OF THE YEAR

---

**MARK VITNER**

Managing Director & Senior Economist  
Wells Fargo Securities, LLC

# Key Macro Themes

## U.S. Outlook

## Consumers Are in the Driver's Seat

## Affordability Migration

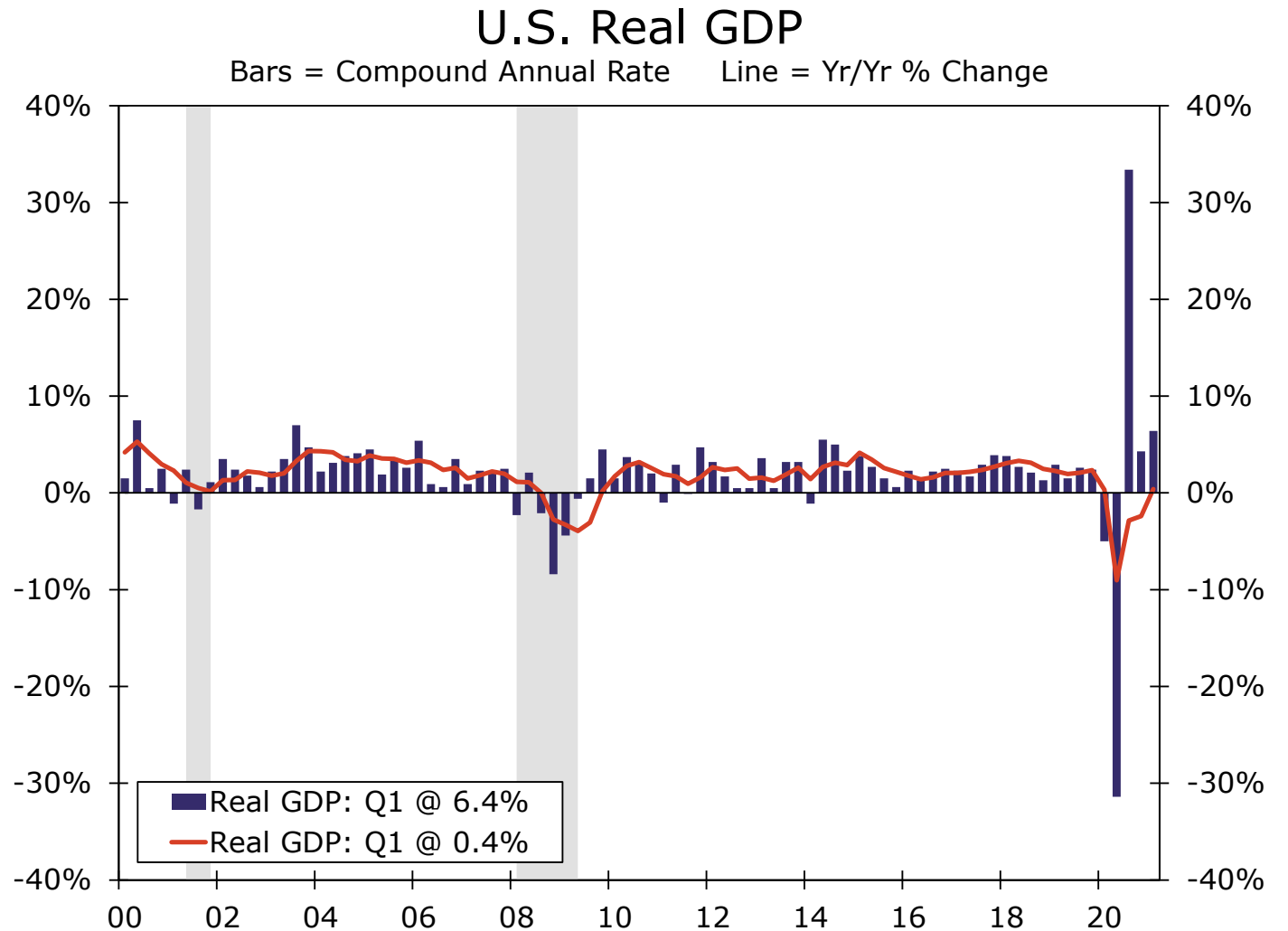
## Housing Is Booming

- The first quarter ended on a strong note as most of this past month's economic indicators came in well above expectations. The mini boom is arriving earlier than expected and is packing a little more of a punch. Inflation is also heating up sooner and by a greater magnitude than the Fed laid out in its forecast.
- The confluence of two massive stimulus programs has fueled a surge in consumer spending. Stimulus checks, expanded unemployment benefits and reviving job growth are bolstering goods purchases while receding coronavirus risks and the reopening of the economy are unleashing spending on discretionary services and helping fuel home buying.
- The pandemic accelerated the migration from high-cost, densely populated cities to secondary metro areas in the inland parts of the West and South. The move from transit-oriented cities to suburban areas and automobile-centric metropolitan areas is fueling sales of single-family homes and motor vehicles. Tight supplies of both along with supply chain disruptions are adding to inflationary pressures.
- Home sales have surged across much of the country as concerns about COVID-19 have receded and unleashed a torrent of home buyers who are flush with savings accumulated while they hunkered down at home during the pandemic. Existing inventories are at near-record lows and homebuilders are selling homes faster than they can build them. Mortgage delinquency rates are falling as job growth ramps back up.

# Economic Growth

The U.S. economy expanded at a rapid 6.4% annualized rate in Q1. Real GDP growth could have been even stronger had inventories not fallen sharply.

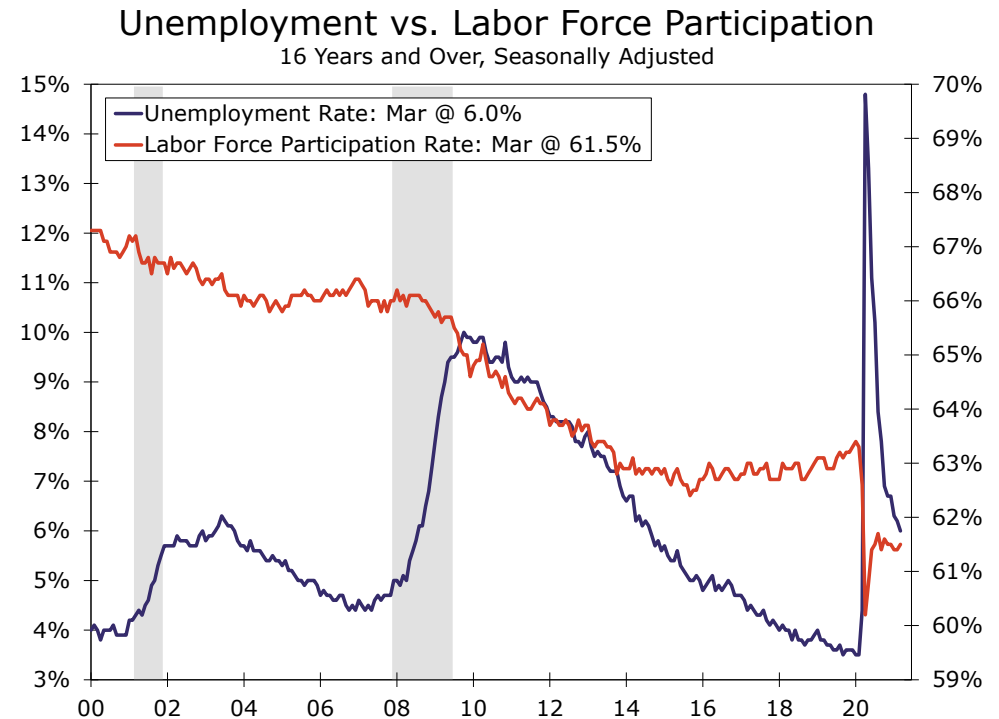
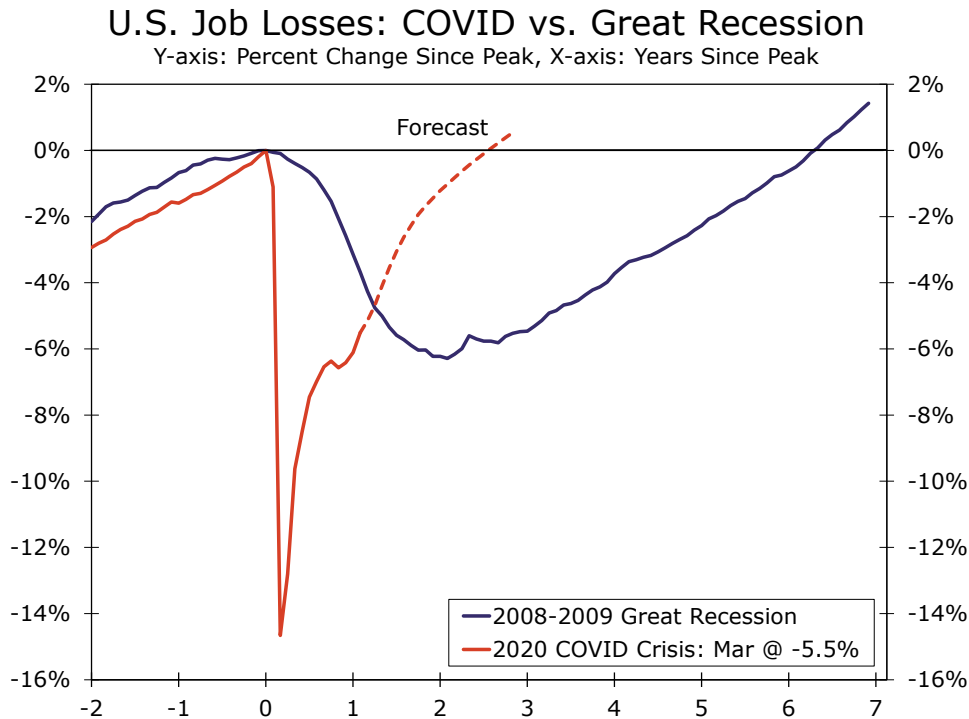
2021 likely will be the strongest year for U.S. real GDP growth in nearly 40 years



Source: U.S. Department of Commerce and Wells Fargo Securities

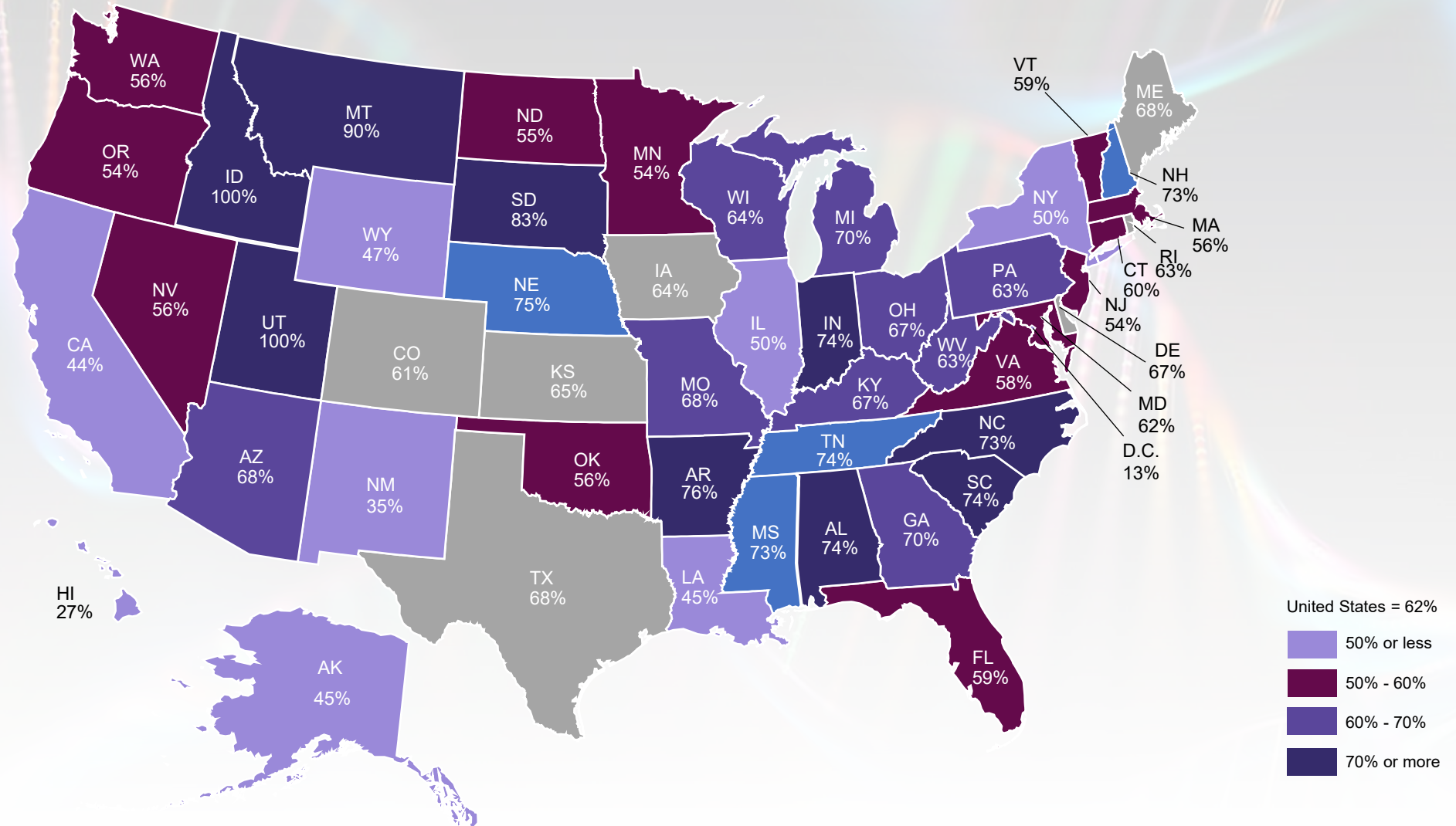
# Economic Growth

Employers added 916,000 jobs in March, and job gains over the past two months were higher than expected as well. Labor force participation should continue to increase with the broadening demand for workers helped by vaccination efforts and the return to in-person learning.



Source: U.S. Department of Labor and Wells Fargo Securities

# Percent of March & April Job Losses Recovered (March 2021)



Source: U.S. Department of Labor and Wells Fargo Securities

# Taking Stock of the U.S. COVID-19 Relief Enacted So Far

<b>U.S. Fiscal Stimulus Summary</b>			
<b>Date</b>	<b>Stimulus</b>	<b>Size (\$B)</b>	<b>% of 2019 GDP</b>
3/6/2020	Coronavirus Preparedness and Response Supplemental Appropriations Act	\$ 8	0.0%
3/18/2020	Families First Coronavirus Response Act	\$ 192	0.9%
3/27/2020	Coronavirus Aid, Relief, and Economic Security Act (CARES)	\$ 1,721	8.0%
4/24/2020	Paycheck Protection Program and Health Care Enhancement Act	\$ 483	2.3%
8/8/2020	FEMA Lost Wages Assistance Program Executive Order	\$ 44	0.2%
12/27/2020	Consolidated Appropriations Act, 2021	\$ 868	4.0%
3/12/2021	American Rescue Plan Act of 2021	\$ 1,844	8.6%
	<b>Total</b>	<b>\$ 5,161</b>	<b>24.1%</b>

Source: Congressional Budget Office and Wells Fargo Securities

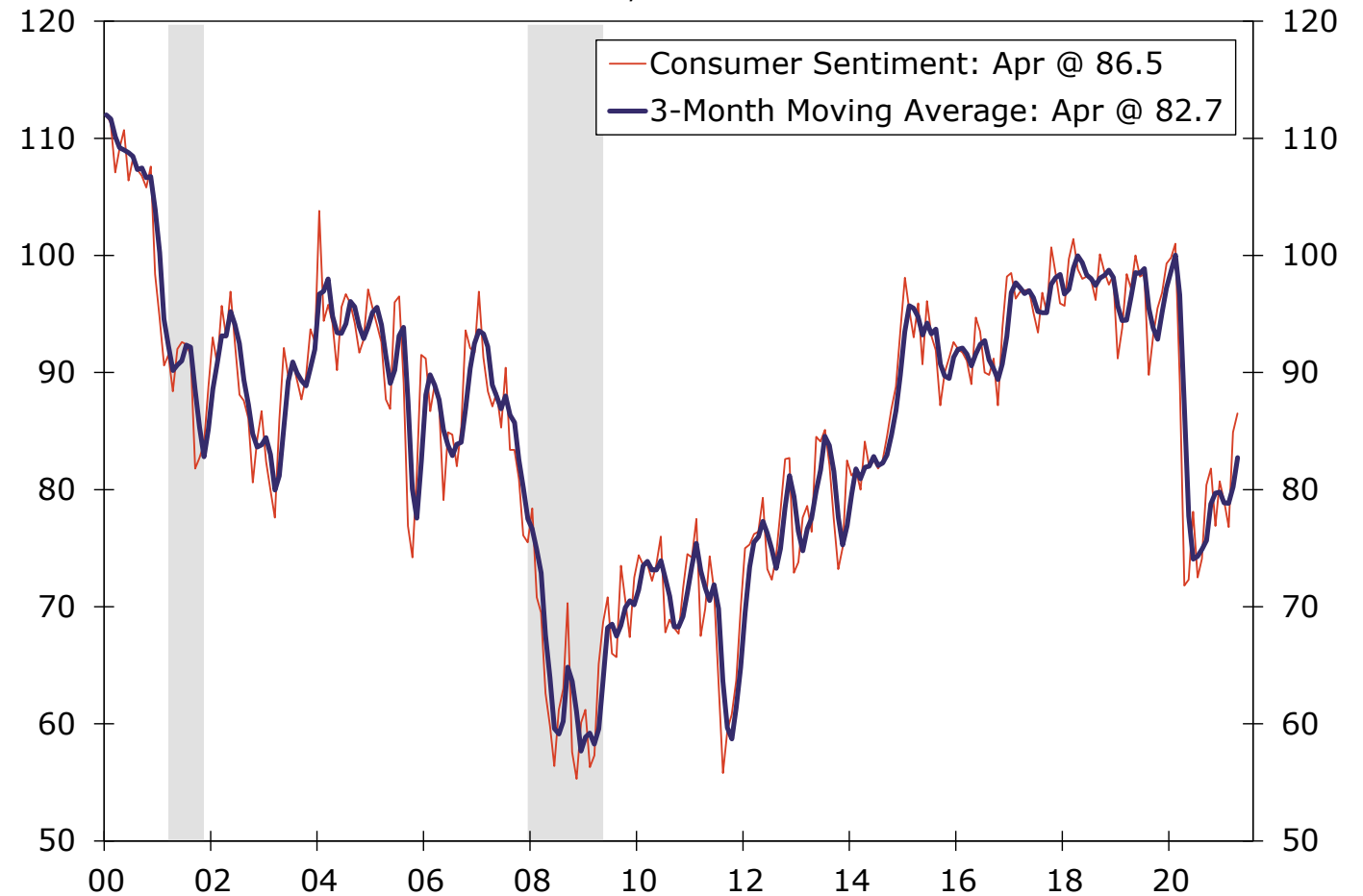


# Consumer Sentiment

In the wake of the last stimulus bill and improving public health situation, consumers have clearly regained confidence.

## Michigan Consumer Sentiment

Index, 1966=100



Source: University of Michigan and Wells Fargo Securities

# Poll Question #1

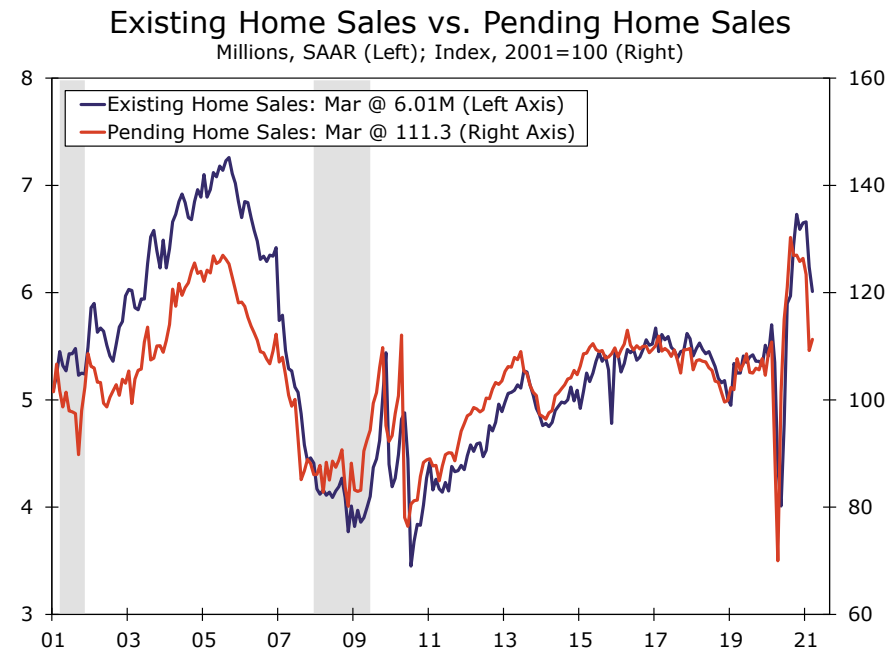
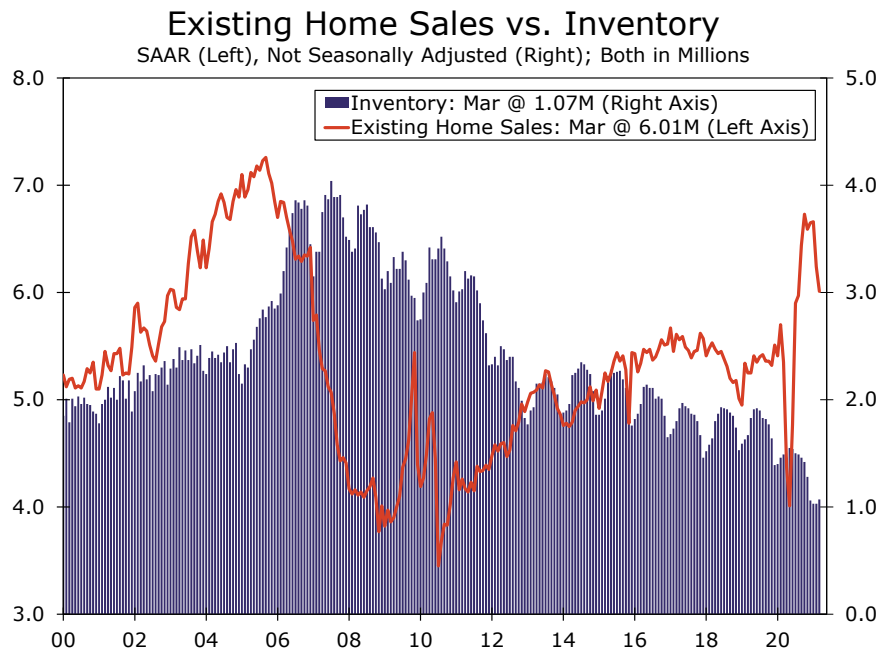
# Q:

What do you believe  
the greatest risk to  
the housing outlook  
currently is?

- a) Rising Mortgage Rates
- b) Supply Chain Shortages
- c) Affordability
- d) Credit Availability
- e) Lack of Homes Available of Sale

# Housing Outlook

While more people want to buy homes, fewer want to sell. Inventory levels continue to test new lows, which is a big reason why home prices have surged. Home sales cooled off slightly in recent months, but anecdotal reports note a rising number of sales occurring outside the MLS network. The affordability migration is compounding affordability challenges in many MSAs.

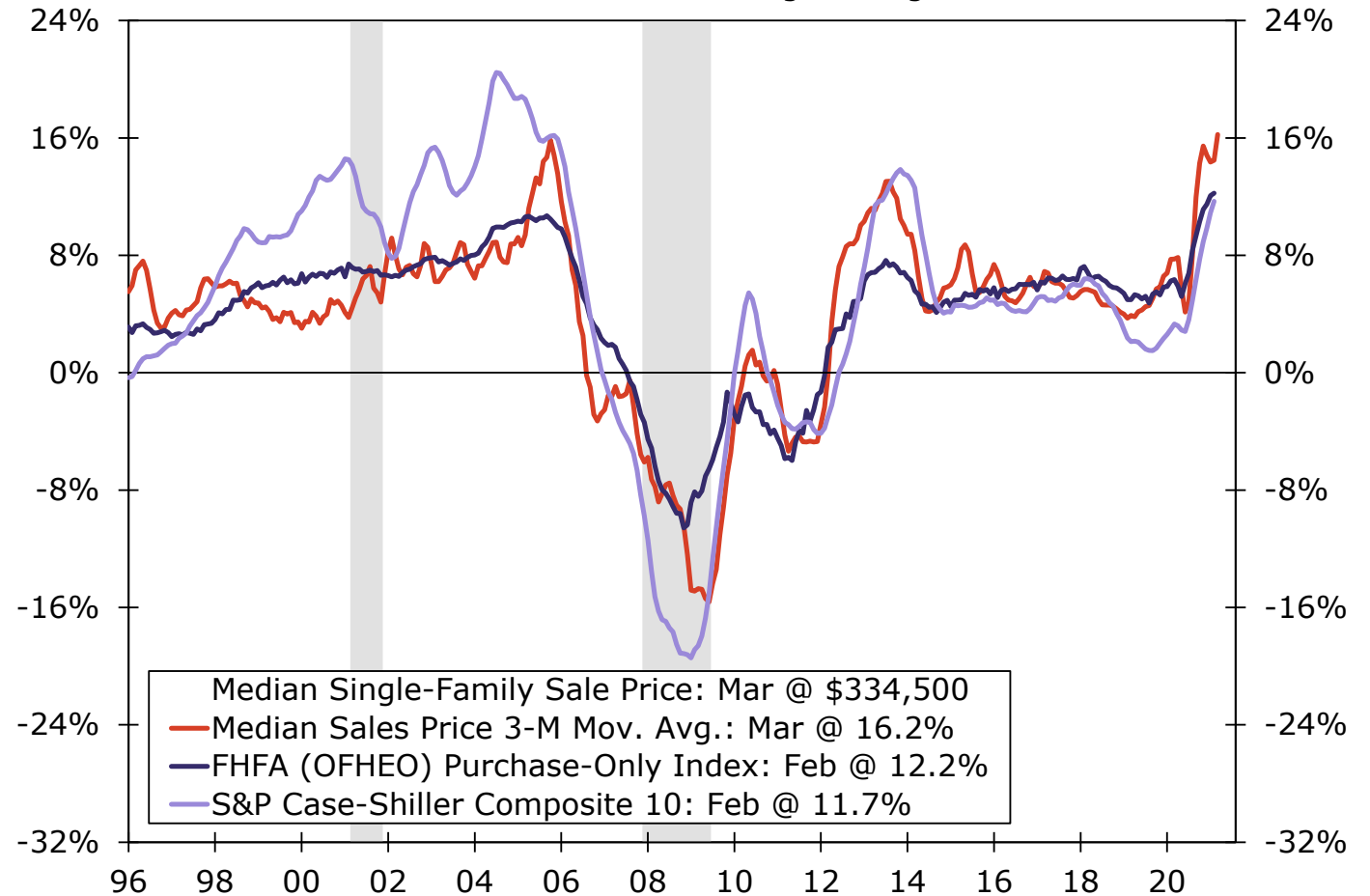


Source: National Association of Realtors and Wells Fargo Securities

# Housing Outlook

Prices are up, but speculation has not returned yet. Wages and salaries are set to rise only by a fraction of that pace, and higher prices are likely sending some would-be buyers to the sidelines.

**Home Prices**  
 Year-over-Year Percentage Change



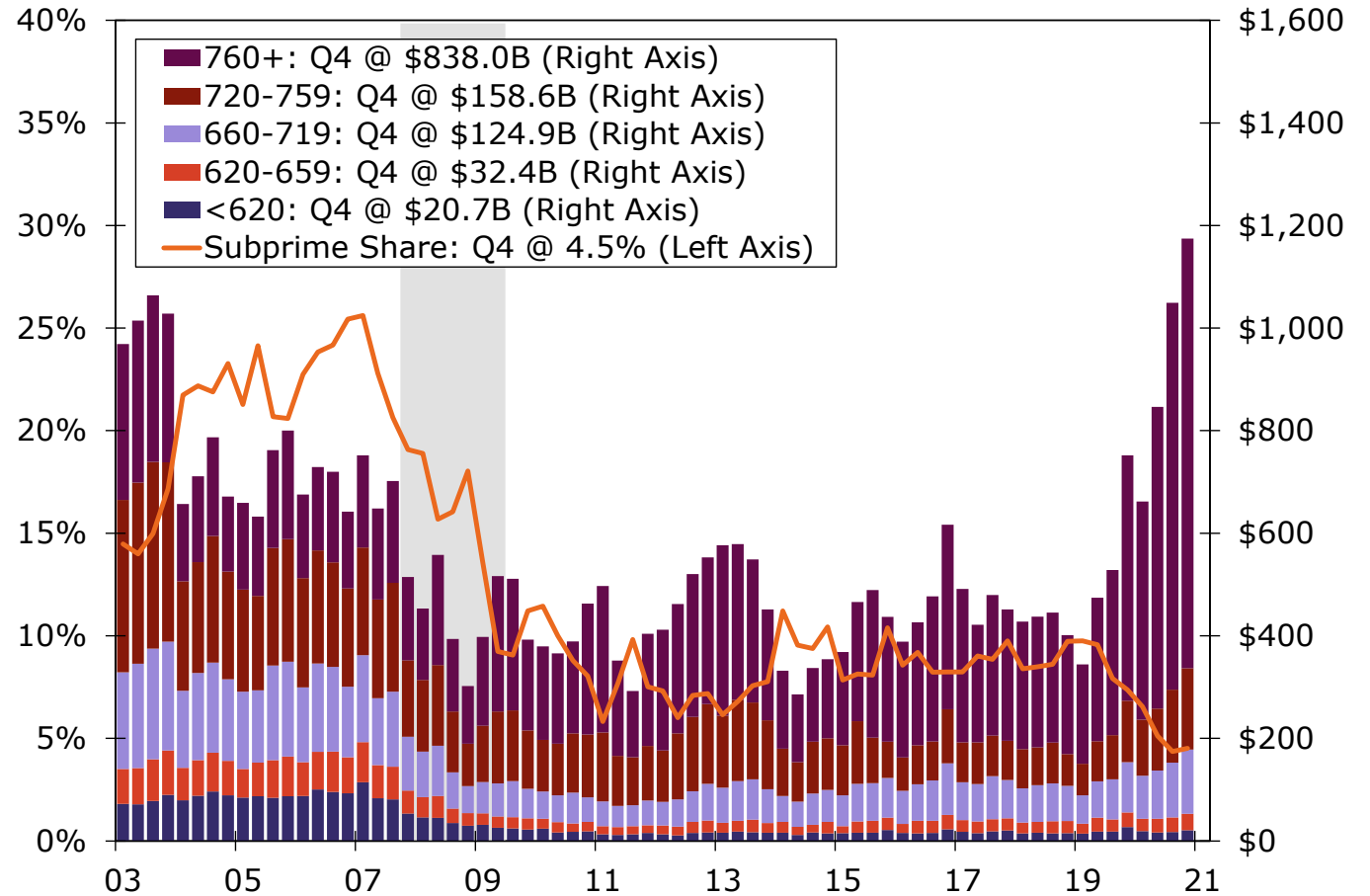
Source: National Association of Realtors, Federal Housing Finance Agency, S&P CoreLogic and Wells Fargo Securities

# Mortgage Originations

Perhaps the greatest difference from what was seen in the bubble years is the greater discipline on the part of lenders.

Mortgage underwriting tightened at the onset of the pandemic and remains fairly tight today.

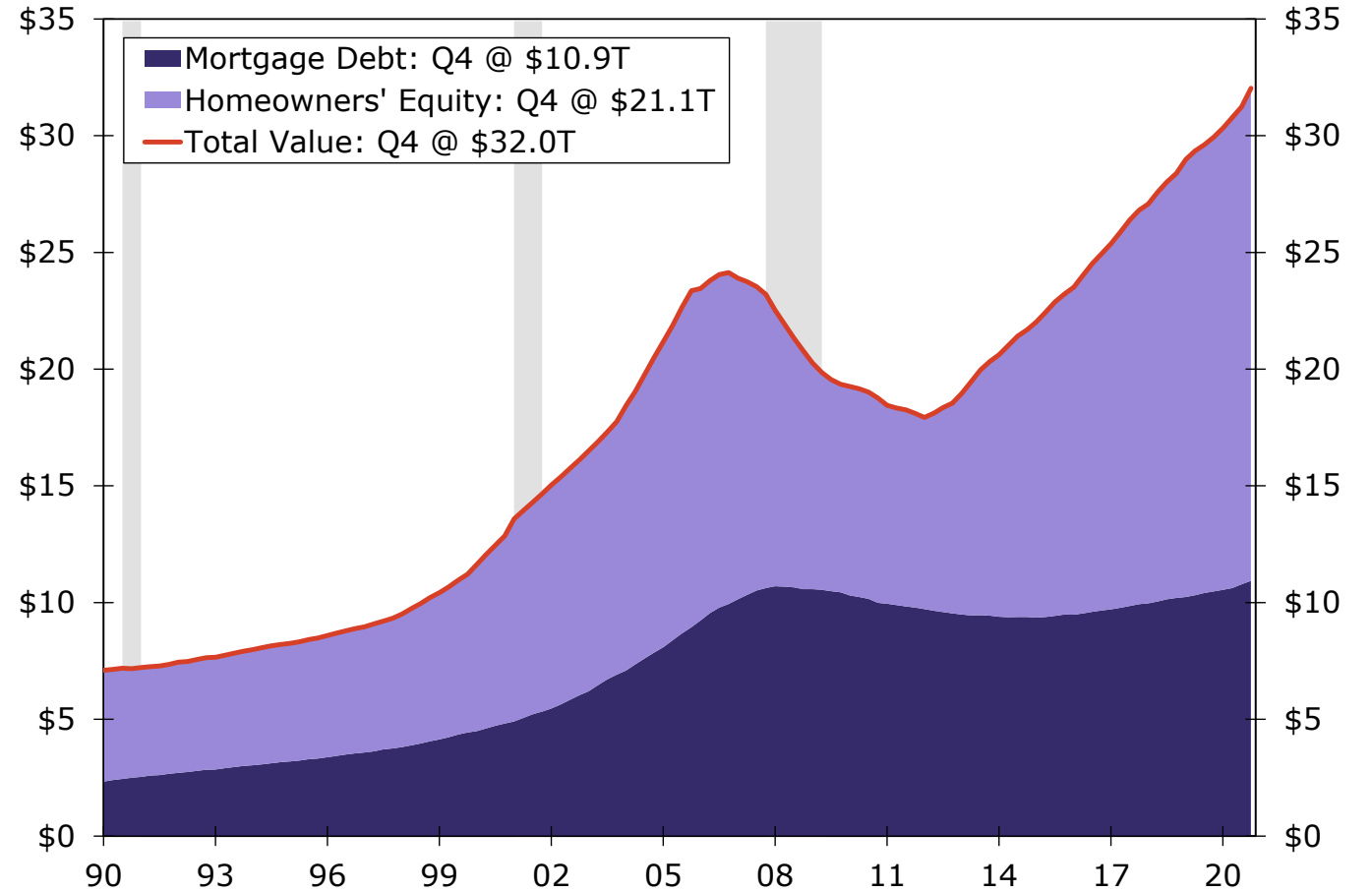
Mortgage Origination by Credit Score  
 Percent of Total Originations; Billions of Dollars



Source: Federal Reserve Bank of New York and Wells Fargo Securities

# Home Equity

Value of the U.S. Single-Family Housing Market  
 Trillions of Dollars

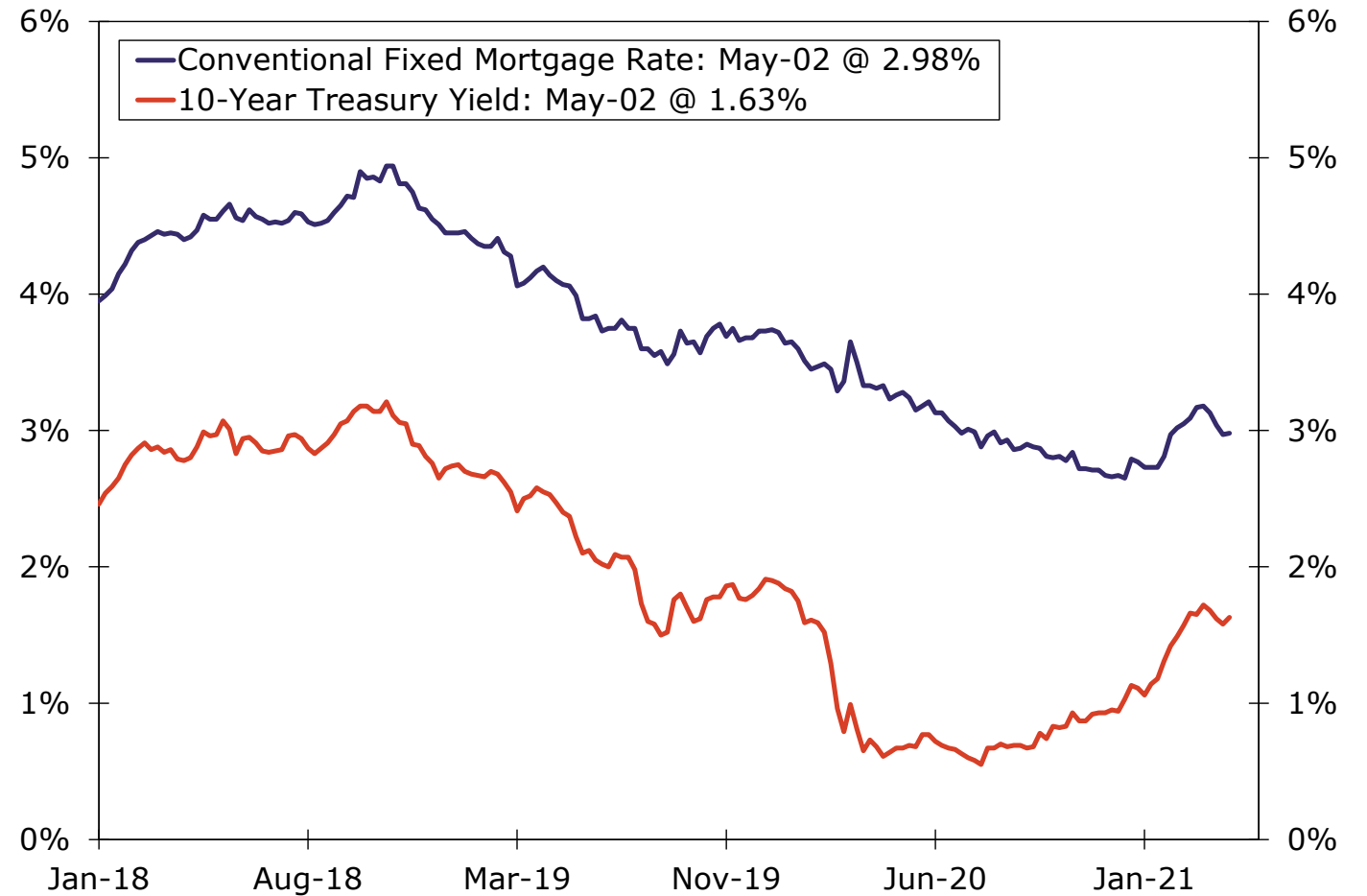


Federal Reserve data show single-family home equity at a record \$21.1 trillion or **nearly two-thirds of single-family housing values.**

# Mortgage Rates

## 30-Year Mortgage Rate vs. 10-Year Treasury

Higher mortgage rates will chip away at the strength in home sales but will not upend the housing recovery.

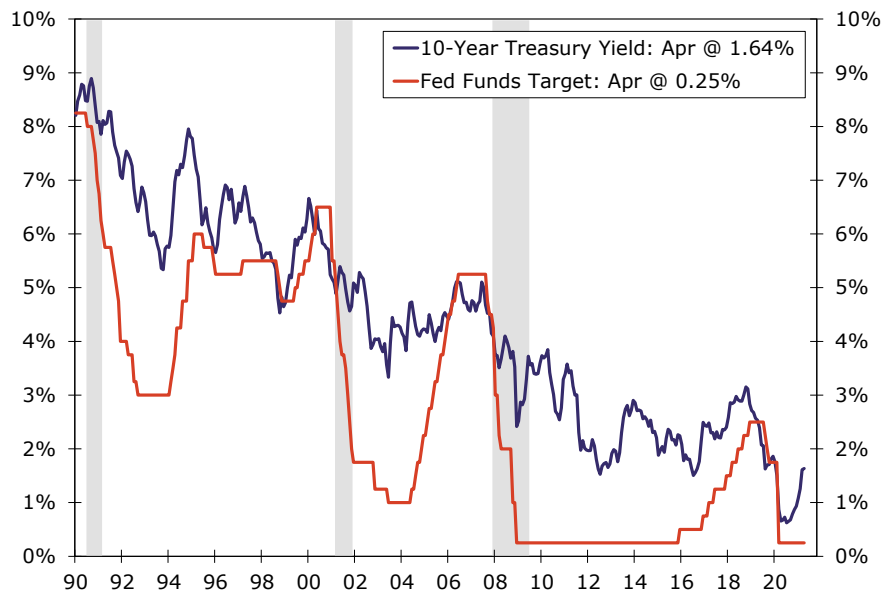


Source: Bloomberg LP and Wells Fargo Securities

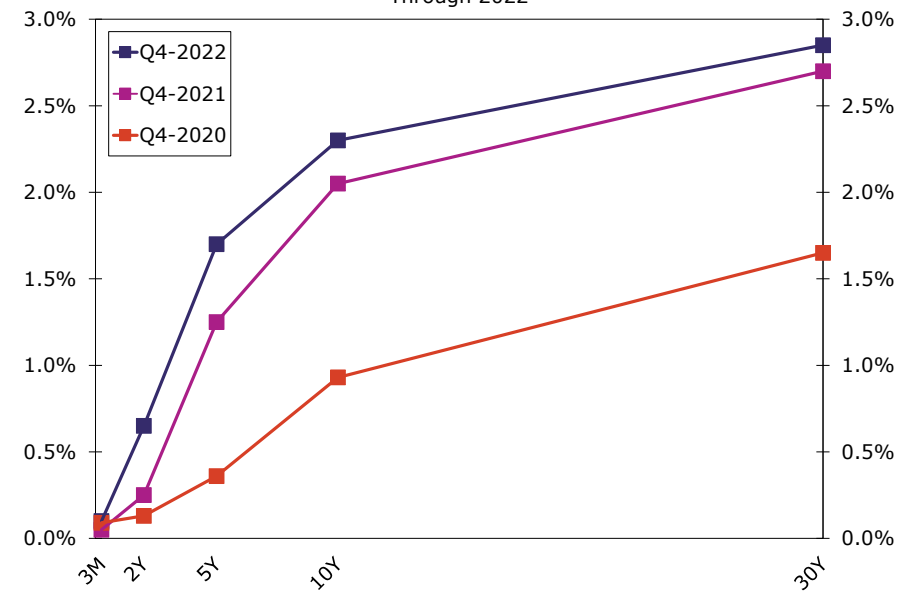
# Rates Outlook

Long-term interest rates have risen following the passage of the \$1.9 trillion stimulus bill and repeated upgrades to most economic forecasts. Rates have backed off as stronger economic growth reduced the odds that the massive infrastructure bill will pass without significant tax hikes. Higher taxes would impact the economy sooner than infrastructure outlays.

10-Yr Treasury and Federal Funds Target Rate



Wells Fargo Rates Forecast Through 2022

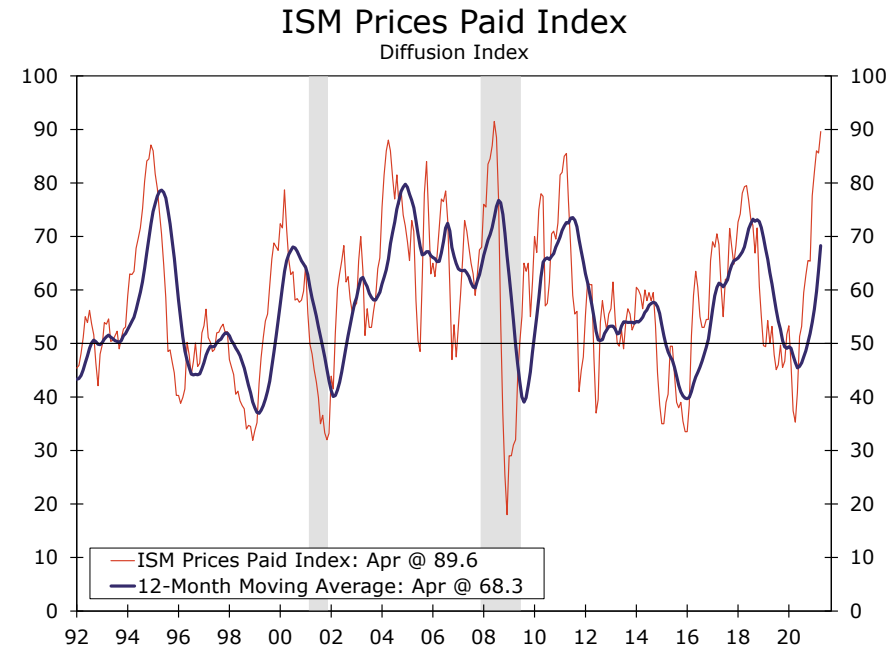
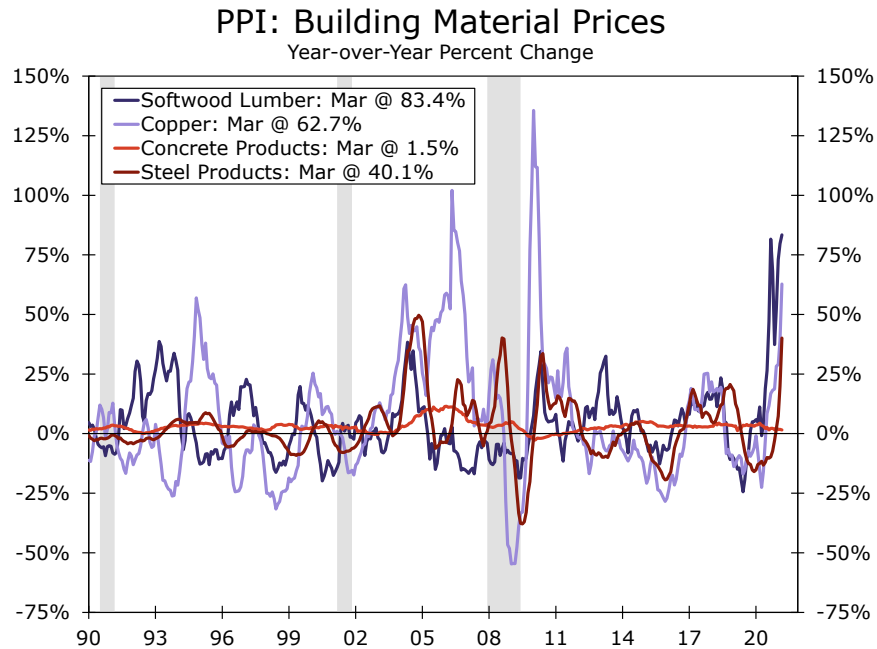


Source: Federal Reserve Board, IHS Markit and Wells Fargo Securities



# Surging Prices

Raw material and labor shortages have bolstered building material prices. The ISM prices paid index remains near the highest level since 2008, but unlike that year, consumer and business demand is surging. We expect the upward pressure on prices to be sharp. Whether or not this price spike proves to be transitory remains to be seen.



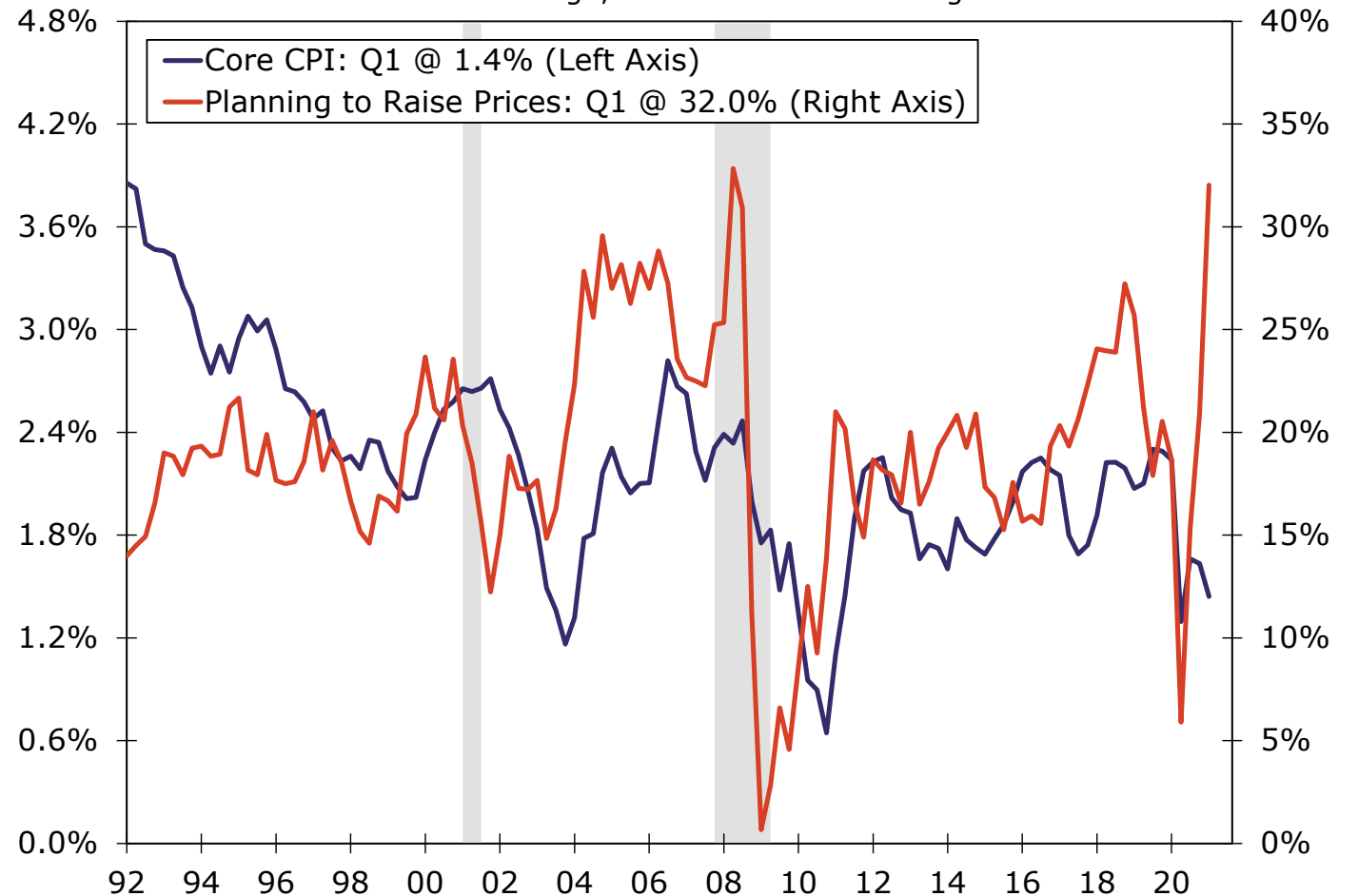
Source: U.S. Department of Labor, Institute for Supply Management and Wells Fargo Securities

# Will Inflation Stay or Will It Go?

Inflation expectations are rising broadly across a range of measures. The NFIB's price plans series typically leads core CPI by three quarters.

## Core CPI vs. Firms Planning to Raise Prices

Year-over-Year Percent Change; Net % of Firms Planning to Raise Prices



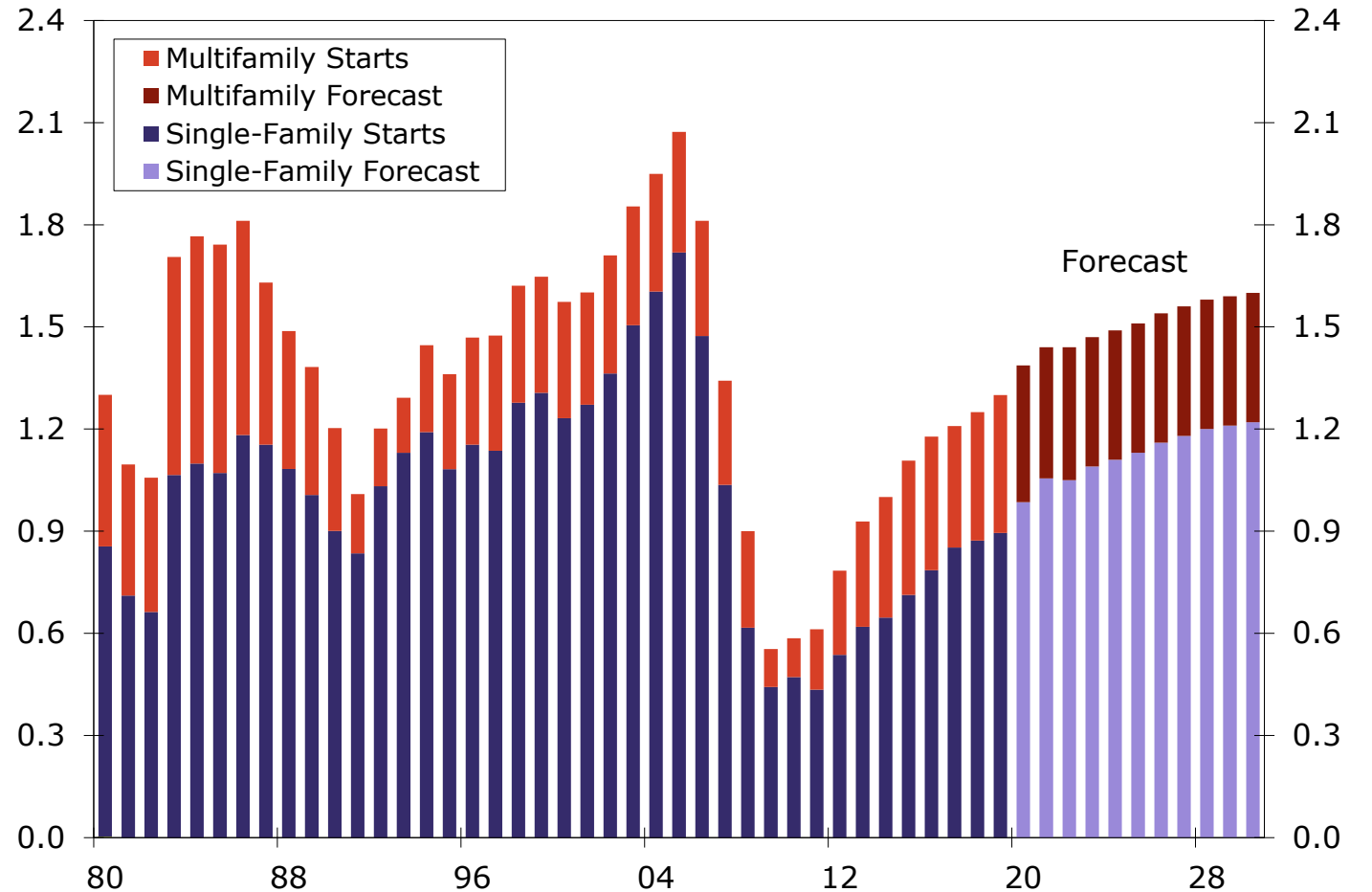
Source: U.S. Department of Labor and Wells Fargo Securities

# Housing Starts Forecast

Single-family construction should build on this past year's strong momentum.

After rising 12% in 2020, we look for single-family starts to rise 11% in 2021.

Housing Starts  
 Millions



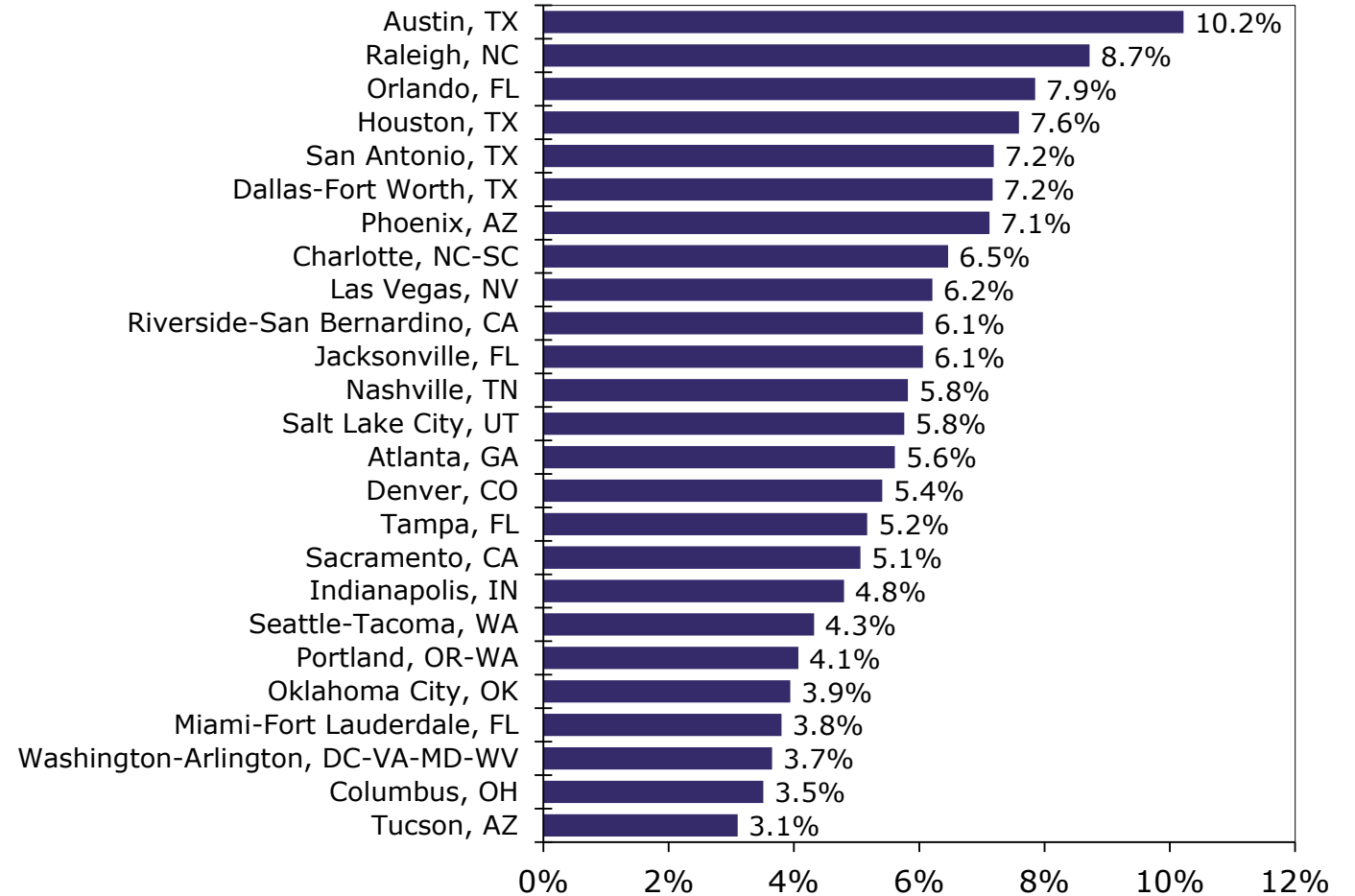
Source: U.S. Department of Commerce and Wells Fargo Securities

# Population Growth Forecast

Major markets across the South are set to see **soaring population growth** over the next few years.

## Fastest Growing Metro Areas

Out of MSAs with Pop. > 1M, IHS Forecast, % Change 2021-2026



## Economists

Jay H. Bryson, Chief Economist	<a href="mailto:jay.bryson@wellsfargo.com">jay.bryson@wellsfargo.com</a>
Mark Vitner, Senior Economist	<a href="mailto:mark.vitner@wellsfargo.com">mark.vitner@wellsfargo.com</a>
Sam Bullard, Senior Economist	<a href="mailto:sam.bullard@wellsfargo.com">sam.bullard@wellsfargo.com</a>
Nick Bennenbroek, International Economist	<a href="mailto:nicholas.bennenbroek@wellsfargo.com">nicholas.bennenbroek@wellsfargo.com</a>
Tim Quinlan, Senior Economist	<a href="mailto:tim.quinlan@wellsfargo.com">tim.quinlan@wellsfargo.com</a>
Azhar Iqbal, Econometrician	<a href="mailto:azhar.iqbal@wellsfargo.com">azhar.iqbal@wellsfargo.com</a>
Sarah House, Senior Economist	<a href="mailto:sarah.house@wellsfargo.com">sarah.house@wellsfargo.com</a>
Charlie Dougherty, Economist	<a href="mailto:charles.dougherty@wellsfargo.com">charles.dougherty@wellsfargo.com</a>
Michael Pugliese, Economist	<a href="mailto:michael.d.pugliese@wellsfargo.com">michael.d.pugliese@wellsfargo.com</a>
Brendan McKenna, International Economist	<a href="mailto:brendan.mckenna@wellsfargo.com">brendan.mckenna@wellsfargo.com</a>
Shannon Seery, Economist	<a href="mailto:shannon.seery@wellsfargo.com">shannon.seery@wellsfargo.com</a>

## Economic Analysts

Hop Mathews, Economic Analyst	<a href="mailto:hop.mathews@wellsfargo.com">hop.mathews@wellsfargo.com</a>
Sara Cotsakis, Economic Analyst	<a href="mailto:sara.cotsakis@wellsfargo.com">sara.cotsakis@wellsfargo.com</a>
Nicole Cervi, Economic Analyst	<a href="mailto:nicole.cervi@wellsfargo.com">nicole.cervi@wellsfargo.com</a>

## Administrative Assistants

Coren Burton, Administrative Assistant	<a href="mailto:coren.burton@wellsfargo.com">coren.burton@wellsfargo.com</a>
--	--

This report is produced by the Economics Group of Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes this report directly and through affiliates including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC to be reliable, but Wells Fargo Securities, LLC does not guarantee its accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or upon any opinions set forth herein. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial product or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2021 Wells Fargo Securities, LLC

### Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EEA, this report is distributed by WFSIL or Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

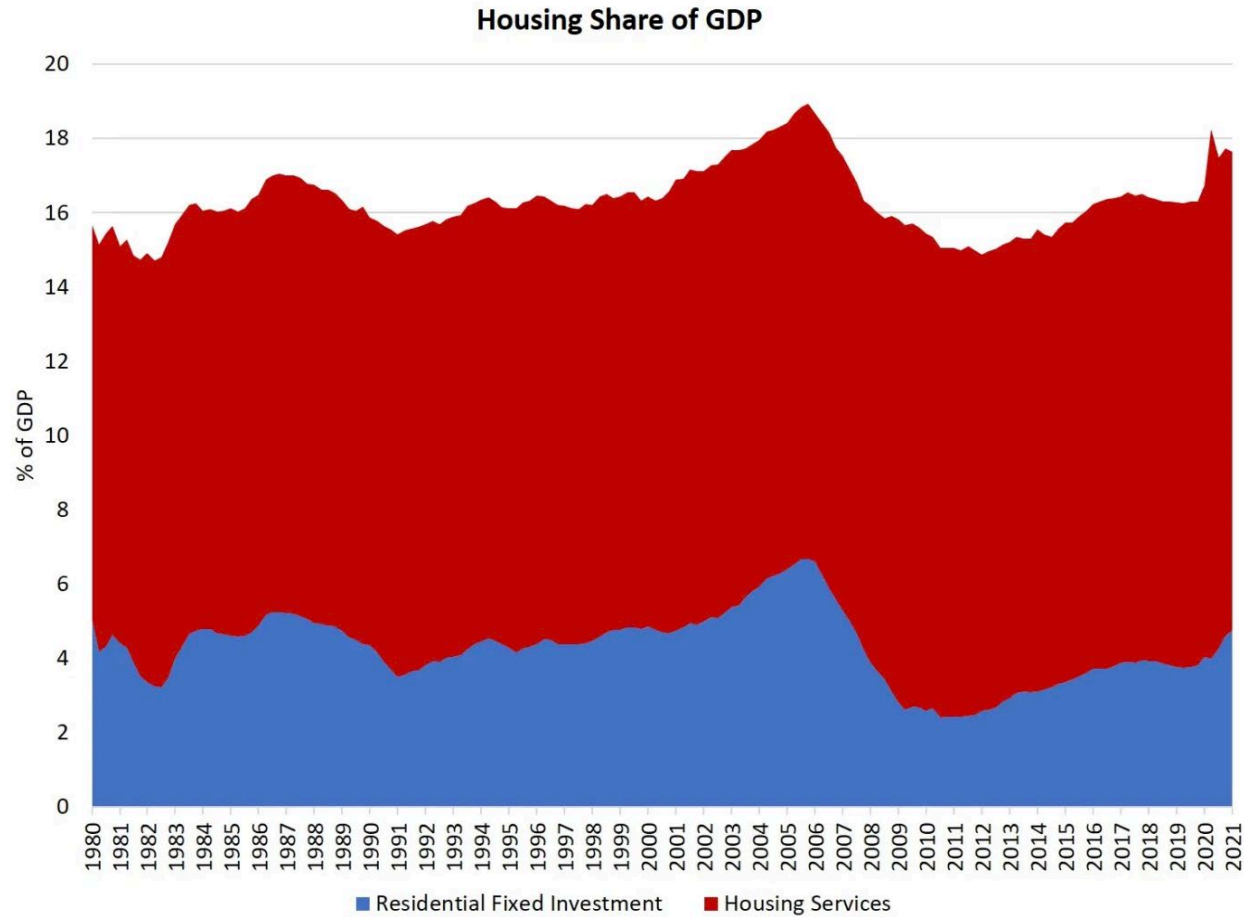
SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

# WHAT TO EXPECT FOR THE REST OF THE YEAR

---

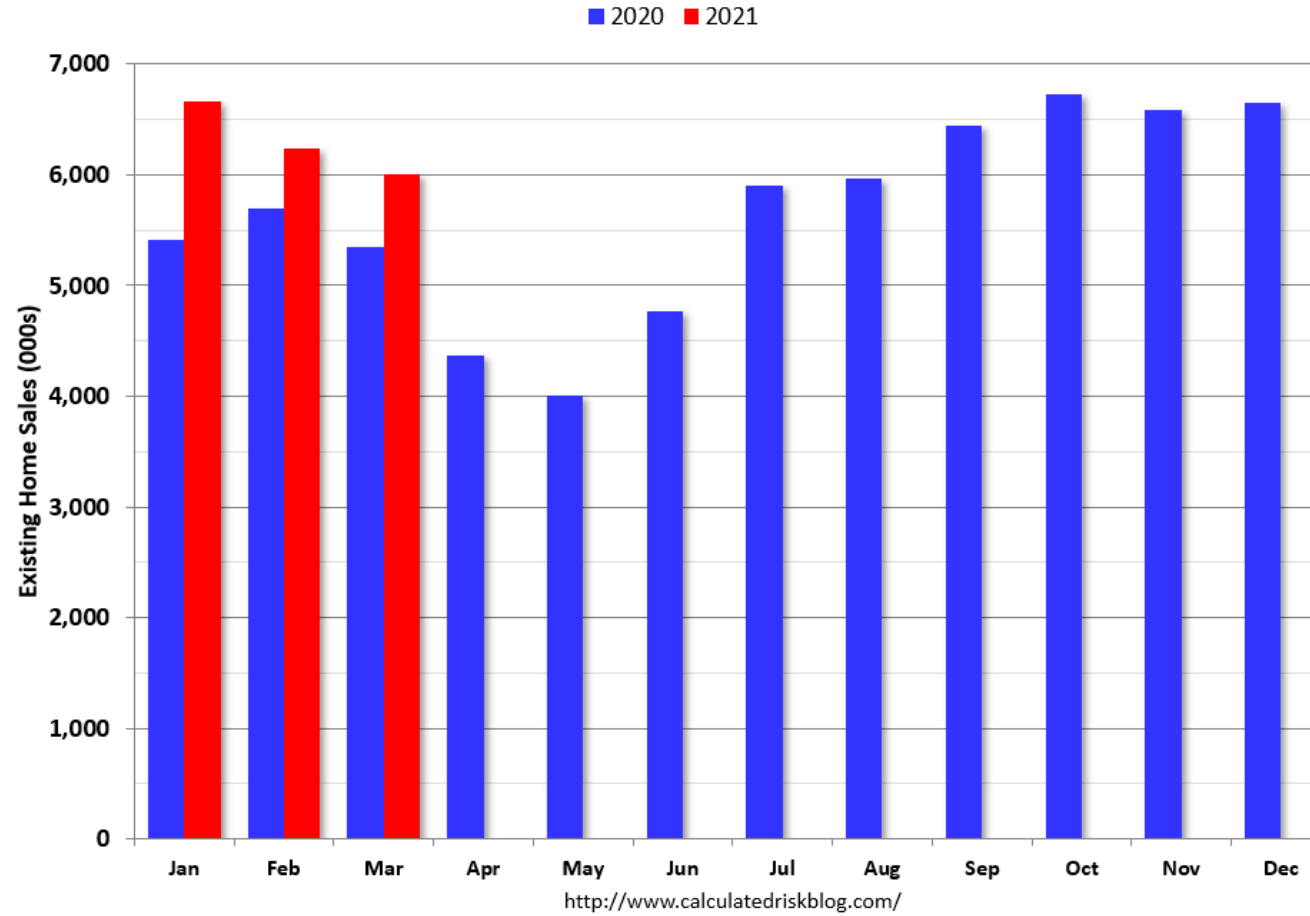
**RICK SHARGA**  
EVP  
RealtyTrac

# Housing Share of GDP at 17.6%, a 14-Year High



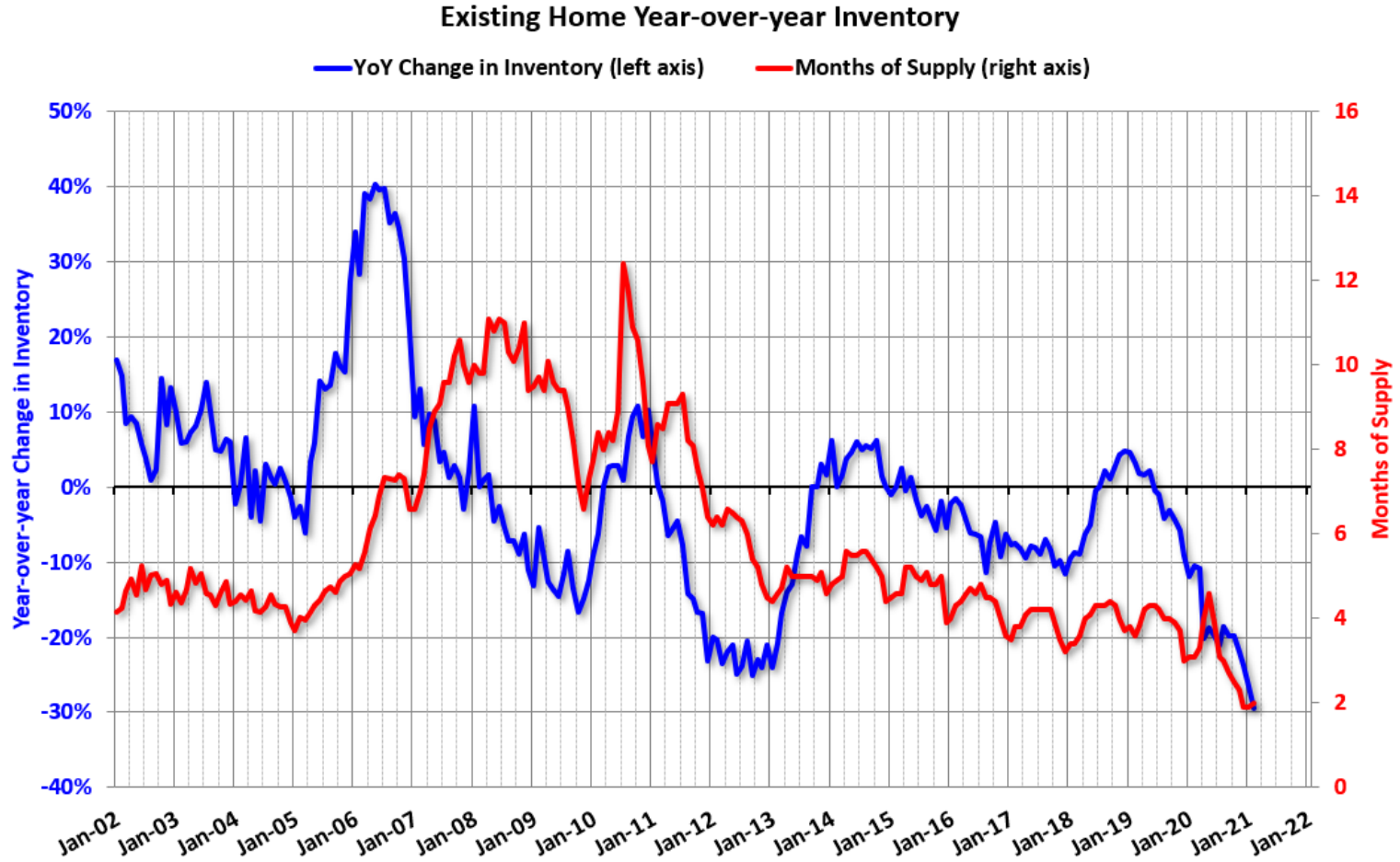
# 2021 Existing Home Sales Off to Strong Start...

Existing Home Sales, 2020 and 2021, SAAR (000s)





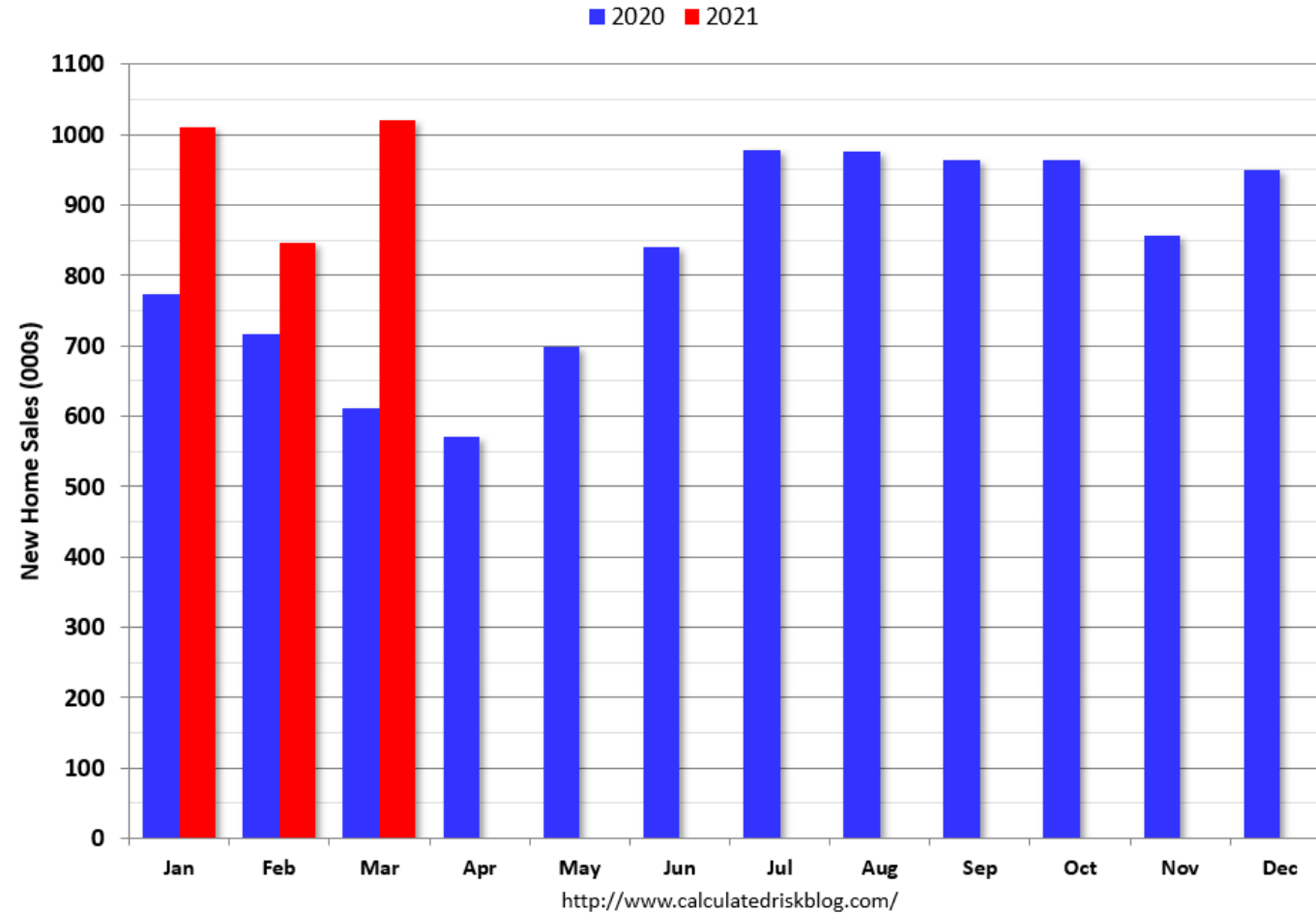
# ...Despite Historically Low Inventory Levels



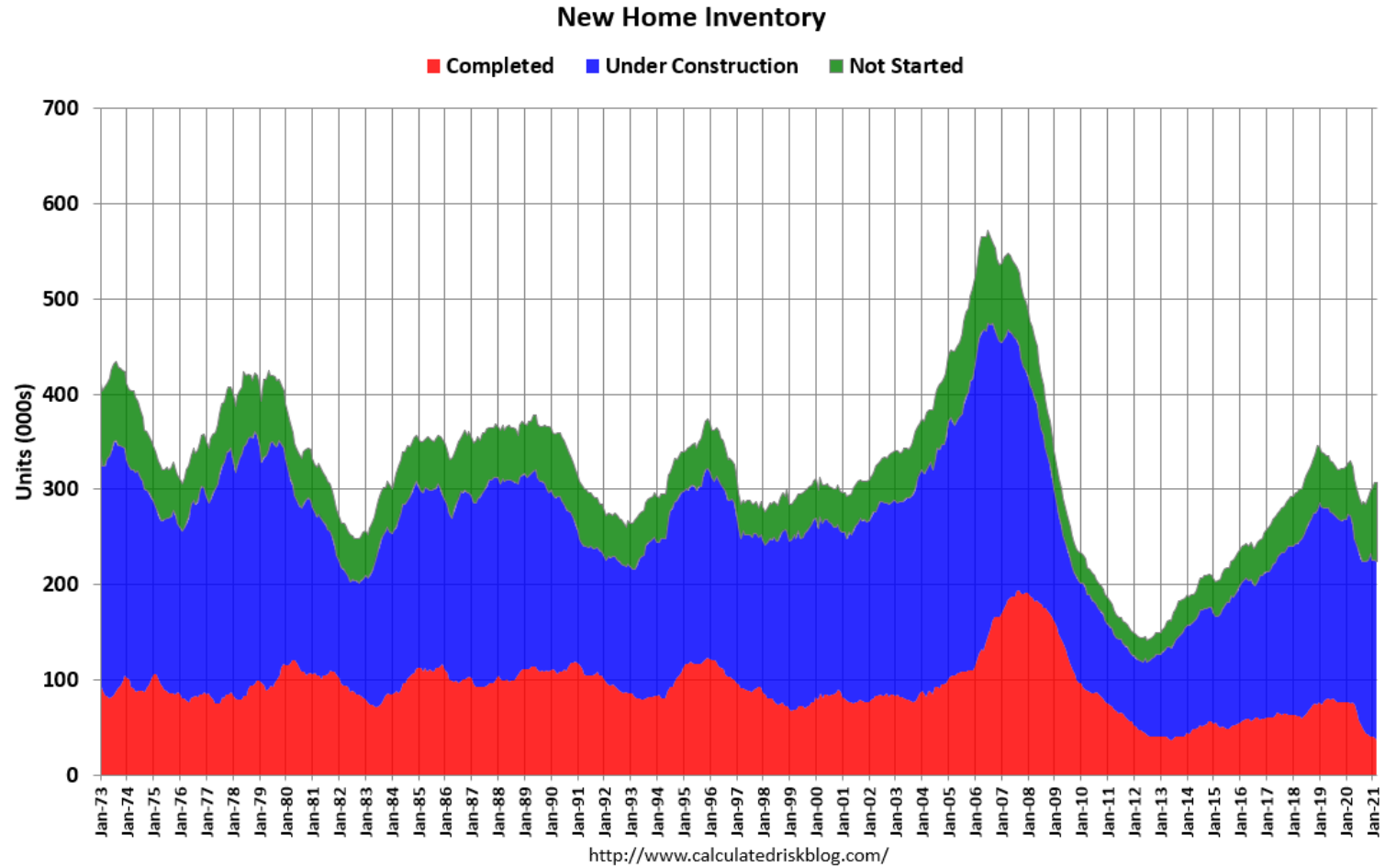
<http://www.calculatedriskblog.com/> Source: NAR

# 2021 New Home Sales Outpacing Last Year

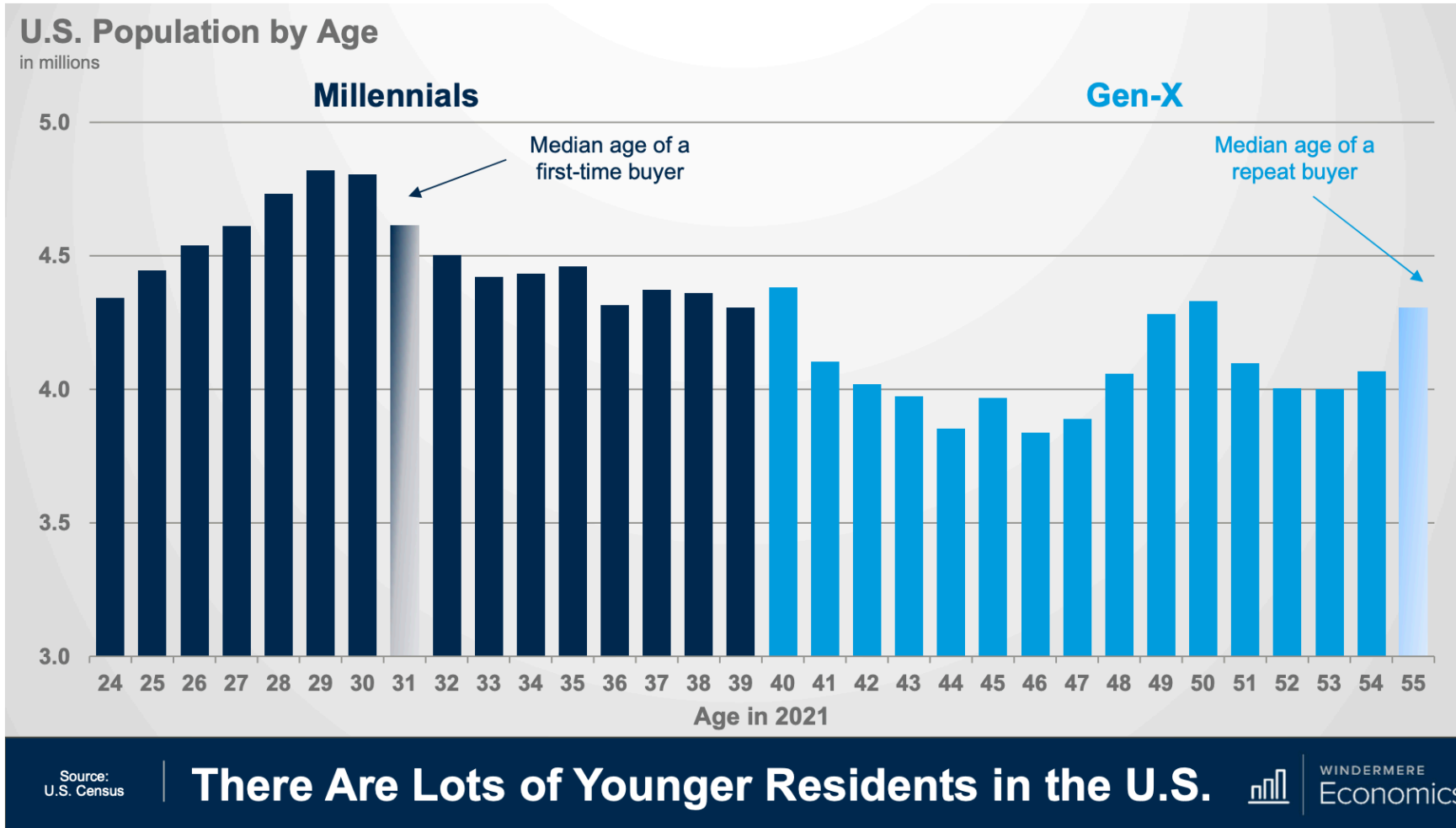
New Home Sales, 2020 and 2021, SAAR (000s)



# High Percentage of Pre-Construction Sales



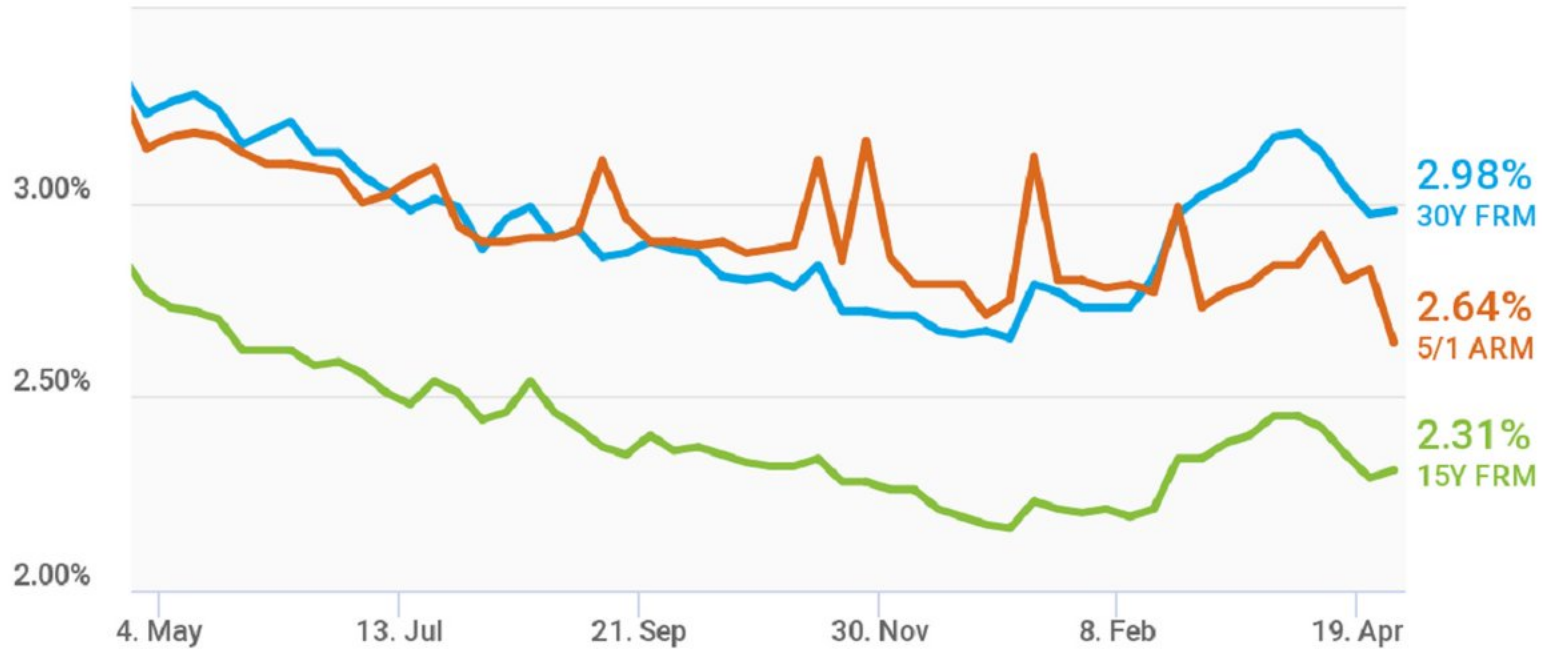
# Demand Driven Mostly by Demographics...



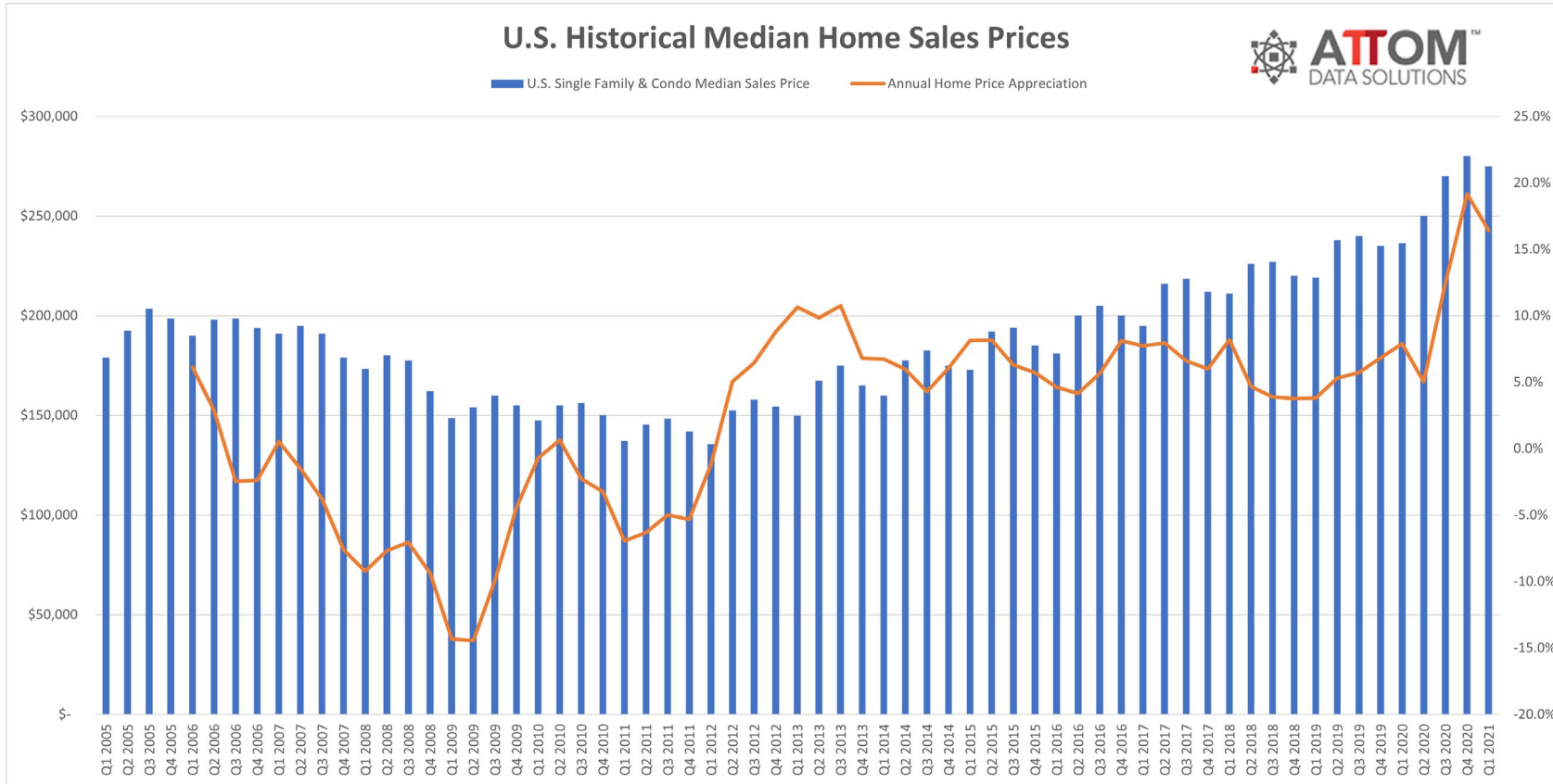
# ...And by Historically Low Interest Rates



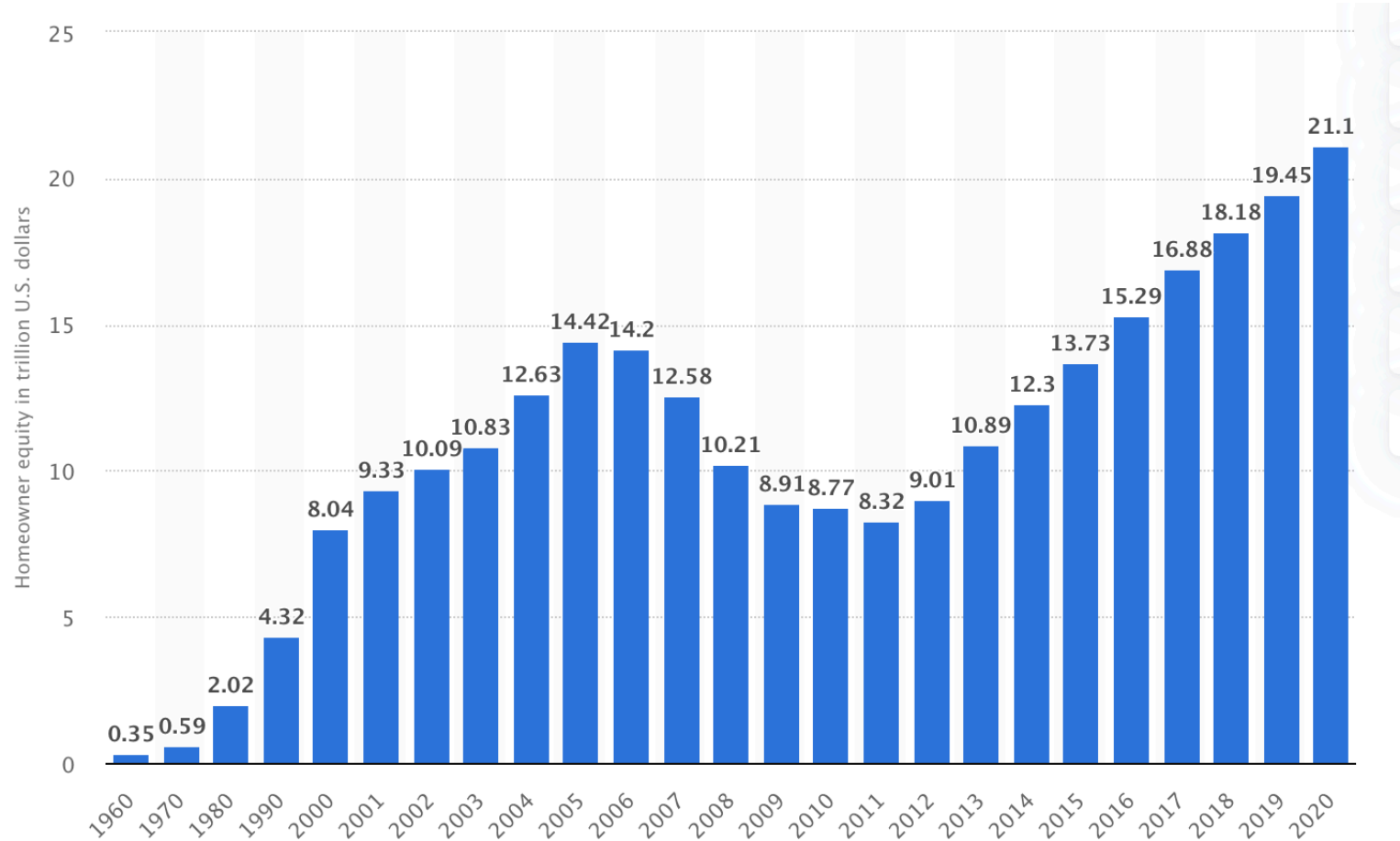
Primary Mortgage Market Survey®  
U.S. weekly average mortgage rates as of 04/29/2021



# Low Inventory + High Demand = Higher Prices



# Prices Also Driving Equity to All-Time Highs



© Statista 2021

# Poll Question #2

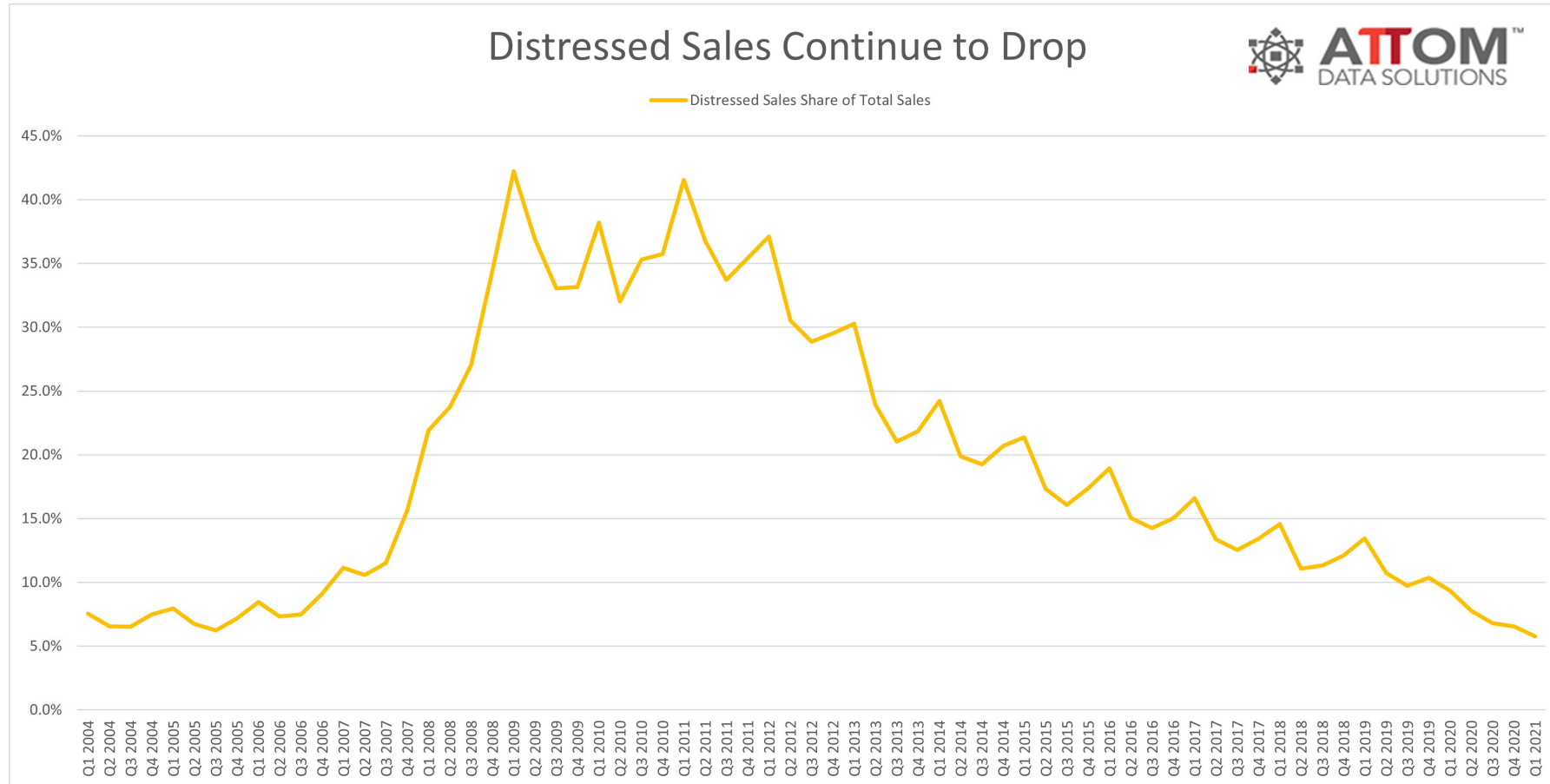
# Q:

During the Great Recession, distressed home sales — foreclosure homes and short sales — peaked at over 30%. What percent of home sales in Q1 2021 were distressed assets?

- a) 0 – 5%
- b) 5 – 10%
- c) 10 – 15%
- d) <15%



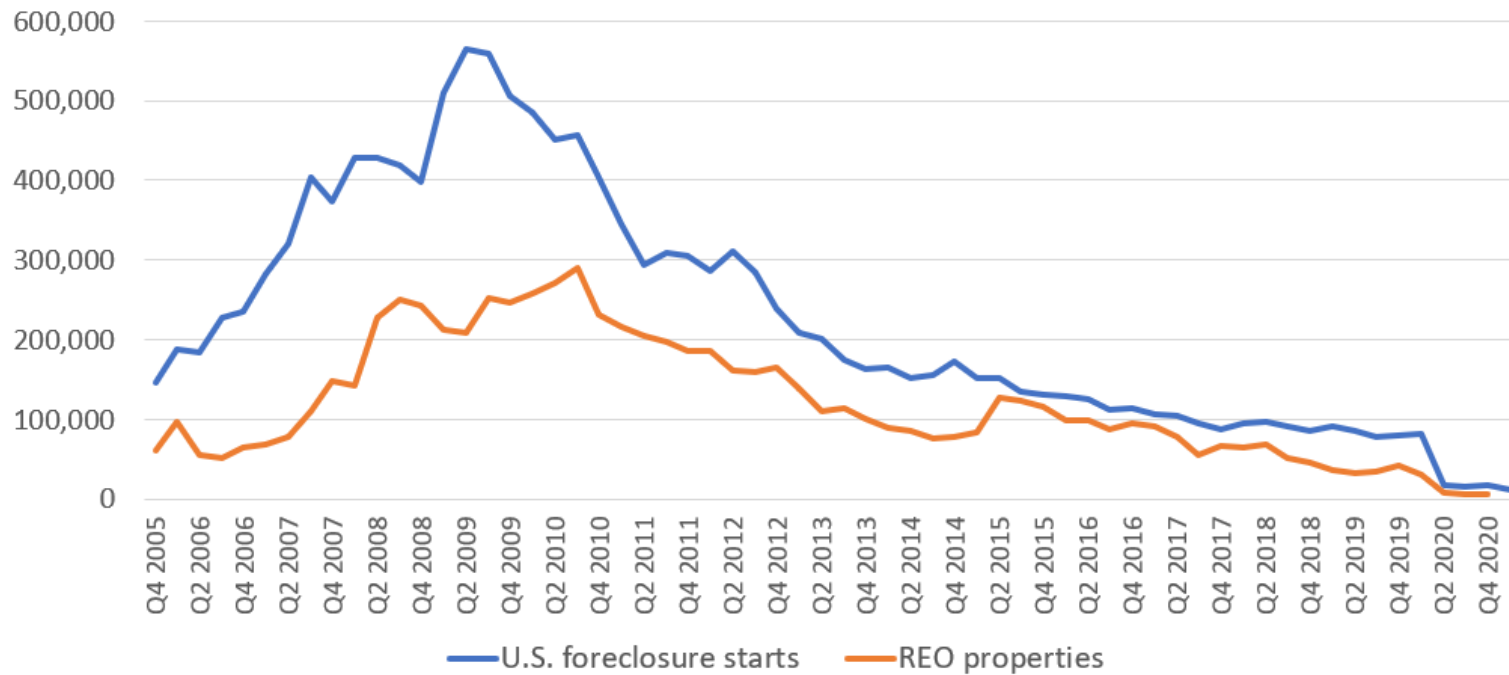
# Distressed Sales at 17-Year Low



# As Foreclosure Actions Virtually Cease


## Foreclosure starts and REOs – 2005 through 2020

Total cases and properties taken by lenders (REO)



# Closing Thoughts

- Housing market surge should continue into 2021 driven by demographics, low mortgage rates and pandemic-accelerated trends
- Home prices will continue to rise until builders ramp up and existing homeowners are comfortable listing their properties
- Default activity will increase, but it is unlikely to reach the levels seen during the last cycle; commercial markets could see higher than usual default activity
- FHA loan portfolios are most vulnerable to potential default and regions with high concentrations of delinquent FHA borrowers could see market conditions change significantly
- Segments of the commercial market are vulnerable due to the focused nature of the recession
- Markets with high concentration of single-family rental properties could be at risk due to government eviction bans



# WHAT TO EXPECT FOR THE REST OF THE YEAR

---

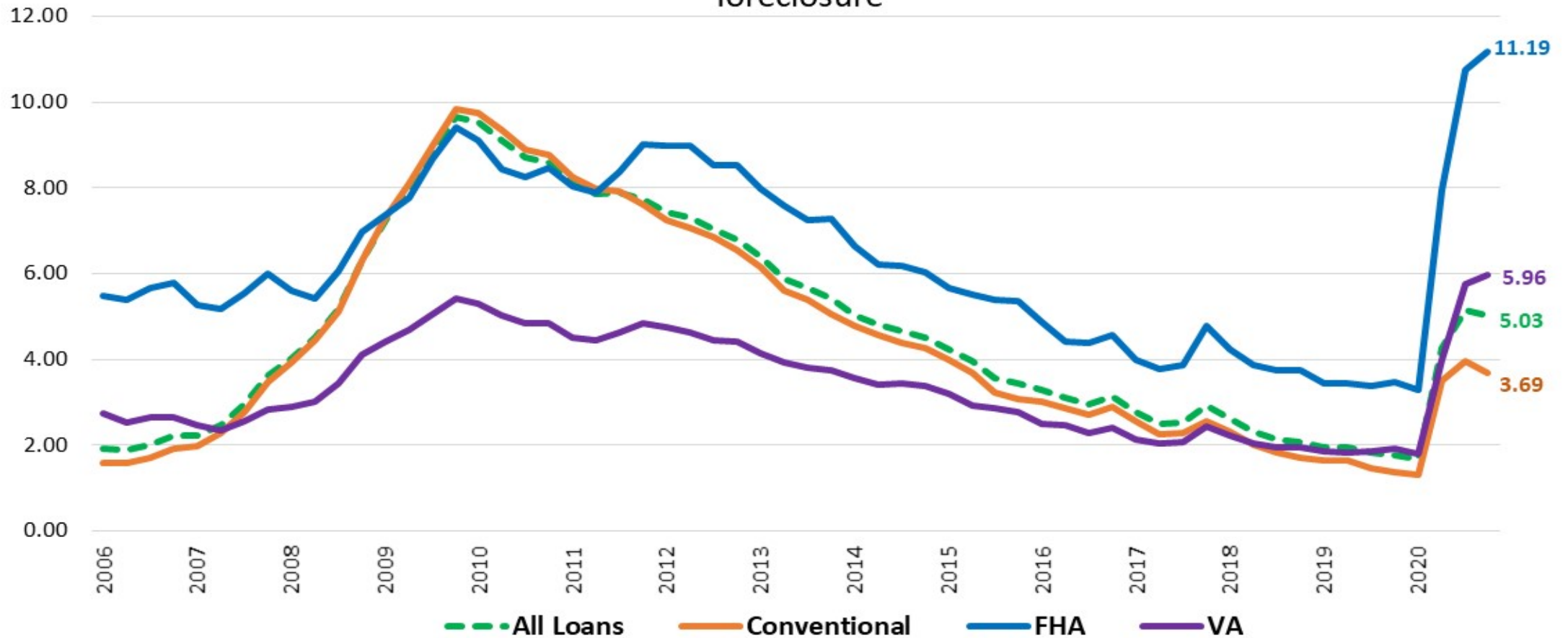
**MIKE FRATANTONI**

Chief Economist, SVP, Research and Industry Technology  
Mortgage Bankers Association

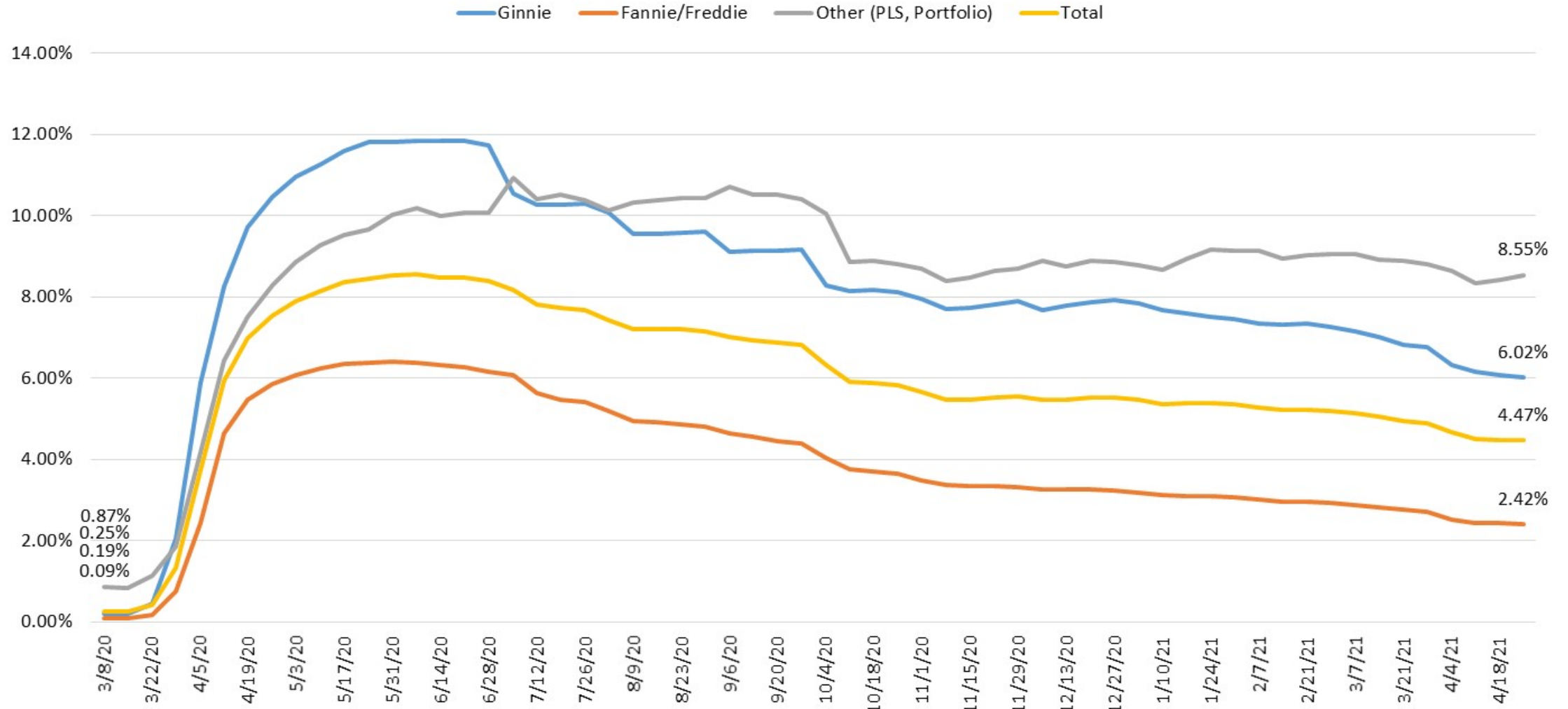
# Serious Delinquencies Elevated

## Seriously Delinquent Rate by Loan Type

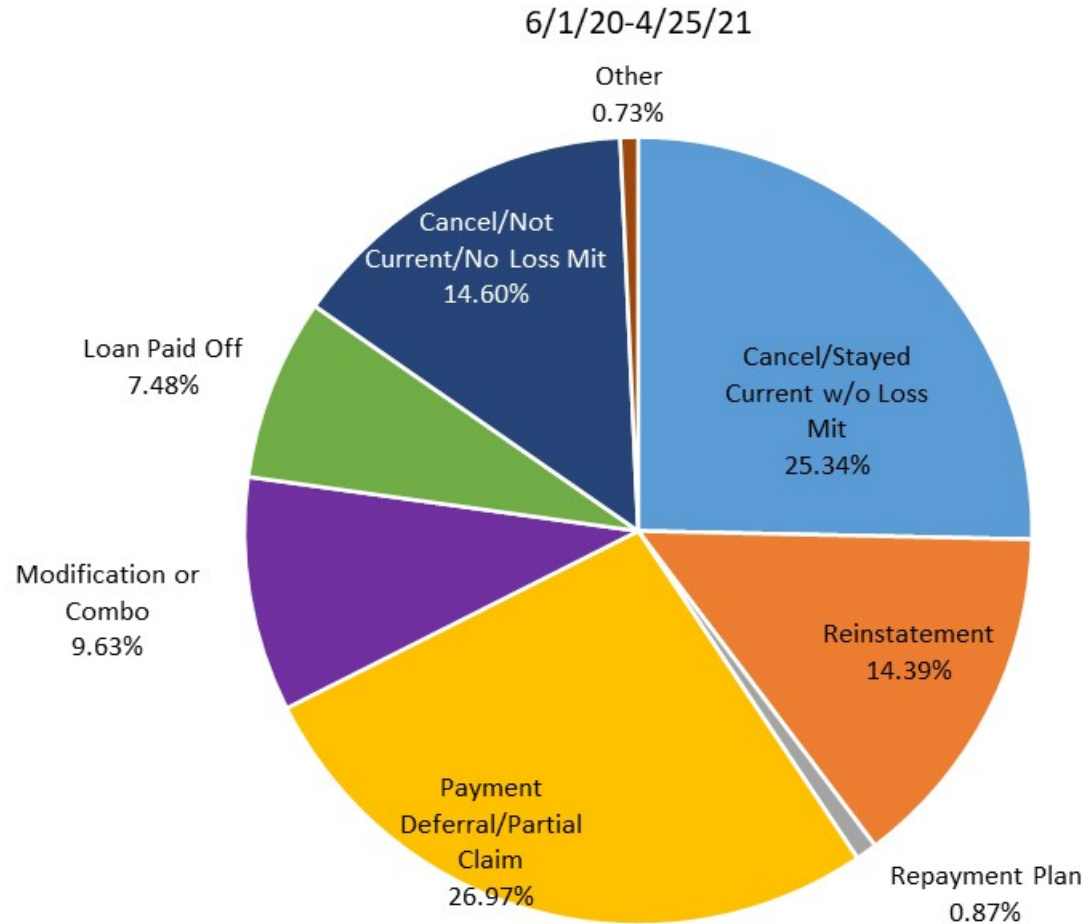
Non-seasonally adjusted, based on loan count, includes 90+ days dlq and loans in foreclosure



# % of Servicing Portfolio Volume in Forbearance by Investor Type Over Time (Full Sample)



# % of Cumulative Forbearance Exits by Reason



Cumulative Forbearance Exits as a % of Average Servicing Portfolio: 7.50%

# Poll Question #3

# Q:

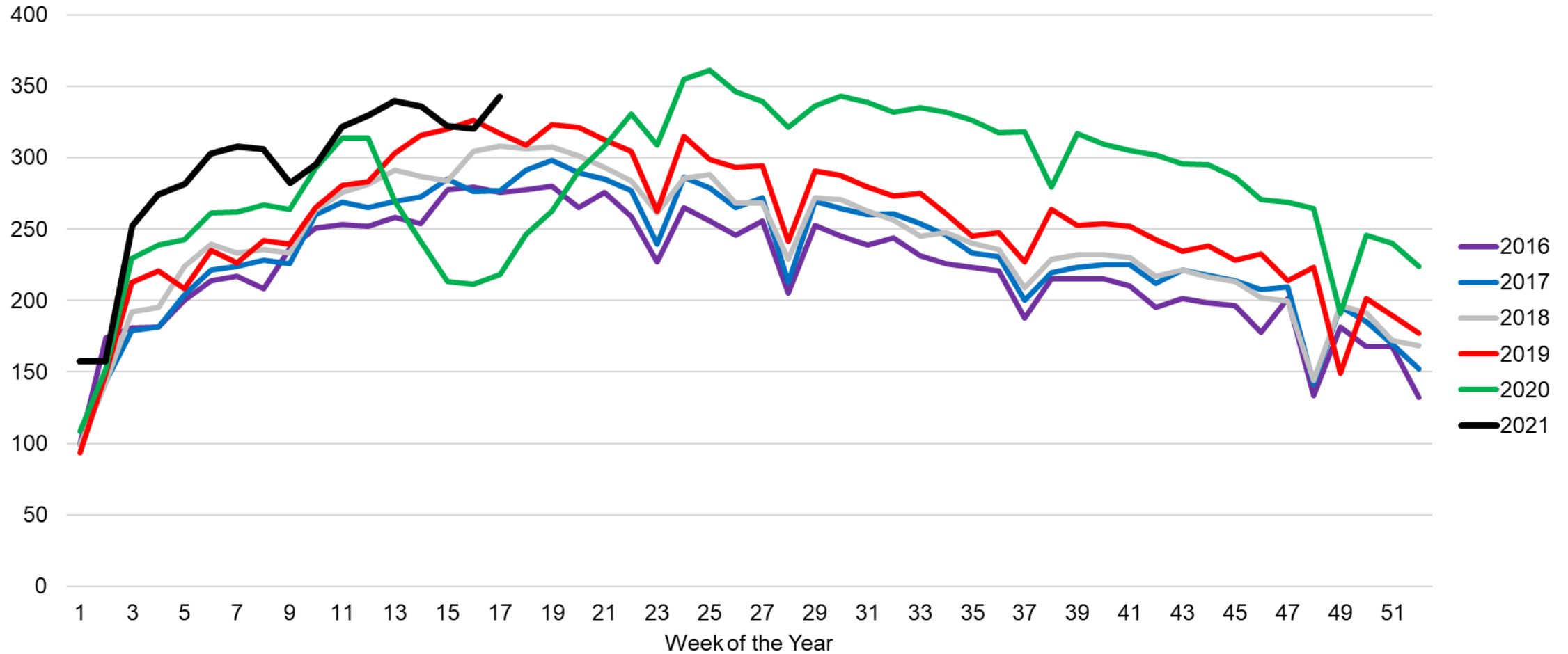
What is your expectation for your company's origination volume for 2021 compared to 2020?

- a) Up more than 20%
- b) Up 1 – 20%
- c) Flat
- d) Down 1 – 20%
- e) Down more than 20%



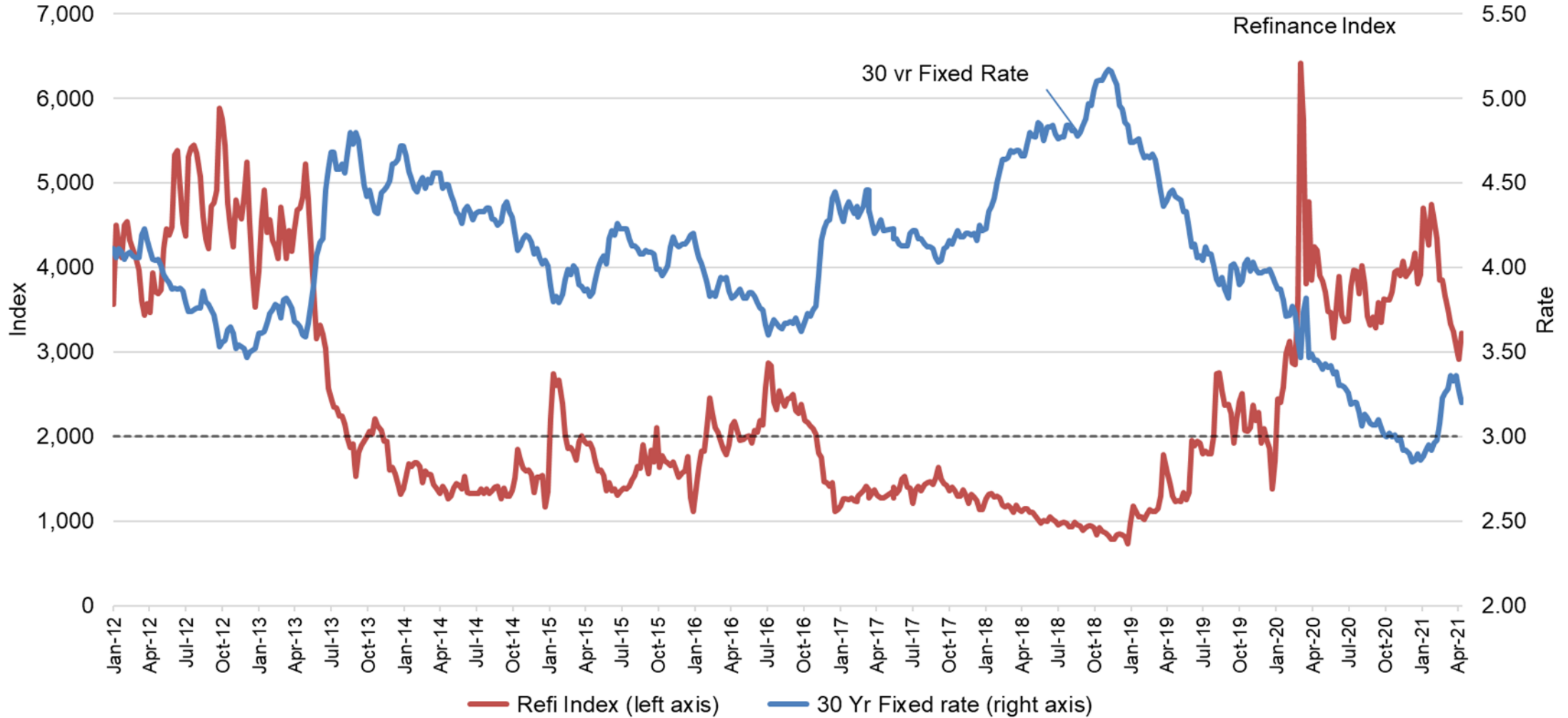
# Purchase Applications Continuing Strong Annual Growth

**Purchase Mortgage Applications Index**  
(by week of the year, NSA)

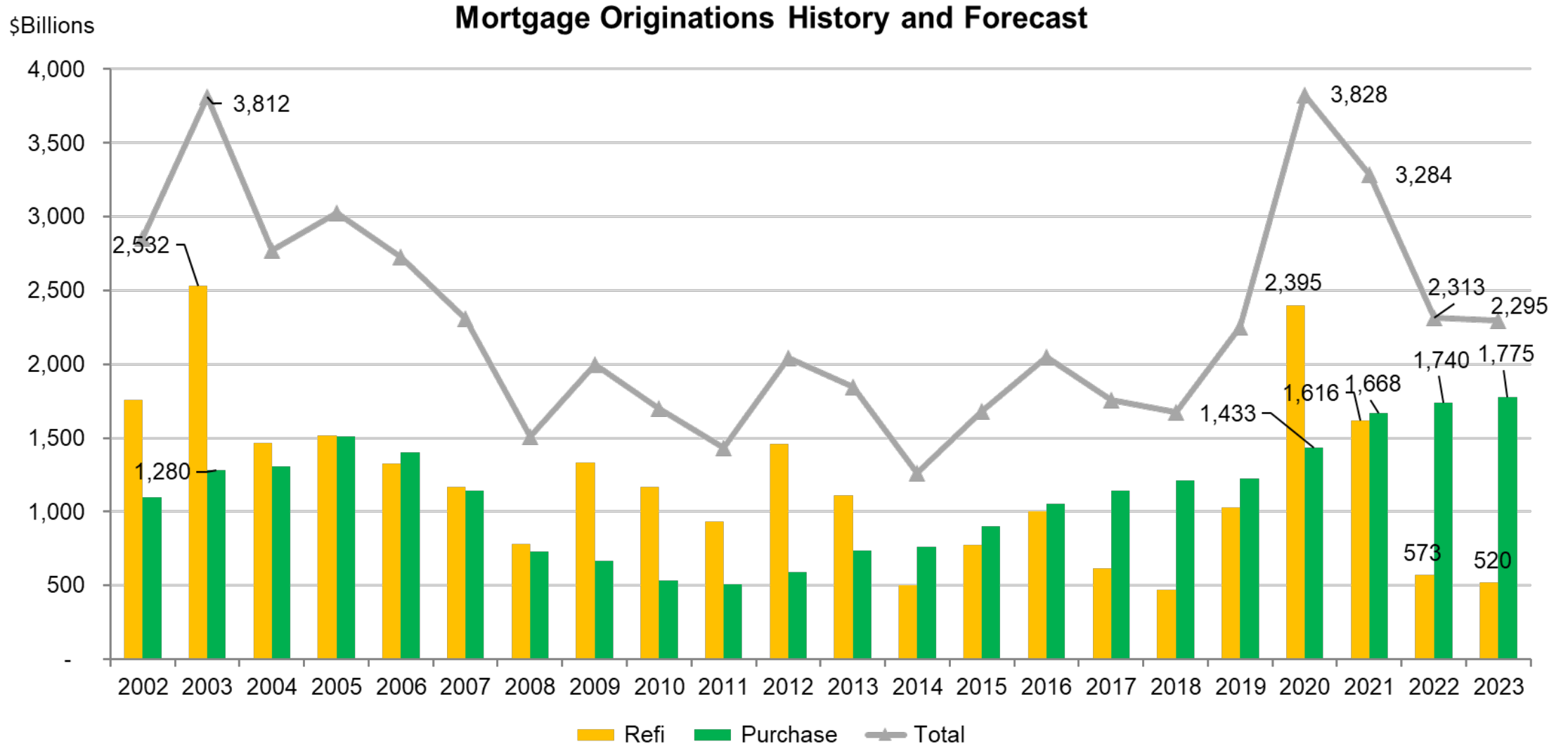


# Refi Applications Falling As Rates Have Turned Higher

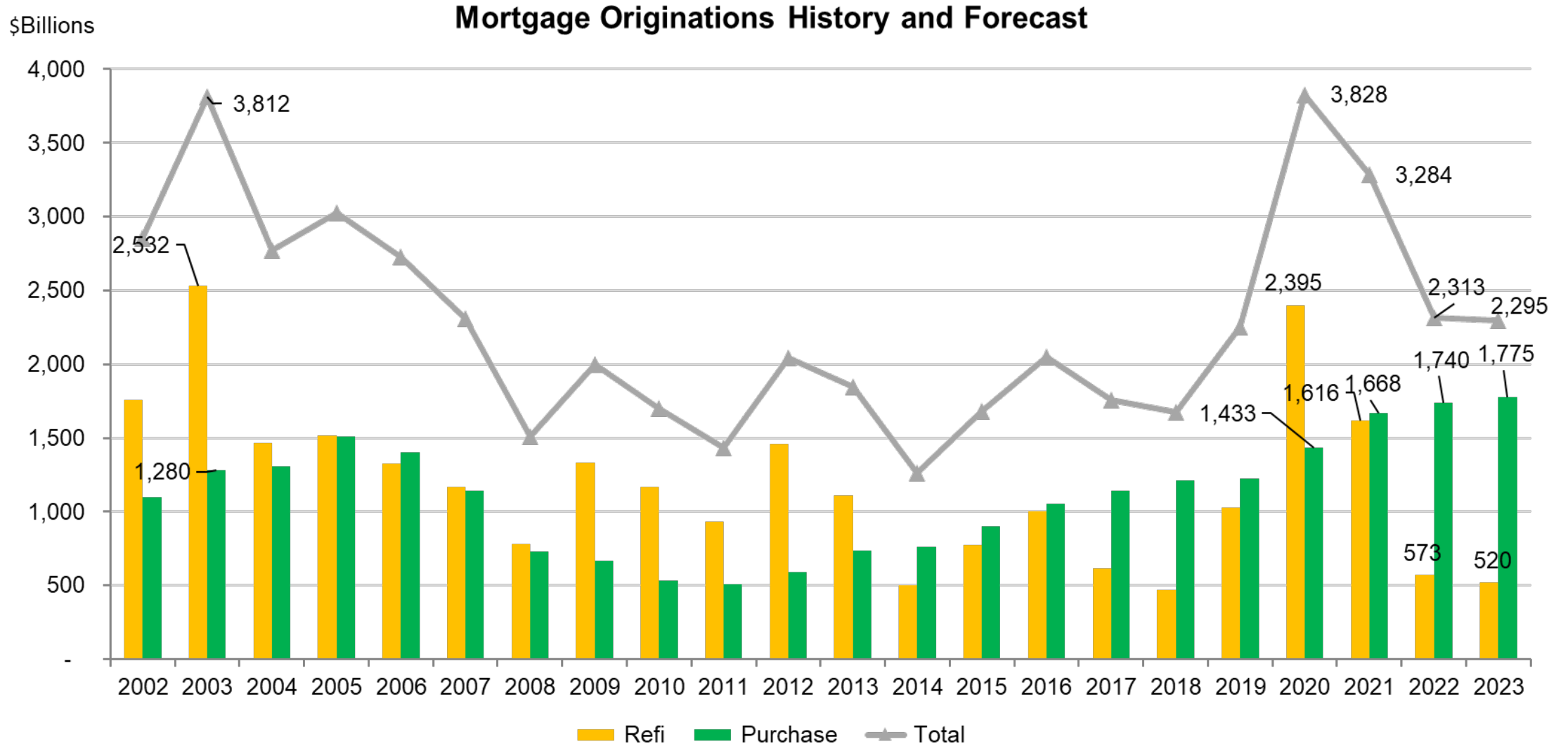
**Refinance Index and 30-Yr Fixed Mortgage Rate**



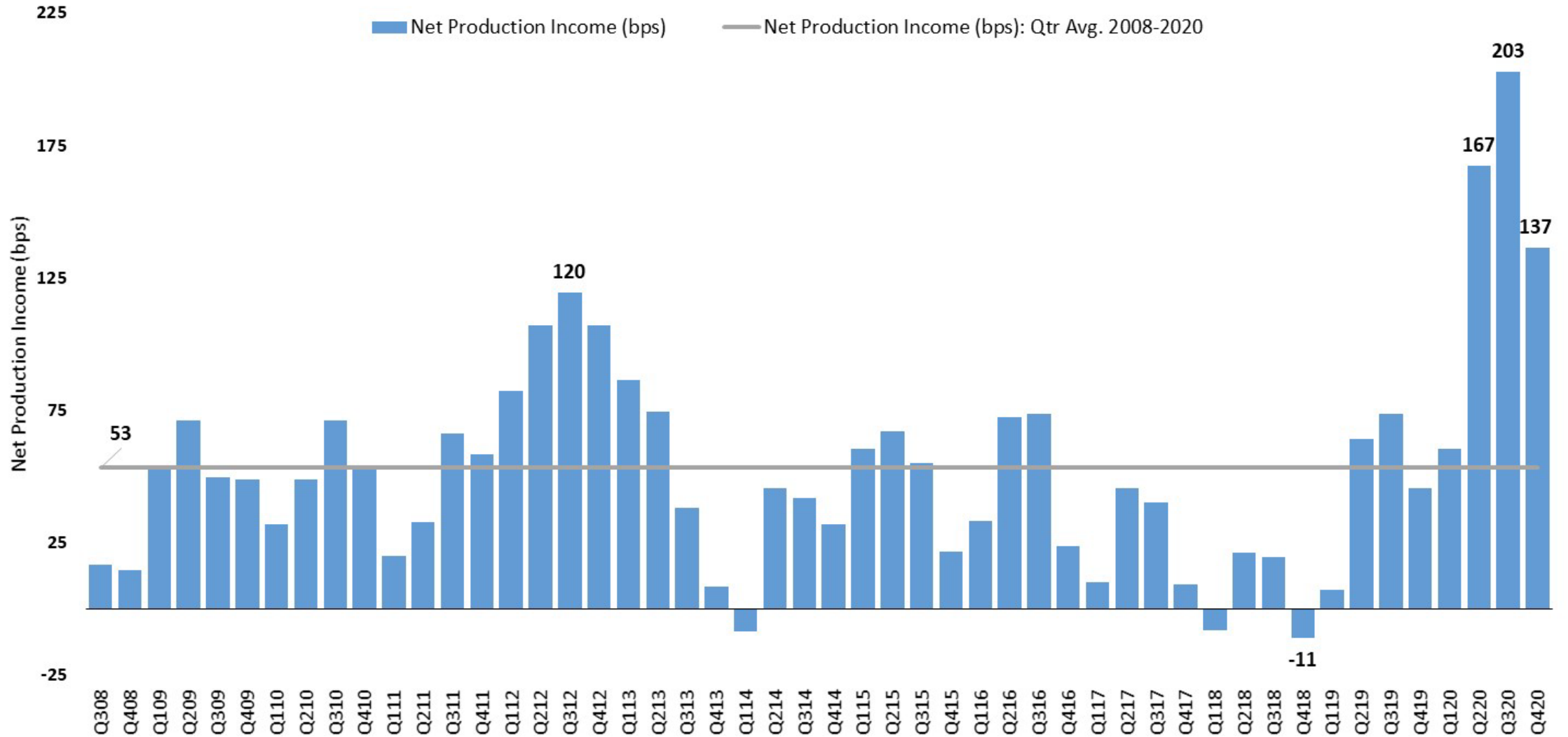
# Forecast Purchase Growth, Refinancing to Slow



# Forecast Purchase Growth, Refinancing to Slow

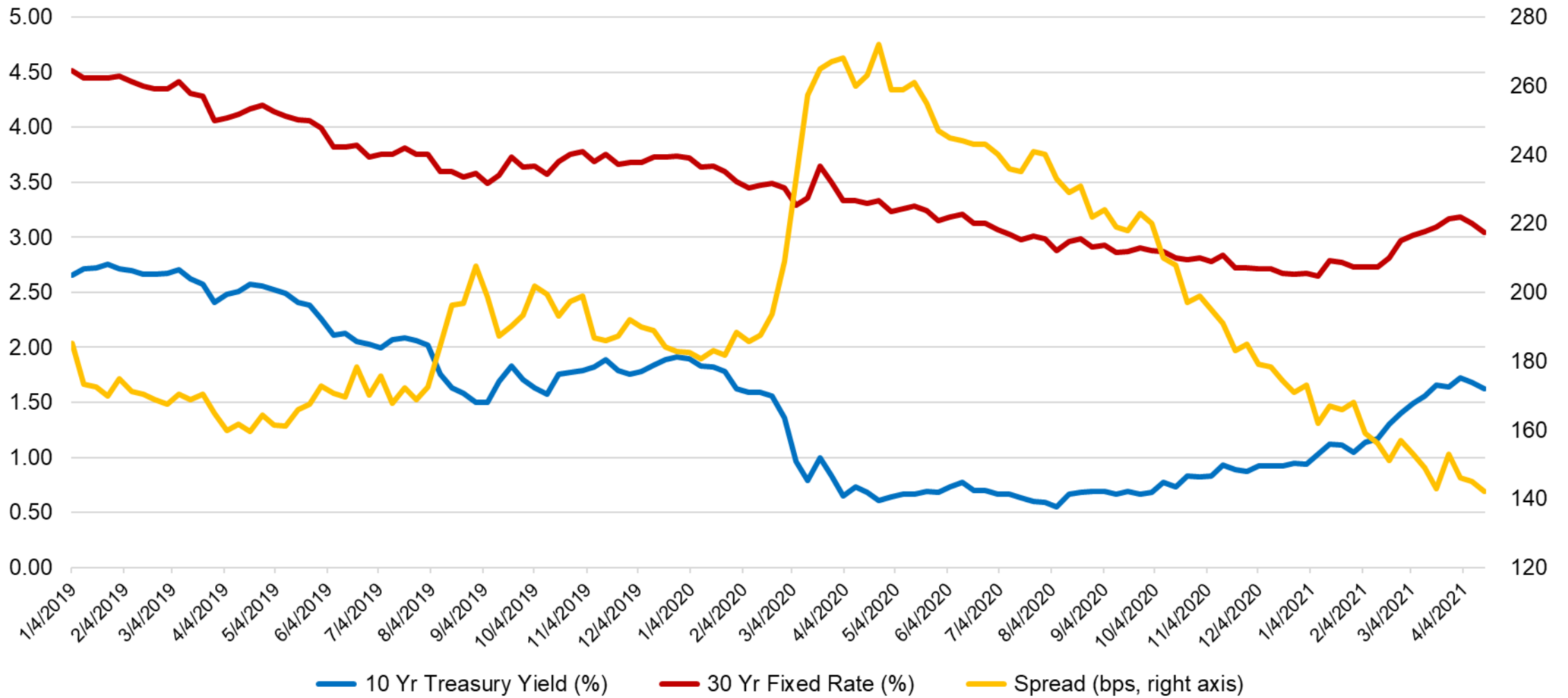


# IMB Production Profits in 2020 Reached Study Highs



# Mortgage-Treasury Spreads Narrowing, Rates Rising

## 30-Year Fixed Mortgage Rate versus 10-Year Treasury Yield



## **Mike Fratantoni, PhD**

Chief Economist & Senior Vice President | Research and Industry Technology

202-557-2935


[mfratantoni@mba.org](mailto:mfratantoni@mba.org)

## **MBA Research:**

[www.mba.org/research](http://www.mba.org/research)

## **RIHA:**

[www.housingamerica.org](http://www.housingamerica.org)



# WHAT TO EXPECT FOR THE REST OF THE YEAR

---

**CHRIS MICHAELS**

Chief of Staff  
Calterra Capital



# Poll Question #4

# Q:

What is your  
primary source  
of industry data?

- a) General News Sources  
(CNN, NYT, WSJ)
- b) Specialty News Sources  
(HousingWire, DSNews)
- c) Industry Commentary  
(Mortgage Monitor, DSNews,  
Chrisman Report)
- d) Raw Data Sources

# The Self-Service Data Detective

## How can I get deeper insight into market metrics?

### Government Sources

- **FRED:** Multiple Data Types Including 10-Year Treasury & Federal Interest Rate
- **Bureau of Labor Statistics:** Unemployment Data, CPI
- **FHFA:** RPM Report - Servicing and Portfolio Details
- **FHA:** Neighborhood Watch - Portfolio and Delinquency Data
- **HUD:** National Housing Market Indicators - General Market Data
- **Ginnie Mae:** Global Market Analysis
- **U.S. Court System:** Bankruptcy and Court Filings

### Industry Sources

- **MBA** – Research and Economics, Chart of the Week
- **Fannie Mae** – Research and Insights
- **Freddie Mac** – Research
- **Publicly held company earnings call presentations:**
  - PennyMac - <http://ir.pennymacfinancial.com/>
  - Mr Cooper - <https://investors.mrcoopergroup.com>
  - NRZ - <https://www.newresi.com/investors>
  - Altisource - <http://ir.altisource.com/>
- **Inside Mortgage Finance** – Paid source of detailed data
- **Conferences** – MBA, Five Star, IMN

### Editorialized Data Sources

- **Urban.org:** Covers origination and servicing
- **Black Knight:** Mortgage Monitor
- **Core Logic:** MarketPulse Report

### News Sources

- **HousingWire**
- **DSNews**
- **Chrisman Report**
- **Press Releases**

# Data Safety

## There can be multiple right answers

- **Forecast values will utilize multiple assumptions.** Every data source will use slightly different assumptions.
- **Different doesn't mean wrong.** Small assumption changes can dramatically change outcomes.
- **Consistently using the same source will provide the most accurate decision points.** Data trending will provide a strong understanding of market movement regardless of the source chosen.

**MBA Mortgage Finance Forecast**  
 March 19, 2021

**Fannie Mae**  
 Housing Forecast: March 2021

**Freddie Mac**  
 Economic & Housing Research Forecast

**Economic and Housing Market Outlook**  
 Draft revised 03/30/2021

Metric (in Billions)	2020				2021				2022				+ / -
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
2020 Total Originations													669
2021 Total Originations													809
2022 Total Originations													630

Metric (in Billions)	Freddie Mac	Fannie Mae	MBA	+ / -
2020 Total Originations	\$4,040	\$4,497	\$3,828	669
2021 Total Originations	\$3,480	\$3,993	\$3,184	809
2022 Total Originations	\$2,394	\$2,943	\$2,313	630

Fannie Mae data as of March 2021  
 Freddie Mac data as of April 2021  
 MBA data as of March 19, 2021

# Data Missteps

**Right numbers can create wrong impressions**

Metric(in Billions)	Freddie Mac	Fannie Mae	MBA	+ / -
2020 Total Originations	\$4,040	\$4,497	\$3,828	669
2021 Total Originations	\$3,480	\$3,993	\$3,184	809
2022 Total Originations	\$2,394	\$2,943	\$2,313	630

**Data can be selected to imply that the overall market value will increase when all sources forecast a decrease**

**The mixed source graph above shows how altering data sources can misinform.**

Every source indicates a reduction in volume but mixing data sources can create a false story of growth. When multiple sources are used evaluate why and what the implications of the change may be.

# Useful Links

- **FRED:** Multiple Government Metrics - <https://fred.stlouisfed.org/categories/22>
- **Bureau of Labor Statistics:** Unemployment Data, CPI - <https://www.bls.gov/eag/eag.us.htm>
- **FHFA:** Servicing and Portfolio Details - <https://www.fhfa.gov/AboutUs/reportsplans/Pages/Conservatorship-Reports.aspx>
- **FHA:** Neighborhood Watch - Portfolio and Delinquency Data - <https://entp.hud.gov/sfnw/public/>
- **HUD:** National Housing Market Indicators - General Market Data - <https://www.huduser.gov/portal/ushmc/hmi-update.html>
- **Ginnie Mae:** Global Market Analysis - [www.ginniemae.gov/data\\_and\\_reports/reporting/Pages/global\\_market\\_analysis.aspx](http://www.ginniemae.gov/data_and_reports/reporting/Pages/global_market_analysis.aspx)
- **U.S. Court System:** <https://www.uscourts.gov/statistics-reports/caseload-statistics-data-tables>
- **MBA:** <https://www.mba.org/news-research-and-resources/research-and-economics>
- **Fannie Mae:** <https://www.fanniemae.com/research-and-insights/forecast>
- **Freddie Mac:** <http://www.freddiemac.com/research/>
- **Publicly Held Company Earnings Calls:**
  - PennyMac - <http://ir.pennymacfinancial.com/>
  - Mr Cooper - <https://investors.mrcoopergroup.com>
  - NRZ - <https://www.newresi.com/investors>
  - Altisource - <http://ir.altisource.com/>
- **Inside Mortgage Finance:** Paid Source of Detailed Data - <https://www.insidemortgagefinance.com/>
- **Urban Institute:** Housing Finance at a Glance - <https://www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-finance-glance-monthly-chartbooks>
- **Black Knight:** Mortgage Monitor - <https://www.blackknightinc.com/data-reports/>
- **Core Logic:** MarketPulse Report - <https://www.corelogic.com/insights/the-marketpulse-report.aspx>
- **HousingWire:** <https://www.housingwire.com/>
- **DSNews:** <https://dsnews.com/>
- **MBA Weekly Charts:** <https://www.mba.org/news-research-and-resources/research-and-economics/chart-of-the-week>
- **Chrisman Report:** <https://www.robchrisman.com/>

# Q&A



**THANK YOU  
FOR ATTENDING**

