Home sales will only get worse next year before rebounding in 2024

The good news is that the outlook remains favorable for housing, so the sector remains well-positioned to lead the economy out of a "brief recession": Fannie Mae

November 21, 2022, 12:23 pm *By Connie Kim – HousingWire*

The forecast for the housing market is expected to get gloomier next year before rebounding to 2022 levels in 2024.

Fannie Mae's Economic and Strategic Research (ESR) Group forecasts single-family home sales to post 5.67 million in 2022 before dropping to 4.42 million in 2023 and then climbing to 5.25 million in 2024.

The latest forecast also projects that total mortgage origination activity is slightly increased at $2.34 trillion in 2022. The mortgage market is projected to slip further, however, to $1.74 trillion in 2023 before climbing to $2.11 trillion the following year, according to the government-sponsored enterprise.

The full effects of rate increases on home sales have yet to be felt, Fannie Mae's November commentary said. With rates at escalated levels, it is affecting home buyers facing affordability challenges.

A growing "lock-in effect" – the financial disincentive for existing homeowners with a fixed-rate mortgage well below current market rates to put their home on the market, move, and take on a new, higher mortgage rate — is also having a large effect on total home sales.

As of October, more than 80% of existing borrowers had mortgages at least 200 basis points lower than the current market rates, and more than 90% had mortgages at least 100 bps lower — the largest share since at least 2000, the government-sponsored enterprise said.

Existing home sales dropped for nine consecutive months, falling 5.9% in October to a seasonally adjusted annual rate of 4.43 million, according to the **National Association of Realtors**. Sales have also dropped 28.4% year over year.

In addition, the unsold existing homes inventory has slipped for three consecutive months, ending October at 1.22 million, or 3.3 months' supply at the current monthly sales pace.

On the flip side, an implication of the lock-in effect is that first-time homebuyers may increasingly turn to new homes in coming years as even fewer existing homeowners put their homes on the market, Fannie Mae said. "Given this, homebuilders may focus more on comparatively modest product offerings as the number of move-up buyers is low."

"From our perspective, the good news is that demographics remain favorable for housing, so the sector appears well-positioned to help lead the economy out of what we expect will be a brief recession," said Doug Duncan, senior vice president and chief economist at Fannie Mae.

The GSE forecasts mortgage rates to pull back over the next two years, reflecting a view of moderating 10-year Treasury rates as the Fed Reserve eventually ends its tightening stance, as well as a contracting economy and the compressing of the Treasury-mortgage rate spread once interest rates stabilize.

Fannie Mae expects real GDP growth in 2024 to be 2% year over year, reflecting the start of a recovery following an anticipated 2023 contraction of 0.6%. Its forecast of the economy tipping into a modest recession in the first quarter of 2023 remains unchanged.

The full-year 2022 GDP growth is now expected to be 0%, marginally up 0.1 percentage points from its previous projection.