

Fed's 'higher for longer' gambit may yet cool home price gains.

Fannie Mae and MBA economists are now in agreement that mortgage rates will come down only gradually this year and next but that home price appreciation will slow

BY [MATT CARTER](#)

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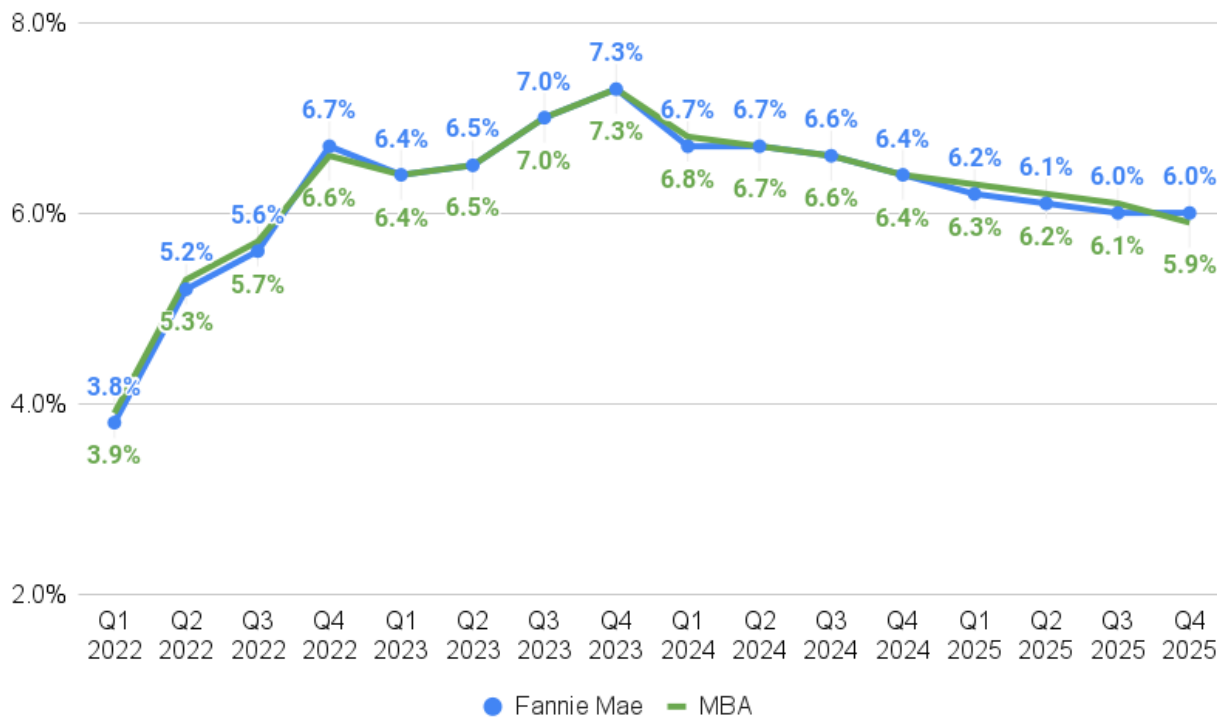
Home prices are showing surprising strength in the face of the Fed's "higher for longer" interest rate strategy, but home price appreciation is expected to cool this year and next even as mortgage rates come down, according to two closely watched forecasts.

Economists at Fannie Mae and the Mortgage Bankers Association (MBA) are now in agreement that mortgage rates will come down only gradually this year and next as Federal Reserve policymakers wait for more evidence that they're winning their war on inflation.

In a [March 21 forecast](#), MBA economists had predicted rates on 30-year fixed-rate mortgages would drop to 6.1 percent by the end of this year, and average 5.6 percent in Q4 2024. The latest MBA forecast, issued April 18, envisions rates at 6.4 percent by Q4 2024 and 5.9 percent during Q4 2025.

In a [forecast](#) released Tuesday, Fannie Mae economists said they see rates on 30-year fixed-rate loans dropping to 6.4 percent by the end of this year and to 6 percent during the second half of next year.

Mortgage rates expected to fall gradually



Source: [Fannie Mae](#), [Mortgage Bankers Association](#) forecasts, April 2024.

Fannie Mae economists are slightly more optimistic about the pace of 2025 rate declines than they were in March when they didn't expect rates to hit 6 percent until Q4.

“While we still expect economic growth and inflation to moderate going forward — and, thus, for mortgage rates to drift downward — interest rates existing in a ‘higher for longer’ state seems to be an increasingly real possibility in the eyes of market participants, as well as some homebuyers and sellers,” Fannie Mae Vice President Hamilton Fout said in a statement.

But Fannie Mae forecasters also note that their mortgage rate projections were put together earlier this month. Since then, rates have climbed on hot [consumer price index](#) (CPI) and labor reports.

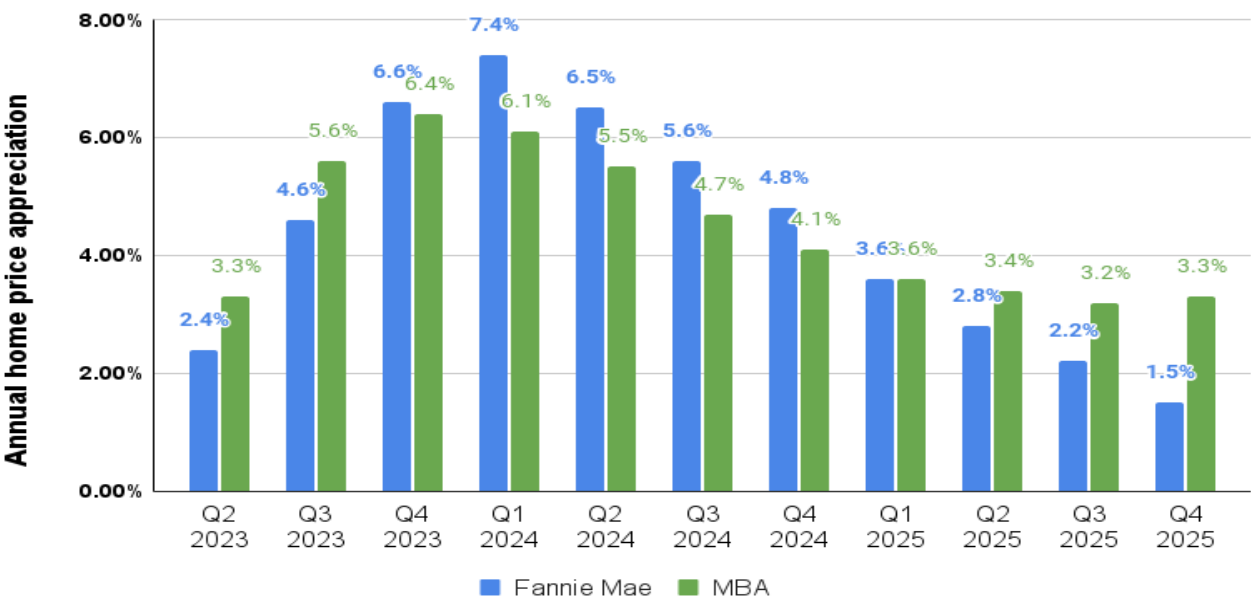
The Fed’s continued struggles to tame inflation mean there’s “upside risk” to Fannie Mae’s baseline mortgage rate forecast, economists at the mortgage giant said in [commentary](#) accompanying their latest forecast. In other words, rates could stay higher than projected.

Financial markets no longer expect that the Federal Reserve will start cutting short-term interest rates in June, and the prospects for three 2024 rate cuts as projected by Fed policymakers in [December](#) and [March](#) are also in doubt.

“We now expect just two 25-basis point rate cuts to the fed funds rate this year, with the first occurring in September,” Fannie Mae economists said. “Of course, there remains the possibility that there will be no rate cuts in 2024, but that is not our base case forecast.”

Analysts at UBS Group AG also expect the Fed to cut rates twice this year, but see an outside chance that instead of cutting rates, the Fed might have to [raise them](#) next year — a move that might send mortgage rates soaring above 8 percent, they warned.

Home price appreciation projected to cool.



Source: [Fannie Mae](#), [Mortgage Bankers Association](#) forecasts, April 2024.

While elevated mortgage rates have dented home sales, national home prices have continued to rise, in part, because many existing homeowners are feeling [locked in](#) to the low rate on their existing mortgage and have been reluctant to sell.

The lack of inventory in many markets has made homebuyers more willing to pay higher asking prices. The double-digit home price appreciation seen during the pandemic cooled in 2022 and the first half of 2023, only to rebound in the second half of the year as inventories remained scarce.

Economists expect home prices will continue to rise, but that the pace of home price appreciation will slow as more listings come on the market.

“Despite continued high mortgage rates, an increasing share of homeowners appear to be acclimating to the higher mortgage rate environment or deciding they can no longer put off the listing of their homes,” Fannie Mae economists said. New listings are expected to come onto the market faster than sales pick up, “which should help gradually thaw housing inventory and contribute to decelerating home price growth.”

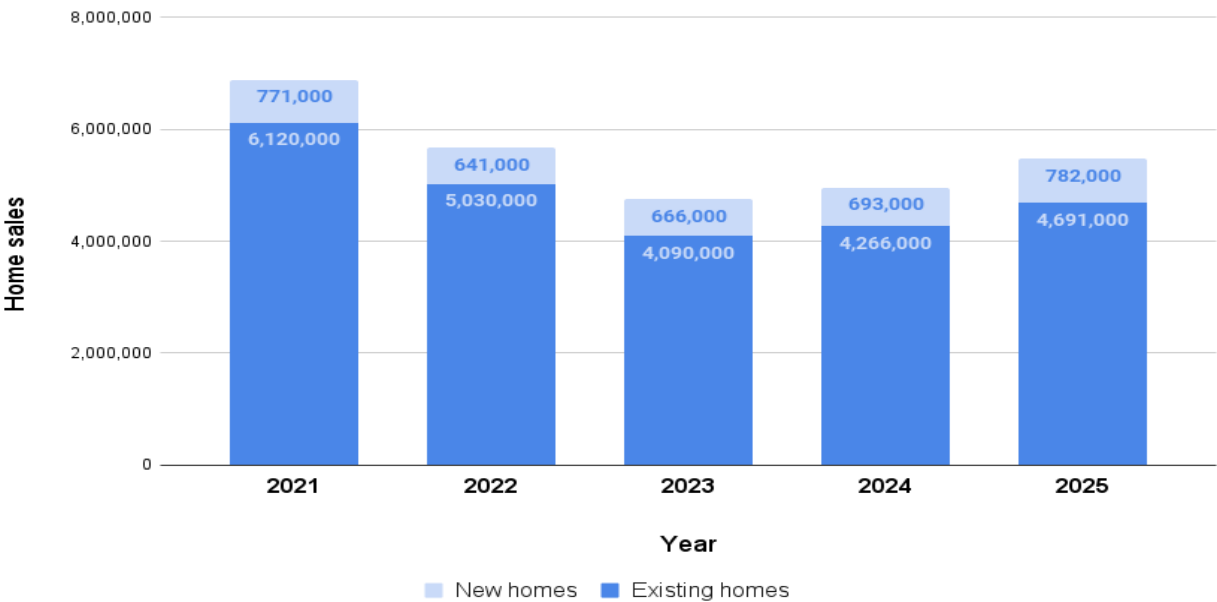
Fannie Mae economists believe home price appreciation is poised to decelerate from 7.4 percent during Q1 2024 to 4.8 percent by the end of this year and to 1.5 percent by Q4 2025.

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When forecasters at the mortgage giant last updated their [home price appreciation forecast](#) in January, they were expecting home prices to decelerate more drastically — to 3.2 percent by the end of 2024 and to just 0.3 percent in Q4 2025.

MBA economists concur that home price appreciation will cool this year, but remain above 3 percent in 2025.

‘Modest’ growth in 2024 home sales expected.

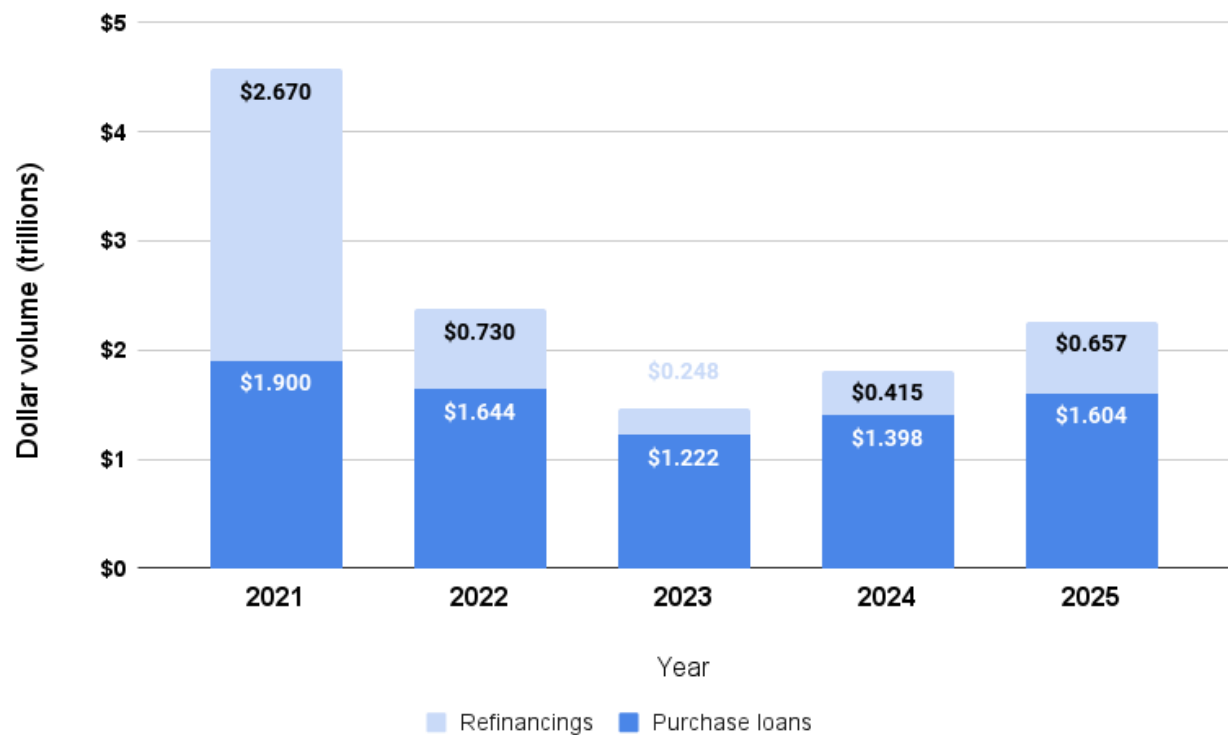


Source: [Fannie Mae housing forecast](#), April 2024.

Fannie Mae economists expect growth in new listings will help generate a “modest” 4.3 percent increase in 2024 sales of existing homes, to 4.266 million, followed by a more significant 10 percent bump in 2025 sales to 4.691 million.

Economists at the mortgage giant are projecting similar growth in new home sales, which are forecast to rise by 4 percent in 2024 to 693,000 homes and by 12.8 percent in 2025 to 782,000 homes.

Rising home sales, prices could boost mortgage lending



Source: [Fannie Mae housing forecast](#), April 2024.

With home sales and home prices both expected to rise, Fannie Mae expects 2024 mortgage originations to grow by 23 percent, to \$1.818 trillion, followed by 25 percent growth in 2025, to \$2.261 trillion.

“We have revised upward our expectation for both purchase and refinance mortgage origination volumes this month, due in particular to our more optimistic home price growth expectation and somewhat lower mortgage rate path, along with an upgraded expectation for home sales,” Fannie Mae economists said.

Mortgage refinancing volume is forecast to grow by 67 percent this year to \$415 billion and 58 percent in 2025 to \$657 billion.

But mortgage lenders will still be counting on homebuyers for most of their business, with purchase loan originations expected to climb by 23 percent this year to \$1.398 trillion and by 25 percent in 2025 to \$1.604 trillion.

“It should be noted, however, that given the upside risk to mortgage rates in our forecast, we see downside risk to our originations outlook,” Fannie Mae economists said.