ECONOMIC MARKET SNAPSHOT

WINTER 2025 | ISSUE NO. 28

NATIONAL MI IS PLEASED TO BRING YOU OUR

Winter 2025 Edition of the Economic Market Snapshot

We have a cautiously optimistic outlook for housing in 2025.

Despite a solid economic backdrop, we expect several areas to weigh on the housing market throughout 2025, including continued affordability challenges, elevated interest rates, and government policy uncertainty.

The economy is hot but not overheated.

- The notion that the Fed has achieved its desired "soft landing" is a consensus at this point. Industry players echoed this sentiment in their January earnings calls.
- The labor market added 256K jobs in December, a strong ending to a strong year for job growth.
- The Federal Reserve kept its key rate unchanged in January.
- Inflation is continuing to normalize, albeit slowly, with Core CPI slowing to 3.2% in December from 3.3% in November. The housing components of CPI are continuing to decelerate and should put more downward pressure on overall inflation this year.

Based on current market conditions, John Burns Research & Consulting reports, as long as the economy stays strong, the Fed and the bond market expect rates to remain high at current levels this year.

(continued on page 2)

PLEASE REFER TO OUR Economic Market Snapshot webpage for previous editions of this report

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JBREC's view of mortgage rates is informed by bond market expectations of the 10-year yield plus a spread and implies that rates will average 6.8% in 2025. This marks the third straight year of ~7% mortgage rates.

At 7.1%, today's mortgage rates are higher than 6.8% and 6.1% in January 2024 and January 2023, respectively.

Existing-home sales rose 2.2% in December to a seasonally adjusted annual rate of 4.24 million, the strongest pace since February of 2024. Sales Grew 9.3% from a year ago.

> There is much more supply—new and resale—on the market today than in either of the past 2 years.

Home sales and prices

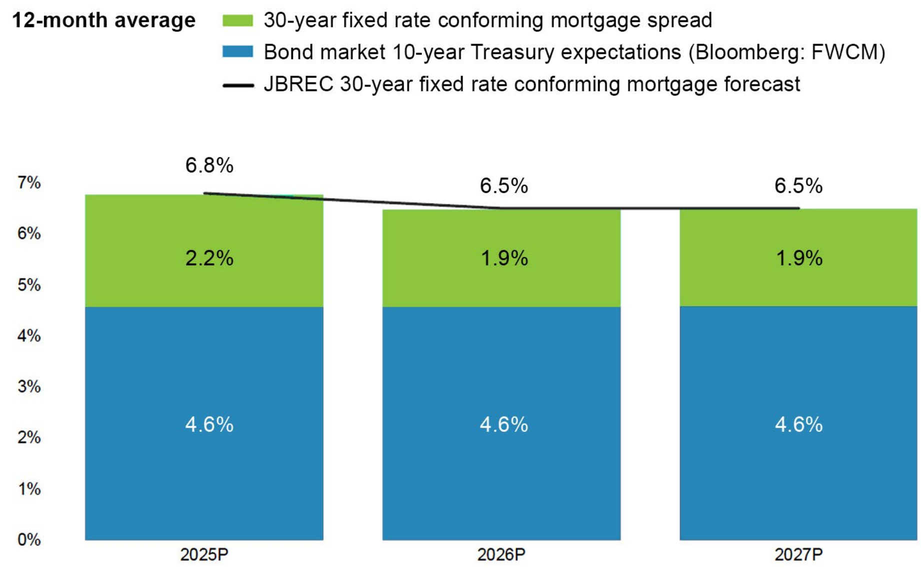
- New home prices (net of incentives): +1.7% YOY
  - Expect price adjustments in the spring as builders work to clear inventory. Low-supply markets across the Northeast, Midwest, and West Coast will drive modest new home price appreciation.
- Existing home sales: +4% YOY
  - Anemic resale sales in 2024 will make YOY comparisons easy. We expect slight resale sales growth as the lock-in effect continues to gradually wane in 2025.
- Existing home prices: +3% YOY
  - Modest resale home price gains will be concentrated in regions that have not seen a run-up in inventory. Strength in the Northeast, Midwest, and West Coast will offset price declines across the Sunbelt.

Affordability will remain stretched. Mortgage rates are expected to average ~6.8% in 2025, marking the third consecutive year at or near 7%, which will keep demand muted. However, inventory is rising: resale listings are up 18% YOY and new home inventory is up 8% YOY.

JBREC Mortgage Rate Forecast on Market Pricing

Mortgage rates are expected to remain elevated through 2025. JBREC anticipates the interest rate environment to begin to ease slightly starting in 2026.

ANNUAL AVERAGE 30-YEAR FIXED CONFORMING MORTGAGE RATE FORECAST

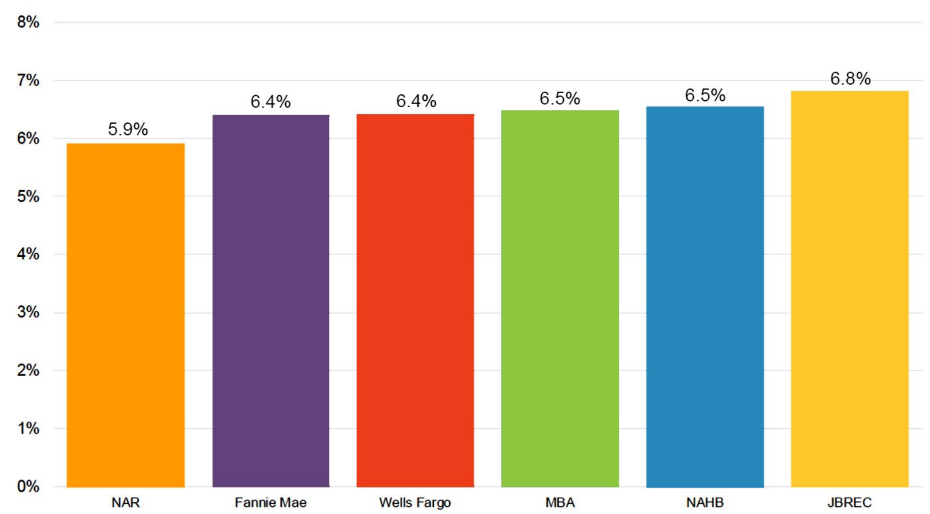


SOURCES: Bloomberg; John Burns Research & Consulting, LLC (Data: Jan-25, Pub: Jan-25)

Industry Rate Forecasts for 2025

JBREC is above all other forecasters on mortgage rates.

2025 ANNUAL AVERAGE 30-YEAR FIXED MORTGAGE RATES



NAR (Oct-24); Fannie Mae (Dec-24); Wells Fargo (Dec-24); MBA (Dec-24); NAHB (Jan-25)

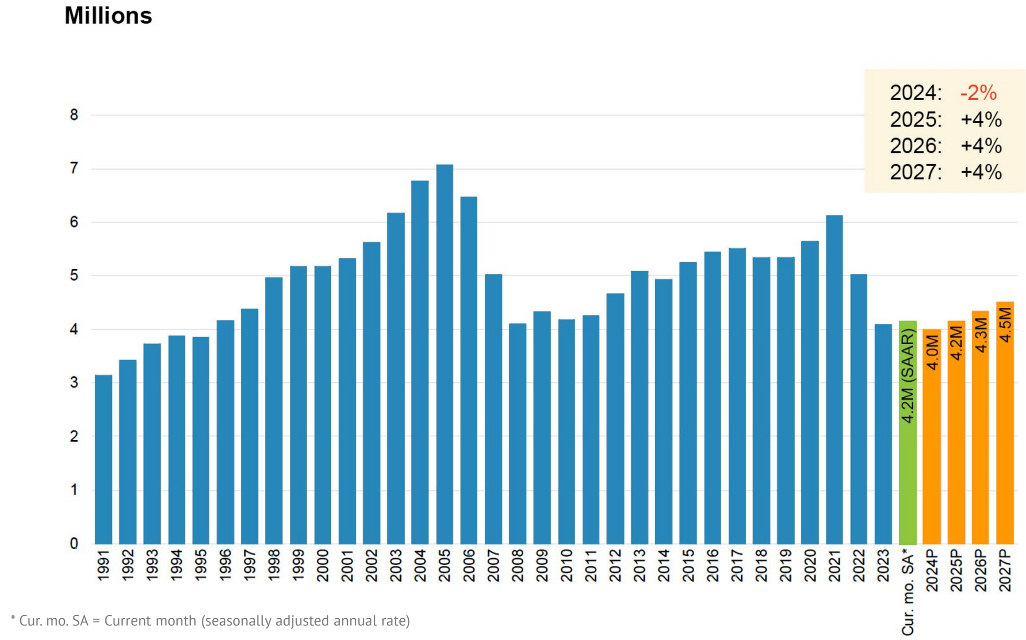
SOURCE: John Burns Research & Consulting, LLC (Pub: Jan-25)

JBREC's 2025 Forecast for Existing Home Sales Improving

JBREC forecasts that existing home sales will increase slightly YOY in 2025 due to:

- Gradually waning lock-in effect
- Easy comparison to the historic low for home sales in 2024

NATIONAL EXISTING HOME SALE CLOSINGS



* Cur. mo. SA = Current month (seasonally adjusted annual rate)

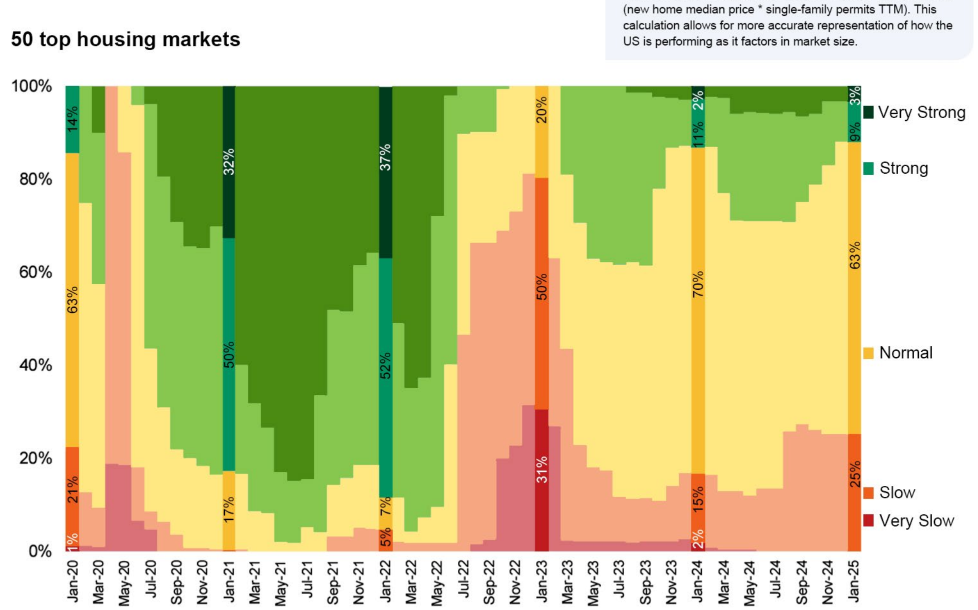
SOURCES: ©2020 National Association of REALTORS®; John Burns Research & Consulting, LLC (Data: Nov-24, Pub: Jan-25)

Current Market Conditions: 75% of Markets are Normal, Strong or Very Strong

Sales and pricing conditions are Strong or Very Strong in 12% of markets. 63% of markets are Normal, which reflects 2-3 sales per community per month with rising net prices.

CURRENT MARKET CONDITIONS

Current market conditions are weighted by new home revenue (new home median price * single-family permits TTM). This calculation allows for more accurate representation of how the US is performing as it factors in market size.



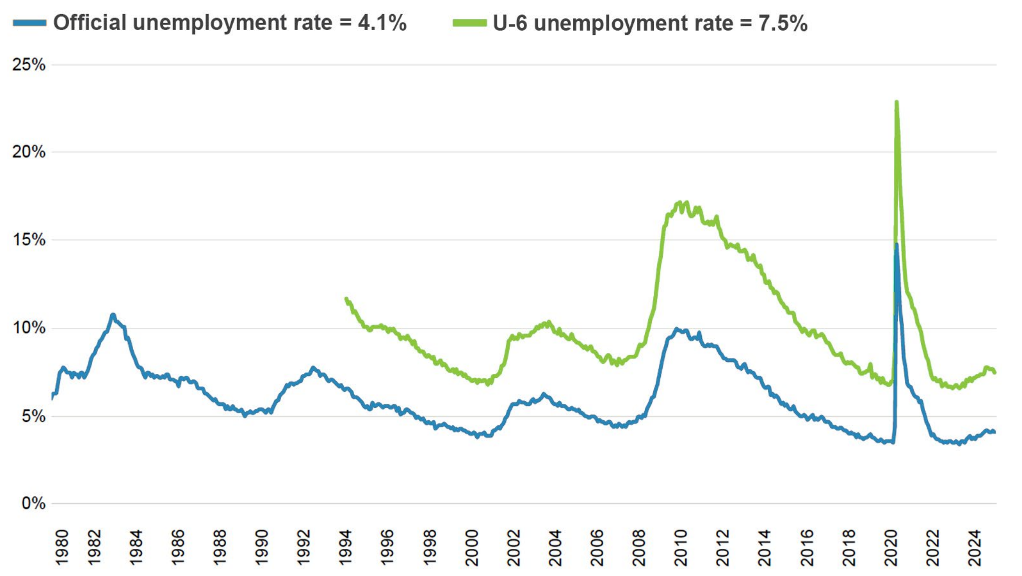
Percentages may not add up to 100% due to rounding, as some months less than 50 markets are rated.

SOURCE: John Burns Research & Consulting, LLC (Pub: Jan-25)

Unemployment is Still Historically Low But has Risen from 2023 Levels

The unemployment rate fell to 4.1% in December. The U-6, a broader measure of unemployment that captures underemployment and discouraged workers, fell to 7.5%.

LABOR FORCE UNEMPLOYMENT RATE (SA)



The U-6 unemployment rate is a broader measure of unemployment that covers part-time workers who would like full-time work and those who have given up looking for work.

SOURCE: Bureau of Labor Statistics (Data: Dec-24, Pub: Jan-25)

Lending Standards

Current lending standards are tight on credit and documentation, but not on DTI and LTV.

This chart only includes primary purchase loans guaranteed by the five government agencies (Fannie Mae®, Freddie Mac, FHA, VA, and RHS). These loans currently account for 64% of all primary purchase loans (by count). Our current percentage of low/no document loans is based on JBREC analysis. The DTI numbers shown include only back-end DTI percentages.

LENDING STANDARDS

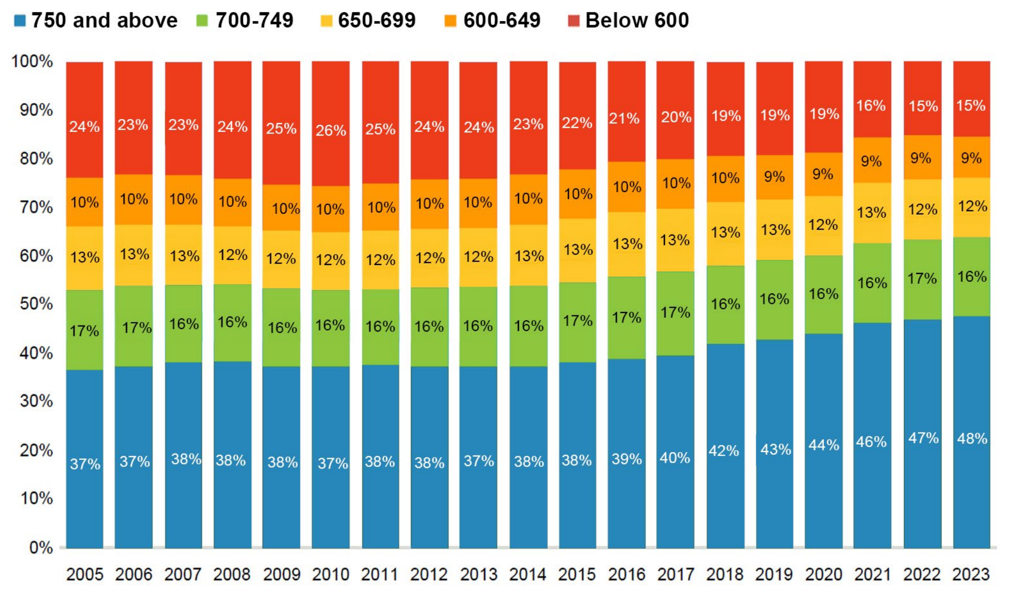
SOURCES: American Enterprise Institute; John Burns Research & Consulting, LLC (Data: Jul-24, Pub: Jan-25)

Credit Scores Continue to Improve

Consumers have slowly rebuilt their credit profiles. In 2023, 64% had FICO scores above 700, and 85% had FICO scores above 600.

Scores are based on the following five categories in order of weighting: payment history (35%), amounts owed (30%), length of credit history (15%), new credit (10%), and types of credit used (10%).

NATIONAL FICO® SCORE DISTRIBUTION FOR ALL CONSUMERS

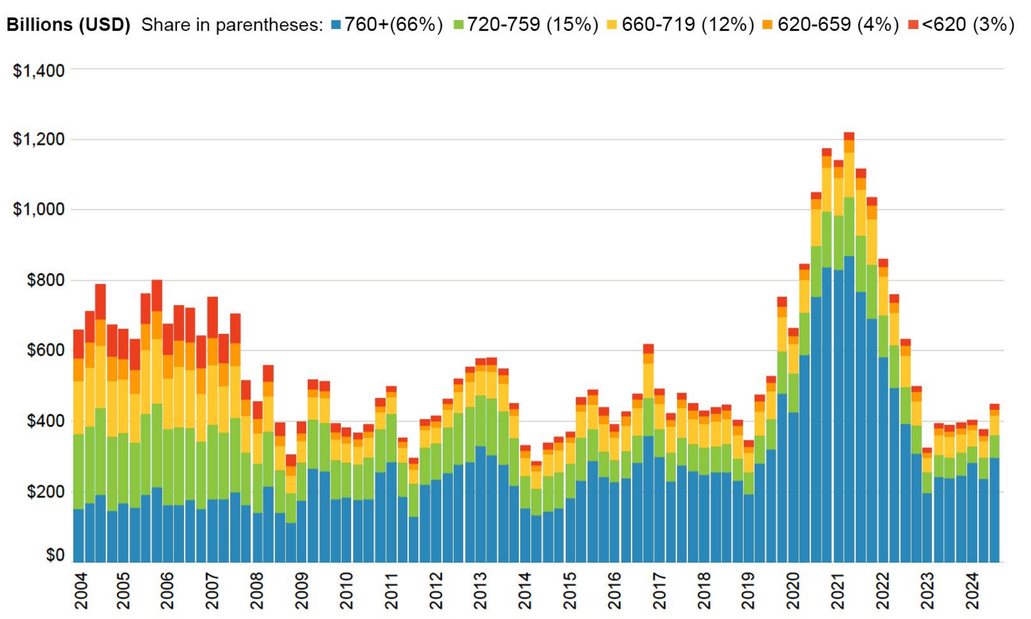


SOURCE: FICO® Banking Analytics Blog (Data: Apr-23, Pub: Jan-25)

81% of Mortgages Originated in 3Q24 Went to Borrowers with 720+ Credit Scores

In 1Q2007, 15% of mortgage originations were to borrowers with a credit score of less than 620. As of 3Q2024, only 3% of mortgages went to borrowers with a credit score less than 620.

MORTGAGE ORIGINATIONS BY CREDIT SCORE*



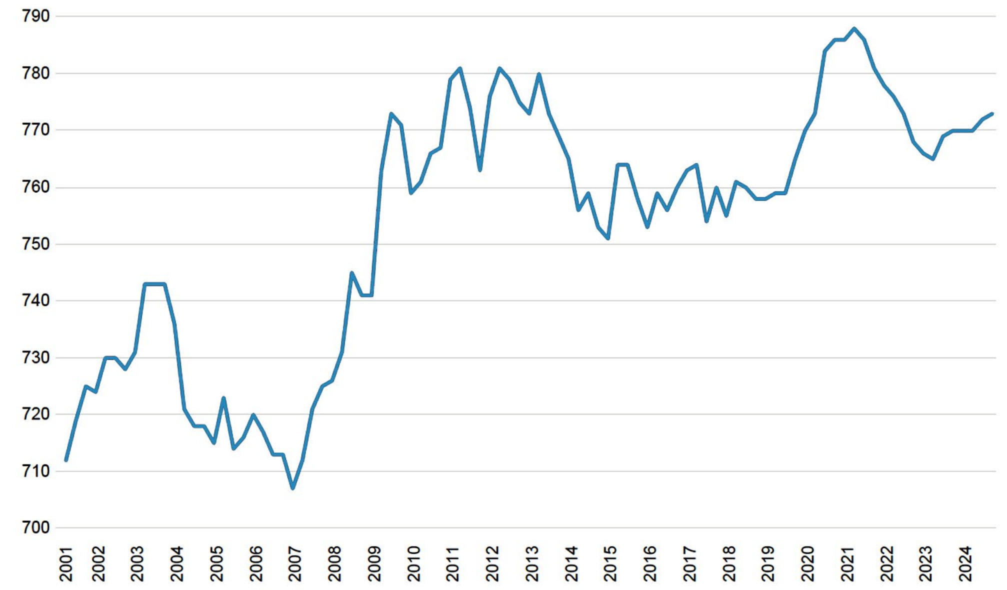
* Credit Score is Equifax Riskscore 3.0

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 3Q24, Pub: Jan-25)

Median Credit Scores at Origination are Much Higher Today Than Pre-Global Financial Crisis

The median credit score at mortgage origination fell to 707 during the heyday of 2006. Since then, creditors have tightened standards. As of 3Q24, the median score at origination was 773.

MEDIAN CREDIT SCORE AT MORTGAGE ORIGINATION*



* Credit Score is Equifax Riskscore 3.0; mortgage include first liens only.

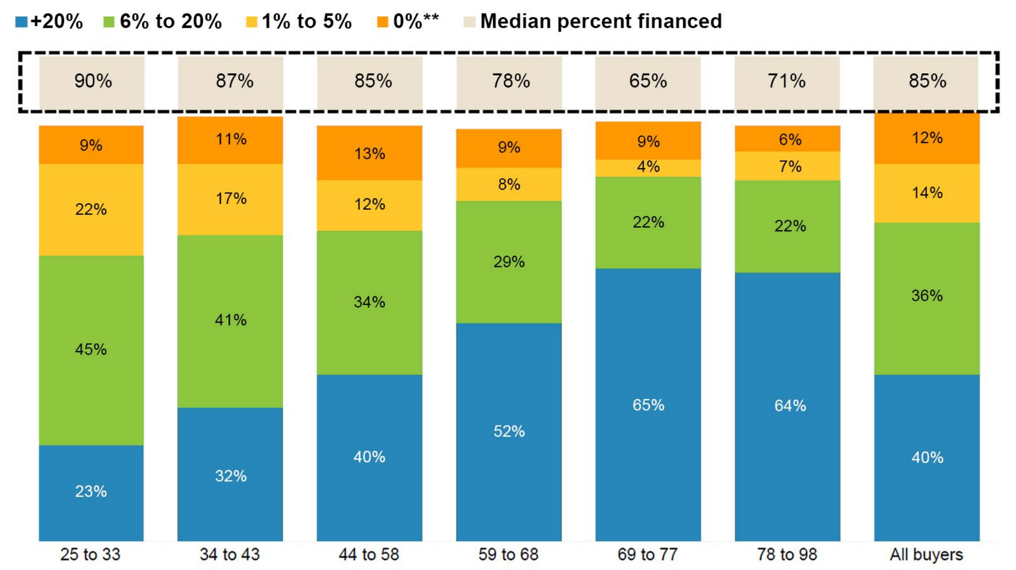
SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 3Q24, Pub: Jan-25)

Older Buyers Tend to Put Down Larger Down Payments

Only 23% of Younger homebuyers put more than 20% down payment, compared to all buyers at 40%.

31% of 25-33 year olds have an LTV of +95%.

DOWN PAYMENT AS PERCENT OF HOME VALUE BY AGE OF HOME BUYER*



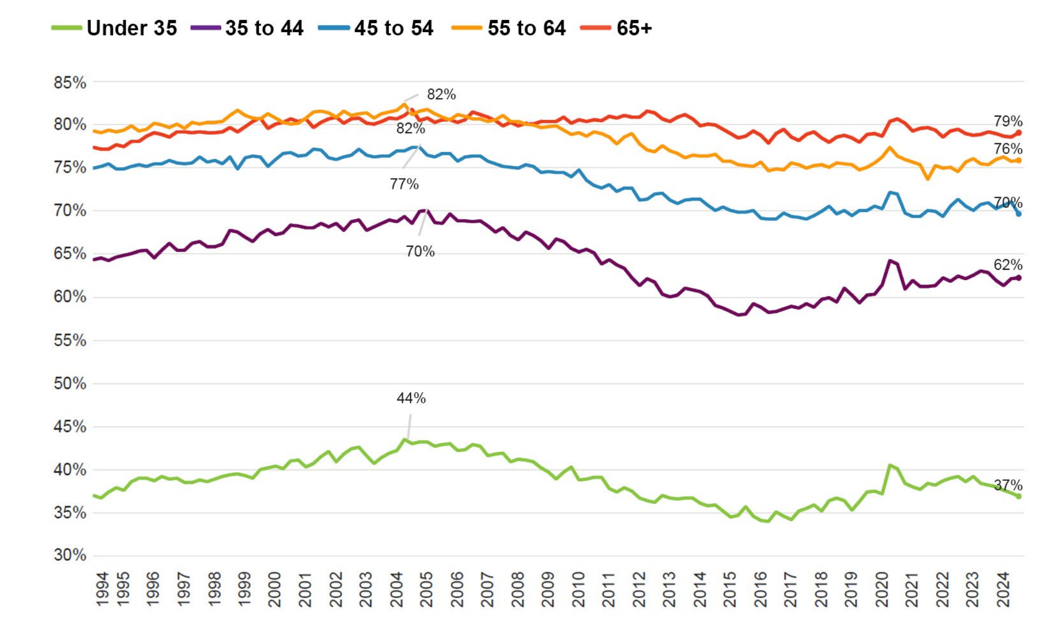
* Percentages only include homes that were purchased with a mortgage.
** 0%: Financed the entire purchase price with a mortgage

SOURCE: ©2024 National Association of REALTORS® Home Buyer and Seller Generational Trends (Data: 2024, Pub: Jan-25)

Homeownership Has Been Flat to Rising in Recent Years for Most Groups

Note: The pandemic complicated the Census Bureau's collection process in 2020. We advise using caution in comparing data from this time period.

HOMEOWNERSHIP RATE BY AGE

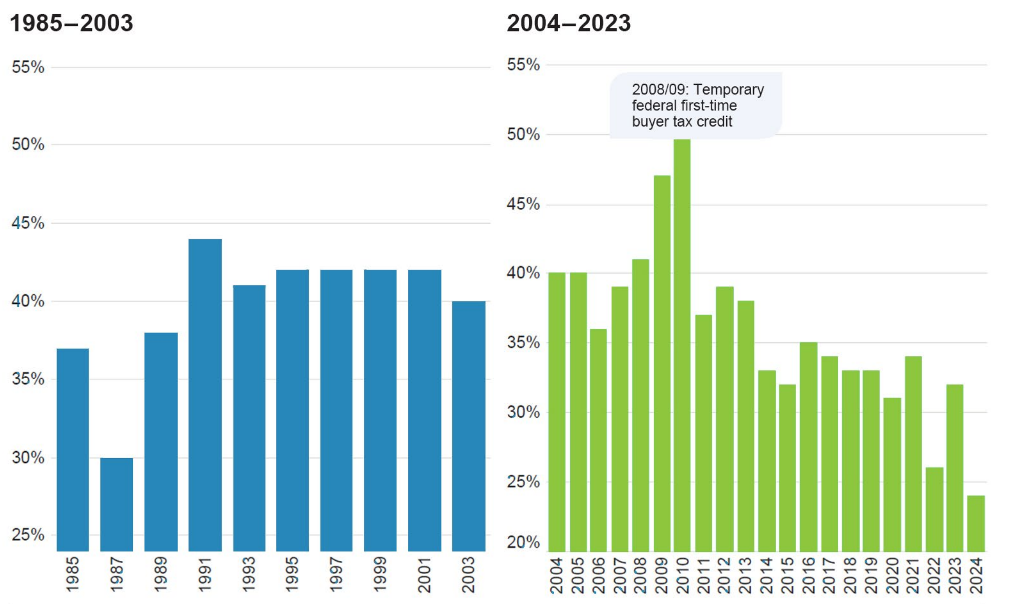


SOURCE: Census Bureau, Housing Vacancies and Homeownership Survey (Data: 3Q24, updated quarterly, Pub: Jan-25)

The Share of Existing Homes Sold to First-Time Buyers Fell to 24% in 2024

Peak share was reached in 2010 when 50% of buyers were first-time buyers due to temporary tax credits.

SHARE OF EXISTING HOMES SOLD TO FIRST-TIME BUYERS



SOURCES: NAR; John Burns Research & Consulting, LLC (Data: 2024, Pub: Jan-25)

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