ECONOMIC MARKET SNAPSHOT

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NATIONAL MI IS PLEASED TO BRING YOU OUR

Spring 2024 Edition of the Economic Market Snapshot

Higher-than-expected inflation data and strong economic data in April are sending mortgage rates higher, likely pushing back rate cuts from the Fed.

John Burns Research & Consulting reports that Mortgage rates soared to 7.5% this past week – the highest level since November 2023.

- Inflation's last leg is proving particularly stubborn for the Fed. Prices across the economy rose +0.4% month over month (MOM) and +3.5% year over year (YOY) in March, still well above normal.
- The labor market remains strong, with 303K jobs added MOM in March, the strongest single month of job growth since May last year.
- Consumer spending continues to show resilience. Consumers spent $710 billion in March (+4% YOY). March was the strongest single month of retail and food services sales ever in terms of dollars.

Higher rates will stretch the limits of affordability.

- The last time rates were this high was in November 2023, when our Burns Affordability Index showed that the housing-cost-to-income ratio for a typical home buyer was 45%. November 2023 was also the 2nd worst month in the last 30 years of our Affordability Index's history, behind only October 2023.
- Homeowners and prospective home buyers are also contending with rising insurance costs.
  - Even more stable regions of the country are seeing premium increases to compensate for additional risk in disaster-prone regions.

Existing home sales should stay muted in the near term.

Higher rates are pricing millions of households out of qualifying for a mortgage that they may have qualified for earlier in the year.

- At 7.5% rates, just 21% of all households qualify for a $400,000 mortgage (compared to 25% at 6.5% rates).
- At 7.5% rates, just 9% of all households qualify for a $600,000 mortgage (compared to 11% at 6.5% rates).

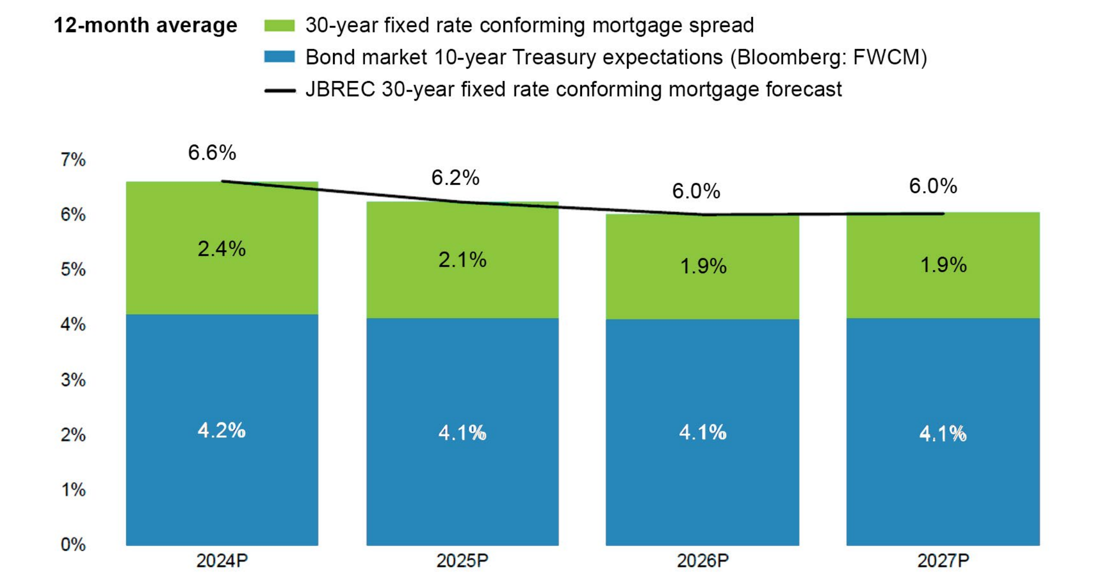
Affordability will remain stretched and limit aggregate housing demand in 2024, but builders are well poised to take market share. However, the Fed's own forecasts indicate that rates will come down around 50bps in 2024, likely during the second half of the year, barring any major disruption to the labor market or reacceleration of inflation.

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

We Base Our Mortgage Rate Forecast on Market Pricing for 10-Year Treasuries and Our View of the Mortgage Premium

Currently, the spread for mortgage rates over the 10-year Treasury is higher than normal (typically 170bps). The elevated spread is due to uncertainty around interest rates and less demand for mortgage-backed securities since the Fed stopped purchasing MBS in 2022. We expect the spread to normalize in the coming years as interest rates stabilize.

ANNUAL AVERAGE 30-YEAR FIXED CONFORMING MORTGAGE RATE FORECAST

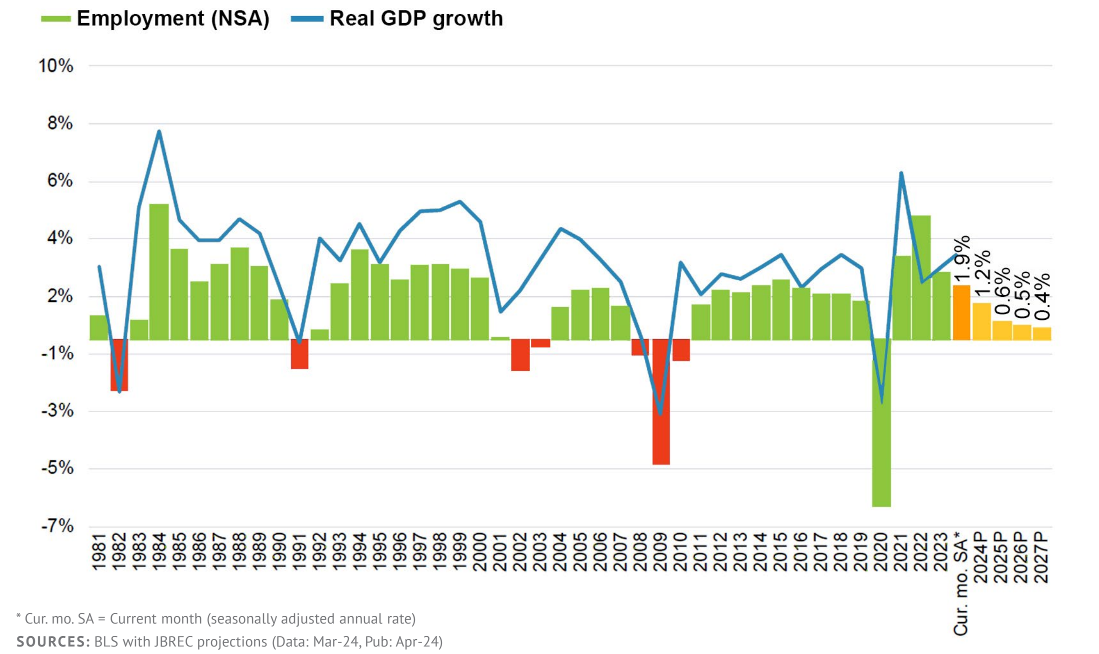


SOURCES: Bloomberg; John Burns Research & Consulting, LLC (Data: Mar-24, Pub: Apr-24)

National Employment Growth Rates

We expect employment will rise +1.2% in 2024 and 0.6% in 2025 as the impact of sustained high interest rates slows hiring.

NATIONAL EMPLOYMENT ANNUAL GROWTH RATES



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

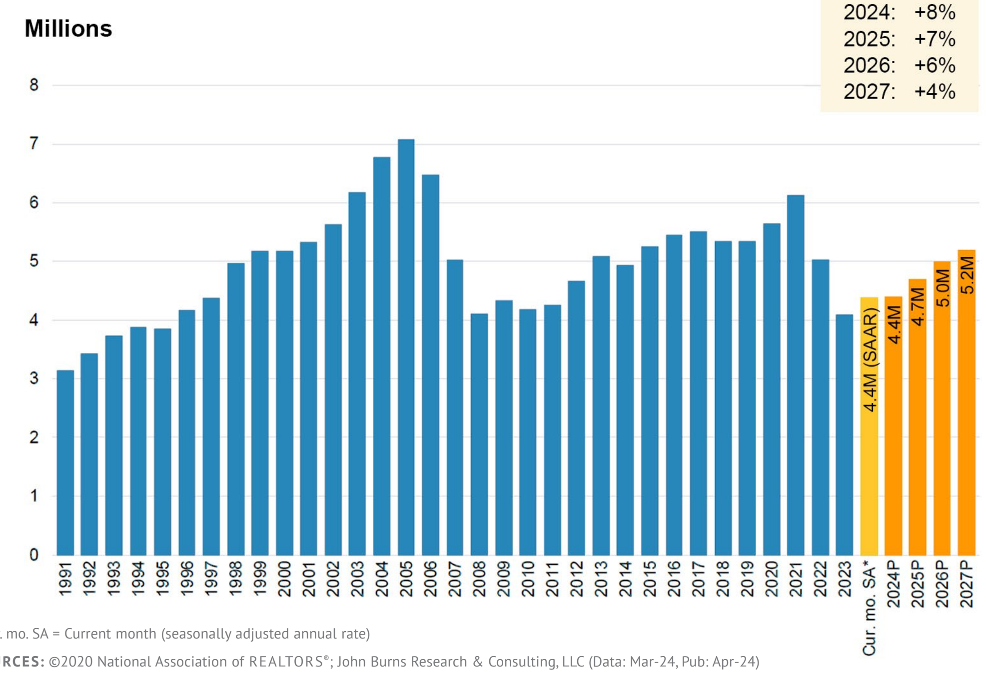
SOURCES: BLS with JBREC projections (Data: Mar-24, Pub: Apr-24)

We Forecast that Existing Home Sales Will Remain Low Relative to History in 2024

We forecast that existing home sales will remain low relative to history in 2024 due to:

- still elevated mortgage rates
- limited inventory
- inability to compete with builder rate buydowns
- the lagged economic impact of high interest rates

NATIONAL EXISTING HOME SALE CLOSINGS



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

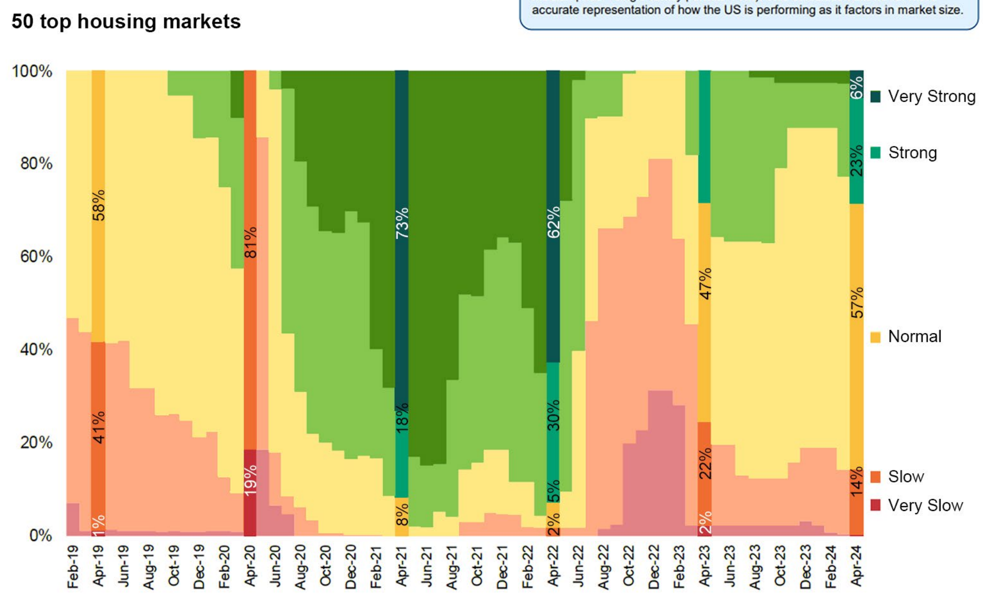
SOURCES: ©2020 National Association of REALTORS®; John Burns Research & Consulting, LLC (Data: Mar-24, Pub: Apr-24)

Current Market Conditions

Sales and pricing conditions are Strong or Very Strong in 29% of markets. 57% 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.



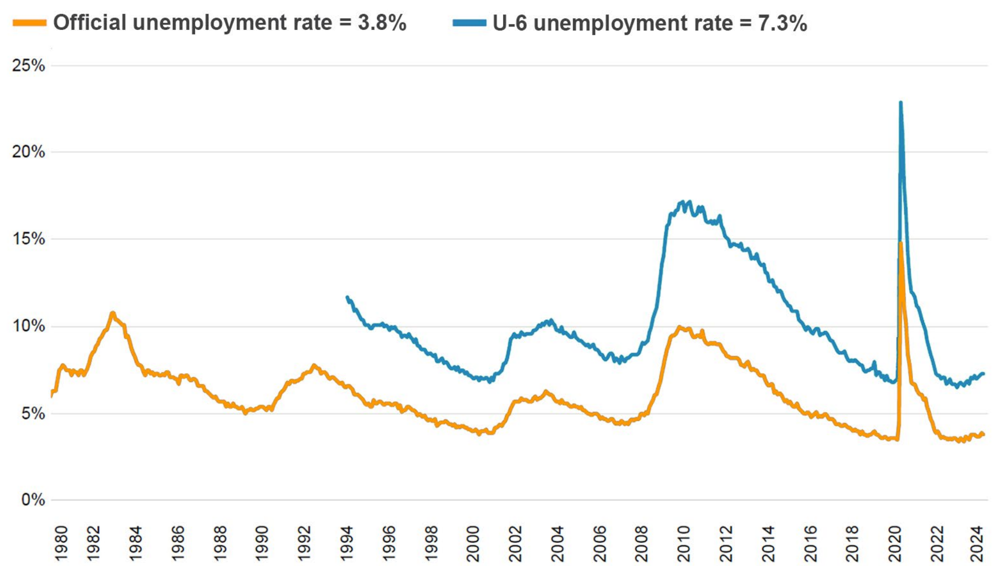
Percentages may not add up to 100% due to rounding, as some months less than 50 markets are rated.

SOURCE: John Burns Research & Consulting, LLC (Pub: Apr-24)

Unemployment is Historically Low But is Beginning to Rise Slightly

The unemployment rate fell to 3.8% in March. The U-6, a broader measure of unemployment that captures underemployment and discouraged workers, remained flate at 7.3%.

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.

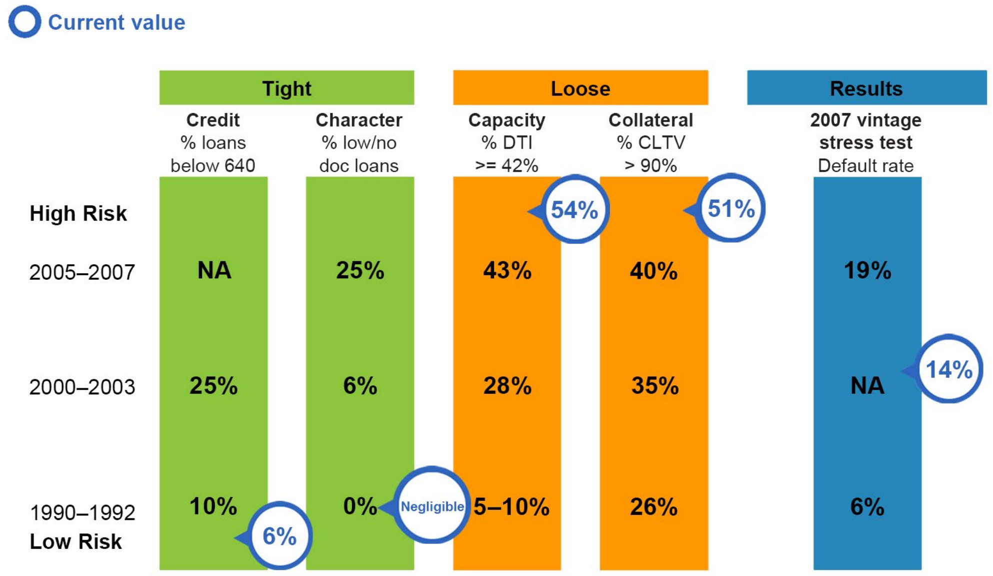
SOURCE: Bureau of Labor Statistics (Data: Mar-24, Pub: Apr-24)

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 70% 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



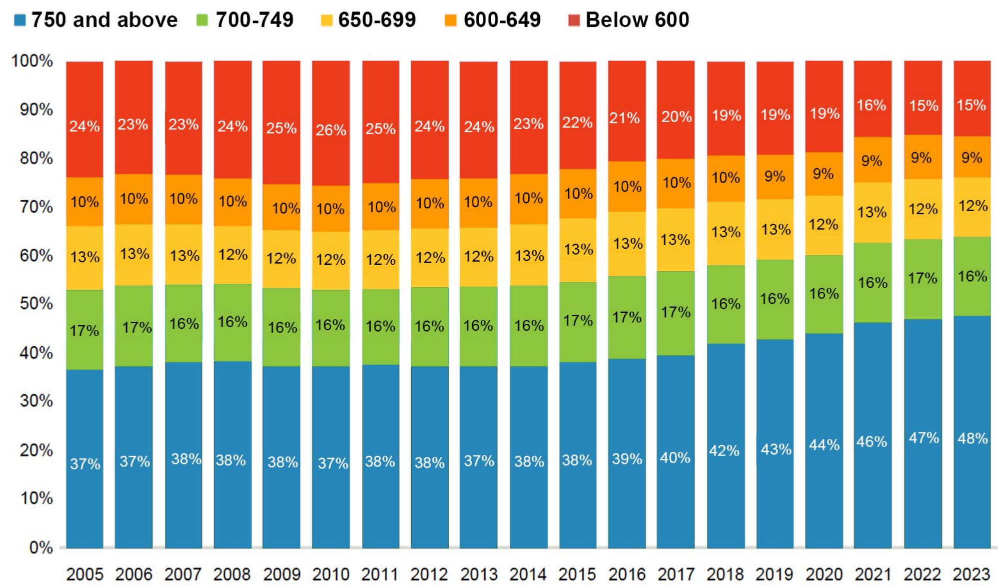
SOURCES: American Enterprise Institute; John Burns Research & Consulting, LLC (Data: Oct-23, Pub: Apr-24)

Only 15% of Consumers Have a Credit Score Below 600

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

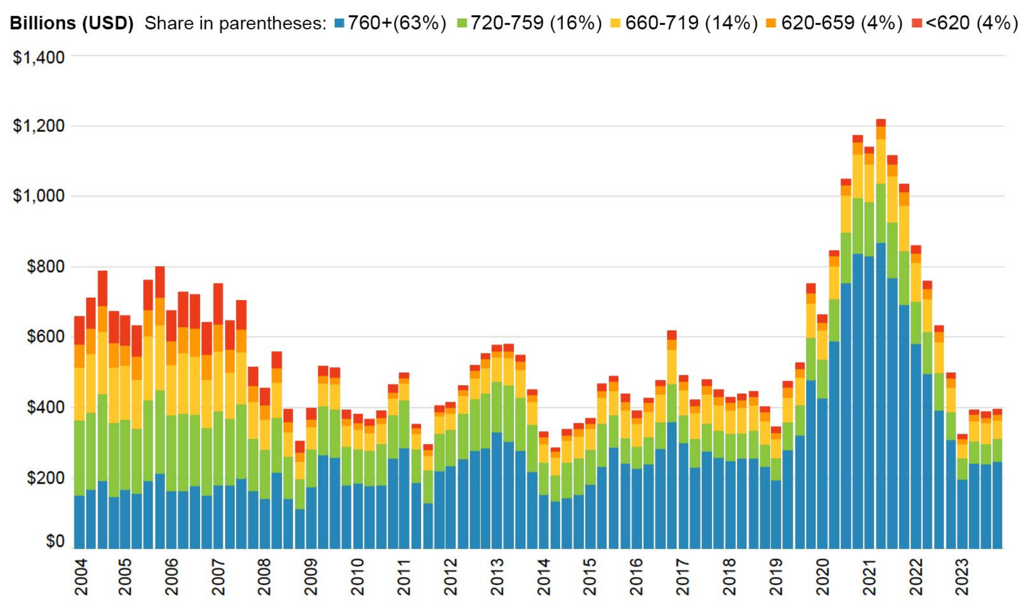


SOURCE: FICO® Banking Analytics Blog (Data: Apr-23, Pub: Apr-24)

79% of Mortgages Originated in 4Q23 Went to Borrowers with 720+ Credit Scores

In 1Q2007, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 4Q2023, only 4% of mortgages went to borrowers with a credit score less than 620.

MORTGAGE ORIGINATIONS BY CREDIT SCORE*



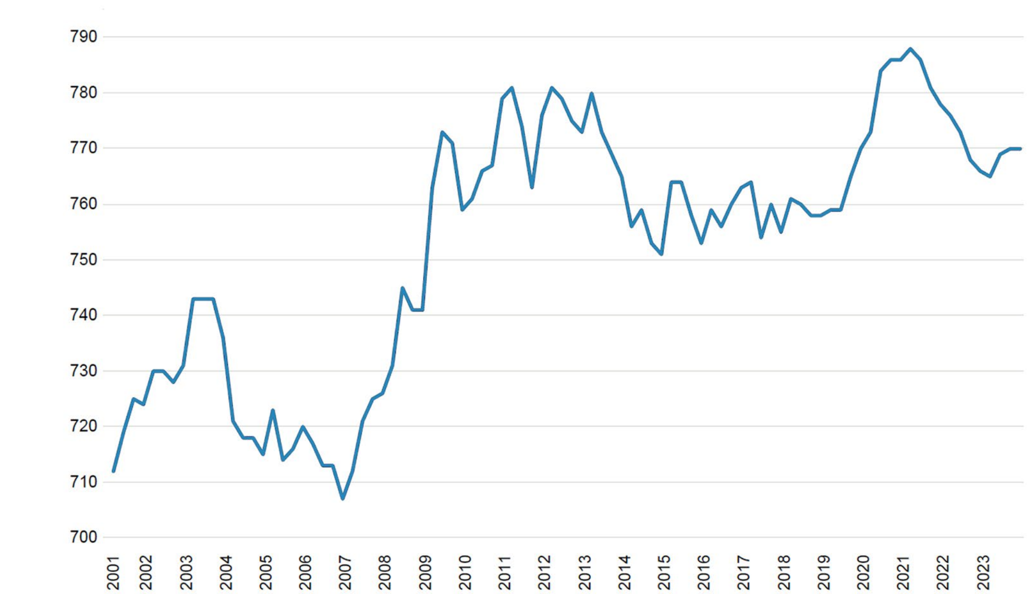
* Credit Score is Equifax Riskscore 3.0

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 4Q23, Pub: Apr-24)

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 4Q23, median score at origination was 770.

MEDIAN CREDIT SCORE AT MORTGAGE ORIGINATION*



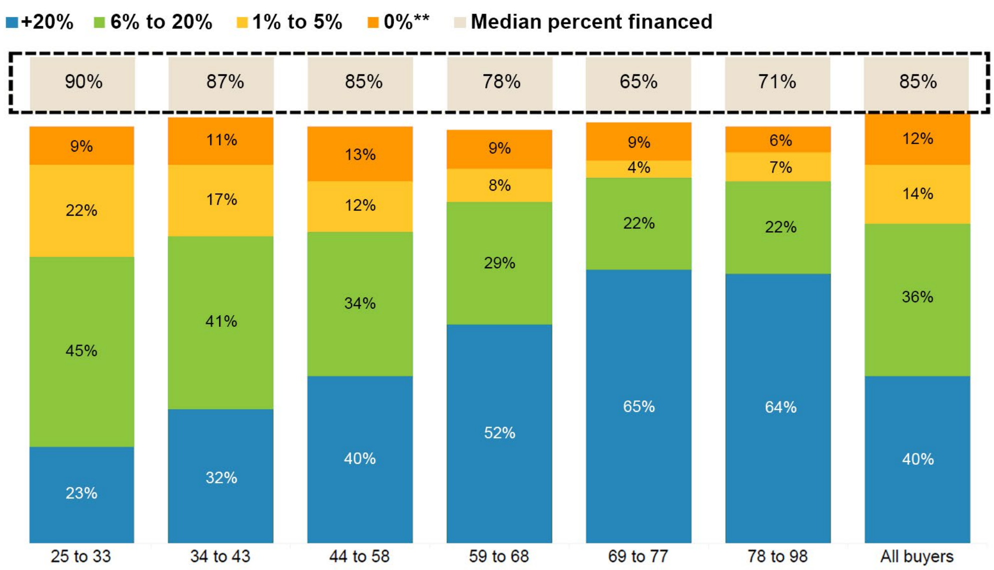
* Credit Score is Equifax Riskscore 3.0; mortgage include first liens only.

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 4Q23, Pub: Apr-24)

Older Buyers Tend to Have Larger Down Payments

Home buyers above the age of 59 tend to have larger down payments compared to younger home buyers.

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



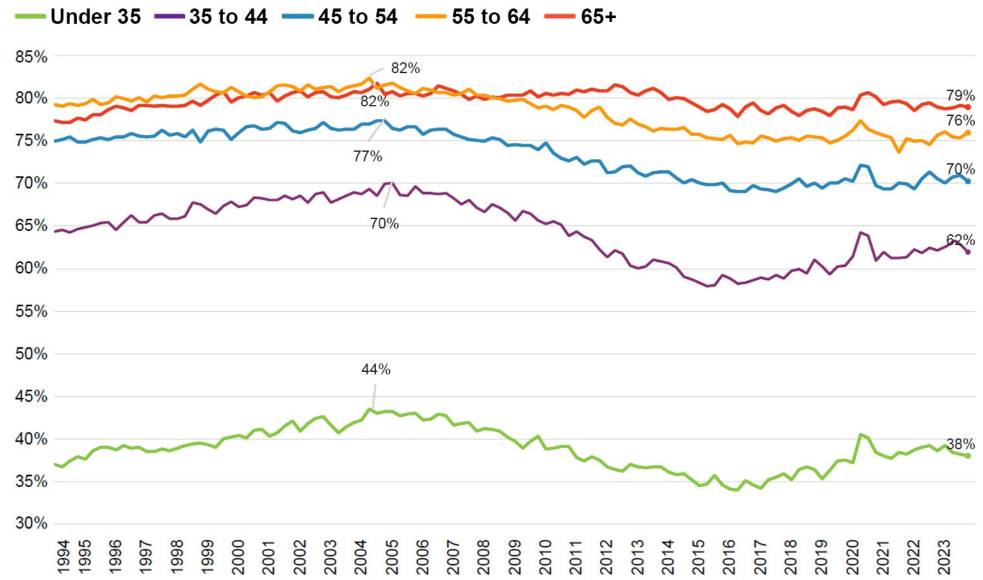
* Percentages only include homes that were purchased with a mortgage.
** 0%: Financed the entire purchase price with a mortgage

SOURCE: ©2024 National Association of REALTORS® Home Buyer and Seller Generational Trends (Data: 2024, Pub: Apr-24)

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

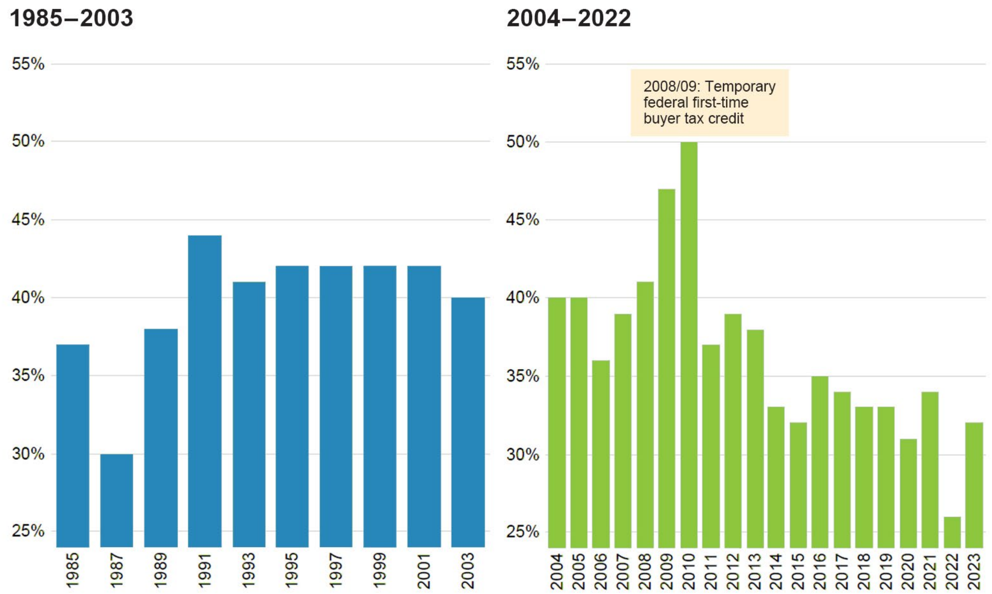


SOURCE: Census Bureau, Housing Vacancies and Homeownership Survey (Data: 4Q23, updated quarterly, Pub: Apr-24)

The Share of Existing Homes Sold to First-Time Buyers rose to 32% in 2023

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

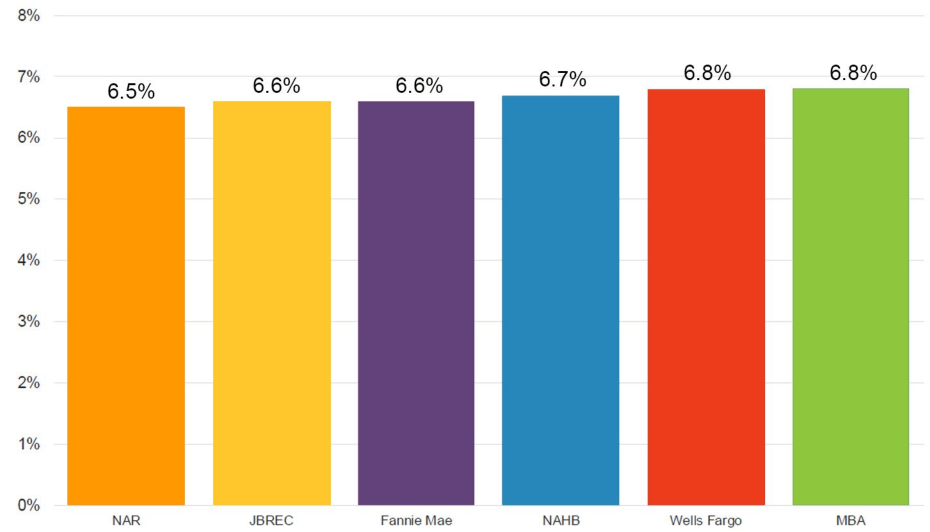


SOURCES: NAR; John Burns Research & Consulting, LLC (Data: 2022, Pub: Apr-24)

Key Assumptions for 2024:

We are below NAHB and MBA mortgage rates.

2024 ANNUAL AVERAGE 30-YEAR FIXED MORTGAGE RATES

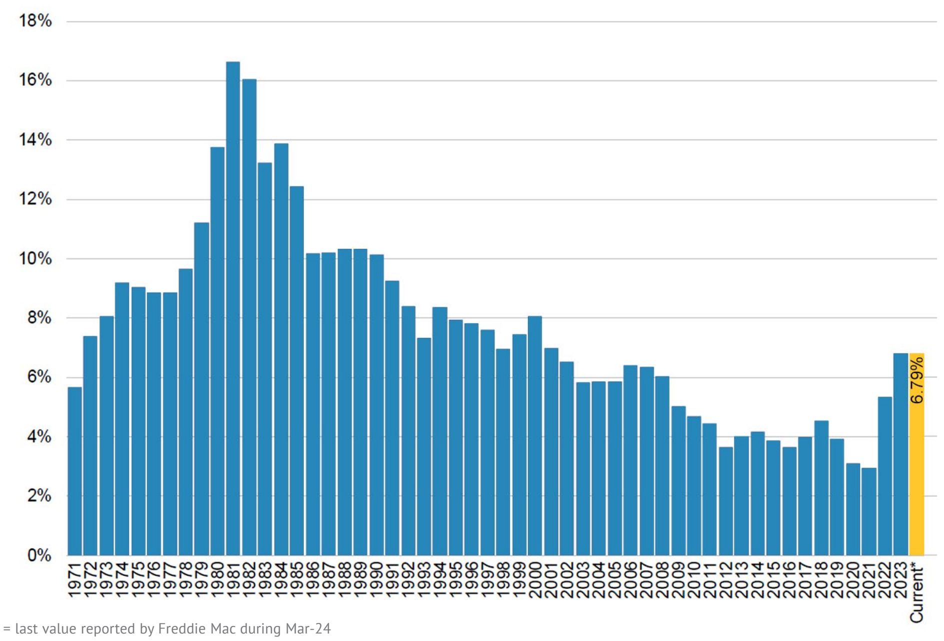


NAR (Jan-24); Fannie Mae (Mar-24); NAHB (Apr-24); Wells Fargo (Apr-24); MBA (Mar-24)

SOURCE: John Burns Research & Consulting, LLC (Pub: Apr-24)

The Bond Market Expects Mortgage Rates Will Average 6.6% in 2024

ANNUAL AVERAGE 30-YEAR FIXED MORTGAGE RATES



Current* = last value reported by Freddie Mac during Mar-24

SOURCES: Freddie Mac; John Burns Research & Consulting, LLC forecasts (Data: Mar-24, Pub: Apr-24)

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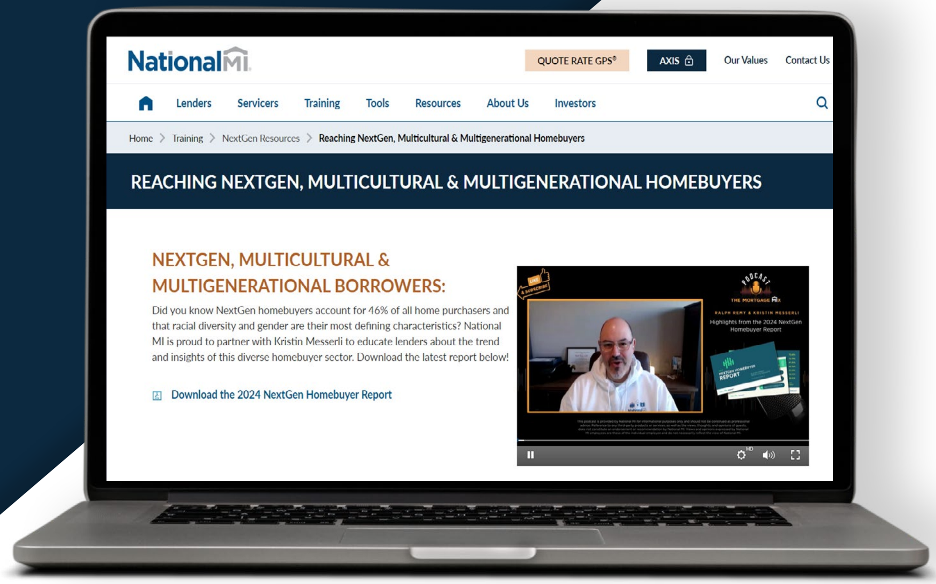
Our 2024 NextGen Homebuyer Report is available!



Learn tools that will help you grow your business by reaching NextGen - a key segment of today's home-buyer population!

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