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Economic Growth: Forecast

GROWTH EXPECTED TO SLOW IN FIRST HALF OF 2010 BEFORE PICKING UP IN SECOND HALF

MBA expects economic growth to continue through the rest of 2009 before slowing in the first half of 2010. Unemployment is expected to climb to 10.2% by the middle of 2010 before beginning to moderate as economic growth resumes sustained growth in the second half of the year.

Mortgage originations should reach \$1.5 trillion in 2010. Modest increases in home sales should drive purchase originations but refinance originations are expected to decline as mortgage rates rise.

"The recession is behind us, but the effects of the recession will linger for some time in the form of higher unemployment, and lower levels of business investment and home construction. One of the big questions regarding growth will be the behavior of consumers. The large losses of consumer wealth in the form of reduced home values and stock market losses, as well as the absolute losses of income resulting from unemployment, reduced employment and the fear of unemployment have constrained consumer spending," said Jay Brinkmann, MBA's chief economist and senior vice president for research and economics.

"Timing of the economic recovery is very much tied to the growth in consumer spending. In addition, the effect of the bulk of the federal stimulus package, particularly the construction components, is not expected to be felt until 2010.

"Perhaps the biggest unknown is the level and volatility of interest rates. While the lack of inflation, high unemployment and excess capacity in the economy should hold interest rates down, there is a lot of uncertainty regarding rates immediately following the termination of the Federal Reserve's purchase of mortgage-backed securities. No doubt the Fed will do its best to minimize adverse effects, but the elimination of these purchases will put upward pressure on all long-term rates as well as the spread between mortgage rates and Treasuries. The size of any resulting rate move will largely determine the size of the refinance market."

Following are the key points of the latest MBA forecast:

-Real GDP growth was negative in 2009, with the economy contracting by around 0.5% resulting from sharp drops in the first half of the year followed by growth in the second half. Growth is expected to be about 3% in 2010.

-The unemployment rate will continue to increase from the current level of 9.8% to about 10% by the end of 2009 and peak at 10.2% in the second quarter of 2010, before declining slowly through 2011.

-Fixed mortgage rates are expected to average about 5% in the fourth quarter of 2009 and increase to 5.6% by the end of 2010.

-Total existing home sales for 2009 will end up about 2% higher than those for 2008. Existing home sales are projected to increase further in 2010, increasing by about 11.2%.

-New home sales for 2009 will be down by about 18% relative to 2008. Sales seemed to have bottomed in the first quarter of 2009 and have been rebounding modestly since. For all of 2010, new home sales should post an increase of about 21% from 2009's very low levels.

-National average home price declines should abate by early 2010, but will vary by state and home value. The demand will be highest for entry-level homes.

-Purchase originations for 2009 will be \$718 billion, about 2% below the 2008 level of \$731 billion. Purchase originations should rise about 12% in 2010, as existing home sales recover and home prices stabilize.

-Refinance originations will end 2009 at \$1.245 trillion, up about 60% from \$777 billion in 2008. Refinance activity will likely decrease in 2010 to about \$745 billion as mortgage rates increase.