Press Release

Elevated Inflation, Higher Interest Rates Expected to Take Toll on Consumer Spending

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Housing Predicted to Drag on Growth Through 2023 as Financial Conditions Tighten

WASHINGTON, DC – The compounding effects of elevated inflation and higher interest rates are expected to further weigh on economic growth and home sales as the year progresses, with full-year 2022 growth now forecast at a slightly reduced 1.2 percent and expectations of a late-2023 modest economic contraction unchanged, according to the June 2022 commentary from the Fannie Mae (FNMA/OTCQB) Economic and Strategic Research (ESR) Group. While consumers' resilience to the predicted financial stress remains an open question, the ESR Group now forecasts personal consumption growth to slow from 4.2 percent in Q2 2022 to 1.9 percent and 1.3 percent, respectively, in Q3 2022 and Q4 2022. Residential fixed investment, driven in part by an even further reduced home sales forecast, is projected to decline 8.6 percent in 2022 and 6.5 percent in 2023 – the largest percentage declines among the major GDP components.

Substantially higher mortgage rates are now the housing market's primary constraint. The ESR Group expects total home sales to fall 13.5 percent in 2022 – down even further from its 11.1 percent projected decline last month – and, correspondingly, for mortgage originations to move downward to $2.6 trillion in 2022 and $2.2 trillion in 2023. Refinance origination activity, in particular, continues to slow, as evidenced by Fannie Mae's new Refinance Application-Level Index, with only an estimated 2 percent of outstanding mortgages having at least a 50-basis-point incentive to refinance.

"The market's expectations of the necessary Federal Reserve response to persistent broad-based inflation continue to adjust," said Doug Duncan, Fannie Mae Senior Vice President and Chief Economist. "Tightening financial conditions are slowing economic activity, and consumers are drawing down savings and increasingly relying on credit cards as they seek to maintain current levels of consumption."

"The significant, sudden rise in interest rates is beginning to be felt widely as employment growth slows and stock market valuations fall," Duncan said. "Nowhere is this more evident than in housing affordability measures, with the prospective monthly payment on a typical new mortgage climbing dramatically. As a result, both new and existing home sales continue to slow, while refinance activity has fallen substantially, with what's left largely consisting of equity extraction."

Duncan continued: "Our view continues to be that the magnitude of response required of monetary and fiscal tightening to return inflation to the Federal Reserve's target will likely result in a recession, which we currently expect will be modest and occur next year. Notably, the recent market response to continued heightened inflation suggests that the predicted recession could occur sooner and be deeper than our current baseline forecast."

Visit the Economic & Strategic Research site at fanniemae.com to read the full June 2022 Economic Outlook, including the Economic Developments Commentary, Economic Forecast, Housing Forecast, and Multifamily Market Commentary. To receive e-mail updates with other housing market research from Fannie Mae's Economic & Strategic Research Group, please click here.

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