



HaMMR Digest

Stay current with economic and mortgage market trends.

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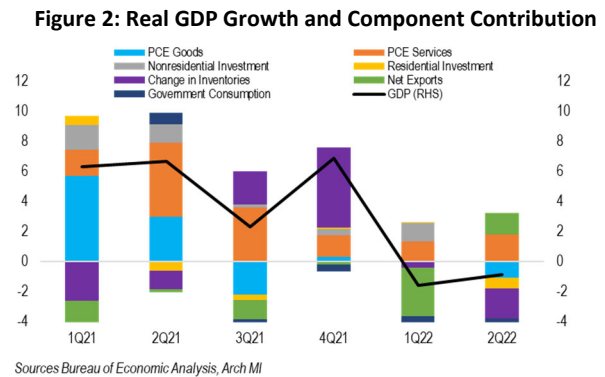
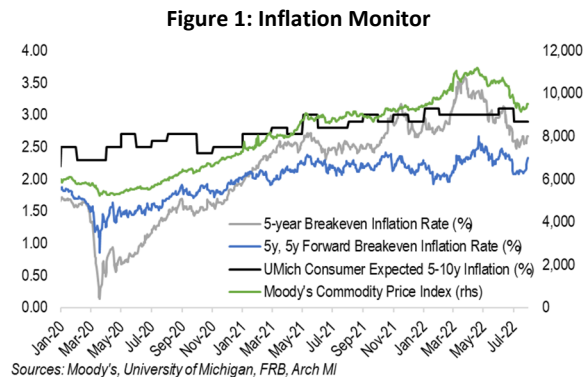
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Weekly Wrap – Technical Foul

- The Fed delivered another 75bps rate hike, bringing the fed funds rate to perceived ‘neutral’ territory
- The second straight decline in real GDP does not denote a recession but does reflect the challenged consumer
- Housing activity and home prices continue to decelerate despite mortgage rates trending lower

Despite a heavy data week, markets were fixated on the Federal Reserve’s policy announcement where they delivered another 75bps hike (as expected), bringing the benchmark federal funds rate to a range of 2.25-2.50%, and reaching the Fed’s perceived ‘neutral’ rate. There were minimal revisions to the monetary policy statement aside from acknowledging the slowdown in growth momentum while still emphasizing the robust labor market. On inflation, policymakers must be pleased with the fact that consumer inflation expectations remain reasonably well-anchored while market-based measures of inflation expectations also hover within acceptable ranges despite taking a leg higher following last week’s FOMC meeting (Figure 1). That said, it is far too early for the Fed to claim ‘mission accomplished’ even though markets are now expecting a much less aggressive rate path with the fed funds rate expected to peak at roughly 3.25-3.50% by year-end.



During his press conference, Chairman Jay Powell made clear the inflation fight is not over, nor has it changed despite recent softness in the macro data. Nonetheless, equities rallied and the 10-year UST declined roughly 20bps on the week to about 2.65% as market participants increasingly expect a dovish Fed pivot on the back of growth concerns. Capping those expectations was the first estimate of 2Q22 real GDP, which showed the U.S. entered what some define as a ‘technical’ recession with real GDP growth contracting 0.9% (cons. 0.4%) at a seasonally adjusted rate (saar) after contracting by 1.6% in 1Q.

To be clear, we do not believe the U.S. economy is currently in a recession, but underlying details of the GDP report were certainly less than stellar. The few bright spots from the GDP data included the 4.1% q/q growth in services spending, which contributed 1.8%-pts to 2Q growth as well as net exports, which contributed 1.4%-pts to growth in part due to a surge in oil exports (Figure 2). However, the slowdown in inventory builds (-2%-pts) and goods spending (-1.1%-pts) nearly offset the contribution from services and exports, while the housing slowdown subtracted 0.7%-pts. Overall, the data reflect an economy transitioning back to spending on services while spending on goods is beginning to struggle under the burden of rapidly rising prices. This is most readily apparent when comparing the 12% annualized decline in inflation-adjusted spending at grocery stores with the nearly 14% surge in real spending at bars and restaurants, which belies some concerns about consumers being tapped out.

Numerous Fed officials have stated that a period of growth below potential is needed to provide enough slack in the economy to bring inflation down. We appear to be in the early phases of such a period with households struggling to maintain solid consumption growth in inflation-adjusted terms. Signs of an exhausted consumer are showing as even though real personal spending increased 0.1% m/m (cons. 0.0%) in June, it failed to reverse last month's decline with overall spending roughly flat over the prior seven months. Cooling energy prices will give reprieve to headline cost pressures but as we have outlined before, core prices will remain elevated. Indeed, the core personal consumption expenditures price index (PCE inflation) accelerated to 0.6% m/m (cons. 0.5%) in June from 0.3% in May. The true test of the consumer's resilience will show as the unemployment rate begins to gradually rise, which we expect to begin later this year. The question remains, will a higher unemployment rate be the result of subdued hiring and greater labor force participation or an accumulation of pink slips.

RECENT DATA RELEASES

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
7/26/22	FHFA House Price Index m/m	May	1.4%	1.5%	1.5%	sa
7/26/22	S&P CoreLogic CS 20-City m/m SA	May	1.3%	1.5%	1.7%	sa
7/26/22	S&P CoreLogic CS 20-City y/y NSA	May	20.5%	20.6%	21.2%	nsa
7/26/22	Conf. Board Consumer Confidence	Jul	95.7	97.0	98.4	index, sa
7/26/22	New Home Sales	Jun	590	655	642	k, saar
7/26/22	New Home Sales m/m	Jun	-8.1%	-5.9%	6.3%	sa
7/27/22	MBA Mortgage Applications	7/22/22	-1.8%	--	-6.3%	w/w, sa
7/27/22	Pending Home Sales m/m	Jun	-8.6%	-1.0%	0.4%	sa
7/27/22	Pending Home Sales NSA y/y	Jun	-19.8%	-13.4%	-12.3%	nsa
7/27/22	FOMC Rate Decision (Upper Bound)	7/27/22	2.50%	2.50%	1.75%	%
7/28/22	GDP Annualized q/q	2Q A	-0.9%	0.4%	-1.6%	saar
7/28/22	Personal Consumption q/q	2Q A	1.0%	1.2%	1.8%	saar
7/28/22	Core Personal Consumption q/q	2Q A	4.4%	4.4%	5.2%	saar
7/28/22	Initial Jobless Claims	7/23/22	256	250	261	k, sa
7/28/22	Continuing Claims	7/16/22	1,359	1,386	1,384	k, sa
7/29/22	Employment Cost Index	2Q	1.3%	1.2%	1.4%	q/q, sa
7/29/22	Personal Income	Jun	0.6%	0.5%	0.6%	m/m, sa
7/29/22	Personal Spending	Jun	1.1%	1.0%	0.3%	m/m, sa
7/29/22	Real Personal Spending	Jun	0.1%	0.0%	-0.3%	m/m, sa
7/29/22	PCE Inflation m/m	Jun	1.0%	0.9%	0.6%	sa
7/29/22	PCE Inflation y/y	Jun	6.8%	6.8%	6.3%	nsa
7/29/22	PCE Core Inflation (ex Food and Energy) m/m	Jun	0.6%	0.5%	0.3%	sa
7/29/22	PCE Core Inflation (ex Food and Energy) y/y	Jun	4.8%	4.7%	4.7%	nsa
7/29/22	U. of Mich. Sentiment	Jul F	51.5	51.1	51.1	index, nsa
7/29/22	U. of Mich. 1 Yr Inflation	Jul F	5.2%	5.2%	5.2%	nsa
7/29/22	U. of Mich. 5-10 Yr Inflation	Jul F	2.9%	2.8%	2.8%	nsa

Green = beat expectations / prior, Red = worse than expectations / prior

HOUSING MARKET: HOMES ARE NO LONGER SELLING FASTER COMPARED TO LAST YEAR

For the third week in a row, new listings have declined year-over-year, dropping 6.0% for the week ending July 23rd according to Realtor.com. The slowdown in new listings was likely in response to the softening market as reflected by homes taking longer to sell compared to just a few weeks ago. Indeed, median days on the market was unchanged from a year ago while active inventory is up 30% y/y (Figure 3). The softening market is also resulting in more sellers finding the need to drop their asking price to remain competitive given the diminished pool of buyers. Annual growth in the number of listings with price reductions were remained up 92% y/y while growth in the share of listings with price drops also remained flat at 2.9% y/y (Figure 4).

Figure 3: U.S. Active Listings and Median Days on Market

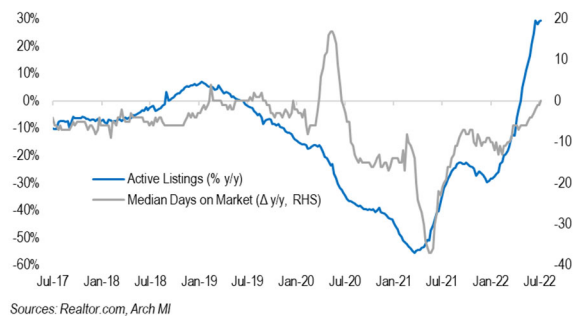
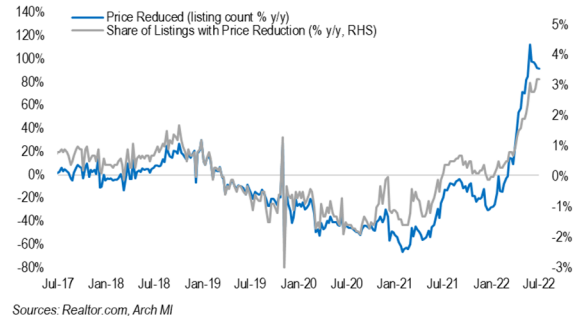


Figure 4: U.S. Listings with Price Reductions



Redfin data through the week ending July 24th show that buyer interest has leveled off but so far has not translated into any meaningful recovery in pending or closed sales. The drop in the fixed-rate mortgage rate to 5.30% (Freddie Mac) from its post-pandemic peak of 5.81% on June 23rd has given some reprieve to prospective home buyers. Even more so with the adjustable-rate mortgage (5/1 ARM) that is now about 100bps below the 30-year fixed rate. Total active inventory climbed for the sixth consecutive week, rising 3.1% y/y as months' supply remains 34% below 2019 levels, supporting median sale price (\$ / sf) growth of 11% y/y (Figure 5). Lower mortgage rates, more inventory, more negotiating power – all welcome developments for buyers, but more likely to slow the pace of declines rather than cause a recovery in home sales or price growth in our opinion.

Of the major metros we track, annual home price growth for the week ending July 24th was weakest in **New York** (4%) followed by **Chicago** (6%) and **Seattle** (7%) while home price growth has slowed most rapidly compared with a year ago in **Austin** (-27%-pts) and **Seattle** (-23%-pts). Local housing markets have responded quickly to deteriorating transaction activity as the median days on market have extended, with some markets exceeding pre-pandemic timelines including **Austin** (7 days longer) and **Chicago** (28 days longer). Some of the hottest markets of the pandemic era have deteriorated the most based on months' supply, including **Austin** and **Phoenix** where months' supply was 39% and 20% above their respective pre-pandemic levels compared to -43% and -44% one year ago. Seattle is not far behind with months' supply just 7% below its pre-pandemic level compared with 54% below a year ago and unsurprising given that 11% of listings had price drops and the sale-to-list ratio has declined to 100% from 106% a year ago.

Figure 5: Weekly Housing Monitor

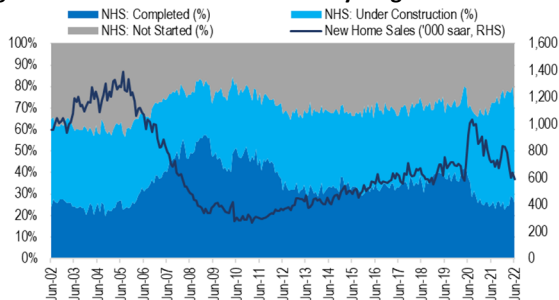
Metro	Median Sale Price psf (% y/y)	Median Sale Price Same Week '21 (% y/y)	Active Listings with Price Drops (% share)	Active Listings with Price Drops (ppt Δ y/y)	Homes Sold Above List (%)	Homes Sold Above List (ppt Δ y/y)	Average Sale-to-List Ratio (%)	Average Sale-to-List Ratio (ppt Δ y/y)	Total Active Listings (% y/y)	Median Days on Market (Δ 3y/3y)	Median Days on Market Same Week '21 (Δ 3y/3y)	Months' Supply (% 3y/3y)	Months' Supply Same Week '21 (% 3y/3y)
All US Metros	11%	21%	8%	4%	44%	-9%	101%	-1%	3%	-11	-18	-34%	-48%
Atlanta	18%	25%	9%	4%	48%	-7%	100%	-1%	11%	-6	-9	-33%	-54%
Austin	14%	41%	13%	8%	34%	-39%	100%	-7%	54%	7	5	39%	-43%
Baltimore	8%	12%	8%	2%	49%	0%	102%	0%	-11%	-13	-13	-49%	-51%
Boston	7%	18%	6%	2%	68%	1%	104%	0%	-4%	1	3	-35%	-31%
Chicago	6%	16%	4%	0%	44%	-3%	100%	0%	17%	28	-16	-20%	-44%
Dallas	18%	25%	12%	7%	52%	-11%	102%	-2%	21%	-13	-19	-38%	-56%
Denver	11%	22%	16%	8%	40%	-27%	101%	-3%	40%	-5	-4	-21%	-51%
Houston	17%	18%	10%	4%	37%	-7%	100%	0%	15%	-10	-22	-36%	-54%
Los Angeles	6%	19%	7%	4%	54%	-10%	102%	-2%	-11%	-10	-8	-22%	-31%
Miami	16%	27%	5%	2%	29%	9%	99%	1%	-16%	-20	-19	-35%	-53%
Minneapolis	5%	15%	8%	3%	54%	-11%	102%	-2%	5%	-2	-7	-21%	-43%
Nashville	19%	26%	8%	5%	37%	-18%	100%	-2%	52%	-15	-27	-27%	-61%
New York	4%	27%	5%	1%	36%	6%	101%	1%	-11%	-29	-28	-43%	-37%
Phoenix	17%	34%	15%	9%	27%	-29%	99%	-3%	43%	-3	-16	20%	-44%
Portland	13%	21%	12%	7%	45%	-18%	101%	-2%	24%	-6	-11	-26%	-59%
Riverside	18%	28%	9%	6%	47%	-19%	100%	-3%	20%	-10	-27	-21%	-54%
San Diego	11%	31%	11%	6%	45%	-19%	100%	-3%	6%	-4	-12	-19%	-55%
Seattle	7%	29%	11%	7%	32%	-32%	100%	-6%	49%	-3	-2	-7%	-54%
Tampa	26%	26%	15%	9%	38%	-7%	100%	-1%	45%	-10	-23	-28%	-62%
Washington D.C.	9%	14%	7%	2%	45%	-9%	101%	-1%	-9%	-2	-6	-21%	-36%

Note: Median Days on Market and Months' Supply are 3y/3y changes on 4wk-ma basis; Source: Redfin, Arch MI

NEW HOME SALES TAKE A PLUNGE

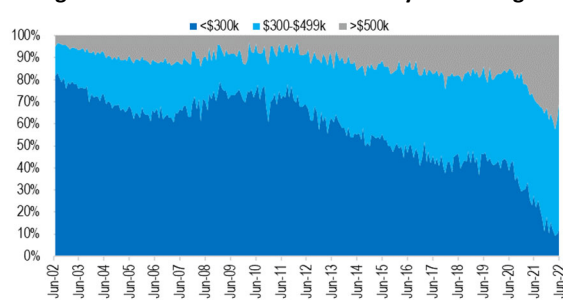
The U.S. Census Bureau's estimate of new home sales in June missed consensus expectations coming in at a 590k (cons. 655k) seasonally adjusted annualized pace, an 8.1% m/m decline while the prior two months were also revised down by 79k (Figure 6). New homes sales were down 43% from their August 2020 peak and are below their pre-pandemic pace. It is important to caveat that the Census Bureau reports gross sales, not net, meaning that cancellations may not be entirely captured until the data is revised in subsequent months. Recent data from public builders and alternative data providers do point to an uptick in cancellation rates but are far from the levels seen during the Great Financial Crisis.

Figure 6: Share of New Home Sales by Stage of Construction



Sources: Census Bureau, Arch MI

Figure 7: Share of New Home Sales by Price Range



Sources: Census Bureau, Arch MI

The supply of new homes for sale rose 32% y/y to 457k in June, representing a 9.3 months' supply, up from 5.8 months one year ago. However, this figure is inflated by the number of homes under construction and not started given that the months' supply of completed homes remains low at 3.2 months (2019 monthly average was 3.5 months). Looking at actual units for sale, completed homes are up 28% from year-ago levels while units for sale under construction and not yet started are up 40% and 16%, respectively. The seasonally adjusted median sales price, \$416,102, declined 7.9% m/m, bringing the annual pace of price gains to 7.4%, a significant slowdown from the pace in May (14%) and April (21%). Last month's drop in the median sales price was due in part to the decline in the share of homes priced over \$500,000 to 31% in June from a peak of 43% in April (Figure 7).

HOME PRICE INDEXES FINALLY REFLECT SLOWING PRICE GROWTH

The FHFA Purchase Only House Price Index climbed a seasonally adjusted 1.4% m/m in May (Figure 8), 10bps shy of consensus expectations. Annual appreciation slowed to 18.3% in May from 18.9% in April and 19.1% in March. From a regional perspective, there was widespread slowing led by the Pacific and Mountain regions as well as parts of the South as price momentum has clearly come off the boil. The S&P/Case-Shiller 20-City Composite Home Price Index rose 1.3% in May, 20bps below consensus expectations and 90bps slower than March's record-setting monthly advance of 2.4%. The year-over-year growth in the Case-Shiller index also decelerated 70bps to 20.5% in May from 21.2% in April (Figure 9).

Figure 8: Month-Over-Month Home Price Appreciation

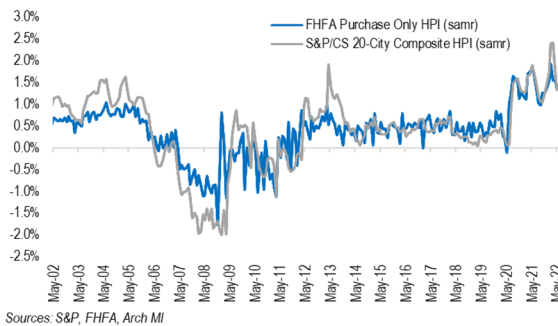
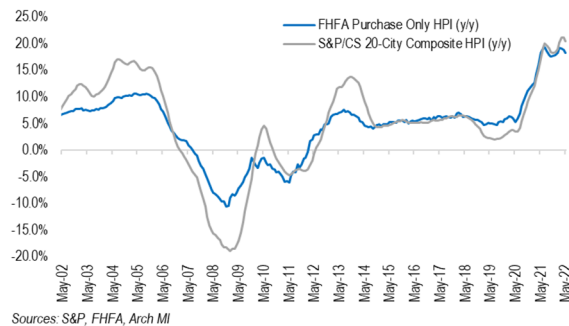


Figure 9: Year-Over-Year Home Price Appreciation



HOUSEHOLD SPENDING FINDS ITS FOOTING BUT AT A COST

The June personal income and outlay report showed that consumer spending is being increasingly challenged by high inflation. While income growth was robust, climbing 0.6% m/m (cons. 0.5%) and spending was also stronger than consensus at 1.1% m/m (cons. 1.0%), higher than expected headline PCE inflation of 1.0% m/m (cons. 0.9%) translated to weak real spending growth of only 0.1% (cons. 0.0%). Wage growth has been strong with total wages and salaries rising at a 7.6% annualized rate during 2Q22, although this represents a deceleration from 9.8% in 1Q. Inflation continues to be a headwind for households as real disposable income has flatlined around pre-COVID levels (black line in Figure 10).

Figure 10: Real Income and Spending (Feb 2020 = 100)

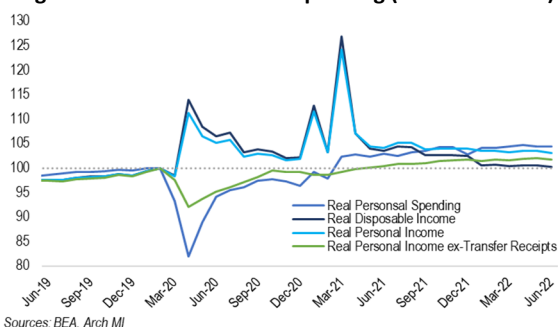
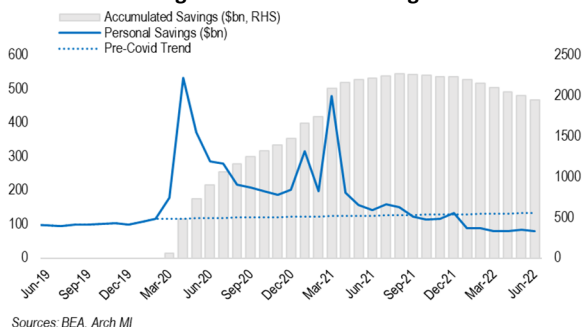


Figure 11: Personal Savings

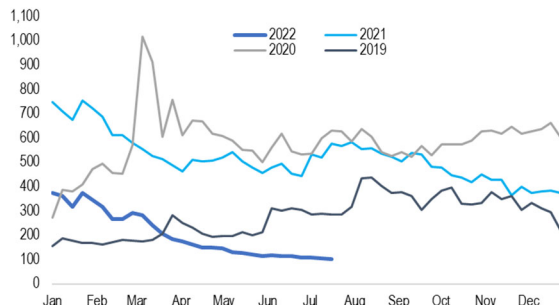


Consumers appear to be increasingly dipping into their accumulated savings to deal with the rising cost of living as the savings rate declined to 5.1% from 5.5% in May and remains low compared to its historical norm of roughly 7%. Looking at a proxy for accumulated savings, realized savings exceeded the pre-COVID trend by about \$2.2trn from spring 2020 through summer 2021 (Figure 11). In recent months, the lower-than-normal savings rate implies a drawdown of roughly \$293bn, or about 13% of the savings accumulated during the pandemic. Although the accumulated savings are not evenly distributed across households, the remaining stockpile should continue to provide a buffer for most households as elevated inflation continues to take a bite out of budgets.

MORTGAGE APPLICATION ACTIVITY SLOWDOWN CONTINUES

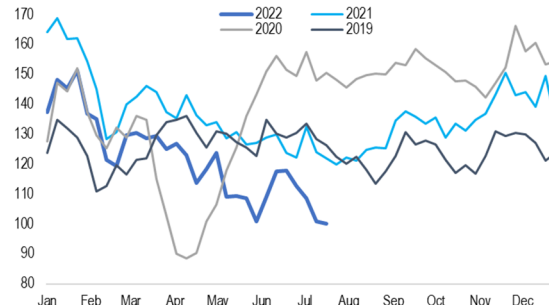
The MBA application survey for the week ending July 22nd declined -1.8% w/w and the index is now down -63% year-over-year, and down -44% compared with pre-pandemic levels (i.e. 3 years ago). The weekly decline was driven primarily by a -3.7% decline in refinancing applications, which remain down -83% y/y and down -65% over 3 years (Figure 12). Purchase applications declined -0.8% w/w and are down -18% y/y and also down -21% relative to 2019 levels (Figure 13).

Figure 12: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

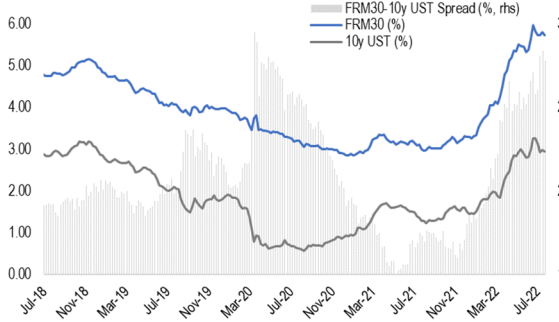
Figure 13: Purchase Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

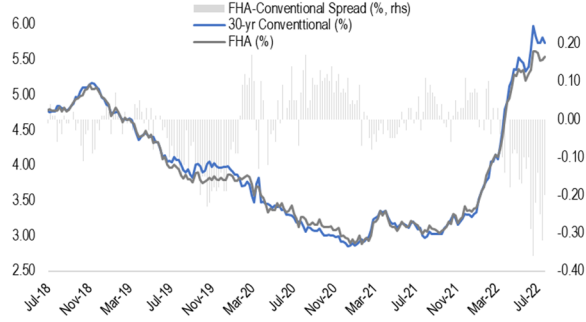
Mortgage rates declined slightly during the week ending July 22nd according to the MBA as the weekly average 10-year U.S. Treasury yield also declined -2bps w/w to 2.96%. The average contract MBA conventional mortgage rate declined -8bps to 5.74%, resulting in a -6bps contraction in the spread between the 30-year MBA conventional fixed rate mortgage and the 10-year UST to 2.78% (Figure 14). Meanwhile, the FHA contract MBA mortgage rate rose 4bps to 5.54%, resulting in a 12bps widening of the spread between the FHA and conventional mortgage rate to -0.2% (Figure 15).

Figure 14: 30-year Mortgage Rate vs 10-year UST Yield



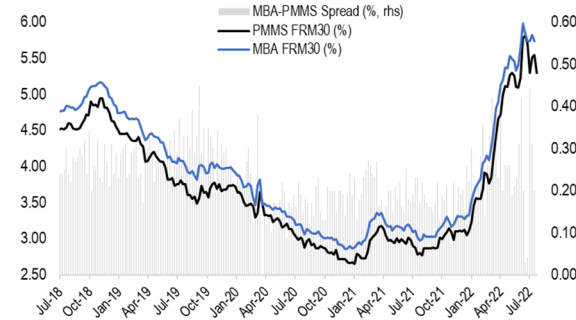
Sources: Mortgage Bankers Association, Arch MI

Figure 15: Mortgage Rates by Type



Sources: Mortgage Bankers Association, Arch MI

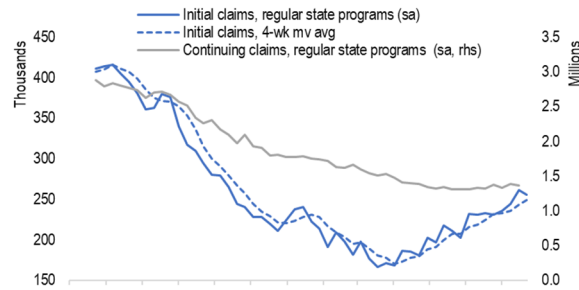
The Freddie Mac Primary Mortgage Market Survey (PMMS) for the 3 days ending July 27th indicated that the FRM30 fell -24bps w/w to 5.3% (Figure 16) as 10-year UST yields also fell -20bps to an average of 2.80% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST narrowed -4bps to 2.50%, about 80bps above its typical non-stressed level. We expect mortgage spreads to begin to normalize over the second half of the year as more clarity is gained around the path of inflation and monetary policy, particularly the Fed's unwind of its MBS portfolio.

Figure 16: Freddie Mac PMMS FRM30 vs MBA Conventional FRM30


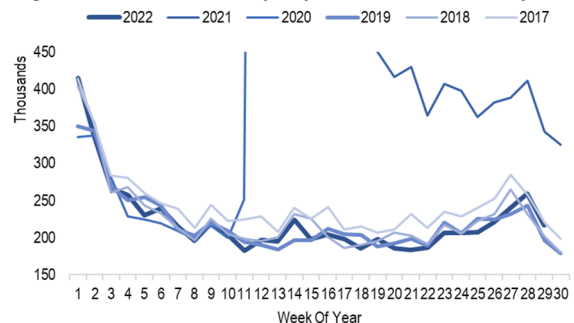
Sources: Freddie Mac PMMS, Mortgage Bankers Association, Arch MI

AS THE SUN RISES, SO DO INITIAL JOBLESS CLAIMS

Initial jobless claims declined by -5k to 256k (consensus: 250k) during the week ending July 23rd from 261k the previous week, moving the 4-week average up to 249k from 243k (Figure 17). While the trend in jobless claims has inarguably been higher since May, some challenges with the seasonal adjustment factors may be creating more concern than is warranted. Looking at the non-seasonally adjusted claims data compared with the same weeks from prior years (Figure 18) suggest the current level of claims is not meaningfully elevated. This reinforces our view that the recent increase is more of a normalization than reflective of real labor market stress. Meanwhile, continuing claims for regular state programs (i.e. repeat filers for unemployment insurance) declined by 25k to 1,359k (consensus: 1,386k) during the week ending July 16th and remain near cycle lows.

Figure 17: Initial jobless Claims and Continued Claims – Last 12 Months


Source: U.S. Department of Labor, Arch MI

Figure 18: Non-Seasonally Adjusted Initial Claims by Year


Source: U.S. Department of Labor, Arch MI

The Week Ahead

This week will be relatively less heavy on the data front, but several key reports will provide an update on the labor market and broader economic activity. S&P Global's and the Institute of Supply Management's (ISM) PMIs will provide further clarity on the degree of slowdown in economic activity through July. The June Job Openings and Labor Turnover Survey (JOLTS) is expected to show a further gradual softening of demand for labor, with job openings expected to decline to 11m from 11.3m in May. Wrapping up the week will be the jobs report, with 250k jobs expected to have been created in July, which would reflect solid activity albeit a slowdown from the 372k jobs added in June. The unemployment rate is expected to remain unchanged at 3.6% for the 5th month in a row while wage growth is expected to remain strong at 0.3% m/m (sa).

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
8/1/22	S&P Global US Manufacturing PMI	Jul F	--	52.3	52.3	index, sa
8/1/22	ISM Manufacturing	Jul	--	52.0	53.0	index, sa
8/1/22	ISM Prices Paid	Jul	--	73.5	78.5	index, nsa
8/2/22	JOLTS Job Openings	Jun	--	11.0	11.3	m, sa
8/2/22	Wards Total Vehicle Sales	Jul	--	13.5	13.0	m, saar
8/3/22	MBA Mortgage Applications	7/29/22	--	--	-1.8%	w/w, sa
8/3/22	S&P Global US Services PMI	Jul F	--	47.0	47.0	index, sa
8/3/22	S&P Global US Composite PMI	Jul F	--	--	47.5	index, sa
8/3/22	ISM Services Index	Jul	--	53.7	55.3	index, nsa
8/4/22	Initial Jobless Claims	7/30/22	--	260	256	k, sa
8/4/22	Continuing Claims	7/23/22	--	1,338	1,359	k, sa
8/5/22	Change in Nonfarm Payrolls	Jul	--	250	372	k, m/m, sa
8/5/22	Change in Private Payrolls	Jul	--	230	381	k, m/m, sa
8/5/22	Unemployment Rate	Jul	--	3.6%	3.6%	sa
8/5/22	Average Hourly Earnings m/m	Jul	--	0.3%	0.3%	sa
8/5/22	Average Hourly Earnings y/y	Jul	--	4.9%	5.1%	nsa
8/5/22	Average Weekly Hours All Employees	Jul	--	34.5	34.5	sa
8/5/22	Labor Force Participation Rate	Jul	--	62.2%	62.2%	sa
8/5/22	Consumer Credit	Jun	--	27.0	22.3	\$B, m/m, sa