HaMMR Digest

Stay current with economic and mortgage market trends.

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Weekly Wrap – Mind the Details

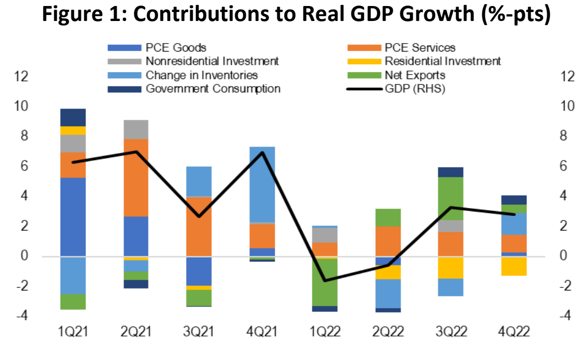
- 4Q22 real GDP growth showed headline strength but underlying details hinted at weakness.
- Higher rates are hitting the economy in phases: housing, manufacturing, consumer spending and, soon, labor.
- A nearly 100bps drop in mortgage rates since November has ushered in a new phase for the housing market.

Although [45% of professional forecasters expect a U.S. recession by 2Q23](), we continue to expect a recession to be narrowly avoided in 2023 despite activity slowing enough to materially lift unemployment. The Leading Economic Index declined by -1.0 % m/m (cons. -0.7%) in December, marking the third straight decline of more than 1%. The index is comprised of 10 indicators, although the housing, manufacturing, construction and yield curve components are currently exerting the most drag, offsetting strong labor components and a slight easing of financial conditions. Looking backward, the first read on 4Q22 real GDP growth came in at a seasonally adjusted annualized rate of 2.9%, down from 3.2% in 3Q and above expectations for 2.7% growth. Strong growth on the surface but the devil was in the details.

The GDP report showed a tale of two halves for 2022. A "technical recession" in the first half as weak trade, falling inventories and fiscal headwinds more than offset strong underlying growth in private domestic demand. Turning that narrative on its head, the second half reflected revamped government spending, inventory accumulation and stronger trade activity. These conditions masked the slowdown in business investment and consumer spending that dragged growth in sales to private domestic purchasers to just 0.2% saar in 4Q22, for a 2H22 average of 0.7%, down from 1.3% in 1H22.

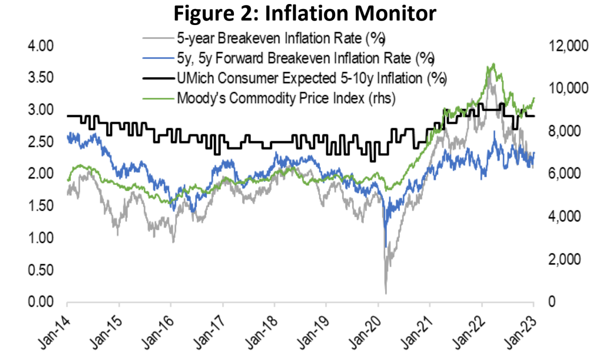
Teasing out the broad themes: tighter monetary policy hit housing first, which has then slowly spilled over into manufacturing and to a lesser extent, household spending. Residential investment continued its double-digit quarterly decline with a -27% pace in 4Q22, subtracting -1.3%-pts from headline real GDP growth (Figure 1). Real equipment spending, which has been strong this cycle, declined -3.7%. The large divergence between the 4Q22 inventory build and private sales suggest that most businesses are sitting on enough inventory to meet demand. Should sales activity fail to improve in short order, private investment growth will remain tepid. To that point, real core capital goods orders and shipments both declined in the last two months of 2022. Household spending was weak in late 4Q despite stronger real income growth. Real personal spending in December fell -0.3% m/m (cons. -0.1%) on top of the -0.2% drop in November.

Figure 1: Contributions to Real GDP Growth (%-pts)



Sources Bureau of Economic Analysis, Arch MI

Figure 2: Inflation Monitor



Sources: Moody's, University of Michigan, FRB, Arch MI

The typical sequencing of headwinds from a tightening cycle makes the recent data releases ahead of this week's Federal Open Market Committee (FOMC) meeting that much more important. The saving grace thus far has been a healthy labor market, although we expect that to change in short order given the growth slowdown we're anticipating. Last week's report on December core Personal Consumption Expenditures (PCE) inflation was in-line with expectations at 0.3% m/m or 4.4% y/y, and roughly matched the Fed's December projections. There has been a clear deceleration in core PCE inflation with the three-month annualized rate slowing to 2.9% from 6.3% in January 2022, which directionally will help keep consumer and market-based inflation expectations in check (Figure 2). All the pieces of the puzzle are falling into place for the Fed to soon end its hiking cycle and allow the economy to settle, find its new equilibrium point and eventually get on the road to normalization.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
1/23/23	Conference Board Leading Index	Dec	**-1.0%**	-0.7%	-1.1%	m/m, sa
1/24/23	S&P Global US Composite PMI	Jan P	**46.6**	46.4	45.0	index, sa
1/25/23	MBA Mortgage Applications	1/20/23	**7.0%**	--	27.9%	w/w, sa
1/26/23	GDP Annualized q/q	4Q A	**2.9%**	2.6%	3.2%	saar
1/26/23	Personal Consumption q/q	4Q A	**2.1%**	2.9%	2.3%	saar
1/26/23	Core Personal Consumption q/q	4Q A	**3.9%**	3.9%	4.7%	saar
1/26/23	Initial Jobless Claims	1/21/23	**186**	205	192	k, sa
1/26/23	Continuing Claims	1/14/23	**1,675**	1,658	1,655	k, sa
1/26/23	Durable Goods Orders	Dec P	**5.6%**	2.5%	-1.7%	m/m, sa
1/26/23	New Home Sales	Dec	**616**	612	602	k, saar
1/26/23	New Home Sales m/m	Dec	**2.3%**	-4.4%	0.7%	sa
1/27/23	Personal Income	Dec	**0.2%**	0.2%	0.3%	m/m, sa
1/27/23	Personal Spending	Dec	**-0.2%**	-0.2%	-0.1%	m/m, sa
1/27/23	Real Personal Spending	Dec	**-0.3%**	-0.1%	-0.2%	m/m, sa
1/27/23	PCE Inflation m/m	Dec	**0.1%**	0.0%	0.1%	sa
1/27/23	PCE Inflation y/y	Dec	**5.0%**	5.0%	5.5%	nsa
1/27/23	PCE Core Inflation (ex Food and Energy) m/m	Dec	**0.3%**	0.3%	0.2%	sa
1/27/23	PCE Core Inflation (ex Food and Energy) y/y	Dec	**4.4%**	4.4%	4.7%	nsa
1/27/23	Pending Home Sales y/y	Dec	**-34.3%**	-35.4%	-37.7%	nsa
1/27/23	Pending Home Sales m/m	Dec	**2.5%**	-1.0%	-2.6%	sa
1/27/23	U. of Mich. Sentiment	Jan F	**64.9**	64.6	64.6	index, nsa
1/27/23	U. of Mich. 1 Yr Inflation	Jan F	**3.9%**	4.0%	4.0%	nsa
1/27/23	U. of Mich. 5-10 Yr Inflation	Jan F	**2.9%**	3.0%	3.0%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI

Green = beat expectations; **Red** = worse than expectations; (compared vs. prior if no consensus estimates available)

HOUSING TUG OF WAR

As highlighted above, the economy is set to downshift as the labor market weakens. What remains uncertain is to what degree the labor market will cool. So far, strong income growth and relatively healthy confidence in future job prospects are allowing some marginal buyers to come off the sidelines and take advantage of the near full percentage point decline in mortgage rates since November. The National Association of Realtors® released their pending home sales index, which leads actual home sales by about one month — showing an increase of 2.5% m/m in December, the first gain since May. Demand for homebuying services as reported by Redfin have also increased to start the year and homebuilders have noted a stronger-than-expected increase in demand to start the year as well, further signs that the housing market may be finding its footing after last year's rate shock.

Home buyers and sellers have both increasingly reentered the market, albeit slowly and from a very low base. The latest data from Redfin for the week ending Jan. 22 shows pending home sales were down around -18k y/y (Figure 3), or -39% below the year ago level. However, context is important as a year ago the housing market was still in the midst of the pandemic-driven buying frenzy — the recent pace of pending sales was just above the pre-pandemic average for this time of year after dipping below the typical pre-pandemic pace for the preceding 10 weeks. Hopeful signs from pending sales were also accompanied by positive news on new listings. The pace of new listings improved to -16% below the pre-pandemic average, up from a low of -19% three weeks ago. However, the number of delisted homes continued to rise, climbing to 28% above the pre-pandemic average for this time of year.

Figure 3: U.S. Existing Home Sales Market Dynamics

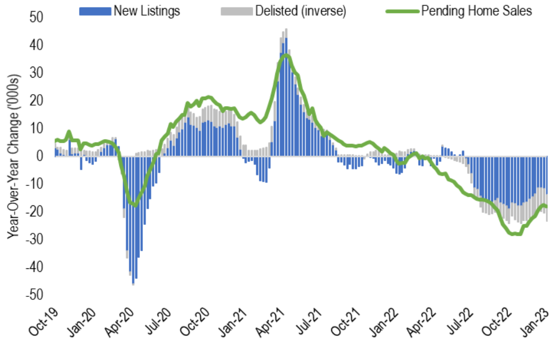
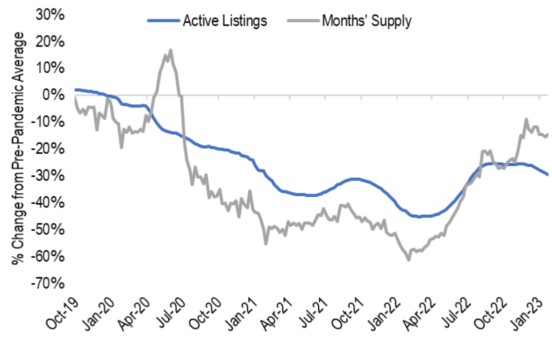


Figure 4: U.S. Active Listings & Months' Supply



Source: Redfin, Arch MI

The slight uptick in new listings was not enough to alter the lower multi-week trajectory in active listings (Figure 4). Despite total homes sold down -39% y/y and -17% from the pre-pandemic average, the national market remains somewhat tight given months' supply is 4.0 months, -15% below the pre-pandemic average for this time a year but a significant increase from the 2.0 months recorded for the same week in 2022 when the market was incredibly tight. Annual growth in the national median sale price per square foot held steady at 2.3% y/y, a drastic slowdown from the 17% annual gain recorded at this time last year. Risks for prices remain skewed to the downside given the downward trajectory for the sale-to-list ratio and upward trajectory for median days on market. Overstretched markets are particularly vulnerable to negative price action and underlying data show that most of the national price weakness continues to emanate from the West region.

Of the major metros we track (Figure 5), annual home price growth was weakest in **Austin** (-8%), **Denver** (-4%) and **Phoenix** (-4%), with home price growth having slowed most rapidly compared with a year ago in **Austin** (-40%-pts), **Phoenix** (-33%-pts), **Seattle** (-24%-pts) and **Denver** (-23%-pts). The four-week average of annual home price growth has been negative for 10 straight weeks in both Austin and Seattle, and for six weeks in Denver. Median days on the market have extended alongside softening market conditions, with some markets exceeding pre-pandemic timelines including **Austin** (30 days longer), **Phoenix** (18) and **Denver** (15) with markets like **Washington D.C.** (11) and **Seattle** (12) also starting to climb above their pre-pandemic days on market. Markets that have deteriorated the most based on months' supply include **Austin** and **Seattle**, where months' supply has climbed to a respective 44% and 41% above their pre-pandemic average for the same week from -55% and -60% below one year ago.

Figure 5: Weekly Housing Monitor (as of 1/22/23)

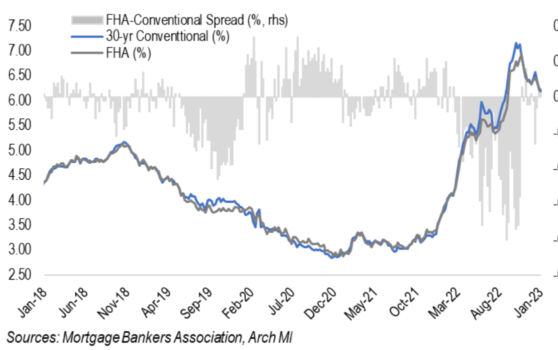
Metro	Median Sale Price psf (% y/y)	Median Sale Price Same Week '22 (% y/y)	Active Listings with Price Drops (% share)	Active Listings with Price Drops (ppt Δ y/y)	Homes Sold Above List (%)	Homes Sold Above List (ppt Δ y/y)	Average Sale-to-List Ratio (%)	Average Sale-to-List Ratio (ppt Δ y/y)	Total Active Listings (% y/y)	Median Days on Market (Δ Pre-Covid Avg)	Median Days on Market Same Week '22 (Δ Pre-Covid Avg)	Months' Supply (% Pre-Covid Avg)	Months' Supply Same Week '22 (% Pre-Covid Avg)
All Redfin Metros	2%	17%	5%	3%	21%	-19%	98%	-2%	24%	-13	-27	-21%	-62%
Atlanta	5%	24%	6%	3%	18%	-26%	98%	-3%	32%	-4	-33	-16%	-65%
Austin	-8%	32%	8%	6%	11%	-36%	96%	-6%	103%	30	-12	44%	-55%
Baltimore	1%	11%	5%	2%	31%	-8%	100%	-1%	0%	-12	-21	-37%	-63%
Boston	2%	12%	4%	2%	38%	-16%	100%	-2%	11%	1	-4	-21%	-54%
Chicago	2%	11%	3%	1%	23%	-7%	98%	-1%	8%	16	-29	-10%	-53%
Dallas	2%	26%	7%	5%	15%	-37%	97%	-4%	91%	5	-23	1%	-66%
Denver	-4%	19%	7%	5%	19%	-34%	98%	-4%	87%	15	-18	15%	-59%
Houston	5%	21%	6%	3%	12%	-19%	97%	-2%	43%	-7	-32	-10%	-62%
Los Angeles	-1%	15%	3%	2%	32%	-25%	99%	-4%	14%	4	-12	10%	-49%
Miami	12%	25%	3%	2%	11%	-7%	96%	-1%	2%	-4	-9	-16%	-66%
Minneapolis	0%	10%	4%	2%	25%	-17%	99%	-2%	22%	-2	-20	-7%	-52%
Nashville	8%	25%	5%	3%	12%	-28%	98%	-3%	105%	7	-29	12%	-64%
New York	-3%	18%	4%	1%	20%	-4%	98%	-1%	-9%	-35	-40	-26%	-54%
Phoenix	-4%	29%	8%	5%	11%	-30%	97%	-3%	67%	18	-21	14%	-62%
Portland	-2%	18%	6%	3%	22%	-24%	98%	-3%	57%	8	-22	21%	-61%
Riverside	2%	25%	5%	3%	26%	-30%	98%	-3%	36%	1	-28	-9%	-64%
San Diego	1%	22%	4%	2%	28%	-31%	98%	-4%	38%	1	-23	-25%	-69%
Seattle	-3%	21%	5%	4%	17%	-39%	98%	-7%	129%	12	-19	41%	-60%
Tampa	8%	27%	9%	5%	13%	-25%	97%	-3%	112%	-2	-27	-8%	-74%
Washington DC	3%	7%	4%	2%	23%	-15%	99%	-1%	9%	11	-7	-8%	-52%

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

MORTGAGE APPLICATIONS ROSE AGAIN AS RATES EDGED LOWER

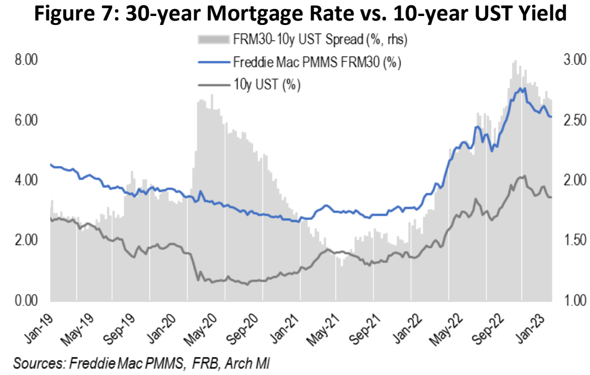
Mortgage rates declined further last week and are now roughly 100bps below the November peak. Homebuyers and existing homeowners have both responded to lower rates by increasing purchase and refinancing applications, although both remain well below pre-pandemic levels of activity. According to the MBA survey of lenders, the average contract conventional mortgage rate declined -3bps to 6.2% during the week ending Jan. 20 while the FHA contract mortgage rate also declined -4bps to 6.22%, resulting in a -1bps contraction in the spread between the FHA and conventional mortgage rate to 0.02% (Figure 6).

Figure 6: Conventional vs. FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

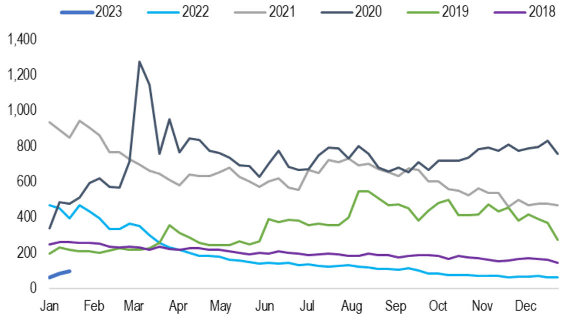
Figure 7: 30-year Mortgage Rate vs. 10-year UST Yield



Sources: Freddie Mac PMMS, FRB, Arch MI

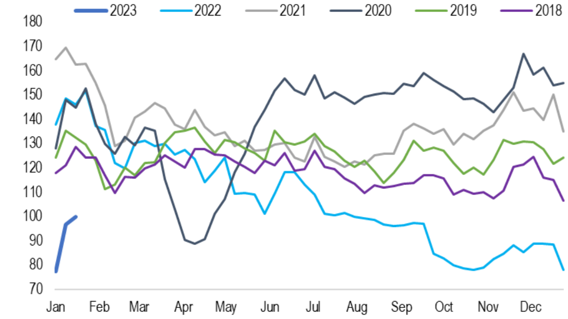
Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending Jan. 25 indicated that the FRM30 declined -2bps w/w to 6.13% (Figure 7) as 10-year UST yields declined 0bps to an average of 3.46% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST narrowed -2bps to 2.67%, about 95bps wider than its typical non-stressed level. We expect rate volatility and mortgage spreads to remain wide until more clarity is gained around the path of inflation and monetary policy, which is not likely to occur until well into the first half of this year.

Figure 8: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

Figure 9: Purchase Application Activity (Current = 100)



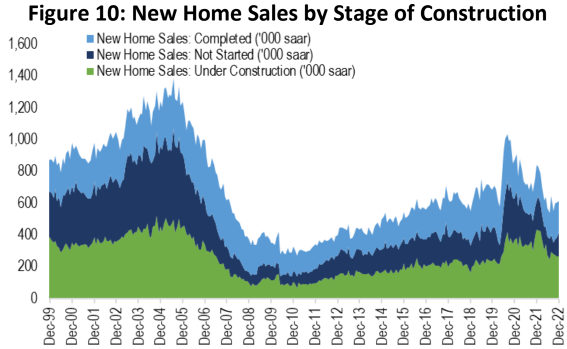
Sources: Mortgage Bankers Association, Arch MI

The MBA mortgage application survey for the week ending Jan. 20 increased 7% w/w, leaving the index down -54% year-over-year and down -46% compared with pre-pandemic levels (i.e., the average of the same week in 2018, 2019 and 2020). The weekly increase was driven primarily by a 14.6% increase in refinancing applications, which remained down -75% y/y despite the weekly increase, and -69% relative to the pre-pandemic level (Figure 8). Purchase applications increased 3.4% w/w but remained down -32% y/y and -26% relative to pre-pandemic levels (Figure 9).

NEW HOME SALES SURPRISE

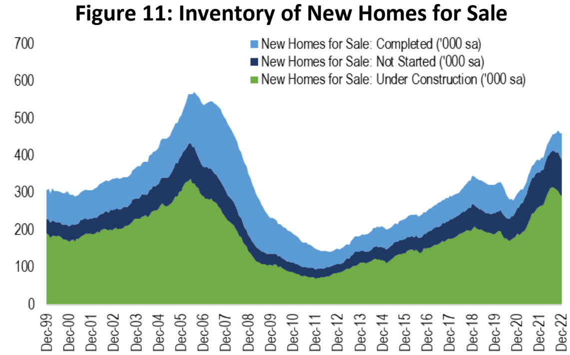
Revisions from the Census Bureau show that new home sales have been rising steadily each month since September and the December release was no different, with sales up 4.4% m/m to a 616k saar (cons. 612k) pace. The continued recovery in the pace of sales stands in stark contrast to the negative headlines for the housing market. Several dynamics are at play, particularly the fact that the Census Bureau reports gross sales, not net sales, meaning that rising cancellation rates are not captured by the data. On that note, recent commentary from builders indicate that demand is showing signs of recovery from basement levels, suggesting that cancellation rates have peaked or are nearing a peak. Additionally, the rising use of incentives by builders to move product has also likely played a factor in bolstering sales at better-than-expected levels. Nonetheless, new home sales are down 27% y/y and still 41% below the cycle peak in August 2020 (Figure 10), but only 10% below the pre-pandemic pace of sales.

Figure 10: New Home Sales by Stage of Construction



Sources: Census Bureau, Arch MI

Figure 11: Inventory of New Homes for Sale



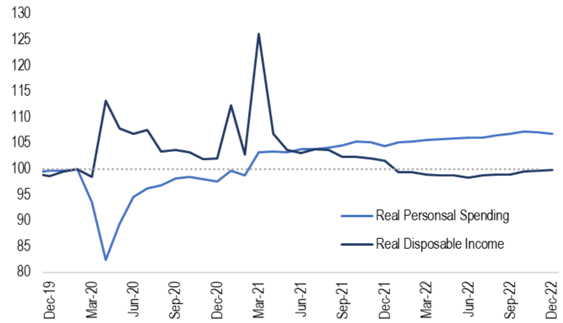
Sources: Census Bureau, Arch MI

The supply of new homes for sale was flat in December but up 19% y/y, representing a 9.0 months' supply. Completed home sales continue to fall further and stand 20% below 2019 levels. The supply of completed, ready-to-occupy inventory continues its multi-month march higher, rising 11% m/m and 115% y/y (Figure 11). Undoubtedly, the rise of completed home inventory is a hallmark of easing materials shortages, a slower sales pace and builders prioritizing completing units already under construction instead of breaking new ground, bringing months' supply for this segment to 4.3 months, the highest since 2015. The bulk of new home inventory remains skewed toward units not started and under construction, which comprise 85% of the total inventory when combined.

CONSUMERS SETTING ASIDE INCREASING SHARE OF PAYCHECKS

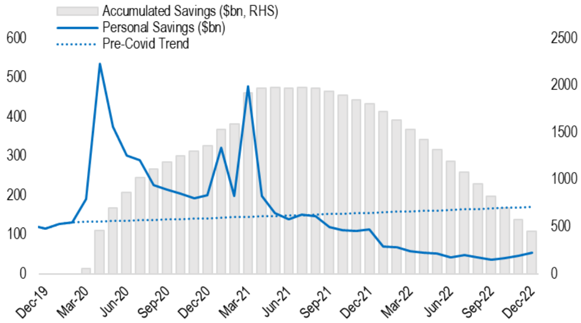
The December personal income and outlay report showed that consumers seemingly have had enough of dipping into their savings. Nominal personal income rose 0.2% m/m (cons. 0.2%) with steady gains in private wages as the labor market remained tight. That said, private wage growth on a three-month annualized basis slowed to 4.1% in December from 7.5% in September. Nominal spending fell short of consensus expectations, falling -0.2% m/m (cons. -0.1%) with real spending falling -1.1% m/m (cons. -0.1%), dragged lower by large declines in motor vehicles, household durables and food services. Real disposable income continued to rise on a three-month rolling annualized basis, up 4.0% in December, the fastest pace since before the pandemic, which lifted the absolute level nearly back to where it started the pandemic (Figure 12).

Figure 12: Real Income and Spending (Feb. 2020 = 100)



Sources: BEA, Arch MI

Figure 13: Personal Savings



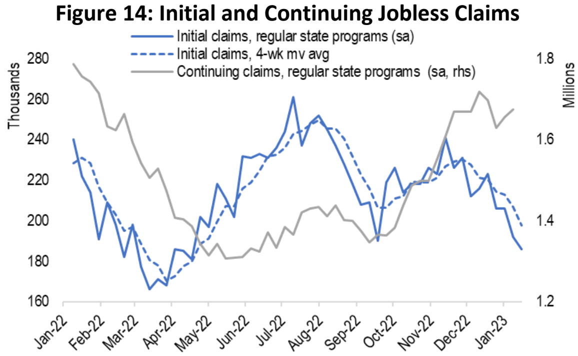
Sources: BEA, Arch MI

Despite the solid pace of gains in real income, spending growth has slowed, allowing the savings rate to tick up to 3.4% in December, the third consecutive monthly increase. Numerous headwinds are likely factoring into the pullback in spending, including recession uncertainty, higher rates on credit cards and negative wealth effects. Indeed, household net worth declined for a third straight quarter through 3Q22, although that drag is likely to reverse in 4Q given the stabilization in equity and fixed income markets. In addition, the significant drawdown in savings to date is likely spreading more caution amongst households (Figure 13). The savings buffer is still ample but data point to a disproportionate share sitting with higher income households. With the stock of savings being drawn down rather quickly, the outlook for the consumer rests on how long the labor market will remain resilient. We expect the labor market to cool in 2023 and accordingly envision consumer spending downshifting further as the year progresses.

JOBLESS CLAIMS INCH LOWER

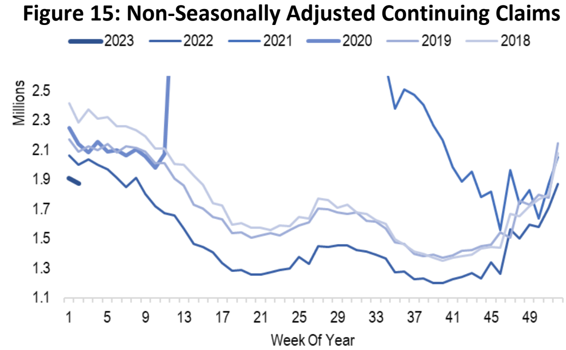
Initial jobless claims declined by -6k to a seasonally adjusted 186k (consensus: 205k) during the week ending Jan. 21 from 192k the previous week, moving the four-week average down to 198k from 207k (Figure 14). Continuing claims for regular state programs (i.e., repeat filers for unemployment insurance) climbed by 20k to a seasonally adjusted 1,675k (consensus: 1,658k) during the week ending Jan. 14. Although the seasonally adjusted measure of continuing claims has climbed 24% since mid-September 2022, the unadjusted measure remains 14% below its pre-pandemic level (i.e., the average of 2018 and 2019) for the second week of the year (Figure 15).

Figure 14: Initial and Continuing Jobless Claims



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

Figure 15: Non-Seasonally Adjusted Continuing Claims



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

The Week Ahead

This week will bring several notable updates on home prices, the labor market and monetary policy. November home price indexes are likely to show continued weakness, with the Bloomberg Consensus Survey of Economists expecting a contraction of -0.7% and -0.5% m/m (sa) in the S&P CoreLogic Case-Shiller 20-City Composite HPI and the FHFA Purchase Only HPI, respectively. We expect the FOMC to announce a 25bps increase in the Fed funds rate to 4.75%, which would represent a deceleration in the pace of rate hikes from the 50bps hike in December and the 75bps rate hikes that preceded the December hike. Lastly, monthly job growth is expected to have cooled to 185k in January from 223k in December and the unemployment rate is also expected to tick up to 3.6% from 3.5% previously.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
1/31/23	Employment Cost Index	4Q	--	1.1%	1.2%	q/q, sa
1/31/23	FHFA House Price Index m/m	Nov	--	-0.5%	0.0%	sa
1/31/23	S&P CoreLogic CS 20-City m/m SA	Nov	--	-0.7%	-0.5%	sa
1/31/23	S&P CoreLogic CS 20-City y/y NSA	Nov	--	6.7%	8.6%	nsa
1/31/23	Conf. Board Consumer Confidence	Jan	--	109.0	108.3	index, sa
2/1/23	MBA Mortgage Applications	1/27/23	--	--	7.0%	w/w, sa
2/1/23	ADP Employment	Jan	--	170	235	k, m/m, sa
2/1/23	S&P Global US Manufacturing PMI	Jan F	--	46.8	46.8	index, sa
2/1/23	ISM Manufacturing	Jan	--	48.0	48.4	index, sa
2/1/23	ISM Prices Paid	Jan	--	41.8	39.4	index, nsa
2/1/23	JOLTS Job Openings	Dec	--	10.3	10.5	m, sa
2/1/23	FOMC Rate Decision (Upper Bound)	2/1/23	--	4.75%	4.50%	
2/1/23	Wards Total Vehicle Sales	Jan	--	15.5	13.3	m, saar
2/2/23	Unit Labor Costs	4Q P	--	1.5%	2.4%	q/q, saar
2/2/23	Nonfarm Productivity	4Q P	--	2.4%	0.8%	q/q, saar
2/2/23	Initial Jobless Claims	1/28/23	--	200	186	k, sa
2/2/23	Continuing Claims	1/21/23	--	1,687	1,675	k, sa
2/2/23	Durable Goods Orders	Dec F	--	5.6%	5.6%	m/m, sa
2/3/23	Nonfarm Payrolls	Jan	--	185	223	k, m/m, sa
2/3/23	Private Payrolls	Jan	--	185	220	k, m/m, sa
2/3/23	Unemployment Rate	Jan	--	3.6%	3.5%	sa
2/3/23	Average Hourly Earnings m/m	Jan	--	0.3%	0.3%	sa
2/3/23	Average Hourly Earnings y/y	Jan	--	4.3%	4.6%	nsa
2/3/23	Average Weekly Hours All Employees	Jan	--	34.3	34.3	sa
2/3/23	Labor Force Participation Rate	Jan	--	62.3%	62.3%	sa
2/3/23	S&P Global US Services PMI	Jan F	--	46.6	46.6	index, sa
2/3/23	ISM Services Index	Jan	--	50.5	49.2	index, nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI