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HaMMR Digest

Stay current with economic and mortgage market trends.

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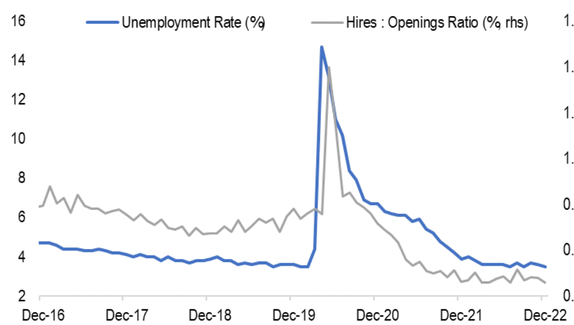
Weekly Wrap – A Doozy

- Even when looking through BLS data adjustments, the labor market remains remarkably resilient.
- Fed hiked 25bps as expected — with wage inflation cooling despite solid job growth, a pause is within reach.
- Housing market likely to remain choppy until a new equilibrium is reached and a recovery is firmly established.

Friday's January payrolls report was a barnburner, with nonfarm payrolls surging 517k m/m in January, nearly triple consensus expectations for a gain of just 190k. The unemployment rate dropped 10bps to 3.4% (cons. 3.6%), flying in the face of many forecasters who expected to see a slight uptick by now. The BLS provided benchmark revisions that confirmed that the labor market was stronger than initially thought in 2022, with year-end payrolls revised higher by 813k while annual payrolls through March 2022 were up roughly 700k.

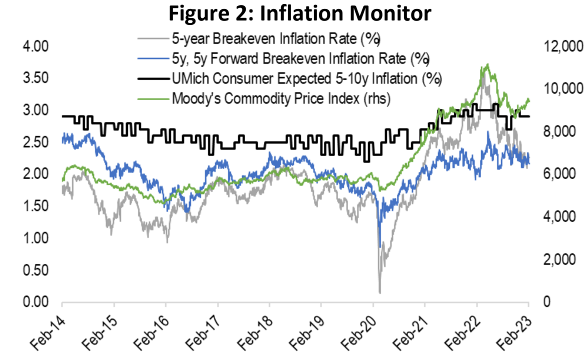
Even when accounting for BLS adjustments, the labor market remained resilient with minimal evidence that a wave of layoffs could lurk around the corner. If anything, companies are loathe to let staff go. January is traditionally a month businesses cull headcount, but last month's non-seasonally adjusted figure, -2.5m, was below both the pre- and post-COVID January average, suggesting demand for labor remained strong. Consumers' assessment of labor conditions improved to a four-month high in January per the Conference Board's labor differential metric, confirming the uptick in the share of voluntary job leavers as a percent of total unemployed to near the post-COVID high. In addition, the quits rate remained elevated in December while hirings and job openings increased 2.2% and 3.5% m/m, respectively. Accordingly, the ratio of hires to openings returned to its record low (Figure 1), reflecting a very tight labor market.

Figure 1: Measures of Labor Market Tightness



Sources: BLS, Arch MI

Figure 2: Inflation Monitor



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

Earlier in the week, the Fed raised the federal funds rate by 25bps to a range of 4.5-4.75%, as expected. There was a notable change to their policy statement, however, switching from "pace of future increases" to "extent of future increases," implying that the terminal rate is up for debate and subject to revisions based on data flow. Chairman Jay Powell's press conference skewed dovish, which will likely be walked back in forthcoming communications given January's payrolls data. The key risk for the Fed is that payroll gains continue to come in strong, pushing the unemployment rate lower while tilting wage growth higher, necessitating tighter monetary policy to stem feed-through effects on core services prices. The Fed did find solace in terms of wage growth where their preferred measure, the employment cost index (ECI), came in at 1.0% q/q or 4.2% annualized, slowing markedly from a recent peak of 5.7% in 2Q22 and rapidly heading toward the ~3.5% rate of growth consistent with the Fed's 2% inflation target. A normalization of wage pressures would go a long way in anchoring inflation expectations (Figure 2).

Other data for the week took a backseat, including ISM Manufacturing PMI that fell to 47.4 (cons. 48.0) while the ISM Services PMI surged to 55.2 (cons. 50.5), led by a 15.2-pt jump in the new orders index. Weak manufacturing output and sentiment so far has yet to debilitate industry payrolls while the services sector looks primed to rebound from a moribund 4Q22. Vehicle sales jumped 18% m/m in January to a 15.7m annualized rate that likely boosted retail sales as well. Home prices continued to slide through November but beat expectations, with the S&P/Case-Shiller 20-City Composite Index falling -0.5% m/m (cons. -0.7%). The home price index is now down -4.1% from its June peak with further room to slide.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
1/31/23	Employment Cost Index	4Q	1.0%	1.1%	1.2%	q/q, sa
1/31/23	FHFA House Price Index m/m	Nov	-0.1%	-0.5%	0.0%	sa
1/31/23	S&P CoreLogic CS 20-City m/m SA	Nov	-0.5%	-0.7%	-0.5%	sa
1/31/23	S&P CoreLogic CS 20-City y/y NSA	Nov	6.8%	6.8%	8.6%	nsa
1/31/23	Conf. Board Consumer Confidence	Jan	107.1	109.0	109.0	index, sa
2/1/23	MBA Mortgage Applications	1/27/23	-9.0%	--	7.0%	w/w, sa
2/1/23	ADP Employment	Jan	106	180	253	k, m/m, sa
2/1/23	S&P Global US Manufacturing PMI	Jan F	46.9	46.8	46.8	index, sa
2/1/23	ISM Manufacturing	Jan	47.4	48.0	48.4	index, sa
2/1/23	ISM Prices Paid	Jan	44.5	40.4	39.4	index, nsa
2/1/23	JOLTS Job Openings	Dec	11.0	10.3	10.4	m, sa
2/1/23	FOMC Rate Decision (Upper Bound)	2/1/23	4.75%	4.75%	4.50%	
2/1/23	Wards Total Vehicle Sales	Jan	15.7	15.5	13.3	m, saar
2/2/23	Unit Labor Costs	4Q P	1.1%	1.5%	2.0%	q/q, saar
2/2/23	Nonfarm Productivity	4Q P	3.0%	2.4%	1.4%	q/q, saar
2/2/23	Initial Jobless Claims	1/28/23	183	195	186	k, sa
2/2/23	Continuing Claims	1/21/23	1,655	1,684	1,666	k, sa
2/2/23	Durable Goods Orders	Dec F	5.6%	5.6%	5.6%	m/m, sa
2/3/23	Nonfarm Payrolls	Jan	517	189	260	k, m/m, sa
2/3/23	Private Payrolls	Jan	443	190	269	k, m/m, sa
2/3/23	Unemployment Rate	Jan	3.4%	3.6%	3.5%	sa
2/3/23	Average Hourly Earnings m/m	Jan	0.3%	0.3%	0.4%	sa
2/3/23	Average Hourly Earnings y/y	Jan	4.4%	4.3%	4.8%	nsa
2/3/23	Average Weekly Hours All Employees	Jan	34.7	34.3	34.4	sa
2/3/23	Labor Force Participation Rate	Jan	62.4%	62.3%	62.3%	sa
2/3/23	S&P Global US Services PMI	Jan F	46.8	46.6	46.6	index, sa
2/3/23	ISM Services Index	Jan	55.2	50.5	49.2	index, 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 MARKET CONTINUES TO MARGINALLY IMPROVE

The resiliency of the labor market on top of falling mortgage rates has seen homebuyer budgets clawing back lost ground. Homebuyers are still able to command greater control over pricing as the percentage of homes sold with price drops continues to push higher. More and more buyers are pulling the trigger with the share of homes off the market within two weeks of listing shooting up to 37% for the week ending Jan. 29, according to Redfin data, which is roughly 4%-pts above the pre-pandemic norm for this time of year.

Over the same reference week, pending home sales were down around -18k y/y (Figure 3), or -37% below the year-ago level. Annual comparisons will remain challenged over the first half of the year given the vastly different buying environments. The recent pace of pending sales remained 7% above the pre-pandemic average for this time of year and has steadily improved from after falling -6% below the pre-pandemic pace at the end of 2022. Sellers have taken note of renewed buyer demand as new listings have been steadily rising even though the pace of new listings remaining -18% below the pre-pandemic average, up slightly from a low of -19% four weeks ago. However, the number of delisted homes continued to rise and remained elevated at 19% above the pre-pandemic average for this time of year.

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

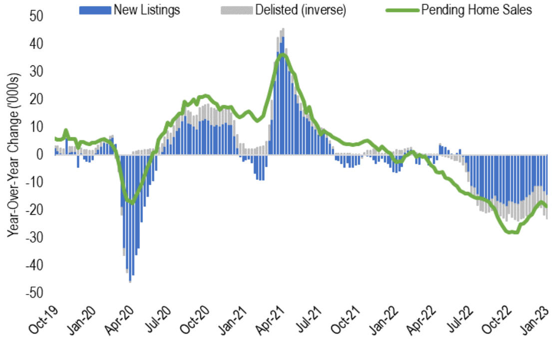
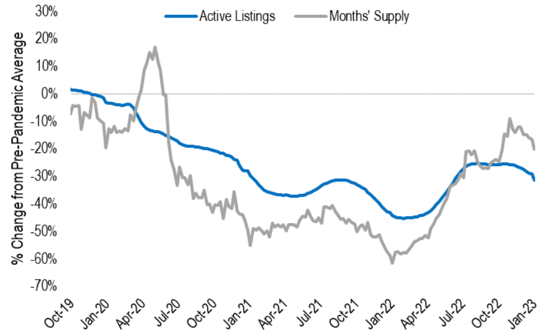


Figure 4: U.S. Active Listings & Months' Supply



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 -40% y/y and -15% from the pre-pandemic average, the national market remains somewhat tight given months' supply is 4.2 months, -20% 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 2.0% 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 price declines and underlying data show that most of the national price weakness continues to emanate from the West region.

Figure 5: Weekly Housing Monitor (as of 1/29/23)

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%**	**6%**	**3%**	**21%**	**-19%**	**98%**	**-2%**	**23%**	**-12**	**-28**	**-20%**	**-61%**
Atlanta	4%	24%	6%	3%	18%	-26%	97%	-3%	31%	-2	-33	-12%	-63%
Austin	-8%	32%	9%	7%	11%	-37%	96%	-5%	109%	35	-10	53%	-55%
Baltimore	2%	9%	5%	2%	30%	-8%	101%	0%	0%	-11	-24	-36%	-62%
Boston	2%	9%	4%	2%	35%	-17%	99%	-2%	9%	2	-6	-17%	-52%
Chicago	1%	11%	3%	1%	22%	-8%	98%	-1%	5%	17	-27	-7%	-51%
Dallas	2%	26%	8%	6%	15%	-37%	97%	-4%	90%	8	-22	1%	-66%
Denver	-3%	19%	7%	6%	17%	-36%	98%	-4%	78%	16	-18	16%	-56%
Houston	5%	20%	7%	3%	12%	-20%	97%	-2%	42%	-6	-32	-8%	-61%
Los Angeles	-1%	14%	4%	2%	31%	-27%	99%	-4%	12%	7	-14	5%	-50%
Miami	11%	26%	4%	2%	10%	-7%	96%	-1%	2%	-2	-6	-18%	-66%
Minneapolis	0%	10%	5%	3%	25%	-19%	99%	-2%	21%	-1	-22	-4%	-50%
Nashville	7%	26%	5%	4%	10%	-31%	97%	-3%	106%	9	-29	16%	-64%
New York	-3%	18%	4%	2%	19%	-4%	98%	-1%	-9%	-35	-39	-27%	-55%
Phoenix	-5%	29%	9%	6%	12%	-31%	97%	-3%	65%	19	-21	16%	-62%
Portland	-2%	18%	6%	3%	23%	-25%	98%	-3%	49%	8	-24	24%	-58%
Riverside	1%	24%	5%	4%	25%	-31%	98%	-3%	34%	3	-29	-11%	-64%
San Diego	1%	22%	5%	3%	28%	-33%	98%	-4%	29%	2	-25	-29%	-67%
Seattle	-5%	23%	6%	3%	17%	-39%	98%	-7%	102%	12	-20	42%	-55%
Tampa	8%	27%	10%	7%	13%	-26%	97%	-3%	112%	-2	-28	-8%	-74%
Washington DC	3%	8%	5%	2%	25%	-14%	99%	-1%	10%	12	-8	-3%	-48%

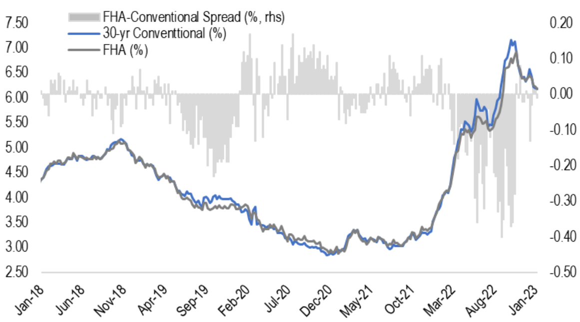
Note: Data on 4wk-moving-average basis; Median Days on Market and Months' Supply are 3y/3y changes on 4wk-ma basis; Source: Redfin, Arch MI

Of the major metros we track (Figure 5), annual home price growth was weakest in **Austin** (-8%), **Phoenix** (-5%) and **Seattle** (-5%), with home price growth having slowed most rapidly compared with a year ago in **Austin** (-40%-pts), **Phoenix** (-34%-pts), **Seattle** (-28%-pts) and **Dallas** (-24%-pts). The four-week average of annual home price growth has been negative for 11 straight weeks in both Austin and Seattle, and for seven weeks in Denver. Median days on the market have extended alongside softening market conditions, with some markets exceeding pre-pandemic timelines including **Austin** (35 days longer), **Phoenix** (19) and **Denver** (16), with markets like **Washington D.C.** (12) 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 53% and 42% above their pre-pandemic average for the same week from -55% below one year ago.

MORTGAGE APPLICATIONS COOL DESPITE LOWER RATES

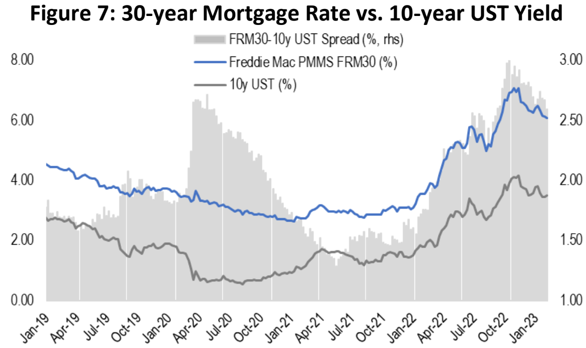
According to the MBA survey of lenders, the average contract conventional mortgage rate declined -1bps to 6.19% during the week ending Jan. 27 while the FHA contract mortgage rate also declined -4bps to 6.18%, resulting in a -3bps contraction in the spread between the FHA and conventional mortgage rate to -0.01% (Figure 6). Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending Feb. 1 indicated that the FRM30 declined -4bps w/w to 6.09% (Figure 7) as 10-year UST yields climbed 3bps to an average of 3.49% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST narrowed -7bps to 2.6%, about 90bps 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 6: Conventional vs. FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

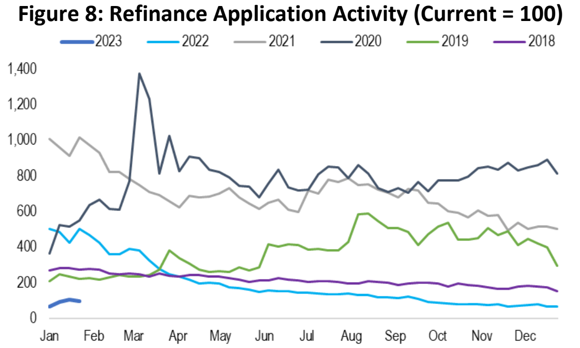
Figure 7: 30-year Mortgage Rate vs. 10-year UST Yield



Sources: Freddie Mac PMMS, FRB, Arch MI

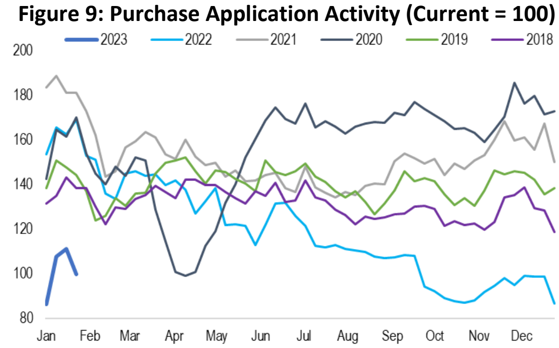
The MBA Weekly Mortgage Applications Survey for the week ending Jan. 27 declined -9% w/w, leaving the index down -62% year-over-year and down -52% compared with pre-pandemic levels (i.e., the average of the same week in 2018, 2019 and 2020). The weekly decline was driven primarily by a -10.3% decline in purchase applications (Figure 8), which remained down -41% y/y and -34% relative to the pre-pandemic level. Refinancing applications declined -7.1% w/w (Figure 9) and were down -80% y/y and -72% relative to pre-pandemic levels.

Figure 8: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

Figure 9: Purchase Application Activity (Current = 100)

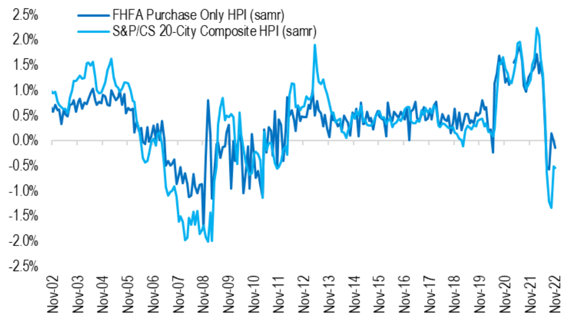


Sources: Mortgage Bankers Association, Arch MI

HOME PRICE GROWTH WILL LAG IMPROVEMENT IN SALES ACTIVITY

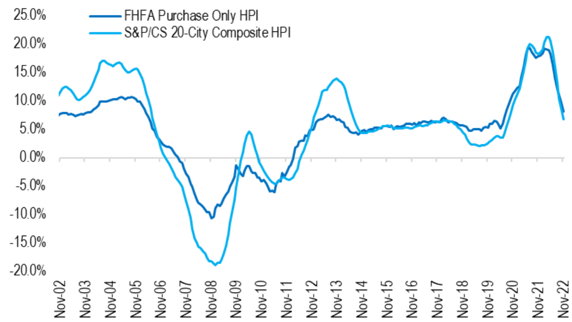
Repeat-sales home price indexes (HPI) were negative for the month of November but beat expectations. The FHFA Purchase Only HPI declined -0.1% (cons. -0.5%) on a seasonally adjusted basis (Figure 10) after coming in flat for October and dropping -0.2% in September. The S&P/Case-Shiller 20-City Composite HPI fell -0.5% (cons. -0.7%) in November, matching the pace of decline from October but still well above the -1.3% drop in September. All metros within the composite — except for Detroit and Chicago — recorded monthly declines, led by San Francisco (-1.4%), Phoenix (-1.4%) and Las Vegas (-1.2%). The year-over-year growth in the Case-Shiller 20-City index also decelerated to 6.8% from 8.7% in October (Figure 11).

Figure 10: Month-Over-Month Home Price Appreciation



Sources: S&P, FHFA, Arch MI

Figure 11: Year-Over-Year Home Price Appreciation



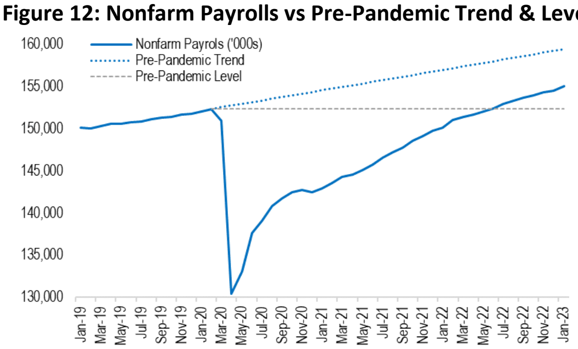
Sources: S&P, FHFA, Arch MI

It is important to note that during times of market volatility, there can be divergences between the FHFA PO and the S&P/Case-Shiller HPIs. Index compositional differences do play a factor where the FHFA index uses only conforming, conventional loans purchased and securitized by the GSEs (data included in the index are based on the loan origination date) while the S&P/Case-Shiller index captures more transactions and uses a different weighting that places greater emphasis on higher home value regions. The S&P/Case-Shiller index is a three-month moving average of closed sales, implying that closed sales for the most recent September-November period covers contracts signed as far back as July.

JOB MARKET HITS IT OUT OF THE PARK IN JANUARY

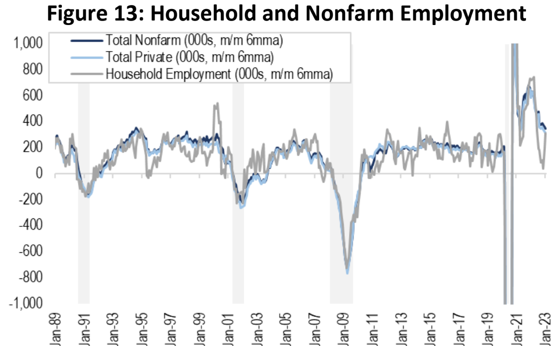
With a gain of 517k jobs in January and 4.8m for 2022, the U.S. economy now has 2,702k more jobs than prior to the pandemic (i.e., February 2020) but remains well below the pre-pandemic trend (Figure 12). January's release came with new benchmark revisions to the establishment survey that upwardly revised the level of jobs for 2022 by 813k while also increasing the number of jobs for the twelve months to March 2022 by roughly 700k. Overall, the jobs market was stronger than initial data showed but the slowdown in monthly job gains that took hold in 2H22 still holds, albeit from a higher level. January's strong job gains lifted the three-month moving average pace of job gains to 356k from 291k last month and 321k in November. January's numbers are likely not the start of a new trend of stronger job creation, given unusual seasonality played a factor. Nonetheless, underlying labor market strength remains, with numerous indicators still pointing to solid demand. December job openings climbed to 11.0m (cons. 10.3m) from 10.4 in November, the quits rate (an indication of worker optimism) remained elevated at 2.7%, and the layoffs rate remained historically low.

Figure 12: Nonfarm Payrolls vs Pre-Pandemic Trend & Level



Sources: Bureau of Labor Statistics, Arch MI

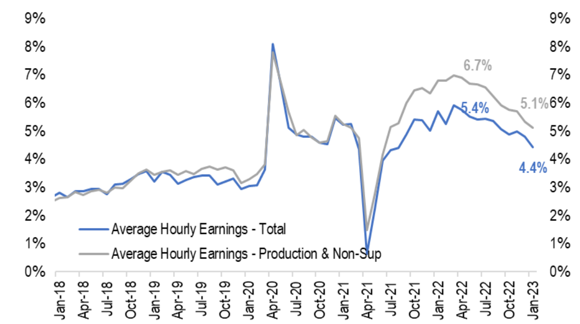
Figure 13: Household and Nonfarm Employment



Sources: Bureau of Labor Statistics, Arch MI

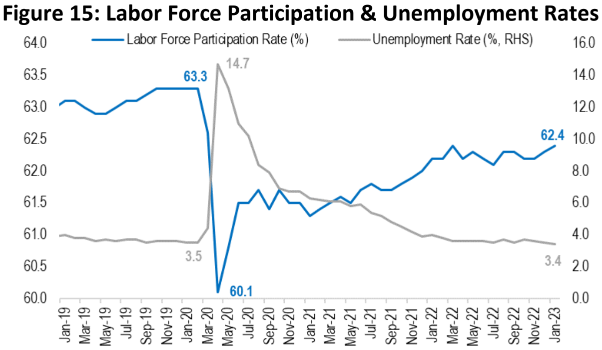
The breadth of job gains also implied that healthy labor demand remained as gains were led by leisure and hospitality (128k), education and health services (105k) and retail (30k). The household survey recorded a pronounced 894k increase in employment for January but after adjusting for new population controls, the increase was a more sanguine 84k (Figure 13). Hourly earnings rose 0.3% m/m (cons. 0.3%) in January with upward revisions to the prior month. The non-supervisory segment rose a bit slower during the month (0.2%) but remained stronger year-over-year at 5.1% (Figure 14). The unemployment rate fell to 3.4% (cons. 3.6%) in January (Figure 15) despite a 10bps increase in the labor force participation rate to 62.4% (cons. 62.3%) amid the surge in household employment.

Figure 14: Average Hourly Earnings Growth (y/y)



Sources: Bureau of Labor Statistics, Arch MI

Figure 15: Labor Force Participation & Unemployment Rates

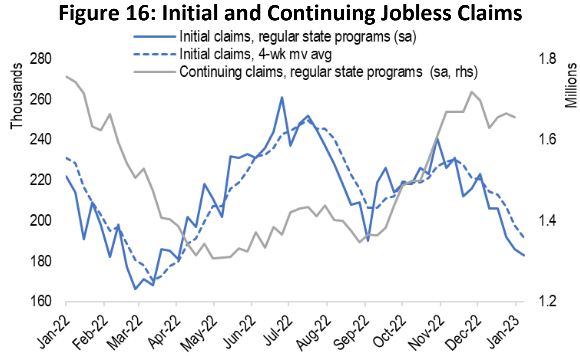


Sources: Bureau of Labor Statistics, Arch MI

JOBLESS CLAIMS TREND LOWER AT THE END OF JANUARY

Initial jobless claims declined by -3k to a seasonally adjusted 183k (consensus: 195k) during the week ending Jan. 28 from 186k the previous week, moving the four-week average down to 192k from 198k (Figure 16). Continuing claims for regular state programs (i.e., repeat filers for unemployment insurance) declined by 11k to a seasonally adjusted 1,655k (consensus: 1,684k) during the week ending Jan. 21. The historically low level of initial claim filings is consistent with a still tight labor market, confirming the strength in the January payrolls data.

Figure 16: Initial and Continuing Jobless Claims



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

The Week Ahead

This week will be very light on economic data releases. December consumer credit and wholesale inventories are both expected to continue to expand roughly in-line with their recent trends, according to the Bloomberg Consensus Survey of Economists. Jobless claims are expected to remain near historic lows and the University of Michigan survey is not expected to meaningfully deviate from its most recent print.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
2/7/23	Consumer Credit	Dec	--	25.0	28.0	$B, m/m, sa
2/8/23	MBA Mortgage Applications	2/3/23	--	--	-9.0%	w/w, sa
2/8/23	Wholesale Inventories m/m	Dec F	--	0.1%	0.1%	sa
2/9/23	Initial Jobless Claims	2/4/23	--	190	183	k, sa
2/9/23	Continuing Claims	1/28/23	--	1,660	1,655	k, sa
2/10/23	U. of Mich. Sentiment	Feb P	--	65.0	64.9	index, nsa
2/10/23	U. of Mich. 1 Yr Inflation	Feb P	--	4.0%	3.9%	nsa
2/10/23	U. of Mich. 5-10 Yr Inflation	Feb P	--	2.9%	2.9%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI