HaMMR Digest

Stay current with economic and mortgage market trends.

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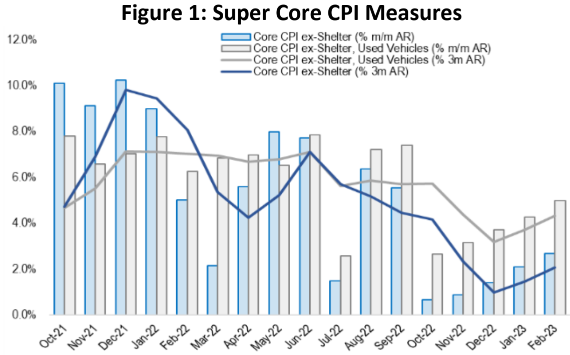
Weekly Wrap – Fast and Furious

- Banking sector failures have emerged at furious pace, although broad contagion risk is seemingly contained.
- Fed likely to hike another 25bps in response to recent inflation strength, keeping banking risks separate for now.
- Housing demand shifting to the new home market, while broader macro strength will cool over the rest of 2023.

Rapid responses by authorities have seemingly quelled financial contagion risk for the time being, but additional actions will likely be needed to fully stabilize the banking sector. The fast-track sale of Credit Suisse over the weekend took care of the latest major flareup, but concerns remain for U.S. regional banks — with First Republic, Western Alliance and Zions most in focus. Discount window borrowing spiked to $165b last week and over $300b was also borrowed from Federal Home Loan Banks (FHLBs) as banks tapped the Fed's liquidity safety valve (discount window) and the "lender of next-to-last resort" (FHLBs) to a degree that exceeded the peak of the Global Financial Crisis. This borrowing activity reflects both the acute scramble for liquidity and the fact that existing facilities are still preferred over the Fed's new Bank Term Funding Program (BTFP), which comes with higher borrowing costs and only drew $12b of borrowing in its first week. Even if the worst is behind us, higher funding, liquidity and regulatory costs will impede credit availability for consumers and businesses and create additional drags on economic activity, increasing the risk of a harder landing for the economy.

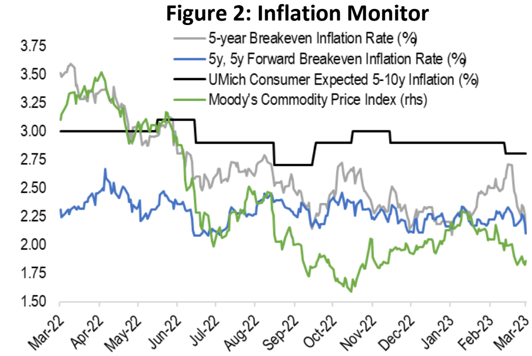
The ongoing banking saga overshadowed a heavy flow of macro data. February headline consumer price index (CPI) inflation was in-line with consensus (0.4% m/m) while core inflation, which excludes food and energy, accelerated to 0.5% m/m (cons. 0.4%), or 5.6% annualized. Services inflation strengthened alongside several core goods categories, including apparel and new vehicles. Looking at core CPI excluding shelter and used vehicles, prices have been accelerating since October (Figure 1). Producer inflation provided a bit more optimism with headline (-0.1% vs cons. 0.3%) and core (0.0% vs cons. 0.4%) coming in soft on top of downward revisions for January. Despite the choppy hard inflation data, March preliminary medium-term consumer inflation expectations (Figure 2) ticked down to 2.8% (cons. 2.9%).

Figure 1: Super Core CPI Measures



Sources: BLS, Arch MI

Figure 2: Inflation Monitor



Sources: Moody's, University of Michigan, Federal Reserve Board, Arch MI

Other data reflected solid underlying growth. Control group retail sales (excluding autos, gas, building materials and food services), which feed into GDP numbers, advanced 0.5% m/m (cons. -0.3%) with January revised up to 2.3% from 1.7%. Housing starts jumped 9.8% m/m (cons. 0.1%) in February with leading indicators of home construction signaling stabilization could be within reach: single-family permits rose 7.6% m/m in February, the first increase in twelve months, aligning with the two-point rise in the National Association of Home Builders (NAHB) sentiment index to 44 (cons. 40) in March, the third consecutive increase. Manufacturing production surprised to the upside (0.1% vs cons. -0.3%) in February but sentiment indicators from the New York and Philadelphia Fed regions don't portend a sustained rebound ahead.

All in all, the Fed faces a conundrum. Data releases suggest strong real GDP growth in 1Q23 with the inflation and labor market backdrops providing enough ammo for the Fed to pull the trigger on a 25bps rate hike. The fact that the European Central Bank raised its policy rate by 50bps last week with Credit Suisse in crisis should strengthen the Fed's resolve to continue its battle against inflation and deal with financial stability concerns separately, despite the obvious interactions.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
3/14/23	NFIB Small Business Optimism	Feb	90.9	90.3	90.3	index, sa
3/14/23	CPI m/m	Feb	0.4%	0.4%	0.5%	sa
3/14/23	CPI Core (ex Food and Energy) m/m	Feb	0.5%	0.4%	0.4%	sa
3/14/23	CPI y/y	Feb	6.0%	6.0%	6.4%	nsa
3/14/23	CPI Core (ex Food and Energy) y/y	Feb	5.5%	5.5%	5.6%	nsa
3/15/23	MBA Mortgage Applications	3/10/23	6.5%	--	7.4%	w/w, sa
3/15/23	PPI Final Demand m/m	Feb	-0.1%	0.3%	0.3%	sa
3/15/23	PPI Core (ex Food and Energy) m/m	Feb	0.0%	0.4%	0.1%	sa
3/15/23	PPI Final Demand y/y	Feb	4.6%	5.4%	5.7%	nsa
3/15/23	PPI Core (ex Food and Energy) y/y	Feb	4.4%	5.2%	5.0%	nsa
3/15/23	Advance Retail Sales m/m	Feb	-0.4%	-0.4%	3.2%	sa
3/15/23	Retail Sales Control Group m/m	Feb	0.5%	-0.3%	2.3%	sa
3/15/23	NAHB Housing Market Index	Mar	44	40	42	index, sa
3/16/23	Initial Jobless Claims	3/11/23	192	205	212	k, sa
3/16/23	Continuing Claims	3/4/23	1,684	1,723	1,713	k, sa
3/16/23	Import Price Index y/y	Feb	-1.1%	-1.1%	0.9%	nsa
3/16/23	Housing Starts	Feb	1,450	1,310	1,321	k, saar
3/16/23	Housing Starts m/m	Feb	9.8%	0.1%	-2.0%	sa
3/16/23	Building Permits	Feb	1,524	1,343	1,339	k, saar
3/16/23	Building Permits m/m	Feb	13.8%	0.3%	0.1%	sa
3/16/23	Philadelphia Fed Business Outlook	Mar	-23.2	-15.0	-24.3	index, sa
3/17/23	Industrial Production m/m	Feb	0.0%	0.2%	0.3%	sa
3/17/23	Capacity Utilization	Feb	78.0%	78.4%	78.0%	sa
3/17/23	Conference Board Leading Index	Feb	-0.3%	-0.3%	-0.3%	m/m, sa
3/17/23	U. of Mich. Sentiment	Mar P	63.4	67.0	67.0	index, nsa
3/17/23	U. of Mich. 1 Yr Inflation	Mar P	3.8%	4.1%	4.1%	nsa
3/17/23	U. of Mich. 5-10 Yr Inflation	Mar P	2.8%	2.9%	2.9%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI

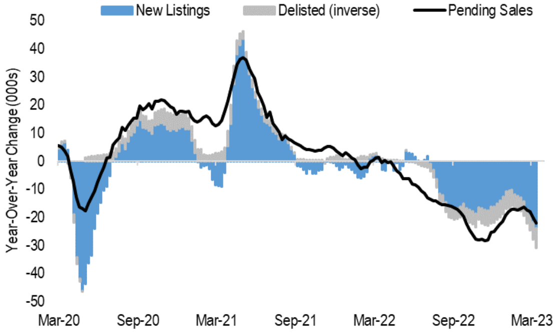
Green = beat expectations; **Red** = worse than expectations; (compared vs. prior if no consensus estimates available)

HOUSING MARKET REMAINED TIGHT AS DEMAND WANED

Housing demand continued to cool last week as mortgage rates remained above 6.5%, despite a modest decline. Contrasted with the recent recovery in new home sales and positive homebuilder sentiment, housing demand appears to be shifting toward the new home market where builders have been offering attractive incentives. Although the national resale market remains tighter than before the pandemic, buyers are increasingly in the driver's seat, particularly in the western markets that were previously most overheated. Annual price declines are creeping into double-digit territory in some of the hardest hit markets, with the strongest markets now mustering only single-digit year-over-year price gains. Markets generally remained tighter than prior to the pandemic as new listings continued to plunge and delisted homes have become increasingly common. Although homes that managed to sell were on the market for roughly two weeks less than before the pandemic, that was still about two weeks longer than a year ago.

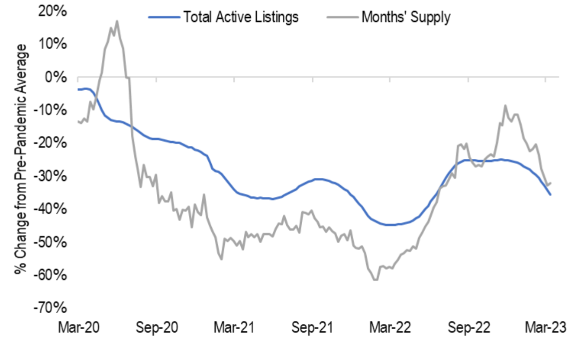
Pending home sales were down roughly -22k y/y (Figure 3), or -34% below the year-ago level for the week ending March 12, per Redfin data. Annual comparisons will remain challenged over the first half of the year given the vastly different buying environments. Case in point, despite the large year-over-year decline, the recent pace of pending sales remained roughly in-line with the pre-pandemic average for this time of year. Higher mortgage rates in recent weeks have also weighed on potential sellers as new listings declined to -24% below the pre-pandemic average from -19% four weeks ago. Meanwhile, the number of delisted homes rose to 30% above the pre-pandemic average for this time of year from 2% four weeks ago.

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



Source: Redfin, Arch MI

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



Source: Redfin, Arch MI

The decline in new listings and increase in delisted homes offset the cooling pace of sales and pushed the number of active listings further down to -36% below the pre-pandemic average (Figure 4). Despite total homes sold being down -24% y/y and -6% below the pre-pandemic average, the national market remains somewhat tight given months' supply is just 2.8 months, or -32% below the pre-pandemic average for this time of year. The current months' supply is a modest increase from the 1.8 months recorded for the same week in 2022 when the market was extremely tight. The national median sale price per square foot cooled to -0.6% y/y from -0.1% last week, a drastic slowdown from the 19% annual gain recorded at this time last year. Risks for prices remain skewed to the downside with overstretched markets particularly vulnerable.

Figure 5: Weekly Housing Monitor (as of 3/12/23)

Metro	Median Sale Price Per Square Foot (y/y)		Active Listings with Price Drops		Share of Homes Sold Above List		Average Sale-to-List Ratio		Total Active Listings (y/y)	Median Days on Market vs Pre-COVID		Months' Supply vs Pre-COVID	
	Current	Year Ago	Current	(Δ y/y, ppt)	Current	(Δ y/y, ppt)	Current	(Δ y/y, ppt)		Current	Year Ago	Current	Year Ago
All Redfin Metros	**-1%**	**19%**	**5%**	**3%**	**24%**	**-22%**	**98%**	**-3%**	**17%**	**-13**	**-32**	**-32%**	**-56%**
Atlanta	2%	24%	5%	3%	22%	-30%	98%	-3%	32%	-2	-36	-25%	-60%
Austin	-14%	23%	8%	6%	14%	-48%	97%	-8%	111%	38	-11	46%	-45%
Baltimore	3%	8%	5%	1%	37%	-8%	101%	-1%	-1%	-22	-34	-47%	-61%
Boston	0%	10%	3%	1%	43%	-16%	100%	-3%	-3%	-5	-11	-25%	-39%
Chicago	1%	11%	3%	1%	28%	-10%	98%	-1%	-19%	6	-4	-18%	-30%
Dallas	-2%	26%	6%	5%	20%	-42%	98%	-6%	75%	12	-22	-26%	-59%
Denver	-9%	21%	7%	6%	29%	-41%	99%	-6%	52%	11	-8	-15%	-54%
Houston	1%	22%	6%	3%	15%	-22%	97%	-3%	45%	-3	-36	-21%	-59%
Los Angeles	-4%	15%	3%	2%	37%	-29%	99%	-5%	0%	2	-19	-16%	-43%
Miami	5%	25%	3%	2%	12%	-12%	96%	-2%	9%	-3	-15	-28%	-65%
Minneapolis	-1%	9%	4%	2%	34%	-18%	100%	-3%	7%	-5	-25	-21%	-43%
Nashville	3%	25%	5%	3%	15%	-32%	98%	-4%	105%	11	-37	-10%	-67%
New York	-4%	12%	3%	0%	21%	-4%	98%	-1%	-8%	-33	-42	-19%	-49%
Phoenix	-6%	29%	8%	5%	14%	-37%	98%	-4%	61%	19	-22	-7%	-60%
Portland	-3%	18%	4%	2%	32%	-27%	100%	-4%	20%	3	-25	-10%	-49%
Riverside	-3%	26%	4%	2%	29%	-33%	98%	-4%	21%	0	-37	-27%	-61%
San Diego	-5%	24%	5%	2%	39%	-30%	100%	-5%	4%	-2	-19	-40%	-62%
Seattle	-12%	26%	5%	3%	29%	-41%	100%	-10%	26%	5	-9	-4%	-47%
Tampa	3%	29%	9%	5%	14%	-32%	98%	-3%	103%	-3	-33	-30%	-72%
Washington DC	-1%	10%	3%	1%	35%	-19%	100%	-2%	2%	4	-15	-23%	-48%

Note: Data reflects 4-week averages; Source: Redfin, Arch MI

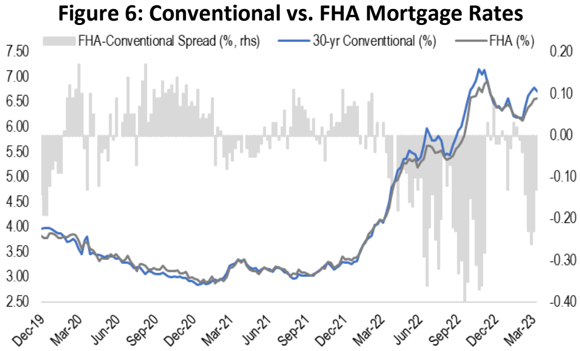
Of the major metros we track (Figure 5), annual home price growth was weakest in **Austin** (-14%), **Seattle** (-12%), **Denver** (-9%), **Phoenix** (-6%) and **San Diego** (-5%). Home price growth slowed most rapidly compared with a year ago in **Seattle** (-38%-pts), **Austin** (-37%-pts), **Phoenix** (-35%-pts), **Denver** (-30%-pts) and **Riverside** (-29%-pts). Conversely, annual home price growth was strongest in **Miami** (5%), **Tampa** (3%) and **Nashville** (3%). Median days on the market have extended alongside softening market conditions, with many markets exceeding pre-pandemic timelines. Markets with the longest median days on the market relative to the pre-pandemic norm include **Austin** (38 days longer), **Phoenix** (19) and **Dallas**

(12), while some markets like **New York** (-33) and **Baltimore** (-22) remained well below pre-pandemic timelines. Markets that have deteriorated the most based on months' supply include **Austin**, **Seattle** and **Phoenix**, where months' supply climbed to a respective 46%, -4% and -7% relative to their pre-pandemic averages from -45%, -47% and -60% below one year ago. Months' supply remained below pre-pandemic levels in most markets (-32% below nationally), with **Baltimore** (-47%), **San Diego** (-40%), **Tampa** (-30%), **Miami** (-28%) and **Riverside** (-27%) remaining the tightest relative to their pre-pandemic averages.

MORTGAGE APPLICATIONS CLIMBED HIGHER AS RATES INCHED DOWN

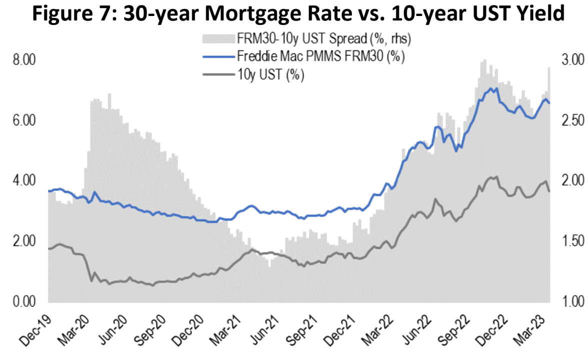
According to the MBA Weekly Applications Survey, the average contract conventional mortgage rate declined -8bps to 6.71% during the week ending March 10 while the FHA contract mortgage rate rose 2bps to 6.58%, resulting in a 10bps widening of the spread between the FHA and conventional mortgage rate to -0.13% (Figure 6). Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending March 15 indicated that the FRM30 fell -13bps w/w to 6.6% (Figure 7) as 10-year UST yields fell -33bps to an average of 3.67% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 20bps to 2.93%, about 125bps wider than its typical non-stressed level prior to the pandemic and close to the peak of 300bps reached last October. Banking sector stress has taken the wheel from inflation as the current driver of rate volatility, which is likely to remain elevated in the near-term as the Fed balances the interactions of managing financial stability risks against fighting inflation with monetary policy.

Figure 6: Conventional vs. FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

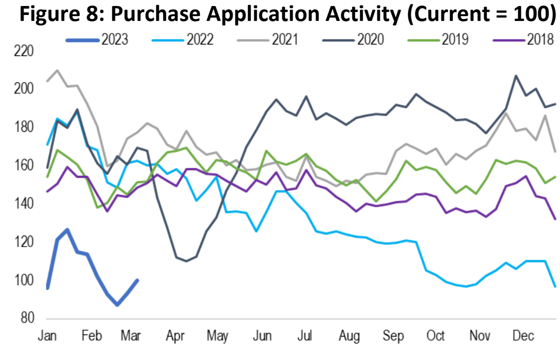
Figure 7: 30-year Mortgage Rate vs. 10-year UST Yield



Sources: Freddie Mac Primary Mortgage Market Survey, Federal Reserve Board, Arch MI

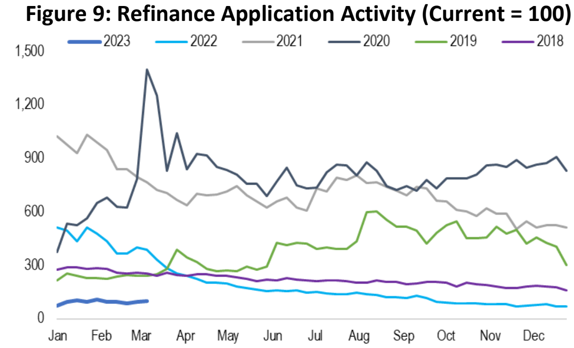
The MBA Weekly Applications Survey for the week ending March 10 increased 6.5% w/w, leaving the index down -57% year-over-year and down -67% compared with pre-pandemic levels (i.e., the average of the same week in 2018, 2019 and 2020). The weekly increase was driven primarily by a 7.3% increase in purchase applications, which remained down -39% y/y despite the weekly increase, and -36% relative to the pre-pandemic level (Figure 8). Refinancing applications increased 4.8% w/w but remained down -74% y/y and -84% relative to pre-pandemic levels (Figure 9).

Figure 8: Purchase Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

Figure 9: Refinance Application Activity (Current = 100)

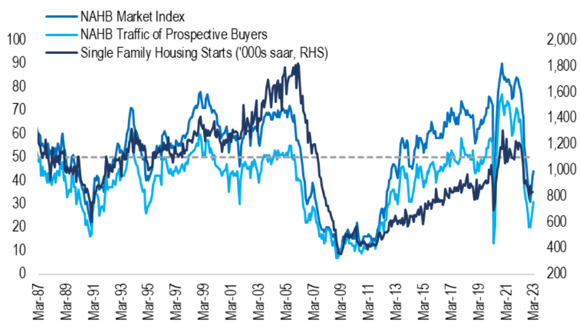


Sources: Mortgage Bankers Association, Arch MI

HOUSING CONSTRUCTION PERKING UP

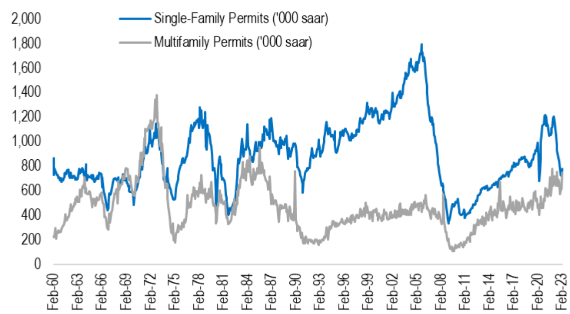
February housing starts rose 9.8% m/m to a seasonally adjusted annual rate (saar) of 1,450k (cons. 1,310k), the swiftest pace since last March and adding to an upwardly revised January (Figure 10). The pronounced bounce in total starts, alongside the third straight monthly increase in the NAHB sentiment gauge in March to 44 (cons. 40) suggests construction activity is nearing the point of stabilization. All subcomponents of the NAHB index rose apart from the future sales outlook index that dropped one point, a nod to the increase in mortgage rates in early March. On a positive note, the share of builders using incentives remained flat compared to February, implying builders were satisfied with the recent level of demand. While homebuyers will welcome the recent drop in mortgage rates, the fact that they have been pulled down by financial stability concerns suggests tighter lending standards are ahead. Tighter credit conditions will also weigh on construction financing and likely limit the duration and magnitude of a rebound in new home construction.

Figure 10: NAHB Housing Index and Housing Starts



Sources: NAHB, Census Bureau, Arch MI

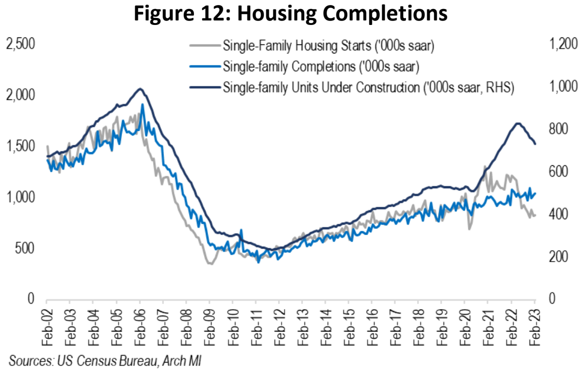
Figure 11: Housing Permits by Type



Sources: US Census Bureau, Arch MI

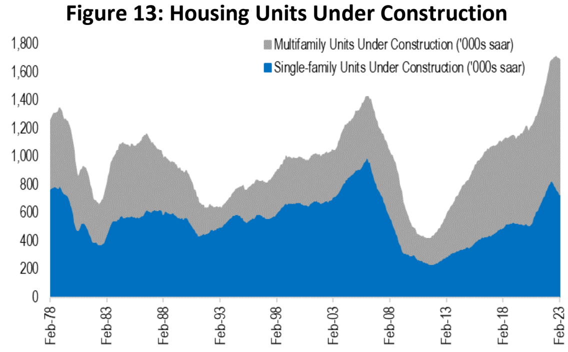
February single-family starts rose for the first time in twelve months and by 1.1% m/m to 830k saar, while multifamily starts advanced by 24% m/m to 620k on top of the 7.1% uptick last month. Similar to starts, single-family permits broke an eleven-month slide, rising 7.6% m/m but remained down 36% from last February's peak. Multifamily permits spiked 21% m/m, the third straight monthly increase, bringing permitting activity back near multi-decade highs (Figure 11). Total completions increased a robust 12% m/m, lifting the year-over-year gain to 13%. The monthly jump was led by the multifamily segment (44%) while single-family completions inched up just 1.0%. Despite the modest monthly increase, single-family completions remained down -3.6% y/y but have outpaced the annualized pace of starts since June (Figure 12). Improving supply chains and some easing of labor market conditions have allowed builders to start chipping away at the elevated count of 1,691k units under construction (Figure 13). Single-family units under construction have been declining since May and were down -8% y/y in stark contrast to the 22% y/y increase in the multifamily segment.

Figure 12: Housing Completions



Sources: US Census Bureau, Arch MI

Figure 13: Housing Units Under Construction

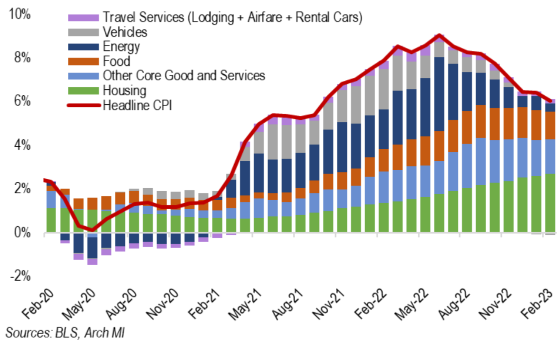


Sources: US Census Bureau, Arch MI

CONSUMER SERVICES INFLATION REMAINED FIRM

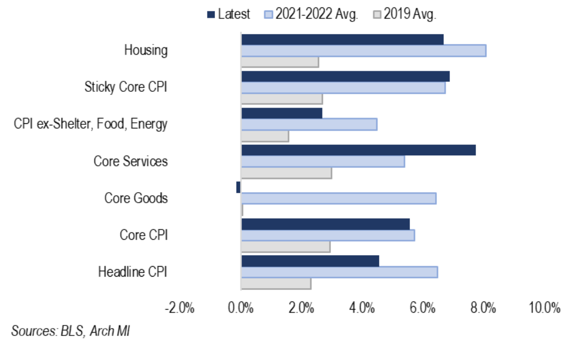
February's consumer price inflation report was par with consensus expectations as the headline index rose 0.4% m/m or 6.0% y/y, a step down from 0.5% m/m and 6.4% y/y in January (Figure 14). Energy prices fell -0.6% m/m, led by a -8.0% slump in both utility prices (a giveback from the resetting of contracts last month) and fuel oil that offset the 1.0% rise in gas prices. Food price pressures continued to ease to 0.4%, the slowest pace in over a year, with most of the headwinds coming from easing grocery costs as opposed to food away from home (i.e., restaurants). Commodity prices have also been heading lower recently, boding well for consumers in the months ahead.

Figure 14: Year-Over-Year Contribution to CPI Inflation



Sources: BLS, Arch MI

Figure 15: Annualized Monthly CPI Inflation



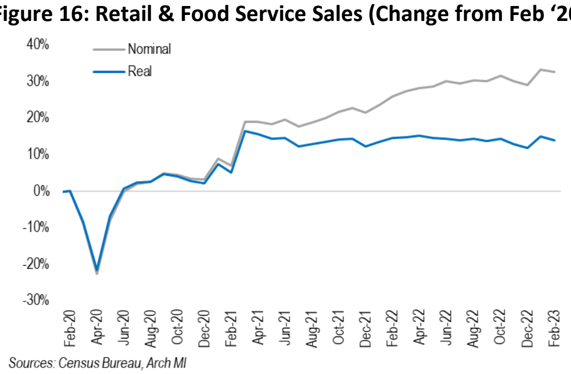
Sources: BLS, Arch MI

Good news on the headline figures was overshadowed by core inflation (excluding food and energy) that rose 0.5% m/m, or 5.6% annualized (Figure 15), which beat consensus expectations of a 0.4% gain. Core goods prices were flat for the month, aided by a -2.8% in used vehicles that will likely reverse in the months ahead as wholesale prices have firmed in recent months. Outside of used vehicles, several core goods categories showed strength, namely apparel (0.8%), household furnishings (0.8%) and other goods (0.7%). Core services inflation accelerated 10bps to 0.6% m/m but remained in line with its three-month average. The main driver of core services inflation remained housing, which accelerated in February with rents ticking up to 0.8% m/m and owners' equivalent rent rising 0.7%, accounting for roughly half of the increase in overall core inflation. Market-based measures of housing disinflation have yet to feed into official CPI data, which we expect to get well underway by 2H23 and provide a meaningful drag to overall price pressures.

RETAIL SALES GIVE BACK SOME OF LAST MONTH'S GAINS

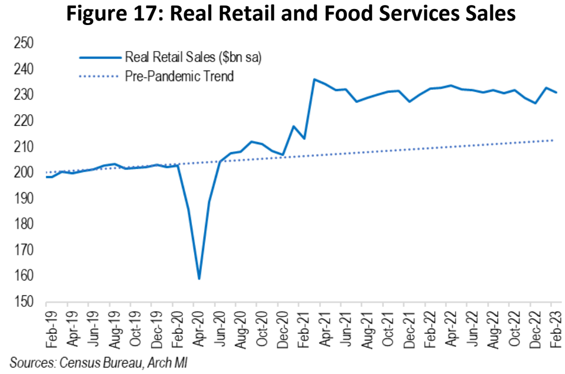
February nominal retail and food services declined -0.4% m/m (cons. -0.4%), partly reflecting some giveback from January's upwardly revised 3.2% gain. Dragging the headline figure lower were autos (-1.8%), furniture (-2.5%) and food services (-2.2%). Retail sales excluding autos fell -0.1% m/m while the important control group (excluding auto, gas, building materials and food services), which feeds directly into the GDP report, increased a respectable 0.5% (cons. -0.3%) after a 2.3% uptick in January that was revised up from 1.7%. Online sales, which boast the second highest share of total sales behind autos, rose a strong 1.6% for the month.

Figure 16: Retail & Food Service Sales (Change from Feb '20)



Sources: Census Bureau, Arch MI

Figure 17: Real Retail and Food Services Sales



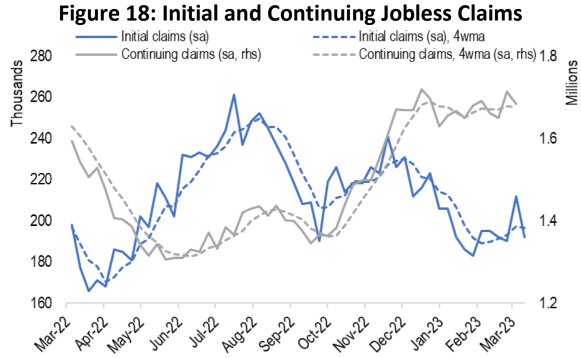
Sources: Census Bureau, Arch MI

Adjusted for inflation, retail sales declined -0.8% m/m but have been roughly flat when smoothing over the last three months, which has generally been the case for most of the past two years (Figure 16). Real control group of sales, however, have been more robust, accelerating to 11% in February from 5.9% in January on a three-month rolling annualized basis. Despite the lack of meaningful acceleration in headline real spending growth, real retail sales remain 14% above February 2020 levels and 8% above the pre-COVID trend due mostly to the sharp recovery early in the pandemic (Figure 17).

CLAIMS TOOK A BREATHER AFTER RECENT RAPID ASCENT

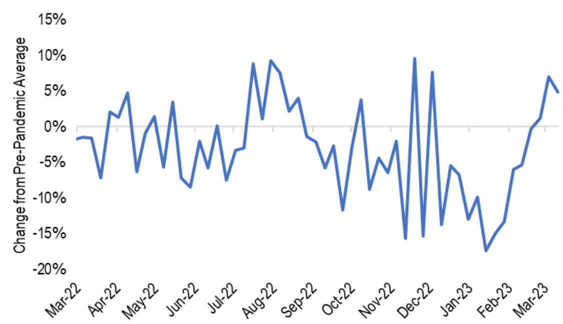
Initial jobless claims declined by -20k to a seasonally adjusted 192k (consensus: 205k) during the week ending March 11 from 212k the previous week, keeping the four-week average unchanged at 197k (Figure 18). Continued claims for regular state programs (i.e., repeat filers for unemployment insurance) declined by 29k during the week ending March 4 to a seasonally adjusted 1,684k (consensus: 1,723k), moving the four-week average down slightly to 1,677k from 1,678k. The non-seasonally adjusted level of initial claims moved down for the first time in eight weeks relative to its pre-COVID average (i.e., 2018-2019). Initial claims were 5% above the pre-COVID average for the week ending March 11, down from 7% the week before but up from -17% below in mid-January (Figure 19). Despite the modest recent improvement, the labor market appears to be cooling, which we expect to creep into the upcoming March and April employment reports if the recent uptrend in claims persists.

Figure 18: Initial and Continuing Jobless Claims



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

Figure 19: Initial Claims (NSA) vs Pre-Pandemic Average



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

The Week Ahead

This week will be relatively light on data releases, with the Fed's monetary policy announcement on Wednesday taking top billing. We still expect the Fed to attempt to treat concerns about financial stability and inflation independently for the time being. Thus, we continue to expect another 25bps rate hike after Wednesday's Federal Open Market Committee (FOMC) meeting, following in the footsteps of the European Central Bank announcing a 50bps rate hike last week despite the banking stress spreading to Europe via Credit Suisse. This week will also bring two important updates on the housing market. February existing home sales are expected to have climbed 5% to 4,200k while February new home sales are anticipated to have cooled by -3% to 650k, according to the Bloomberg Consensus Survey of Economists.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
3/21/23	Existing Home Sales	Feb	--	4,200	4,000	k, saar
3/21/23	Existing Home Sales m/m	Feb	--	5.0%	-0.7%	sa
3/22/23	MBA Mortgage Applications	3/17/23	--	--	6.5%	w/w, sa
3/22/23	FOMC Rate Decision (Upper Bound)	3/22/23	--	5.00%	4.75%	
3/23/23	Initial Jobless Claims	3/18/23	--	200	192	k, sa
3/23/23	Continuing Claims	3/11/23	--	1,691	1,684	k, sa
3/23/23	Chicago Fed Nat Activity Index	Feb	--	0.10	0.23	index, nsa
3/23/23	New Home Sales	Feb	--	650	670	k, saar
3/23/23	New Home Sales m/m	Feb	--	-3.0%	7.2%	sa
3/24/23	Durable Goods Orders	Feb P	--	0.7%	-4.5%	m/m, sa
3/24/23	S&P Global US Manufacturing PMI	Mar P	--	47.0	47.3	index, sa
3/24/23	S&P Global US Services PMI	Mar P	--	50.2	50.6	index, sa
3/24/23	S&P Global US Composite PMI	Mar P	--	--	50.1	index, sa

Sources: Bloomberg Consensus Survey of Economists, Arch MI