HaMMR Digest

Stay current with economic and mortgage market trends.

March 28, 2023

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Weekly Wrap — A Ballast in the Storm

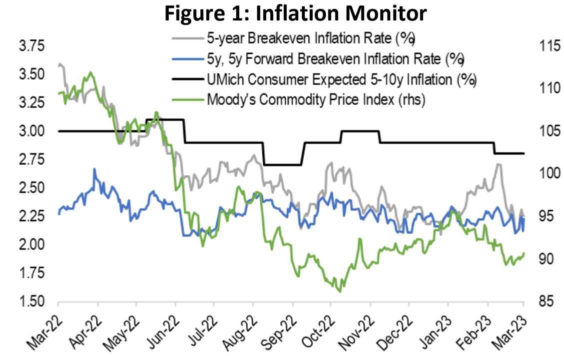
- The Fed hiked 25bps to 5.00%, projecting resolve in its battle with inflation and confidence in the banking system.
- Financial contagion appears to be contained for now but tighter lending conditions will weigh on the economy.
- Existing home sales rebounded sharply in February but the pickup will likely prove fleeting.

As we expected, the Fed lifted its target range for the federal funds rate last week by 25bps to 4.75–5.00% in response to still-elevated inflation (Figure 1). With other major central banks proceeding to raise rates the week before while in the throes of a budding financial crisis, a pause by the Fed could have risked fueling fear that the banking crisis in the U.S. was indeed dire. Such a scenario would have led to significantly tighter credit conditions as banks would need to reign in lending in response to dwindling deposits. Speculation about which bank or financial institution would be next to fail would amplify a negative feedback loop back onto the economy.

Meanwhile, the Fed's policy statement swapped "ongoing increases" in the funds rate for "some additional policy firming." This change in tone suggests the Fed sees its hiking cycle nearing its end and opens the door to the possibility that last week's hike could be its last. During the press conference, Fed Chair Jerome Powell seemed confident that contagion risk had been contained. Usage of emergency liquidity programs was steady, rising just $36bn for the week ending March 22 to $340bn, with the increase coming entirely from the FDIC program for failed banks. While there was a shift from the discount window to the newly created BTFP facility, likely due to better terms on the latter, there was not any sign that banks were lining up to meet increasing liquidity needs.

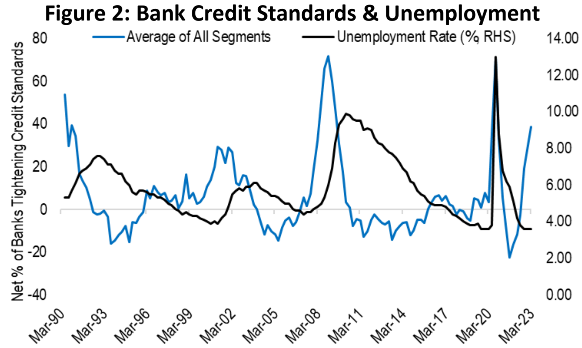
The Fed's summary of economic projections reflected no change in the outlook for the terminal rate (5.1%). This suggests the committee expects tighter bank lending conditions will impose enough headwinds to negate the need to raise rates higher. Bank lending standards have been tightening for some time but have yet to lead to negative economic outcomes. That said, the Senior Loan Officer Opinion Survey (SLOOS) only reflects the net percentage of banks tightening credit, not to what degree. To get a better read on the intensity of the tightening of lending standards, we calculated the average across all lending segments with the premise to capture the breadth of the tightening (Figure 2). Moreover, SLOOS data from January precedes the banking turmoil of recent weeks, which sets up an onerous backdrop for households as well as small and medium-sized businesses that rely on bank credit.

Figure 1: Inflation Monitor



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

Figure 2: Bank Credit Standards & Unemployment



Sources: Federal Reserve Board, Bureau of Labor Statistics, Arch MI

On the economic front, home sales — both existing and new— showed strength in February. Existing home sales surged 14.5% m/m in February, well ahead of consensus expectations (5%) and snapped a 12-month skid. New home sales have been stronger in the prior few months amid a plethora of options homebuilders have used to bolster sales at a time when resale inventory remains tight. However, we would not take the February data and project forward given the uncertain macro backdrop. The preliminary March S&P Composite Purchasing Managers' Index (PMI) also beat expectations at 53.3 (cons. 49.5), although the final read from the index will likely provide better perspective on the initial impacts of the recent banking sector stress.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
3/21/23	Existing Home Sales	Feb	4,580	4,200	4,000	k, saar
3/21/23	Existing Home Sales m/m	Feb	14.5%	5.0%	-0.7%	sa
3/22/23	MBA Mortgage Applications	3/17/23	3.0%	--	6.5%	w/w, sa
3/22/23	FOMC Rate Decision (Upper Bound)	3/22/23	5.00%	5.00%	4.75%	
3/23/23	Initial Jobless Claims	3/18/23	191	197	192	k, sa
3/23/23	Continuing Claims	3/11/23	1,694	1,690	1,680	k, sa
3/23/23	Chicago Fed Nat Activity Index	Feb	-0.19	0.10	0.23	index, nsa
3/23/23	New Home Sales	Feb	640	650	633	k, saar
3/23/23	New Home Sales m/m	Feb	1.1%	-3.1%	1.8%	sa
3/24/23	Durable Goods Orders	Feb P	-1.0%	0.2%	-5.0%	m/m, sa
3/24/23	S&P Global US Manufacturing PMI	Mar P	49.3	47.0	47.3	index, sa
3/24/23	S&P Global US Services PMI	Mar P	53.8	50.3	50.6	index, sa
3/24/23	S&P Global US Composite PMI	Mar P	53.3	49.5	50.1	index, sa

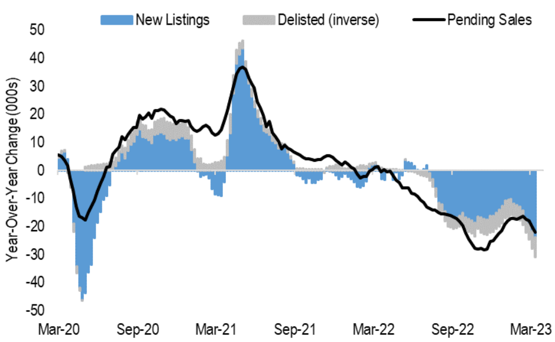
Sources: Bloomberg Consensus Survey of Economists, Arch MI

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

HOUSING MARKET STILL IN A CONUNDRUM

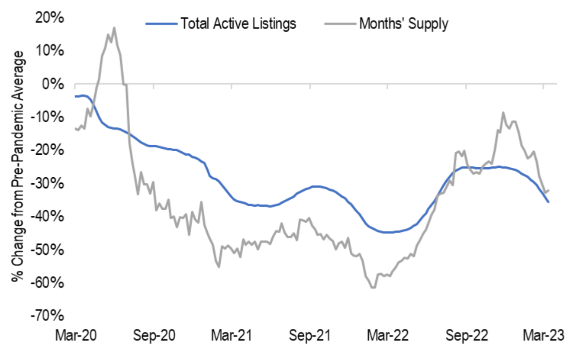
Demand for existing homes continued to ease, but still not as quickly as potential sellers have pulled back from the market. Pending home sales continued to cool during the week ending March 19, according to Redfin data, reflecting a decline of -23k y/y (Figure 3), or -34% below the year-ago level. Annual 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 was only -2% below the pre-pandemic average for this time of year. Higher mortgage rates in February have weighed on pending sales, which are down from a peak of 11% above the pre-pandemic average in late January. Rates also impacted potential sellers as new listings declined to -25% below the pre-pandemic average from -11% in late January. Meanwhile, the number of delisted homes rose to 29% above the pre-pandemic average for this time of year from -12% below at the end of January.

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 and well below last year's peak of -25% (Figure 4). Despite total homes sold being down -24% y/y and -8% below the pre-pandemic average, the national market remains somewhat tight given months' supply is 2.7 months, -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 incredibly tight. Annual growth in the national median sale price per square foot slowed to -0.8% y/y, which represents 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 although there are some signs of stabilization forming in most markets east of Colorado.

Figure 5: Weekly Housing Monitor (as of 3/19/23)

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%**	**25%**	**-22%**	**98%**	**-3%**	**15%**	**-13**	**-31**	**-32%**	**-55%**
Atlanta	**2%**	*25%*	5%	2%	23%	-30%	98%	-3%	31%	-2	*-32*	-24%	*-59%*
Austin	**-14%**	23%	**8%**	**6%**	**14%**	**-51%**	**97%**	**-8%**	**108%**	**42**	**-10**	**47%**	*-44%*
Baltimore	**3%**	**9%**	5%	**1%**	**39%**	**-9%**	**101%**	*-2%*	*-2%*	**-23**	**-35**	**-45%**	*-60%*
Boston	-2%	**10%**	**3%**	**1%**	**44%**	*-18%*	**100%**	-4%	*-3%*	-4	**-8**	-23%	**-36%**
Chicago	*0%*	**10%**	**3%**	**1%**	29%	**-11%**	98%	**-1%**	**-21%**	5	**-3**	-20%	**-29%**
Dallas	-3%	*27%*	*6%*	**5%**	*21%*	**-43%**	98%	*-6%*	**72%**	*10*	-20	-25%	*-59%*
Denver	**-9%**	21%	**7%**	**5%**	31%	**-40%**	99%	*-6%*	47%	*8*	**-6**	-15%	-52%
Houston	**2%**	21%	*6%*	3%	**15%**	-23%	**97%**	-3%	45%	-1	**-34**	-19%	*-59%*
Los Angeles	*-4%*	*15%*	**3%**	2%	**38%**	-28%	99%	-5%	*-2%*	2	-18	-18%	*-44%*
Miami	**1%**	*26%*	**3%**	2%	**13%**	**-12%**	**96%**	*-2%*	*9%*	-5	-17	*-29%*	**-65%**
Minneapolis	*-1%*	**9%**	*4%*	2%	*36%*	*-18%*	**100%**	-3%	*4%*	-3	-21	-25%	*-43%*
Nashville	**3%**	*27%*	5%	3%	**16%**	-32%	98%	-4%	**106%**	7	**-36**	*-6%*	**-64%**
New York	*-4%*	**12%**	*4%*	**0%**	*21%*	**-4%**	98%	**-1%**	*-8%*	**-31**	**-44**	-21%	-49%
Phoenix	*-6%*	**29%**	**7%**	**5%**	**15%**	*-38%*	98%	-4%	*60%*	**16**	-22	*-3%*	*-58%*
Portland	*-4%*	18%	*4%*	2%	*34%*	-28%	**100%**	-4%	18%	0	-21	*-6%*	-49%
Riverside	*-4%*	*26%*	*4%*	2%	30%	*-33%*	98%	-4%	19%	-1	**-36**	-25%	*-60%*
San Diego	*-6%*	*25%*	5%	2%	**41%**	-30%	**100%**	*-6%*	*0%*	-2	-17	**-40%**	*-61%*
Seattle	**-12%**	*25%*	5%	3%	30%	**-40%**	**100%**	**-11%**	21%	2	**-8**	*-5%*	-48%
Tampa	**3%**	**30%**	**8%**	**5%**	**14%**	*-33%*	98%	-4%	**98%**	-5	*-32*	*-30%*	**-70%**
Washington DC	-2%	**11%**	**3%**	**1%**	*37%*	*-18%*	**100%**	*-2%*	*1%*	5	*-14*	-20%	*-47%*

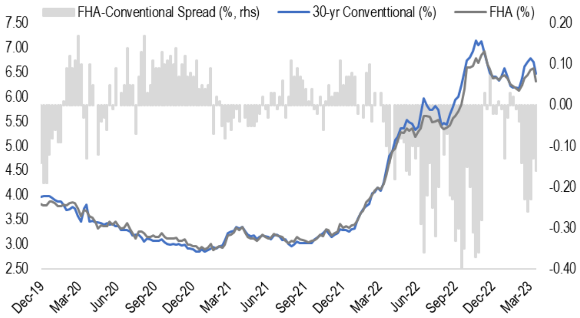
Note: Data reflects 4-week averages; Source: Redfin, Arch MI

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** (-6%). Home price growth slowed most rapidly compared with a year ago in **Austin** (-37%-pts), **Seattle** (-37%-pts), **Phoenix** (-35%-pts), **San Diego** (-31%-pts) and **Dallas** (-30%-pts). Conversely, annual home price growth was strongest in **Tampa** (3%), **Nashville** (3%) and **Baltimore** (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** (42 days longer), **Phoenix** (16) and **Dallas** (10), while some markets like **New York** (-31) and **Baltimore** (-23) remained well below pre-pandemic timelines. Markets that have deteriorated the most based on months' supply include **Austin**, **Phoenix** and **Seattle**, where months' supply climbed to a respective 47%, -3% and -5% relative to their pre-pandemic averages from -44%, -58% and -48% below one year ago. Months' supply remained below pre-pandemic levels in most markets (-32% below nationally), with **Baltimore** (-45%), **San Diego** (-40%), **Tampa** (-30%), **Miami** (-29%) and **Riverside** (-25%) remaining the tightest relative to their pre-pandemic averages.

MORTGAGE APPLICATIONS INCHED UP AGAIN AS RATES TOOK A STEP LOWER

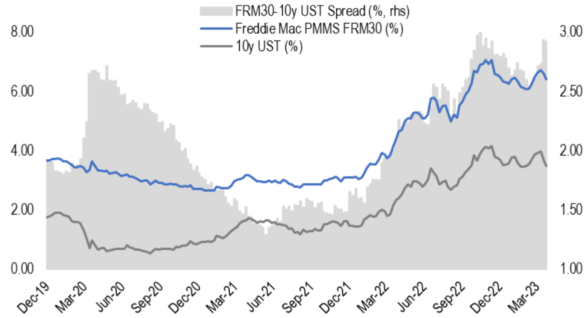
According to the MBA survey of lenders, the average contract conventional mortgage rate declined -23bps to 6.48% during the week ending March 17 while the FHA contract mortgage rate also declined -26bps to 6.32%, resulting in a -3bps contraction in the spread between the FHA and conventional mortgage rate to -0.16% (Figure 6). Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending March 22 indicated that the FRM30 fell -18bps w/w to 6.42% (Figure 7) as 10-year UST yields fell -17bps to an average of 3.5% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST narrowed -1bps to 2.92%, about 120bps wider than its typical non-stressed level prior to the pandemic and still close to the peak of 300bps reached last October. 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 before mid-year.

Figure 6: Conventional vs. FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

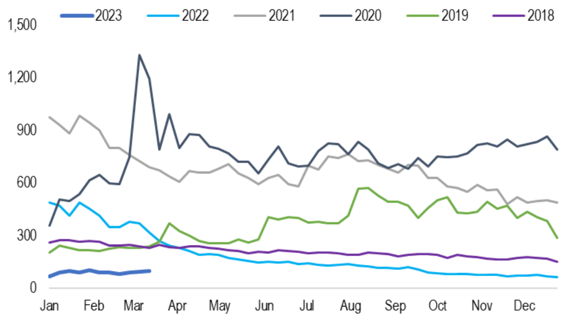
Figure 7: 30-year Mortgage Rate vs. 10-year UST Yield



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

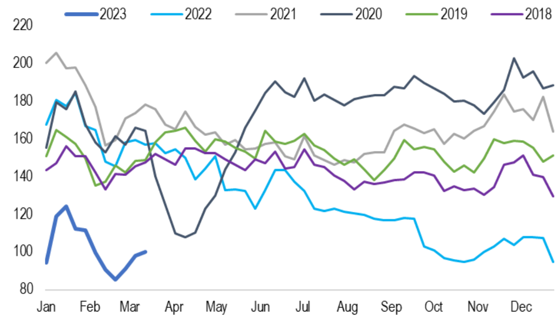
The MBA Weekly Applications Survey for the week ending March 17 increased 3% w/w, leaving the index down -52% year-over-year and down -64% compared with pre-pandemic levels (i.e., the average of the same week in 2018, 2019 and 2020). The weekly increase was driven primarily by a 4.9% increase in refinancing applications, which remained down -68% y/y despite the weekly increase, and -82% relative to the pre-pandemic level (Figure 8). Purchase applications increased 2.2% w/w but remained down -36% y/y and -35% relative to pre-pandemic levels (Figure 9).

Figure 8: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

Figure 9: Purchase Application Activity (Current = 100)

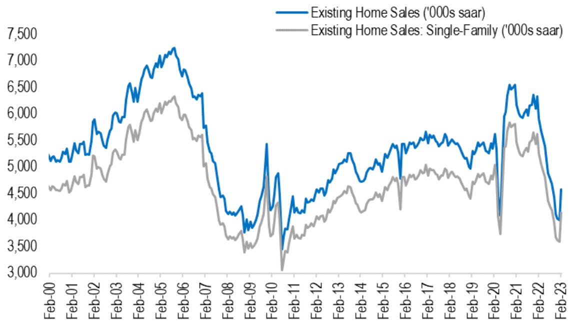


Sources: Mortgage Bankers Association, Arch MI

FEBRUARY EXISTING HOME SALES RECOVERY LIKELY EPHEMERAL

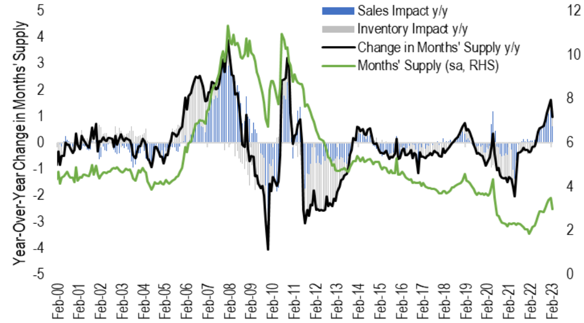
Existing home sales broke a 12-month slide by surging 14.5% m/m (cons. 5.0%) in February to a seasonally adjusted annual rate (saar) of 4,580k (Figure 10) led by a 19% spike in the West and 16% uptick in the South. The sales report reflects the momentum from the beginning of the year when rates were falling and the outlook was more optimistic. We expect a reversal in March as mortgage rates surged in February and the outlook became murkier. Supply conditions remained tight with inventory down -2.9% m/m to 1,137k (sa) units in February, partly offsetting the modest increase in the prior two months. Sales and inventory were -14% and -40% below their respective 2019 levels. Unsold inventory reflected only a 3.0 months' supply (sa) at the present sales pace, down from the 3.4 level that held for the prior three months. The primary driver of tighter months' supply was the surge in the pace of sales, with shrinking inventory playing only a supporting role (Figure 11). The seasonally adjusted median sales price of an existing single-family home fell -0.4% m/m and -0.7% y/y, the first annual decline since February 2012, to $384k, although it is important to note that this figure is not adjusted for the quality, size, or geography of homes sold.

Figure 10: Existing Home Sales



Sources: NAR, Arch MI

Figure 11: Months' Supply of Existing Homes

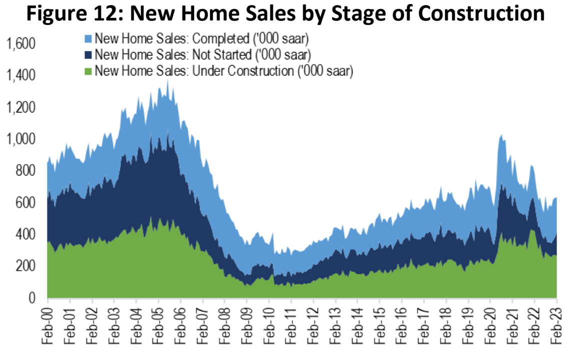


Sources: NAR, Arch MI

NEW HOME SALES CONTINUED TO GROW MARKET SHARE

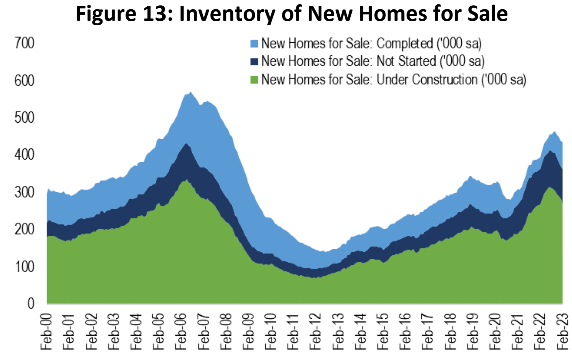
Data from the Census Bureau showed new home sales climbed for the third consecutive month in February, rising 1.1% m/m (cons. -3.1%) to a 640k saar pace (cons. 650k) from 633k (revised down from 670k) in January. Despite the modest monthly gain, new home sales were down 19% y/y but only 2% below the pre-pandemic pace of sales (Figure 12). Notably, February was the first month since November 2021 that new and existing home sales both increased. However, as noted above, we expect the recovery in existing home sales to unwind a bit in March, whereas new home sales have likely found a bottom. Recent commentary from public home builders indicate that demand has steadily improved this year, which confirms the recent improvement in the National Association of Home Builders (NAHB) sentiment index. Additionally, the rising use of incentives by builders to move product has likely played a factor in bolstering new home sales, which leaves existing home sellers at a relative disadvantage. Accordingly, new home sales comprised 13% of the total home sales market over the past 3 months, up from 11% at the onset of the pandemic.

Figure 12: New Home Sales by Stage of Construction



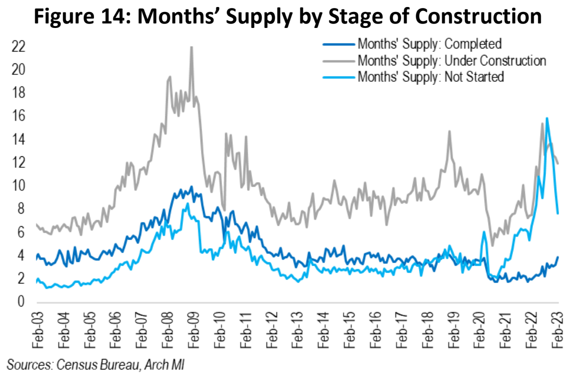
Sources: Census Bureau, Arch MI

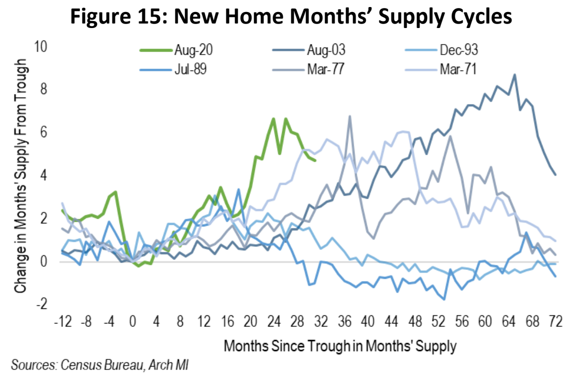
Figure 13: Inventory of New Homes for Sale



Sources: Census Bureau, Arch MI

While home sales continue to trend up, the supply of new homes has not experienced a rebound, contracting for the fourth month in a row and by -0.7% m/m in February. The inventory of new homes for sale in January represented an 8.2 months' supply, down from the cycle peak of 10.1 months back in September and not too far above the historical average of 6 months. Completed home sales continued to fall, declining -11.9% m/m and -16% below 2019 levels. Accordingly, the supply of completed, ready-to-occupy inventory continues its multi-month march higher, rising 5.9% m/m. Undoubtedly, the rise of completed home inventory reflects a combination of easing materials shortages as well as the slower sales pace. Builders continue to prioritize completing units already under construction instead of breaking new ground, which has lifted the months' supply of completed homes to 3.9 months, just slightly above where it stood at the onset of the pandemic (Figure 14). The bulk of new home inventory remains skewed toward units not started and under construction, which comprise 84% of the total inventory when combined (Figure 13).

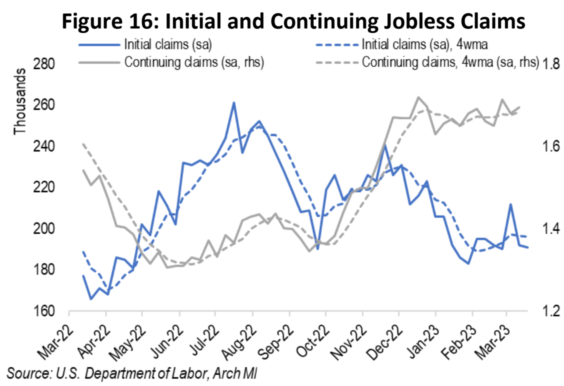


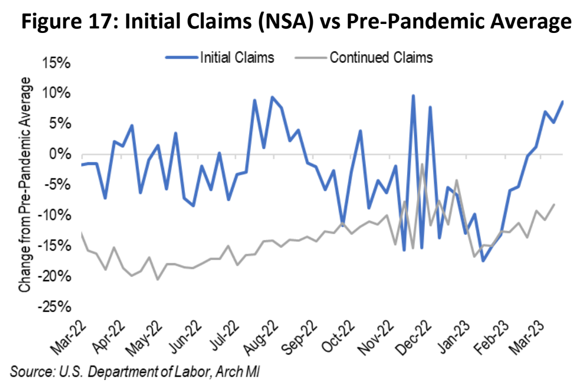


Homebuilders have managed through this whiplash-inducing housing cycle much better than during the Global Financial Crisis (GFC). The current cycle for the new home market has been defined by extremes: the pace, magnitude and duration of the slump has been quite unique. The months' supply of new homes surged from a record-low of 3.3 months in August 2020 (defined as the peak of the cycle) to a peak of 10.1 months in September 2022 (defined as the trough of the cycle), or an increase of 6.8 months — a deterioration surpassed only by the GFC when months' supply climbed by 8.7 months to a peak of 12.2 months (Figure 15). However, it took over half a decade for the new home sales market to go from its cycle peak in August 2003 to its trough in January 2009, compared with just under two years for the current cycle. Even more impressively, the months' supply of new homes has returned to within shouting distance of its historic average a mere few months after enduring a historic downturn.

JOBLESS CLAIMS KEEP RISING RELATIVE TO PRE-PANDEMIC NORM

Initial jobless claims declined by -1k to a seasonally adjusted 191k (consensus: 197k) during the week ending March 18, moving the four-week average down to 196k from 197k (Figure 16). However, the non-seasonally adjusted level of initial claims moved up to 9% above its pre-COVID average (i.e., 2018–2019) from 5% the week before and up from -17% below in mid-January (Figure 17). Meanwhile, continued claims for regular state programs (i.e., repeat filers for unemployment insurance) climbed by 14k during the week ending March 11 to a seasonally adjusted 1,694k (consensus: 1,690k), moving the four-week average up to 1,684k from 1,676k. The non-seasonally adjusted level of continued claims also moved up to -8% below its pre-COVID average from -11% the week before and up from -17% below in mid-January. Although the labor market remains tight, the claims data continues to suggest the early stages of a cooldown is underway.





The Week Ahead

This week has a long list of data releases, but only a few critical ones. Most importantly, the February Personal Consumption Expenditures (PCE) price index is expected to show inflation slowed to 0.3% m/m (sa) from 0.6% in January, which would bring the year-over-year increase down to a still high 5.1% from 5.4%, according to the Bloomberg Consensus Survey of Economists. Core PCE inflation is also expected to have decelerated to 0.4% from 0.6% previously, although that would keep annual PCE inflation unchanged at 4.7% due to base effects. February pending home sales should reflect a slowing in purchasing activity (-3%) as mortgage rates surged during the month. Along those lines, January home price indexes are likely to show further price declines with the FHFA house price index (HPI) down -0.3% m/m and the S&P CoreLogic Case Shiller 20-city composite HPI down -0.5% m/m.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
3/28/23	Wholesale Inventories m/m	Feb P	--	-0.1%	-0.4%	sa
3/28/23	Retail Inventories m/m	Feb	--	0.2%	0.3%	sa
3/28/23	FHFA House Price Index m/m	Jan	--	-0.3%	-0.1%	sa
3/28/23	S&P CoreLogic CS 20-City m/m SA	Jan	--	-0.5%	-0.5%	sa
3/28/23	S&P CoreLogic CS 20-City y/y NSA	Jan	--	2.5%	4.7%	nsa
3/28/23	Conf. Board Consumer Confidence	Mar	--	101.0	102.9	index, sa
3/29/23	MBA Mortgage Applications	3/24/23	--	--	3.0%	w/w, sa
3/29/23	Pending Home Sales m/m	Feb	--	-3.0%	8.1%	sa
3/29/23	Pending Home Sales y/y	Feb	--	--	-22.4%	nsa
3/30/23	Initial Jobless Claims	3/25/23	--	196	191	k, sa
3/30/23	Continuing Claims	3/18/23	--	1,697	1,694	k, sa
3/30/23	GDP Annualized q/q	4Q T	--	2.7%	2.7%	saar
3/30/23	Personal Consumption q/q	4Q T	--	1.4%	1.4%	saar
3/30/23	Core Personal Consumption q/q	4Q T	--	4.3%	4.3%	saar
3/31/23	Personal Income	Feb	--	0.2%	0.6%	m/m, sa
3/31/23	Personal Spending	Feb	--	0.3%	1.8%	m/m, sa
3/31/23	Real Personal Spending	Feb	--	-0.2%	1.1%	m/m, sa
3/31/23	PCE Inflation m/m	Feb	--	0.3%	0.6%	sa
3/31/23	PCE Inflation y/y	Feb	--	5.1%	5.4%	nsa
3/31/23	PCE Core Inflation (ex Food and Energy) m/m	Feb	--	0.4%	0.6%	sa
3/31/23	PCE Core Inflation (ex Food and Energy) y/y	Feb	--	4.7%	4.7%	nsa
3/31/23	U. of Mich. Sentiment	Mar F	--	63.4	63.4	index, nsa
3/31/23	U. of Mich. 1 Yr Inflation	Mar F	--	3.8%	3.8%	nsa
3/31/23	U. of Mich. 5-10 Yr Inflation	Mar F	--	2.8%	2.8%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI