Arch | MI

HaMMR Digest

Stay current with economic and mortgage market trends.

April 4, 2023

Parker Ross — Global Chief Economist
pross@archgroup.com | 914 216 7270

Leonidas Mourelatos — Director of Real Estate Economics
lmourelatos@archgroup.com | 631 521 9048

ARCH MORTGAGE INSURANCE COMPANY® | 230 NORTH ELM STREET GREENSBORO NC 27401 | ARCHMI.COM

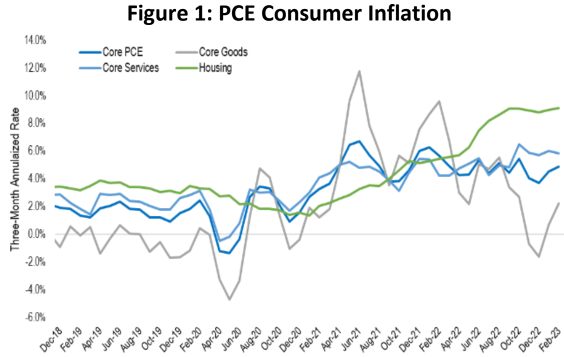
Weekly Wrap – The Squall Passes

- Another week passed without a bank failure, raising hopes that the greatest risks have been contained.
- Recent macro data affirms our call for a 25bps rate hike in May, despite the data predating the bank failures.
- Housing is setting up to be less of a drag on the economy as pending sales and mortgage applications climbed.

No major financial dislocations have come to fruition in the last two weeks, alleviating near-term concerns of cascading bank failures. Usage of emergency liquidity programs from the Fed declined slightly, falling ~$11bn for the week ending March 29 to ~$340bn with usage of the FDIC bridge bank program remaining stable. Markets have followed suit with equity prices rebounding, high-yield corporate credit spreads compressing notably and senior bank bond spreads retracing considerably after their recent widening. Small bank deposits increased during the week ending March 22 while money market fund inflows moderated, suggesting the worst of the deposit flight may be behind us.

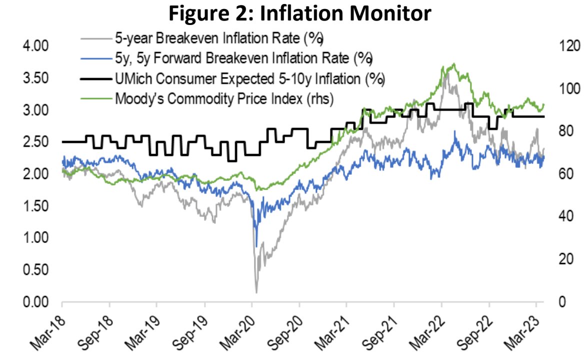
Banking failures can magnify downturns through credit and liquidity channels and drive a domino effect as confidence leaves the system, but all signs suggest the targeted policy actions have contained the banking stress for now. The Fed can focus on the incoming data and the biggest release of last week was the February Personal Consumption Expenditures (PCE) Price Index, which showed core consumer inflation rising 0.3% m/m (cons. 0.4%) and 4.6% y/y (cons. 4.7%). On a three-month annualized basis, core PCE and core PCE services inflation were still far too hot at 4.9% and 5.9%, respectively (Figure 1). Food and energy prices have moderated but underlying price pressure remains firm. In a positive development, March consumer inflation expectations for the year ahead fell to 3.6% (cons. 3.8%) from 4.1% previously, while medium-term inflation expectations remained firm at 2.9% (cons. 2.8%) and within the range of the last five months (Figure 2).

Figure 1: PCE Consumer Inflation



Sources: BEA, Arch MI

Figure 2: Inflation Monitor



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

Aside from inflation, economic data last week was generally positive. Real disposable income growth remained solid alongside a recovering savings rate and even though household credit usage has risen, the financial-obligations-to-disposable ratio remained just below pre-pandemic levels (14.4% 4Q22). The final estimate of 4Q22 real GDP was revised down by 10bps to a 2.6% seasonally adjusted annual rate (saar) largely due to a downgrade to consumption. Although February real consumer spending declined -0.1% m/m (cons. -0.1%), some give back from the outsized 1.5% gain in January was expected and 1Q23 is still on track for a solid recovery from a weak 4Q22. Housing is set to be less of a drag on GDP as pending sales rose for the third straight month in February (0.8% vs cons. -3.0%) and mortgage applications increased for a fourth straight week, suggesting a bottom is forming for housing demand.

While most of this data predates the March bank failures, we got an early read on the impact to consumer sentiment. The Conference Board's Consumer Confidence Index perked up in March (104.2 vs cons. 101.0) largely driven by expectations components while the University of Michigan Consumer Sentiment Index (62.0 vs cons. 63.3) fell for the first time in four months. Both measures have been trending up recently and the latest divergence likely boils down to the former anchoring more on labor conditions (still tight) while the latter tethered to financial health (tighter credit conditions). With banking risks receding, economic data firm and inflation still "hot," we continue to expect a 25bps hike from the Fed in May. Any additional hikes thereafter would likely require persistent labor market tightness and elevated inflation.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
3/28/23	Wholesale Inventories m/m	Feb P	0.2%	-0.1%	-0.5%	sa
3/28/23	Retail Inventories m/m	Feb	0.8%	0.2%	0.1%	sa
3/28/23	FHFA House Price Index m/m	Jan	0.2%	-0.3%	-0.1%	sa
3/28/23	S&P CoreLogic CS 20-City m/m SA	Jan	-0.4%	-0.5%	-0.5%	sa
3/28/23	S&P CoreLogic CS 20-City y/y NSA	Jan	2.6%	2.6%	4.6%	nsa
3/28/23	Conf. Board Consumer Confidence	Mar	104.2	101.0	103.4	index, sa
3/29/23	MBA Mortgage Applications	3/24/23	2.9%	--	3.0%	w/w, sa
3/29/23	Pending Home Sales m/m	Feb	0.8%	-3.0%	8.1%	sa
3/29/23	Pending Home Sales y/y	Feb	-21.1%	--	-22.4%	nsa
3/30/23	Initial Jobless Claims	3/25/23	198	196	191	k, sa
3/30/23	Continuing Claims	3/18/23	1,689	1,700	1,685	k, sa
3/30/23	GDP Annualized q/q	4Q T	2.6%	2.7%	2.7%	saar
3/30/23	Personal Consumption q/q	4Q T	1.0%	1.4%	1.4%	saar
3/30/23	Core Personal Consumption q/q	4Q T	4.4%	4.3%	4.3%	saar
3/31/23	Personal Income	Feb	0.3%	0.2%	0.6%	m/m, sa
3/31/23	Personal Spending	Feb	0.2%	0.3%	2.0%	m/m, sa
3/31/23	Real Personal Spending	Feb	-0.1%	-0.1%	1.5%	m/m, sa
3/31/23	PCE Inflation m/m	Feb	0.3%	0.3%	0.6%	sa
3/31/23	PCE Inflation y/y	Feb	5.0%	5.1%	5.3%	nsa
3/31/23	PCE Core Inflation (ex Food and Energy) m/m	Feb	0.3%	0.4%	0.5%	sa
3/31/23	PCE Core Inflation (ex Food and Energy) y/y	Feb	4.6%	4.7%	4.7%	nsa
3/31/23	U. of Mich. Sentiment	Mar F	62.0	63.3	63.4	index, nsa
3/31/23	U. of Mich. 1 Yr Inflation	Mar F	3.6%	3.8%	3.8%	nsa
3/31/23	U. of Mich. 5-10 Yr Inflation	Mar F	2.9%	2.8%	2.8%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI

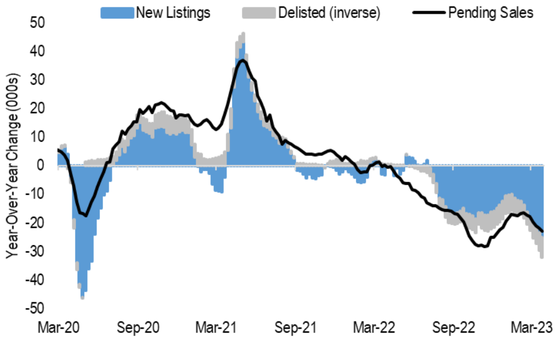
Green = beat expectations; **Red** = worse than expectations; (compared vs. prior if no consensus estimates available)

TIGHT HOUSING MARKET EASED SLIGHTLY AS DEMAND COOLED FURTHER

Demand continued to shift quickly in what remains an uncertain environment. Higher-frequency measures showed that sales velocity eased a bit into March-end while active listings continued to fall. That said, buyers who remain in the market have been able to handle higher mortgage rates with elevated home equity likely providing critical support for repeat buyers. In a possible early sign of a budding recovery, homes were going off the market more quickly at the end of March than they have been since July of last year, with nearly half of homes going into contract within two weeks of being listed. Should the downward slide in mortgage rates continue, some buyers will be pulled off the sidelines and a more enduring demand stabilization would be solidified. Such a scenario would also encourage more sellers to list as well, although likely not enough to bring balance to an overly tight market.

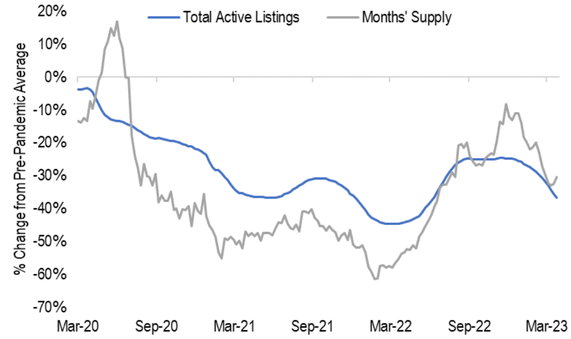
Pending home sales continued to cool during the week ending March 26 according to Redfin data, reflecting a decline of -23k y/y (Figure 3), or -34% below the year-ago level. Annual comparisons will remain challenged over the first half of the year given the vastly different buying environments. Case in point, despite the large year-over-year decline, the recent pace of pending sales was only -3% below the pre-pandemic average for this time of year. Potential sellers remained reluctant with new listings now -25% below the pre-pandemic average, down from -20% four weeks ago. Meanwhile, the number of delisted homes rose to 26% above the pre-pandemic average for this time of year from 3% 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 -37% below the pre-pandemic average and well below last year's peak of -25% (Figure 4). Despite total homes sold being down -23% y/y and -9% below the pre-pandemic average, the national market remains somewhat tight given months' supply is 2.6 months, -30% 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 -1.1% y/y from -1.0% last week, both of which represent a drastic slowdown from the 18.8% 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 3/26/23)

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%**	**26%**	**-23%**	**99%**	**-3%**	**14%**	**-13**	**-30**	**-30%**	**-54%**
Atlanta	**1%**	*25%*	5%	2%	25%	-30%	*98%*	-3%	30%	0	*-29*	-22%	-56%
Austin	**-15%**	23%	**8%**	**6%**	**15%**	**-53%**	**97%**	**-8%**	**105%**	**43**	**-6**	**48%**	*-44%*
Baltimore	**2%**	**10%**	5%	*1%*	**41%**	**-7%**	**101%**	**-1%**	*-4%*	**-22**	**-33**	**-45%**	*-59%*
Boston	*-1%*	**9%**	**3%**	*1%*	**47%**	*-17%*	**101%**	-3%	*-6%*	-1	**-4**	-18%	**-34%**
Chicago	*0%*	**10%**	**3%**	*1%*	32%	**-10%**	99%	**-1%**	**-22%**	6	**-1**	-20%	**-24%**
Dallas	-4%	**28%**	*6%*	*4%*	*23%*	**-43%**	*98%*	*-6%*	**67%**	7	-19	-24%	*-57%*
Denver	**-10%**	21%	**7%**	**6%**	33%	**-40%**	*100%*	*-6%*	45%	5	**-5**	-11%	-50%
Houston	**1%**	21%	*6%*	2%	**16%**	-23%	*98%*	-3%	44%	-1	*-32*	-19%	*-58%*
Los Angeles	*-5%*	*16%*	**3%**	2%	**40%**	-28%	*100%*	-5%	*-4%*	1	-17	-17%	*-42%*
Miami	**1%**	*27%*	**3%**	2%	**13%**	**-13%**	**96%**	*-2%*	9%	-3	-18	*-29%*	**-64%**
Minneapolis	-2%	**10%**	*4%*	2%	*37%*	*-20%*	*100%*	-3%	*2%*	-3	-18	-18%	**-39%**
Nashville	**1%**	**30%**	5%	3%	**17%**	*-34%*	*98%*	-4%	**103%**	5	**-35**	*-8%*	**-63%**
New York	-2%	**10%**	*4%*	**0%**	*22%*	**-3%**	*98%*	**-1%**	*-10%*	**-33**	**-45**	-20%	-48%
Phoenix	*-6%*	**28%**	**8%**	**5%**	**16%**	*-39%*	*98%*	-4%	*57%*	*14*	-22	*-4%*	-56%
Portland	*-5%*	19%	5%	2%	*34%*	-31%	*100%*	-5%	18%	-1	-18	*-7%*	-49%
Riverside	-4%	*25%*	*4%*	2%	31%	-33%	99%	-4%	13%	-3	**-35**	-26%	*-58%*
San Diego	*-6%*	*27%*	5%	2%	**40%**	-30%	*100%*	*-6%*	*-2%*	-2	-15	**-42%**	*-60%*
Seattle	**-12%**	*24%*	5%	3%	32%	**-40%**	*100%*	**-11%**	18%	1	**-6**	*-6%*	-49%
Tampa	**3%**	**30%**	**8%**	*4%*	**15%**	-33%	*98%*	-4%	**95%**	-4	*-30*	-26%	**-68%**
Washington DC	-2%	**10%**	**3%**	*1%*	**39%**	*-17%*	*100%*	*-2%*	*0%*	6	*-13*	-20%	-47%

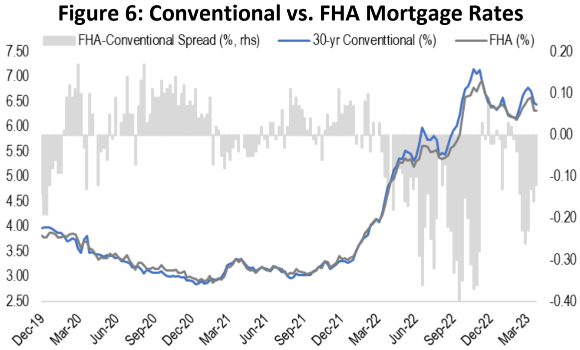
Note: Data reflects 4-week averages; Source: Redfin, Arch MI

Of the major metros we track (Figure 5), annual home price growth was weakest in **Austin** (-15%), **Seattle** (-12%), **Denver** (-10%), **Phoenix** (-6%) and **San Diego** (-6%). Home price growth slowed most rapidly compared with a year ago in **Austin** (-38%-pts), **Seattle** (-36%-pts), **Phoenix** (-34%-pts), **San Diego** (-33%-pts) and **Dallas** (-32%-pts). Conversely, annual home price growth was strongest in **Tampa** (3%), **Baltimore** (2%) and **Nashville** (1%). 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** (43 days longer), **Phoenix** (14) and **Dallas** (7), 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**, **Phoenix** and **Seattle**, where months' supply climbed to a respective 48%, -4% and -6% relative to their pre-pandemic averages from -44%, -56% and -49% below one year ago. Months' supply remained below pre-pandemic levels in most markets (-30% below nationally), with **Baltimore** (-45%), **San Diego** (-42%), **Miami** (-29%), **Tampa** (-26%) and **Riverside** (-26%) remaining the tightest relative to their pre-pandemic averages.

MORTGAGE APPLICATIONS CLIMBED AGAIN AS RATES INCHED LOWER

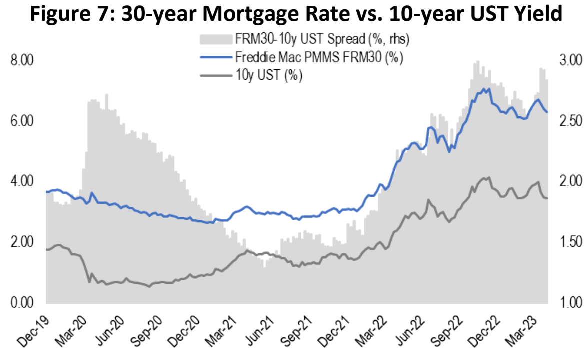
According to the MBA Weekly Applications Survey, the average contract conventional mortgage rate declined -3bps to 6.45% during the week ending March 24 while the FHA contract mortgage rate rose 1bps to 6.33%, resulting in a 4bps widening of the spread between the FHA and the conventional mortgage rate to -0.12% (Figure 6). Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending March 29 indicated that the FRM30 declined -10bps w/w to 6.32% (Figure 7) as 10-year UST yields declined -2bps to an average of 3.48% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST narrowed -8bps to 2.84%, about 115bps 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

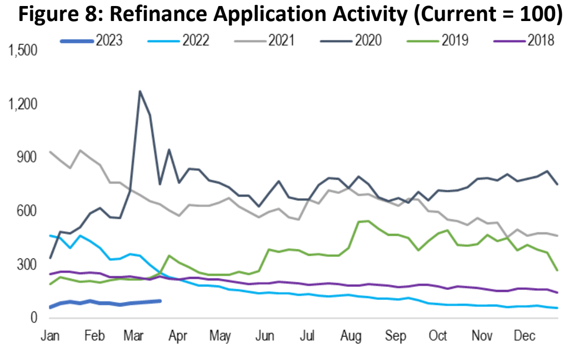
Figure 7: 30-year Mortgage Rate vs. 10-year UST Yield



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

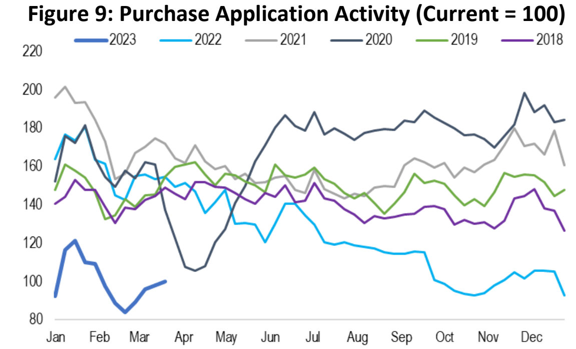
The MBA Weekly Applications Survey for the week ending March 24 increased 2.9% w/w, leaving the index down -47% year-over-year and -57% below pre-pandemic levels (i.e., the average of the same week in 2018, 2019 and 2020). The weekly increase was driven primarily by a 4.8% increase in refinancing applications, which remained down -61% y/y despite the weekly increase, and -76% relative to the pre-pandemic level (Figure 8). Purchase applications increased 2% w/w but remained down -35% y/y and -32% 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)

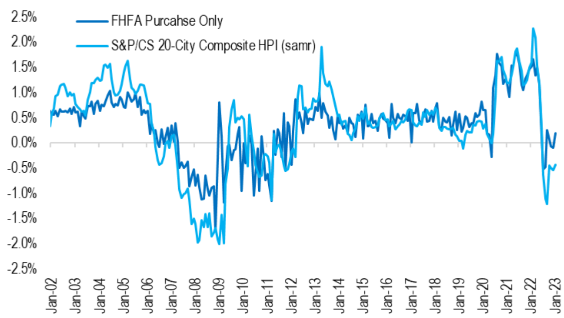


Sources: Mortgage Bankers Association, Arch MI

JANUARY HOME PRICE GROWTH MIXED

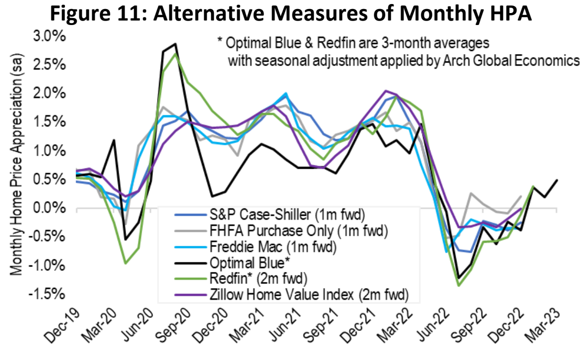
Repeat-sales home price index (HPI) growth diverged in January. The FHFA Purchase-Only (PO) HPI rose 0.2% m/m (cons. -0.3%) on a seasonally adjusted basis after falling -0.1% in each of the prior two months (Figure 10). Conversely, the S&P/Case-Shiller 20-City Composite HPI fell -0.4% (cons. -0.5%) in January, a slight moderation from the -0.5% pace of decline in December and November. Five metropolitan areas within the 20-city composite recorded monthly gains (Boston, Charlotte, Cleveland, Miami and Chicago), an improvement from all metros declining in December. Price declines were most severe in Seattle (-1.5%), Las Vegas (-1.1%) and Denver (-1.0%). Other more real-time measures of home price appreciation (HPA) had already shown a similar improvement in the monthly trend (Figure 11). Based on data from Optimal Blue and Redfin, monthly HPA continued to trend higher in February and March as well. These improvements should be reflected in subsequent releases of the repeat-sales HPIs.

Figure 10: Month-Over-Month Home Price Appreciation



Sources: S&P, FHFA, Arch MI

Figure 11: Alternative Measures of Monthly HPA



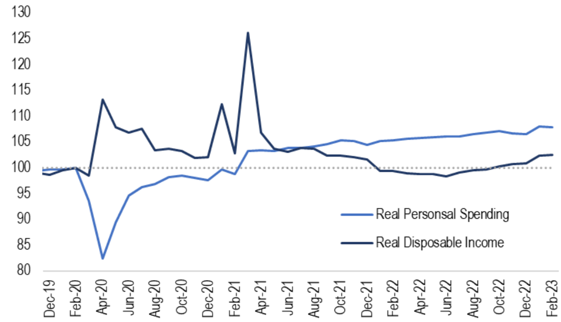
Sources: S&P, FHFA, Freddie Mac, Optimal Blue, Redfin, Zillow, Arch MI

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 is compiled based on conforming, conventional loans purchased and securitized by the GSEs (data included in the index are based on loan origination data) while the S&P/Case-Shiller index captures more transactions and uses a different weighting that places greater emphasis on regions with higher home values. The S&P/Case-Shiller index is a three-month moving average of closed sales, implying that closed sales for the most recent November–January period could include contracts signed as far back as September.

FEBRUARY UNWOUND SOME OF JANUARY'S SURGE IN CONSUMPTION

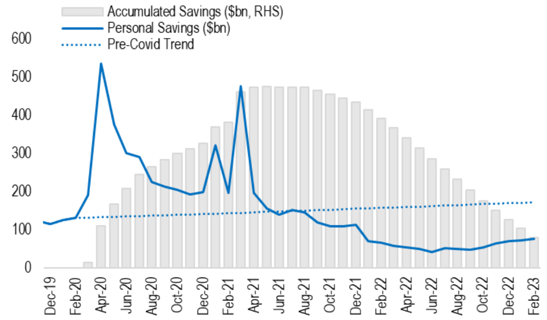
The February personal income and outlay report provided some give back from a robust January report, but the underlying trend of solid income gains remained. Nominal personal income rose 0.3% m/m (cons. 0.2%) with steady gains for private wages as the labor market remained tight. Indeed, the three-month annualized rate in private wages rose 6.4% in February, a modest step down from the hot 6.7% gain in January. Meanwhile, nominal disposable income increased 0.5% m/m after the outsized 2.0% gain in January that was largely due to one-off factors. Nominal spending missed consensus expectations, increasing 0.2% m/m (cons. 0.3%) with real spending inching down -0.1% m/m (cons. -0.1%) after a 1.5% uptick in January, which was the highest monthly advance since last March. Real disposable income continued to rise on a three-month rolling annualized basis, up 7.7% in February after the upwardly revised 8.6% advance in January, pushing the absolute level further above where it started the pandemic (Figure 12).

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



Sources: BEA, Arch MI

Figure 13: Personal Savings



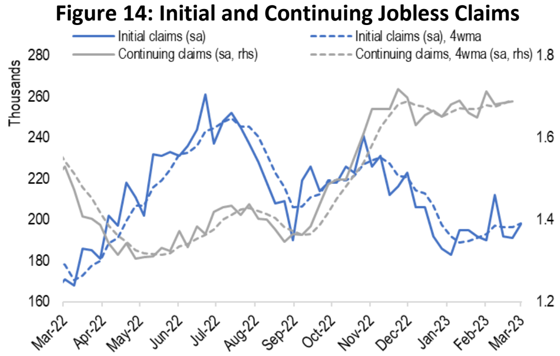
Sources: BEA, Arch MI

With disposable income outpacing spending in February, the savings rate rose 20bps m/m to 4.6% (Figure 13). Households are seemingly dipping into their savings less to fund spending given the ongoing strength in the labor market and cooling inflation that has seen real incomes recover. That said, we do see the COVID-era savings buffer being depleted by 3Q23 and sooner for lower income households given that the bulk of savings are sitting with higher income households. With the stock of excess savings being depleted, the outlook for the consumer rests on how long the labor market will remain resilient and how willing consumers are to tap into credit to maintain consumption. We expect the labor market to cool over 2023 and accordingly envision consumer spending downshifting as the year progresses. Higher borrowing costs and tighter credit present downside risks to that already benign outlook. There is some upside risk to our outlook if consumers somehow find the confidence in the face of an economic slowdown to increase borrowing activity, for which they have capacity given low levels of aggregate outstanding debt relative to incomes.

JOBLESS CLAIMS CONTINUED TO MARCH HIGHER

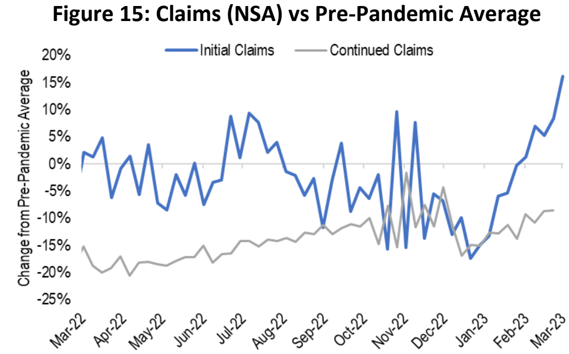
Initial jobless claims rose by 7k to a seasonally adjusted 198k (consensus: 196k) during the week ending March 25, moving the four-week average up to 198k from 196k (Figure 14). Although the headline claims figure modestly surprised to the upside, the non-seasonally adjusted claims data continued to show a more meaningful deterioration relative to its pre-pandemic level. The non-seasonally adjusted level of initial claims moved up to 16% above its pre-COVID average (i.e., 2018-2019) from 8% the week before and up from -17% below in mid-January (Figure 15). Meanwhile, continued claims for regular state programs (i.e., repeat filers for unemployment insurance) climbed by 4k during the week ending March 18 to a seasonally adjusted 1,689k (consensus: 1,700k), moving the four-week average up to 1,692k from 1,682k. The non-seasonally adjusted level of continued claims also moved up, to -8.5% below its pre-COVID average from -8.7% the week before and up from -17% below in mid-January. The labor market remains tight as the overall level of claims is still extremely low by historical standards. However, the labor market continues to soften and the seasonally adjusted data appears to be masking some of the easing that is taking place in the unadjusted data.

Figure 14: Initial and Continuing Jobless Claims



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

Figure 15: Claims (NSA) vs Pre-Pandemic Average



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

The Week Ahead – Job Watch

Employment data will be in focus this week, which is likely to reflect a continued easing of labor market tightness. The mid-month reference week for the March employment situation report is likely a bit early to reflect much stress from last month's bank failures. According to the Bloomberg Consensus Survey of Economists, March job growth is expected to have slowed to 240k from 311k in February, with the unemployment rate unchanged at 3.6%. Average hourly earnings growth is expected to have accelerated slightly to 0.3% m/m from 0.2% in February, but this would still bring year-over-year wage growth down to 4.3% from 4.6%. The February Job Openings and Labor Turnover Survey (JOLTS) is expected to show job openings declined to 10.5m from 10.8m in January, which would still be far higher than the 7m openings that existed at the onset of the pandemic. March auto sales are expected to have cooled slightly to 14.6m saar from 14.9m and accordingly, manufacturing likely also continued its slowdown in March.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
4/3/23	S&P Global US Manufacturing PMI	Mar F	--	49.3	49.3	index, sa
4/3/23	ISM Manufacturing	Mar	--	47.5	47.7	index, sa
4/3/23	ISM Prices Paid	Mar	--	51.1	51.3	index, nsa
4/3/23	Wards Total Vehicle Sales	Mar	--	14.6	14.9	m, saar
4/4/23	Factory Orders	Feb	--	-0.5%	-1.6%	m/m, sa
4/4/23	JOLTS Job Openings	Feb	--	10.5	10.8	m, sa
4/4/23	Durable Goods Orders	Feb F	--	-1.0%	-1.0%	m/m, sa
4/5/23	MBA Mortgage Applications	3/31/23	--	--	2.9%	w/w, sa
4/5/23	ADP Employment	Mar	--	210	242	k, m/m, sa
4/5/23	S&P Global US Services PMI	Mar F	--	53.8	53.8	index, sa
4/5/23	S&P Global US Composite PMI	Mar F	--	53.3	53.3	index, sa
4/5/23	ISM Services Index	Mar	--	54.3	55.1	index, nsa
4/6/23	Initial Jobless Claims	4/1/23	--	200	198	k, sa
4/6/23	Continuing Claims	3/25/23	--	--	1,689	k, sa
4/7/23	Nonfarm Payrolls	Mar	--	240	311	k, m/m, sa
4/7/23	Private Payrolls	Mar	--	223	265	k, m/m, sa
4/7/23	Unemployment Rate	Mar	--	3.6%	3.6%	sa
4/7/23	Average Hourly Earnings m/m	Mar	--	0.3%	0.2%	sa
4/7/23	Average Hourly Earnings y/y	Mar	--	4.3%	4.6%	nsa
4/7/23	Average Weekly Hours All Employees	Mar	--	34.5	34.5	sa
4/7/23	Labor Force Participation Rate	Mar	--	62.5%	62.5%	sa
4/7/23	Consumer Credit	Feb	--	19.0	14.8	$B, m/m, sa

Sources: Bloomberg Consensus Survey of Economists, Arch MI