HaMMR Digest

Stay current with economic and mortgage market trends.

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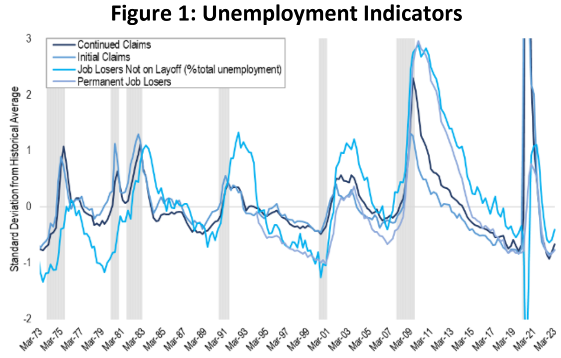
Weekly Wrap – Time to Trim the Sails

- With risks of a banking crisis receding, attention has shifted to a softening, yet still-tight labor market.
- Revised jobless claims data confirmed the trend of building slack we have highlighted since mid-January.
- Other macro data indicate a momentum downshift in the economy but near-term recession risks remain modest.

Last week confirmed that the U.S. economy is neither on a sustained reacceleration path nor about to plunge into a recession. With financial stability concerns receding, fixation shifted to the March payrolls release that was about as good as the Fed could have hoped — showing measured progress towards better balance brought by reduced hiring and rising supply as opposed to widespread job cuts. Headline job gains for March rose by 236k (cons. 230k), continuing the streak of beating consensus forecasts for 12 straight months, yet it was the slowest pace of gains for the cycle and was mimicked by private payrolls (180k vs cons. 218k). The unemployment rate ticked down to 3.5% (cons. 3.6%) as the labor force expanded at a decent clip while the prime age employment-to-population ratio surpassed its pre-COVID level, rising 20bps m/m to 80.7%.

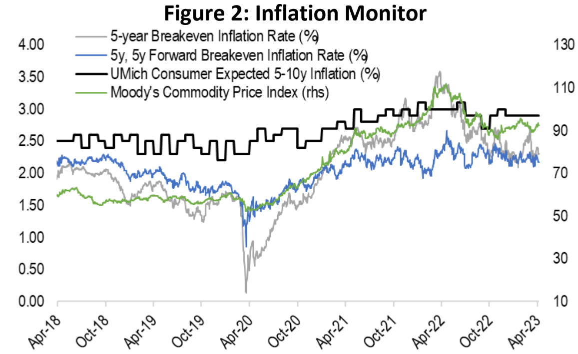
Labor market balance has indeed improved as the difference between the annual change in the labor force (2.4mn) and total employment (2.6mn) is the smallest since before COVID. Job openings fell 632k m/m to 9.9mn (cons. 10.5mn) in February, bringing the vacancy-to-unemployed ratio to 1.67, which is its lowest reading since last November, while the quits and hires rates fell back closer to pre-pandemic levels. Layoffs data remained auspicious even though new seasonal adjustment factors for initial claims revised the 2023 path higher, which we had been highlighting since mid-January. Looking at layoffs across a broad spectrum of reports (e.g., claims, JOLTs, Challenger, WARN), the deterioration observed earlier this year eased a bit in March when comparing each month to its pre-pandemic average. Nonetheless, permanent job losers (i.e., individuals on layoff for non-temporary reasons) have been rising, confirming that slack is building (Figure 1). Total private hours worked declined for the second straight month, which will help keep downward pressure on wage growth (4.2% y/y vs cons. 4.3%) and keep inflation expectations well-anchored (Figure 2).

Figure 1: Unemployment Indicators



Sources: DoL, BLS, Arch MI

Figure 2: Inflation Monitor



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

Other data indicate that economic momentum has slowed, consistent with Atlanta Fed's GDPNow model estimate of 1Q23 real GDP growth slowing to 2.2% as of April 10 from 3.5% on March 21. Durable goods orders for February (-1.0% vs cons. -1.0%) remained depressed with core capital goods orders and shipments failing to escape basement levels reached in 4Q22. Both March manufacturing purchasing managers' indexes deteriorated, with the S&P U.S. PMI at 49.2 (cons. 49.3) and ISM PMI at 46.3 (cons. 47.5) primarily due to weak new orders. Global industrial production has muddled along this year and the growth impulse from a re-opening China has yet to filter through to the tradeable goods segment. The U.S. trade deficit widened in February ($70.5bn vs cons. $68.8bn), with exports declining 4.8% led by consumer goods, autos and capital equipment. Even the services sectors took a step down with the March ISM Services PMI dropping 3.9pts m/m to 51.2 (cons. 54.4) amid a 10.4pt drop in the new orders subcomponent to 52.2. The PMIs could be more sentiment related at this juncture as opposed to providing a clear signal on underlying activity but even so, we expect firms to turn more cautious. The Fed will view last week's data as heading in the right direction, neither negating a 25bps rate hike in May (our expectation) nor guaranteeing it, with the focus now shifting to this week's inflation releases.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
4/3/23	S&P Global US Manufacturing PMI	Mar F	**49.2**	49.3	49.3	index, sa
4/3/23	ISM Manufacturing	Mar	**46.3**	47.5	47.7	index, sa
4/3/23	ISM Prices Paid	Mar	**49.2**	51.1	51.3	index, nsa
4/3/23	Wards Total Vehicle Sales	Mar	**14.8**	14.5	14.9	m, saar
4/4/23	Factory Orders	Feb	**-0.7%**	-0.5%	-2.1%	m/m, sa
4/4/23	JOLTS Job Openings	Feb	**9.9**	10.5	10.6	m, sa
4/4/23	Durable Goods Orders	Feb F	**-1.0%**	-1.0%	-1.0%	m/m, sa
4/5/23	MBA Mortgage Applications	3/31/23	**-4.1%**	--	2.9%	w/w, sa
4/5/23	ADP Employment	Mar	**145**	210	261	k, m/m, sa
4/5/23	S&P Global US Services PMI	Mar F	**52.6**	53.8	53.8	index, sa
4/5/23	S&P Global US Composite PMI	Mar F	**52.3**	53.3	53.3	index, sa
4/5/23	ISM Services Index	Mar	**51.2**	54.4	55.1	index, nsa
4/6/23	Initial Jobless Claims	4/1/23	**228**	200	246	k, sa
4/6/23	Continuing Claims	3/25/23	**1,823**	1,700	1,817	k, sa
4/7/23	Nonfarm Payrolls	Mar	**236**	230	326	k, m/m, sa
4/7/23	Private Payrolls	Mar	**189**	218	266	k, m/m, sa
4/7/23	Unemployment Rate	Mar	**3.5%**	3.6%	3.6%	sa
4/7/23	Average Hourly Earnings m/m	Mar	**0.3%**	0.3%	0.2%	sa
4/7/23	Average Hourly Earnings y/y	Mar	**4.2%**	4.3%	4.6%	nsa
4/7/23	Average Weekly Hours All Employees	Mar	**34.4**	34.5	34.5	sa
4/7/23	Labor Force Participation Rate	Mar	**62.6%**	62.5%	62.5%	sa
4/7/23	Consumer Credit	Feb	**15.3**	18.0	19.5	$B, m/m, sa

Sources: Bloomberg Consensus Survey of Economists, Arch MI

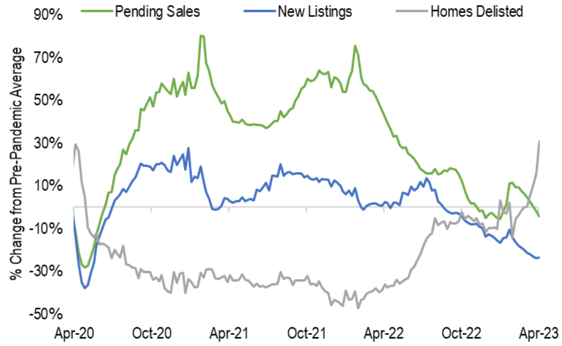
Green = beat expectations; **Red** = worse than expectations; (compared vs. prior if no consensus estimates available)

LIMITED INVENTORY DRIVING HOME PRICES HIGHER AGAIN

Pending home sales have continued to cool even as mortgage rates have settled into the low-to-mid 6% range. However, the soft sales activity has been held back in part by an increasingly limited supply of homes for sale. The tightness of the housing market is better reflected by measures like the median days on market, which at 39 days remains 12 days shorter than the typical pre-pandemic timeline for this time of year. The measurement is roughly unchanged since September 2022 but up from more than 30 days shorter in February 2022. Accordingly, the share of homes selling within two weeks has climbed to 46%, 6 percentage points above the typical pre-pandemic level for this time of year. Competition has pushed prices up on a seasonally adjusted basis since the end of 2022, with annualized price growth now well into the double digits. We do not expect the current pace of price growth to persist, but it is a notable change from double-digit annualized price declines that prevailed for most of the second half of 2022.

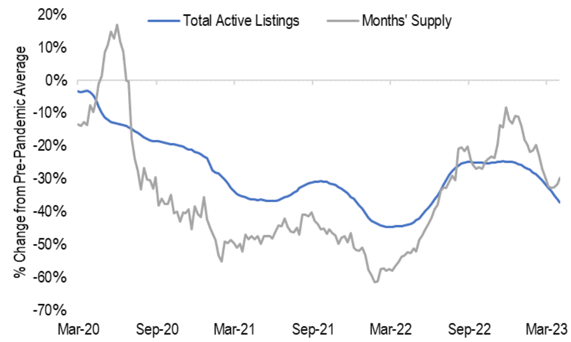
Pending home sales were down roughly -23k y/y, or -33% below the year-ago level for the week ending April 2, per Redfin data. Annual comparisons will remain challenged over the first half of the year given the vastly different buying environments. Case in point, despite the large year-over-year decline, the recent pace of pending sales was -5% below the pre-pandemic average for this time of year (Figure 3), down from 11% above at the end of January. Higher mortgage rates have also weighed on potential sellers as new listings declined to -24% below the pre-pandemic average from -14% at the end of January. Meanwhile, the number of delisted homes rose to 31% above the pre-pandemic average for this time of year from -14% below at the end of January.

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



Source: Redfin, Arch MI

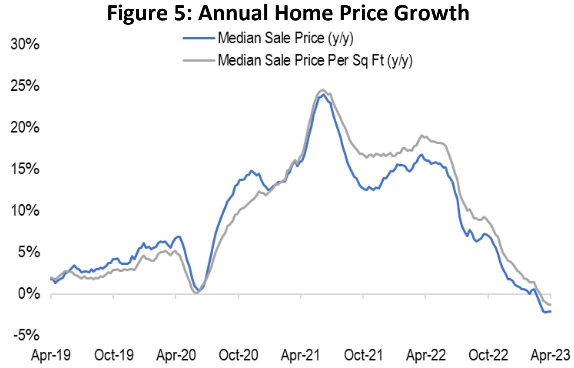
Figure 4: U.S. Active Listings & Months' Supply



Source: Redfin, Arch MI

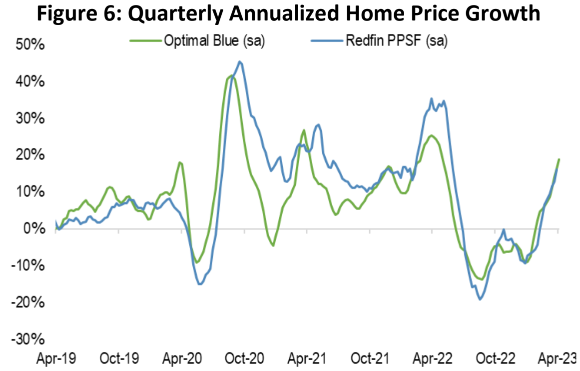
The decline in new listings and increase in delisted homes partially offset the cooling pace of sales and pushed the number of active listings further down to -37% below the pre-pandemic average and well below last year's peak of -25% (Figure 4). Despite total homes sold being down -26% y/y and -13% below the pre-pandemic average, the national market remains 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 1.7 months recorded for the same week in 2022 when the market was incredibly tight.

Figure 5: Annual Home Price Growth



Source: Redfin, Arch MI

Figure 6: Quarterly Annualized Home Price Growth



Source: Optimal Blue, Redfin, Arch MI

Annual growth in the national median sale price per square foot held steady at -1.3% y/y, which represents a drastic slowdown from the 18.9% annual gain recorded at this time last year (Figure 5). Risks for prices remain skewed to the downside with overstretched markets particularly vulnerable. However, there are some signs of stabilization forming in markets outside the West Coast, where home price growth is poised to reaccelerate. In fact, based on our seasonal adjustment of weekly Redfin data, the national median sale price per square foot has already accelerated from a quarterly annualized decline of -19% in August 2022 to a 16% annualized growth rate through April 2 (Figure 6). Applying seasonal adjustments to Optimal Blue mortgage application data, which leads Redfin sales price trends by several weeks, also reveals an acceleration in quarterly annualized home price growth to 19% through the first week of April from -14% last August.

Of the major metros we track (Figure 7), annual home price growth was weakest in **Austin** (-15%), **Seattle** (-11%), **Denver** (-9%), **Phoenix** (-7%) and **Portland** (-5%). Home price growth slowed most rapidly compared with a year ago in **Austin** (-39%-pts), **Seattle** (-36%-pts), **Phoenix** (-35%-pts), **Dallas** (-32%-pts) and **Riverside** (-31%-pts). Conversely, annual home price growth was strongest in **Tampa** (2%), **Nashville** (1%) and **Miami** (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** (42 days longer), **Phoenix** (13) and **Chicago** (9), while some markets like **New York** (-31) and **Baltimore** (-20) remained well below pre-pandemic timelines. Markets that have deteriorated the most based on months' supply include **Austin**, **Portland** and **Seattle**, where months' supply climbed to a respective 46%, -2% and -3% relative to their pre-pandemic averages from -44%, -49% and -48% below one year ago. Months' supply remained below pre-pandemic levels in most markets (-30% below nationally), with **Baltimore** (-44%), **San Diego** (-42%), **Miami** (-30%), **Tampa** (-26%) and **Riverside** (-25%) remaining the tightest relative to their pre-pandemic averages.

Figure 7: Weekly Housing Monitor (as of 4/2/23)

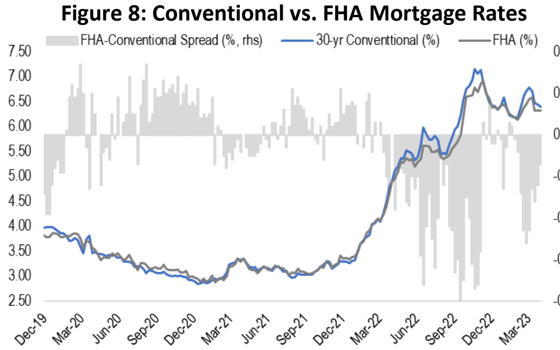
Metro	Median Sale Price Per Square Foot (y/y)		Active Listings with Price Drops		Share of Homes Sold Above List		Average Sale-to-List Ratio		Total Active Listings (y/y)	Median Days on Market vs Pre-COVID		Months' Supply vs Pre-COVID	
	Current	Year Ago	Current	(Δ y/y, ppt)	Current	(Δ y/y, ppt)	Current	(Δ y/y, ppt)		Current	Year Ago	Current	Year Ago
All Redfin Metros	**-1%**	**19%**	**5%**	**3%**	**27%**	**-23%**	**99%**	**-3%**	**12%**	**-12**	**-29**	**-30%**	**-53%**
Atlanta	1%	24%	5%	2%	26%	-29%	99%	-3%	29%	0	-26	-20%	-57%
Austin	-15%	24%	8%	6%	15%	-51%	97%	-8%	103%	42	-4	46%	-44%
Baltimore	1%	10%	5%	1%	42%	-9%	101%	-1%	-5%	-20	-30	-44%	-59%
Boston	0%	9%	3%	1%	46%	-19%	101%	-4%	-8%	2	-1	-18%	-33%
Chicago	-1%	11%	3%	1%	33%	-11%	99%	-1%	-23%	9	3	-20%	-23%
Dallas	-4%	28%	6%	4%	24%	-42%	98%	-7%	63%	6	-17	-24%	-57%
Denver	-9%	21%	7%	5%	34%	-40%	100%	-7%	41%	4	-4	-9%	-51%
Houston	0%	21%	6%	2%	17%	-23%	98%	-3%	43%	1	-29	-20%	-58%
Los Angeles	-4%	17%	3%	1%	41%	-27%	100%	-5%	-5%	2	-15	-15%	-40%
Miami	1%	27%	3%	2%	14%	-13%	96%	-2%	10%	-2	-16	-30%	-65%
Minneapolis	-1%	11%	4%	2%	39%	-19%	100%	-3%	1%	-3	-14	-17%	-40%
Nashville	1%	29%	5%	3%	18%	-32%	98%	-4%	99%	3	-33	-7%	-63%
New York	-1%	10%	4%	0%	23%	-3%	99%	-1%	-13%	-31	-44	-24%	-47%
Phoenix	-7%	28%	7%	5%	15%	-41%	98%	-4%	53%	13	-22	-4%	-54%
Portland	-5%	19%	4%	1%	33%	-32%	100%	-4%	-6%	1	-15	-2%	-49%
Riverside	-5%	26%	4%	2%	32%	-32%	99%	-4%	15%	-4	-33	-25%	-57%
San Diego	-4%	25%	4%	2%	41%	-30%	100%	-6%	-4%	-2	-14	-42%	-60%
Seattle	-11%	25%	5%	3%	34%	-39%	100%	-11%	16%	0	-5	-3%	-48%
Tampa	2%	31%	8%	4%	16%	-33%	98%	-4%	93%	-4	-30	-26%	-68%
Washington DC	-2%	11%	3%	1%	41%	-17%	100%	-2%	-1%	8	-12	-17%	-46%

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

MORTGAGE APPLICATIONS COOLED EVEN AS RATES DECLINED

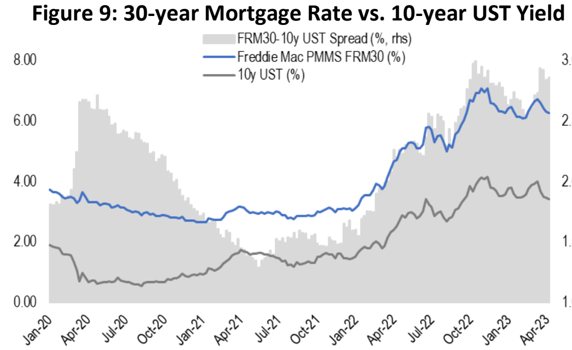
According to the MBA Weekly Applications Survey, the average contract conventional mortgage rate declined -5bps to 6.4% during the week ending March 31 while the FHA contract mortgage rate was unchanged at 6.33%, resulting in a 5bps widening of the spread between the FHA and conventional mortgage rate to -0.07% (Figure 8). Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending April 5 indicated that the FRM30 declined -4bps w/w to 6.28% (Figure 9) as 10-year UST yields declined -6bps to an average of 3.42% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 2bps to 2.86%, 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 8: Conventional vs. FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

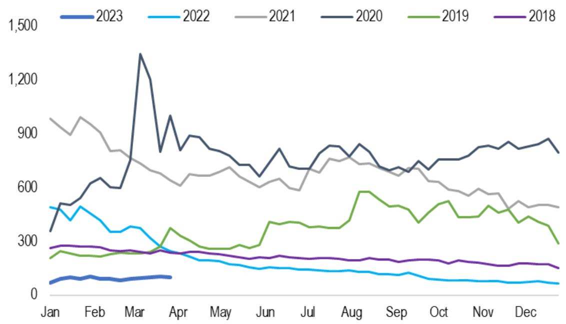
Figure 9: 30-year Mortgage Rate vs. 10-year UST Yield



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

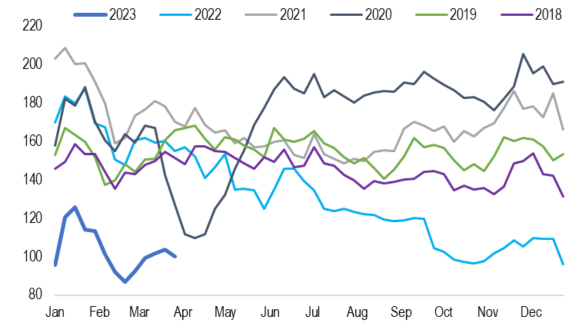
The MBA Weekly Applications Survey for the week ending March 31 declined -4.1% w/w, leaving the index down -45% year-over-year and down -63% compared with pre-pandemic levels (i.e., the average of the same week in 2018, 2019 and 2020). The weekly decline was driven primarily by a -5.4% decline in refinancing applications, which remained down -59% y/y and -81% below the pre-pandemic level (Figure 10). Purchase applications declined -3.5% w/w and were down -35% y/y and -33% relative to pre-pandemic levels (Figure 11).

Figure 10: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

Figure 11: Purchase Application Activity (Current = 100)

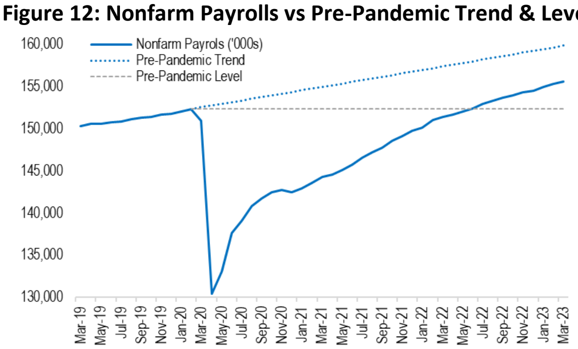


Sources: Mortgage Bankers Association, Arch MI

MARCH EMPLOYMENT REPORT SHOWS MEASURED SLOWDOWN UNDERWAY

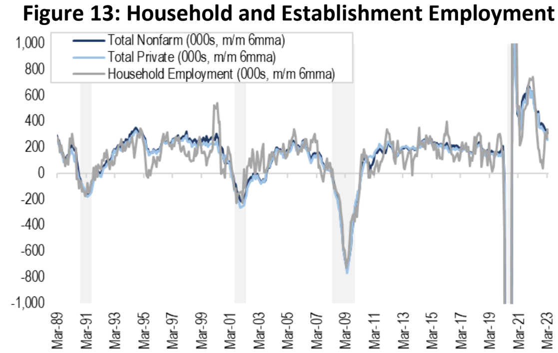
March's job gain of 236k (cons. 230k) was another monthly stepdown from the hot January gain of 472k and the 326k jobs added in February. The three-month average pace of job gains eased slightly to 345k from 346k last month but remained stronger than the three-month average pace through December 2022 (284k). The U.S. economy now has 3.2 million more jobs than prior to the pandemic (i.e., February 2020) but remained well below the pre-pandemic trend (Figure 12).

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



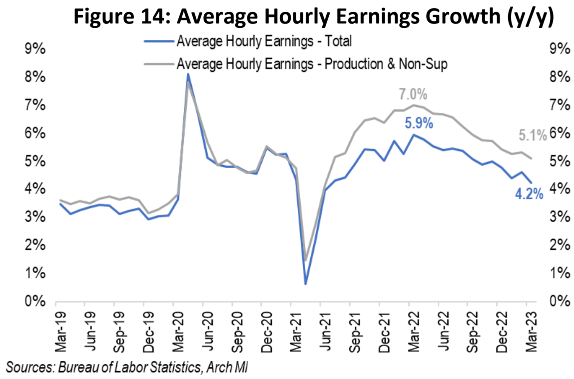
Sources: Bureau of Labor Statistics, Arch MI

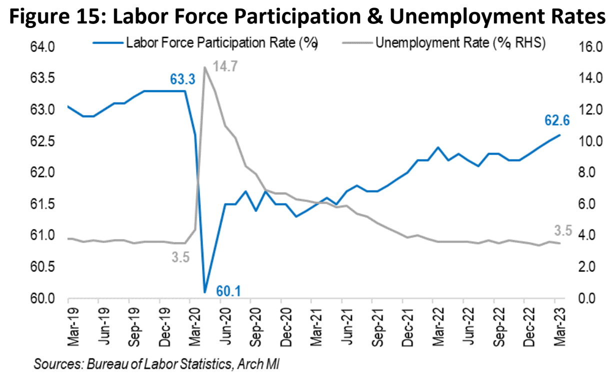
Figure 13: Household and Establishment Employment



Sources: Bureau of Labor Statistics, Arch MI

Job gains were led by leisure and hospitality (72k), education and health services (65k) and professional business services (39k). Leisure and hospitality payrolls remained 25% below their pre-pandemic level despite recent strength — the sector's share of total monthly payroll gains has increased steadily in the recent months but moderated slightly to 31% of total February job gains. While the industry is still playing catch-up, the breadth of payroll gains improved slightly in March, as reflected by the diffusion index rising to 60 from 56 last month. The divergence between gains reflected in household employment and nonfarm payrolls has closed, negating prior fear that the rosier establishment survey was going to deteriorate significantly (Figure 13).

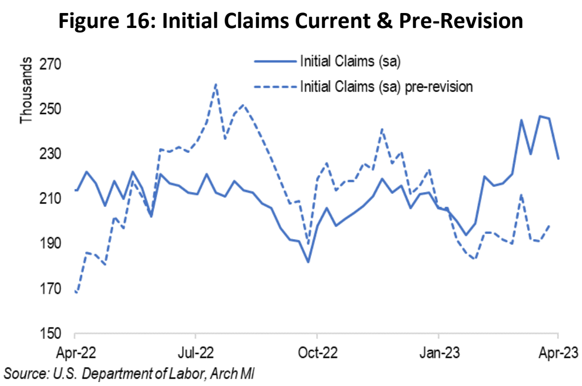


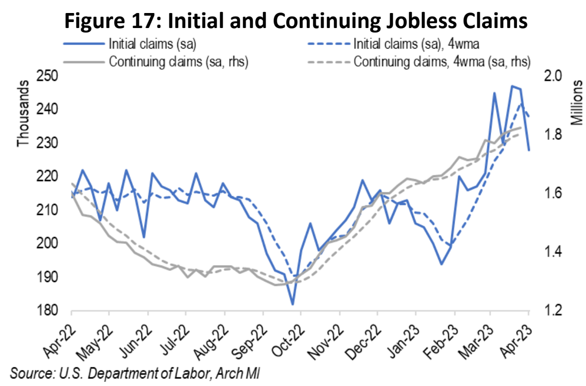


Hourly earnings rose 0.3% m/m (cons. 0.3%) in March with the non-supervisory segment following in lockstep (0.3%) but stronger on an annual basis (Figure 14). The unemployment rate fell back to 3.5% (cons. 3.6%) amid a 10bps increase in the labor force participation rate to 62.6% (cons. 62.5%), a cycle high (Figure 15). Underlying labor market strength remained but overall supply and demand are more in balance compared to just three months ago. Measures of layoffs picked up in January and February but have eased slightly in March compared to prior years, suggesting that labor slack is increasing but at a measured pace. Looking ahead, we expect unemployment to trend higher from here and to approach 4% by year-end, although the path is likely to be choppy.

TREND IN JOBLESS CLAIMS NOW BETTER ALIGNS WITH OUR VIEW AFTER REVISIONS

The U.S. Bureau of Labor Statistics and U.S. Department of Labor released revised jobless claims data last week, which included updates to the seasonal adjustments they apply to the data. We have been highlighting issues with the prior seasonal adjustments for some time and are happy to see that the new data better aligns with the move up we have been reporting on in the non-seasonally adjusted (NSA) data (Figure 16). The revised data showed initial jobless claims declined by -18k to a seasonally adjusted 228k (consensus: 200k) during the week ending April 1, moving the four-week average down to 238k from 242k (Figure 17). Although the revised series declined w/w, the 228k is up notably from 198k prior to the revision. The non-seasonally adjusted level of initial claims moved down to 8% above its pre-COVID average (i.e., 2018–2019) from 16% the week before, but remained up notably from -17% below in mid-January.





Meanwhile, continued claims for regular state programs (i.e., repeat filers for unemployment insurance) climbed by 6k during the week ending March 25 to a seasonally adjusted 1,823k (consensus: 1,700k), moving the four-week average up to 1,804k from 1,794k. The latest level of continued claims is up meaningfully compared with the data prior to the revision, which reflected continued claims of 1,689k last week. The non-seasonally adjusted level of continued claims moved up again to -6% below its pre-COVID average from -9% the week before and up from -17% below in mid-January. The labor market remained tight but has continued to soften. Most of the recent job losses have been concentrated in the West based on related Challenger data on job cuts. The West also happens to be one of the most stretched regions in terms of housing affordability and has already recorded large home price declines. Other regions are better positioned at the moment and thus these regional variations will be key to watch in 2023.

The Week Ahead — The Price Is… Right?

Inflation data will be the focus this week. Headline March Consumer Price Index (CPI) inflation is expected to cool from 0.4% m/m to 0.2%, pulling annual CPI inflation down to 5.1% y/y from 6.0%, according to the Bloomberg Consensus Survey of Economists. Core CPI inflation is also expected to decelerate to 0.4% from 0.5% in February, which would still push year-over-year core inflation up to 5.6% to 5.5% due to base effects. The March Producer Price Index (PPI) is expected to continue its deceleration driven by easing in raw material prices. The March Federal Open Market Committee (FOMC) minutes will be released this week, providing some insight into what factors drove the 25-basis point increase in March and, possibly, how the Fed is viewing the set up for the next meeting in May. March advance retail sales are expected to decrease by -0.4% which would match last month's decline. The retail sales control group (excluding gasoline, automotive dealers, building materials and food services), which flows directly into the calculation of GDP, is expected to decrease -0.5% after rising 0.5% in February, highlighting the recent cooldown in consumption.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
4/10/23	Wholesale Inventories m/m	Feb F	--	0.2%	0.2%	sa
4/11/23	NFIB Small Business Optimism	Mar	--	89.3	90.9	index, sa
4/12/23	MBA Mortgage Applications	4/7/23	--	--	-4.1%	w/w, sa
4/12/23	CPI m/m	Mar	--	0.2%	0.4%	sa
4/12/23	CPI Core (ex Food and Energy) m/m	Mar	--	0.4%	0.5%	sa
4/12/23	CPI y/y	Mar	--	5.1%	6.0%	nsa
4/12/23	CPI Core (ex Food and Energy) y/y	Mar	--	5.6%	5.5%	nsa
4/12/23	FOMC Meeting Minutes	3/22/23	--	--	--	
4/13/23	Initial Jobless Claims	4/8/23	--	235	228	k, sa
4/13/23	Continuing Claims	4/1/23	--	1,814	1,823	k, sa
4/13/23	PPI Final Demand m/m	Mar	--	0.0%	-0.1%	sa
4/13/23	PPI Core (ex Food and Energy) m/m	Mar	--	0.3%	0.0%	sa
4/13/23	PPI Final Demand y/y	Mar	--	3.0%	4.6%	nsa
4/13/23	PPI Core (ex Food and Energy) y/y	Mar	--	3.5%	4.4%	nsa
4/14/23	Import Price Index y/y	Mar	--	-3.9%	-1.1%	nsa
4/14/23	Advance Retail Sales m/m	Mar	--	-0.4%	-0.4%	sa
4/14/23	Retail Sales Control Group m/m	Mar	--	-0.5%	0.5%	sa
4/14/23	Capacity Utilization	Mar	--	79.0%	79.1%	sa
4/14/23	Industrial Production m/m	Mar	--	0.2%	0.0%	sa
4/14/23	Business Inventories m/m	Feb	--	0.3%	-0.1%	sa
4/14/23	U. of Mich. Sentiment	Apr P	--	61.9	62.0	index, nsa
4/14/23	U. of Mich. 1 Yr Inflation	Apr P	--	--	3.6%	nsa
4/14/23	U. of Mich. 5-10 Yr Inflation	Apr P	--	--	2.9%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI