HaMMR Digest

Stay current with economic and mortgage market trends.

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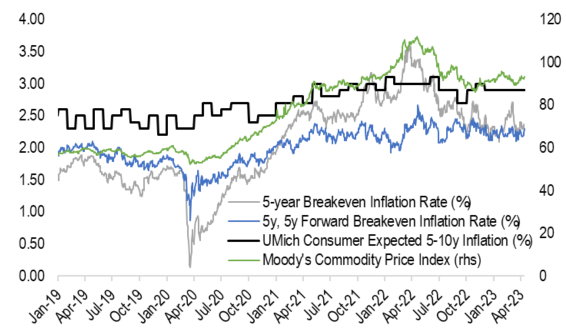
Weekly Wrap — Calm or Choppy Waters Ahead?

- With all signs pointing to the banking squall fading beyond the horizon, a key recession risk is fading as well.
- Despite some progress on inflation, sticky core prices lead us to reaffirm our call for another 25bps hike in May.
- The economy is entering 2Q on uneven footing and we expect choppy waters ahead.

Another week, another non-event on the banking front. The implication that banking risks have been contained was not lost on markets with rate volatility, as measured by the MOVE Index, retracing the bulk of its widening from early March. The seemingly fading risks were echoed by credit spreads and equity prices, suggesting fear of a hastened credit crunch has been put on pause. If more weeks that can be strung together without scary banking headlines, firms and households will perceive less of a need to get defensive. A glimpse of this came from the NFIB Small Business Optimism Index beating expectations in March (90.1 vs cons. 89.3) with underlying details not showing a material shift from prior trends while the preliminary April University of Michigan Consumer Sentiment Index also beat consensus. Both sentiment measures suggest the shock from the banking turmoil has not severely impacted perceptions of economic conditions.

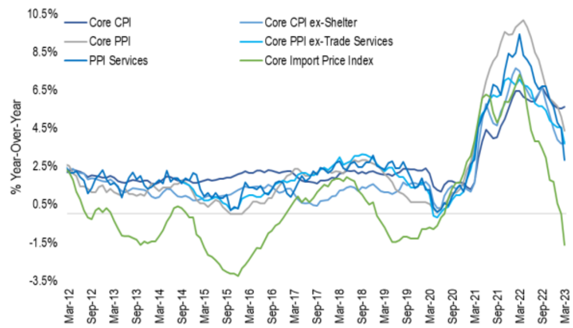
Data flow since the last Fed rate hike has shown that economic growth tapered off into the latter part of the quarter with inflation still elevated, supporting our call for one more 25bps rate hike in May by the Fed. Headline Consumer Price Index (CPI) inflation rose just 0.1% m/m (cons. 0.2%) in March primarily due to temporary drags from food and energy. Core CPI (excluding food and energy) still showed strength (0.4% vs cons. 0.4%) despite housing inflation slowing significantly as the core excluding shelter component accelerated for the fifth straight month on an annualized basis. The fact that inflation was still broadly "sticky" has kept medium-term consumer inflation expectations at the top end of the post-COVID range of 2.9% reading (Figure 1). Producer Price Index (PPI) inflation was more encouraging with the headline falling -0.5% m/m (cons. 0.0%) with core excluding trade services falling -0.1% m/m, the slowest pace since the start of the pandemic. March headline import prices fell -0.6% m/m (cons. -0.1%) alongside declines in the non-petroleum and consumer goods categories. Cooling producer and import prices are likely to weigh on consumer prices, albeit on a lag and not on a one-for-one basis as other factors like business margins and earnings power can absorb some of the impact (Figure 2).

Figure 1: Inflation Monitor



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

Figure 2: Consumer, Producer, Import Inflation



Sources: BLS, Arch MI

Minutes from the Fed's March policy meeting showed a unanimous decision to hike despite new staff projections for a mild recession to begin by the end of this year. The U.S. economy entered 2Q on weaker footing and while we expect further deterioration, a recession is still not predetermined. March retail sales were weak as expected, falling -1.0% m/m (cons. -0.5%), following an upwardly revised -0.2% decline in February. Nonetheless, the real 1Q23 annualized pace for the control group of sales, which feed into the GDP accounts, increased at a healthy 9.9% clip. Weekly credit and debit card spending data indicate that softness late in 1Q23 was met by a rebound in early April, implying that a collapse in household spending in not around the corner. March industrial production surprised to the upside but mainly due to an 8.4% surge in utilities output as the manufacturing component fell -0.5% m/m and is now down -1.2% from the cycle peak. Altogether, despite being walloped by a disconcerting rogue wave last quarter, the economy didn't capsize. We do expect more chop in the future in response to the most rapid policy tightening in decades, but brighter skies await in 2024.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
4/10/23	Wholesale Inventories m/m	Feb F	**0.1%**	0.2%	0.1%	sa
4/11/23	NFIB Small Business Optimism	Mar	**90.1**	89.8	90.9	index, sa
4/12/23	MBA Mortgage Applications	4/7/23	**5.3%**	--	-4.1%	w/w, sa
4/12/23	CPI m/m	Mar	**0.1%**	0.2%	0.4%	sa
4/12/23	CPI Core (ex Food and Energy) m/m	Mar	**0.4%**	0.4%	0.5%	sa
4/12/23	CPI y/y	Mar	**5.0%**	5.1%	6.0%	nsa
4/12/23	CPI Core (ex Food and Energy) y/y	Mar	**5.6%**	5.6%	5.5%	nsa
4/12/23	FOMC Meeting Minutes	3/22/23	**--**	--	--	
4/13/23	Initial Jobless Claims	4/8/23	**239**	235	228	k, sa
4/13/23	Continuing Claims	4/1/23	**1,810**	1,833	1,823	k, sa
4/13/23	PPI Final Demand m/m	Mar	**-0.5%**	0.0%	0.0%	sa
4/13/23	PPI Core (ex Food and Energy) m/m	Mar	**-0.1%**	0.2%	0.2%	sa
4/13/23	PPI Final Demand y/y	Mar	**2.7%**	3.0%	4.9%	nsa
4/13/23	PPI Core (ex Food and Energy) y/y	Mar	**3.4%**	3.4%	4.8%	nsa
4/14/23	Import Price Index y/y	Mar	**-4.6%**	-4.1%	-1.1%	nsa
4/14/23	Advance Retail Sales m/m	Mar	**-1.0%**	-0.5%	-0.2%	sa
4/14/23	Retail Sales Control Group m/m	Mar	**-0.3%**	-0.5%	0.5%	sa
4/14/23	Capacity Utilization	Mar	**79.8%**	79.1%	79.6%	sa
4/14/23	Industrial Production m/m	Mar	**0.4%**	0.2%	0.2%	sa
4/14/23	Business Inventories m/m	Feb	**0.2%**	0.3%	-0.2%	sa
4/14/23	U. of Mich. Sentiment	Apr P	**63.5**	62.1	62.0	index, nsa
4/14/23	U. of Mich. 1 Yr Inflation	Apr P	**4.6%**	3.7%	3.6%	nsa
4/14/23	U. of Mich. 5-10 Yr Inflation	Apr P	**2.9%**	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)

INVENTORY OF HOMES CONTINUED HEADING THE WRONG DIRECTION

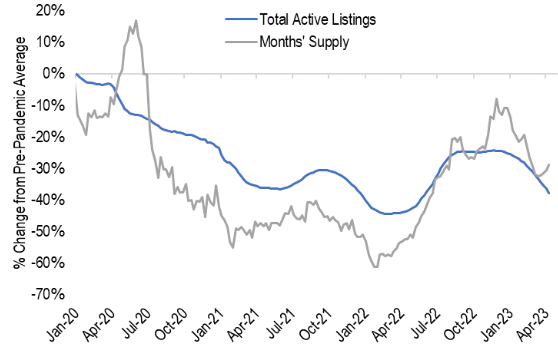
The housing market ventured further into uncharted territory last week, as pending sales activity cooled further and the inventory of homes for sale contracted again. Although mortgage rates have eased back into the low-to-mid 6% range after spiking above 7% earlier this year, they remain well above the rate most existing homeowners have on their mortgages. As a result, fewer existing homeowners are trading up within their current market given the prohibitive mortgage math and thus the inventory of homes for sale has remained extremely tight due to the lack of new listings. Homes that do go on the market are selling quickly, as reflected by the median days on market remaining two weeks shorter than prior to the pandemic at this time of year. Additionally, the share of homes selling within two weeks has climbed to 47%, roughly 6 percentage points above the typical pre-pandemic level for this time of year. Prices have risen rapidly to start the year but generally remain slightly lower than they were a year ago when the market was still incredibly hot. We expect further price declines in some of the most stretched markets in the West, but the Midwest and pockets of the Northeast appear to be set for continued price growth in 2023.

Pending home sales were down roughly -23k y/y, or -32% below the year-ago level for the week ending April 9, 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 just -6% 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 -27% below the pre-pandemic average from -14% at the end of January. Meanwhile, the number of delisted homes rose to 25% 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

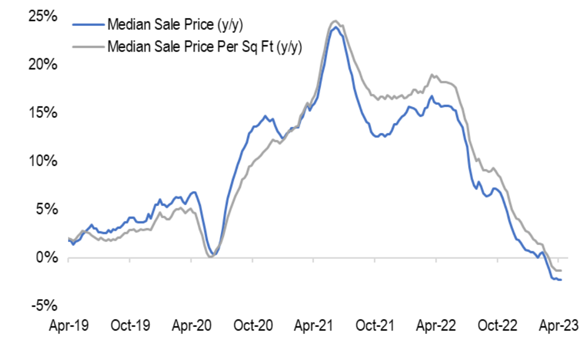
Figure 4: U.S. Active Listings & Months' Supply



Source: Redfin, Arch MI

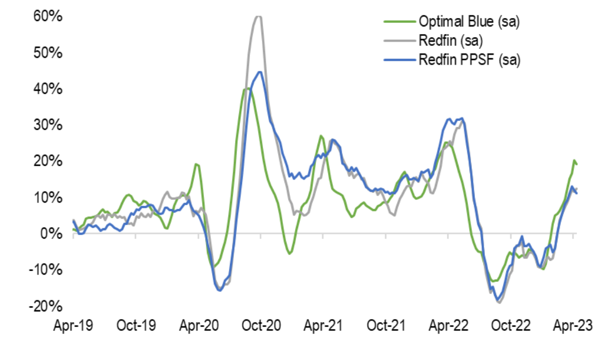
The decline in new listings and increase in delisted homes outpaced the cooling of sales activity and pushed the number of active listings further down to -38% below the pre-pandemic average and well below last year's peak of -25% (Figure 4). Despite total homes sold being down -26% y/y and -14% below the pre-pandemic average, the national market remains somewhat tight given months' supply is 2.6 months, -29% 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 accelerated to -1.3% y/y, which represents a drastic slowdown from the 18.5% annual gain recorded at this time last year. Risks for prices remain skewed to the downside with overstretched markets particularly vulnerable. However, home price growth is poised to reaccelerate in markets outside the West Coast. 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 -18% in August 2022 to an 11% annualized growth rate through April 9 (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 April 14 from -13% last August.

Of the major metros we track (Figure 7), annual home price growth was weakest in **Austin** (-16%), **Seattle** (-10%), **Denver** (-9%), **Phoenix** (-7%) and **Portland** (-5%). Home price growth slowed most rapidly compared with a year ago in **Austin** (-41%-pts), **Phoenix** (-35%-pts), **Dallas** (-32%-pts), **Seattle** (-32%-pts) and **Denver** (-31%-pts). Conversely, annual home price growth was strongest in **Miami** (2%), **Tampa** (1%) 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** (39 days longer), **Chicago** (12) and **Phoenix** (10), while some markets like **New York** (-31) and **Baltimore** (-18) remained well below pre-pandemic timelines. Markets that have deteriorated the most based on months' supply include **Austin**, **Phoenix** and **Portland**, where months' supply climbed to a respective 47%, 1% and -2% relative to their pre-pandemic averages from -43%, -54% and -51% below one year ago. Months' supply remained below pre-pandemic levels in most markets (-29% below nationally), with **Baltimore** (-43%), **San Diego** (-42%), **Miami** (-28%), **Tampa** (-25%) and **Dallas** (-25%) remaining the tightest relative to their pre-COVID averages.

Figure 7: Weekly Housing Monitor (as of 4/9/23)

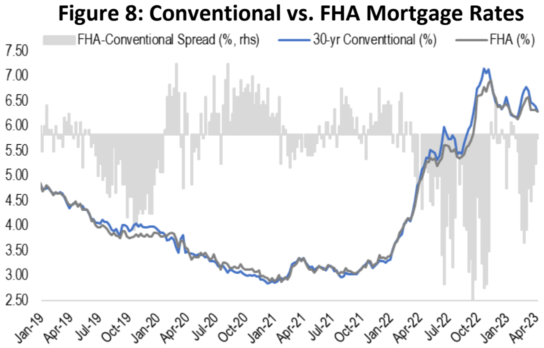
Metro	Median Sale Price Per Square Foot (y/y)		Active Listings with Price Drops		Share of Homes Sold Above List		Average Sale-to-List Ratio		Total Active Listings (y/y)	Median Days on Market vs Pre-COVID		Months' Supply vs Pre-COVID	
	Current	Year Ago	Current	(Δ y/y, ppt)	Current	(Δ y/y, ppt)	Current	(Δ y/y, ppt)		Current	Year Ago	Current	Year Ago
All Redfin Metros	**-1%**	**19%**	**5%**	**3%**	**28%**	**-23%**	**99%**	**-3%**	**10%**	**-12**	**-28**	**-29%**	**-52%**
Atlanta	0%	24%	5%	1%	28%	-30%	99%	-3%	26%	-2	-24	-19%	-56%
Austin	-16%	25%	8%	6%	17%	-51%	98%	-8%	97%	39	-1	47%	-43%
Baltimore	1%	11%	5%	1%	43%	-9%	101%	-1%	-7%	-18	-28	-43%	-59%
Boston	0%	10%	4%	1%	49%	-18%	101%	-3%	-11%	3	0	-18%	-32%
Chicago	-2%	12%	2%	1%	36%	-10%	99%	-1%	-25%	12	6	-19%	-20%
Dallas	-4%	28%	6%	4%	25%	-43%	99%	-7%	57%	3	-17	-25%	-57%
Denver	-9%	22%	7%	5%	35%	-40%	100%	-7%	33%	3	-4	-12%	-49%
Houston	0%	21%	6%	2%	18%	-24%	98%	-3%	41%	0	-28	-18%	-58%
Los Angeles	-4%	17%	3%	1%	42%	-26%	100%	-5%	-8%	2	-15	-16%	-40%
Miami	2%	26%	3%	2%	15%	-14%	96%	-2%	10%	-2	-17	-28%	-63%
Minneapolis	-1%	12%	4%	1%	40%	-19%	100%	-3%	-2%	-3	-13	-17%	-38%
Nashville	1%	28%	5%	2%	19%	-33%	98%	-4%	93%	2	-33	-3%	-61%
New York	-1%	14%	4%	0%	23%	-4%	99%	-1%	-11%	-31	-45	-21%	-46%
Phoenix	-7%	28%	7%	4%	16%	-41%	98%	-4%	48%	10	-22	1%	-54%
Portland	-5%	18%	5%	1%	36%	-29%	100%	-4%	15%	-1	-13	-2%	-51%
Riverside	-4%	24%	4%	2%	33%	-31%	99%	-4%	11%	-6	-31	-23%	-56%
San Diego	-5%	25%	4%	1%	41%	-31%	100%	-6%	-8%	-3	-13	-42%	-58%
Seattle	-10%	22%	5%	2%	36%	-37%	100%	-11%	11%	-1	-4	-4%	-47%
Tampa	1%	31%	8%	4%	17%	-34%	98%	-4%	89%	-5	-29	-25%	-67%
Washington DC	-3%	11%	3%	1%	43%	-16%	100%	-2%	-3%	9	-10	-18%	-45%

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

MORTGAGE APPLICATIONS CLIMBED BUT REMAINED WELL BELOW YEAR-AGO LEVEL

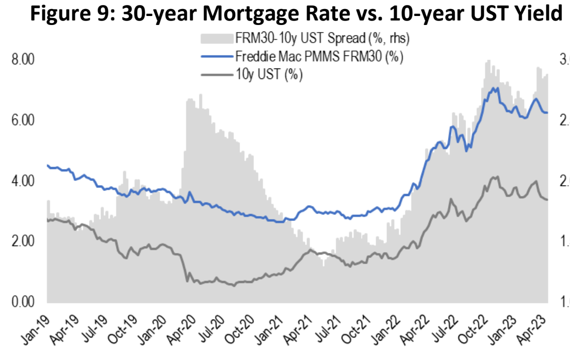
According to the MBA Weekly Applications Survey, the average contract conventional mortgage rate declined -10bps to 6.3% during the week ending April 7 while the FHA contract mortgage rate also declined -4bps to 6.29%, resulting in a 6bps widening of the spread between the FHA and conventional mortgage rate to -0.01% (Figure 8). Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending April 12 indicated that the FRM30 declined -1bps w/w to 6.27% (Figure 9) as 10-year UST yields declined -3bps to an average of 3.39% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 2bps to 2.88%, 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 8: Conventional vs. FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

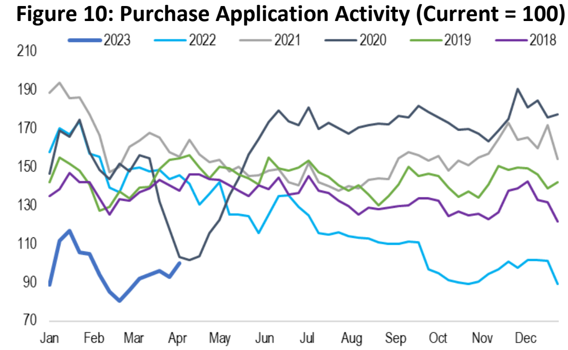
Figure 9: 30-year Mortgage Rate vs. 10-year UST Yield



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

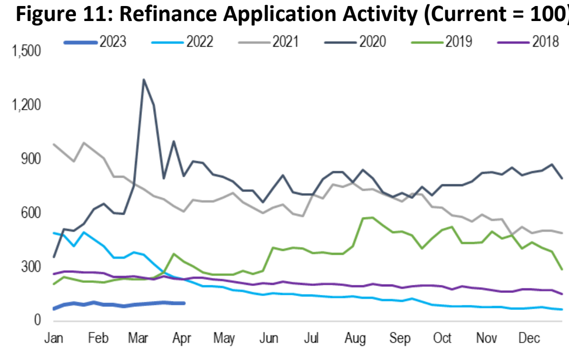
The MBA Weekly Applications Survey for the week ending April 7 increased 5.3% w/w, leaving the index down -42% year-over-year and down -56% compared with pre-pandemic levels (i.e., the average of the same week in 2018, 2019 and 2020). The weekly increase was driven primarily by a 7.8% increase in purchase applications, which remained down -31% y/y despite the weekly increase, and -24% below the pre-pandemic level (Figure 10). Refinancing applications increased 0.1% w/w but remained down -57% y/y and -78% relative to pre-pandemic levels (Figure 11).

Figure 10: Purchase Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

Figure 11: Refinance Application Activity (Current = 100)

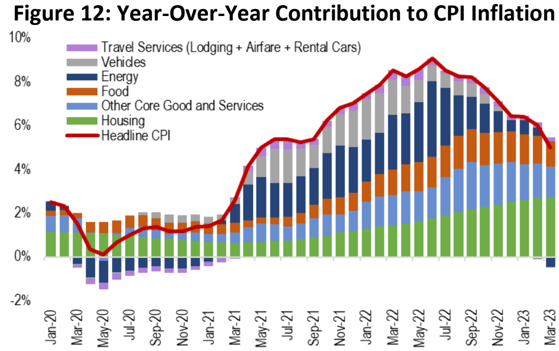


Sources: Mortgage Bankers Association, Arch MI

CONSUMER PRICES HEADING IN THE RIGHT DIRECTION

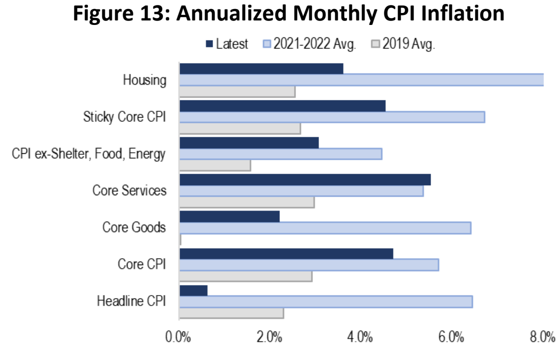
March's consumer price inflation report was slightly weaker than consensus expectations as the headline index rose 0.1% m/m (cons. 0.2%) or 5.0% y/y, a step down from 0.4% m/m and 6.0% y/y in February (Figure 12). The big drag on headline came from energy prices, which plunged -3.5% m/m, led by a -7.1% slump in utility prices and a -4.6% drop in gasoline costs. Food price pressures continued to ease, coming in flat on the month helped by a -0.3% m/m decline in grocery prices, the slowest pace in over a year, which offset the 0.6% monthly gain in restaurant prices. Oil prices have bounced since the end of March amid the announced production cuts from OPEC, which should lead to some renewed pricing pressure from energy prices if sustained. Producer price inflation for consumer foods rose in March for the first time since November, suggesting that the recent cooldown in consumer food prices could reverse in the months ahead.

Figure 12: Year-Over-Year Contribution to CPI Inflation



Sources: BLS, Arch MI

Figure 13: Annualized Monthly CPI Inflation



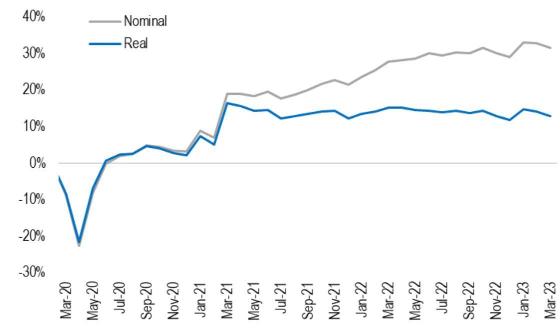
Sources: BLS, Arch MI

Good news on the headline figures was overshadowed by a mixed picture on core inflation (excluding food and energy) that rose in-line with consensus expectations at 0.4% m/m, or 4.7% annualized (Figure 13). Core goods prices rose 0.2% m/m, the fastest pace in eight months, aided by a 0.4% jump in new vehicles and a 0.6% gain in medical goods. Other core goods categories eased but were still strong, including apparel (0.3%), household furnishings (0.4%) and other goods (0.5%). Core services inflation slowed 10bps to 0.5% m/m but remained in-line with its three-month average and despite the significant slowdown in rents (0.5% from 0.8% Feb) and owner's equivalent rents (0.5% vs 0.8% Feb). The step down in housing costs is a welcome sign and one we expected to occur a few more months down the line. As such, we would not put too much weight in one month of data, but we do expect housing disinflation to get well underway by 2H23 and provide a meaningful headwind to overall price pressures.

RETAIL SALES REVEAL 1Q23 ENDED WITH A SLOWDOWN, NOT A COLLAPSE

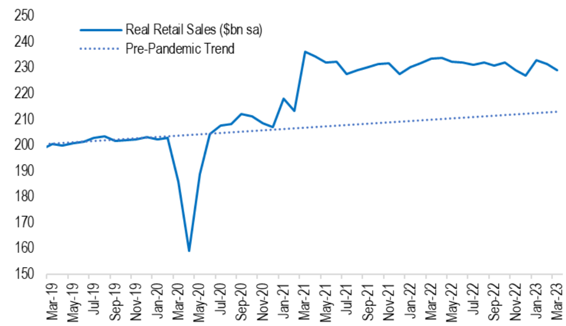
March nominal retail and food services stepped down by -1.0% m/m (cons. -0.5%) following a -0.2% decline (upwardly revised from -0.4%) in February and a 2.8% gain in January. Despite the cooldown in the last two months, 1Q23 retail sales expanded at a healthy annualized pace of 7.0%. Dragging the March figure lower were gasoline (-5.5%), general merchandise (-3.0%), autos (-1.6%) and furniture (-1.2%). Retail sales excluding autos fell -0.8% m/m while the important control group (excluding auto, gas, building materials and food services), which feeds directly into the GDP report, declined -0.3% (cons. -0.5%) after a 0.5% uptick in February. Online sales, which boast the second highest share of total sales behind autos, rose a strong 1.9% for the month with restaurants eking out a gain of 0.1%.

Figure 14: Retail & Food Service Sales (Change from Feb '20)



Sources: Census Bureau, Arch MI

Figure 15: Real Retail and Food Services Sales



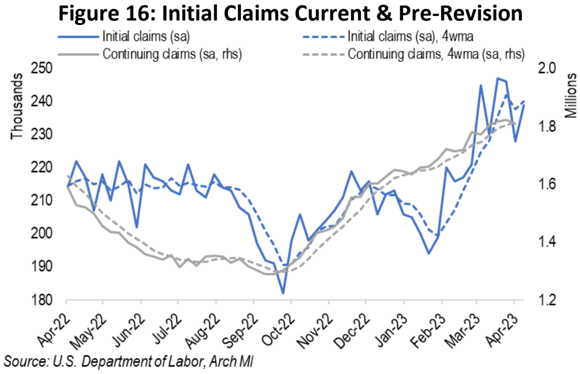
Sources: Census Bureau, Arch MI

Adjusted for inflation, retail sales declined -1.0% 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 14). Real control group sales, however, have been more robust, increasing to a pace of 9.9% in 1Q23 from 2.4% in 4Q22 on an annualized basis. Despite the lack of meaningful acceleration in headline real spending growth, real retail sales remain 13% above February 2020 levels and 8% above the pre-COVID trend due mostly to the sharp recovery early in the pandemic (Figure 15).

JOBLESS CLAIMS CONTINUED TRENDING HIGHER

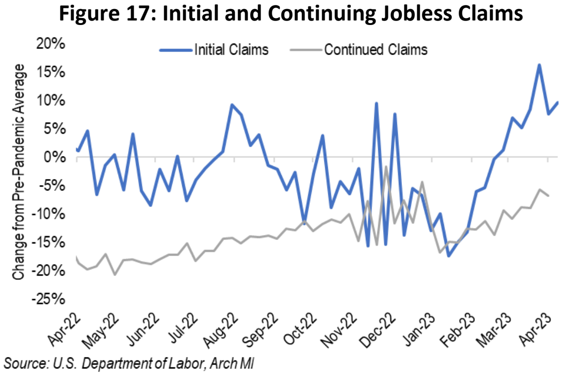
Initial jobless claims rose by 11k to a seasonally adjusted 239k (consensus: 235k) during the week ending April 8, moving the four-week average up to 240k from 238k (Figure 16). The non-seasonally adjusted level of initial claims moved up to 10% above its pre-COVID average (i.e., 2018–2019) from 8% the week before and up from -17% below in mid-January (Figure 17). Continued claims for regular state programs (i.e., repeat filers for unemployment insurance) declined by 13k during the week ending April 1 to a seasonally adjusted 1,810k (consensus: 1,833k), moving the four-week average up to 1,814k from 1,804k. Meanwhile, the non-seasonally adjusted level of continued claims moved down to -7% below its pre-COVID average from -6% the week before and up from -17% below in mid-January.

Figure 16: Initial Claims Current & Pre-Revision



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

Figure 17: Initial and Continuing Jobless Claims



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

The trend remained higher for both initial and continued claims, although the pace of the increase is not alarming just yet. Particularly notable is that continued claims remained below the pre-COVID level even as initial claims have settled in well above the pre-COVID level. This suggests that the labor market remains tight enough for job seekers to find new jobs instead of languishing on the sidelines collecting unemployment insurance benefits.

The Week Ahead

Aside from some sentiment indexes, this week will also provide updates on several key housing market metrics. The week kicks off with the April National Association of Home Builders (NAHB) Housing Market Index (HMI), which is expected to reflect a modest further recovery in home builder sentiment according to the Bloomberg Consensus Survey of Economists. This would reflect the fourth consecutive month of gains for the NAHB HMI, which hit a low of 31 last December. Construction activity is expected to have cooled somewhat in March following a surge in February, with building permits and housing starts expected to decline -6.5% and -3.5%, respectively. March existing home sales are expected to have inched down by -1.8% following a 15% gain in February. Sentiment indexes are generally expected to reflect continued weakness in April for manufacturing and a modest cooldown of growth for services activity as well.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
4/17/23	Empire Manufacturing	Apr	--	-18.0	-24.6	index, sa
4/17/23	NAHB Housing Market Index	Apr	--	45	44	index, sa
4/18/23	Building Permits	Mar	--	1,450	1,550	k, saar
4/18/23	Building Permits m/m	Mar	--	-6.5%	15.8%	sa
4/18/23	Housing Starts	Mar	--	1,400	1,450	k, saar
4/18/23	Housing Starts m/m	Mar	--	-3.5%	9.8%	sa
4/19/23	MBA Mortgage Applications	4/14/23	--	--	5.3%	w/w, sa
4/20/23	Initial Jobless Claims	4/15/23	--	240	239	k, sa
4/20/23	Continuing Claims	4/8/23	--	1,825	1,810	k, sa
4/20/23	Philadelphia Fed Business Outlook	Apr	--	-19.7	-23.2	index, sa
4/20/23	Existing Home Sales	Mar	--	4,500	4,580	k, saar
4/20/23	Existing Home Sales m/m	Mar	--	-1.8%	14.5%	sa
4/20/23	Conference Board Leading Index	Mar	--	-0.7%	-0.3%	m/m, sa
4/21/23	S&P Global US Manufacturing PMI	Apr P	--	49.0	49.2	index, sa
4/21/23	S&P Global US Services PMI	Apr P	--	51.5	52.6	index, sa
4/21/23	S&P Global US Composite PMI	Apr P	--	51.2	52.3	index, sa

Sources: Bloomberg Consensus Survey of Economists, Arch MI