HaMMR Digest

Stay current with economic and mortgage market trends.

May 8, 2023

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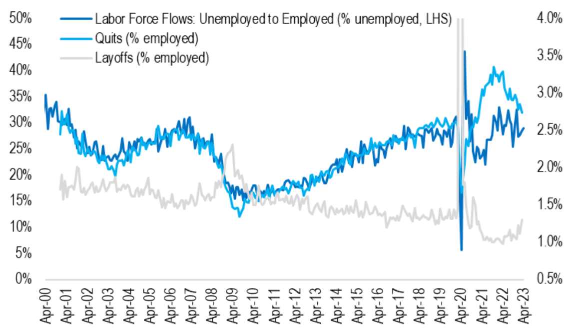
Weekly Wrap — Let the Lighthouse Guide You Through the Storm

- Banking sector turbulence remained elevated, but funding stress appears contained at the moment.
- The Federal Open Market Committee (FOMC) hiked 25bps as expected, likely for the last time this cycle.
- The labor market continued to gradually normalize and remains a key crux of support for the slowing economy.

Renewed banking stress captivated markets last week as equity prices plunged more than 30% for Pacific Western Bank and Western Alliance Bancorp. Most strikingly, there was no catalyst for such a move given the stabilization of deposits. Bank equity performance alone would suggest elevated banking stress. On the contrary, Fed emergency lending through the week of May 3 showed a $68.5bn decline in the usage of the discount window to just $5.3bn (mostly due to the removal of First Republic from the borrower list) while Bank Term Funding Program (BTFP) usage fell $5.5bn to $75.8bn. Even the U.S. Treasury's Financial Stress Index and, importantly, the funding sub-component have not shown widespread stress. Lack of widespread banking stress likely encouraged the Fed to proceed with its 25bps rate hike to 5.25% (upper bound). The policy statement got a "meaningful" change, as Fed Chair Jerome Powell put it: from "some additional policy firming" to "in determining the extent to which additional policy firming" is needed and he did not push back during the press conference that this could be the final hike. Although Powell did leave the door open for further tightening, the message delivery was dovish when combined with his statement that the real policy rate was likely sufficiently restrictive.

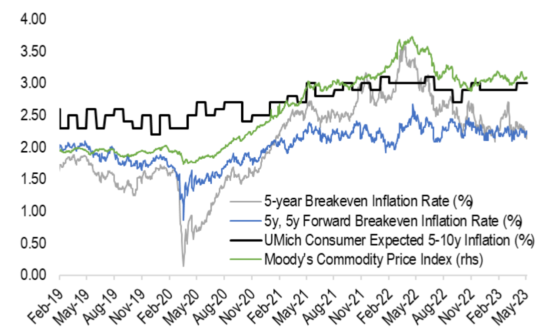
Pushback that the economy is on the cusp of recession came from a blustering payrolls report showing 253k payrolls (cons. 185k) were added in April. Despite a record thirteenth consecutive month where payroll gains have beat consensus expectations, the downward revision of -149k to the prior two months ensured the three-month moving average fell further to 222k in April from 295k in March and 524k one year ago. All in all, the labor market is normalizing with underlying health still holding firm. The unemployment rate ticked lower to 3.4% (cons. 3.6%) while the prime age employment rate reached the highest level in over 20 years. Recent jobless claims data have started to stabilize, permanent job losers fell -107k m/m in April to 1.45m and the share of unemployed finding employment remained elevated, suggesting labor reabsorption remains ample (Figure 1).

Figure 1: Proxies for Labor Market Health



Sources: BLS, Arch MI

Figure 2: Inflation Monitor



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

Despite obvious risks percolating, namely banking stress and tightening credit, the labor market appears to have enough cushion to cradle a slowing economy over the near-term. Job openings have declined by 1.6m since December to 9.6m in March (cons. 9.7m), the largest three-month drop on record excluding the pandemic. The number of unemployed per vacant position backtracked to 1.6 from a peak of 2.0 last March while the quits rate fell to 2.5%, 20bps shy of its pre-COVID level. That said, employers are still having to pay up to attract and retain staff with average hourly earnings up 0.5% m/m (cons. 0.3%), lifting the three-month annualized growth rate to 4.2% from 3.4% in March, echoing the robust growth in the Employment Cost Index released last week. Healthy labor demand was also gleaned from multiple PMI surveys that were released with overall economic sentiment improving in April from March across the board. There will be one more employment report and two consumer price index (CPI) inflation reports (Figure 2) between today and the June policy meeting, but we expect the Fed to remain cautious at this juncture and instead wait to observe the impact or prior hikes.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
5/1/23	S&P Global US Manufacturing PMI	Apr F	**50.2**	50.4	50.4	index, sa
5/1/23	ISM Manufacturing	Apr	**47.1**	46.8	46.3	index, sa
5/1/23	ISM Prices Paid	Apr	**53.2**	49.0	49.2	index, nsa
5/2/23	JOLTS Job Openings	Mar	**9.6**	9.7	10.0	m, sa
5/2/23	Factory Orders	Mar	**0.9%**	1.2%	-1.1%	m/m, sa
5/2/23	Durable Goods Orders	Mar F	**3.2%**	3.2%	3.2%	m/m, sa
5/2/23	Wards Total Vehicle Sales	Apr	**15.9**	15.1	14.8	m, saar
5/3/23	MBA Mortgage Applications	4/28/23	**-1.2%**	--	3.7%	w/w, sa
5/3/23	ADP Employment	Apr	**296**	150	142	k, m/m, sa
5/3/23	S&P Global US Services PMI	Apr F	**53.6**	53.7	53.7	index, sa
5/3/23	S&P Global US Composite PMI	Apr F	**53.4**	53.5	53.5	index, sa
5/3/23	ISM Services Index	Apr	**51.9**	51.8	51.2	index, nsa
5/3/23	FOMC Rate Decision (Upper Bound)	5/3/23	**5.25%**	5.25%	5.00%	
5/4/23	Nonfarm Productivity	1Q P	**-2.7%**	-2.0%	1.6%	q/q, saar
5/4/23	Initial Jobless Claims	4/29/23	**242**	240	229	k, sa
5/4/23	Continuing Claims	4/22/23	**1,805**	1,865	1,843	k, sa
5/4/23	Unit Labor Costs	1Q P	**6.3%**	5.6%	3.3%	q/q, saar
5/5/23	Nonfarm Payrolls	Apr	**253**	185	165	k, m/m, sa
5/5/23	Private Payrolls	Apr	**230**	160	123	k, m/m, sa
5/5/23	Unemployment Rate	Apr	**3.4%**	3.6%	3.5%	sa
5/5/23	Average Hourly Earnings m/m	Apr	**0.5%**	0.3%	0.3%	sa
5/5/23	Average Hourly Earnings y/y	Apr	**4.4%**	4.2%	4.3%	nsa
5/5/23	Average Weekly Hours All Employees	Apr	**34.4**	34.4	34.4	sa
5/5/23	Labor Force Participation Rate	Apr	**62.6%**	62.6%	62.6%	sa
5/5/23	Consumer Credit	Mar	**26.5**	17.0	15.0	$B, m/m, sa

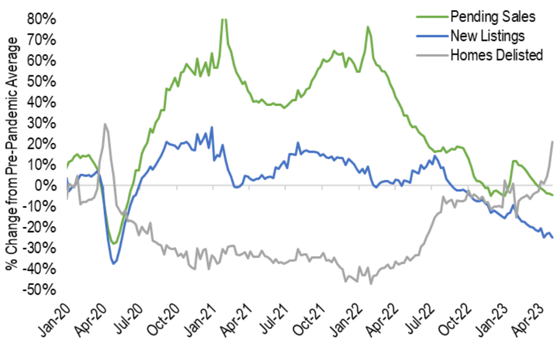
Sources: Bloomberg Consensus Survey of Economists, Arch MI

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

TIGHT HOUSING MARKET HAS SUPPORTED HOME PRICES IN EARLY 2023

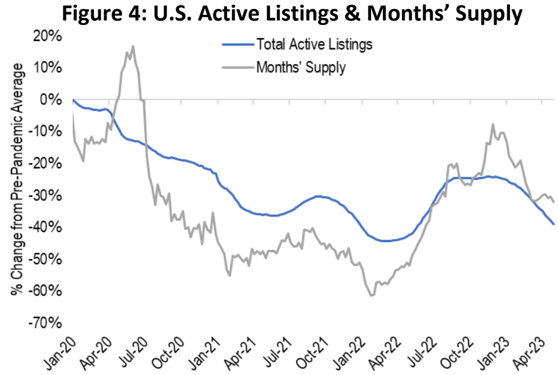
Although home sales continue to wane, sellers have remained few and far between and thus the market has remained much tighter than prior to the pandemic. Accordingly, national home prices climbed in April although tightening credit conditions and persistently elevated mortgage rates could put a dent in the tepid recovery. Pending home sales were down roughly -22k y/y (Figure 3), or -29% below the year-ago level for the week ending April 30, 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 continued to weigh on potential sellers as new listings declined to -25% below the pre-pandemic average from -21% four weeks ago. Meanwhile, the number of delisted homes rose to 21% above the pre-pandemic average for this time of year from 2% four weeks ago.

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



Source: Redfin, Arch MI

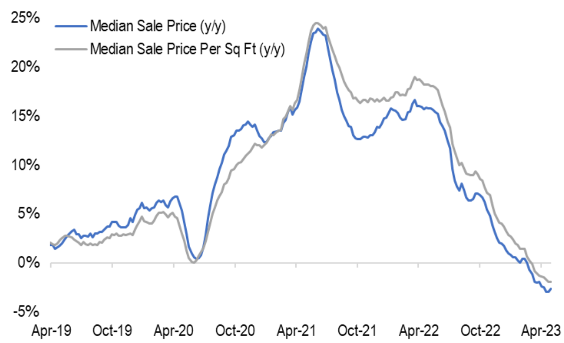
Figure 4: U.S. Active Listings & Months' Supply



Source: Redfin, Arch MI

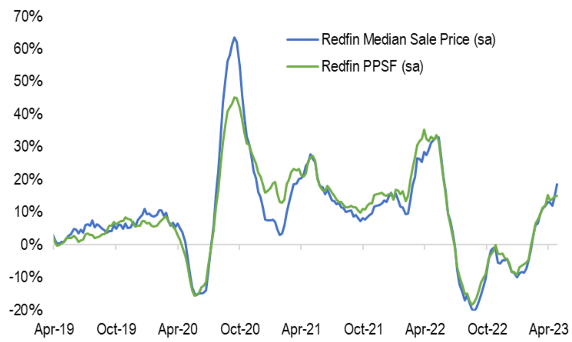
The decline in new listings and increase in delisted homes offset the cooling pace of sales and pushed the number of active listings further down to -39% below the pre-pandemic average and well below last year's peak of -25% (Figure 4). Despite total homes sold being down -25% y/y and -11% below the pre-pandemic average, the national market remains somewhat tight given months' supply is 2.5 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.

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 slowed to -2% y/y from -1.9% last week and a drastic slowdown from the 18.2% 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 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 a 15% annualized growth rate through April 30 (Figure 6).

Figure 7: Weekly Housing Monitor (as of 4/30/23)

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	**-2%**	**18%**	**5%**	**2%**	**31%**	**-23%**	**99%**	**-3%**	**6%**	**-11**	**-25**	**-32%**	**-52%**
Atlanta	*-1%*	*24%*	5%	1%	31%	-29%	99%	-3%	19%	-2	-19	-27%	*-56%*
Austin	**-18%**	*24%*	**8%**	**5%**	**19%**	**-50%**	**98%**	**-9%**	**80%**	**32**	**5**	**49%**	**-37%**
Baltimore	**0%**	**10%**	5%	**0%**	**48%**	**-6%**	**102%**	**-1%**	*-10%*	*-11*	-20	**-48%**	**-61%**
Boston	**0%**	*14%*	*4%*	1%	**55%**	*-17%*	**102%**	-3%	*-11%*	*6*	**4**	-24%	**-37%**
Chicago	*-1%*	**11%**	**2%**	1%	40%	**-10%**	100%	**-1%**	**-27%**	**19**	**16**	-21%	**-20%**
Dallas	-5%	**27%**	*6%*	**3%**	29%	**-43%**	99%	**-7%**	*45%*	0	-15	-28%	*-55%*
Denver	**-8%**	20%	**8%**	**5%**	39%	*-37%*	100%	**-7%**	24%	3	*-3*	-16%	-47%
Houston	**0%**	21%	*6%*	1%	**20%**	-25%	**98%**	-3%	*35%*	-2	*-23*	-26%	*-57%*
Los Angeles	**-8%**	18%	**3%**	**0%**	**47%**	-23%	100%	-5%	*-13%*	-2	-13	-18%	*-39%*
Miami	**3%**	22%	**3%**	1%	**16%**	*-14%*	**97%**	*-2%*	8%	-4	-18	*-34%*	**-63%**
Minneapolis	*-1%*	**12%**	*4%*	1%	*45%*	*-18%*	*101%*	-3%	*-4%*	-3	-11	-23%	*-41%*
Nashville	*-1%*	**30%**	5%	2%	**19%**	*-37%*	**98%**	-5%	**83%**	2	**-34**	*-6%*	**-61%**
New York	-4%	*14%*	*4%*	**0%**	*23%*	**-9%**	99%	**-1%**	*-12%*	**-26**	**-42**	-26%	*-43%*
Phoenix	**-9%**	**27%**	*6%*	2%	**17%**	**-42%**	**98%**	-4%	*37%*	*8*	*-22*	*-6%*	-51%
Portland	-5%	18%	5%	1%	*41%*	-26%	*101%*	-4%	8%	0	*-7*	-14%	-51%
Riverside	*-6%*	*25%*	*4%*	1%	35%	-32%	99%	-4%	1%	*-8*	**-30**	-29%	-53%
San Diego	*-7%*	*25%*	*4%*	**0%**	**48%**	-23%	*101%*	-5%	**-19%**	-4	-10	**-43%**	-52%
Seattle	**-10%**	21%	5%	1%	*41%*	*-33%*	*101%*	**-9%**	-1%	-1	*-2*	*-7%*	-44%
Tampa	*-2%*	**31%**	**8%**	**3%**	**17%**	*-37%*	**98%**	-4%	**72%**	-4	*-26*	*-31%*	**-64%**
Washington DC	*-1%*	**11%**	*4%*	**0%**	**47%**	*-15%*	*101%*	*-2%*	*-10%*	*10*	*-7*	-26%	-45%

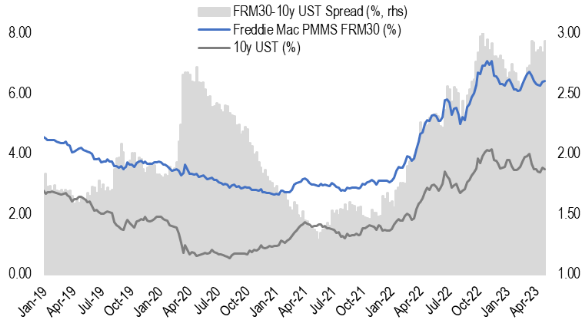
Note: Data reflects 4-week averages; Source: Redfin, Arch MI

Of the major metros we track (Figure 7), annual home price growth was weakest in **Austin** (-18%), **Seattle** (-10%), **Phoenix** (-9%), **Denver** (-8%) and **Los Angeles** (-8%). Home price growth slowed most rapidly compared with a year ago in **Austin** (-42%-pts), **Phoenix** (-36%-pts), **Tampa** (-33%-pts), **Dallas** (-32%-pts) and **San Diego** (-32%-pts). Conversely, annual home price growth was strongest in **Miami** (3%), **Houston** (0%) and **Boston** (0%). 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** (32 days longer), **Chicago** (19) and **Washington DC** (10), while some markets like **New York** (-26) and **Baltimore** (-11) remained well below pre-pandemic timelines. Markets that have deteriorated the most based on months' supply include **Austin**, **Nashville** and **Phoenix**, where months' supply climbed to a respective 49%, -6% and -6% relative to their pre-pandemic averages from -37%, -61% and -51% below one year ago. Months' supply remained below pre-pandemic levels in most markets (-32% below nationally), with **Baltimore** (-48%), **San Diego** (-43%), **Miami** (-34%), **Tampa** (-31%) and **Riverside** (-29%) remaining the tightest relative to their pre-pandemic averages.

MORTGAGE APPLICATION ACTIVITY REMAINED DEPRESSED

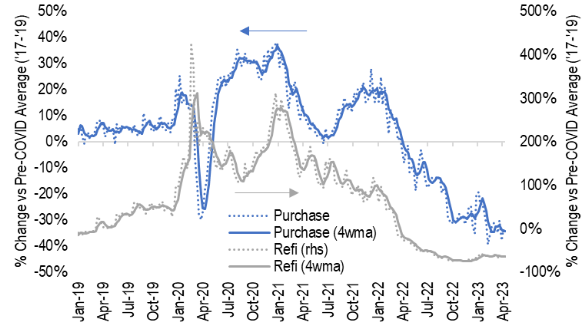
According to the MBA Weekly Applications Survey, the average contract conventional mortgage rate declined -5bps to 6.5% during the week ending April 28 while the FHA contract mortgage rate rose 2bps to 6.43%, resulting in a 7bps widening of the spread between the FHA and conventional mortgage rate to -0.07%. Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending May 3 indicated that the FRM30 declined -4bps w/w to 6.39% (Figure 8) 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 -2bps to 2.91%, 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: 30-year Mortgage Rate vs. 10-year UST Yield



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

Figure 9: Mortgage Application Activity vs Pre-COVID



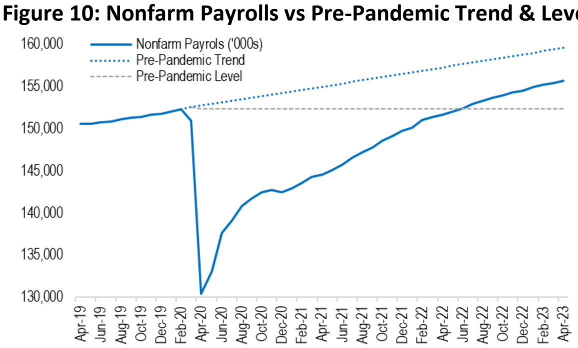
Sources: Mortgage Bankers Association, Arch MI

Mortgage application activity has remained depressed with rates stuck in the mid-6% range. The MBA Weekly Applications Survey for the week ending April 28 declined -1.2% w/w, leaving the index down -39% year-over-year and down -46% compared with pre-pandemic levels (i.e., the average of the same week in 2017, 2018 and 2019). The weekly decline was driven primarily by a -2% decline in purchase applications, which remained down -32% y/y and -35% below the pre-pandemic level (Figure 9). Refinancing applications increased 0.8% w/w but remained down -51% y/y and -62% relative to pre-pandemic levels.

APRIL EMPLOYMENT REPORT BUCKS EXPECTATIONS YET AGAIN

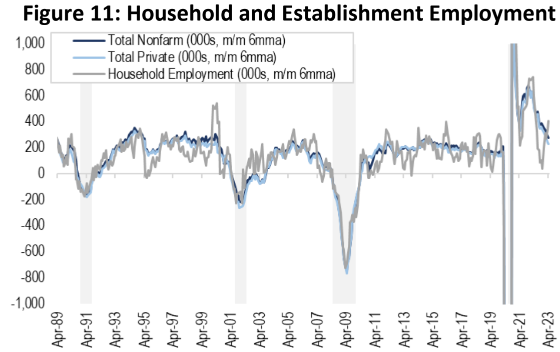
April's job gain of 253k (cons. 185k) was a pronounced rebound from the 165k jobs added in February, although the three-month average pace of job gains eased to 222k from 295k last month. Through April, the U.S. economy had 3.3 million more jobs than prior to the pandemic (i.e., February 2020) but remained well below the pre-pandemic trend (Figure 10).

Figure 10: Nonfarm Payrolls vs Pre-Pandemic Trend & Level



Sources: Bureau of Labor Statistics, Arch MI

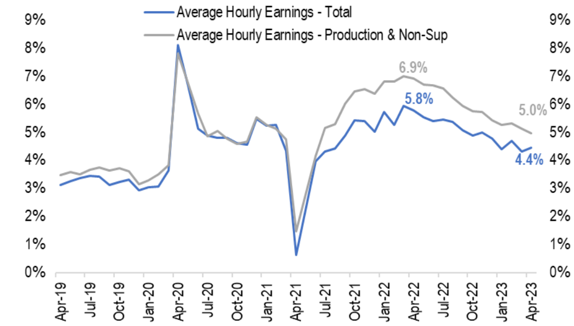
Figure 11: Household and Establishment Employment



Sources: Bureau of Labor Statistics, Arch MI

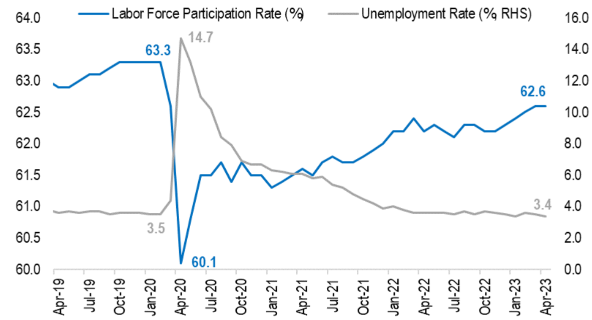
Job gains were led by education and health services (77k), professional business services (43k) and leisure and hospitality (31k). The breadth of payroll gains improved slightly in April, as reflected by the diffusion index rising to 57.4 from 57.0 last month and 68.8 one year ago. Household employment growth has improved and is now back in-line with the trend in nonfarm payroll growth (Figure 11), negating prior fears that the rosier establishment survey was set to deteriorate significantly. Hourly earnings rose 0.5% m/m (cons. 0.3%) in April and 4.4% y/y (Figure 12) as the unemployment rate declined to 3.4% (cons. 3.6%) amid a -182k m/m drop in the number of unemployed and a steady labor force participation rate of 62.6% (Figure 13). Underlying labor market strength remains despite some obvious signs of cooling over the past year, which gives the Fed room to remain vigilant in its battle with inflation.

Figure 12: Average Hourly Earnings Growth (y/y)



Sources: Bureau of Labor Statistics, Arch MI

Figure 13: Labor Force Participation & Unemployment Rates

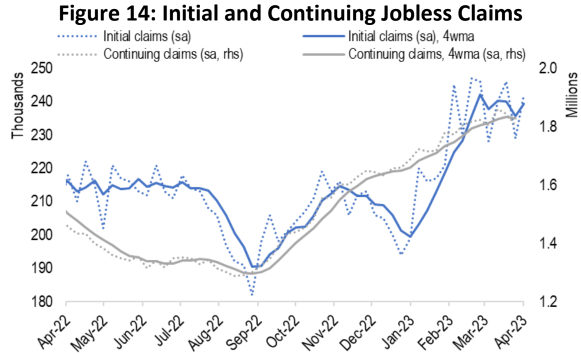


Sources: Bureau of Labor Statistics, Arch MI

JOBLESS CLAIMS CONTINUED TO MOVE SIDEWAYS

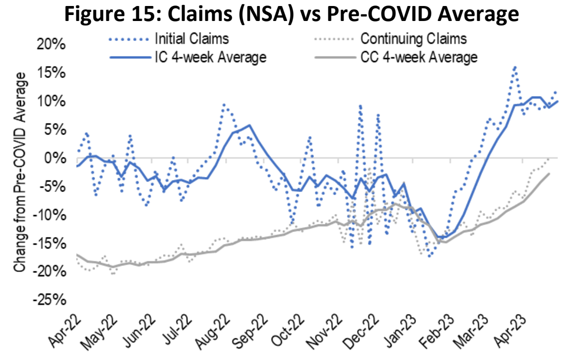
Initial jobless claims rose by 13k to a seasonally adjusted 242k (cons. 240k) during the week ending April 29, moving the four-week average up to 239k from 236k (Figure 14). The non-seasonally adjusted level of initial claims moved up to 12% above its pre-COVID average (i.e., 2018 to 2019) from 9% the week before and up from -17% below in mid-January (Figure 15). Continuing claims for regular state programs (i.e., repeat filers for unemployment insurance) declined by 38k during the week ending April 22 to a seasonally adjusted 1,805k (cons. 1,865k), moving the four-week average down to 1,828k from 1,833k. Meanwhile, the non-seasonally adjusted level of continuing claims moved up to 0% below its pre-COVID average from -2% the week before and up from -17% below in mid-January.

Figure 14: Initial and Continuing Jobless Claims



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

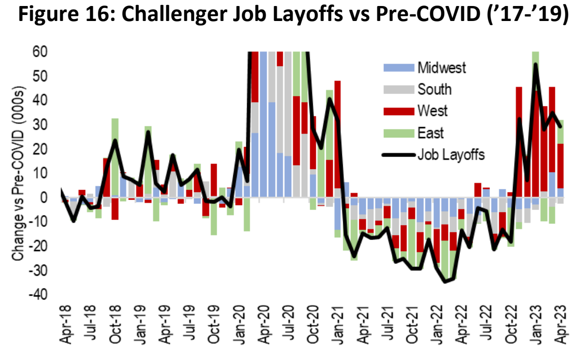
Figure 15: Claims (NSA) vs Pre-COVID Average



Source: U.S. Department of Labor, Arch Global Economics

While claims data is notoriously noisy, particularly around holidays, the trend in initial claims appears to be generally sideways since the beginning of March. Accordingly, the pace of the rise in continuing claims has tempered and could be leveling off a bit as well. We continue to expect the economy to weaken over the second half of the year, which will cause claims filings and the unemployment rate to gradually move higher.

Figure 16: Challenger Job Layoffs vs Pre-COVID ('17-'19)



Source: Challenger, Gray and Christmas, Arch MI

Another measure of job layoffs from Challenger, Gray & Christmas showed layoffs were up 176% y/y in April, although that was down from 319% in March and 440% in January. Compared with the pre-COVID averages (i.e., 2017, 2018 and 2019) for each respective month, layoffs remained most elevated in the West (18k above pre-COVID average) but have cooled compared with the peak of 45k above in Nov 2022 (Figure 16). Layoffs are still below the pre-COVID average in the South (-2k), declined to 4k above in the Midwest from 11k in March, and jumped a bit to 10k above in the East from -7k below in March.

The Week Ahead

This week will provide key updates on recent inflation developments for both consumers and producers. According to the Bloomberg Consensus Survey of Economists, April Consumer Price Index (CPI) inflation is expected to grow 0.4% m/m (sa), which would be up notably from a weak March print (0.1%) and leave annual inflation unchanged at 5.0%. Core CPI inflation (excluding food and energy prices) is expected to cool slightly to 0.3% from 0.4% in March, which would also bring the year-over-year rate of inflation down to 5.5% from 5.6%. April Producer Price Index (PPI) inflation is also expected to bounce back with a 0.3% m/m gain, up from -0.5% in March, which would bring annual PPI inflation down to 2.5% from 2.7% previously. The annual decline in import prices is also expected to have accelerated to -4.8% in April from -4.6% in March. Altogether, inflation is likely to remain too elevated for the Fed's liking, although the general trend and leading indicators of consumer inflation suggest further cooling is ahead.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
5/8/23	Wholesale Inventories m/m	Mar F	--	0.1%	0.1%	sa
5/9/23	NFIB Small Business Optimism	Apr	--	89.7	90.1	index, sa
5/10/23	MBA Mortgage Applications	5/5/23	--	--	-1.2%	w/w, sa
5/10/23	CPI m/m	Apr	--	0.4%	0.1%	sa
5/10/23	CPI Core (ex Food and Energy) m/m	Apr	--	0.3%	0.4%	sa
5/10/23	CPI y/y	Apr	--	5.0%	5.0%	nsa
5/10/23	CPI Core (ex Food and Energy) y/y	Apr	--	5.5%	5.6%	nsa
5/11/23	Initial Jobless Claims	5/6/23	--	245	242	k, sa
5/11/23	Continuing Claims	4/29/23	--	1,820	1,805	k, sa
5/11/23	PPI Final Demand m/m	Apr	--	0.3%	-0.5%	sa
5/11/23	PPI Core (ex Food and Energy) m/m	Apr	--	0.2%	-0.1%	sa
5/11/23	PPI Final Demand y/y	Apr	--	2.5%	2.7%	nsa
5/11/23	PPI Core (ex Food and Energy) y/y	Apr	--	3.3%	3.4%	nsa
5/12/23	Import Price Index y/y	Apr	--	-4.8%	-4.6%	nsa
5/12/23	U. of Mich. Sentiment	May P	--	63.0	63.5	index, nsa
5/12/23	U. of Mich. 1 Yr Inflation	May P	--	4.4%	4.6%	nsa
5/12/23	U. of Mich. 5-10 Yr Inflation	May P	--	2.9%	3.0%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI