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HaMMR Digest

Stay current with economic and mortgage market trends.

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Weekly Wrap — Shipshape?

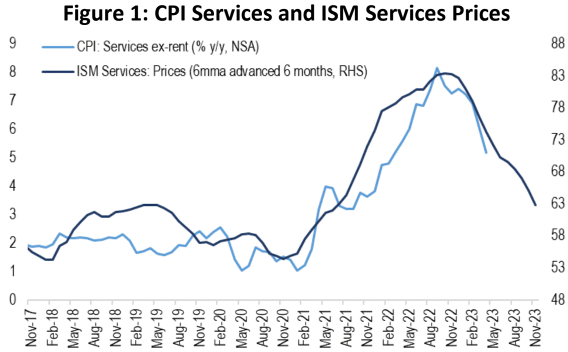
- Last week's spike in initial jobless claims is not a red flag, yet.
- Economic activity has been resilient to date with few hard data points suggesting a recession is imminent.
- The Fed will likely deliver a hawkish pause this week with one or more future hikes still on the table.

We maintain the view that the U.S. expansion has more runway ahead before the next recession. As we have maintained for some time, the economy will slow amid the lagged impacts of elevated rates, reduced credit flows and corporate margin compression. However, these shocks have so far flowed through various sectors of the economy at different speeds instead of all at once. This lack of a synchronized slowdown has so far allowed one segment of the economy (i.e., housing in 2022, manufacturing in 2023) to wobble while others pick up the growth baton. Importantly, the credit channel is critically overlooked in our opinion. Without significant debt overhangs on the business or household side, a modest slowdown in activity is not likely to fester into a negative feedback loop and cause default rates to surge.

Nonetheless, the cacophony of recession calls keeps ringing and gets louder when a data release misses consensus estimates to the downside. A light data week put extra emphasis on initial jobless claims, which spiked 29k w/w to 261k (cons. 235k) for the week ending June 3, the largest weekly increase since 2021. We are not discounting the data point entirely but one week of data, let alone during a holiday week, is not the marker one should hang their hat on to declare that the labor market has finally "cracked." Jobless claims in general have been running at roughly 15% above the pre-pandemic average (non-seasonally adjusted) but continuing claims have remained in check, showcasing a labor market that has been able to absorb most laid-off workers.

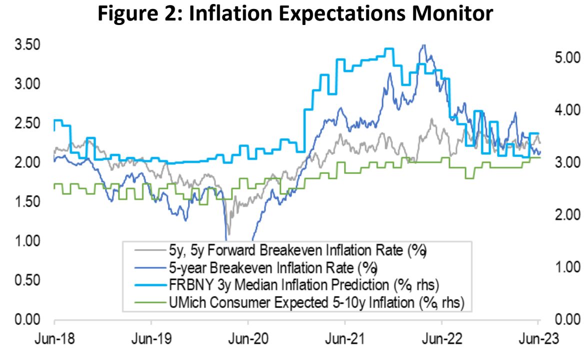
The May ISM Services PMI for May fell to 50.3 (cons. 52.4) from 51.9 in April, signaling the slowest pace of expansion for the services sector since December. The new orders subcomponent fell 3.2pts m/m to 52.9 while the employment index fell below the 50 break-even marker to 49.2, which flies in the face of May's buoyant jobs report. Survey commentary showed that more firms are growing confident in their staffing levels with minimal comments hinting at widespread layoffs. The prices paid measure continued to ease, suggesting that services prices, a key focus of the Fed, are indeed cooling (Figure 1). High-frequency consumer spending data points to solid growth for May while on the business side, real core capital goods orders rose 1.2% m/m in April — the fastest pace since April of 2021. Given the high level of uncertainty in the current environment, a sustained rebound in business capital expenditures is unlikely but at the very least, the data so far indicates firms have not turned overly defensive.

Figure 1: CPI Services and ISM Services Prices



Sources: ISM, BLS, Arch MI

Figure 2: Inflation Expectations Monitor



Source: Bloomberg, University of Michigan, Federal Reserve Board, FRBNY, Arch MI

Unless the May Consumer Price Index (CPI), released on Tuesday, surprises significantly to the upside, a "hawkish" pause is the most likely outcome for the Fed this week. Banking stress is not set to deliver an economic knock-out blow but risks remain from the impact of tighter credit standards and higher financing costs. A pause falls well within the realm of the Fed risk-managing the cycle. However, elevated inflation alongside modestly elevated inflation expectations (Figure 2), healthy consumer spending, a solid labor market and a removal of the debt ceiling risk keep the prospects of one or more hikes on the table at future meetings.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
6/5/23	S&P Global US Services PMI	May F	**54.9**	55.1	55.1	index, sa
6/5/23	S&P Global US Composite PMI	May F	**54.3**	54.5	54.5	index, sa
6/5/23	Factory Orders	Apr	**0.4%**	0.8%	0.6%	m/m, sa
6/5/23	Durable Goods Orders	Apr F	**1.1%**	1.1%	1.1%	m/m, sa
6/5/23	ISM Services Index	May	**50.3**	52.4	51.9	index, nsa
6/7/23	MBA Mortgage Applications	6/2/23	**-1.4%**	--	-3.7%	w/w, sa
6/7/23	Consumer Credit	Apr	**23.0**	22.0	22.8	$B, m/m, sa
6/8/23	Initial Jobless Claims	6/3/23	**261**	235	233	k, sa
6/8/23	Continuing Claims	5/27/23	**1,757**	1,802	1,794	k, sa
6/8/23	Wholesale Inventories m/m	Apr F	**-0.1%**	-0.2%	-0.2%	sa

Sources: Bloomberg Consensus Survey of Economists, Arch MI

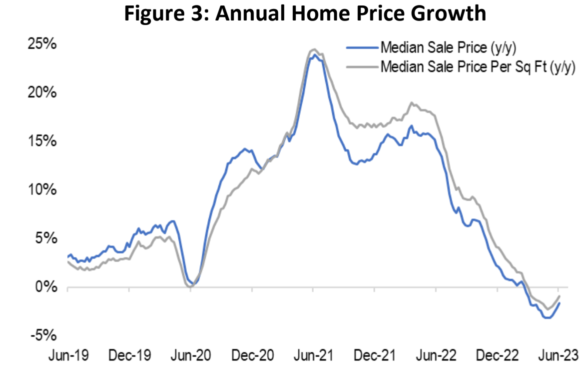
Green = beat expectations; **Red** = worse than expectations; (compared vs. prior if no consensus estimates available)

ANNUAL HOUSING COMPARISONS SET TO KEEP LOOKING BETTER

Year-over-year comparisons are about to improve for many housing metrics. The first half of last year was still in the thick of robust sales, rising prices, and shrinking inventory as buyers scooped up whatever they could buy, paying top dollar to win bidding wars. Mortgage rates began to rise sharply and dwindling affordability began to see the buyer pool shrink into year-end, cooling sales and giving sellers a dose of reality in terms of how much their homes could fetch given new market conditions. Despite the revival of activity early in the year, increased rate volatility and turmoil in the banking sector drove mortgage spreads higher, propelling mortgage rates back to ~7%. Nonetheless, it seems that the shock of mortgage rates above 6% has worn off a bit and a base of resilient demand, albeit low by historical standards, is still willing to transact. Today's backdrop is far different from the second half of last year where calls of a "frozen housing market" and an impending "housing crash" were widespread. A prime example of the change in tone comes from Redfin's Homebuyer Demand Index, a measure of demand for homebuying services from potential buyers, which began to collapse in late April of last year and continuing to slide through the end of 2022 — that measure is now up 3% y/y for the week ending June 4.

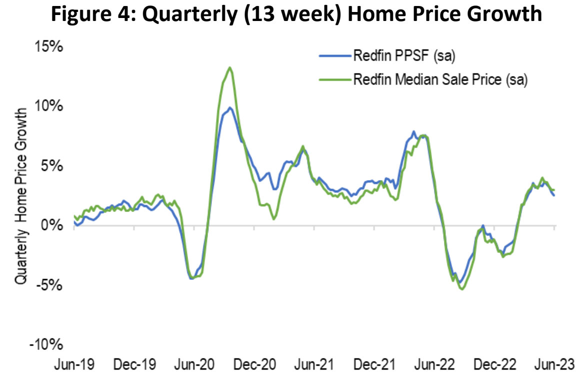
Similar effects are also appearing in home-price dynamics. According to Redfin data for the week ending June 4, the median sale price per square foot (ppsf) was down -0.9% y/y, up from -1.3% last week and -2.2% four weeks ago (Figure 3). Seller confidence is improving as the median new listing ppsf has also accelerated on annual basis to 1.6% from the 0.2% trough in early April of this year. The rebound in home prices is even clearer after we seasonally adjust the Redfin data: The 13-week change in the seasonally adjusted ppsf was up 2.5% (Figure 4), a meaningful reversal from -4.8% last August but a bit of a cooldown from 3.7% at the beginning of May. We expect home-price growth to cool further in the weeks ahead in response to mortgage rates surging back toward 7% over the course of May and remaining elevated in early June. However, we anticipate mortgage rates gradually declining on a non-linear path back into the low-6% range over the remainder of the year, which should result in modest below-trend home-price growth for the full year.

Figure 3: Annual Home Price Growth



Source: Redfin, Arch MI

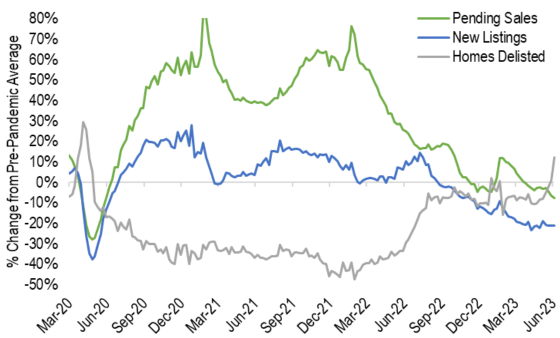
Figure 4: Quarterly (13 week) Home Price Growth



Source: Redfin, Arch MI

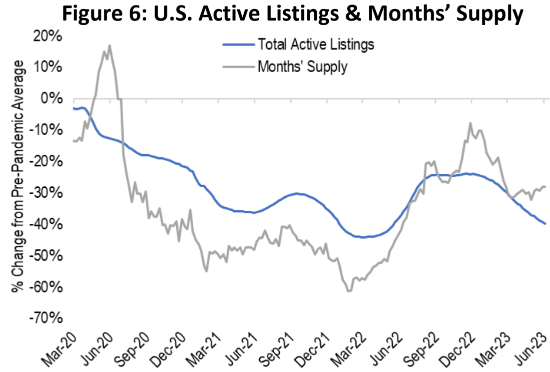
Demand has cooled modestly in response to elevated mortgage rates. Pending sales were down roughly -19k y/y (Figure 5), or -26% below the year-ago level. The recent pace of pending sales was -8% below the pre-pandemic average for this time of year but deteriorated slightly from -6% below last week and -3% three weeks ago. Higher mortgage rates have also weighed on potential sellers as new listings declined to -21% below the pre-pandemic average from -19% four weeks ago. Meanwhile, the number of delisted homes rose to 12% above the pre-pandemic average for this time of year from -8% four weeks ago. The decline in new listings and increase in delisted homes offset the cooling pace of sales and pushed the number of active listings down to -40% below the pre-pandemic average and well below last year's peak of -25% (Figure 6). Despite total homes sold being down -23% y/y and -17% below the pre-pandemic average, the national market remains somewhat tight given months' supply is 2.4 months, -28% below the pre-pandemic average for this time of year. The current months' supply is a modest increase from the 1.9 months recorded for the same week in 2022 when the market was incredibly tight.

Figure 5: U.S. Existing Home Sales Market Dynamics



Source: Redfin, Arch MI

Figure 6: U.S. Active Listings & Months' Supply



Source: Redfin, Arch MI

Of the major metros we track (Figure 7), annual home-price growth was weakest in **Austin** (-17%), **Phoenix** (-10%), L**os Angeles** (-7%), **Seattle** (-7%) and **Dallas** (-6%). Home-price growth slowed most rapidly compared with a year ago in **Austin** (-36%-pts), **Phoenix** (-35%-pts), **Tampa** (-33%-pts), **Dallas** (-32%-pts) and **Nashville** (-30%-pts). Conversely, annual home-price growth was strongest in **Miami** (6%), **Washington** DC (2%) and **Chicago** (2%). Median days on the market have extended alongside softening market conditions, with many markets exceeding pre-pandemic timelines.

Figure 7: Weekly Housing Monitor (as of June 4, 2023)

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%**	**17%**	**5%**	**1%**	**35%**	**-19%**	**100%**	**-3%**	**-4%**	**-12**	**-22**	**-28%**	**-42%**
Atlanta	0%	23%	5%	0%	35%	-25%	100%	-3%	4%	-3	-15	-31%	-43%
Austin	-17%	19%	9%	3%	18%	-46%	98%	-7%	41%	31	5	48%	-12%
Baltimore	2%	11%	5%	0%	53%	-3%	102%	-1%	-14%	-10	-15	-45%	-54%
Boston	1%	11%	4%	0%	61%	-13%	103%	-3%	-19%	8	6	-19%	-31%
Chicago	2%	8%	3%	0%	47%	-7%	100%	-1%	-28%	21	22	-12%	-12%
Dallas	-6%	26%	7%	2%	31%	-40%	99%	-6%	13%	-1	-15	-24%	-40%
Denver	-5%	17%	9%	4%	42%	-26%	100%	-4%	2%	0	-2	-6%	-35%
Houston	-1%	20%	7%	1%	21%	-24%	98%	-3%	22%	-5	-20	-23%	-49%
Los Angeles	-7%	14%	3%	0%	52%	-18%	101%	-4%	-21%	-4	-11	-20%	-23%
Miami	6%	23%	3%	1%	16%	-17%	97%	-2%	1%	-3	-19	-24%	-52%
Minneapolis	-1%	10%	5%	1%	52%	-11%	102%	-2%	-10%	-5	-9	-8%	-31%
Nashville	-3%	27%	5%	1%	21%	-33%	99%	-4%	53%	-3	-29	-10%	-52%
New York	-1%	13%	4%	0%	28%	-7%	100%	-1%	-15%	-32	-43	-26%	-40%
Phoenix	-10%	25%	6%	-1%	19%	-35%	98%	-3%	0%	5	-19	-13%	-24%
Portland	-4%	16%	6%	-1%	43%	-20%	101%	-3%	-4%	-1	-5	-1%	-35%
Riverside	-5%	21%	4%	-1%	40%	-25%	100%	-3%	-15%	-9	-25	-29%	-35%
San Diego	-3%	22%	4%	-1%	54%	-12%	101%	-2%	-32%	-7	-9	-39%	-36%
Seattle	-7%	18%	6%	-2%	46%	-20%	102%	-5%	-24%	-1	-2	6%	-21%
Tampa	-3%	30%	8%	0%	20%	-32%	98%	-3%	33%	-10	-25	-25%	-49%
Washington DC	2%	11%	4%	-1%	52%	-8%	101%	-1%	-17%	6	-4	-20%	-32%

Note: Data reflects 4-week averages.

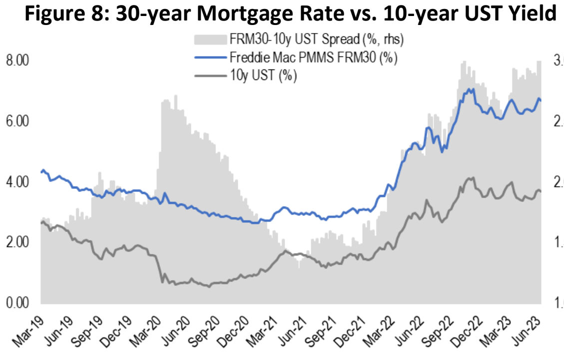
Source: Redfin, Arch MI

Markets with the longest median days on the market relative to the pre-pandemic norm include **Austin** (31 days longer), **Chicago** (21) and **Boston** (8), while some markets like **New York** (-32) and **Tampa** (-10) remained well below pre-pandemic timelines. Markets that have deteriorated the most based on months' supply include **Austin**, **Seattle** and **Portland**, where months' supply climbed to a respective 48%, 6% and -1% relative to their pre-pandemic averages from -12%, -21% and -35% below one year ago. Months' supply remained below pre-pandemic levels in most markets (-28% below nationally), with **Baltimore** (-45%), **San Diego** (-39%), **Atlanta** (-31%), **Riverside** (-29%) and **New York** (-26%) remaining the tightest relative to their pre-pandemic averages.

MORTGAGE APPLICATION ACTIVITY INCHED DOWN EVEN AS RATES DECLINED

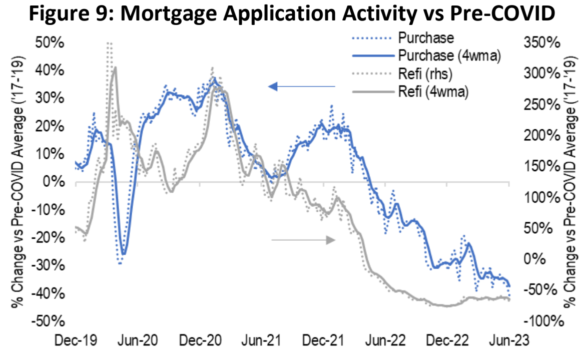
According to the MBA Weekly Applications Survey, the average contract conventional mortgage rate declined -10bps to 6.81% during the week ending June 2 while the FHA contract mortgage rate also declined -12bps to 6.73%, resulting in a 2bps contraction in the spread between the FHA and conventional mortgage rate to -0.08%. Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending June 7 indicated that the FRM30 declined -8bps w/w to 6.71% (Figure 8) as 10-year UST yields declined -4bps to an average of 3.70% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST narrowed -4bps to 3.01%, about 130bps wider than its typical non-stressed level prior to the pandemic and still one of the widest spreads dating back to 1986. 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 until later this summer.

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



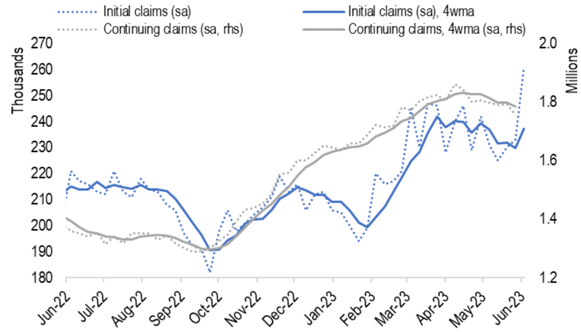
Sources: Mortgage Bankers Association, Arch MI

The MBA Weekly Applications Survey for the week ending June 2 declined -1.4% w/w, leaving the index down -32% year-over-year and down -52% 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 -1.7% decline in purchase applications, which remained down -27% y/y and -41% below the pre-pandemic level (Figure 9). Refinancing applications declined -0.7% w/w and were down -42% y/y and -67% relative to pre-pandemic levels.

JOBLESS CLAIMS SPIKED DURING MEMORIAL DAY WEEK

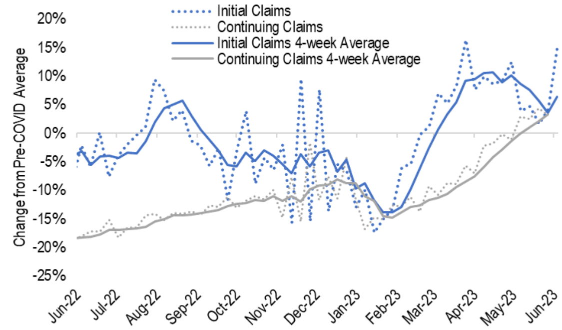
Initial jobless claims rose by 28k to a seasonally adjusted 261k (cons. 235k) during the week ending June 3. This was the highest level for initial claims since October 2021 and lifted the four-week average up to 237k from 230k (Figure 10). The non-seasonally adjusted level of initial claims moved up to 15% above its pre-COVID average (i.e., 2018 to 2019) from 4% the week before and up from -17% below in mid-January (Figure 11). Jobless claims data is notoriously noisy, so we caution against getting overly alarmed by one week of data. Jobless claims data had trended higher at the beginning of the year before leveling off over the last couple of months. Thus, the latest data point reflects a sharp inflection higher, and we will need to see more data prints in this direction to understand if this is the beginning of a new uptrend. Meanwhile, continuing claims for regular state programs (i.e., repeat filers for unemployment insurance) declined by 37k during the week ending May 27 to a seasonally adjusted 1,757k (cons. 1,802k), moving the four-week average down to 1,785k from 1,797k. The non-seasonally adjusted level of continuing claims moved down to 3% above its pre-COVID average from 4% the week before and up from -17% below in mid-January.

Figure 10: Initial and Continuing Jobless Claims (SA)



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

Figure 11: Claims (NSA) vs Pre-COVID Average



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

The Week Ahead

The coming week will center around inflation and the Fed. Market expectations have penciled in a pause for Wednesday's FOMC decision (roughly 25% chance of a 25bps hike) but are not fully convinced that the pause will be the end of the hiking cycle. Ahead of the FOMC meeting, the May Consumer Price Index (CPI) will be released, with consensus expectations for headline inflation to cool month-over-month (0.2%) from 0.4% in April and core CPI remaining firm (0.4%). The bar for the Fed to hike this week is high, but that bar rests solely on evidence that inflation is not showing signs of reacceleration. To round out the inflation data, the May Producer Price Index (PPI) is expected to show a continued disinflationary trend (cons. -0.1% m/m; 1.5% y/y), which should keep downward pressure on consumer prices down the line. The main economic activity releases include retail sales and industrial production for May, the former expected to show modest growth in the control group (which excludes food, autos, gasoline and building materials) of retail sales (0.2% m/m) and the latter more-or-less trending sideways (0.1% m/m).

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
6/13/23	NFIB Small Business Optimism	May	--	88.4	89.0	index, sa
6/13/23	CPI m/m	May	--	0.2%	0.4%	sa
6/13/23	CPI Core (ex Food and Energy) m/m	May	--	0.4%	0.4%	sa
6/13/23	CPI y/y	May	--	4.1%	4.9%	nsa
6/13/23	CPI Core (ex Food and Energy) y/y	May	--	5.2%	5.5%	nsa
6/14/23	MBA Mortgage Applications	6/9/23	--	--	-1.4%	w/w, sa
6/14/23	PPI Final Demand m/m	May	--	-0.1%	0.2%	sa
6/14/23	PPI Core (ex Food and Energy) m/m	May	--	0.2%	0.2%	sa
6/14/23	PPI Final Demand y/y	May	--	1.5%	2.3%	nsa
6/14/23	PPI Core (ex Food and Energy) y/y	May	--	2.9%	3.2%	nsa
6/14/23	FOMC Rate Decision (Upper Bound)	6/14/23	--	5.25%	5.25%	
6/15/23	Advance Retail Sales m/m	May	--	-0.1%	0.4%	sa
6/15/23	Retail Sales Control Group m/m	May	--	0.2%	0.7%	sa
6/15/23	Import Price Index y/y	May	--	-5.6%	-4.8%	nsa
6/15/23	Initial Jobless Claims	6/10/23	--	250	261	k, sa
6/15/23	Continuing Claims	6/3/23	--	1,787	1,757	k, sa
6/15/23	Industrial Production m/m	May	--	0.1%	0.5%	sa
6/15/23	Capacity Utilization	May	--	79.7%	79.7%	sa
6/15/23	Business Inventories m/m	Apr	--	0.2%	-0.1%	sa
6/16/23	U. of Mich. Sentiment	Jun P	--	60.1	59.2	index, nsa
6/16/23	U. of Mich. 1 Yr Inflation	Jun P	--	4.1%	4.2%	nsa
6/16/23	U. of Mich. 5-10 Yr Inflation	Jun P	--	3.1%	3.1%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI