HaMMR Digest

Stay current with economic and mortgage market trends.

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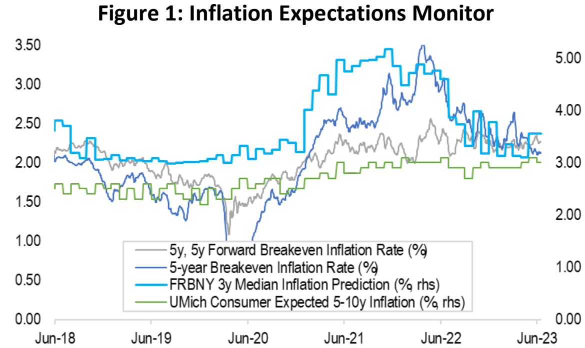
Weekly Wrap — Topsy-Turvy

- As expected, the Fed held the fed funds rate at 5.00–5.25% but signaled more rate hikes are coming.
- Consumer inflation data continued to make slow progress while upstream prices maintain a disinflationary trend.
- Retail sales growth has slowed while industrial production is showing tentative signs of a rebound.

The Fed kept the fed funds rate within a range of 5.00–5.25%, as expected, but the tone remained hawkish within the new Summary of Economic Projections (SEP) and at Chair Jerome Powell's press conference. The SEP reflected upwardly revised economic growth and inflation for this year and next — reflecting recent economic resiliency and stickier-than-expected inflation — and a 50bps hawkish shift in the median expectation for the end of 2023 fed funds rate to 5.75%. Moreover, the dot plot showed only two voting members expect the fed funds rate to stay at its current level through year-end, four expect one more 25bps hike, while 12 expect at least another 50bps of hikes. Powell did his best to project a cohesive message of "hawkish optionality," meaning there is a high bar to ending the hiking cycle, but further hikes will be measured and depend on cautiously watching incoming data for the lagged effects of prior hikes. We continue to expect one more hike, likely in July, but if incoming data remains resilient, further hikes will certainly be on the table.

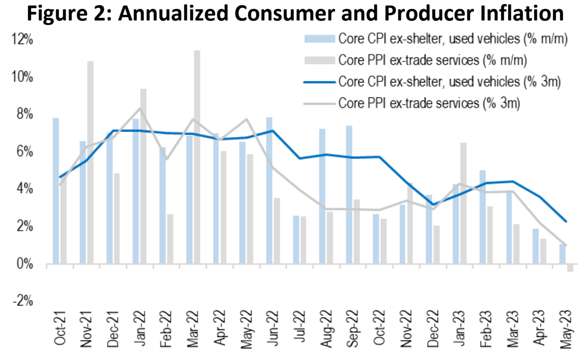
Aside from the Fed policy statement , we got a barrage of inflation releases. May Consumer Price Index (CPI) inflation slowed materially to 0.1% m/m (cons. 0.1%) from 0.4% in April on the back of further easing in energy and food prices. Accordingly, consumer inflation expectations have generally eased in June (Figure 1). Core CPI (excluding food and energy) remained firm at 0.4% m/m (cons. 0.4%), or 5.0% y/y, roughly where it has hovered for the prior six months. However, the jolt to core CPI came from used vehicles again, up 4.4% m/m, which is not sustainable given the sustained downtrend in wholesale pricing (down ~9% over the past 3 months). Stripping out the most volatile items, the trend in CPI has been disinflationary since December. Furthermore, downward pricing pressure on upstream inputs to consumer goods keep building (Figure 2). The May Producer Price Indexes (PPI) for headline and core continued to ease from lofty 2022 levels while import prices, excluding petroleum, declined -0.2% m/m and for the fourth consecutive month.

Figure 1: Inflation Expectations Monitor



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

Figure 2: Annualized Consumer and Producer Inflation



Sources: BLS, Arch MI

May retail sales rose 0.3% m/m (cons. -0.2%) with a decent upturn in auto sales and housing-related items. Since January, real retail sales have slowed from 10% above the pre-COVID-19 trend to 8%, which aligns with a rising savings rate and a consumer that is slightly more cautious. The May National Federal of Independent Business (NFIB) Small Business survey showed an increase in firms expecting to expand employment and capital expenditures (capex). Arguably, the most positive data development was May's industrial production report, as manufacturing output rose 0.1% m/m (consensus: -0.1%) with total durable goods manufacturing up 0.3% m/m and for the second month in a row. "Hard" industrial output data has been better than "soft" survey data, particularly Fed regional manufacturing surveys that remained weak in June. However, forward-looking measures of capex have been steadily improving in recent months. The global manufacturing cycle has been weak as the impulse from China's reopening never arrived while European goods trade flows have softened. Domestically, goods production has seemingly found a floor. Auto production is still playing catch-up, the housing sector is on firmer footing and private non-residential construction has been chugging along — all factors likely to support a turnaround in capex and broader economic momentum.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
6/13/23	NFIB Small Business Optimism	May	89.4	88.5	89.0	index, sa
6/13/23	CPI m/m	May	0.1%	0.1%	0.4%	sa
6/13/23	CPI Core (ex Food and Energy) m/m	May	0.4%	0.4%	0.4%	sa
6/13/23	CPI y/y	May	4.0%	4.1%	4.9%	nsa
6/13/23	CPI Core (ex Food and Energy) y/y	May	5.3%	5.2%	5.5%	nsa
6/14/23	MBA Mortgage Applications	6/9/23	7.2%	--	-1.4%	w/w, sa
6/14/23	PPI Final Demand m/m	May	-0.3%	-0.1%	0.2%	sa
6/14/23	PPI Core (ex Food and Energy) m/m	May	0.2%	0.2%	0.2%	sa
6/14/23	PPI Final Demand y/y	May	1.1%	1.5%	2.3%	nsa
6/14/23	PPI Core (ex Food and Energy) y/y	May	2.8%	2.9%	3.1%	nsa
6/14/23	FOMC Rate Decision (Upper Bound)	6/14/23	5.25%	5.25%	5.25%	
6/15/23	Advance Retail Sales m/m	May	0.3%	-0.2%	0.4%	sa
6/15/23	Retail Sales Control Group m/m	May	0.2%	0.2%	0.6%	sa
6/15/23	Import Price Index y/y	May	-5.9%	-5.6%	-4.9%	nsa
6/15/23	Initial Jobless Claims	6/10/23	262	245	262	k, sa
6/15/23	Continuing Claims	6/3/23	1,775	1,768	1,755	k, sa
6/15/23	Industrial Production m/m	May	-0.2%	0.1%	0.5%	sa
6/15/23	Capacity Utilization	May	79.6%	79.7%	79.8%	sa
6/15/23	Business Inventories m/m	Apr	0.2%	0.2%	-0.2%	sa
6/16/23	U. of Mich. Sentiment	Jun P	63.9	60.0	59.2	index, nsa
6/16/23	U. of Mich. 1 Yr Inflation	Jun P	3.3%	4.1%	4.2%	nsa
6/16/23	U. of Mich. 5-10 Yr Inflation	Jun P	3.0%	3.0%	3.1%	nsa

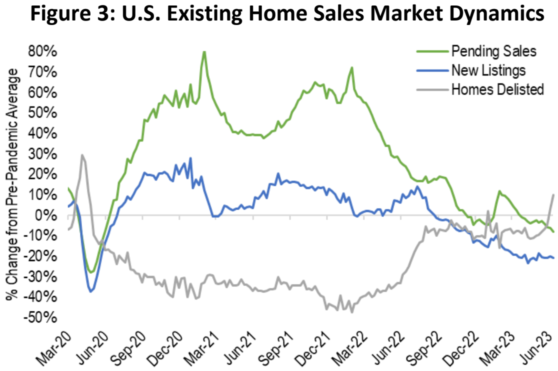
Sources: Bloomberg Consensus Survey of Economists, Arch MI

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

HOUSING MARKET STILL TIGHT DESPITE FURTHER COOLING OF DEMAND

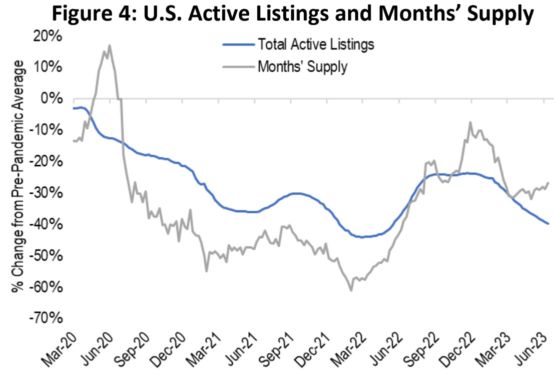
Elevated mortgage rates continued to weigh on homebuyers and sellers, leaving the market relatively stable but still tighter than prevailed prior to the pandemic. According to Redfin data through the week ending June 11, pending home sales cooled to -8% below the pre-pandemic average for this time of year from a recent peak of 10% in February (Figure 3). At the same time, sellers have also pulled back as new listings declined to -21% below the pre-pandemic average from roughly -15% at the start of the year. Meanwhile, the number of delisted homes rose to 10% above the pre-pandemic average for this time of year from -10% at the end of 2023.

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



Source: Redfin, Arch MI

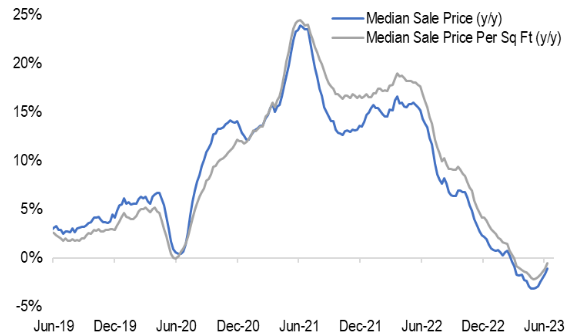
Figure 4: U.S. Active Listings and Months' Supply



Source: Redfin, Arch MI

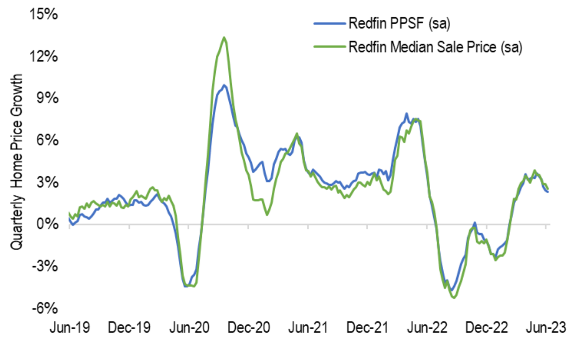
The decline in new listings and increase in delisted homes offset the cooling pace of sales and pushed the number of active listings down to -40% below the pre-pandemic average and well below last year's peak of -25% (Figure 4). Despite total homes sold being down -22% y/y and -18% below the pre-pandemic average, the national market remains somewhat tight given months' supply is 2.4 months, -27% below the pre-pandemic average for this time of year. The current months' supply is a modest increase from the two months recorded for the same week in 2022 when the market was starting to cool from incredibly tight conditions.

Figure 5: Annual Home-Price Growth



Source: Redfin, Arch MI

Figure 6: Quarterly (13-Week) Home-Price Growth



Source: Redfin, Arch MI

Annual growth in the national median sale price per square foot accelerated to -0.5% y/y from -1.1% last week and -2% four weeks ago, all of which represent a drastic slowdown from the 16.1% annual gain recorded at this time last year (Figure 5). The 13-week change in the seasonally adjusted price per square foot (ppsf) was up 2.5% (Figure 6), a meaningful reversal from -4.8% last August but a bit of a cooldown from 3.7% at the beginning of May. We expect seasonally adjusted 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 through mid-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 modestly positive but still below-trend home-price growth for the full year.

Of the major metros we track (Figure 7), annual home-price growth was weakest in **Austin** (-17%), **Phoenix** (-11%), **Seattle** (-6%), **Los Angeles** (-6%) and **Riverside** (-5%). Home-price growth slowed most rapidly compared with a year ago in **Phoenix** (-36%-pts), **Tampa** (-34%-pts), **Austin** (-34%-pts), **Nashville** (-31%-pts) and **Dallas** (-31%-pts). Conversely, annual home-price growth was strongest in **Baltimore** (3%), **Miami** (3%) and **Washington, D.C.** (2%).

Figure 7: Weekly Housing Monitor (as of June 11, 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%**	**16%**	**5%**	**1%**	**36%**	**-18%**	**100%**	**-2%**	**-6%**	**-13**	**-22**	**-27%**	**-39%**
Atlanta	*0%*	*24%*	5%	0%	35%	-24%	100%	-3%	2%	-3	-14	-23%	*-40%*
Austin	**-17%**	17%	**9%**	**3%**	**19%**	**-44%**	**98%**	**-6%**	**35%**	**29**	**6**	**60%**	**-1%**
Baltimore	**3%**	**10%**	5%	0%	**54%**	**-3%**	**103%**	**-1%**	*-16%*	*-10*	-14	**-44%**	**-51%**
Boston	**1%**	**11%**	*4%*	0%	**62%**	*-12%*	**103%**	-3%	*-20%*	*8*	**6**	-18%	-29%
Chicago	**1%**	**9%**	**3%**	0%	*48%*	**-6%**	*101%*	**-1%**	**-29%**	**21**	**21**	-10%	**-7%**
Dallas	*-5%*	**26%**	*7%*	**2%**	31%	**-39%**	*99%*	**-6%**	*9%*	-2	-15	-24%	-36%
Denver	*-5%*	16%	**9%**	**4%**	42%	-25%	100%	*-4%*	-2%	0	*-2*	*-5%*	-30%
Houston	*-1%*	20%	*7%*	0%	**22%**	-24%	**98%**	-3%	**20%**	-6	*-20*	-21%	**-47%**
Los Angeles	*-6%*	*13%*	**3%**	0%	**53%**	-15%	*101%*	-3%	*-22%*	-5	-10	-19%	*-20%*
Miami	**3%**	*24%*	**3%**	*1%*	**17%**	-16%	**97%**	*-2%*	0%	-5	-18	-25%	**-51%**
Minneapolis	*-1%*	**10%**	5%	*1%*	**53%**	*-11%*	**102%**	*-2%*	-10%	-5	-8	-10%	-28%
Nashville	-4%	**27%**	5%	*1%*	**21%**	**-32%**	*99%*	*-4%*	**47%**	-5	**-29**	*-5%*	**-48%**
New York	-3%	*13%*	*4%*	0%	*29%*	**-6%**	100%	**-1%**	*-16%*	**-31**	**-44**	-25%	*-39%*
Phoenix	**-11%**	**25%**	6%	**-2%**	**20%**	**-32%**	**98%**	-3%	-6%	*5*	*-19*	-16%	**-17%**
Portland	-3%	15%	*7%*	*-1%*	44%	-17%	*101%*	-3%	-7%	-2	-5	*0%*	-30%
Riverside	*-5%*	20%	*4%*	*-1%*	42%	-22%	100%	-3%	*-18%*	*-10*	*-24*	*-26%*	-31%
San Diego	-2%	19%	*4%*	*-1%*	**55%**	*-11%*	**102%**	*-2%*	**-34%**	-7	-8	**-36%**	-30%
Seattle	*-6%*	17%	6%	**-2%**	*46%*	-18%	*101%*	*-4%*	**-26%**	-1	*-2*	-6%	**-15%**
Tampa	-4%	**30%**	**8%**	0%	**20%**	**-31%**	**98%**	-3%	**28%**	*-10*	*-24*	-25%	*-45%*
Washington DC	**2%**	**10%**	*4%*	*-1%*	*51%*	**-7%**	*101%*	**-1%**	*-20%*	*6*	*-3*	-18%	-28%

Note: Data reflects four-week averages.

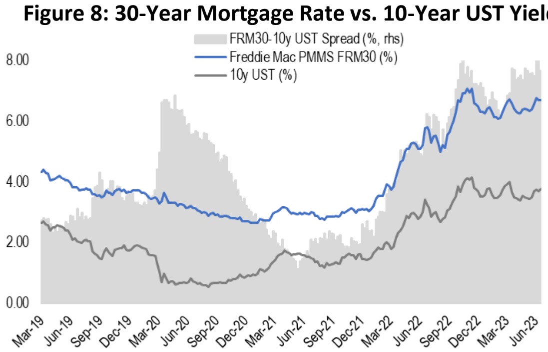
Source: Redfin, Arch MI

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 **New York** (-31 days longer), **Tampa** (-10) and **Riverside** (-10), while some markets like **Austin** (29) and **Chicago** (21) remained well below pre-pandemic timelines. Markets that have deteriorated the most based on months' supply include **Baltimore**, **San Diego** and **Riverside**, where months' supply climbed to a respective -44%, -36% and -26% relative to their pre-pandemic averages from -51%, -30% and -31% below one year ago. Months' supply remained below pre-pandemic levels in most markets (-27% below nationally), with **Austin** (60%), **Portland** (0%), **Denver** (-5%), **Nashville** (-5%) and **Seattle** (-6%) remaining the tightest relative to their pre-pandemic averages.

MORTGAGE PURCHASE APPLICATION ACTIVITY SURGED BUT REMAINED ~30% BELOW YEAR AGO

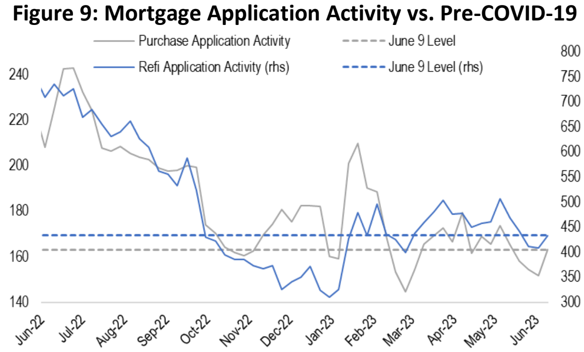
According to the MBA Weekly Applications Survey, the average contract conventional mortgage rate declined -4bps to 6.77% during the week ending June 9 while the FHA contract mortgage rate also declined -3bps to 6.7%, resulting in a 1bps widening of the spread between the FHA and the conventional mortgage rate to -0.07%. Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending June 14 indicated that the FRM30 declined -2bps w/w to 6.69% (Figure 8) as 10-year U.S. Treasury (UST) yields climbed 8bps to an average of 3.78% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST narrowed -10bps to 2.91%, about 120bps wider than its typical non-stressed level prior to the pandemic and still close to the recent peak just above 300bps. 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-19



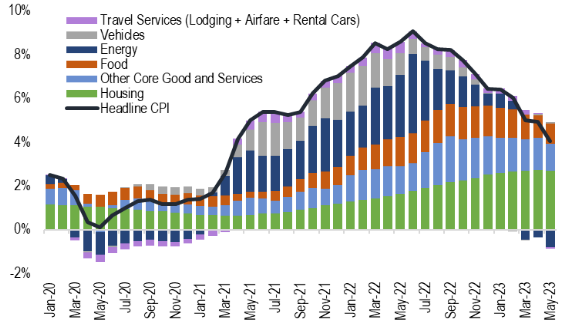
Sources: Mortgage Bankers Association, Arch MI

The MBA Weekly Applications Survey for the week ending June 9 increased 7.2% w/w, leaving the index down -32% year-over-year and down -53% compared with pre-pandemic levels (i.e., the average of the same week in 2017, 2018 and 2019). The weekly increase was driven primarily by a 7.6% increase in purchase applications, which remained down -27% y/y despite the weekly increase, and -37% below the pre-pandemic level (Figure 9). Refinancing applications increased 6% w/w but remained down -41% y/y and -71% relative to pre-pandemic levels.

LOOK UNDER THE HOOD FOR PROGRESS ON CONSUMER PRICE INFLATION

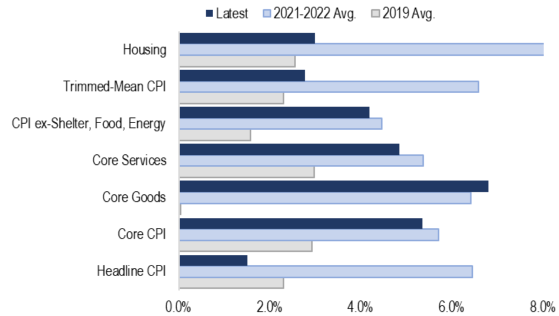
The May CPI inflation report was in line with consensus expectations, with the headline index down from 0.4% in April to 0.1% m/m (cons. 0.1%) or 4.1% y/y (Figure 10). The slowdown was led by a significant reversal in energy prices, which were down -3.6% m/m and more than offset the 0.6% gain in April. The weakness in energy was broad-based with every sub-category declining, led by a -7.7% m/m drop in fuel oil and a -5.6% drop in gasoline — even utilities pricing continued its five-month slide with a -2.6% decline. Despite announced OPEC production cuts, benchmark oil prices have declined over the past month and retail gasoline prices have been flat-to-down through early June. Aside from lower costs at the pump and from utilities, the disinflationary trend in grocery prices remained intact with food-at-home prices rising only 0.1% m/m after two consecutive months of declines. Producer prices for finished consumer foods have declined in five out of the last six months with May's print coming in at -1.3%, suggesting that cooling grocery bills could persist for some time.

Figure 10: Year-over-Year Contribution to CPI Inflation



Sources: BLS, Arch MI

Figure 11: Annualized Monthly CPI Inflation



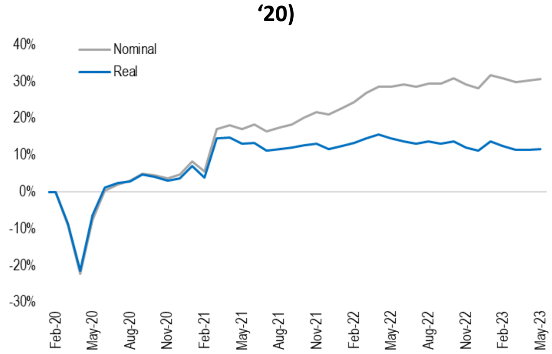
Sources: BLS, Arch MI

Core inflation (excluding food and energy) remained rather muddled, rising in line with consensus expectations at 0.4% m/m, or 5.4% annualized (Figure 11). Core goods prices remained firm at 0.6% m/m, largely due to a 4.4% jump in used vehicles. Wholesale used vehicle pricing has been weak for a few months, implying softer retail prices are likely around the corner. Excluding used vehicles, core goods came in flat with apparel (0.3%) and medical commodities (0.7%) being offset by household furnishings (-0.4%) and recreational goods (-0.1%). Core services inflation rose 4bps to 0.4% m/m, a tenth below its prior three-month average with the bulk of gains emanating from hotels (1.8%) and transport services (0.8%). Rent ticked down to 0.5% m/m from 0.6% in April while owners' equivalent rent held at 0.5% for the third straight month — both measures of housing inflation are a step down from the strong 0.7-0.8% monthly prints that prevailed over the second half of 2022. The cooldown in housing inflation roughly coincides with our expectations, based on the roughly 12-month lag between home-price and rent growth (which both have been slowing or declining since 2Q22) and the CPI measures. We expect housing inflation will continue to cool as the year progresses, based on this lagged relationship.

RETAIL SALES GRINDING ALONG AS CONSUMERS REFUSE TO "PACK IT IN"

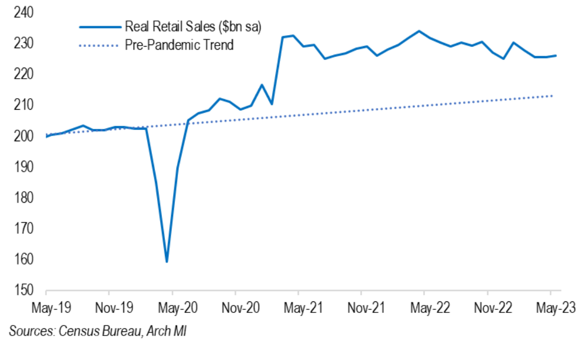
May nominal retail and food services slowed slightly to 0.3% m/m (cons.- 0.2%), following a 0.4% rise in April and a -0.9% decline in March. The better than expected headline figure was largely attributed to firming auto sales, which rose 1.4% m/m following a 0.4% advance in April, likely reflecting some pent-up demand despite higher financing costs. Overall, there were modest broad-based advances led by building materials (2.2%), general merchandise (0.4%), furniture (0.4%) and restaurants (0.4%). Retail sales excluding autos rose 0.1% m/m while the important control group (excluding auto, gas, building materials and food services), which feeds directly into the GDP report, increased 0.2% (cons. 0.2%) following April's robust 0.6% gain.

Figure 12: Retail and Food Service Sales (Change from Feb '20)



Sources: Census Bureau, Arch MI

Figure 13: Real Retail and Food Services Sales



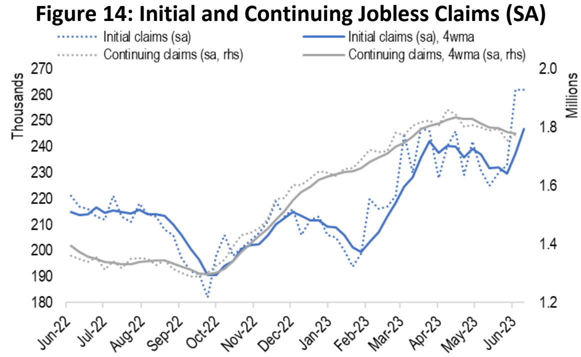
Sources: Census Bureau, Arch MI

Adjusted for inflation, retail sales rose 0.2% m/m but have seemingly flattened out recently (Figure 12) with growth averaging just -0.1% over the last six months. Real control group sales (which excludes food, autos, gasoline and building materials) have performed similarly over the same time frame and suggest that while consumers have pulled back a bit on their spending, they have yet to completely "pack it in." In fact, real retail sales remained 12% above February 2020 levels and 7% above the pre-COVID-19 trend, suggesting consumption is gradually normalizing from an elevated level (Figure 13).

JOBLESS CLAIMS REMAINED ELEVATED AFTER PRIOR WEEK SPIKE

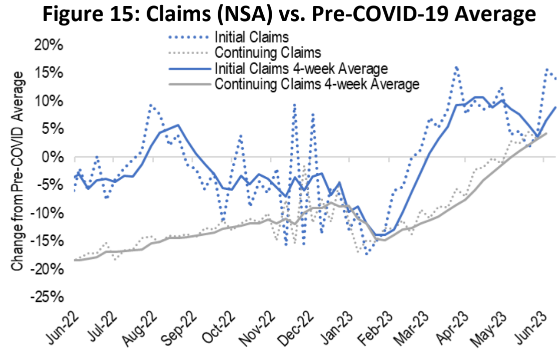
Initial jobless claims were unchanged at a seasonally adjusted 262k (cons. 245k) during the week ending June 10, moving the four-week average up to 247k from 238k (Figure 14). The four-week average of non-seasonally adjusted initial claims also moved up to 8.8% above its pre-COVID-19 average (i.e., 2018 to 2019) from 6.5% the week before and up from -17% below in mid-January (Figure 15). Meanwhile, continuing claims for regular state programs (i.e., repeat filers for unemployment insurance) climbed by 20k during the week ending June 3 to a seasonally adjusted 1,775k (cons. 1,768k), moving the four-week average down to 1,778k from 1,784k. However, the four-week average of non-seasonally adjusted continuing claims moved up to 4.2% above its pre-COVID-19 average from 3.2% the week before and up from -17% below in mid-January. Jobless filings have certainly moved higher over the course of 2023, although the pace of increase has been relatively modest and has not translated to a meaningful increase in unemployment yet. We expect the labor market to continue to cool over the second half of the year alongside a gradual slowdown in economic activity.

Figure 14: Initial and Continuing Jobless Claims (SA)



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

Figure 15: Claims (NSA) vs. Pre-COVID-19 Average



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

The Week Ahead

This holiday-shortened week will be relatively light on macro data, but heavy on housing market updates. On Monday, the June NAHB Housing Market Index handily beat expectations from the Bloomberg Consensus Survey of Economists, rising to 55 (cons. 51) from 50 in May. Homebuilder confidence suggests the stronger than expected construction activity in May is likely to carry over into June. May existing home sales are expected to cool slightly, which would align with the slowdown observed in Redfin and other timelier housing market data providers. The week will wrap with an update on business sentiment from S&P Global, which is likely to reflect continued cooling.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
6/19/23	NAHB Housing Market Index	Jun	**55**	51	50	index, sa
6/20/23	Housing Starts	May	**1,631**	1,400	1,340	k, saar
6/20/23	Building Permits m/m	May	**5.2%**	0.6%	-1.4%	sa
6/20/23	Building Permits	May	**1,491**	1,425	1,417	k, saar
6/20/23	Housing Starts m/m	May	**21.7%**	-0.1%	-2.9%	sa
6/21/23	MBA Mortgage Applications	6/16/23	--	--	7.2%	w/w, sa
6/22/23	Chicago Fed Nat Activity Index	May	--	-10.0%	7.0%	index, nsa
6/22/23	Initial Jobless Claims	6/17/23	--	259	262	k, sa
6/22/23	Continuing Claims	6/10/23	--	1,785	1,775	k, sa
6/22/23	Existing Home Sales	May	--	4,250	4,280	k, saar
6/22/23	Existing Home Sales m/m	May	--	-0.7%	-3.4%	sa
6/22/23	Conference Board Leading Index	May	--	-0.8%	-0.6%	m/m, sa
6/23/23	S&P Global US Manufacturing PMI	Jun P	--	48.5	48.4	index, sa
6/23/23	S&P Global US Services PMI	Jun P	--	54.0	54.9	index, sa
6/23/23	S&P Global US Composite PMI	Jun P	--	53.5	54.3	index, sa

Sources: Bloomberg Consensus Survey of Economists, Arch MI