HaMMR Digest

Stay current with economic and mortgage market trends.

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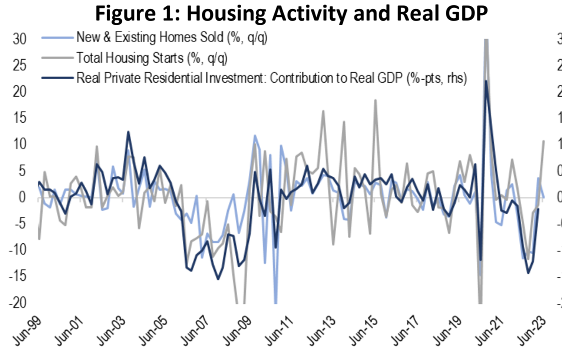
Weekly Wrap — The Tide is Turning

- Housing construction has found a bottom and will start contributing to headline GDP growth.
- Recovering residential investment activity is unlikely to force the Fed into a more hawkish stance.
- A tight resale market will keep pushing homebuyer demand toward the new home segment.

The housing market appears to have turned the corner and looks set to contribute to headline real GDP growth in 2Q23 for the first time since 1Q21 (Figure 1). Central to our conviction is the sustained rebound in housing construction and new home sales. Housing starts rose a muscular 22% m/m (cons. -0.1%) in May to a seasonally adjusted annualized rate (saar) of 1,631k (cons. 1,400k). What was even more impressive is that strength in starts came from both single-family, up 19%, and multifamily, up 27%. Getting past the initial shock from the starts data, which are prone to revisions, we put a bit more stock in the permitting activity and still, a momentum shift is clear. Single-family permits are up for four months in a row and by an average of 5% each month. Moreover, after dipping below completions in May of last year, single-family permits and starts are close to surpassing completions, an ode to the much-improved builder outlook. The National Association of Home Builders (NAHB) Housing Market Index rose for the sixth month in a row to 55 (cons. 51) in June, the first time in year that a majority of builders view operating conditions as positive, with all three subcomponents of future/present sales and buyer traffic rising.

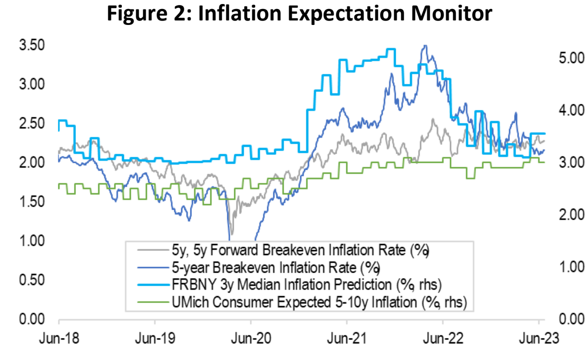
The thrust behind rebounding homebuilder optimism and construction is a very tight resale market. Existing home sales posted a modest 0.2% m/m (cons. -0.7%) uptick for May to 4,300k (saar) but nonetheless remained depressed. The slight boost in sales came from the condo segment, which makes intuitive sense given the lower price point. Single-family sales have been weak across all regions with the condo segment showing an upward trend recently in the South and West. Overall, existing sales are down -21% from four years ago compared to the -44% drop in inventory over the same period with months' supply at a very low 2.9 months. Even though high mortgage rates and diminished affordability remain key headwinds, there is a stable base of demand at current rates that will keep: (1) existing home sales low, (2) resale inventory tight given the great relative financial position of existing homeowners, and (3) the wind behind builders' sails. No more proof is needed than the latest earnings results from Lennar and KB Home, the latter of which caters primarily to first-time buyers, that showed dwindling cancellation rates, rising net orders, shrinking completion timelines and growing ability to raise prices. Safe to say, it has never been better to be a builder.

Figure 1: Housing Activity and Real GDP



Source: Census, BEA, NAR, Arch MI

Figure 2: Inflation Expectation Monitor



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

The importance of housing can't be stressed enough as it is generally one of the main transmission mechanisms of the Fed's tightening cycle. Housing activity has deep roots into other sectors of the economy and the suppressed housing demand will help keep a lid on inflationary pressures (Figure 2). Thus, "housing is the business cycle" is a mantra for a reason, but the fact that the sector is recovering does not mean the Fed will need to keep raising rates, nor that a recession has been avoided. Progress has been made on inflation and the labor market is cooling, which should keep a lid on wage growth. Moreover, housing is far from repeating the post-COVID-19 "frenzy" where annual price growth returns to the high double digits. Rather, we expect small, positive contributions to economic activity from new home construction and home sales while the larger resale market treads water until mortgage rates persistently return to below 6%.

Recent Data Releases

Key economic and housing data releases over the last 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	0.5%	--	7.2%	w/w, sa
6/22/23	Chicago Fed Nat Activity Index	May	-0.15	-0.10	0.14	index, nsa
6/22/23	Initial Jobless Claims	6/17/23	264	259	264	k, sa
6/22/23	Continuing Claims	6/10/23	1,759	1,785	1,772	k, sa
6/22/23	Existing Home Sales	May	4,300	4,250	4,290	k, saar
6/22/23	Existing Home Sales m/m	May	0.2%	-0.7%	-3.2%	sa
6/22/23	Conference Board Leading Index	May	-0.7%	-0.8%	-0.6%	m/m, sa
6/23/23	S&P Global US Manufacturing PMI	Jun P	46.3	48.5	48.4	index, sa
6/23/23	S&P Global US Services PMI	Jun P	54.1	54.0	54.9	index, sa
6/23/23	S&P Global US Composite PMI	Jun P	53.0	53.5	54.3	index, sa

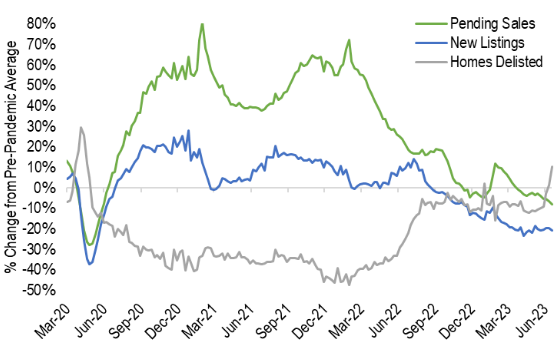
Sources: Bloomberg Consensus Survey of Economists, Arch MI

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

HOUSING MARKET CONTINUES TO ADAPT TO NEW REALITY

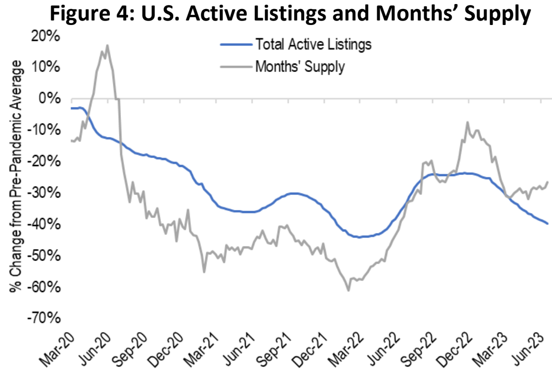
Still elevated mortgage rates continue to hold the housing market back, but conditions remained tighter than before the pandemic due to sellers pulling back from the market faster than buyers. According to Redfin data through the week ending June 11, the recent pace of pending sales cooled further to -8% below the pre-pandemic average for this time of year from -7% below last week and -3% in mid-May (Figure 3). 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

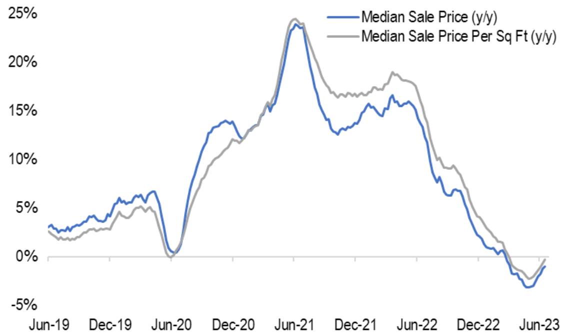
Figure 4: U.S. Active Listings and Months' Supply



Source: Redfin, Arch MI

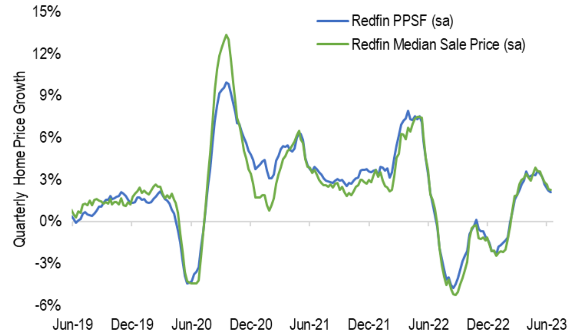
The decline in new listings and increase in delisted homes offset the cooling pace of sales and pushed the number of active listings down to -40% below the pre-pandemic average and well below last year's peak of -25% (Figure 4). Despite total homes sold being down -22% y/y and -18% below the pre-pandemic 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 2.0 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 -0.3% y/y from -0.7% last week and -1.7% four weeks ago, all of which represent a drastic slowdown from the 15.4% annual gain recorded at this time last year (Figure 5). The 13-week change in the seasonally adjusted (sa) price per square foot (ppsf) was up 2.1% (Figure 6), a meaningful reversal from -4.8% last August but a bit of a cooldown from 3.6% 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** (-15%), **Phoenix** (-10%), **Dallas** (-6%), **Los Angeles** (-6%) and **Riverside** (-5%). Home-price growth slowed most rapidly compared with a year ago in **Phoenix** (-34%-pts), **Tampa** (-33%-pts), **Austin** (-31%-pts), **Nashville** (-31%-pts) and **Dallas** (-31%-pts). Conversely, annual home-price growth was strongest in **Baltimore** (4%), **Miami** (4%) and **Washington, D.C.** (3%).

Figure 7: Weekly Housing Monitor (as of June 18, 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	**0%**	**15%**	**5%**	**1%**	**36%**	**-17%**	**100%**	**-2%**	**-8%**	**-13**	**-21**	**-27%**	**-38%**
Atlanta	0%	23%	5%	0%	36%	-23%	100%	-3%	-1%	-4	-14	-19%	-38%
Austin	-15%	16%	9%	1%	18%	-42%	98%	-6%	28%	30	7	62%	5%
Baltimore	4%	9%	5%	-1%	54%	-3%	103%	-1%	-17%	-10	-14	-40%	-49%
Boston	1%	10%	4%	-1%	64%	-11%	104%	-3%	-21%	8	6	-20%	-28%
Chicago	2%	9%	3%	0%	48%	-6%	101%	-1%	-29%	21	21	-10%	-8%
Dallas	-6%	25%	7%	1%	31%	-38%	99%	-6%	5%	-2	-15	-23%	-33%
Denver	-4%	14%	9%	4%	41%	-24%	100%	-3%	-2%	1	-2	-2%	-27%
Houston	-1%	19%	7%	0%	22%	-23%	98%	-2%	16%	-6	-19	-21%	-45%
Los Angeles	-6%	13%	3%	-1%	54%	-13%	102%	-3%	-23%	-5	-10	-18%	-17%
Miami	4%	23%	3%	0%	17%	-17%	97%	-2%	-3%	-4	-19	-27%	-49%
Minneapolis	1%	9%	5%	0%	54%	-11%	102%	-2%	-11%	-5	-8	-9%	-28%
Nashville	-4%	27%	5%	1%	22%	-31%	99%	-4%	40%	-4	-29	-1%	-46%
New York	-3%	12%	4%	0%	30%	-6%	100%	-1%	-16%	-33	-44	-26%	-38%
Phoenix	-10%	24%	6%	-3%	20%	-29%	98%	-3%	-12%	4	-17	-14%	-13%
Portland	-3%	14%	7%	-2%	44%	-17%	101%	-3%	-7%	-2	-5	1%	-29%
Riverside	-5%	21%	4%	-2%	42%	-20%	100%	-2%	-21%	-11	-23	-26%	-26%
San Diego	-1%	16%	5%	-2%	55%	-9%	101%	-1%	-37%	-6	-7	-35%	-26%
Seattle	-5%	16%	6%	-3%	45%	-15%	101%	-3%	-30%	-2	-2	-9%	-12%
Tampa	-4%	29%	8%	-1%	20%	-30%	98%	-3%	22%	-10	-23	-24%	-42%
Washington DC	3%	9%	4%	-1%	51%	-7%	101%	-1%	-22%	6	-2	-18%	-24%

Note: Data reflects four-week averages.

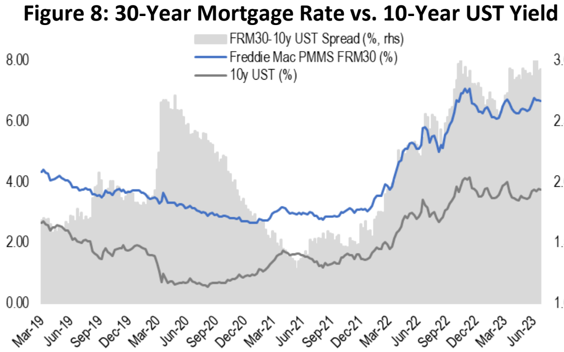
Source: Redfin, Arch MI

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 **Austin** (30 days longer), **Chicago** (21) and **Boston** (8), while some markets like **New York** (-33) and **Riverside** (-11) remained well below pre-pandemic timelines. Markets that have deteriorated the most based on months' supply include **Austin**, **Portland** and **Nashville**, where months' supply climbed to a respective 62%, 1% and -1% relative to their pre-pandemic averages from 5%, -29% and -46% below one year ago. Months' supply remained below pre-pandemic levels in most markets (-27% below nationally), with **Baltimore** (-40%), **San Diego** (-35%), **Miami** (-27%), **New York** (-26%) and **Riverside** (-26%) remaining the tightest relative to their pre-pandemic averages.

MORTGAGE PURCHASE APPLICATION ACTIVITY SHOWS TENTATIVE SIGNS OF STABILIZING

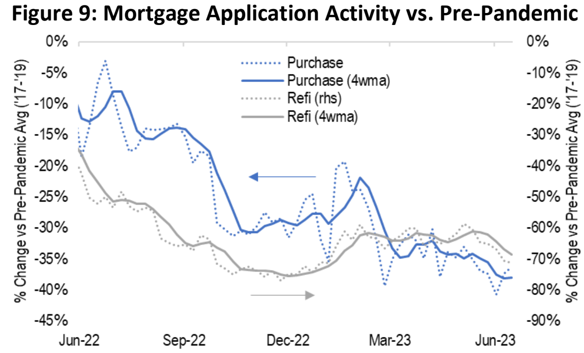
According to the MBA Weekly Applications Survey, the average contract conventional mortgage rate declined -4bps to 6.73% during the week ending June 16 while the FHA contract mortgage rate rose 4bps to 6.74%, resulting in an 8bps widening of the spread between the FHA and conventional mortgage rate to 0.01%. Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending June 21 indicated that the FRM30 declined -2bps w/w to 6.67% (Figure 8) as 10-year U.S. Treasury (UST) yields declined -4bps to an average of 3.74% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 1bps to 2.93%, about 125bps 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-Pandemic



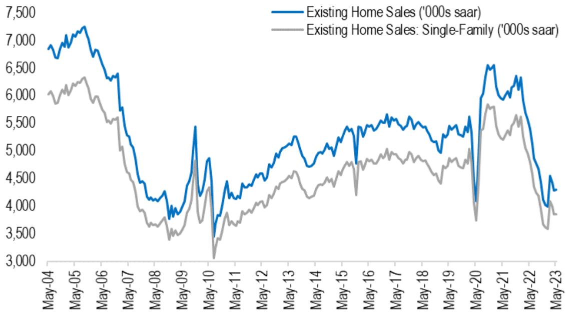
Sources: Mortgage Bankers Association, Arch MI

The MBA Weekly Applications Survey for the week ending June 16 increased 0.5% w/w, leaving the index down -35% 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 1.5% increase in purchase applications, which remained down -32% y/y despite the weekly increase, and -36% below the pre-pandemic level (Figure 9). Refinancing applications declined -2.1% w/w and were down -40% y/y and -71% relative to pre-pandemic levels.

EXISTING HOME SALES REMAIN STUCK AT LOW LEVELS

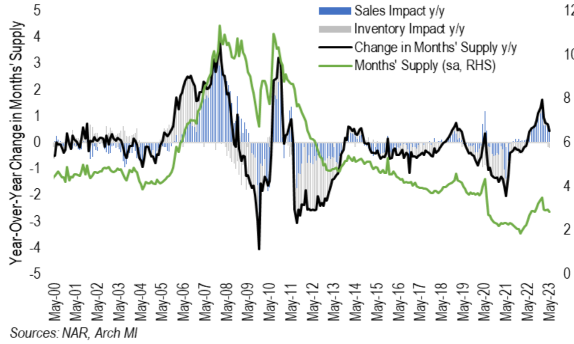
Elevated mortgage rate volatility, heightened recession concerns and tight inventory have kept existing homes sales on a choppy path lately. For May, sales rose a modest 0.2% m/m (cons. -0.7%) to a seasonally adjusted annual rate of 4,300k (Figure 10). Supply conditions remained tight with inventory down for the fourth straight month and by -2.6% m/m to 1,028k (sa) units in May. Sales and inventory were -21% and -44% below their respective 2019 levels. Unsold inventory reflected only a 2.9 months' supply (sa) at the present sales pace, par with last month's print but down from the November–January average of 3.4. Limited inventory has kept the market tight, although the recent modest reacceleration of sales from a very weak 4Q22 has also helped pull months' supply lower (Figure 11). The seasonally adjusted median sale price of an existing single-family home rose 0.9% m/m but fell -3.4% y/y to $389k — the fourth straight annual decline — although it is important to note that this figure is not adjusted for the quality, size or geography of homes sold.

Figure 10: Existing Home Sales



Sources: NAR, Arch MI

Figure 11: Months' Supply of Existing Homes

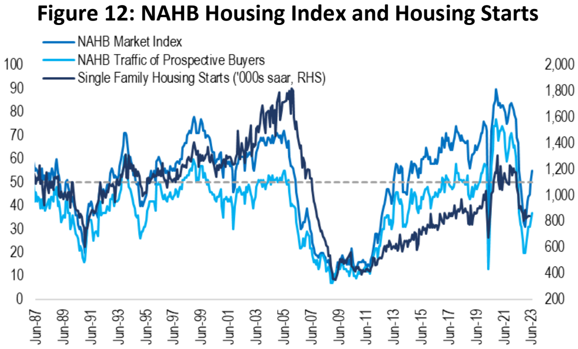


Sources: NAR, Arch MI

SINGLE-FAMILY CONSTRUCTION FINDING ITS MOJO

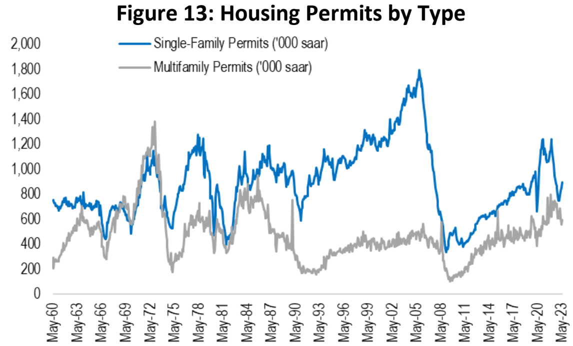
The 22% m/m (cons. -1.4%) surge in May total housing starts to 1,631k (saar) more than reversed the -2.9% decline in April. Single-family starts showed more signs of stabilization with a third advance in the prior four months, rising 19% m/m, the largest sequential advance since June 2020. Not to be outdone, multifamily starts jumped 27% m/m to 634k (saar), the highest level since November 2022. We expect multifamily construction activity to slow given the elevated pipeline of multifamily units that are slated for delivery over the coming years, which has already been accompanied by a gradual rise in the rental vacancy rate. The nascent recovery in single-family starts accompanied the sixth straight monthly increase in the NAHB sentiment gauge in May to 55 (cons. 51) with the important current and future sales subcomponents pushing further above the break-even 50 reading and hitting the highest levels in about a year (Figure 12). Positively, the share of builders using incentives remained relatively flat over the month while the share of builders reducing prices has decreased, suggesting that mortgage rate buydowns continued to be a key sales strategy.

Figure 12: NAHB Housing Index and Housing Starts



Sources: NAHB, Census Bureau, Arch MI

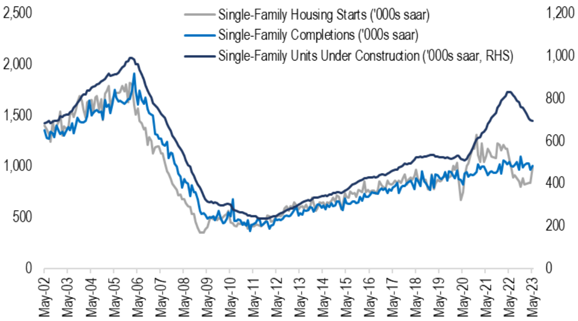
Figure 13: Housing Permits by Type



Sources: US Census Bureau, Arch MI

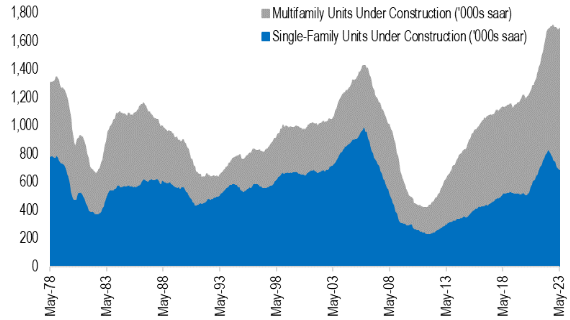
Single-family permits rose for the fourth time in the last five months, increasing 4.8% m/m but remained down -28% from last January's peak (Figure 13). Multifamily permits rose 5.9% m/m and have been volatile lately but remained in a clear downtrend from last summer. Total completions increased 9.5% m/m, pushing the year-over-year gain up to 5%. The monthly uptick was led by the multifamily segment (23%), while single-family completions trailed behind with a 3.9% monthly advance. Single-family completions remained down -3.3% y/y and after a year's long stretch, the gap between starts and completions has essentially closed (Figure 14). Improving supply chains and some easing of labor market conditions have allowed builders to start chipping away at the elevated count of 1,689k units under construction (Figure 15). Single-family units under construction have been declining since May and were down -16% y/y in stark contrast to the 17% y/y increase in the multifamily segment.

Figure 14: Housing Completions



Sources: US Census Bureau, Arch MI

Figure 15: Housing Units under Construction

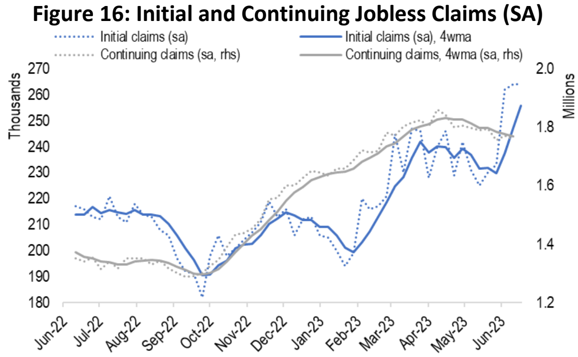


Sources: US Census Bureau, Arch MI

LABOR MARKET TRANSITION CONTINUES

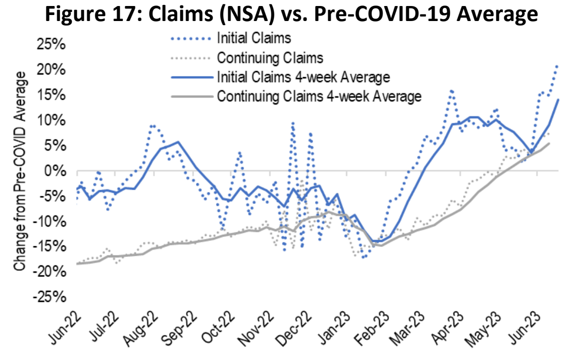
Jobless claims have moved higher over the course of 2023, although the pace of the increase and overall magnitude of the move up have not been overly alarming yet. Additionally, the breadth of the job losses has been limited thus far with filing still below pre-pandemic levels in most states. We expect the labor market to continue to cool over the second half of the year alongside a gradual slowdown in economic activity. Initial jobless claims were unchanged at a seasonally adjusted 264k (cons. 259k) during the week ending June 17, moving the four-week average up to 256k from 247k (Figure 16). The 4-week average of non-seasonally adjusted (nsa) initial claims moved up to 14% above its pre-COVID-19 average (i.e., 2018 to 2019) from 9% the week before and up from -17% below in mid-January (Figure 17). Continuing claims for regular state programs (i.e., repeat filers for unemployment insurance) declined by 13k during the week ending June 10 to a seasonally adjusted 1,759k (cons. 1,785k), moving the four-week average down to 1,770k from 1,778k. Meanwhile, the 4-week average of continuing claims (nsa) moved up to 5.4% above its pre-COVID-19 average from 4.1% the week before and up from -17% below in mid-January.

Figure 16: Initial and Continuing Jobless Claims (SA)



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

Figure 17: Claims (NSA) vs. Pre-COVID-19 Average



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

The Week Ahead

This week will provide wide-ranging updates on the economy, the housing market and inflation. Leading off will be an update on April home-price growth from the FHFA Purchase-Only Home Price Index (HPI) and the S&P CoreLogic Case Shiller 20-city HPI. Both measures of home prices are expected to have roughly maintained their respective March paces, according to the Bloomberg Consensus Survey of Economists. Next up will be May new home sales, which consensus expects to cool slightly from the 683k (saar) pace in April following back-to-back monthly gains of roughly 4%. May pending sales of existing homes are also expected to slow modestly (cons. -0.5%) after being unchanged in April. May personal income is expected to have maintained its April pace (cons. 0.4%), while spending likely cooled to 0.2% from 0.8% in April. The Fed's preferred measure of inflation — core Personal Consumption Expenditure price index — is expected to maintain its April pace of 0.4%, which would keep annual core inflation well above the Fed's target and unchanged at 4.7%.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
6/27/23	Durable Goods Orders	May P	--	-0.9%	1.1%	m/m, sa
6/27/23	FHFA House Price Index m/m	Apr	--	0.5%	0.6%	sa
6/27/23	S&P CoreLogic CS 20-City m/m SA	Apr	--	0.4%	0.5%	sa
6/27/23	S&P CoreLogic CS 20-City y/y NSA	Apr	--	-2.6%	-1.2%	nsa
6/27/23	New Home Sales	May	--	675	683	k, saar
6/27/23	New Home Sales m/m	May	--	-1.2%	4.1%	sa
6/27/23	Conf. Board Consumer Confidence	Jun	--	104.0	102.3	index, sa
6/28/23	MBA Mortgage Applications	6/23/23	--	--	0.5%	w/w, sa
6/29/23	GDP Annualized q/q	1Q T	--	1.4%	1.3%	saar
6/29/23	Personal Consumption q/q	1Q T	--	3.8%	3.8%	saar
6/29/23	Core PCE Inflation q/q	1Q T	--	5.0%	5.0%	saar
6/29/23	Initial Jobless Claims	6/24/23	--	265	264	k, sa
6/29/23	Continuing Claims	6/17/23	--	1,779	1,759	k, sa
6/29/23	Pending Home Sales m/m	May	--	-0.5%	0.0%	sa
6/29/23	Pending Home Sales y/y	May	--	--	-22.6%	nsa
6/30/23	Personal Income	May	--	0.4%	0.4%	m/m, sa
6/30/23	Personal Spending	May	--	0.2%	0.8%	m/m, sa
6/30/23	Real Personal Spending	May	--	0.1%	0.5%	m/m, sa
6/30/23	PCE Inflation m/m	May	--	0.1%	0.4%	sa
6/30/23	PCE Inflation y/y	May	--	3.8%	4.4%	nsa
6/30/23	PCE Core Inflation (ex Food and Energy) m/m	May	--	0.4%	0.4%	sa
6/30/23	PCE Core Inflation (ex Food and Energy) y/y	May	--	4.7%	4.7%	nsa
6/30/23	U. of Mich. Sentiment	Jun F	--	63.90	63.90	index, nsa
6/30/23	U. of Mich. 1 Yr Inflation	Jun F	--	--	3.3%	nsa
6/30/23	U. of Mich. 5-10 Yr Inflation	Jun F	--	--	3.0%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI