HaMMR Digest

Stay current with economic and mortgage market trends.

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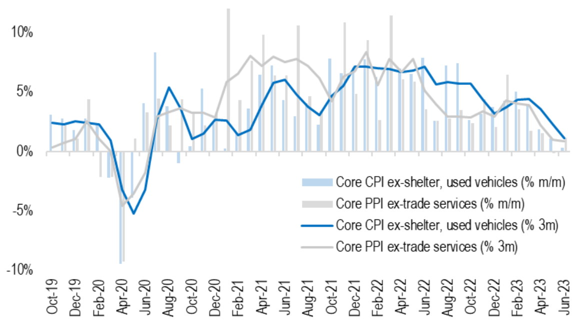
Weekly Wrap — Consumers Buoyed by Cooling Inflation

- Consumer inflation took a big step in the right direction, but the Fed is still on track to hike once more next week.
- The biggest risk remains the Fed engineering a material economic slowdown to convincingly rein in inflation.
- Consumer sentiment soared in a preliminary July reading but a commensurate surge in spending is unlikely.

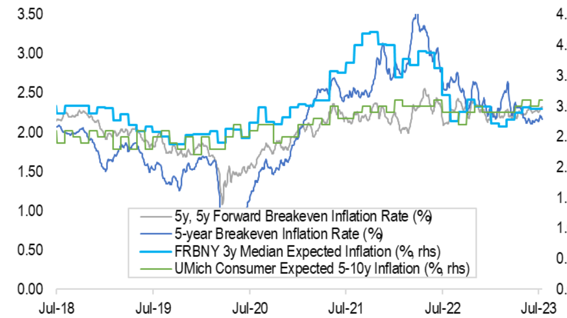
Consumer inflation slowed materially in June, lending hope that the Fed may not need to engineer a material economic slowdown to curb price pressures. Nonetheless, one month is not what the Fed would classify as “convincing” and one more rate hike looks like a lock at next week’s meeting. Headline Consumer Price Index (CPI) inflation rose 0.2% m/m (cons. 0.3%) for an annual gain of 3.0% in June, the slowest annual pace since March 2021. Core CPI (excluding food and energy) rose 0.2% m/m (cons. 0.3%), dropping the annual gain 50bps to 4.8%. Feedthrough pressures to consumer inflation also maintained the multi-month slide lower. Headline and core producer price inflation rose by 0.1% in June while prices for imports, excluding fuel, declined for the third time in the last four months.

Figure 1: Annualized Consumer and Producer Inflation



Sources: BLS, Arch MI

Figure 2: Inflation Expectation Monitor



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

Core goods CPI inflation was weighed down by used vehicles (-0.5% m/m), which had surged 4.4% in April and May. Thus, core CPI, excluding shelter and used vehicles, roughly matched its pre-COVID-19 pace (Figure 1). The Fed’s efforts to realign demand and supply, primarily by raising rates to slow demand and allow for supply to catch up, is seemingly working. The Fed has received an assist on the goods side of the economy as the bullwhip for demand and inventory has calmed. The remaining area of concern for the Fed is services inflation, which is believed to be more tied to wage growth. Positively, core services ex-shelter averaged just 0.1% in the last three months. Additionally, new research from the San Francisco Fed suggests the relationship between core services ex-shelter inflation and the unemployment rate grew stronger post-COVID-19, likely owing to labor supply constraints. The upshot being that the heightened correlation implies a moderate softening of the labor market would help bring down services inflation which, as we detailed last week, is underway.

Aside from last week’s inflation data, we also received positive news on both consumer and business sentiment. The preliminary July University of Michigan consumer sentiment index rose 8.2 points m/m to 72.6 (cons. 65.5), the highest reading since September 2021. Medium-term consumer inflation expectations (Figure 2) inched up to 3.1% (cons. 3.0%). The NFIB Small Business Optimism index rose 1.6 points to 91.0 (cons. 89.9) in June for its largest monthly gain in about a year. Underlying details for both survey reports point to stabilizing, if not rising, current economic conditions and less worry about the future economic outlook, which tracks well with the recent hard economic data. Consumer credit advanced $7.2bn m/m (cons. $20bn) in May, a far cry from the $30bn pace from April to May of 2022. A slowdown in mortgage credit is a big reason behind the headline slowdown, following the decline in home sales lower. Revolving credit also slowed modestly, partly reflecting the downshift in spending and inflation since the start of the year. Revolving credit as a share of disposable income remains below the pre-pandemic average, implying households in aggregate are not overextended. Even with sentiment improving, consumers are likely reacting more to the improving inflation backdrop and maintaining a cautious stance with respect to tapping into credit.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
7/10/23	Wholesale Inventories m/m	May F	0.0%	-0.1%	-0.1%	sa
7/10/23	Consumer Credit	May	7.2	20.0	20.3	$B, m/m, sa
7/11/23	NFIB Small Business Optimism	Jun	91.0	89.9	89.4	index, sa
7/12/23	MBA Mortgage Applications	7/7/23	0.9%	--	-4.4%	w/w, sa
7/12/23	CPI m/m	Jun	0.2%	0.3%	0.1%	sa
7/12/23	CPI Core (ex Food and Energy) m/m	Jun	0.2%	0.3%	0.4%	sa
7/12/23	CPI y/y	Jun	3.0%	3.1%	4.0%	nsa
7/12/23	CPI Core (ex Food and Energy) y/y	Jun	4.8%	5.0%	5.3%	nsa
7/13/23	PPI Final Demand m/m	Jun	0.1%	0.2%	-0.4%	sa
7/13/23	PPI Core (ex Food and Energy) m/m	Jun	0.1%	0.2%	0.1%	sa
7/13/23	PPI Final Demand y/y	Jun	0.1%	0.4%	0.9%	nsa
7/13/23	PPI Core (ex Food and Energy) y/y	Jun	2.4%	2.6%	2.6%	nsa
7/13/23	Initial Jobless Claims	7/8/23	237	250	249	k, sa
7/13/23	Continuing Claims	7/1/23	1,729	1,720	1,718	k, sa
7/14/23	Import Price Index y/y	Jun	-6.1%	-6.1%	-5.7%	nsa
7/14/23	U. of Mich. Sentiment	Jul P	72.6	65.5	64.4	index, nsa
7/14/23	U. of Mich. 1 Yr Inflation	Jul P	3.4%	3.1%	3.3%	nsa
7/14/23	U. of Mich. 5-10 Yr Inflation	Jul P	3.1%	3.0%	3.0%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI

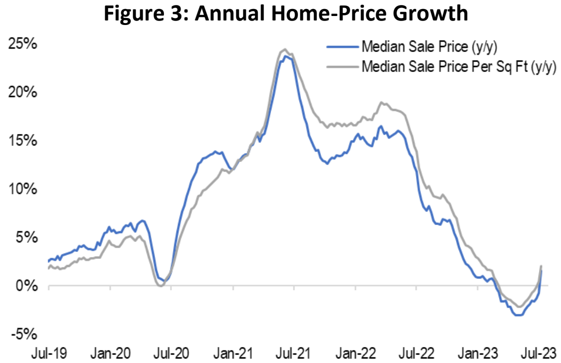
Green = beat expectations; **Red** = worse than expectations; (compared vs. prior if no consensus estimates available)

LIMITED HOMEBUYER PURCHASING POWER KEEPING SALES RESTRAINED

As we highlighted last week, the housing market appears to have recalibrated to the new reality of higher mortgage rates. To be clear, the level of demand has waned as total homes sales (new and existing combined) were down -34% from their pandemic peak in May and down -17% from four years ago. Risk to sales volume remains skewed lower as mortgage rates have been trending back toward 7% since mid-April, hovering just 12bps below the November 2022 peak at 6.96% for the week ending July 13th according to Freddie Mac. As such, buyer purchasing power remains restrained as home-price momentum has turned higher. Thus, home-sales activity has been limited to buyers with solid incomes, substantial wealth/existing home equity, or those with recalibrated expectations.

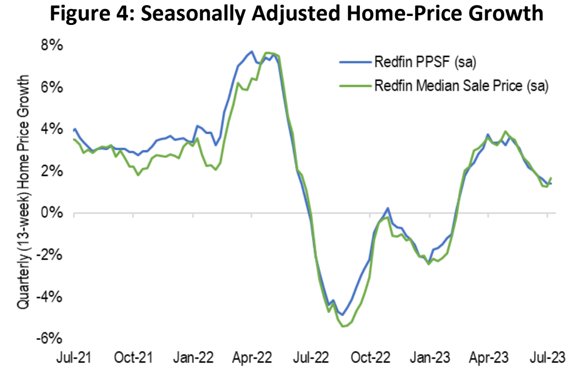
Annual growth in the national median sale price per square foot (ppsf) accelerated to 2% y/y from 0.4% last week and -0.8% four weeks ago, all of which represent a drastic slowdown from the 12% annual gain recorded at this time last year (Figure 3). Meanwhile, the quarterly (i.e., 13-week) change in the seasonally adjusted ppsf was up 1.4% (Figure 4), or 5.7% annualized, unchanged from the previous week, but a deceleration from the 8% average annualized growth in June.

Figure 3: Annual Home-Price Growth



Source: Redfin, Arch MI

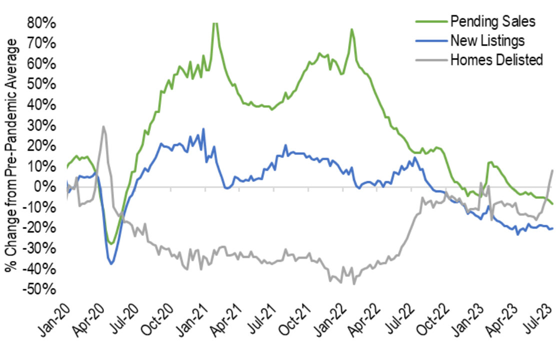
Figure 4: Seasonally Adjusted Home-Price Growth



Source: Redfin, Arch MI

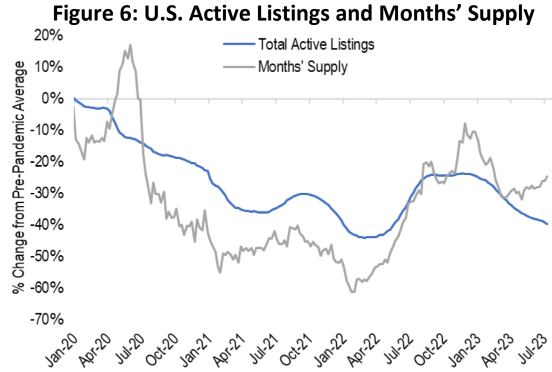
Given the continued affordability squeeze, the recent pace of pending sales cooled further to -8% below the pre-pandemic average for this time of year (Figure 5) from -7% below last week and -3% in mid-May. Potential sellers have also pulled back as new listings declined to -20% below the pre-pandemic average from roughly -15% at the start of the year. Meanwhile, the number of delisted homes rose to 8% above the pre-pandemic average for this time of year from -10% at the end of 2022. The decrease 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 -21% y/y and -20% below the pre-pandemic average, the national market remains somewhat tight given months' supply is 2.6 months, -25% below the pre-pandemic average for this time of year. The current months' supply is a modest increase from the 2.3 months recorded for the same week in 2022 when the market was starting to cool from incredibly tight conditions.

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



Source: Redfin, Arch MI

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



Source: Redfin, Arch MI

Of the major metros we track (Figure 7), annual home-price growth was weakest in Austin (-12%), Phoenix (-8%), Dallas (-5%), Riverside (-4%) and Denver (-4%). Home-price growth slowed most rapidly compared with a year ago in Tampa (-30%-pts), Dallas (-28%-pts), Phoenix (-26%-pts), Austin (-25%-pts) and Nashville (-24%-pts). Conversely, annual home-price growth was strongest in Miami (7%), Baltimore (4%) and Chicago (3%).

Figure 7: Weekly Housing Monitor (as of July 9, 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	2%	12%	5%	0%	37%	-12%	100%	-1%	-14%	-13	-19	-25%	-32%
Atlanta	1%	22%	6%	0%	35%	-19%	99%	-2%	-9%	-6	-14	-18%	-32%
Austin	-12%	12%	9%	-1%	17%	-31%	98%	-4%	10%	27	8	63%	28%
Baltimore	4%	8%	5%	-1%	53%	-2%	102%	0%	-23%	-12	-13	-42%	-44%
Boston	3%	10%	4%	-1%	64%	-9%	104%	-2%	-27%	8	8	-20%	-19%
Chicago	3%	8%	3%	0%	49%	-2%	101%	0%	-30%	20	20	-14%	-6%
Dallas	-5%	23%	8%	0%	31%	-31%	99%	-4%	-7%	-4	-14	-20%	-25%
Denver	-4%	14%	10%	3%	38%	-17%	100%	-2%	-15%	2	-3	-7%	-13%
Houston	0%	17%	7%	-1%	22%	-20%	98%	-2%	7%	-6	-18	-18%	-38%
Los Angeles	-4%	11%	3%	-2%	54%	-11%	102%	-2%	-28%	-6	-8	-14%	-5%
Miami	7%	18%	3%	0%	18%	-13%	97%	-2%	-12%	-7	-18	-25%	-41%
Minneapolis	1%	8%	6%	0%	53%	-10%	102%	-1%	-14%	-5	-8	-14%	-25%
Nashville	-1%	23%	5%	0%	23%	-23%	99%	-2%	23%	-5	-25	5%	-33%
New York	-1%	10%	4%	0%	33%	-5%	100%	0%	-20%	-33	-40	-26%	-36%
Phoenix	-8%	18%	6%	-5%	22%	-18%	99%	-1%	-27%	1	-13	-7%	11%
Portland	0%	10%	7%	-1%	43%	-11%	100%	-2%	-13%	-2	-5	4%	-17%
Riverside	-4%	17%	5%	-2%	44%	-12%	100%	-1%	-28%	-13	-20	-24%	-16%
San Diego	2%	13%	5%	-3%	55%	2%	101%	0%	-42%	-6	-5	-32%	-9%
Seattle	-1%	10%	6%	-3%	43%	-2%	101%	-1%	-37%	-2	-2	-7%	11%
Tampa	-3%	27%	8%	-3%	19%	-25%	98%	-3%	4%	-7	-21	-19%	-30%
Washington DC	3%	8%	4%	-2%	49%	-2%	101%	0%	-26%	5	2	-17%	-17%

Note: Data reflects four-week averages.

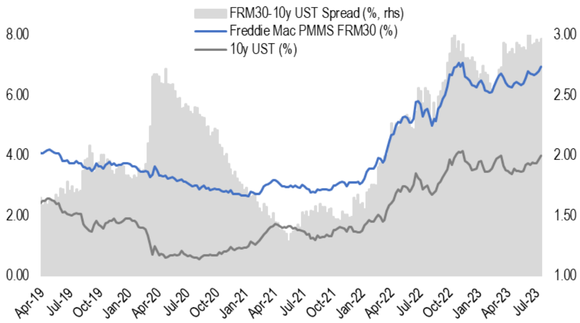
Source: Redfin, Arch MI

Median days on the market have decreased in most metros (-13 days below nationally) as the market has rebounded but a handful of metros still exceed their pre-pandemic timelines. Markets with the longest median days on the market relative to the pre-pandemic norm include Austin (27 days longer), Chicago (20) and Boston (8), while some markets like New York (-33) and Riverside (-13) remained well below pre-pandemic timelines. Markets that have deteriorated the most based on months' supply include Austin, Nashville and Portland, where months' supply climbed to a respective 63%, 5% and 4% relative to their pre-pandemic averages from 28%, -33% and -17% below one year ago. Months' supply remained below pre-pandemic levels in most markets (-25% below nationally), with Baltimore (-42%), San Diego (-32%), New York (-26%), Miami (-25%) and Riverside (-24%) remaining the tightest relative to their pre-pandemic averages.

MORTGAGE PURCHASE APPLICATION ACTIVITY INCHES HIGHER AGAIN EVEN WITH RATES AT 7%

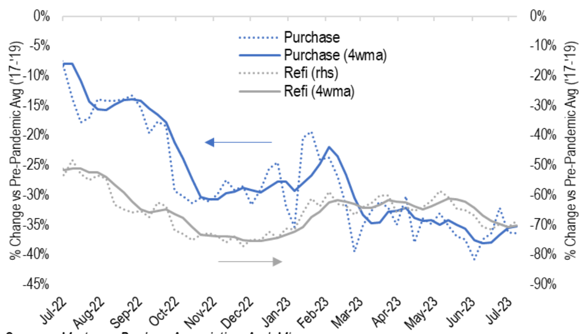
According to the MBA Weekly Applications Survey, the average contract conventional mortgage rate rose 22bps to 7.07% during the week ending July 7 while the FHA contract mortgage rate also rose 18bps to 6.86%, resulting in a -4bps contraction in the spread between the FHA and conventional mortgage rate to -0.21%. Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending July 12 indicated that the FRM30 jumped 15bps w/w to 6.96% (Figure 8) as the yield on the benchmark 10-year U.S. Treasury (UST) jumped 12bps to an average of 3.99% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 3bps to 2.97%, about 130bps 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



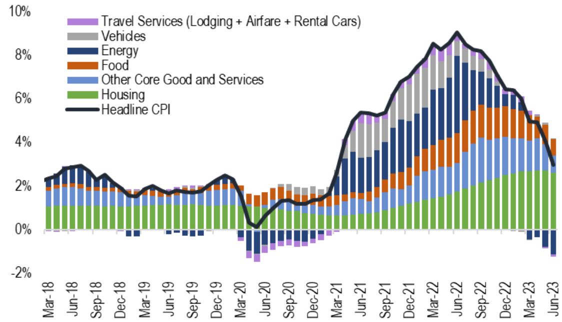
Sources: Mortgage Bankers Association, Arch MI

The MBA Weekly Applications Survey for the week ending July 7 increased 0.9% w/w, leaving the index down -31% year-over-year and down -51% 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 1.8% increase in purchase applications, which remained down -26% y/y despite the weekly increase, and -36% below the pre-pandemic level (Figure 9). Refinancing applications declined -1.3% w/w and were down -39% y/y and -69% relative to pre-pandemic levels.

CONSUMER INFLATION DOWNSHIFTED MATERIALLY IN JUNE — WILL IT LAST?

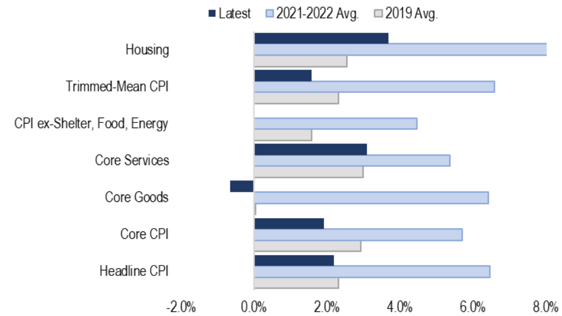
The June CPI inflation report was arguably the best showing for disinflationary pressure in months. Headline CPI came in a tenth below consensus expectations at 0.2% m/m (cons. 0.3%) or 3.0% y/y (Figure 10). Energy rebounded 0.6% m/m after averaging -1.4% over the prior six months. The gain for energy prices was largely aided by a 1.0% gain in gasoline that offset a -1.7% drop in utilities, extending its slide to six months. The disinflationary trend in grocery prices remained intact with food-at-home prices coming in flat on the month and averaging just -0.1% since March. Producer prices for finished consumer foods have declined in five out of the last seven months with June up 0.3%, suggesting that cooling grocery bills have persistence, even if not in a straight downward trajectory. Food away from home (i.e., dining out), rose 0.4% m/m in June — still firm, but a clear slowdown from several monthly gains of more than 0.9% recorded in late 2022. The cost of dining out has climbed by an average of 0.4% over the last three months, not too far above the 0.3% average for all of 2019.

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



Sources: BLS, Arch MI

Figure 11: Annualized Monthly CPI Inflation



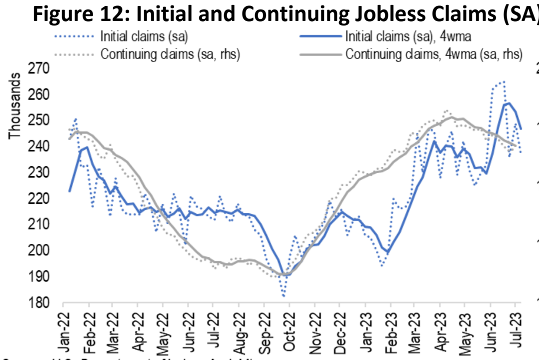
Sources: BLS, Arch MI

Core inflation (excluding food and energy) finally cooled convincingly, rising just 0.2% m/m (cons. 0.3%), or 1.9% annualized (Figure 11). To be more precise, core CPI rose 0.16% m/m compared to the 2021-2022 average of 0.46% and the 2019 average of 0.24%. Core goods prices fell -0.1% m/m, aided by a -0.5% plunge in used vehicles (which had previously been a key driver of recent upside CPI surprises). Wholesale used vehicle pricing has weakened substantially over the past three months, implying softer retail prices are likely just getting started. Excluding used vehicles, core goods prices were unchanged with apparel (0.3%) and medical commodities (0.2%) being offset by household furnishings (-0.3%) and recreational goods (-0.4%). Core services inflation fell 15bps to 0.3% m/m, more than a tenth below its prior three-month average with the bulk of disinflationary forces coming from airfares (-8.1%) and hotels (-2.0%). Rent and owners' equivalent rent shaved a few basis points off May's monthly pace but remained at 0.5% rounded — 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.

JOBLESS CLAIMS REMAINED VOLATILE BUT TREND NO LONGER CONVINCINGLY HIGHER

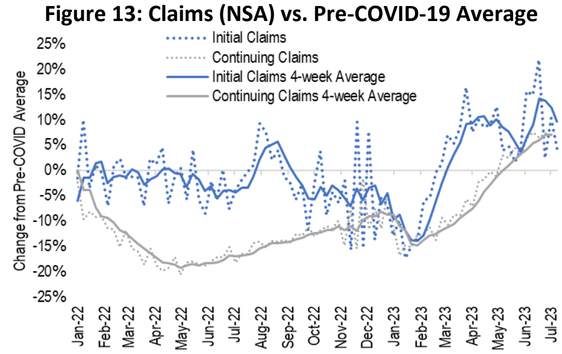
Initial jobless claims declined by -12k to a seasonally adjusted 237k (cons. 250k) during the week ending July 8, moving the four-week average down to 247k from 254k (Figure 12). Continuing claims (i.e., repeat filers for unemployment insurance) climbed by 11k during the week ending July 1 to a seasonally adjusted 1,729k (cons. 1,720k), moving the four-week average down to 1,735k from 1,746k. The four-week average of non-seasonally adjusted initial claims moved down to 9.7% above its pre-COVID-19 average (i.e., 2018 to 2019) from 12.4% the week before but remained up from -17% below in mid-January (Figure 13). Meanwhile, the four-week average of non-seasonally adjusted continuing claims was unchanged at 7% above its pre-COVID-19 average. Altogether, the previous uptrend in initial and continuing claims has either started to trend lower or leveled off, suggesting the cooldown in the labor market may have paused over the summer. Given the volatility of the recent data and holiday-impacted weeks, we remain cautiously optimistic that the recent data suggests the labor market has remained resilient in the face of Fed rate hikes.

Figure 12: Initial and Continuing Jobless Claims (SA)



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

Figure 13: Claims (NSA) vs. Pre-COVID-19 Average



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

The Week Ahead

This week will provide several key updates on the consumer and housing market, starting with June retail sales, which are expected to have accelerated modestly to 0.5% m/m from 0.3% in May, according to the Bloomberg Consensus Survey of Economists. The July NAHB Housing Market Index is expected to continue to climb, reflecting increasing home builder optimism, while housing construction activity is expected to have slowed in June following the sharp increase in May. June existing home sales are expected to cool slightly to a seasonally adjusted annual rate of 4.21m, down from 4.3m in May.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
7/18/23	Advance Retail Sales m/m	Jun	--	0.5%	0.3%	sa
7/18/23	Retail Sales Control Group m/m	Jun	--	0.3%	0.2%	sa
7/18/23	Industrial Production m/m	Jun	--	0.0%	-0.2%	sa
7/18/23	Capacity Utilization	Jun	--	79.5%	79.6%	sa
7/18/23	Business Inventories m/m	May	--	0.2%	0.2%	sa
7/18/23	NAHB Housing Market Index	Jul	--	56	55	index, sa
7/19/23	MBA Mortgage Applications	7/14/23	--	--	0.9%	w/w, sa
7/19/23	Housing Starts	Jun	--	1,475	1,631	k, saar
7/19/23	Housing Starts m/m	Jun	--	-9.6%	21.7%	sa
7/19/23	Building Permits	Jun	--	1,490	1,496	k, saar
7/19/23	Building Permits m/m	Jun	--	-0.4%	5.6%	sa
7/20/23	Initial Jobless Claims	7/15/23	--	241	237	k, sa
7/20/23	Continuing Claims	7/8/23	--	1,730	1,729	k, sa
7/20/23	Philadelphia Fed Business Outlook	Jul	--	-10.0	-13.7	index, sa
7/20/23	Existing Home Sales	Jun	--	4,210	4,300	k, saar
7/20/23	Existing Home Sales m/m	Jun	--	-2.2%	0.2%	sa
7/20/23	Conference Board Leading Index	Jun	--	-0.6%	-0.7%	m/m, sa

Sources: Bloomberg Consensus Survey of Economists, Arch MI