HaMMR Digest

Stay current with economic and mortgage market trends.

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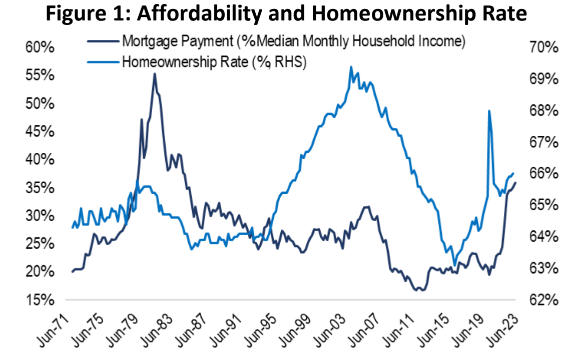
Weekly Wrap — Sailing Through the Swells

- Existing home sales remained depressed in June, but inventory continued to sink more quickly.
- Homebuilders are actively gaining share vs. the resale market with single-family construction in a clear uptrend.
- Outside of housing, data reflected solid economic growth, with the Fed cleared to hike 25bps once more this week.

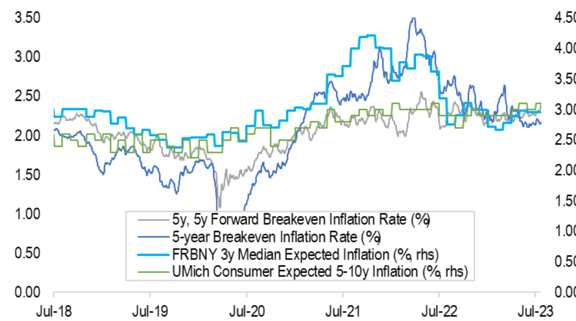
Existing home sales continue to be hamstrung by two themes: stretched buyer affordability and lack of inventory. June home sales declined -3.3% m/m (cons. -2.1%) to a seasonally adjusted annualized rate (saar) of 4,160k (cons. 4,300k), just 4% above the cycle low hit in January and down -23% from 2019 levels. From an affordability perspective, the typical homebuyer's mortgage payment (assuming 10% down) consumes 36% of their income, compared to 34% last June and the pre-pandemic average of 22%. That metric matters most to first-time homebuyers (FTHB) as only repeat buyers are giving up a low mortgage rate or tapping into home equity. As such, the FTHB share of home sales has decreased to 27% from 30% last year. With mortgage rates still hovering near 7%, the rate lock-in effect remained strong: the inventory of existing homes for sale fell below one million for the first time since last February and was down -44% from 2019 levels.

Figure 1: Affordability and Homeownership Rate



Sources: Census Bureau, Freddie Mac, NAR, Arch MI

Figure 2: Inflation Expectations Monitor



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

Despite the affordability challenges highlighted above, the overall U.S. homeownership rate has continued its multi-year uptrend (Figure 1). Several factors are at play including sales shifting to the new home market (which can offer attractive rate buydowns), robust demographic tailwinds and a meaningful portion of FTHBs addressing their affordability challenges by moving to lower cost locations. That is a positive backdrop for home builders and even though housing starts back-pedaled -8.0% m/m (cons. -9.3%) in June, the uptrend in single-family construction remains in place. This is further evidenced by permitting activity for single-family homes, a strong indicator of future housing starts, which climbed again in June for a fifth consecutive monthly gain. The National Association of Home Builders (NAHB) Homebuilder Sentiment index rose for the seventh straight month in July but by only one point to 56 (cons. 56). Builders are noting improved current conditions but sentiment towards future sales moderated, likely on the back of higher rates impacting buyer affordability and development financing. However, lower input costs, steady sales prospects and a shrinking timeline to completion leaves single-family activity in a good position to add to economic growth going forward.

Other data for the week generally pointed to steady but measured economic output. Retail sales rose 0.2% m/m (cons. 0.5%) in June, just keeping up with inflation, but control group sales (which excludes food, autos, gasoline and building materials, and feeds directly into GDP) rose a better than expected 0.6% (cons. 0.3%). Industrial production missed consensus estimates (-0.5% vs cons. 0.0%); however, the details were more positive. Durable goods manufacturing rose 7% annualized over three months and key categories of durable consumer goods, business equipment and construction supplies have rebounded, albeit modestly, from the lull in March. This suggests private investment has not ground to a halt. The industrial production report was met by mixed regional Fed manufacturing metrics for July while the Conference Board's Leading Economic Index declined for the fifteenth straight month in June (-0.7% vs cons. -0.6%). Nevertheless, real GDP growth is tracking ~2% for 2Q23, holding promise that significant economic stress may not be needed to tame inflation (Figure 2).

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
7/18/23	Advance Retail Sales m/m	Jun	**0.2%**	0.5%	0.5%	sa
7/18/23	Retail Sales Control Group m/m	Jun	**0.6%**	0.3%	0.3%	sa
7/18/23	Industrial Production m/m	Jun	**-0.5%**	0.0%	-0.5%	sa
7/18/23	Capacity Utilization	Jun	**78.9%**	79.5%	79.4%	sa
7/18/23	Business Inventories m/m	May	**0.2%**	0.2%	0.1%	sa
7/18/23	NAHB Housing Market Index	Jul	**56**	56	55	index, sa
7/19/23	MBA Mortgage Applications	7/14/23	**1.1%**	--	0.9%	w/w, sa
7/19/23	Housing Starts	Jun	**1,434**	1,480	1,559	k, saar
7/19/23	Housing Starts m/m	Jun	**-8.0%**	-9.3%	15.7%	sa
7/19/23	Building Permits	Jun	**1,440**	1,500	1,496	k, saar
7/19/23	Building Permits m/m	Jun	**-3.7%**	0.2%	5.6%	sa
7/20/23	Initial Jobless Claims	7/15/23	**228**	240	237	k, sa
7/20/23	Continuing Claims	7/8/23	**1,754**	1,722	1,721	k, sa
7/20/23	Philadelphia Fed Business Outlook	Jul	**-13.5**	-10.0	-13.7	index, sa
7/20/23	Existing Home Sales	Jun	**4,160**	4,200	4,300	k, saar
7/20/23	Existing Home Sales m/m	Jun	**-3.3%**	-2.3%	0.2%	sa
7/20/23	Conference Board Leading Index	Jun	**-0.7%**	-0.6%	-0.6%	m/m, sa

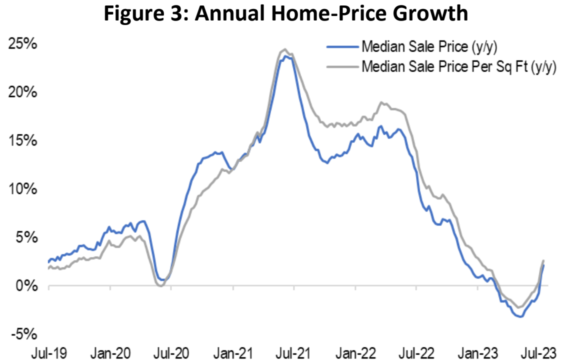
Sources: Bloomberg Consensus Survey of Economists, Arch MI

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

HOME PRICES REBOUNDING AS DEMAND STILL EXCEEDS SUPPLY BY A CONSIDERABLE MARGIN

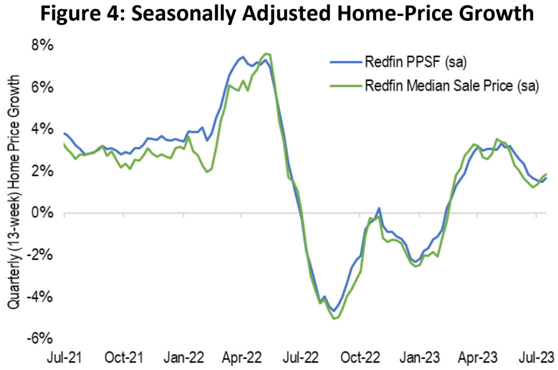
Homebuyer demand continued to be restrained by the headwind of elevated mortgage rates and challenged affordability. However, inventory remained tight as potential home sellers continued to pull back from the market at a faster pace. Accordingly, annual growth in the national median sale price per square foot (ppsf) accelerated to 2.5% y/y during the week ending July 16 per Redfin (Figure 3), up from 1.8% last week and -0.6% four weeks ago — all of which represent a drastic slowdown from the 11.4% annual gain recorded at this time last year but a meaningful acceleration from the -2.2% decline in April. Meanwhile, the quarterly (i.e., 13-week) change in the seasonally adjusted ppsf was up 1.7% (Figure 4), or 6.8% annualized, up from 1.5% the previous week. Home-price growth appears poised to rebound further in the weeks ahead despite the persistently lower level of demand.

Figure 3: Annual Home-Price Growth



Source: Redfin, Arch MI

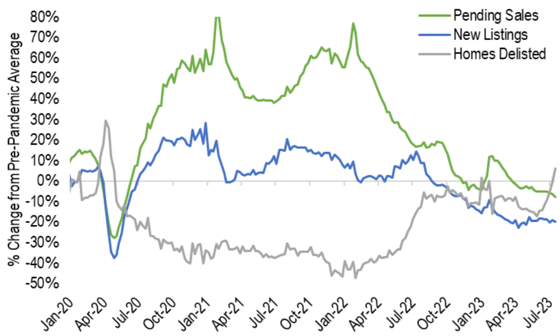
Figure 4: Seasonally Adjusted Home-Price Growth



Source: Redfin, Arch MI

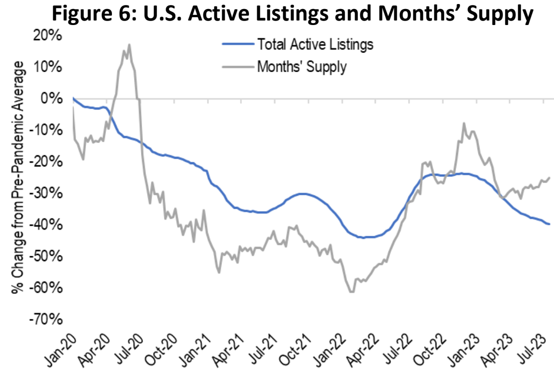
Pending home sales cooled further to -8% below the pre-pandemic average for this time of year from -5% four weeks ago. Higher mortgage rates continued to weigh on potential sellers as new listings declined to -20% below the pre-pandemic average from -19% four weeks ago. Meanwhile, the number of delisted homes rose to 6% above the pre-pandemic average for this time of year from -12% 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 5). Despite total homes sold being down -21% y/y and -20% below the pre-pandemic average, the national market remains 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 2.4 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 (-7%), Riverside (-4%), Denver (-4%) and Dallas (-3%). Home-price growth slowed most rapidly compared with a year ago in Tampa (-30%-pts), Dallas (-25%-pts), Phoenix (-25%-pts), Austin (-24%-pts) and Nashville (-22%-pts). Conversely, annual home-price growth was strongest in Miami (9%), Washington, D.C. (4%) and Chicago (4%).

Figure 7: Weekly Housing Monitor (as of July 16, 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	**3%**	**11%**	**6%**	**0%**	**37%**	**-10%**	**100%**	**-1%**	**-16%**	**-13**	**-19**	**-25%**	**-31%**
Atlanta	1%	21%	6%	0%	34%	-18%	99%	-2%	-12%	-7	-14	-18%	-29%
Austin	-12%	12%	9%	-1%	17%	-28%	98%	-3%	5%	25	8	61%	38%
Baltimore	3%	8%	5%	-1%	51%	-2%	102%	0%	-25%	-12	-12	-44%	-43%
Boston	3%	9%	4%	-1%	64%	-7%	103%	-2%	-30%	8	8	-22%	-19%
Chicago	4%	8%	3%	0%	49%	-1%	101%	0%	-31%	20	21	-16%	-6%
Dallas	-3%	22%	8%	0%	30%	-29%	99%	-3%	-9%	-4	-13	-19%	-22%
Denver	-4%	13%	10%	3%	38%	-13%	100%	-2%	-15%	1	-3	-2%	-5%
Houston	0%	17%	7%	-1%	22%	-19%	98%	-2%	5%	-7	-18	-18%	-34%
Los Angeles	-2%	9%	3%	-2%	55%	-8%	102%	-1%	-29%	-6	-7	-12%	-2%
Miami	9%	19%	3%	0%	17%	-13%	97%	-2%	-14%	-8	-19	-26%	-39%
Minneapolis	1%	8%	6%	1%	53%	-9%	102%	-1%	-14%	-6	-7	-14%	-25%
Nashville	0%	22%	5%	-1%	22%	-22%	99%	-2%	18%	-6	-25	4%	-28%
New York	1%	9%	4%	0%	34%	-3%	101%	0%	-20%	-34	-41	-26%	-36%
Phoenix	-7%	18%	6%	-6%	22%	-14%	99%	-1%	-31%	0	-12	-8%	21%
Portland	0%	10%	8%	-1%	43%	-8%	100%	-1%	-16%	-2	-4	3%	-13%
Riverside	-4%	16%	5%	-2%	44%	-10%	100%	-1%	-29%	-13	-20	-22%	-12%
San Diego	3%	13%	5%	-3%	55%	4%	101%	0%	-43%	-6	-5	-32%	-4%
Seattle	0%	9%	7%	-3%	42%	1%	101%	0%	-39%	-2	-2	-7%	17%
Tampa	-3%	27%	9%	-3%	19%	-24%	98%	-2%	-1%	-8	-21	-19%	-26%
Washington DC	4%	7%	4%	-2%	48%	1%	101%	0%	-29%	4	2	-18%	-15%

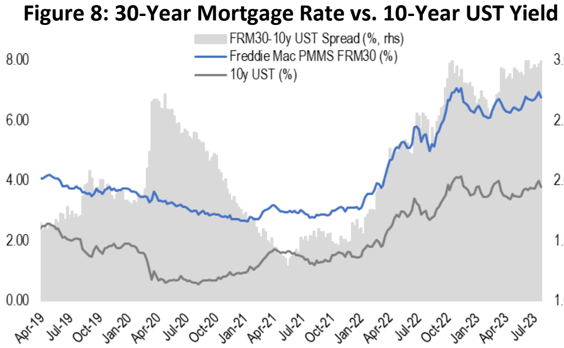
Note: Data reflects four-week averages.
Source: Redfin, Arch MI

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 (25 days longer), Chicago (20) and Boston (8), while some markets like New York (-34) 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 61%, 4% and 3% relative to their pre-pandemic averages from 38%, -28% and -13% below one year ago. Months' supply remained below pre-pandemic levels in most markets (-25% below nationally), with Baltimore (-44%), San Diego (-32%), New York (-26%), Miami (-26%) and Riverside (-22%) remaining the tightest relative to their pre-pandemic averages.

MORTGAGE PURCHASE APPLICATION ACTIVITY REMAINED CLOSE TO RECENT TREND

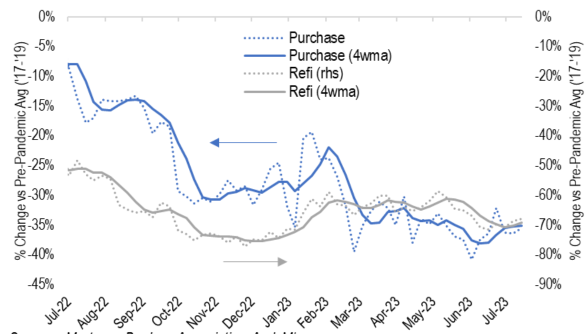
According to the MBA Weekly Applications Survey, the average contract conventional mortgage rate declined -20bps to 6.87% during the week ending July 14 while the FHA contract mortgage rate also declined -9bps to 6.77%, resulting in an 11bps widening of the spread between the FHA and conventional mortgage rate to -0.1%. Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending July 19 indicated that the FRM30 fell -18bps w/w to 6.78% (Figure 8) as the yield on the benchmark 10-year U.S. Treasury (UST) fell -20bps to an average of 3.79% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 2bps to 2.99%, 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



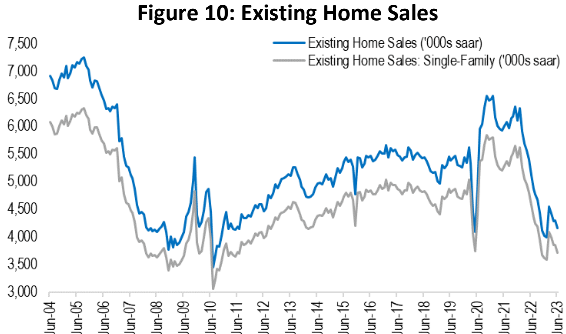
Sources: Mortgage Bankers Association, Arch MI

The MBA Weekly Applications Survey for the week ending July 14 increased 1.1% w/w, leaving the index down -25% 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 7.3% increase in refinancing applications, which remained down -32% y/y despite the weekly increase, and -68% below the pre-pandemic level (Figure 9). Purchase applications declined -1.3% w/w and were down -22% y/y and -35% relative to pre-pandemic levels.

EXISTING HOME SALES STUCK IN MUD

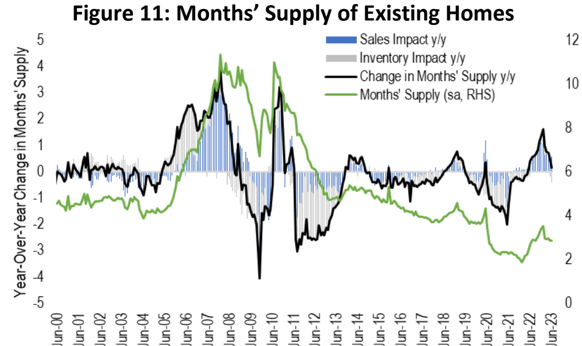
Existing home sales remain at a depressed level mostly due to lack of inventory and buyer affordability challenges. For June, sales fell -3.3% m/m (cons. -2.1%) to a seasonally adjusted annual rate of 4,160k (Figure 10). Supply conditions remained tight with inventory down for the fifth straight month and by -3.9% m/m to 987k (seasonally adjusted or sa), dropping below one million for the first time since last February. Sales and inventory were -23% and -44% below their respective 2019 levels. Unsold inventory reflected only a 2.8 months' supply (sa) at the present sales pace, par with last month's print but down from the November–January average of 3.4.

Figure 10: Existing Home Sales



Sources: NAR, Arch MI

Figure 11: Months' Supply of Existing Homes



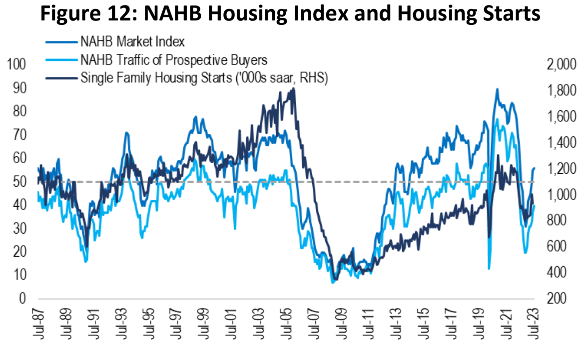
Sources: NAR, Arch MI

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 1.0% m/m but fell -1.1% y/y, the fifth straight annual decline, to $394k, although it is important to note that this figure is not adjusted for the quality, size, or geography of homes sold.

NEW HOME SALES MARKET MAINTAINED UPTREND

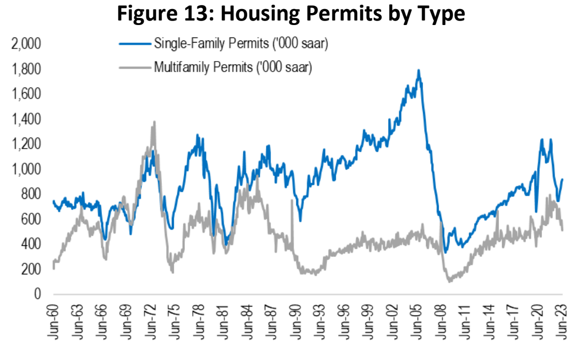
The -8.0% m/m (cons. -9.3%) decline in June total housing starts to 1,434k saar did not entirely offset the 15.7% surge in May, keeping the recent rebound intact. After rising for four straight months, single-family starts pulled back by -7.0% m/m but are still up 16% from November's cycle through. Multifamily starts also did not fare well, declining -9.9% to 499k saar, the slowest pace since December. We hold a more positive outlook for single-family construction given low resale inventory and positive demographics bolstering the desire for homeownership. We expect multifamily construction activity to continue 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. Our positive outlook for single-family construction accompanies the seventh straight monthly increase in the NAHB sentiment gauge in July to 56 (cons. 56); however, July's one-point increase was the slowest advance in three months (Figure 12). The current sales index rose one point to 62 while the future sales component fell 2pts to 60, likely owing to the impact of higher rates on buyer affordability and financing costs for new development. Importantly, perception of buyer traffic hit its highest level since June 2022 but remained low by historical standards.

Figure 12: NAHB Housing Index and Housing Starts



Sources: NAHB, Census Bureau, Arch MI

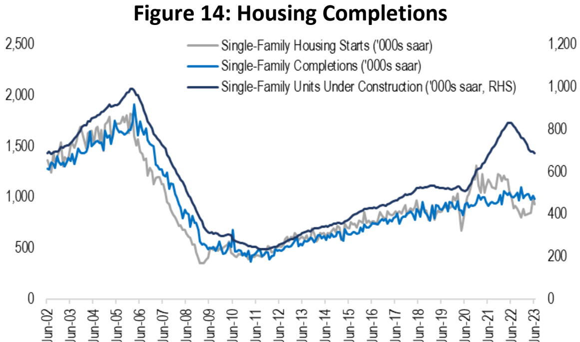
Figure 13: Housing Permits by Type



Sources: US Census Bureau, Arch MI

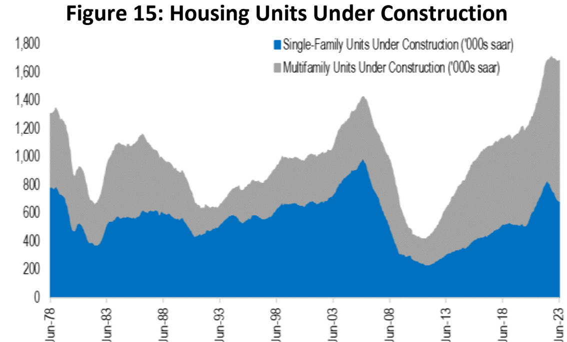
Single-family permits rose for the fifth month in a row, increasing 2.2% m/m but remained down -26% from last January's peak (Figure 13). Multifamily permits fell -12.9% m/m, maintaining the downtrend in place since last June. Total completions declined -3.3% m/m with the year-over-year measure up to 5.5%, a modest acceleration from 5.0% in May and indicating that incremental supply is picking up on an annual basis. The monthly decline was led by the multifamily segment (-4%), with single-family completions not far behind with a -3% drop. Single-family completions remained down -2.3% y/y and after a year's long stretch, the gap between starts and completions has essentially closed (Figure 14).

Figure 14: Housing Completions



Sources: US Census Bureau, Arch MI

Figure 15: Housing Units Under Construction



Sources: US Census Bureau, Arch MI

Improving supply chains and some easing of labor market conditions have allowed builders to start chipping away at the elevated count of 1,682k units under construction (Figure 15). Single-family units under construction have been declining since May and were down -17% y/y in stark contrast to the 16% y/y increase in the multifamily segment.

RETAIL SALES LOOKED BETTER UNDER THE HOOD

June nominal retail and food services slowed to 0.2% m/m (cons. 0.5%) following an upwardly revised 0.5% gain (0.3% previously) in May. Auto sales slowed materially to 0.3% m/m from 1.6% in May, which contrasts with alternate auto sales data that showed more strength. Gasoline sales remained weak while grocery sales declined for the third time in the last four months, likely attributable to lower prices as well as customers trading down. Furniture sales surprised with a 1.4% advance, as did online sales with a 1.9% gain. Retail sales, excluding autos, rose 0.2% m/m while the important control group (excluding auto, gas, building materials and food services), which feeds directly into the GDP report, surged by 0.6% (cons. 0.6%) following May's 0.3% gain, which was revised up by a tenth.

Figure 16: Retail & Food Service Sales (Change from Feb '20)

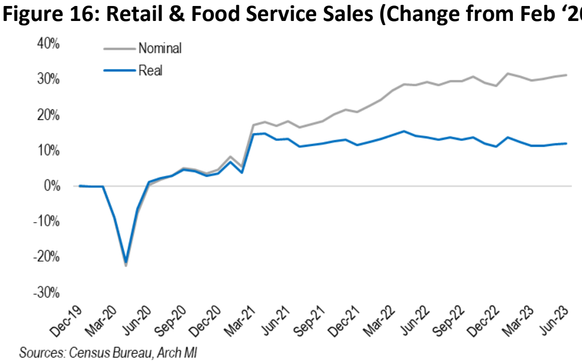
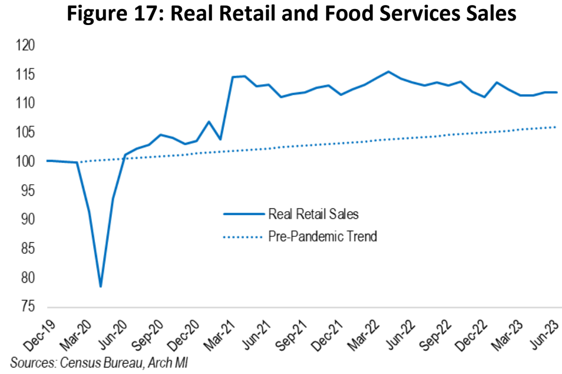


Figure 17: Real Retail and Food Services Sales



Adjusted for inflation, retail sales were flat on the month (Figure 16) and up only 0.7% over the last six months. Real control group sales (which excludes food, autos, gasoline and building materials) have performed slightly better over the same time frame and suggest that while consumers have pulled back a bit on their spending, they have yet to completely shut their wallets. 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 17).

INITIAL JOBLESS CLAIMS DECLINED BACK TO MARCH LEVEL

The uptrends in initial and continuing claims have either started to trend lower or leveled off. We are cautiously optimistic that the cooldown in the labor market slowed over the summer, although volatility is typically elevated around holiday-impacted weeks. We continue to expect claims to increase over the second half of the year as the economy cools further. Initial jobless claims declined by -9k to a seasonally adjusted 228k (cons. 240k) during the week ending July 15, moving the four-week average down to 238k from 247k (Figure 18). The four-week average of non-seasonally adjusted initial claims also moved down to 6.3% above its pre-COVID-19 average (i.e., 2018 to 2019) from 9.6% the week before (Figure 19).

Figure 18: Initial and Continuing Jobless Claims (SA)

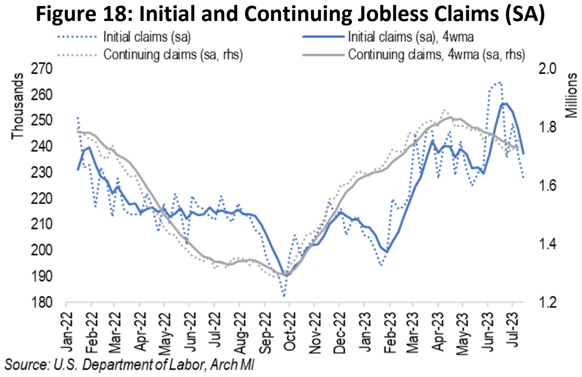
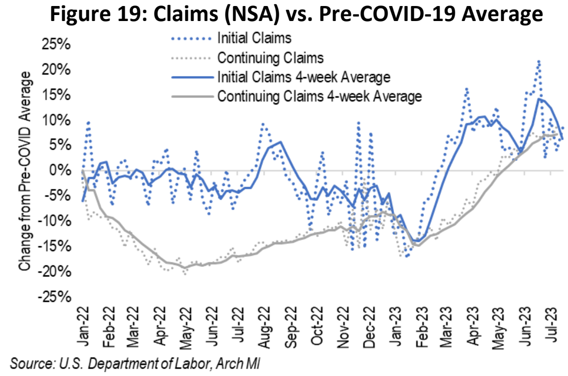


Figure 19: Claims (NSA) vs. Pre-COVID-19 Average



Meanwhile, continuing claims (i.e., repeat filers for unemployment insurance) climbed by 33k during the week ending July 8 to a seasonally adjusted 1,754k (cons. 1,722k), moving the four-week average down to 1,732k from 1,733k. The four-week average of non-seasonally adjusted continuing claims moved up to 7.3% above its pre-COVID-19 average from 6.9% the week before and up from -15% below in mid-January.

The Week Ahead

In the week ahead, all eyes will be on the Fed. Market consensus expects a 25bps rate hike, consistent with our outlook, but the details from the policy statement and Chairman Powell's press conference will be key to see if the internal debate has shifted from its previously hawkish bias. May home-price indexes will likely show another advance as tight inventory continued to offset tepid demand. June new home sales will likely follow behind the positive trend seen in single-family construction and we would not be surprised if new home sales handily beat consensus expectations for a -5.0% m/m decline. The week will be rounded out by the first estimate of 2Q23 real GDP growth, which is expected to marginally slow from 1Q23, while monthly household spending will shed more light on how consumers have been allocating their budgets across goods and services. July consumer confidence measures are expected to rise, maintaining the recent trend of improving perceptions of the economy from both households and businesses.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
7/24/23	S&P Global US Manufacturing PMI	Jul P	--	46.2	46.3	index, sa
7/24/23	S&P Global US Services PMI	Jul P	--	54.0	54.4	index, sa
7/24/23	S&P Global US Composite PMI	Jul P	--	53.0	53.2	index, sa
7/25/23	FHFA House Price Index m/m	May	--	0.6%	0.7%	sa
7/25/23	S&P CoreLogic CS 20-City m/m SA	May	--	0.7%	0.9%	sa
7/25/23	S&P CoreLogic CS 20-City y/y NSA	May	--	-2.1%	-1.7%	nsa
7/25/23	Conf. Board Consumer Confidence	Jul	--	112.0	109.7	index, sa
7/26/23	MBA Mortgage Applications	7/21/23	--	--	1.1%	w/w, sa
7/26/23	New Home Sales	Jun	--	725	763	k, saar
7/26/23	New Home Sales m/m	Jun	--	-5.0%	12.2%	sa
7/26/23	FOMC Rate Decision (Upper Bound)	7/26/23	--	5.50%	5.25%	
7/27/23	GDP Annualized q/q	2Q A	--	1.8%	2.0%	saar
7/27/23	Personal Consumption q/q	2Q A	--	1.2%	4.2%	saar
7/27/23	Core PCE Inflation q/q	2Q A	--	4.0%	4.9%	saar
7/27/23	Durable Goods Orders	Jun P	--	1.0%	1.8%	m/m, sa
7/27/23	Initial Jobless Claims	7/22/23	--	235	228	k, sa
7/27/23	Continuing Claims	7/15/23	--	1,750	1,754	k, sa
7/27/23	Pending Home Sales m/m	Jun	--	-0.5%	-2.7%	sa
7/27/23	Pending Home Sales y/y	Jun	--	--	-20.8%	nsa
7/28/23	Employment Cost Index	2Q	--	1.1%	1.2%	q/q, sa
7/28/23	Personal Income	Jun	--	0.5%	0.4%	m/m, sa
7/28/23	Personal Spending	Jun	--	0.4%	0.1%	m/m, sa
7/28/23	Real Personal Spending	Jun	--	0.3%	0.0%	m/m, sa
7/28/23	PCE Inflation m/m	Jun	--	0.2%	0.1%	sa
7/28/23	PCE Inflation y/y	Jun	--	3.0%	3.8%	nsa
7/28/23	PCE Core Inflation (ex Food and Energy) m/m	Jun	--	0.2%	0.3%	sa
7/28/23	PCE Core Inflation (ex Food and Energy) y/y	Jun	--	4.2%	4.6%	nsa
7/28/23	U. of Mich. Sentiment	Jul F	--	72.6	72.6	index, nsa
7/28/23	U. of Mich. 1 Yr Inflation	Jul F	--	--	3.4%	nsa
7/28/23	U. of Mich. 5-10 Yr Inflation	Jul F	--	--	3.1%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI