HaMMR Digest

Stay current with economic and mortgage market trends.

August 7, 2023

Parker Ross — Global Chief Economist
pross@archgroup.com | 914 216 7270

Leonidas Mourelatos — Director of Real Estate Economics
lmourelatos@archgroup.com | 631 521 9048

ARCH MORTGAGE INSURANCE COMPANY® | 230 NORTH ELM STREET GREENSBORO NC 27401 | ARCHMI.COM

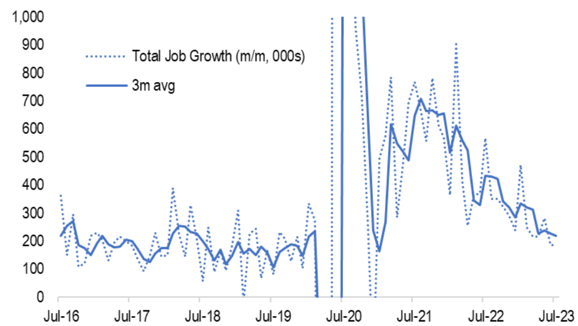
Weekly Wrap — Calming Seas

- The July jobs report showed a labor market further cooling toward a better balance between supply and demand.
- Measures of economic activity through early 3Q suggest a continuation of the steady growth from 2Q.
- The level and trend for layoffs remain inconsistent with an impending recession.

The July jobs report continued to showcase the tug of war between labor supply and demand. From a headline perspective, payroll growth is indeed slowing — missing consensus expectations for the second straight month — coming in at 187k (cons. 200k). A combined downward revision of -49k to job growth in May and June pulled the three-month average down to 218k, which has steadily been trending lower over the course of the pandemic recovery. That slowdown looks ominous compared to the post-COVID pace, but from a historical perspective (i.e., ~180k average from 2017–2019), the trend still looks healthy (Figure 1). The labor force participation rate held firm at 62.6% (cons. 62.6%) while the unemployment rate ticked lower to 3.5% (cons. 3.6%) for the right reasons: the number of unemployed declined as the labor force expanded amid a surge in employment.

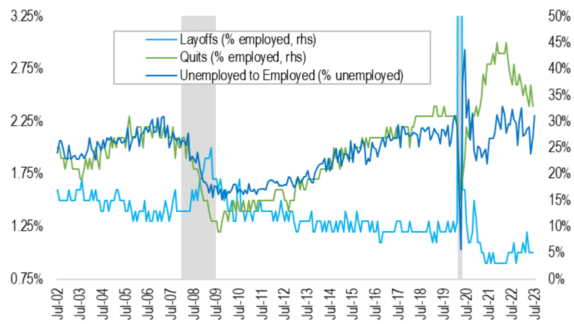
The key takeaway is the labor market remains in a healthy period of normalization. Measures of jobs loss show layoffs have risen from pandemic lows but have remained below or roughly in-line with pre-pandemic ranges (Figure 2). Importantly, the steady rise in layoffs earlier of this year has subsided as rolling sectoral weakness from tech, finance, real estate and broader business services has eased without metastasizing into other sectors. Indeed, job cuts fell -8.2% y/y in July according to Challenger from 25% in June and an eye-popping 440% in January. The steady slide in the quits rate suggests that fewer employees are switching jobs while the steady flow from unemployed to employed suggests the labor market is absorbing individuals off the sidelines. However, the breadth of job gains has moderated recently while total hours worked is flat this year — a sign that while firms are still generally holding on to staff, they are working them less. All in all, the Fed must be pleased with recent data: inflation is cooling while the economy is still growing at a healthy clip and the labor market is continuing to normalize at a measured pace, all key elements of a "soft landing."

Figure 1: Monthly Job Growth



Source: Bureau of Labor Statistics, Arch MI

Figure 2: Labor Force Flows



Source: Bureau of Labor Statistics, Arch MI

Cooling employment growth was confirmed by the July ISM Services PMI index that fell to 52.7 (cons. 53.1) from 53.9 in June, which still reflects expansion but at a slower pace. The downtick was broad-based as new orders, business activity and employment moved lower. Meanwhile, the July ISM Manufacturing PMI remained below the breakeven marker for expansion for the ninth straight month, rising slightly to 46.9 (cons. 46.0) from 46.4 in June. As we have been highlighting, actual production data have been better than implied by surveys and that may finally be starting to turn as the manufacturing new orders index rose to 47.3, the highest level since last October. The prices paid index for both services and manufacturing remained subdued, a positive sign for future inflation pressures but the recent uptick in commodities prices and the still-solid pace of wage growth will likely remain key risks to monitor. Aside from payrolls and sentiment measures, construction spending for June softened to 0.5% m/m (cons. 0.6%) from 0.9% in May, still a healthy pace. Importantly, real private residential construction spending accelerated to 2.5% m/m from 1.6% in May, leaving 2Q growth up 14% annualized. The data flow for the week did not alter the glide-path of the economy, which we still expect to downshift over the remainder of 2023 but narrowly avert a recession in 2024.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
8/1/23	S&P Global US Manufacturing PMI	Jul F	**49.0**	49.0	49.0	index, sa
8/1/23	JOLTS Job Openings	Jun	**9.6**	9.6	9.6	m, sa
8/1/23	ISM Manufacturing	Jul	**46.4**	46.9	46.0	index, sa
8/1/23	ISM Prices Paid	Jul	**42.6**	44.0	41.8	index, nsa
8/1/23	Wards Total Vehicle Sales	Jul	**15.7**	15.8	15.7	m, saar
8/2/23	MBA Mortgage Applications	7/28/23	**-3.0%**	--	-1.8%	w/w, sa
8/2/23	ADP Employment	Jul	**324**	190	455	k, m/m, sa
8/3/23	Nonfarm Productivity	2Q P	**3.7%**	2.2%	-1.2%	q/q, saar
8/3/23	Unit Labor Costs	2Q P	**1.6%**	2.5%	3.3%	q/q, saar
8/3/23	Initial Jobless Claims	7/29/23	**227**	225	221	k, sa
8/3/23	Continuing Claims	7/22/23	**1,700**	1,705	1,679	k, sa
8/3/23	S&P Global US Services PMI	Jul F	**52.3**	52.4	52.4	index, sa
8/3/23	S&P Global US Composite PMI	Jul F	**52.0**	52.0	52.0	index, sa
8/3/23	Factory Orders	Jun	**2.3%**	2.3%	0.4%	m/m, sa
8/3/23	Durable Goods Orders	Jun F	**4.6%**	4.7%	4.7%	m/m, sa
8/3/23	ISM Services Index	Jul	**52.7**	53.1	53.9	index, nsa
8/4/23	Nonfarm Payrolls	Jul	**187**	200	185	k, m/m, sa
8/4/23	Private Payrolls	Jul	**172**	180	128	k, m/m, sa
8/4/23	Unemployment Rate	Jul	**3.5%**	3.6%	3.6%	sa
8/4/23	Average Hourly Earnings m/m	Jul	**0.4%**	0.3%	0.4%	sa
8/4/23	Average Hourly Earnings y/y	Jul	**4.4%**	4.2%	4.4%	nsa
8/4/23	Average Weekly Hours All Employees	Jul	**34.3**	34.4	34.4	sa
8/4/23	Labor Force Participation Rate	Jul	**62.6%**	62.6%	62.6%	sa

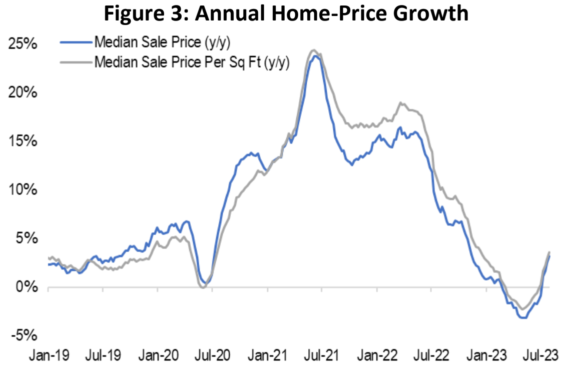
Sources: Bloomberg Consensus Survey of Economists, Arch MI

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

HOME PRICES CONTINUED TO RISE AS THE MARKET REMAINED TIGHT

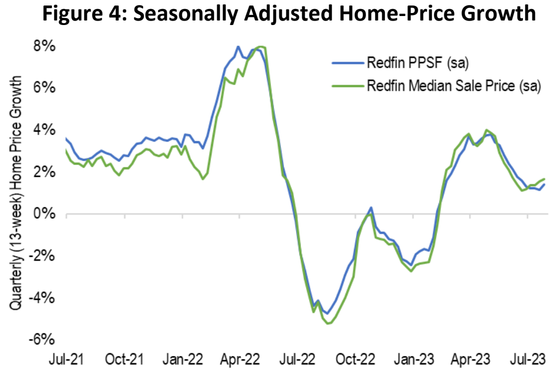
Homebuyer demand continued to be restrained by the headwind of elevated mortgage rates and challenged affordability. However, inventory remained tight as potential home sellers continued to pull back from the market at a faster pace. Accordingly, annual growth in the national median sale price per square foot (PPSF) accelerated to 3.6% y/y from 2.9% last week and 0.3% four weeks ago (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, up from 1.2% 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

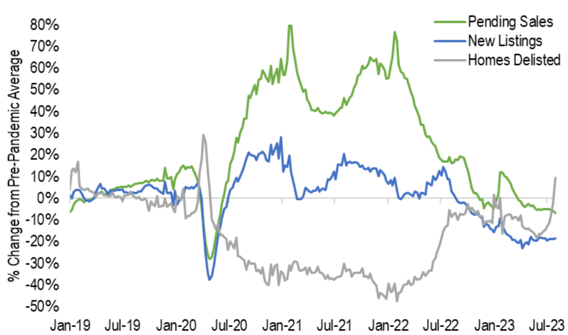
Figure 4: Seasonally Adjusted Home-Price Growth



Source: Redfin, Arch MI

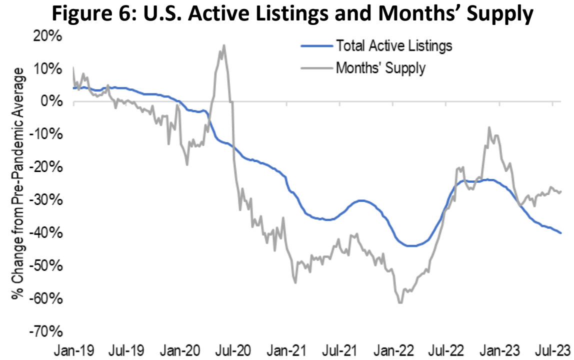
Pending home sales cooled further to -7% below the pre-pandemic average for this time of year from -5% four weeks ago (Figure 5). Higher mortgage rates have weighed on potential sellers as new listings remained -18% below the pre-pandemic average but have improved slightly from -20% below four weeks ago. Meanwhile, the number of delisted homes rose to 9% above the pre-pandemic average for this time of year from -13% four weeks ago. The still-depressed pace of new listings and increase in delisted homes offset the cooling pace of pending 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 -19% y/y and -19% below the pre-pandemic average, the national market remained tight given months' supply is 2.7 months, -28% below the pre-pandemic average for this time of year and tighter than the -26% below four weeks ago. The current months' supply is a very modest increase from the 2.6 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 (-11%), Phoenix (-6%), Riverside (-4%), Dallas (-3%) and Los Angeles (-2%). Home-price growth slowed most rapidly compared with a year ago in Tampa (-28%-pts), Nashville (-23%-pts), Phoenix (-22%-pts), Austin (-22%-pts) and Dallas (-21%-pts). Conversely, annual home-price growth was strongest in Miami (9%), Chicago (6%) and Boston (6%).

Figure 7: Weekly Housing Monitor (as of July 30, 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	**4%**	**10%**	**6%**	**-1%**	**36%**	**-7%**	**100%**	**-1%**	**-19%**	**-13**	**-18**	**-28%**	**-30%**
Atlanta	2%	19%	6%	-1%	34%	-14%	99%	-1%	-14%	-7	-13	-18%	-28%
Austin	-11%	11%	9%	-2%	16%	-21%	98%	-2%	-7%	26	11	45%	42%
Baltimore	4%	8%	6%	-1%	51%	2%	102%	0%	-28%	-14	-14	-46%	-45%
Boston	6%	7%	4%	-1%	61%	-6%	103%	-1%	-32%	7	7	-26%	-19%
Chicago	6%	7%	3%	0%	48%	2%	101%	0%	-30%	20	20	-17%	-8%
Dallas	-3%	19%	9%	-1%	29%	-23%	99%	-2%	-17%	-3	-13	-24%	-21%
Denver	0%	11%	10%	3%	36%	-6%	100%	-1%	-20%	1	-2	-9%	-4%
Houston	0%	16%	7%	-1%	22%	-15%	98%	-1%	-7%	-8	-18	-27%	-32%
Los Angeles	-2%	8%	4%	-2%	56%	-1%	102%	0%	-31%	-8	-6	-16%	1%
Miami	9%	17%	3%	0%	19%	-9%	97%	-1%	-16%	-9	-20	-28%	-38%
Minneapolis	3%	6%	6%	0%	52%	-5%	102%	-1%	-18%	-6	-7	-17%	-23%
Nashville	-1%	22%	6%	-1%	20%	-18%	99%	-2%	7%	-5	-21	-2%	-23%
New York	2%	7%	4%	0%	34%	-3%	101%	0%	-23%	-33	-39	-31%	-38%
Phoenix	-6%	16%	6%	-7%	22%	-7%	99%	0%	-40%	0	-10	-12%	33%
Portland	-1%	10%	8%	-1%	40%	-4%	100%	-1%	-19%	-1	-3	-6%	-11%
Riverside	-4%	16%	5%	-3%	44%	-5%	100%	0%	-31%	-14	-19	-22%	-7%
San Diego	3%	13%	5%	-4%	54%	7%	101%	1%	-44%	-8	-5	-38%	-2%
Seattle	0%	7%	7%	-3%	40%	6%	101%	1%	-41%	-2	-1	-11%	20%
Tampa	-1%	26%	9%	-4%	20%	-17%	98%	-1%	-11%	-10	-19	-21%	-20%
Washington DC	4%	7%	5%	-2%	46%	3%	101%	0%	-29%	5	5	-17%	-14%

Note: Data reflects four-week averages.

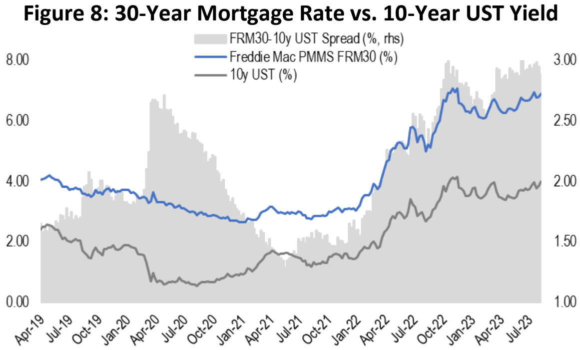
Source: Redfin, Arch MI

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 included Austin (26 days longer), Chicago (20) and Boston (7), while some markets like New York (-33), Riverside (-14), Baltimore (-14), Tampa (-10) and Miami (-9) remained well below pre-pandemic timelines. Months' supply remained below pre-pandemic levels in most markets (-28% below nationally), with Baltimore (-46%), San Diego (-38%), New York (-31%), Miami (-28%) and Houston (-27%) remaining the tightest relative to their pre-pandemic averages. Markets that have deteriorated the most based on months' supply include Austin, Nashville and Portland, where months' supply climbed to a respective 45%, -2% and -6% relative to their pre-pandemic averages from 42%, -23% and -11% below one year ago.

MORTGAGE PURCHASE APPLICATION ACTIVITY REMAINED WEAK

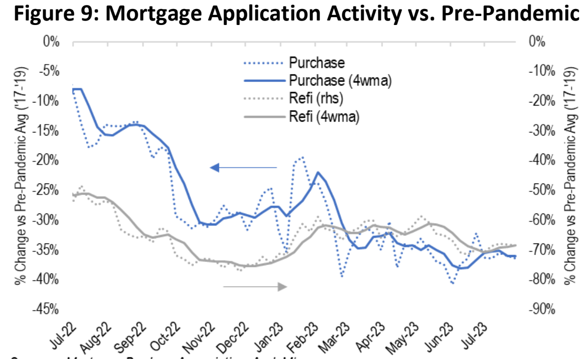
According to the MBA Weekly Applications Survey, the average contract conventional mortgage rate rose 6bps to 6.93% during the week ending July 28 while the FHA contract mortgage rate also rose 5bps to 6.85%, resulting in a -1bps contraction in the spread between the FHA and conventional mortgage rate to -0.08%. Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending Aug. 2 indicated that the FRM30 climbed 9bps w/w to 6.9% (Figure 8) as the yield on the benchmark 10-year U.S. Treasury (UST) jumped 15bps to an average of 4.01% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST narrowed -6bps to 2.89%, 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-Pandemic



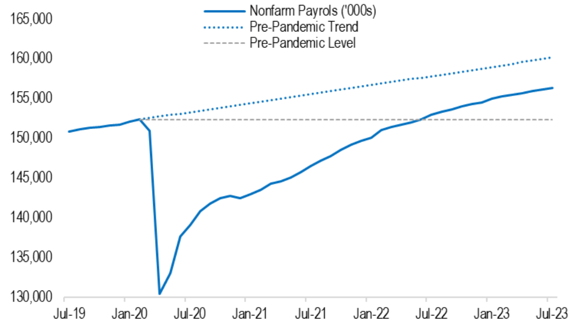
Sources: Mortgage Bankers Association, Arch MI

The MBA Weekly Applications Survey for the week ending July 28 declined -3% w/w, leaving the index down -28% year-over-year and down -52% compared with pre-pandemic levels (i.e., the average of the same week in 2017, 2018 and 2019). The weekly decline was driven primarily by a -3.2% decline in purchase applications, which remained down -26% y/y and -36% below the pre-pandemic level (Figure 9). Refinancing applications declined -2.5% w/w and were down -32% y/y and -68% relative to pre-pandemic levels.

JOB GROWTH COOLED BUT REMAINED SOLID IN JULY

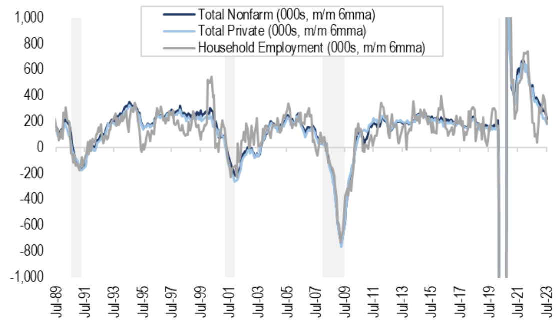
July job growth of 187k (cons. 200k) marked the second consecutive month missing consensus economist forecasts to the downside, bringing the three-month average down to 218k from 228k in June alongside a combined downward revision of -49k to job growth in May and June. Through July, the U.S. economy had nearly 4 million more jobs than at the onset of the pandemic (i.e., February 2020) but remained nearly 4 million jobs below the pre-pandemic trend (Figure 10).

Figure 10: Nonfarm Payrolls vs Pre-Pandemic Trend & Level



Sources: Bureau of Labor Statistics, Arch MI

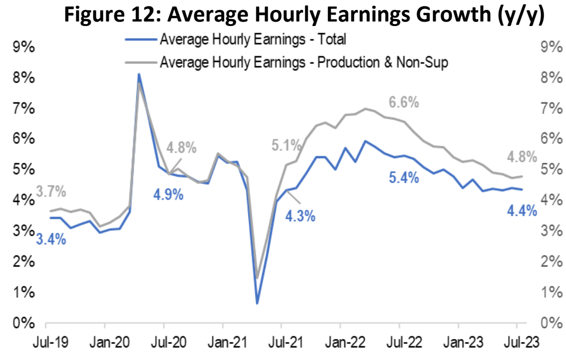
Figure 11: Household Employment



Sources: Bureau of Labor Statistics, Arch MI

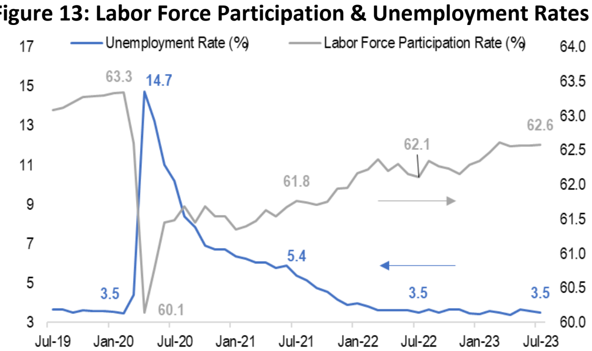
Private job gains were far and away led by Private Education and Health Services, which posted a gain of 100k and an acceleration from average monthly growth of 78k over the prior three months. A handful of sectors recorded growth in the 15-20k range: Other Services (+20k), Financial Activities (+19k), Construction (+19k), Wholesale Trade (+17.9k) and Leisure and Hospitality (+17k). Net job losses were concentrated in Information (-12k), Transportation and Warehousing (-8.4k), Professional and Business Services (-8k), with Manufacturing (-2k) and Utilities (-0.2k) also recording small declines. The breadth of payroll gains eased slightly in July, as reflected by the 1-month diffusion index falling to 57.2 from 58.8. Household employment increased again in July and by 268k, maintaining the trend seen in nonfarm payroll growth (Figure 11). However, on an annual basis household employment was up roughly 3.0m compared to establishment payrolls up 3.4m, leaving risk that downward revisions could be forthcoming for the payroll survey when preliminary benchmark revisions are made on August 23. Hourly earnings rose 0.4% m/m (cons. 0.3%) in July and 4.4% y/y (Figure 12) as the unemployment rate fell 10bps to 3.5% (cons. 3.6%) due to a -116k m/m decline in the number of unemployed while the labor force participation rate held steady at 62.6% (Figure 13). Underlying labor market strength remains despite obvious signs of cooling over the past year, which gives the Fed room to remain vigilant if inflation does not continue to moderate in the months ahead.

Figure 12: Average Hourly Earnings Growth (y/y)



Sources: Bureau of Labor Statistics, Arch MI

Figure 13: Labor Force Participation & Unemployment Rates

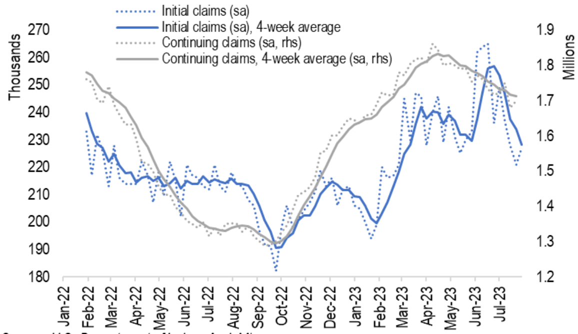


Sources: Bureau of Labor Statistics, Arch MI

INITIAL JOBLESS CLAIMS POISED TO TREND HIGHER OVER REMAINDER OF 2023

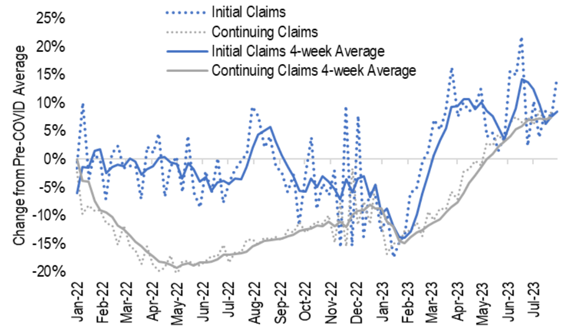
Initial jobless claims rose by 6k to a seasonally adjusted (sa) 227k (cons. 225k) during the week ending July 29, but the four-week average moved lower to 228k from 234k (Figure 14). The four-week average of non-seasonally adjusted (nsa) initial claims moved higher above its pre-COVID average (i.e., 2018 to 2019), up to 8.5% above from 7.5% the week before and up from -6% below in mid-January (Figure 15). Meanwhile, continuing claims (i.e., repeat filers for unemployment insurance) climbed by 21k during the week ending July 22 to a seasonally adjusted 1,700k (cons. 1,705k), but the four-week average ticked down to 1,712k from 1,717k. The four-week average of non-seasonally adjusted continuing claims also continued its uptrend, with a move up to 7.3% above its pre-COVID average from 7.1% the week before and up from -14% below in mid-January.

Figure 14: Initial and Continuing Jobless Claims (SA)



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

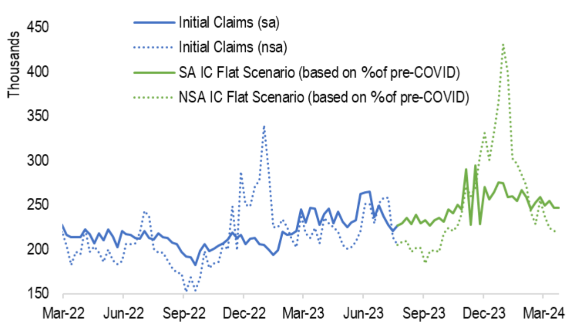
Figure 15: Jobless Claims (NSA) vs. Pre-COVID-19 Average



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

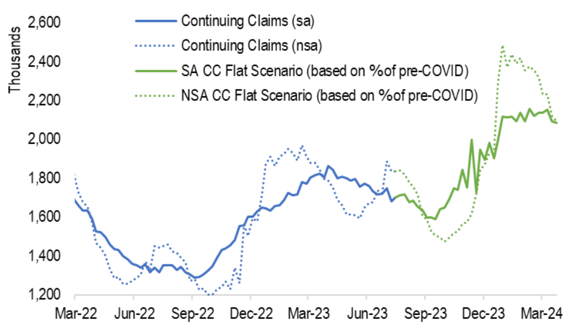
While seasonally adjusted initial and continuing claims have convincingly trended lower, non-seasonally adjusted claims remain modestly above pre-pandemic levels and appear to still be in an uptrend. We expect a reacceleration by year-end for two reasons: 1) we anticipate a gradual cooldown in the economy and thus layoffs, and 2) recently revised seasonal factors will lift the level of claims even if there is no deterioration in the labor market. Based on the discrepancy caused by the new seasonal adjustment factors, we expect the seasonally adjusted level of initial claims to trend higher over the remainder of the year toward 275k (Figure 16) even if the labor market does not deteriorate. Conversely, we expect the seasonally adjusted level of continuing claims to continue to trend lower (likely toward 1,600k) through mid-September before turning sharply higher toward 2,000k as the end of the year approaches (Figure 17). Given our outlook for a slower-growth economic backdrop, we see some upside risk to the year-end figures quoted above.

Figure 16: Initial Claims Scenario: Flat NSA vs Pre-COVID-19



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

Figure 17: Continuing Claims Scenario: Flat NSA vs Pre-COVID-19



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

The Week Ahead

A relatively light week of data releases will amplify the focus on the July Consumer Price Index (CPI) report, which is expected to show a steady 0.2% pace of monthly inflation for both headline and core (excluding food and energy) according to the latest Bloomberg Consensus Survey of Economists. The modest monthly pace would result in a slight uptick in the year-over-year inflation reading to roughly 3.3% due to base effects (Figure 18), as last July's monthly pace was -0.03% (so any growth above that pace will lift the year-over-year comparison). The July Producer Price Index (PPI) will also provide a key update on the Fed's inflation battle, although producer inflation has already returned to a pace generally consistent with its pre-pandemic pace.

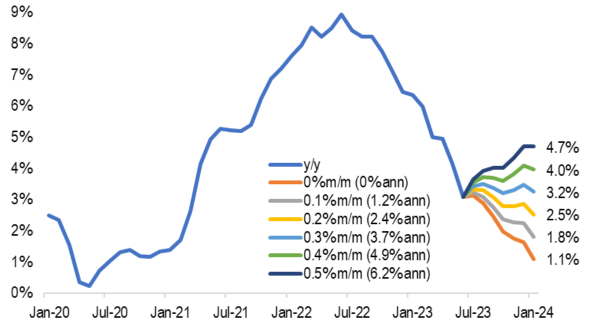
UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
8/7/23	Consumer Credit	Jun	--	13.6	7.2	$B, m/m, sa
8/8/23	NFIB Small Business Optimism	Jul	--	90.5	91.0	index, sa
8/8/23	Wholesale Inventories m/m	Jun F	--	-0.3%	-0.3%	sa
8/9/23	MBA Mortgage Applications	8/4/23	--	--	-3.0%	w/w, sa
8/10/23	Initial Jobless Claims	8/5/23	--	230	227	k, sa
8/10/23	Continuing Claims	7/29/23	--	--	1,700	k, sa
8/10/23	CPI m/m	Jul	--	0.2%	0.2%	sa
8/10/23	CPI Core (ex Food and Energy) m/m	Jul	--	0.2%	0.2%	sa
8/10/23	CPI y/y	Jul	--	3.3%	3.0%	nsa
8/10/23	CPI Core (ex Food and Energy) y/y	Jul	--	4.8%	4.8%	nsa
8/11/23	PPI Final Demand m/m	Jul	--	0.2%	0.1%	sa
8/11/23	PPI Core (ex Food and Energy) m/m	Jul	--	0.2%	0.1%	sa
8/11/23	PPI Final Demand y/y	Jul	--	0.7%	0.1%	nsa
8/11/23	PPI Core (ex Food and Energy) y/y	Jul	--	2.3%	2.4%	nsa
8/11/23	U. of Mich. Sentiment	Aug P	--	71.5	71.6	index, nsa
8/11/23	U. of Mich. 1 Yr Inflation	Aug P	--	--	3.4%	nsa
8/11/23	U. of Mich. 5-10 Yr Inflation	Aug P	--	--	3.0%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI

Figure 18: Annual CPI Inflation with Monthly Scenario Projections



Source: U.S. Bureau of Labor Statistics, Arch MI

