HaMMR Digest

Stay current with economic and mortgage market trends.

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Weekly Wrap – Whiplash

- Blowout July employment report temper hopes for any type of Fed dovish ‘pivot’
- Labor supply growth has been sluggish, underpinning upward pressure on wage gains
- Housing market continues to cool, with would-be-sellers increasingly sitting on the sideline

A light data week attenuated the focus on the jobs report, which gave nearly all forecasters whiplash. Bloomberg consensus expectations penciled in a deceleration to a 250k monthly gain in July from 398k in June, which would have corroborated the recent pullback seen in numerous cyclical indicators and supported rising recession risks. Those expectations were handily surpassed as nonfarm payrolls surged 528k m/m on top of the 28k combined upward revision for June and May, bringing the three-month moving average to a strong 473k.

With July’s payroll growth, the U.S. has now successfully regained the number of jobs that existed prior to the pandemic with total payrolls now 0.2% above their February 2020 level. Even more impressively, the number of workers employed full-time is 1.3% above its pre-pandemic level while the number of workers employed part-time remains 7.3% lower (Figure 1). July job gains were widespread with service sector job growth accelerating to 471k from 404k in June, supporting the Institute of Supply Management’s (ISM) Services PMI that increased 1.4 index points to 56.7 (cons. 53.5) in July. Moreover, the unemployment rate ticked down 10bps to 3.5% (cons. 3.6%), also back to its February 2020 level and a 50-year low. The broadest measure of unemployment, which includes workers marginally attached to the labor force and part-time workers who would like to work full-time, fell to 6.7% – its lowest level on record.

Figure 1: Full-Time vs Part-Time Employment

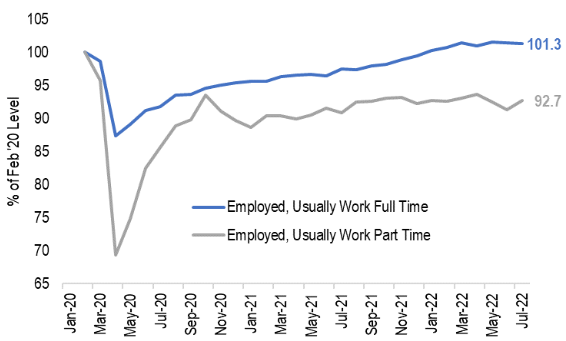
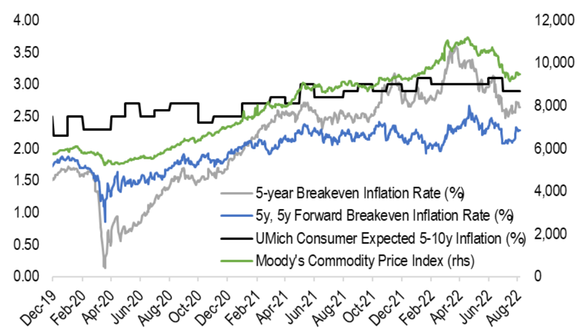


Figure 2: Inflation Monitor



Sources: Moody's, University of Michigan, FRB, Arch MI

Demand for labor has cooled in recent months but remains well in excess of labor supply. Total job openings fell 5.4% m/m to 10.7m (cons. 11.0m) and have declined by 1.2m over the last three months. Nonetheless, openings are still near double the total number of unemployed individuals while the job openings to hires ratio, which measures how hard it is for firms to fill open positions, has remained close to record highs. Additionally, a historically low layoffs rate and still-elevated quits rate suggest wage growth is likely to remain elevated a bit longer.

July’s employment report will put any notion about a Federal Reserve ‘pause’ or ‘pivot’ to rest. The market reacted quickly to the report, with expectations for a 75bps rate hike in September – which we see as increasingly likely – jumping above 80% from roughly 40% prior to the release. Fed funds futures now expect the terminal rate, or the level at which the hiking cycle ends, to be 3.75% by 1Q23, or about 25bps higher than before the jobs report. With tighter monetary policy expected in response to continued wage pressures, breakeven inflation rates were roughly unchanged on the week (Figure 2).

RECENT DATA RELEASES

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
8/1/22	S&P Global US Manufacturing PMI	Jul F	52.2	52.3	52.3	index, sa
8/1/22	ISM Manufacturing	Jul	52.8	52.0	53.0	index, sa
8/1/22	ISM Prices Paid	Jul	60.0	74.3	78.5	index, nsa
8/2/22	JOLTS Job Openings	Jun	10.7	11.0	11.3	m, sa
8/2/22	Wards Total Vehicle Sales	Jul	13.35	13.40	13.00	m, saar
8/3/22	MBA Mortgage Applications	7/29/22	1.2%	--	-1.8%	w/w, sa
8/3/22	S&P Global US Services PMI	Jul F	47.3	47.0	47.0	index, sa
8/3/22	S&P Global US Composite PMI	Jul F	47.7	--	47.5	index, sa
8/3/22	ISM Services Index	Jul	56.7	53.5	55.3	index, nsa
8/4/22	Initial Jobless Claims	7/30/22	260	260	254	k, sa
8/4/22	Continuing Claims	7/23/22	1,416	1,385	1,368	k, sa
8/5/22	Change in Nonfarm Payrolls	Jul	528	250	398	k, m/m, sa
8/5/22	Change in Private Payrolls	Jul	471	230	404	k, m/m, sa
8/5/22	Unemployment Rate	Jul	3.5%	3.6%	3.6%	sa
8/5/22	Average Hourly Earnings m/m	Jul	0.5%	0.3%	0.4%	sa
8/5/22	Average Hourly Earnings y/y	Jul	5.2%	4.9%	5.2%	nsa
8/5/22	Average Weekly Hours All Employees	Jul	34.6	34.5	34.6	sa
8/5/22	Labor Force Participation Rate	Jul	62.1%	62.2%	62.2%	sa
8/5/22	Consumer Credit	Jun	40.2	27.0	23.8	$B, m/m, sa

Green = beat expectations / prior, **Red** = worse than expectations / prior

HOUSING MARKET: CONTINUES TO COOL AS THE SUMMER SELLING SEASON NEARS AN END

For the first time since early in the pandemic, homes are taking longer to sell compared with the previous year according to Realtor.com data through the week ending July 30th. The median number of days on the market is now one day longer than last year (Figure 3), which continues the trend of slowing market conditions that firmly took hold in April after mortgage rates surged above 5%. The pace of new listings continued to slow as well, contracting for the fourth consecutive week on a year-over-year basis, as seller hesitancy begins to take hold despite median list prices still rising nearly 16% y/y. Price cuts remain a key strategy to move product but the recent dip below 5% for 30-year fixed-rate mortgages (Freddie Mac) could give some buyers enough of a nudge to re-enter the market and increase competition enough to quell deeper price cuts. Annual growth in the number of listings with price reductions was 84% y/y, down from 92% last week and 112% in June, while growth in the share of listings with price drops was flat at 2.8% y/y (Figure 4).

Figure 3: U.S. Active Listings and Median Days on Market

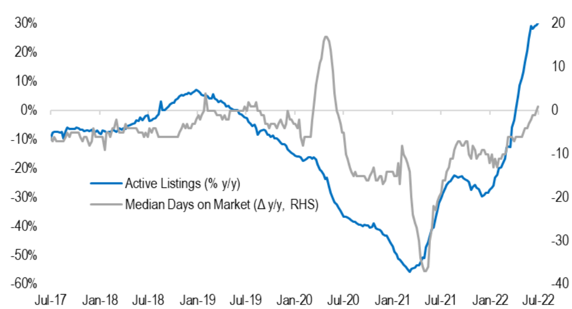
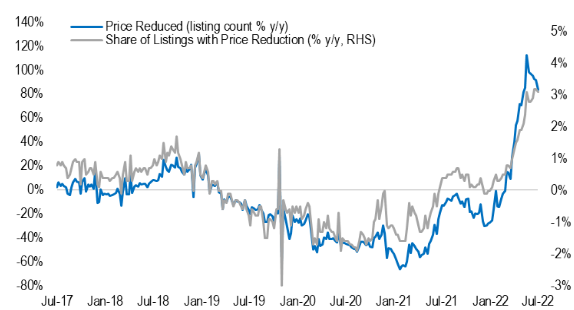


Figure 4: U.S. Listings with Price Reductions

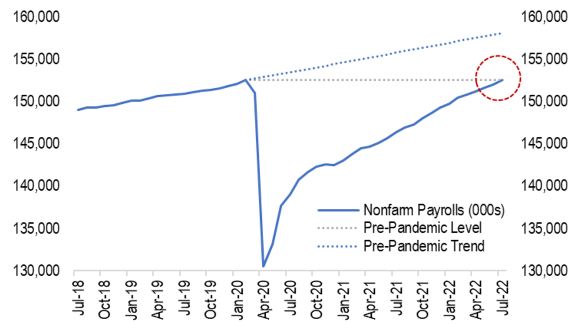


Source: Realtor.com, Arch MI

PAYROLLS SURPRISE WITH A REAL BARNBURNER

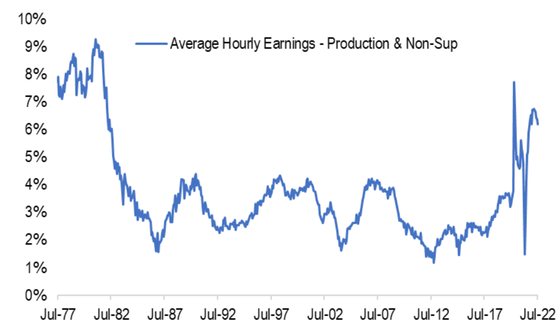
With a gain of 528k jobs in July, the U.S. has finally climbed back to the number jobs that existed prior to the pandemic (Figure 5). Despite returning to the pre-pandemic level, the current number of jobs remains more than 5 million below the pre-pandemic trend. The breadth of gains was wide as all major sectors saw an increase in employment led by education and health services (122k), leisure and hospitality (96k), and professional and business services (89k). Goods-producing job gains advanced by 69k m/m, confirming the resilient July manufacturing PMI numbers. Even the retail sector added 22k jobs in July after the June Jobs Openings and Labor Turnover Survey (JOLTS) showed the sector shed 342k job openings (equivalent to 41% of the sector's openings), the most of any industry in both absolute and relative terms.

Figure 5: Nonfarm Payrolls vs Pre-Pandemic Trend & Level



Sources: Bureau of Labor Statistics (BLS), ADP, Arch MI

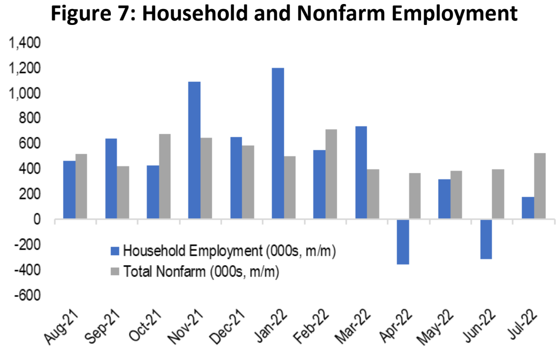
Figure 6: Average Hourly Earnings Growth (y/y)



Sources: Bureau of Labor Statistics (BLS), Arch MI

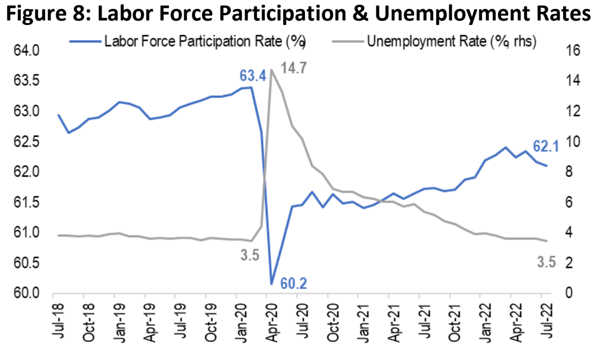
Average hourly earnings rose 0.5% (cons. 0.3%) in July, while June's figure was revised up to 0.4%. On an annual basis, earnings growth increased 5.2% (cons. 4.9%) with non-manager wages up by a more robust 6.2%. Although both figures have been cooling over the past few months, the level of wage growth remains at a level not observed since the early 1980s (Figure 6). The household survey continues to read weaker than the establishment survey as household employment advanced by 179k in July, bringing the three-month average to 185k versus 437k for the establishment survey (Figure 7). Meanwhile, the labor force participation rate declined by 10bps to 62.1% (cons. 62.2%), aiding a 10bps drop in the unemployment rate to 3.5% – matching its February 2020 level (Figure 8). The decline in participation was concentrated in the younger age group: labor force participation rate fell 40bps m/m for workers between the ages of 16-24, while participation increased by 10bps for prime-age workers (i.e. 25-54) and the over-55 group. Despite the increase in July, the recovery in the prime-age labor force participation rate (82.4%) has seemingly stalled since March and remains below its pre-pandemic level (83%).

Figure 7: Household and Nonfarm Employment



Sources: Bureau of Labor Statistics (BLS), ADP, Arch MI

Figure 8: Labor Force Participation & Unemployment Rates

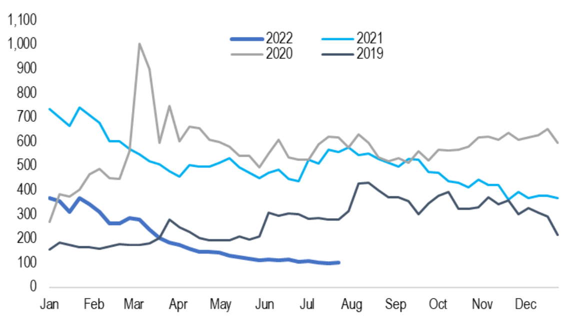


Sources: Bureau of Labor Statistics (BLS), Arch MI

MORTGAGE APPLICATION ACTIVITY ROSE MODESTLY

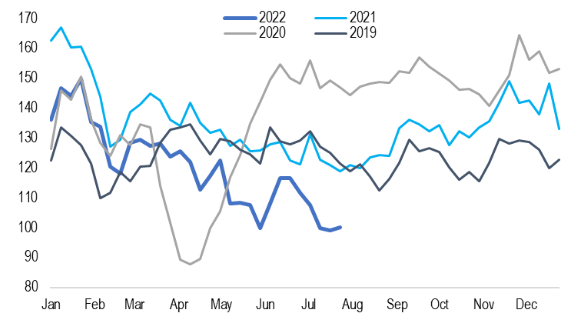
The MBA application survey for the week ending July 29th increased 1.2% w/w but the index remains down -62% year-over-year, and down -42% compared with pre-pandemic levels (i.e. 3 years ago). The weekly increase was driven primarily by a 1.5% increase in refinancing applications, which remain down -82% y/y despite the weekly increase, and down -64% over 3 years (Figure 9). Purchase applications increased 1% w/w, but remain down -16% y/y and also down -18% relative to 2019 levels (Figure 10).

Figure 9: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

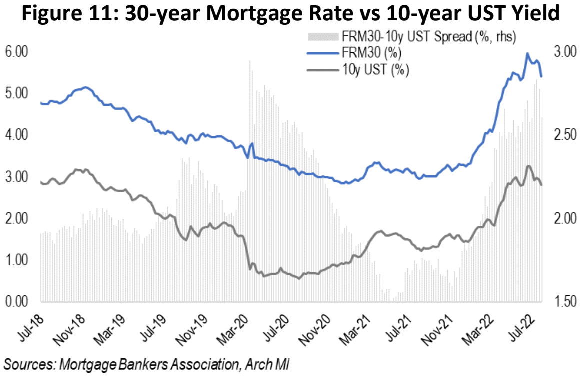
Figure 10: Purchase Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

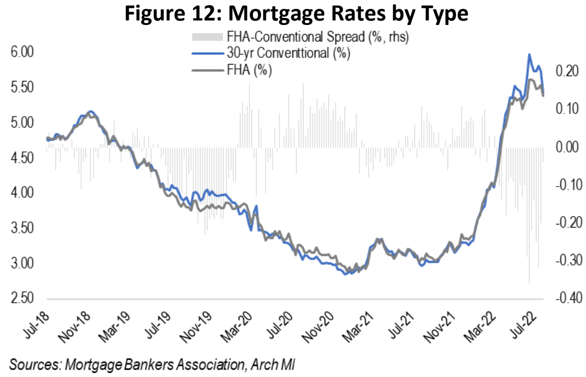
Mortgage rates declined again during the week ending July 29th according to the MBA despite the weekly average 10-year U.S. Treasury yield declining -13bps w/w to 2.82%. The average contract MBA conventional mortgage rate declined -31bps to 5.43%, resulting in a -18bps contraction in the spread between the 30-year MBA conventional fixed rate mortgage and the 10-year UST to 2.61% (Figure 11). Meanwhile, the FHA contract MBA mortgage rate also declined -15bps to 5.39%, resulting in a 16bps widening of the spread between the FHA and conventional mortgage rate to -0.04% (Figure 12).

Figure 11: 30-year Mortgage Rate vs 10-year UST Yield



Sources: Mortgage Bankers Association, Arch MI

Figure 12: Mortgage Rates by Type



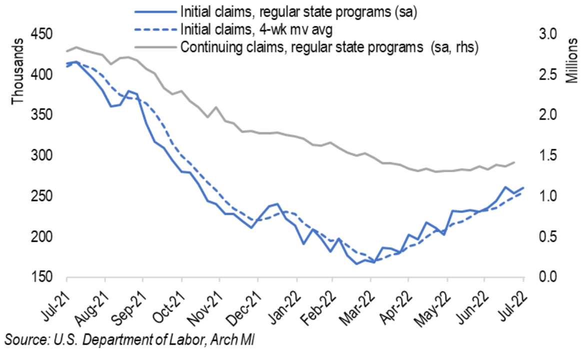
Sources: Mortgage Bankers Association, Arch MI

The Freddie Mac Primary Mortgage Market Survey (PMMS) for the 3 days ending August 3rd indicated that the FRM30 fell -31bps w/w to 4.99% as 10-year UST yields fell -11bps to an average of 2.69% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST narrowed -20bps to 2.30%, about 60bps above its typical non-stressed level. We expect mortgage spreads to begin to normalize over the second half of the year as more clarity is gained around the path of inflation and monetary policy, particularly the Fed's unwind of its MBS portfolio.

JOBLESS CLAIMS CONTINUE TO CLIMB

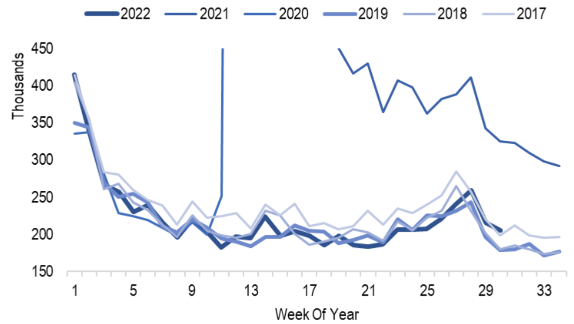
Initial jobless claims rose by 6k to 260k (consensus: 260k) during the week ending July 30th from 254k the previous week, moving the 4-week average up to 255k from 249k (Figure 13). Looking at the non-seasonally adjusted claims data compared with the same weeks from prior years (Figure 14), the current level of claims is only modestly elevated for this time of year. This continues to reinforce our view that the recent increase in claims is more of a normalization than reflective of broadening labor market stress. Meanwhile, continuing claims for regular state programs (i.e. repeat filers for unemployment insurance) climbed by 48k to 1,416k (consensus: 1,385k) during the week ending July 23rd.

Figure 13: Initial and Continued Jobless Claims – Last 12 Months



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

Figure 14: Non-Seasonally Adjusted Initial Claims by Year



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

The Week Ahead

This week's most notable data releases are all related to inflation: consumer, producer and import prices for the month of July will either push the Fed more firmly into hiking another 75bps in September or relieve some of the pressure for continued aggressive rate hikes. According to the latest Bloomberg consensus survey, the pace of headline inflation is expected to cool in July (0.2% m/m vs 1.3% in June), in large part due to the decline in energy prices over the past month. Core inflation (i.e., excluding food and energy prices) is expected to remain elevated at 0.5% m/m (vs 0.7% in June) as the increase in rents and home prices will increasingly exert upward pressure on the core measure. Import price inflation is also expected to cool to 9.4% y/y in July from 10.7% in June, which would eventually help alleviate some pressure on consumer prices of the deceleration can be sustained.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
8/9/22	NFIB Small Business Optimism	Jul	--	89.5	89.5	index, sa
8/9/22	Nonfarm Productivity	2Q P	--	-4.6%	-7.3%	q/q, saar
8/9/22	Unit Labor Costs	2Q P	--	9.6%	12.6%	q/q, saar
8/10/22	Wholesale Inventories m/m	Jun F	--	1.9%	1.9%	sa
8/10/22	MBA Mortgage Applications	8/5/22	--	--	1.2%	w/w, sa
8/10/22	CPI m/m	Jul	--	0.2%	1.3%	sa
8/10/22	CPI Core (ex Food and Energy) m/m	Jul	--	0.5%	0.7%	sa
8/10/22	CPI y/y	Jul	--	8.7%	9.1%	nsa
8/10/22	CPI Core (ex Food and Energy) y/y	Jul	--	6.1%	5.9%	nsa
8/11/22	Initial Jobless Claims	8/6/22	--	265	260	k, sa
8/11/22	Continuing Claims	7/30/22	--	1,410	1,416	k, sa
8/11/22	PPI Final Demand m/m	Jul	--	0.3%	1.1%	sa
8/11/22	PPI Core (ex Food and Energy) m/m	Jul	--	0.4%	0.4%	sa
8/11/22	PPI Final Demand y/y	Jul	--	10.4%	11.3%	nsa
8/11/22	PPI Core (ex Food and Energy) y/y	Jul	--	7.7%	8.2%	nsa
8/12/22	Import Price Index y/y	Jul	--	9.4%	10.7%	nsa
8/12/22	U. of Mich. Sentiment	Aug P	--	52.5	51.5	index, nsa
8/12/22	U. of Mich. 1 Yr Inflation	Aug P	--	5.1%	5.2%	nsa
8/12/22	U. of Mich. 5-10 Yr Inflation	Aug P	--	2.8%	2.9%	nsa

