HaMMR Digest

Stay current with economic and mortgage market trends.

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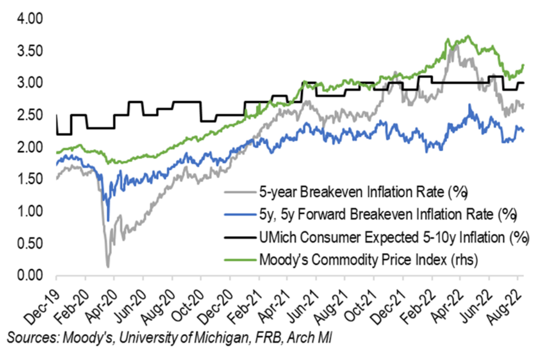
Weekly Wrap – Don't Get Your Hopes Up

- Headline CPI declined month-over-month for the first-time since the beginning of the pandemic
- Energy and core goods price pressures will continue to cool but 'sticky' components will keep overall inflation high
- Housing market continues to ebb and flow with would-be sellers and buyers both hesitant

Consumers can seemingly breathe a sigh of relief as July inflation data pointed to cooling price pressures. Headline CPI inflation declined by a seasonally adjusted monthly rate (samr) of 0.02% (consensus: +0.2%), the first monthly contraction since May 2020, largely driven by a hefty drop in energy prices. Even core inflation, which excludes volatile food and energy components, slowed to 0.3% m/m (cons: 0.5%), roughly half the pace of the prior few months. Encouraging news on inflation did not stop there. The July producer price index (PPI), a measure of prices charged by suppliers, showed signs of broad-based softness, with headline PPI declining by 0.5% m/m (cons: +0.2%) and core advancing just 0.2% m/m (cons. 0.4%). Import prices also fell 1.4% m/m in July with consumer goods prices flat after a 0.4% m/m decline in June.

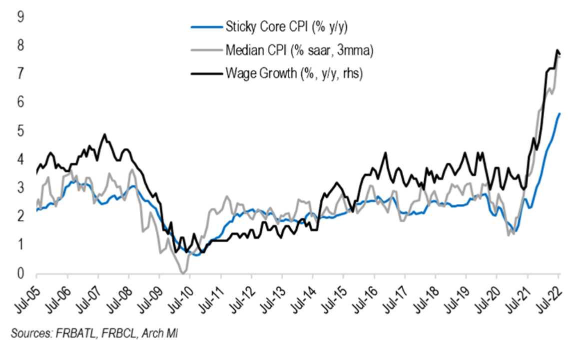
Household finances have been stretched recently and were it not for accumulated pandemic savings and strong wage gains, the economy would not have been as resilient in the face of such a price shock. Consumer sentiment posted a big upside surprise in the University of Michigan's preliminary August index, which increased to 55.1 (cons: 52.5) from 51.5 in July. The majority of the gain for the headline index was due to a 16.1% m/m jump in the future expectations index, the largest relative increase since 2009, to 54.9 in August from 47.3 in July. Lower gasoline prices are likely having a positive influence on real income expectations: the average U.S. gasoline price has now fallen more than 20% since mid-June to below $4 / gallon according to AAA. This should be a welcome development for the Federal Reserve as consumer and market-based inflation expectations generally remain down from highs reached earlier this year (Figure 1).

Figure 1: Inflation Monitor



Source: Realtor.com, Arch MI

Figure 2: Underlying Inflation Measures & Wage Growth



Despite the downside inflation surprises last week, we continue to expect inflation to remain well above the Fed's target through at least 2023. Accordingly, last month's glimmer of hope is unlikely to alter the Fed's monetary policy stance. We expect the fed funds rate to be raised to at least 3.75% by year-end – a level considered to be meaningfully restrictive – where it will likely need to remain through at least next summer to ensure broad price pressures are persistently easing. While the outlook for energy and core goods prices is tilted to the downside following the run-up in response to the Russia-Ukraine conflict and easing supply chain pressures, measures of underlying inflation remain strong and there will be no easy relief from that perspective. To that extent, still-robust labor demand juxtaposed against very tight labor supply will keep wages growing at a pace that has historically been correlated with elevated 'sticky' or persistent consumer price pressures (Figure 2). Unfortunately, the Fed cannot manifest more workers – or broader economic supplies for that matter – but they can dial-back demand with tighter financial conditions via higher interest rates.

RECENT DATA RELEASES

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
8/9/22	NFIB Small Business Optimism	Jul	89.9	89.5	89.5	index, sa
8/9/22	Nonfarm Productivity	2Q P	-4.6%	-4.6%	-7.4%	q/q, saar
8/9/22	Unit Labor Costs	2Q P	10.8%	9.5%	12.7%	q/q, saar
8/10/22	Wholesale Inventories m/m	Jun F	1.8%	1.9%	1.9%	sa
8/10/22	MBA Mortgage Applications	8/5/22	0.2%	--	1.2%	w/w, sa
8/10/22	CPI m/m	Jul	0.0%	0.2%	1.3%	sa
8/10/22	CPI Core (ex Food and Energy) m/m	Jul	0.3%	0.5%	0.7%	sa
8/10/22	CPI y/y	Jul	8.5%	8.7%	9.1%	nsa
8/10/22	CPI Core (ex Food and Energy) y/y	Jul	5.9%	6.1%	5.9%	nsa
8/11/22	Initial Jobless Claims	8/6/22	262	265	248	k, sa
8/11/22	Continuing Claims	7/30/22	1,428	1,420	1,420	k, sa
8/11/22	PPI Final Demand m/m	Jul	-0.5%	0.2%	1.0%	sa
8/11/22	PPI Core (ex Food and Energy) m/m	Jul	0.2%	0.4%	0.4%	sa
8/11/22	PPI Final Demand y/y	Jul	9.8%	10.4%	11.3%	nsa
8/11/22	PPI Core (ex Food and Energy) y/y	Jul	7.6%	7.7%	8.4%	nsa
8/12/22	Import Price Index y/y	Jul	8.8%	9.4%	10.7%	nsa
8/12/22	U. of Mich. Sentiment	Aug P	55.1	52.5	51.5	index, nsa
8/12/22	U. of Mich. 1 Yr Inflation	Aug P	5.0%	5.1%	5.2%	nsa
8/12/22	U. of Mich. 5-10 Yr Inflation	Aug P	3.0%	2.8%	2.9%	nsa

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

HOUSING MARKET: Inventory Has a Long Road Ahead to Reach 2019 Levels

Seller angst over the changing housing market is spreading as growth in new listings declined 8% y/y in the week ending August 6th and for the fifth straight week according to Realtor.com data. The seller pull-back has been in response to waning demand as the median number of days on the market is now three days longer than last year. The slowdown in new listings has caused the year-over-year increase in active listings to level off at 30% for the past several weeks (Figure 3). Despite the annual increase, overall inventory is still 15% and 45% below respective 2020 and 2019 levels while homes priced right continue to sell relatively quickly. Median list price growth has seemingly flat-lined around 16% y/y for the last few weeks but with mortgage rates back above 5%, further price cuts may be necessary for motivated sellers. Annual growth in the number of listings with price reductions was up 81% y/y, down from 84% 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

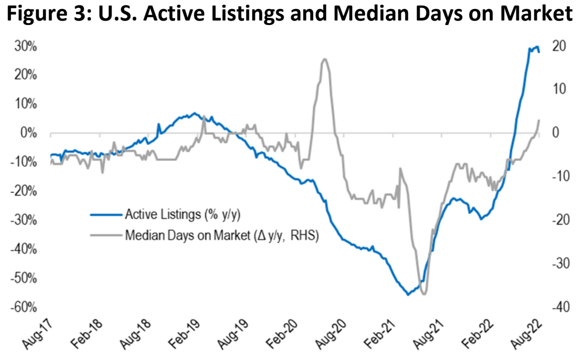
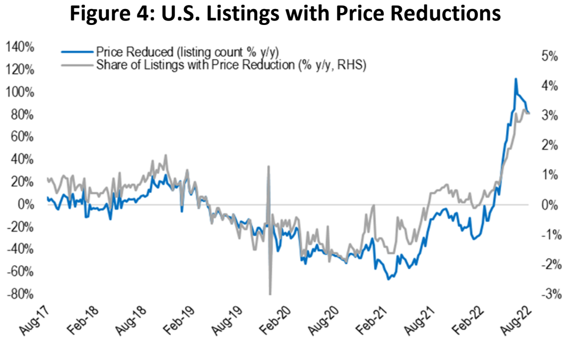


Figure 4: U.S. Listings with Price Reductions



Source: Realtor.com, Arch MI

Redfin data through the week ending August 7th show buyer demand has levelled off after the initial shock from higher rates as their Homebuyer Demand index has climbed 17% from mid-June when the 30-year fixed-rate mortgage was close to 6.0%. Rates have since come back down to 5.22% (Freddie Mac), which may bring some buyers off the sidelines, but asking prices will need to cool further before there is any meaningful recovery in sales activity. That said, pending sales have seemingly stabilized about 16% below last year's level over the past 5 weeks. National months' supply is still 24% below its pre-pandemic level but an improvement compared to 43% lower last year. The uptick in inventory and slower pace of sales have dragged sales prices lower with the median sale price ($ / sf) growth at 10% y/y (Figure 5) compared with 20% a year ago. Overall, national housing market data looks like normalization instead of outright collapse.

Of the major metros we track, annual home price growth was weakest in **Minneapolis** (6%) followed by **New York** (7%) and **Baltimore** (7%) while home price growth has slowed most rapidly compared with a year ago in **Austin** (-30%-pts) and **Seattle** (-19%-pts). Local housing markets have responded quickly to deteriorating transaction activity as the median days on market have extended, with some markets exceeding pre-pandemic timelines including **Austin** (8 days longer) and **Chicago** (17 days longer). Some of the hottest markets of the pandemic era have deteriorated the most based on months' supply, including **Austin** and **Phoenix**, where months' supply was 68% and 59% above their respective pre-pandemic levels compared to -35% and -36% one year ago.

Figure 5: Weekly Housing Monitor

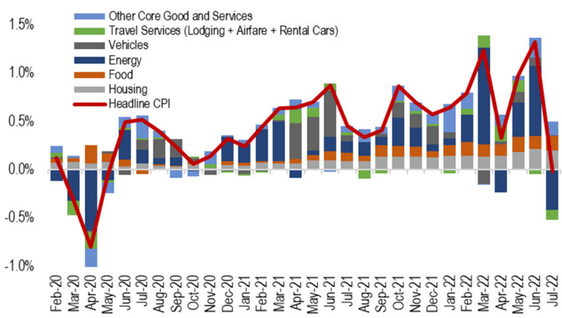
Metro	Median Sale Price psf (% y/y)	Median Sale Price Same Week '21 (% y/y)	Active Listings with Price Drops (% share)	Active Listings with Price Drops (ppt Δ y/y)	Homes Sold Above List (%)	Homes Sold Above List (ppt Δ y/y)	Average Sale-to-List Ratio (%)	Average Sale-to-List Ratio (ppt Δ y/y)	Total Active Listings (% y/y)	Median Days on Market (Δ 3y/3y)	Median Days on Market Same Week '21 (Δ 3y/3y)	Months' Supply (% 3y/3y)	Months' Supply Same Week '21 (% 3y/3y)
All US Metros	10.2%	20%	8%	4%	43%	-9%	101%	-1%	4%	-20	-19	-24%	-43%
Atlanta	17.4%	25%	8%	4%	45%	-9%	100%	-1%	13%	-11	-14	-20%	-48%
Austin	11.0%	41%	13%	8%	35%	-34%	100%	-6%	57%	8	-1	68%	-35%
Baltimore	6.7%	13%	7%	2%	48%	0%	102%	0%	-21%	-21	-13	-43%	-43%
Boston	7.2%	16%	6%	2%	65%	-2%	104%	0%	-4%	0	9	-17%	-22%
Chicago	7.0%	14%	4%	0%	43%	-1%	100%	0%	18%	17	-19	-15%	-40%
Dallas	18.1%	25%	11%	6%	48%	-16%	101%	-2%	27%	-19	-15	-23%	-50%
Denver	10.5%	22%	9%	3%	38%	-29%	100%	-3%	40%	-7	-6	-7%	-45%
Houston	16.5%	18%	10%	4%	36%	-6%	100%	-1%	16%	-21	-21	-22%	-50%
Los Angeles	7.7%	18%	6%	4%	53%	-11%	101%	-2%	-7%	-12	-6	-14%	-29%
Miami	17.5%	27%	4%	2%	27%	6%	98%	1%	-17%	-20	-5	-32%	-49%
Minneapolis	6.1%	15%	8%	2%	53%	-11%	102%	-2%	5%	-5	-10	-14%	-37%
Nashville	19.8%	23%	8%	4%	35%	-16%	100%	-2%	52%	-23	-27	-12%	-57%
New York	6.7%	26%	5%	1%	36%	5%	101%	1%	-11%	-39	-26	-38%	-35%
Phoenix	16.2%	32%	15%	10%	27%	-30%	99%	-3%	48%	-8	-17	59%	-36%
Portland	10.5%	19%	11%	5%	41%	-21%	101%	-3%	26%	-9	-11	-14%	-52%
Riverside	15.6%	26%	9%	5%	46%	-20%	100%	-3%	23%	-23	-26	-9%	-50%
San Diego	12.8%	26%	10%	6%	44%	-20%	100%	-3%	11%	-9	-12	-12%	-53%
Seattle	7.8%	26%	11%	6%	31%	-31%	100%	-6%	51%	-4	-4	11%	-52%
Tampa	24.9%	23%	14%	8%	35%	-9%	99%	-1%	50%	-21	-22	-10%	-57%
Washington D.C.	7.3%	14%	7%	2%	40%	-12%	100%	-1%	-19%	-1	-1	-15%	-26%

Note: Data reflects 4-week moving averages; Median Days on Market and Months' Supply are 3y/3y changes on 4wk-ma basis; Source: Redfin, Arch MI

CONSUMER PRICE INFLATION COMES OFF THE BOIL

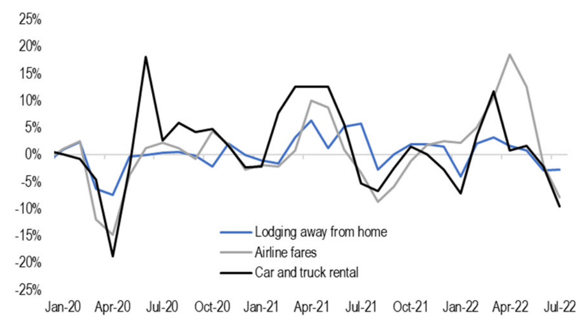
For the month of July, consumer price inflation declined by -0.02% samr (Figure 6), roughly 20bps below consensus expectations as lower energy prices subtracted 42bps from monthly headline inflation. Gasoline prices were down 7.7% and retail gasoline prices continue to trend down in August, pointing to further drags on headline price pressures. Core goods prices also decelerated to 0.2% m/m in July from 0.8% in June, largely driven by weakness in used vehicles (-0.4%) and apparel (-0.2%), partly offset by strength in new vehicles (0.6%) and household furnishings (0.6%). Meanwhile, core services were up 0.4% m/m, reflecting strong rents (0.7% m/m) and owners' equivalent rent (0.6% m/m) but somewhat offset by lower prices for travel-related services (Figure 7). The monthly pace of growth for owner's equivalent rent (the BLS estimate of housing costs for homeowners) and rent inflation represents a modest slowdown from the 25-year high pace of growth in both May and June. Housing inflation remains elevated despite the modest cooling last month and we expect it to accelerate further over the second half of the year.

Figure 6: Month-Over-Month CPI Inflation



Sources: BLS, Arch MI

Figure 7: Travel Services Inflation (samr)

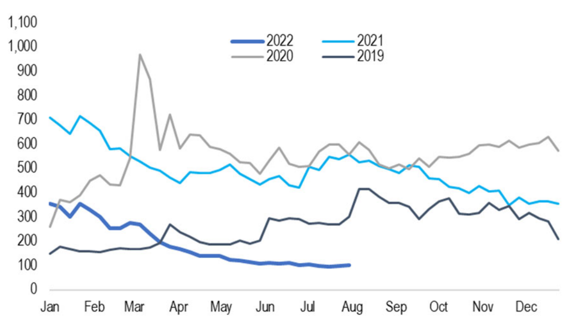


Sources: BLS, Arch MI

MORTGAGE APPLICATION ACTIVITY INCHED HIGHER AGAIN

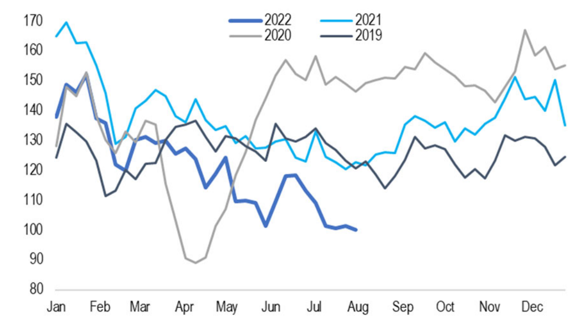
The MBA application survey for the week ending August 5th increased 0.2% w/w and the index is now down -63% year-over-year, and down -45% compared with pre-pandemic levels (i.e. 3 years ago). The weekly increase was driven by a 3.5% increase in refinancing applications, which remain down -82% y/y despite the weekly increase, and down -67% over 3 years (Figure 8). Purchase applications declined -1.4% w/w and remain about 20% below 2021 and pre-pandemic levels (Figure 9). According to the MBA survey of lenders, the average contract conventional mortgage rate rose 4bps to 5.47% during the week ending August 5th while the FHA contract mortgage rate declined -4bps to 5.35%, resulting in a -8bps contraction in the spread between the FHA and conventional mortgage rate to -0.12% (Figure 10).

Figure 8: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

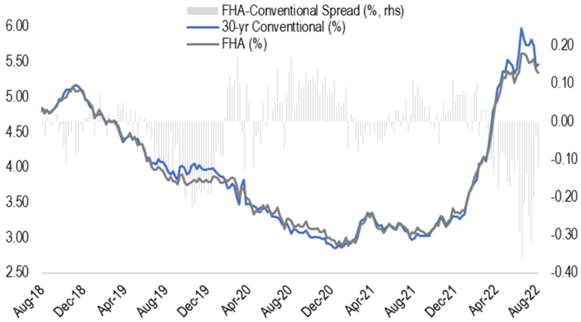
Figure 9: Purchase Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

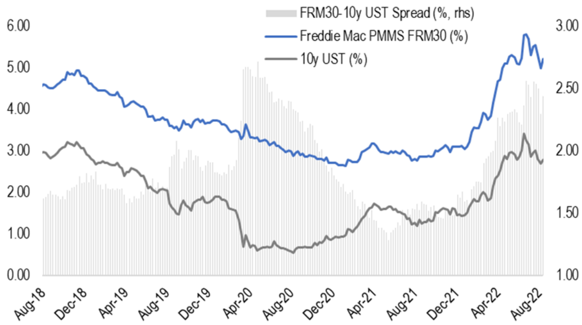
Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the 3 days ending August 10th indicated that the FRM30 jumped 23bps w/w to 5.22% (Figure 11) as 10-year UST yields climbed 9bps to an average of 2.78% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 14bps to 2.44%, about 74bps above its typical non-stressed level but down from the peak of 2.56% reached in mid-June. 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.

Figure 10: Conventional vs FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

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

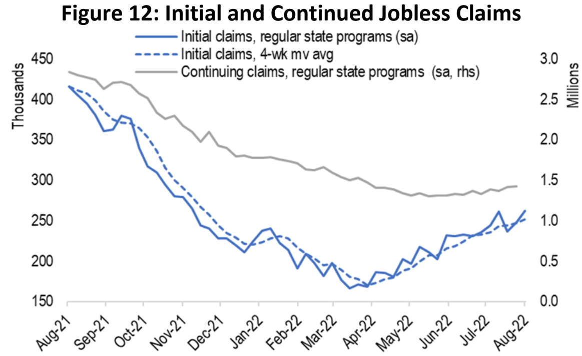


Sources: Freddie Mac PMMS, FRB, Arch MI

JOBLESS CLAIMS CLIMB LESS THAN EXPECTED

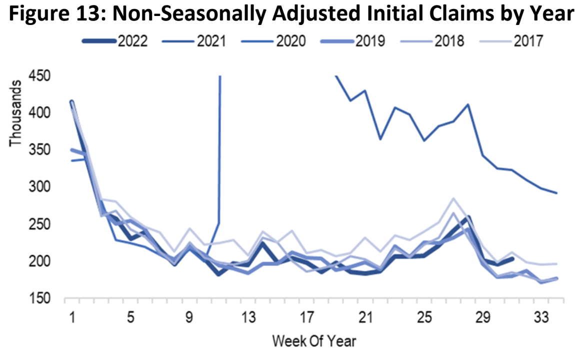
Initial jobless claims totaled 262k during the week ending August 6th, coming in lower than expectations (cons: 265k) but still an increase of 14k from the previous week, moving the 4-week average up to 252k from 248k (Figure 12). Non-seasonally adjusted claims data continues to track only modestly higher compared with the same weeks from prior years (Figure 13), reinforcing our view that the recent increase in claims is more of a normalization from extremely tight conditions rather than reflective of broadening labor market stress. Meanwhile, continuing claims for regular state programs (i.e. repeat filers for unemployment insurance) climbed by 8k to 1,428k (cons: 1,420k) during the week ending July 30th.

Figure 12: Initial and Continued Jobless Claims



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

Figure 13: Non-Seasonally Adjusted Initial Claims by Year



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

The Week Ahead

This week will provide several updates on the housing market and broader economy, starting with the August NAHB Housing Market Index which is expected to decline further due to continued rate shock headwinds. Similarly, July housing starts are expected to decline 2% m/m to 1,528k from 1,559k in June according to the latest Bloomberg consensus survey. Last for next week's housing data, July existing home sales are expected to slow by nearly 5% to a seasonally adjusted annualized pace of 4,890k from 5,120k in June. Retail sales are expected to slow to 0.1% m/m from 1.0% in June as lower gas prices will likely offset stronger auto sales. Lastly, the Conference Board's Leading Index (a composite of leading economic indicators) is expected to remain in negative territory in July (cons: -0.5% m/m), which would be a slight improvement from the -0.8% June contraction.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
8/15/22	NAHB Housing Market Index	Aug	--	54.0	55.0	index, sa
8/16/22	Building Permits	Jul	--	1,640	1,696	k, saar
8/16/22	Building Permits m/m	Jul	--	-3.3%	0.1%	sa
8/16/22	Housing Starts	Jul	--	1,528	1,559	k, saar
8/16/22	Housing Starts m/m	Jul	--	-2.0%	-2.0%	sa
8/17/22	MBA Mortgage Applications	8/12/22	--	--	0.2%	w/w, sa
8/17/22	Retail Sales Advance m/m	Jul	--	0.1%	1.0%	sa
8/17/22	Retail Sales Control Group	Jul	--	0.6%	0.8%	m/m, sa
8/17/22	Business Inventories	Jun	--	1.4%	1.4%	m/m, sa
8/17/22	FOMC Meeting Minutes	7/27/22	--	--	--	
8/18/22	Initial Jobless Claims	8/13/22	--	265	262	k, sa
8/18/22	Continuing Claims	8/6/22	--	1,450	1,428	k, sa
8/18/22	Existing Home Sales	Jul	--	4,890	5,120	k, saar
8/18/22	Existing Home Sales m/m	Jul	--	-4.6%	-5.4%	sa
8/18/22	Conference Board Leading Index	Jul	--	-0.5%	-0.8%	m/m, sa

