HaMMR Digest

Stay current with economic and mortgage market trends.

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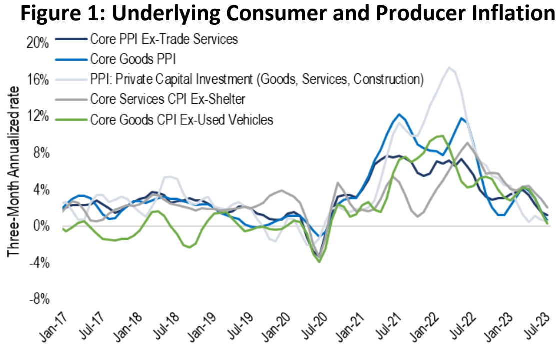
Weekly Wrap — Anchor Beginning to Set

- Underlying consumer inflation remained in check for a second month in a row.
- In conjunction with producer prices, cost pressures show more promise of softening but expect a bumpy path.
- June consumer credit shows normalizing delinquency rates, posing minimal economic risk.

Another month, another encouraging sign inflation is cooling. Headline Consumer Price Index (CPI) inflation rose 0.2% m/m (cons. 0.2%) for an annual gain of 3.2% y/y (cons. 3.3%). While the annual growth rate was a slight acceleration from June's 3.0% gain, this was due to base effects (prices declined in July 2022), as opposed to any convincing indications that a reacceleration in prices is upon us. A better measure of underlying inflation is core CPI (excluding food and energy), which rose 0.2% (cons. 0.2%) for the second month in a row — the first back-to-back sub-0.3% prints since Feb. 2021.

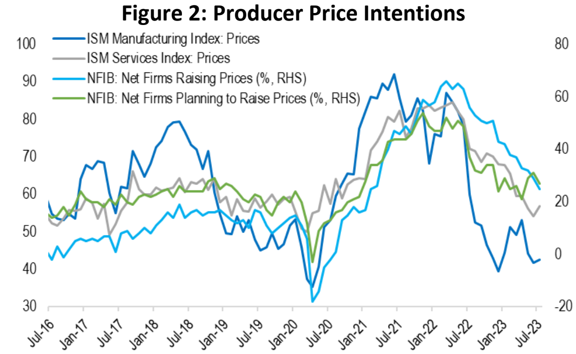
Within both core goods and services, disinflationary pressures were broad-based, which was echoed by July Producer Price Index (PPI) inflation (0.3% vs cons. 0.2%). The reports were not perfect, however. CPI food and gas costs rebounded and appear set to rise further in the near term, given the read-through from PPI. In addition, we saw a surge in a narrow set of CPI and PPI components that make up a small share of the overall index basket but nonetheless impacted the headline and core measures. We advise looking through these volatile components as key drivers of economy-wide price pressures are trending in the right direction (Figure 1). Additionally, pricing surveys suggest price makers are not showing a strong inclination to raise prices much and certainly not an acceleration relative to the recent trend (Figure 2).

Figure 1: Underlying Consumer and Producer Inflation



Sources: BLS, Arch MI

Figure 2: Producer Price Intentions



Sources: ISM, NFIB, Arch MI

Capping off inflation for the week was the preliminary August release of the University of Michigan consumer inflation expectations index, which remains well-anchored while market-based measures are hovering at levels slightly above the 2017–2019 range yet more synonymous with 2% consumer inflation. Consumer sentiment remained in an uptrend with a rising net percentage of households citing favorable news heard about the economy. Similarly, the National Federation of Independent Business (NFIB) Small Business Optimism index rose to an eight-month high of 91.9 in July, led by multi-month highs in the net percentage of firms expecting the economy to improve and spend on capital outlays.

Aside from inflation and sentiment data, we received June's consumer credit report. Revolving credit declined -0.6B m/m in June for the first time since April 2021 despite total consumer credit rising $17.8B m/m (cons. $13.0B). The drop in revolving credit is not a surprise given the Fed's 3Q Senior Loan Officer Survey showed tighter credit standards and less demand for revolving credit, a clear sign of tightening credit conditions. However, consumer credit risk remained healthy, albeit less so than one year ago. Revolving credit was ~15% above where it stood at the onset of the pandemic but in real terms, that figure falls to -2% below. As a comparison, in real terms, disposable income is up 3%, household liquid deposits are up 11%, and homeowners' equity is up 27% over the same time frame. That said, delinquency rates have been steadily rising, especially for younger cohorts that comprise 6.6% of total household debt. While this bears watching, macro risks currently remain low given the modest level of aggregate debt service and the solid outlook for income growth.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
8/7/23	Consumer Credit	Jun	**17.8**	13.0	9.5	$B, m/m, sa
8/8/23	NFIB Small Business Optimism	Jul	**91.9**	91.3	91.0	index, sa
8/8/23	Wholesale Inventories m/m	Jun F	**-0.5%**	-0.3%	-0.3%	sa
8/9/23	MBA Mortgage Applications	8/4/23	**-3.1%**	--	-3.0%	w/w, sa
8/10/23	Initial Jobless Claims	8/5/23	**248**	230	227	k, sa
8/10/23	Continuing Claims	7/29/23	**1,684**	1,707	1,692	k, sa
8/10/23	CPI m/m	Jul	**0.2%**	0.2%	0.2%	sa
8/10/23	CPI Core (ex Food and Energy) m/m	Jul	**0.2%**	0.2%	0.2%	sa
8/10/23	CPI y/y	Jul	**3.2%**	3.3%	3.0%	nsa
8/10/23	CPI Core (ex Food and Energy) y/y	Jul	**4.7%**	4.7%	4.8%	nsa
8/11/23	PPI Final Demand m/m	Jul	**0.3%**	0.2%	0.0%	sa
8/11/23	PPI Core (ex Food and Energy) m/m	Jul	**0.3%**	0.2%	-0.1%	sa
8/11/23	PPI Final Demand y/y	Jul	**0.8%**	0.7%	0.2%	nsa
8/11/23	PPI Core (ex Food and Energy) y/y	Jul	**2.4%**	2.3%	2.4%	nsa
8/11/23	U. of Mich. Sentiment	Aug P	**71.2**	71.2	71.6	index, nsa
8/11/23	U. of Mich. 1 Yr Inflation	Aug P	**3.3%**	3.5%	3.4%	nsa
8/11/23	U. of Mich. 5-10 Yr Inflation	Aug P	**2.9%**	3.0%	3.0%	nsa

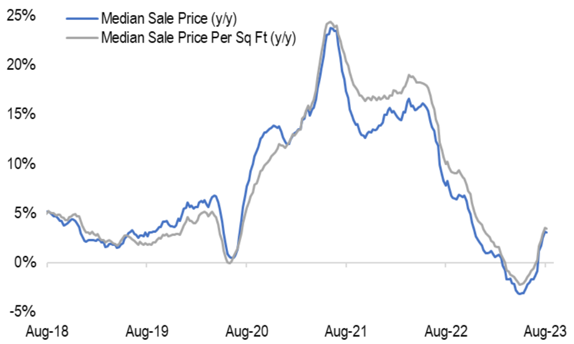
Sources: Bloomberg Consensus Survey of Economists, Arch MI

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

HOUSING MARKET COOLED AS MORTGAGE RATES CLIMBED, BUT PRICES CLIMBED FURTHER STILL

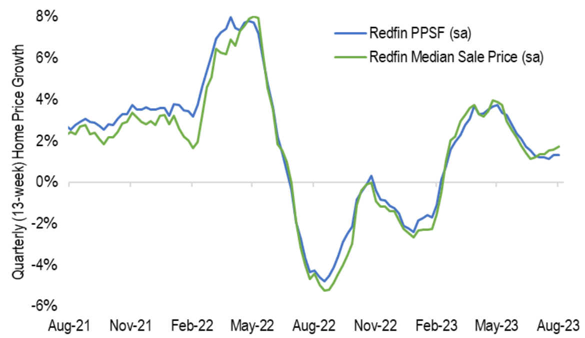
Homebuyer demand continued to be restrained by the headwind of elevated mortgage rates and stretched affordability. However, inventory continued to remain tight as potential home sellers continued to pull back from the market. Annual growth in the national median sale price per square foot (ppsf) slowed slightly to 3.4% y/y from 3.5% last week but remained up sharply from 1.6% four weeks ago (Figure 3). Meanwhile, the quarterly (i.e., 13-week) change in the seasonally adjusted ppsf was up 1.3% (Figure 4), or 5.4% annualized, roughly unchanged from 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

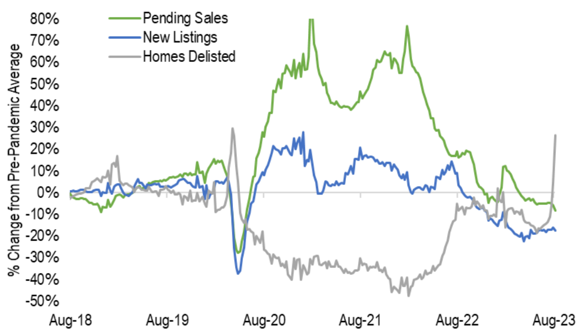
Figure 4: Seasonally Adjusted Home-Price Growth



Source: Redfin, Arch MI

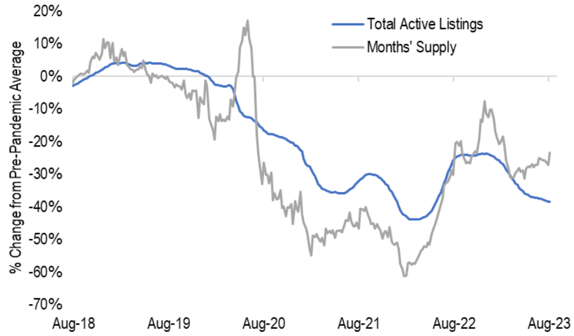
Pending home sales cooled further to -8% below the pre-pandemic average for this time of year from -5% four weeks ago (Figure 5). Higher mortgage rates have weighed on potential sellers as well: New listings remained -17% below the pre-pandemic average and the number of delisted homes rose sharply to 26% above the pre-pandemic average for this time of year. The still-depressed pace of new listings and increase in delisted homes offset the cooling pace of pending sales, keeping the number of active listings -39% below the pre-pandemic average and well below last year's peak of -25% (Figure 6). Despite total homes sold being down -16% y/y and -20% below the pre-pandemic average, the national market remained tight given months' supply was 2.5 months, -23% below the pre-pandemic average for this time of year but softer than the -26% below four weeks ago. The current months' supply is now slightly below the 2.6 months recorded for the same week in 2022, at which point the market had already cooled meaningfully 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 (-3%), Dallas (-2%) and Nashville (-1%). home-price growth slowed most rapidly compared with a year ago in Tampa (-25%-pts), Phoenix (-22%-pts), Austin (-22%-pts), Nashville (-20%-pts) and Dallas (-20%-pts). Conversely, annual home-price growth was strongest in Miami (7%), Boston (6%) and Chicago (6%).

Figure 7: Weekly Housing Monitor (as of August 6, 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%**	**10%**	**6%**	**0%**	**35%**	**-7%**	**100%**	**-1%**	**-18%**	**-13**	**-18**	**-23%**	**-21%**
Atlanta	2%	18%	6%	-1%	33%	-12%	99%	-1%	-14%	-7	-13	-11%	-15%
Austin	-11%	11%	9%	-2%	16%	-19%	98%	-2%	-3%	24	10	59%	65%
Baltimore	4%	7%	6%	-1%	48%	1%	102%	0%	-26%	-13	-14	-39%	-33%
Boston	6%	7%	4%	-1%	62%	-3%	103%	-1%	-30%	7	7	-21%	-5%
Chicago	6%	7%	3%	0%	48%	4%	100%	1%	-32%	19	20	-17%	-1%
Dallas	-2%	18%	9%	-1%	28%	-20%	99%	-2%	-12%	-4	-12	-13%	-9%
Denver	-1%	10%	11%	3%	34%	-3%	100%	0%	-15%	0	-2	3%	10%
Houston	0%	16%	8%	0%	22%	-14%	98%	-1%	-3%	-8	-18	-18%	-21%
Los Angeles	0%	8%	4%	-2%	55%	2%	102%	0%	-30%	-7	-5	-15%	8%
Miami	7%	17%	3%	0%	18%	-8%	97%	-1%	-18%	-6	-19	-31%	-34%
Minneapolis	2%	6%	7%	0%	51%	-3%	101%	0%	-15%	-6	-6	-9%	-8%
Nashville	-1%	20%	6%	-1%	21%	-15%	99%	-1%	7%	-4	-20	5%	-11%
New York	2%	8%	4%	0%	33%	-2%	101%	0%	-21%	-33	-39	-26%	-31%
Phoenix	-6%	16%	6%	-7%	22%	-5%	99%	0%	-38%	-1	-9	-3%	60%
Portland	-1%	11%	8%	-1%	38%	-4%	100%	-1%	-17%	-1	-4	-2%	2%
Riverside	-3%	16%	5%	-2%	44%	-2%	100%	0%	-31%	-14	-18	-19%	2%
San Diego	4%	13%	5%	-4%	53%	9%	101%	1%	-44%	-8	-4	-38%	3%
Seattle	0%	8%	7%	-3%	40%	9%	101%	1%	-40%	-2	0	-5%	35%
Tampa	-1%	25%	9%	-4%	21%	-15%	98%	-1%	-11%	-10	-19	-18%	-6%
Washington DC	4%	7%	5%	-2%	46%	6%	101%	0%	-27%	3	5	-11%	2%

Note: Data reflects four-week averages.

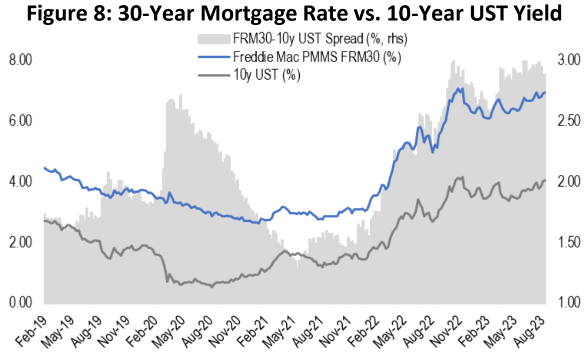
Source: Redfin, Arch MI

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 (24 days longer), Chicago (19) and Boston (7), while some markets like New York (-33), Riverside (-14), Baltimore (-13), Tampa (-10) and Houston (-8) remained well below pre-pandemic timelines. Months' supply remained below pre-pandemic levels in most markets (-23% below nationally), with Baltimore (-39%), San Diego (-38%), Miami (-31%), New York (-26%) and Boston (-21%) remaining the tightest relative to their pre-pandemic averages. Markets that have deteriorated the most based on months' supply include Austin, Nashville and Denver, where months' supply climbed to a respective 59%, 5% and 3% relative to their pre-pandemic averages from 65%, -11% and 10% below one year ago.

MORTGAGE PURCHASE APPLICATION ACTIVITY COOLED FURTHER

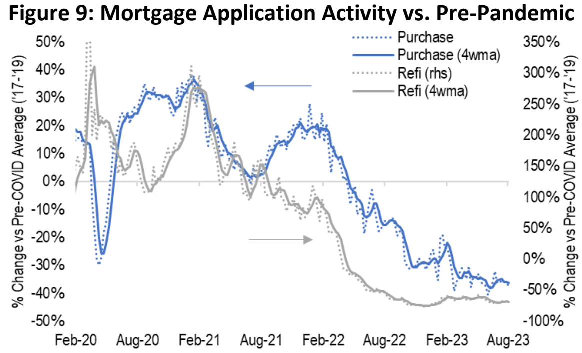
According to the MBA Weekly Applications Survey, the average contract conventional mortgage rate rose 16bps to 7.09% during the week ending Aug. 4 while the FHA contract mortgage rate also rose 17bps to 7.02%, resulting in a 1bps widening of the spread between the FHA and conventional mortgage rate to -0.07%. Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending Aug. 9 indicated that the 30-year fixed-rate mortgage (FRM30) climbed 6bps w/w to 6.96% (Figure 8) as the yield on the benchmark 10-year U.S. Treasury (UST) climbed 6bps to an average of 4.07% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST was unchanged at 2.89%, or 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



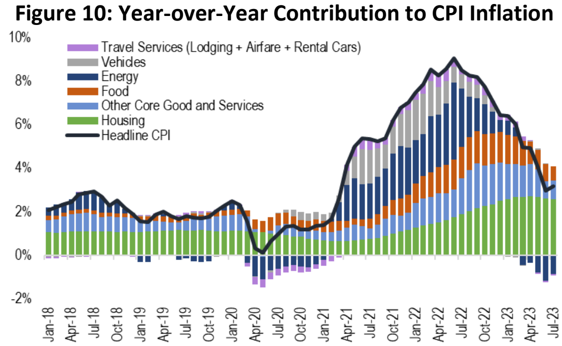
Sources: Mortgage Bankers Association, Arch MI

The MBA Weekly Applications Survey for the week ending Aug. 4 declined -3.1% w/w, leaving the index down -30% year-over-year and down -54% 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 -4% decline in refinancing applications, which remained down -37% y/y and -71% below the pre-pandemic level (Figure 9). Purchase applications declined -2.7% w/w and were down -27% y/y and -37% relative to pre-pandemic levels.

CONSUMER INFLATION COOLING CONVINCINGLY?

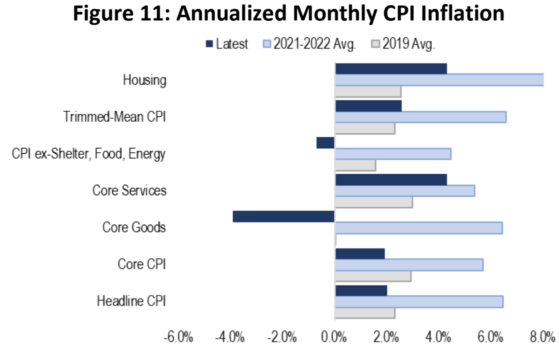
The July CPI inflation report confirmed disinflationary forces were starting to take firmer hold in June. Headline CPI was in line with expectations at 0.2% m/m or 3.2% y/y (Figure 10), as energy inflation cooled to 0.1% m/m from 0.6% in June as fuel price growth moderated and utility prices turned slightly negative. Energy prices will likely contribute more to headline inflation in August as oil and gas prices have climbed over the past two weeks. The four-month streak of falling grocery prices came to an end as food-at-home prices rose 0.3% m/m, the fastest pace since January. Food away from home (i.e., dining out), decelerated for the third straight month to 0.2% m/m in July, and below the year-to-date average of 0.5%. This series has tracked well with the trend in average hourly earnings in the leisure and hospitality industry that has been decelerating since 3Q22.

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



Sources: BLS, Arch MI

Figure 11: Annualized Monthly CPI Inflation



Sources: BLS, Arch MI

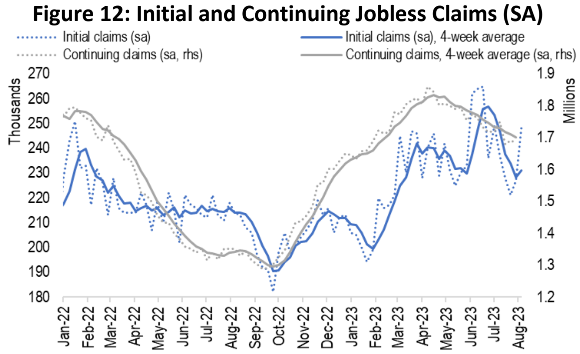
Core inflation (excluding food and energy) was encouraging, coming in at 0.2% m/m (cons. 0.2%) for the second month in a row, translating to a 1.9% annualized pace (Figure 11). To be more precise, core CPI rose 0.16% m/m compared to the 2021-2022 average of 0.46% and the 2019 average of 0.24%. Core goods prices not only declined again, but in accelerating fashion at a -0.3% m/m pace aided by a -1.3% plunge in used vehicles. Wholesale used-vehicle pricing has weakened substantially over the past three months and remains weak, implying softer retail prices still have room for further weakness. Core goods prices were also weighed down by a -0.1% decline in new vehicles — the fourth straight monthly decline — alongside declines in household furnishings (-0.4%), apparel (-0.03%) and recreational goods (-0.8%). Core services inflation rose 10bps to 0.4% m/m, still a noticeable step down from the prior six months with the bulk of the increase coming from the “other services” category tethered to discretionary spending. Travel services remained weak as hotel prices fell -0.3% while airline fares declined by -8.1% for the second month in a row. Rent and owners’ equivalent rent remained in the 0.4%-0.5% range — 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 and the 0.6% average over 1H23. The cooldown in housing inflation roughly coincides with our expectations, based on the roughly 12-month lag between home-price and rent growth (which have both cooled substantially since 2Q22) and the CPI measures. We expect housing inflation will cool further as the year progresses, based on this lagged relationship.

INITIAL JOBLESS CLAIMS SPIKE IN LARGE PART DUE TO POTENTIAL FRAUD IN OHIO

Last week, we laid out our view for initial jobless claims to trend higher over the remainder of 2023 while continuing claims trend lower into September before pivoting sharply higher into year-end. The subsequent weekly data release showed a sharp increase in initial claims and another decline in continuing claims. While both were directionally consistent with our expectations, the magnitude of the weekly increase in initial claims was rather surprising. However, we observed a notable surge in jobless claims in Ohio which accounted for roughly one-third of last week’s national increase. We believe the recent rapid rise in Ohio jobless claims are likely related to fraudulent claims activity in the state, similar to what we observed in Massachusetts earlier this year.

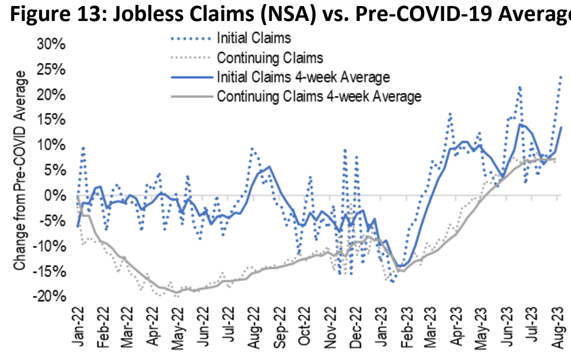
Initial jobless claims rose by 21k to a seasonally adjusted 248k (cons. 230k) during the week ending Aug. 5, moving the four-week average up to 231k from 228k (Figure 12). The four-week average of non-seasonally adjusted initial claims also jumped up to 14% above its pre-COVID-19 average (i.e., 2018 to 2019) from 8.6% the week before and up from -5% below in mid-January (Figure 13). Meanwhile, continuing claims (i.e., repeat filers for unemployment insurance) declined by 8k during the week ending July 29 to a seasonally adjusted 1,684k (cons. 1,707k), moving the four-week average down to 1,701k from 1,710k. The four-week average of non-seasonally adjusted continuing claims was relatively unchanged from the week before at 7.3% above its pre-COVID-19 average.

Figure 12: Initial and Continuing Jobless Claims (SA)



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

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



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

The Week Ahead

The biggest data releases this week will provide updates on the consumer, the housing market and the manufacturing sector. The week kicks off with July retail sales, which are expected to accelerate to 0.4% m/m from 0.2% in June according to the Bloomberg Consensus Survey of Economists. On the housing front, the August NAHB Housing Market Index is expected to move sideways at 56, while construction activity likely rebounded modestly in July after taking a step back in June. The manufacturing sector has been a drag on the economy for some time, but there are early indications of a recovery potentially taking hold and July industrial production is accordingly expected to climb by 0.3% m/m after a -0.5% decline in June.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
8/15/23	Advance Retail Sales m/m	Jul	--	0.4%	0.2%	sa
8/15/23	Retail Sales Control Group m/m	Jul	--	0.5%	0.6%	sa
8/15/23	Import Price Index y/y	Jul	--	-4.5%	-6.1%	nsa
8/15/23	Empire Manufacturing	Aug	--	-0.7	1.1	index, sa
8/15/23	Business Inventories m/m	Jun	--	0.1%	0.2%	sa
8/15/23	NAHB Housing Market Index	Aug	--	56	56	index, sa
8/16/23	MBA Mortgage Applications	8/11/23	--	--	-3.1%	w/w, sa
8/16/23	Building Permits	Jul	--	1,468	1,441	k, saar
8/16/23	Housing Starts m/m	Jul	--	0.8%	-8.0%	sa
8/16/23	Housing Starts	Jul	--	1,445	1,434	k, saar
8/16/23	Building Permits m/m	Jul	--	1.9%	-3.7%	sa
8/16/23	Industrial Production m/m	Jul	--	0.3%	-0.5%	sa
8/16/23	Capacity Utilization	Jul	--	79.1%	78.9%	sa
8/16/23	FOMC Meeting Minutes	7/26/23	--	--	--	
8/17/23	Initial Jobless Claims	8/12/23	--	240	248	k, sa
8/17/23	Continuing Claims	8/5/23	--	1,700	1,684	k, sa
8/17/23	Philadelphia Fed Business Outlook	Aug	--	-10.5	-13.5	index, sa
8/17/23	Conference Board Leading Index	Jul	--	-0.4%	-0.7%	m/m, sa

Sources: Bloomberg Consensus Survey of Economists, Arch MI