HaMMR Digest

Stay current with economic and mortgage market trends.

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Weekly Wrap – Housing Recession?

- Precipitous declines continue for existing home sales, home construction and homebuilder sentiment
- The supply of homes remains tight as home sellers pull back in response to rapidly cooling demand
- Housing market conditions are recalibrating rapidly and will find a healthier equilibrium

This housing cycle has been unprecedented in many ways, including prominent features like record low mortgage rates, a severe supply shortage and geographic flexibility created overnight for a meaningful share of the population at the onset of the pandemic. The transition from one set of extreme conditions to another is likely skewing some of the signal provided by traditional indicators. Existing home sales are slowing, down for the sixth straight month and by -5.9% (cons. -5.1%) in July to a seasonally adjusted annualized rate (saar) of 4,810k. Additionally, the NAHB home builder sentiment index fell 6 points to 49 (cons. 54) in August and below the '50' threshold that denotes net positive sentiment. It is not uncommon for activity to overshoot on the way down, just like it did in the other direction during the pandemic, before stabilizing back near a longer-term trend as fundamentals realign.

Unlike prior recessions, the U.S. came out of the COVID recession with a hot labor market, strong income growth, rapidly rising homeowner equity and no credit overhang in any sector that required deleveraging. Add hybrid and full-time remote work arrangements to the mix and it is no surprise the housing market overheated. It also should not be a surprise that housing momentum has slowed so rapidly given the severity of the affordability shock brought on by the surge in both home prices and mortgage rates. That said, labelling the current environment a 'housing recession' is misleading. Such terminology is likely to conjure memories of the financial crisis with collapsing home prices and widespread foreclosures, which we continue to view as highly unlikely. Higher-frequency data show some early signs of a housing market finding its footing or at the very least, easing the pace of its slowdown. For example, the share of listings with price drops has stopped climbing and inventory looks set to remain below 2019 levels given a slowdown in the pace of new listings. Even the share of existing home sales to first-time homebuyer remains near 30%, similar to where it was prior to the rate shock. We are not in the middle of a collapse but rather a transition from unsustainable above-trend demand towards a new equilibrium, one with much lower price growth that allows fundamentals to catch up with recent home price gains.

Figure 1: Months' Supply vs HPA (y/y) 6 Months Ahead

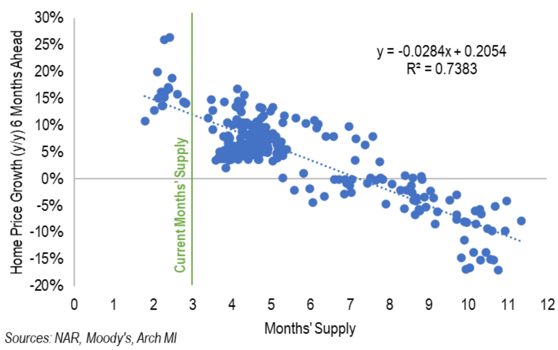
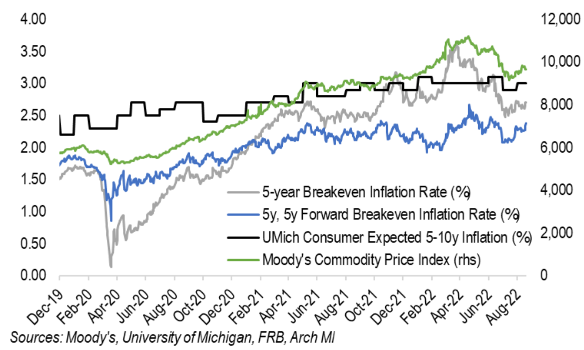


Figure 2: Inflation Monitor



One traditional housing market indicator that remains a strong predictor of future home price growth is months' supply, or the amount of time it takes to sell the current inventory at the recent sales pace (Figure 1). Although months' supply has increased to 3 months as of July from a record low of 1.8 months in January, this still represents an extremely tight market compared with history and the inventory of homes for sale would still need to grow by nearly 1 million homes – nearly double the current level – to return to a more balanced state, even at the weak current pace of sales. We are not discrediting the current slowdown and remain cognizant of downside risks to our outlook, particularly with respect to how the Fed responds to incoming inflation data and evolving inflation expectations (Figure 2).

RECENT DATA RELEASES

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
8/15/22	NAHB Housing Market Index	Aug	49.0	54.0	55.0	index, sa
8/16/22	Building Permits	Jul	1,674	1,640	1,696	k, saar
8/16/22	Building Permits m/m	Jul	-1.3%	-3.3%	0.1%	sa
8/16/22	Housing Starts	Jul	1,446	1,527	1,599	k, saar
8/16/22	Housing Starts m/m	Jul	-9.6%	-2.1%	2.4%	sa
8/17/22	MBA Mortgage Applications	8/12/22	-2.3%	--	0.2%	w/w, sa
8/17/22	Retail Sales Advance m/m	Jul	0.0%	0.1%	0.8%	sa
8/17/22	Retail Sales Control Group	Jul	0.8%	0.6%	0.7%	m/m, sa
8/17/22	Business Inventories	Jun	1.4%	1.4%	1.6%	m/m, sa
8/17/22	FOMC Meeting Minutes	7/27/22	--	--	--	
8/18/22	Initial Jobless Claims	8/13/22	250	264	252	k, sa
8/18/22	Continuing Claims	8/6/22	1,437	1,455	1,430	k, sa
8/18/22	Existing Home Sales	Jul	4,810	4,860	5,110	k, saar
8/18/22	Existing Home Sales m/m	Jul	-5.9%	-5.1%	-5.5%	sa
8/18/22	Conference Board Leading Index	Jul	-0.4%	-0.5%	-0.7%	m/m, sa

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

HOUSING MARKET: FEWER NEW LISTINGS SLOWING THE PACE OF INVENTORY GAINS

Realtor.com data through the week of August 13th shows sellers are increasingly coming around to the fact that the market has drastically changed since the beginning of the year. Median new list price growth slowed to 13.3% y/y, which is the slowest annual pace since February. Additionally, annual growth in the number of listings with price reductions remained up 71% y/y despite slowing from 112% annual growth in mid-June (Figure 3). New listings have responded to cooling demand with a 14.5% year-over-year decline, the largest annual decline in new listings since January. Fewer new listings have helped slow the growth of active listings to 27% y/y (Figure 4) from 30% at the end of July. Buyers who are still in the market can take longer to make a decision given that competition has decreased as median days on market is now five days longer than a year ago.

Figure 3: U.S. Listings with Price Reductions

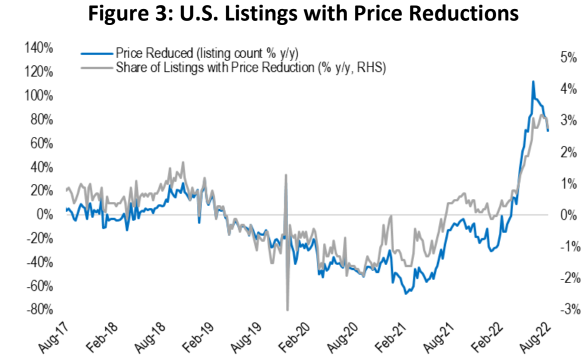
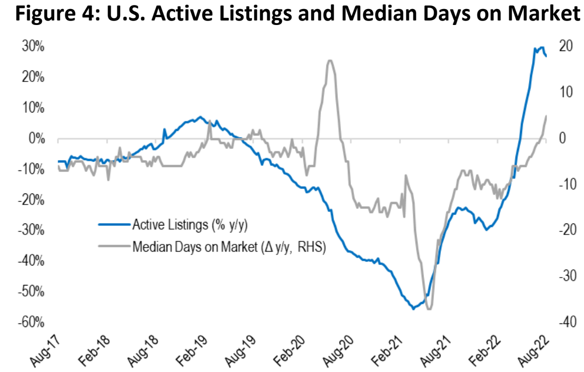


Figure 4: U.S. Active Listings and Median Days on Market



Source: Realtor.com, Arch MI

Redfin data through the week ending August 14th also reflects a slowing in the pace of the increase in active listings to 2.5% y/y from 6.0% in mid-July. Consistent with the Realtor.com data, a slowdown in new listings (-23% y/y) is preventing a surge in inventory levels and keeping the market relatively tight on a national basis: national months' supply remains 21% below its pre-pandemic level (Figure 5). While the market remains somewhat tight, it is softening rapidly in some markets and growth in the national median sale price ($ / sf) has slowed to 9% y/y from 20% a year ago. The market continues to search for a new buyer-seller equilibrium, and we expect price declines in some markets as that new equilibrium is discovered.

Of the major metros we track, annual home price growth was weakest in **Minneapolis** (6%) followed by **New York** (6%) and **Chicago** (6%) while home price growth has slowed most rapidly compared with a year ago in **Austin** (-31%-pts) and **New York** (-21%-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** (9 days longer) and **Chicago** (16 days longer). Markets that have deteriorated the most based on months' supply include **Austin** and **Phoenix**, where months' supply has climbed roughly 70% above pre-pandemic levels from about -35% one year ago.

Figure 5: Weekly Housing Monitor

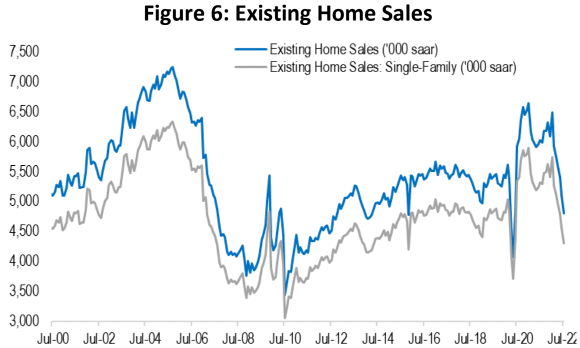
Metro	Median Sale Price psf (% y/y)	Median Sale Price Same Week '21 (% y/y)	Active Listings with Price Drops (% share)	Active Listings with Price Drops (ppt Δ y/y)	Homes Sold Above List (%)	Homes Sold Above List (ppt Δ y/y)	Average Sale-to-List Ratio (%)	Average Sale-to-List Ratio (ppt Δ y/y)	Total Active 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 U.S. Metros	9%	20%	8%	4%	41%	-10%	100%	-1%	4%	-19	-18	-21%	-42%
Atlanta	18%	25%	9%	4%	42%	-12%	100%	-1%	13%	-10	-14	-17%	-48%
Austin	10%	41%	13%	7%	31%	-36%	99%	-6%	56%	9	-1	69%	-35%
Baltimore	7%	12%	8%	2%	47%	0%	102%	0%	-15%	-20	-12	-35%	-42%
Boston	7%	15%	6%	2%	63%	-3%	103%	-1%	-6%	-2	8	-17%	-17%
Chicago	6%	14%	4%	0%	42%	-2%	100%	0%	17%	16	-19	-12%	-37%
Dallas	18%	24%	11%	6%	45%	-18%	101%	-2%	23%	-18	-16	-25%	-49%
Denver	9%	23%	9%	6%	34%	-30%	100%	-3%	36%	-8	-7	-8%	-43%
Houston	16%	18%	9%	3%	33%	-7%	99%	-1%	15%	-21	-20	-18%	-48%
Los Angeles	8%	18%	6%	3%	50%	-14%	101%	-2%	-6%	-11	-7	-11%	-29%
Miami	18%	24%	4%	2%	24%	4%	98%	1%	-14%	-19	-6	-27%	-47%
Minneapolis	6%	14%	8%	2%	51%	-11%	101%	-2%	3%	-5	-10	-8%	-34%
Nashville	20%	23%	8%	4%	32%	-18%	100%	-2%	54%	-22	-28	-7%	-55%
New York	6%	27%	4%	1%	35%	5%	101%	1%	-12%	-38	-25	-33%	-36%
Phoenix	16%	32%	15%	9%	23%	-32%	99%	-3%	50%	-7	-16	71%	-36%
Portland	10%	18%	10%	4%	40%	-22%	100%	-3%	19%	-11	-12	-13%	-51%
Riverside	14%	27%	8%	5%	45%	-21%	100%	-3%	22%	-21	-25	-7%	-49%
San Diego	12%	26%	10%	5%	41%	-22%	100%	-3%	11%	-8	-12	-11%	-54%
Seattle	9%	25%	10%	5%	28%	-33%	99%	-6%	51%	-2	-4	16%	-52%
Tampa	24%	24%	14%	7%	33%	-11%	99%	-1%	50%	-19	-23	-6%	-55%
Washington D.C.	8%	13%	7%	2%	39%	-13%	100%	-1%	-12%	0	0	0%	-24%

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

EXISTING HOME SALES COOL FURTHER

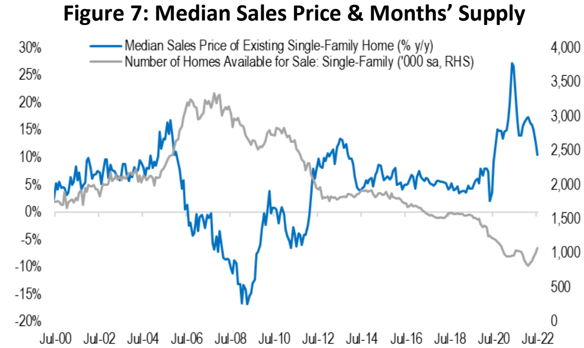
Existing home sales slowed 5.9% m/m (sa) to a 4,810k (cons. 4,860k) annualized pace, marking the sixth consecutive monthly decline and a cumulative decline of 21% from the end of 2021 (Figure 6). All U.S. regions recorded monthly declines, led by the West at -9.4% m/m and the Northeast at -7.5%. July single-family home sales slowed by -5.5% to 4,560k saar, the seventh decline in the last eight months. On a year-over-year basis, single-family home sales are down 19% and have been slowing since December. Sales are down nearly 27% from the January 2021 post-pandemic peak.

Figure 6: Existing Home Sales



Sources: NAR, Arch MI

Figure 7: Median Sales Price & Months' Supply



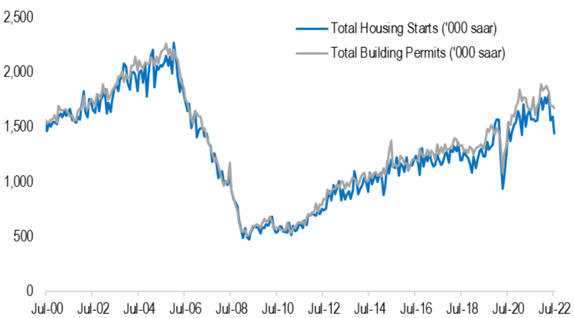
Sources: NAR, Arch MI

July's existing home sales data reflects the housing market from May and June (i.e., when contracts were signed for July closings), a period that included the recent peak in mortgage rates. Supply conditions remain tight despite the slower pace of sales as inventory at the end of July was only 1,081k (sa) units, or still 31% below its respective 2019 level (Figure 7). Unsold inventory sits at a seasonally adjusted 3.0 months' supply at the present sales pace, up from 1.8 months in January. Tight supply conditions are still supporting prices, but that support is waning. The seasonally adjusted median sales price of an existing single-family home dropped 0.6% m/m, the second straight sequential decline, to $394k, although it is important to note that this figure is not adjusted for the mix of homes sold. Despite the monthly declines, home prices remain up 10.6% y/y in July, down from 17% in January. From a regional perspective, only the South still boasts double-digit price gains, with the region up 14% y/y in July. Meanwhile, the West recorded a large slowdown in annual price growth, declining from 26% in April to 8% in July.

BUILDERS FOCUSED ON FINISHING WHAT THEY STARTED

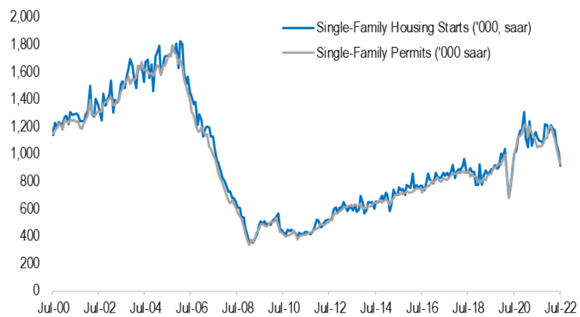
July housing starts dropped 9.6% m/m to 1,446k saar (cons. 1,527k), a 23-month low. Single-family starts have declined for eleven out of the past thirteen months and are also 12% below the February 2020 pace (Figure 8). Multifamily starts also fell 8.6% m/m but that segment tends to be volatile and nonetheless remains in an uptrend as builders, for now, hold a relatively more positive outlook for the rental market. Total starts are down about 8% from year ago as the 19% decline in single-family starts more than offset the 18% surge in multifamily starts. Building permits also missed consensus expectations, declining 1.3% m/m to a seasonally adjusted annualized pace of 1,674k (cons. 1,640k), driven by a 4.3% decline for single-family homes that was partly offset by an 2.8% m/m uptick in multifamily units. Single-family permits fell for the fifth consecutive month and are down 23% from the beginning of the year (Figure 9).

Figure 8: Housing Starts and Permits



Sources: US Census Bureau, Arch MI

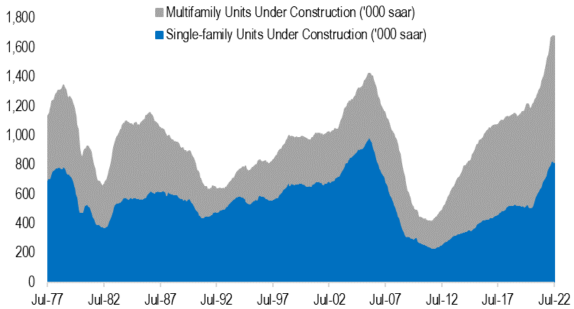
Figure 9: Single-Family Starts and Permits



Sources: US Census Bureau, Arch MI

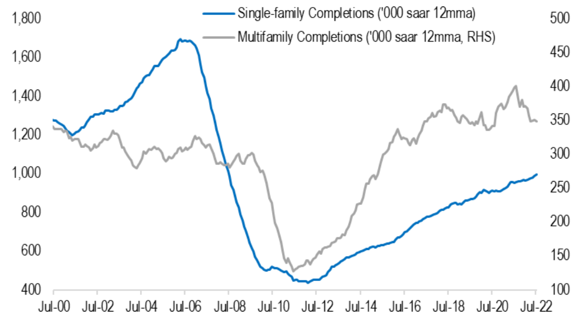
Completions pulled back a bit in July but remain in a modest uptrend as builders work through a record level 1,678k units under construction (Figure 10). Single-family completions are up about 4% y/y and nearly 9% above the pre-pandemic pace (Figure 11). Both the single-family and multifamily segments continue to see growth in units under construction with the former up 17% and 58% on a one-year and two-year basis, respectively. With the dislocations occurring in the housing market amid rising rates and slowing sales, units authorized but not started have remained flat over the prior months, as builders curtail new construction to better manage their inventory relative to demand. That said, owner and renter vacancy rates nationally remain very low, suggesting that a sustained decline in building is unlikely.

Figure 10: Housing Units Under Construction



Sources: US Census Bureau, Arch MI

Figure 11: Housing Completions

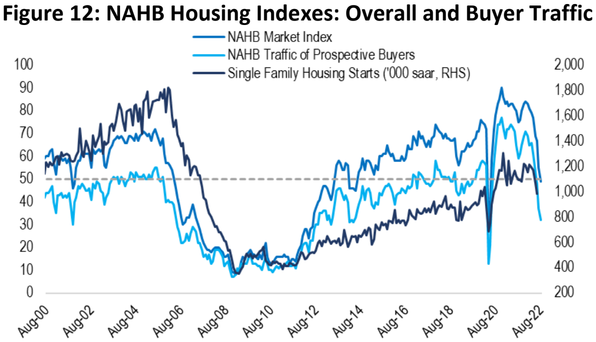


Sources: US Census Bureau, Arch MI

HOMEBUILDERS LOSING FAITH OR BLINDED BY THE PAST?

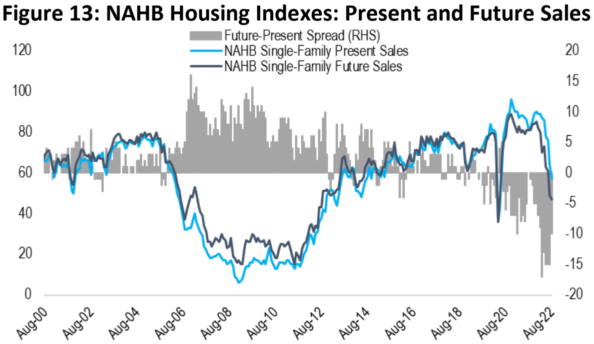
The slowdown in construction activity has seemingly further to fall given homebuilder sentiment in August. The headline index dropped six points to 49 and below the breakeven '50' level demarking that more builders view conditions as negative rather than positive. Despite the recent decline in mortgage rates, builders are still seeing a reduction in buyer traffic and sales activity, causing them to grow increasingly pessimistic. The index of buyer traffic fell five points to 32, the lowest reading since 2014 outside the pandemic (Figure 12). Similarly, the index of future sales fell to the lowest level since 2012 when excluding the pandemic (Figure 13). While housing activity has inarguably slowed, survey respondents may be mentally anchoring to the pandemic-induced home buying frenzy rather than more "normal" periods, tilting survey responses even more negative.

Figure 12: NAHB Housing Indexes: Overall and Buyer Traffic



Sources: NAHB, Arch MI

Figure 13: NAHB Housing Indexes: Present and Future Sales

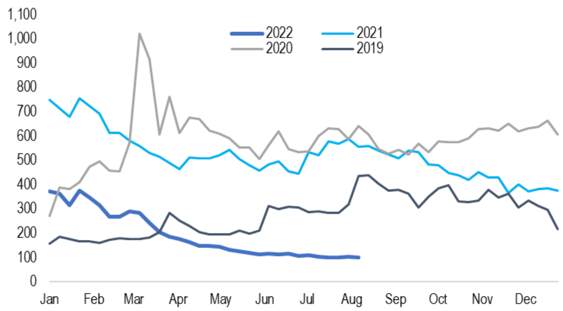


Sources: NAHB, Arch MI

MORTGAGE APPLICATION ACTIVITY SLOWED AS RATES REMAINED ELEVATED

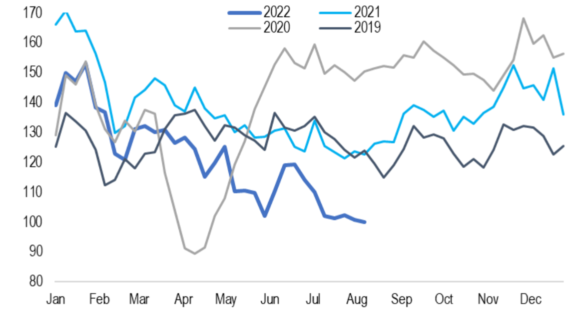
The MBA application survey for the week ending August 12th declined -2.3% w/w and the index is now down -62% year-over-year, and down -56% compared with pre-pandemic levels (i.e. 3 years ago). The weekly decline was driven primarily by a -5.4% decline in refinancing applications, which remain down -82% y/y and down -77% over 3 years (Figure 14). Purchase applications declined -0.8% w/w and are down -18% y/y and also down -19% relative to 2019 levels (Figure 15). According to the MBA survey of lenders, the average contract conventional mortgage rate declined -2bps to 5.45% during the week ending August 12th while the FHA contract mortgage rate rose 3bps to 5.38%, resulting in a 5bps widening of the spread between the FHA and conventional mortgage rate to -0.07% (Figure 16).

Figure 14: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

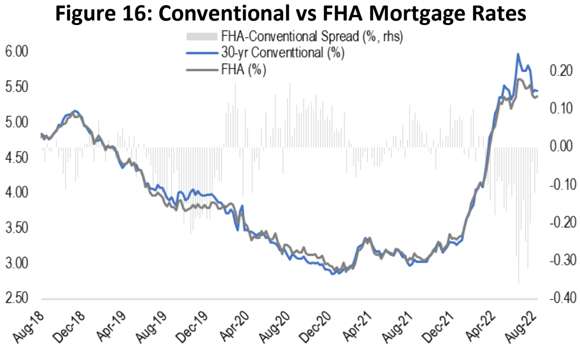
Figure 15: Purchase Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

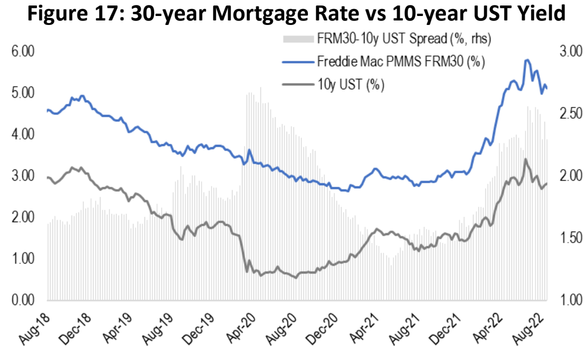
Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the 3 days ending August 17th indicated that the FRM30 declined -9bps w/w to 5.13% (Figure 17) as 10-year UST yields climbed 5bps to an average of 2.83% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST narrowed -14bps to 2.30%, about 60bps above its typical non-stressed level but down from the peak of 2.56% reached in mid-June. We expect mortgage spreads to normalize through the first half of next year as more clarity is gained around the path of inflation and monetary policy.

Figure 16: Conventional vs FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

Figure 17: 30-year Mortgage Rate vs 10-year UST Yield

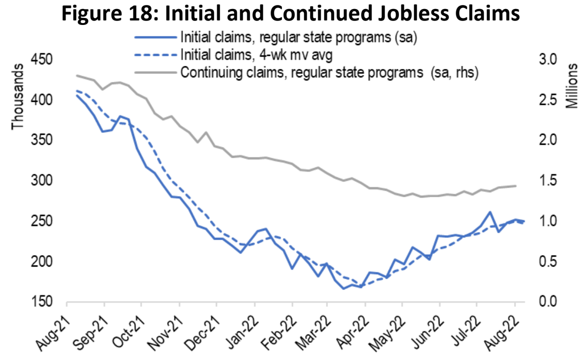


Sources: Freddie Mac PMMS, FRB, Arch MI

JOBLESS CLAIMS BEAT EXPECTATIONS AGAIN

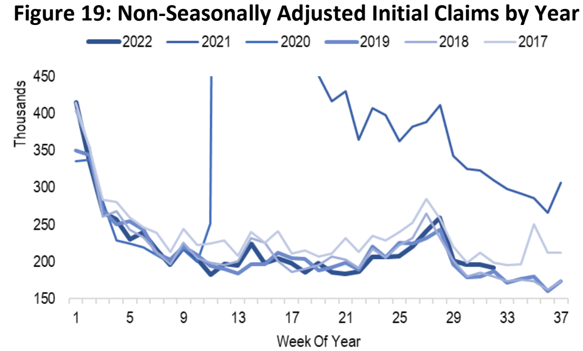
Initial jobless claims totaled 250k during the week ending August 13th, lower than expectations (cons: 264k) and down 2k from the previous week, moving the 4-week average down to 247k from 250k (Figure 18). Non-seasonally adjusted claims data continues to track roughly in-line with the same weeks from prior years (Figure 19), 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 7k to 1,437k (consensus: 1,455k) during the week ending August 6th. Despite last week's increase in continuing claims, the level remains near historic lows.

Figure 18: Initial and Continued Jobless Claims



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

Figure 19: Non-Seasonally Adjusted Initial Claims by Year



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

The Week Ahead

This week will provide a bevy of updates on the health of the economy as well as an update on new and pending home sales, which are both expected to slow another 2.5% in July according to the Bloomberg consensus survey. The most critical macroeconomic data release this week will be the July PCE inflation report, which is expected to reflect a deceleration across headline and core inflation, mirroring the July CPI report. Other important data releases include the preliminary August S&P Global PMIs, with the services index (cons: 50.0) expected to come in right at the level that demarcates expansion territory and manufacturing index (cons: 51.9) set up to continue cooling, as well as the second read of 2Q22 real GDP which is expected to remain unchanged at -0.9% q/q saar.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
8/23/22	S&P Global US Services PMI	Aug P	--	50.0	47.3	index, sa
8/23/22	S&P Global US Manufacturing PMI	Aug P	--	51.9	52.2	index, sa
8/23/22	New Home Sales	Jul	--	575	590	k, saar
8/23/22	New Home Sales m/m	Jul	--	-2.5%	-8.1%	sa
8/24/22	MBA Mortgage Applications	8/19/22	--	--	-2.3%	w/w, sa
8/24/22	Pending Home Sales m/m	Jul	--	-2.5%	-8.6%	sa
8/25/22	Initial Jobless Claims	8/20/22	--	252	250	k, sa
8/25/22	Continuing Claims	8/13/22	--	1,443	1,437	k, sa
8/25/22	GDP Annualized q/q	2Q S	--	-0.9%	-0.9%	saar
8/25/22	Personal Consumption q/q	2Q S	--	1.5%	1.0%	saar
8/25/22	Core Personal Consumption q/q	2Q S	--	4.4%	4.4%	saar
8/26/22	Personal Income	Jul	--	0.6%	0.6%	m/m, sa
8/26/22	Personal Spending	Jul	--	0.4%	1.1%	m/m, sa
8/26/22	Real Personal Spending	Jul	--	0.4%	0.1%	m/m, sa
8/26/22	PCE Inflation m/m	Jul	--	0.0%	1.0%	sa
8/26/22	PCE Inflation y/y	Jul	--	6.4%	6.8%	nsa
8/26/22	PCE Core Inflation (ex Food and Energy) m/m	Jul	--	0.3%	0.6%	sa
8/26/22	PCE Core Inflation (ex Food and Energy) y/y	Jul	--	4.7%	4.8%	nsa
8/26/22	U. of Mich. Sentiment	Aug F	--	55.5	55.1	index, nsa
8/26/22	U. of Mich. 1 Yr Inflation	Aug F	--	--	5.0%	nsa
8/26/22	U. of Mich. 5-10 Yr Inflation	Aug F	--	--	3.0%	nsa