HaMMR Digest

Stay current with economic and mortgage market trends.

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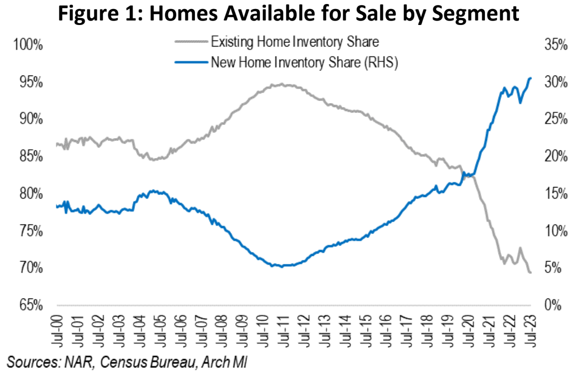
Weekly Wrap — Feared Tidal Wave Washes Ashore as a Ripple

- Chairman Powell's highly anticipated Jackson Hole speech was spectacularly consistent with prior messaging.
- Higher rates continued to drive a bigger wedge between existing and new home sales.
- Preliminary data suggests 3Q23 losing steam after a hot start, with August job growth on deck this week.

Last week ended with all eyes on Fed Chairman Powell's speech at the Jackson Hole Symposium, an "offsite" gathering of central bankers, academics and economists that sometimes culminates in market-moving commentary from central bankers. This year's symposium focused on "structural shifts in the global economy" and thus many analysts expected Powell to discuss implications for the neutral interest rate (i.e., the level that is neither restrictive nor stimulative), which would have implications for long-term rates. Instead, Powell simply acknowledged the uncertainty in estimating the neutral rate and stuck to his recent script. The tone was also in stark contrast to last year's commentary, which had been dubbed the "there will be pain" speech, in which Powell emphasized the "pain" that would be felt by households and businesses from higher rates. This year's message was mostly about caution and risk management: The Fed will "proceed carefully" given the uncertainty about the duration of the lagged effects of monetary policy. Powell left the door open for further hikes but at this juncture, the Fed seems comfortable holding rates firm until incoming data dictates otherwise.

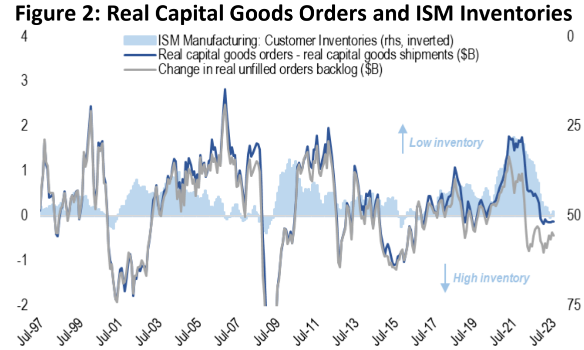
Housing data was prominent last week and the divergence between existing and new home sales continued to widen. Existing home sales declined -2.2% m/m (cons. -0.2%) in July to a seasonally adjusted annualized rate (saar) of 4,070k (cons. 4,150). Sales were down -17% y/y, -25% from 2019 levels, the slowest pace of sales since 2010 aside from the soft January figure. The outlook for sales and mortgage originations remain depressed in the near term with mortgage rates firmly above 7% and the inventory of existing homes stuck below 1m units. Indeed, MBA purchase applications declined -5.0% w/w (ending August 18) for the sixth week in a row, bringing the overall index to the lowest level since 1995. A dearth of resale inventory and builder incentives underpinned new home sales, which rose 4.4% m/m (cons. 0.9%) in July, lifting the annual rate of growth to 32%. New home sales comprised 31% of total homes available for sale (Figure 1) with incremental increases in inventory coming as home builders chip away at elevated under-construction inventory.

Figure 1: Homes Available for Sale by Segment



Sources: NAR, Census Bureau, Arch MI

Figure 2: Real Capital Goods Orders and ISM Inventories



Sources: Census Bureau, ISM, Arch MI

We mentioned recently that there was a risk of a downward revision to payrolls (see *"Calming Seas,"* August 7, 2023). The revisions from the U.S. Bureau of Labor Statistics (BLS) were lighter than expected, subtracting -0.2% from payrolls, bringing the average monthly gain to ~310k from ~335k over the year ending March 2023. The adjustment does not alter our outlook, nor does it materially change how strong the labor market was over that period. Looking ahead, the preliminary August S&P Global Purchasing Managers Index (PMI) for the U.S. sent worrisome signals about private sector output. Manufacturing PMI pulled back to 47.0 (cons. 49.0) from 49.0 in July, which is nothing new given recent trends. Actual industrial output has been mediocre at best lately and it seems that goods producers are just managing to meet demand instead of boosting inventory (Figure 2), at least not yet given the flat spread of orders (demand) and shipments (deliveries). Services PMI had been offsetting weakness in manufacturing but no more as the business activity index hit a six-month low of 51.0 (cons. 52.0) from 52.3 in July. The services PMI was led lower by weaker new orders and employment components, increasing the importance of this Friday's jobs report to shed more light on the health of the services sector.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
8/22/23	Existing Home Sales	Jul	4,070	4,150	4,160	k, saar
8/22/23	Existing Home Sales m/m	Jul	-2.2%	-0.2%	-3.3%	sa
8/23/23	MBA Mortgage Applications	8/18/23	-4.2%	--	-0.8%	w/w, sa
8/23/23	S&P Global US Manufacturing PMI	Aug P	47.0	49.0	49.0	index, sa
8/23/23	S&P Global US Services PMI	Aug P	51.0	52.2	52.3	index, sa
8/23/23	S&P Global US Composite PMI	Aug P	50.4	51.5	52.0	index, sa
8/23/23	New Home Sales	Jul	714	703	684	k, saar
8/23/23	New Home Sales m/m	Jul	4.4%	0.9%	-2.8%	sa
8/24/23	Initial Jobless Claims	8/19/23	230	240	240	k, sa
8/24/23	Continuing Claims	8/12/23	1,702	1,705	1,711	k, sa
8/24/23	Chicago Fed Nat Activity Index	Jul	0.12	-0.22	-0.33	index, nsa
8/24/23	Durable Goods Orders	Jul P	-5.2%	-4.0%	4.4%	m/m, sa
8/25/23	U. of Mich. Sentiment	Aug F	69.5	71.2	71.2	index, nsa
8/25/23	U. of Mich. 1 Yr Inflation	Aug F	3.5%	3.3%	3.3%	nsa
8/25/23	U. of Mich. 5-10 Yr Inflation	Aug F	3.0%	2.9%	2.9%	nsa

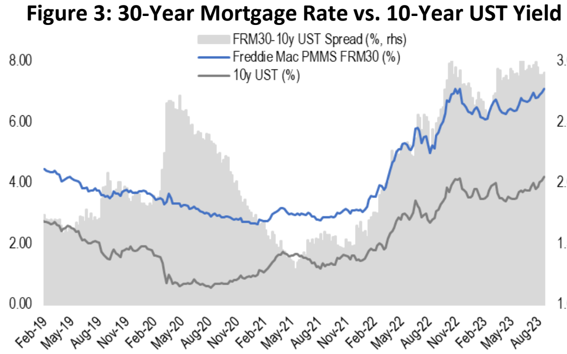
Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics

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

MORTGAGE PURCHASE APPLICATION ACTIVITY COOLED AS RATES HIT 22-YEAR HIGH

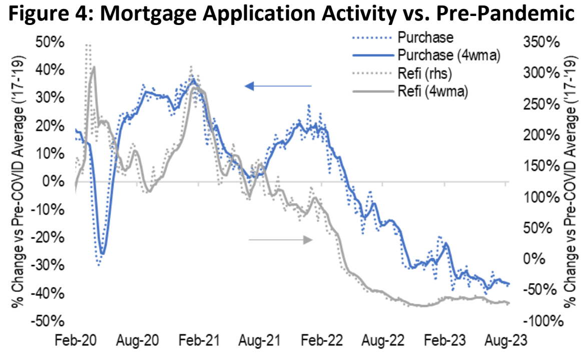
According to the MBA Weekly Applications Survey, the average contract conventional mortgage rate rose 15bps to 7.31% during the week ending Aug. 18, a 22-year high. Meanwhile, the FHA contract mortgage rate also rose 16bps to 7.09%, resulting in a 1bps widening of the spread between the FHA and conventional mortgage rate to -0.22%. Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending Aug. 23 indicated that the 30-year fixed-rate mortgage (FRM30) jumped 14bps w/w to 7.23% (Figure 3) as the yield on the benchmark 10-year U.S. Treasury (UST) climbed 10bps to an average of 4.29% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 4bps to 2.94%, about 125bps 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 year.

Figure 3: 30-Year Mortgage Rate vs. 10-Year UST Yield



Sources: Freddie Mac Primary Mortgage Market Survey, Federal Reserve Board, Arch MI

Figure 4: Mortgage Application Activity vs. Pre-Pandemic



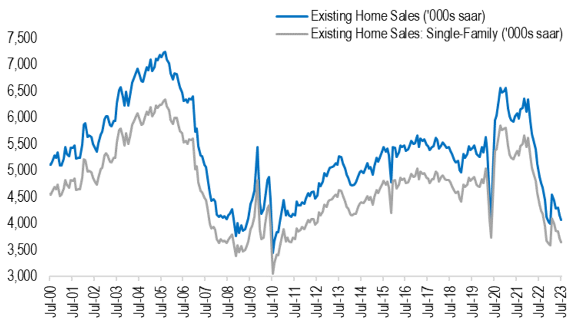
Sources: Mortgage Bankers Association, Arch MI

The MBA Weekly Applications Survey for the week ending Aug. 18 declined -4.2% w/w, leaving the index down -32% year-over-year and down -60% 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 -5% decline in purchase applications, which remained down -30% y/y and -40% below the pre-pandemic level (Figure 4). Refinancing applications declined -2.8% w/w and were down -35% y/y and -77% relative to pre-pandemic levels.

EXISTING HOME SALES SPUTTERING

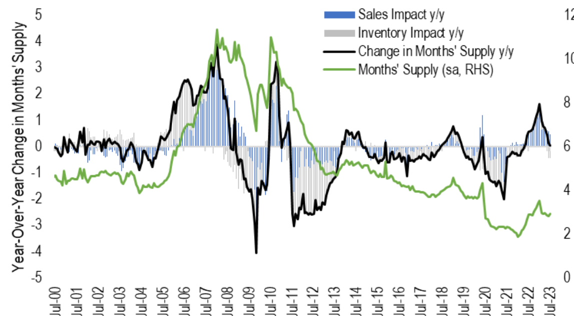
Existing home sales remained at a depressed level in July, mostly due to lack of inventory and buyer affordability challenges. For July, sales fell -2.2% m/m (cons. -0.2%) to a seasonally adjusted annualized rate of 4,070k (Figure 5). Despite inventory rising a seasonally adjusted (sa) 1.5% m/m, supply conditions remained tight with total resale stock still below one million units (992k sa). Sales and inventory were -25% and -42% below their respective 2019 levels. Unsold inventory reflected only a 2.9 months' supply (sa) at the present sales pace, par with last month's print but down from the November–January average of 3.4. Limited inventory has kept the market tight (i.e., months' supply low), even though the pace of sales has slowed to well below the 4Q22 average (Figure 6). The seasonally adjusted median sale price of an existing single-family home rose 0.9% m/m and 1.6% y/y, the first positive annual print in six months, to $397k, although it is important to note that this figure is not adjusted for the quality, size or geography of homes sold.

Figure 5: Existing Home Sales



Sources: NAR, Arch MI

Figure 6: Months' Supply of Existing Homes

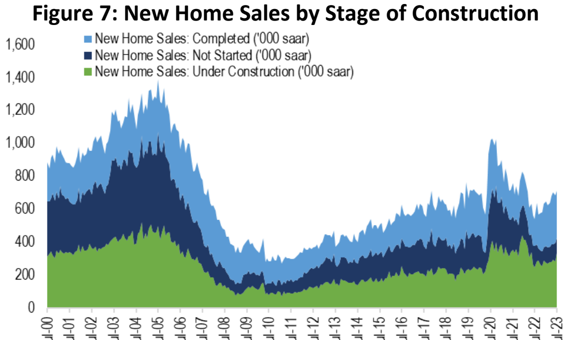


Sources: NAR, Arch MI

NEW HOME SALES RECOVER FROM JUNE BLIP

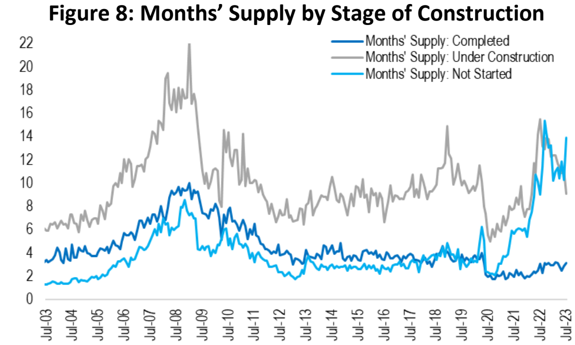
Data from the U.S. Census Bureau showed new home sales rose 4.4% m/m (cons. 1.0%) in July to a seasonally adjusted annualized rate of 714k (cons. 704k) from 684k in June (revised down from 697k). July's advance reversed June's -2.8% decline, maintaining the rebound in sales that are up 24% y/y and just above the pre-pandemic pace (Figure 7). Notably, new home sales have been rising since September, albeit on a choppy path, while existing home sales have remained more depressed. Recent commentary from public home builders indicate that demand has steadily improved this year, which confirms the improvement over the same time frame in the National Association of Home Builders (NAHB) Housing Market Index. The use of incentives by builders to move product (particularly rate buydowns) has played a critical factor in bolstering new home sales, which leaves existing home sellers at a relative disadvantage. Accordingly, new home sales comprised 14% of the total home sales market over the past three months, up from 11% at the onset of the pandemic.

Figure 7: New Home Sales by Stage of Construction



Sources: Census Bureau, Arch MI

Figure 8: Months' Supply by Stage of Construction

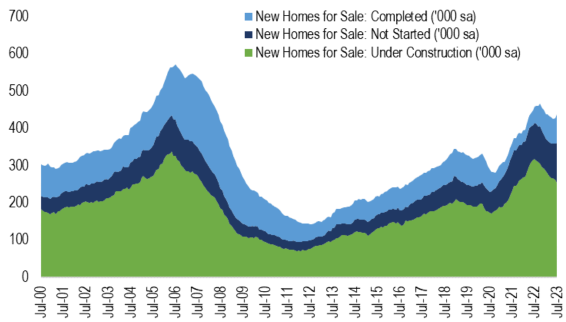


Sources: Census Bureau, Arch MI

While new home sales continued to trend up, the supply of new homes has been more reserved, up 2.5% m/m in July for the second advance in the last nine months. The inventory of new homes for sale in July represented a 7.3 months' supply, down from the cycle peak of 10.1 months in June and not too far above the historical average of 6 months. Completed home sales rose 9% m/m, the largest increase in about a year, which lifted annual growth to 74% despite remaining -7%

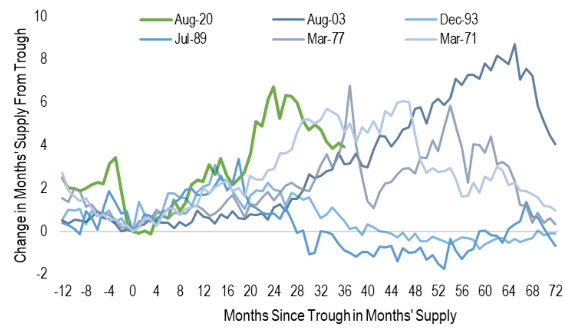
below four years ago. The rise of completed home inventory reflects a normalization of supply chain constraints rather than a sign of stress given the median time to sell a completed home was just 2.2 months (sa) in July, down -4% y/y and from 2.7 months in February. Additionally, builders continued to prioritize reducing their backlogs of units under construction, which has lifted the months' supply of completed homes to 3.1 months (sa), which is still slightly below where it stood at the onset of the pandemic (Figure 8). The bulk of new home inventory remained skewed toward units not started and under construction, which comprise 83% of the total inventory when combined (Figure 9).

Figure 9: Inventory of New Homes for Sale



Sources: Census Bureau, Arch MI

Figure 10: New Home Months' Supply Cycles



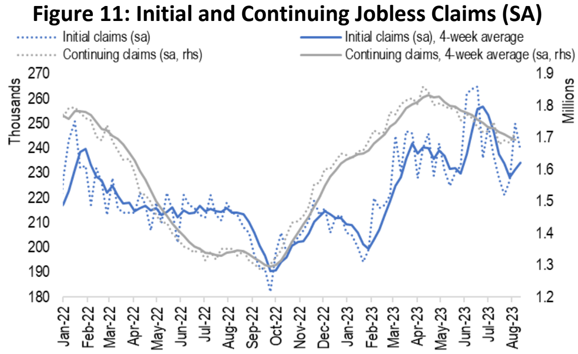
Sources: Census Bureau, Arch MI

Home builders have managed through this whiplash-inducing housing cycle much better than during the Global Financial Crisis (GFC). The current cycle for the new home market has been defined by extremes: The pace, magnitude and duration of the slump has been quite unique. The months' supply of new homes surged from a record low of 3.3 months in August 2020 (defined as the peak of the cycle) to a peak of 10.1 months in July 2022 (defined as the trough of the cycle), an increase of 6.8 months — a deterioration surpassed only by the GFC when months' supply climbed by 8.7 months to a peak of 12.2 months (Figure 10). However, it took over half a decade for the new home sales market to go from its cycle peak in August 2003 to its trough in January 2009, compared with just under two years for the current cycle. Even more impressively, the months' supply of new homes has returned close to its historic average a mere few months after enduring a historic downturn.

JOBLESS CLAIMS MUDDLED BY SEASONAL FACTORS BUT STILL REFLECTS NORMALIZATION

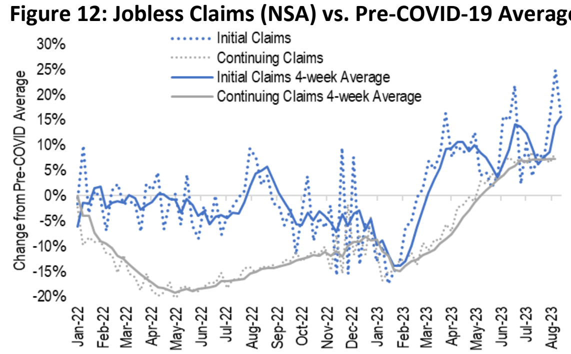
While the seasonally adjusted headline figures for initial and continuing claims declined and beat expectations, the non-seasonally (NSA) adjusted levels of both trended higher relative to their pre-COVID-19 norms. The labor market has clearly softened from extremely tight conditions in early 2022 but we continue to view the recent cooldown as consistent with our outlook for a gradual normalization of labor market conditions rather than an imminent recession. Initial jobless claims declined by -10k to a seasonally adjusted 230k (cons. 240k) during the week ending Aug. 19, but the four-week average moved up to 237k from 235k due to the spike in prior weeks (Figure 11).

Figure 11: Initial and Continuing Jobless Claims (SA)



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

Figure 12: Jobless Claims (NSA) vs. Pre-COVID-19 Average



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

Although NSA initial claims moved down to 15% above its pre-COVID-19 average (i.e., 2018 to 2019) from a recent peak of 25% two weeks ago, the four-week average moved up to 18% from 16% last week given the sharp increase in prior weeks (Figure 12). Continuing claims (i.e., repeat filers for unemployment insurance) declined by 9k during the week ending Aug. 12 to a seasonally adjusted 1,702k (cons. 1,705k), but the four-week average moved up slightly to 1,697k from 1,692k. Meanwhile, the four-week average of NSA continuing claims moved up to 8.1% above its pre-COVID-19 average from 7.2% the week before and up from -14% below six months ago.

The Week Ahead

This week will bring a long slate of updates on the economy and housing market, starting with June home-price indexes from the FHFA and S&P CoreLogic Case-Shiller, both of which are expected to cool from their May growth rates according to the Bloomberg Consensus Survey of Economists. Pending home sales likely cooled further in July as mortgage rates surged higher. The measure of private employment growth from Automatic Data Processing (ADP) is expected to have taken a step down in August to 198k from 324k in July, alongside cooler growth of 168k jobs (vs. 187k) in the August Employment Situation Report from the BLS. The unemployment rate is expected to have remained at 3.5% with average hourly earnings up 0.3% m/m (matching the July pace). On the consumer front, August Conference Board Consumer Confidence is expected to tick down to 116.2 from 117 in July as personal spending is anticipated to have grown by 0.7% in July, outpacing income growth of 0.3%. The Personal Consumption Expenditure (PCE) Price Index likely climbed by another 0.2% for both headline and core (excluding food and energy), which would bring the annual pace of headline inflation down to 3.3% while lifting core to 4.2%. Meanwhile, the second estimate of 2Q23 real GDP growth is likely to be relatively unchanged at 2.4%.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Consensus	Previous	Note
8/29/23	FHFA House Price Index m/m	Jun	0.6%	0.7%	sa
8/29/23	S&P CoreLogic CS 20-City m/m SA	Jun	0.8%	1.0%	sa
8/29/23	S&P CoreLogic CS 20-City y/y NSA	Jun	-1.7%	-1.7%	nsa
8/29/23	JOLTS Job Openings	Jul	9.45	9.58	m, sa
8/29/23	Conf. Board Consumer Confidence	Aug	116.2	117.0	index, sa
8/30/23	MBA Mortgage Applications	8/25/23	--	-4.2%	w/w, sa
8/30/23	ADP Employment	Aug	198	324	k, m/m, sa
8/30/23	Wholesale Inventories m/m	Jul P	-0.3%	-0.5%	sa
8/30/23	Retail Inventories m/m	Jul	0.5%	0.7%	sa
8/30/23	GDP Annualized q/q	2Q S	2.4%	2.4%	saar
8/30/23	Pending Home Sales m/m	Jul	-1.0%	0.3%	sa
8/30/23	Pending Home Sales y/y	Jul	--	-14.8%	nsa
8/31/23	Initial Jobless Claims	8/26/23	235	230	k, sa
8/31/23	Continuing Claims	8/19/23	1,705	1,702	k, sa
8/31/23	Personal Income	Jul	0.3%	0.3%	m/m, sa
8/31/23	Personal Spending	Jul	0.7%	0.5%	m/m, sa
8/31/23	Real Personal Spending	Jul	0.4%	0.4%	m/m, sa
8/31/23	PCE Inflation m/m	Jul	0.2%	0.2%	sa
8/31/23	PCE Core Inflation (ex Food and Energy) m/m	Jul	0.2%	0.2%	sa
8/31/23	PCE Inflation y/y	Jul	3.3%	3.0%	nsa
8/31/23	PCE Core Inflation (ex Food and Energy) y/y	Jul	4.2%	4.1%	nsa
9/1/23	Nonfarm Payrolls	Aug	168	187	k, m/m, sa
9/1/23	Private Payrolls	Aug	150	172	k, m/m, sa
9/1/23	Unemployment Rate	Aug	3.5%	3.5%	sa
9/1/23	Average Hourly Earnings m/m	Aug	0.3%	0.4%	sa
9/1/23	Average Hourly Earnings y/y	Aug	4.3%	4.4%	nsa
9/1/23	Average Weekly Hours All Employees	Aug	34.3	34.3	sa
9/1/23	Labor Force Participation Rate	Aug	62.6%	62.6%	sa
9/1/23	S&P Global US Manufacturing PMI	Aug F	47.0	47.0	index, sa
9/1/23	ISM Manufacturing	Aug	47.0	46.4	index, sa
9/1/23	ISM Prices Paid	Aug	44.0	42.6	index, nsa
9/1/23	Wards Total Vehicle Sales	Aug	15.5	15.7	m, saar

Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics