HaMMR Digest

Stay current with economic and mortgage market trends.

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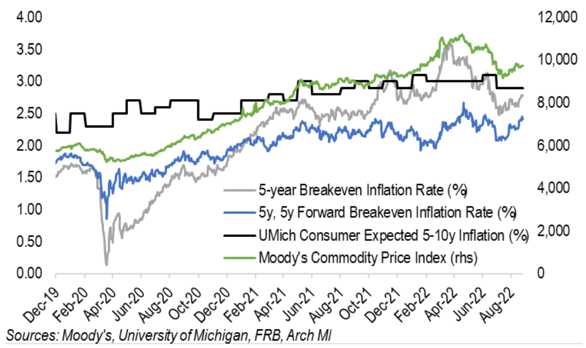
Weekly Wrap – Pain on the Road to Stability

- Data has improved over the prior few weeks, raising the prospect that the economic cycle has further room to run
- However, this will encourage the Fed to not only keep hiking, but leave rates restrictive longer than expected
- New home sales data, while disappointing, is not as bad as the headline sales and months' supply numbers appear

Since the July Federal Reserve monetary policy meeting, incoming data has been positive on net, solidifying our baseline view for a soft landing or, at the very least, suggests the economic cycle will last longer than most expect. Of course, this is a double-edged sword with respect to interest rates and monetary policy: stronger economic data encourages a more hawkish Fed, particularly when inflation is well above their 2.0% target. Accordingly, 10-year US Treasury yields have climbed 30bps since the July FOMC meeting and pushed the 30-year fixed-rate mortgage back into the mid-5% range.

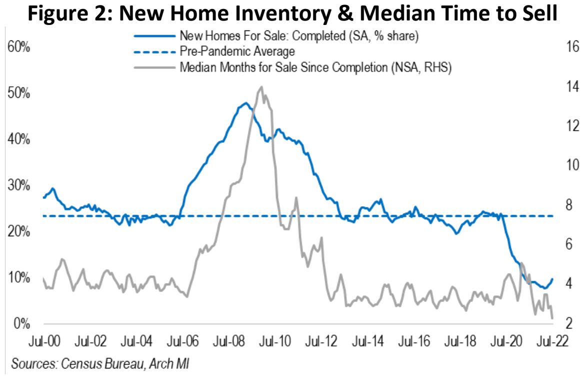
Fed Chairman Powell's Jackson Hole speech left the door open for another 75bps rate hike in September, but more importantly pushed back strongly against expectations for quick rate cuts next year. The Fed's intention is clear: get rates quickly into restrictive territory and leave them there for some time, which will cause "pain" for households and businesses as a means to restore long-term price stability. Progress is underway as the PCE price index declined -0.1% m/m (cons. 0.0%) in July with the core measure (excluding food & energy) decelerating significantly to 0.1% m/m (cons. 0.2%) from 0.6% in June. Additionally, medium-term consumer inflation expectations cooled by 10bps to 2.9% (cons. 3.0%) in August (Figure 1). Consumer sentiment also rebounded amid lower price pressures, as has real consumer spending, which rose 0.2% m/m (cons. 0.4%) in July. Softer forthcoming inflation alongside continued strong wage growth will see real incomes recover, boding well for the upcoming holiday shopping period.

Figure 1: Inflation Monitor



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

Figure 2: New Home Inventory & Median Time to Sell



Sources: Census Bureau, Arch MI

2Q22 real GDP growth was revised up 0.3%-pts to -0.6% q/q saar (cons. -0.7%), mostly due to an upward revision to consumer spending. Real Gross Domestic Income (GDI), an alternate income-based approach to measuring economic activity, increased 1.4% in 2Q22 after a 1.8% rise in 1Q22. In theory, GDP and GDI growth should be equal, but in practice statistical discrepancies create some differences. Thus, averaging the two approaches should represent a more robust estimate of growth, and suggests real growth of 0.4% in 2Q and 0.1% in 1Q. Moreover, benchmark revisions to GDP will be released at the end of September, which could very well reflect an upward revision to 1H22 growth. To that point, the BLS recently released preliminary benchmark revisions showing nearly 50k extra private jobs were added each month through the 12 months ending in March, suggesting the economy may have indeed been stronger than previously thought.

The rather optimistic tilt to incoming data stops at housing. New home sales fell 12.6% m/m (cons. -2.5%) to 511k saar, a seven-year low while months' supply surged to 10.9 months, the highest since 2009. However, the headline months' supply number is distorted by compositional effects – available completed homes as a share of total inventory remains near a record-low of 9.7%. More telling, though, is that homes are still selling much faster than the pre-pandemic pace once completed (Figure 2). The housing market has been upended since earlier this year, but builders are still finding buyers for completed product, encouraging them to work through their large backlog of under-construction units.

RECENT DATA RELEASES

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
8/23/22	S&P Global US Services PMI	Aug P	**44.1**	49.8	47.3	index, sa
8/23/22	S&P Global US Manufacturing PMI	Aug P	**51.3**	51.8	52.2	index, sa
8/23/22	New Home Sales	Jul	**511**	575	585	k, saar
8/23/22	New Home Sales m/m	Jul	**-12.6%**	-2.5%	-7.1%	sa
8/24/22	MBA Mortgage Applications	8/19/22	**-1.2%**	--	-2.3%	w/w, sa
8/24/22	Pending Home Sales m/m	Jul	**-1.0%**	-2.6%	-8.9%	sa
8/25/22	Initial Jobless Claims	8/20/22	**243**	252	245	k, sa
8/25/22	Continuing Claims	8/13/22	**1,415**	1,441	1,434	k, sa
8/25/22	GDP Annualized q/q	2Q S	**-0.6%**	-0.7%	-0.9%	saar
8/25/22	Personal Consumption q/q	2Q S	**1.5%**	1.5%	1.0%	saar
8/25/22	Core Personal Consumption q/q	2Q S	**4.4%**	4.4%	4.4%	saar
8/26/22	Personal Income	Jul	**0.2%**	0.6%	0.7%	m/m, sa
8/26/22	Personal Spending	Jul	**0.1%**	0.5%	1.0%	m/m, sa
8/26/22	Real Personal Spending	Jul	**0.2%**	0.4%	0.0%	m/m, sa
8/26/22	PCE Inflation m/m	Jul	**-0.1%**	0.0%	1.0%	sa
8/26/22	PCE Inflation y/y	Jul	**6.3%**	6.4%	6.8%	nsa
8/26/22	PCE Core Inflation (ex Food and Energy) m/m	Jul	**0.1%**	0.2%	0.6%	sa
8/26/22	PCE Core Inflation (ex Food and Energy) y/y	Jul	**4.6%**	4.7%	4.8%	nsa
8/26/22	U. of Mich. Sentiment	Aug F	**58.2**	55.5	55.1	index, nsa
8/26/22	U. of Mich. 1 Yr Inflation	Aug F	**4.8%**	5.0%	5.0%	nsa
8/26/22	U. of Mich. 5-10 Yr Inflation	Aug F	**2.9%**	3.0%	3.0%	nsa

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

FEWER NEW LISTINGS ARE SLOWING INVENTORY GROWTH AND REDUCING PRESSURE TO CUT PRICES

Realtor.com data through the week of August 20th showed inventory growth continued to slow. Active listings growth slowed to 26% y/y last week from the steady ~30% pace that was sustained through the month of July (Figure 3). New listings continued to slow as potential sellers increasingly sit on the sidelines in response to the sharp increase in rates and the weakened level of demand. The 30-year fixed-rate mortgage jumped nearly 50bps w/w last week to 5.55% (Freddie Mac), the highest level since June 30th. Most sellers are also buyers, so the combination of having to borrow at a much higher rate and incessant headlines about a "housing recession" is likely causing some pause. The slowdown in inventory growth is also alleviating some pressure to cut prices: annual growth in the number of listings with price reductions slowed for ninth consecutive week to 67% y/y after hitting 112% in mid-June (Figure 4).

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

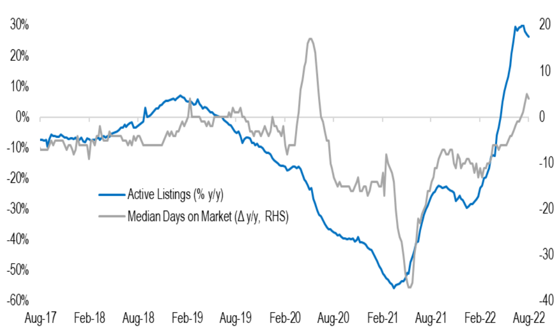
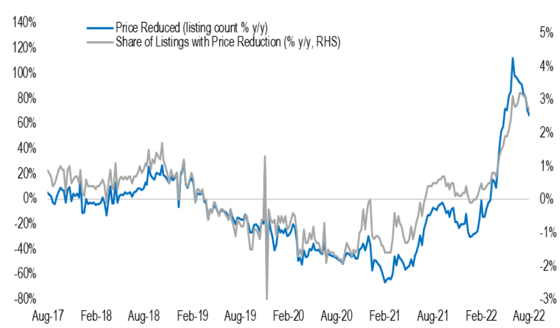


Figure 4: U.S. Active Listings with Price Reductions

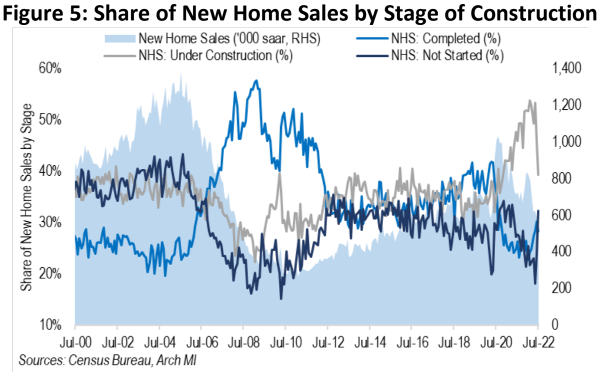


Source: Realtor.com, Arch MI

NEW HOME SALES SINK BUT MIND THE DETAILS

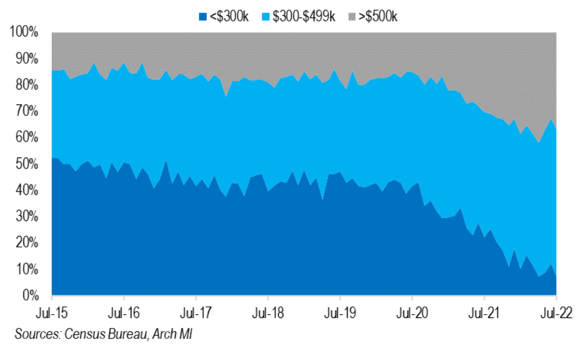
The U.S. Census Bureau's estimate of new home sales in July missed consensus expectations coming in at a 511k (cons. 575k) seasonally adjusted annualized pace, a 12.6% m/m decline, while the prior two months were also revised down by 17k (Figure 5). July new homes sales were down 51% from their August 2020 peak and reflect the slowest annualized pace of sales since 2015. It is important to note that the Census Bureau reports gross sales, not net, meaning that cancellations may not be entirely captured until the data is revised in subsequent months. That said, recent data from public builders and alternative data providers indicate that cancellation rates are leveling off alongside some stabilization of demand. Notably, new home sales for homes that have not started construction increased 18% m/m, suggesting that builders are increasingly looking to secure buyers prior to starting construction and building fewer speculative homes.

Figure 5: Share of New Home Sales by Stage of Construction



Sources: Census Bureau, Arch MI

Figure 6: Share of New Home Sales by Price Range



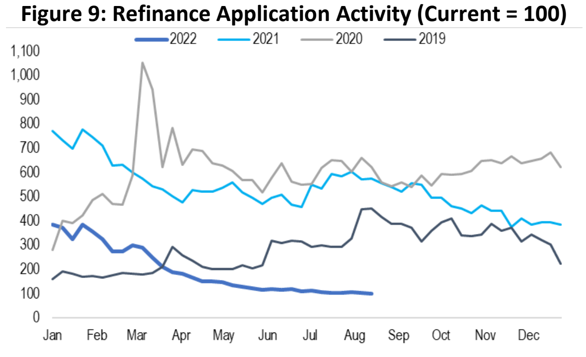
Sources: Census Bureau, Arch MI

The supply of new homes for sale rose 28% y/y to 464k in July, representing a 10.9 months' supply, up from 6.0 months one year ago. However, this figure is inflated by the number of homes under construction and not started given that the months' supply of completed homes remains low at 3.7 months (2019 monthly average was 3.5 months). While the inventory of completed homes is up 41% from year-ago levels, this represents just under 10% of total new home inventory compared to the share of homes for sale under construction (67%) and not yet started (23%). The seasonally adjusted median sales price, $440,683, increased 2.7% m/m, bringing the annual pace of price gains to 8.2%, a sharp slowdown from April (22%). Last month's increase in the median sales price was due in part to the decline in the share of homes priced under $300,000 to 7% in July from 12% in June, marking a record low Figure 6).

MORTGAGE APPLICATION ACTIVITY SLOWED FURTHER AS RATES JUMPED

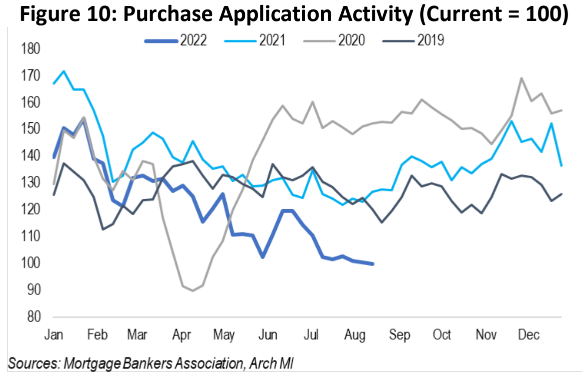
The MBA application survey for the week ending August 19th declined -1.2% w/w and the index is now down -63% year-over-year, and -56% compared with pre-pandemic levels (i.e. 3 years ago). The weekly decline was driven primarily by a -2.8% decline in refinancing applications, which remain down -83% y/y and -78% over 3 years (Figure 9). Purchase applications declined -0.5% w/w and remain down -21% y/y and -17% relative to 2019 levels (Figure 10).

Figure 9: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

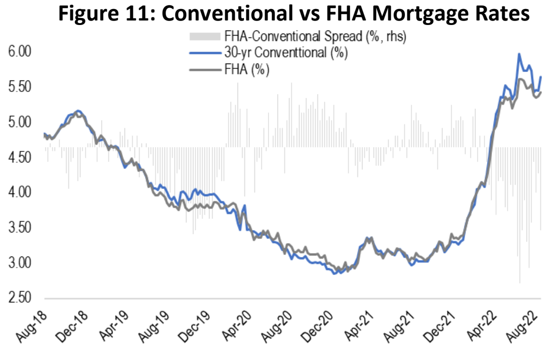
Figure 10: Purchase Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

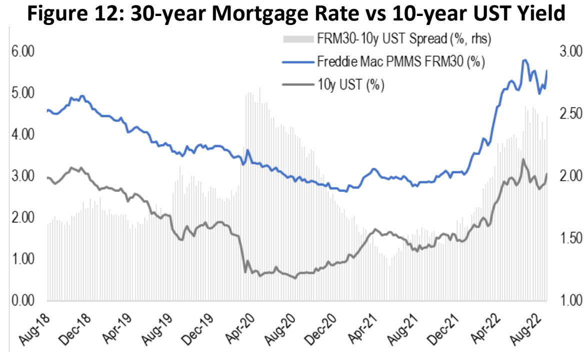
According to the MBA survey of lenders, the average contract conventional mortgage rate rose 20bps to 5.65% during the week ending August 19th while the FHA contract mortgage rate also rose 5bps to 5.43%, resulting in a -15bps contraction in the spread between the FHA and conventional mortgage rate to -0.22% (Figure 11). Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the 3 days ending August 24th indicated that the FRM30 jumped 42bps w/w to 5.55% (Figure 12) as 10-year UST yields jumped 23bps to an average of 3.06% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 19bps to 2.49%, about 79bps above its typical non-stressed level. 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 11: Conventional vs FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

Figure 12: 30-year Mortgage Rate vs 10-year UST Yield

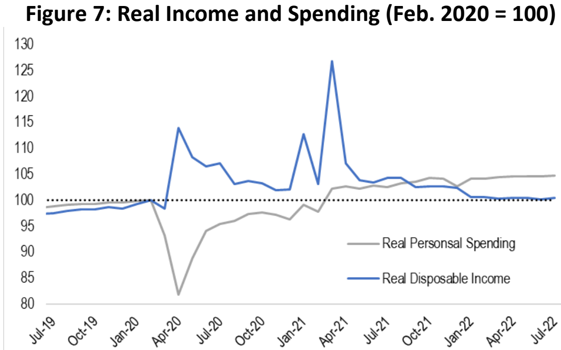


Sources: Freddie Mac PMMS, FRB, Arch MI

CONSUMER SPENDING KEEPS STEADY

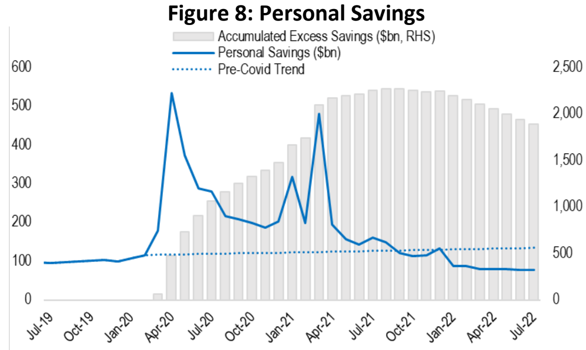
The July personal income and outlay report showed that consumers enjoyed a much-needed reprieve from elevated inflation. While headline income growth came in below analyst expectations at just 0.2% m/m (cons. 0.6%), this was due to weaker non-wage income growth: private wages saw a robust 0.9% m/m advance, or over 11% on an annualized basis. The drop in inflationary pressure also boosted real disposable income by 0.3% m/m, the largest monthly increase since July 2021, and supported real personal spending growth of 0.2% m/m. Prior to July, elevated inflation had generally offset strong income growth this year, causing overall real disposable income to be roughly unchanged since January (Figure 7). Over the same period, real spending has inched higher and pushed the savings rate down to 5% from 5.8%, implying that households have been spending down some of the savings accumulated during the pandemic.

Figure 7: Real Income and Spending (Feb. 2020 = 100)



Sources: BEA, Arch MI

Figure 8: Personal Savings



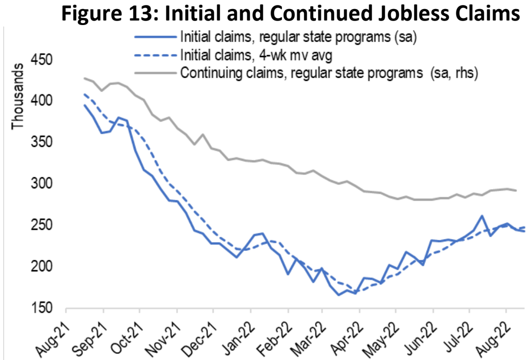
Sources: BEA, Arch MI

Looking at a proxy for accumulated savings, realized savings exceeded the pre-COVID trend by about $2.2trn from spring 2020 through summer 2021 (Figure 8). In recent months, the lower-than-normal savings rate implies a drawdown of roughly $355bn, or about 16% of the savings accumulated during the pandemic. Although the accumulated savings are not evenly distributed across households, the remaining stockpile should continue to provide a buffer for many households as inflation continues to take a bite out of budgets.

JOBLESS CLAIMS CONTINUE TO BEAT EXPECTATIONS

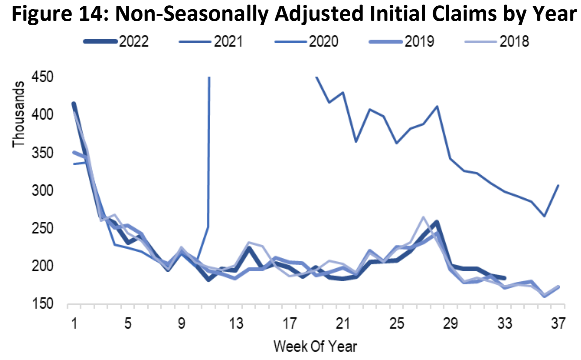
Initial jobless claims declined by -2k to 243k (consensus: 252k) during the week ending August 20th from 245k the previous week, moving the 4-week average up by only 1k to 247k (Figure 13). Although the seasonally adjusted measure of jobless claims has climbed nearly 80k since reaching a more than 50-year low in March, the non-seasonally adjusted claims data continues to track roughly in-line with the same weeks from recent pre-pandemic years (Figure 14). The discrepancy suggests that seasonal adjustment factors have been significantly distorted by the COVID era. Accordingly, we continue to view the labor market as extremely tight. Meanwhile, continuing claims for regular state programs (i.e. repeat filers for unemployment insurance) declined by 19k to 1,415k (consensus: 1,441k) during the week ending August 13th.

Figure 13: Initial and Continued Jobless Claims



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 will be bookended with critical updates on the housing and labor market. The June FHFA and S&P CoreLogic 20-city home price indexes are both expected to show home price growth continue slowing through the month of June, as confirmed by more real-time indicators from Redfin and Optimal Blue. Labor market updates for the week will kick off with the Job Openings and Labor Turnover Survey (JOLTS), which is expected to show a continued normalization of the level of job openings. ADP's national employment report is expected to show 300k jobs were added in August, consistent with the expectation for the August employment report from the BLS. The unemployment rate is expected to remain unchanged in August at 3.5% and wage growth is likely to have maintained its recent annual growth rate of 5.2% y/y.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
8/30/22	FHFA House Price Index m/m	Jun	--	0.8%	1.4%	sa
8/30/22	S&P CoreLogic CS 20-City m/m SA	Jun	--	0.9%	1.3%	sa
8/30/22	S&P CoreLogic CS 20-City y/y NSA	Jun	--	19.2%	20.5%	nsa
8/30/22	Conf. Board Consumer Confidence	Aug	--	97.7	95.7	index, sa
8/30/22	JOLTS Job Openings	Jul	--	10.5	10.7	m, sa
8/31/22	MBA Mortgage Applications	8/26/22	--	--	-1.2%	w/w, sa
8/31/22	ADP Employment	Aug	--	300	--	k, m/m, sa
9/1/22	Initial Jobless Claims	8/27/22	--	249	243	k, sa
9/1/22	Continuing Claims	8/20/22	--	1,450	1,415	k, sa
9/1/22	Nonfarm Productivity	2Q F	--	-4.5%	-4.6%	q/q, saar
9/1/22	Unit Labor Costs	2Q F	--	10.7%	10.8%	q/q, saar
9/1/22	S&P Global US Manufacturing PMI	Aug F	--	51.3	51.3	index, sa
9/1/22	ISM Manufacturing	Aug	--	52.0	52.8	index, sa
9/1/22	ISM Prices Paid	Aug	--	--	60.0	index, nsa
9/1/22	Wards Total Vehicle Sales	Aug	--	13.5	13.4	m, saar
9/2/22	Nonfarm Payrolls	Aug	--	300	528	k, m/m, sa
9/2/22	Private Payrolls	Aug	--	300	471	k, m/m, sa
9/2/22	Unemployment Rate	Aug	--	3.5%	3.5%	sa
9/2/22	Average Hourly Earnings m/m	Aug	--	0.4%	0.5%	sa
9/2/22	Average Hourly Earnings y/y	Aug	--	5.2%	5.2%	nsa
9/2/22	Average Weekly Hours All Employees	Aug	--	34.6	34.6	sa
9/2/22	Labor Force Participation Rate	Aug	--	62.2%	62.1%	sa

Sources: Bloomberg Consensus Survey of Economists, Arch MI

