HaMMR Digest

Stay current with economic and mortgage market trends.

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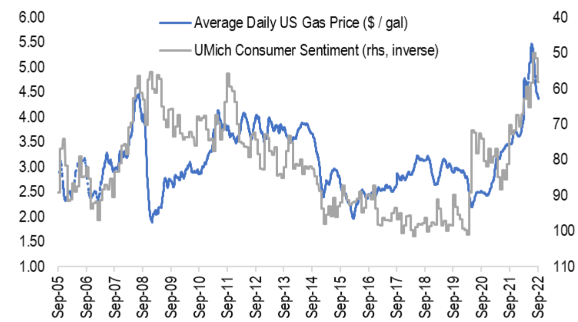
Weekly Wrap – Green Lights

- Job growth slowed but remains strong while the labor force expanded, lifting the unemployment rate to 3.7%
- The unemployment rate is likely to remain near the mid-3% range in 2022, before normalizing further in 2023
- Mortgage rates surged to a multi-decade high, which will keep pressure on the housing slowdown

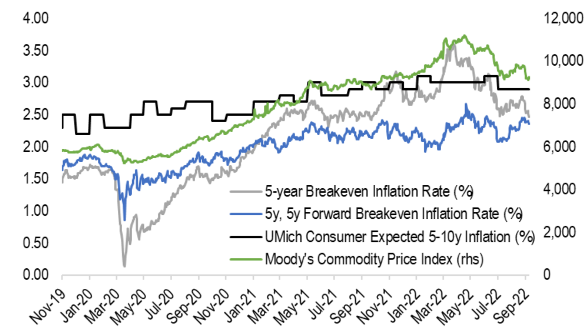
Back from a brief Labor Day break, we see the Federal Reserve on a road with nothing but green lights to keep raising rates. Consumer confidence has taken a leg up alongside the sustained fall in prices at the gas pump (Figure 1), providing some noticeable breathing room for discretionary spending. Jobless claims keep inching lower while job switchers are earning the largest pay increases in decades. Despite cooling headline inflation and inflation expectations (Figure 2), core inflation remains strong, which we expect to be confirmed by this week's CPI release – the last before next weeks' Fed policy meeting. The housing market is in the midst of a reset, but that is a natural byproduct of a hiking cycle, not a bug, and necessary to allow fundamentals to catch up to strong home prices gains.

Figure 1: Gas Prices vs. Consumer Confidence



Sources: Bloomberg, University of Michigan, Arch MI

Figure 2: Inflation Monitor



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

Financial conditions (i.e. U.S. Treasury yields, exchange rates, equity valuations and credit spreads) which have tightened considerably since the beginning of the year have eased recently despite higher interest rates across the curve – not what the Fed wants to see. Tighter financial conditions are the main transmission mechanism to cool overall demand in the economy. Looser financial conditions, on top of resilient economic data and market expectations for higher rates, provide more than enough cover for the Fed to keep hiking aggressively. We expect the fed funds rate to hit 4.00% by early next year and to hold there for some time while the Fed assesses the impact to the economy.

The latest jobs report indicates that the labor market supply and demand imbalance is narrowing. Nonfarm payroll employment increased 315k in August (cons. 298k), bringing the three-month moving average down to 378k from 539k in 1Q22. Average hourly earnings rose 0.3% m/m (cons. 0.4%) while average weekly hours ticked down close to its pre-pandemic level. The unemployment rate unexpectedly rose 20bps to 3.7% (cons. 3.5%), but this was driven by a healthy recovery in the labor force participation rate to 62.4% from 62.1% in July. Participation increased the most in August for prime age (i.e. 25 to 54-year-old) workers, primarily for prime age women, who have now surpassed their pre-pandemic level of labor force participation. Participation remains below pre-pandemic levels for men aged 25 and older and even more so for women aged 55 and older. Lower jobless claims, a rebound in job openings, and a high quits rate suggest the unemployment rate is unlikely to rise rapidly from here.

The other big data releases we missed during our hiatus related to home prices. The 20-city S&P/Case-Shiller home price index advanced 0.4% m/m (cons. 0.9%) in June, the smallest monthly advance since June 2020 while the FHFA Purchase Only index missed consensus expectations by 70bps coming in at 0.1% (m/m). Both these home price measures are lagged and reflect the housing market from a few months ago. The 30-year fixed rate mortgage has climbed to 5.89% (Freddie Mac) and the highest since 2008. More high-frequency measures of housing activity suggest that both buyers and sellers are increasingly moving to the sidelines, which should cool price growth even further in coming months.

RECENT DATA RELEASES

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
8/30/22	FHFA House Price Index m/m	Jun	0.1%	0.8%	1.3%	sa
8/30/22	S&P CoreLogic CS 20-City m/m SA	Jun	0.4%	0.9%	1.2%	sa
8/30/22	S&P CoreLogic CS 20-City y/y NSA	Jun	18.7%	19.2%	20.5%	nsa
8/30/22	Conf. Board Consumer Confidence	Aug	103.2	98.0	95.3	index, sa
8/30/22	JOLTS Job Openings	Jul	11.2	10.4	11.0	m, sa
9/7/22	MBA Mortgage Applications	9/2/22	-0.8%	--	-3.7%	w/w, sa
8/31/22	ADP Employment	Aug	132	300	268.0	k, m/m, sa
9/8/22	Initial Jobless Claims	9/3/22	222	235	228	k, sa
9/8/22	Continuing Claims	8/27/22	1,473	1,438	1,437	k, sa
9/1/22	Nonfarm Productivity	2Q F	-4.1%	-4.3%	-4.6%	q/q, saar
9/1/22	Unit Labor Costs	2Q F	10.2%	10.5%	10.8%	q/q, saar
9/1/22	S&P Global US Manufacturing PMI	Aug F	51.5	51.3	51.3	index, sa
9/1/22	ISM Manufacturing	Aug	52.8	51.9	52.8	index, sa
9/1/22	ISM Prices Paid	Aug	52.5	55.3	60.0	index, nsa
9/1/22	Wards Total Vehicle Sales	Aug	13.2	13.3	13.4	m, saar
9/2/22	Nonfarm Payrolls	Aug	315	298	526	k, m/m, sa
9/2/22	Private Payrolls	Aug	308	300	477	k, m/m, sa
9/2/22	Unemployment Rate	Aug	3.7%	3.5%	3.5%	sa
9/2/22	Average Hourly Earnings m/m	Aug	0.3%	0.4%	0.5%	sa
9/2/22	Average Hourly Earnings y/y	Aug	5.2%	5.3%	5.2%	nsa
9/2/22	Average Weekly Hours All Employees	Aug	34.5	34.6	34.6	sa
9/2/22	Labor Force Participation Rate	Aug	62.4%	62.2%	62.1%	sa
9/6/22	S&P Global US Services PMI	Aug F	43.7	44.2	44.1	index, sa
9/6/22	S&P Global US Composite PMI	Aug F	44.6	45.0	45.0	index, sa
9/6/22	ISM Services Index	Aug	56.9	55.3	56.7	index, nsa
9/8/22	Consumer Credit	Jul	23.8	32.0	39.1	$B, m/m, sa
9/9/22	Wholesale Inventories m/m	Jul F	0.6%	0.8%	0.8%	sa

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

SPRING / SUMMER SELLING SEASON ENDS WITH A MURMER

The Labor Day holiday tends to mark an end of the Spring / Summer selling season with most families settling in for the start of the school year. Active listings growth has plateaued below the peak annual pace hit in July according to data from Realtor.com through the week of September 3rd (Figure 3). Soaring mortgage rates will keep more sellers and buyers on the sidelines with motivated sellers likely needing to increase concessions to coax a sale. With the bulk of the year’s selling activity behind us, total inventory levels remain 7% and 43% below their respective 2020 and 2019 levels as of the end of August, suggesting the Spring 2023 selling season will likely begin with fewer listings than the pre-pandemic norm. Annual growth in the number of listings with price reductions (73% y/y) remains below its June peak (112%) while the growth in the share of listings with price reductions has also seemingly leveled off (Figure 4).

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

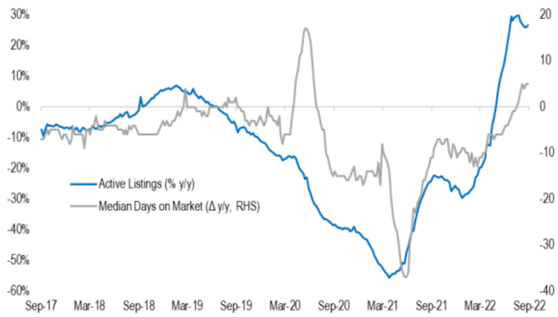


Figure 4: U.S. Active Listings with Price Reductions

Source: Realtor.com, Arch MI

Redfin data through the week ending September 4th also reflects a lull in housing activity. Annual growth in active listings slowed further to 3% y/y from the cycle peak of 7% in beginning of July as new listings growth has slowed even more, down -18% y/y from 2% growth in May. Overall, new listings are 6% below their 2019 pace and 19% below their 2020 pace. Another indication of how quickly sellers are leaving the market is the share of active listings that are delisted, or removed from the market. At the end of the selling season, the share of delisted homes typically rises gradually from an average of just over 1% around Labor Day to about 1.5% by the end of the year. However, the current delisting trend has been rising much more quickly than prior cycles with the share currently at 2.9% or nearly triple the typical level for this time of year.

Given the broad cool down, the national average sale-to-list ratio finally fell below 100% (99.7% unrounded), although it remains above the roughly 98% average for this time on year prior to the pandemic. Growth in the national median sale price ($ / sf) has slowed to 9% y/y from 18% a year ago (Figure 5). 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.

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%	18%	7%	3%	35%	-14%	100%	-2%	3%	-16	-19	-29%	-47%
Atlanta	16%	24%	8%	4%	34%	-17%	99%	-2%	16%	-8	-16	-23%	-53%
Austin	9%	40%	12%	7%	26%	-34%	99%	-5%	59%	11	0	57%	-43%
Baltimore	6%	12%	7%	1%	44%	-2%	101%	0%	-23%	-16	-12	-50%	-48%
Boston	4%	15%	5%	1%	55%	-6%	102%	-1%	-12%	-5	5	-33%	-32%
Chicago	5%	11%	4%	0%	36%	-4%	99%	0%	15%	16	-19	-21%	-45%
Dallas	16%	24%	10%	5%	36%	-23%	100%	-3%	27%	-18	-18	-29%	-54%
Denver	9%	22%	13%	9%	28%	-31%	99%	-3%	36%	-6	-8	-14%	-49%
Houston	15%	18%	9%	3%	26%	-12%	99%	-1%	16%	-21	-20	-23%	-50%
Los Angeles	5%	17%	6%	3%	45%	-18%	100%	-3%	-6%	-9	-7	-10%	-36%
Miami	17%	24%	4%	1%	21%	0%	97%	0%	-16%	-18	-5	-35%	-48%
Minneapolis	5%	12%	7%	2%	46%	-14%	101%	-2%	0%	-4	-10	-22%	-43%
Nashville	18%	23%	7%	4%	25%	-23%	99%	-3%	57%	-20	-24	-11%	-59%
New York	4%	24%	4%	1%	33%	4%	100%	0%	-13%	-40	-25	-37%	-42%
Phoenix	13%	30%	13%	8%	17%	-35%	98%	-3%	53%	-1	-16	63%	-43%
Portland	8%	17%	9%	3%	35%	-26%	100%	-3%	25%	-9	-14	-19%	-56%
Riverside	12%	26%	8%	4%	40%	-26%	100%	-3%	19%	-17	-24	-13%	-53%
San Diego	9%	23%	9%	4%	35%	-23%	99%	-3%	9%	-3	-14	-21%	-60%
Seattle	4%	23%	9%	4%	25%	-35%	99%	-6%	47%	-2	-6	-5%	-62%
Tampa	22%	22%	12%	5%	24%	-18%	98%	-2%	53%	-15	-26	-17%	-59%
Washington	6%	11%	6%	1%	34%	-13%	100%	-1%	-19%	0	3	-17%	-34%

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

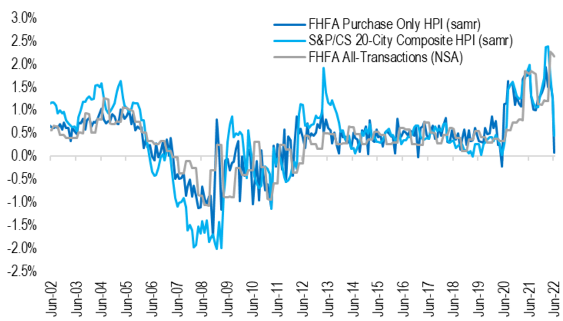
Of the major metros we track, annual home price growth was weakest in **Seattle** (4%) followed by **New York** (4%) and **Boston** (4%) while home price growth has slowed most rapidly compared with a year ago in **Austin** (-31%-pts) and **New York** (-20%-pts). Local housing markets have responded quickly to deteriorating transaction activity as the median days on market have extended, with some markets exceeding pre-pandemic timelines including **Austin** (11 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 60% above pre-pandemic levels from about -40% one year ago. Notably, months' supply has improved from the week prior for the first time in months for both of these formerly hot metros, although this could be an anomaly related to the holiday.

LAGGED HOME PRICE INDICES FINALLY SEE PRICE GROWTH SLOW

The FHFA Purchase Only House Price Index climbed a seasonally adjusted 0.1% m/m in June (Figure 6), 70bps shy of consensus expectations. Annual appreciation slowed to 16.2% in June from 18.3% in May and 18.9% in April. From a regional perspective, there was widespread slowing led by the Pacific and Mountain regions as well as parts of the South as price momentum has clearly come off the boil. The S&P/Case-Shiller 20-City Composite Home Price Index rose 0.4% in June, 50bps below consensus expectations and 80bps slower than May's monthly advance of 1.2%. The year-over-year growth in the Case-Shiller index also decelerated 1.8%-pts to 18.7% in June from 20.5% in May (Figure 7).

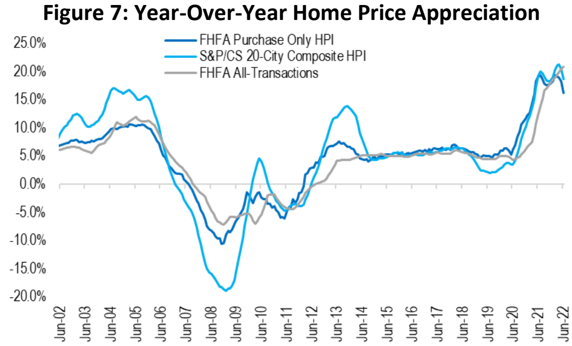
One hiccup to the broad slowdown in home price growth came from the FHFA All-Transactions (AT) home price index that rose a strong 6.8% q/q, or 30.1% annualized, the strongest quarterly increase in the history of the index. The FHFA AT index on a year-over-year basis accelerated for the fourth straight quarter to a 20.9% rate, also a new record high. Of all the measures of home prices we track, the FHFA AT stands out as the only index gaining strength in 2Q, but it is important to note the index has historically lagged turning points in the housing cycle (see grey line in Figure 7).

Figure 6: Month-Over-Month Home Price Appreciation



Sources: S&P, FHFA, Arch MI

Figure 7: Year-Over-Year Home Price Appreciation

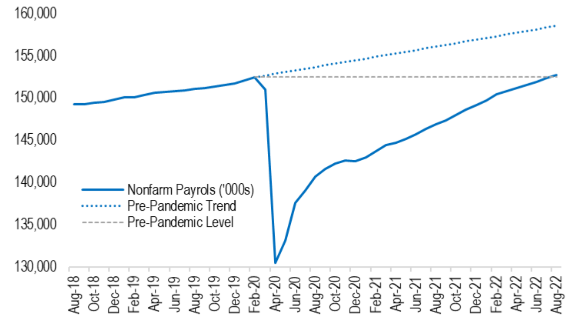


Sources: S&P, FHFA, Arch MI

PAYROLLS TAKE A STEP BACK AND UNEMPLOYMENT A STEP UP

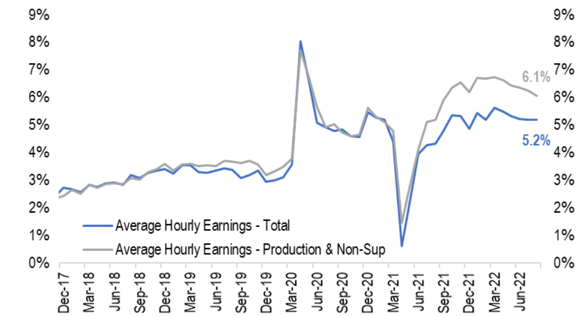
With a gain of 315k jobs in August, the U.S. continues to build on the February 2020 level of payrolls and make solid progress back toward the pre-pandemic trend. However, it is highly unlikely that the pre-pandemic trend will be reached this cycle given the more than 5 million job shortfall that still exists (Figure 8). The breadth of gains across industries narrowed somewhat from prior months with gains led by education and health services (68k), professional and business services (68k), and retail trade (44k). Goods-producing job gains advanced by 45k m/m, with a decent monthly advance of 16k for the construction sector. July's Jobs Openings and Labor Turnover Survey (JOLTS) saw total job openings rise 199k m/m to 11.2m (cons. 10.4m), which even if you exclude total government to account for the rise in IRS staffing, job openings would have still beaten consensus expectations. Average hourly earnings rose 0.3% (cons. 0.4%) in August with the non-manager segment rising a bit faster at 0.4% m/m, the slowest monthly pace for both figures in six months. On an annual basis, earnings growth increased 5.2% with non-manager wages up by a more robust 6.1 (Figure 9).

Figure 8: Nonfarm Payrolls vs Pre-Pandemic Trend & Level



Sources: Bureau of Labor Statistics, Arch MI

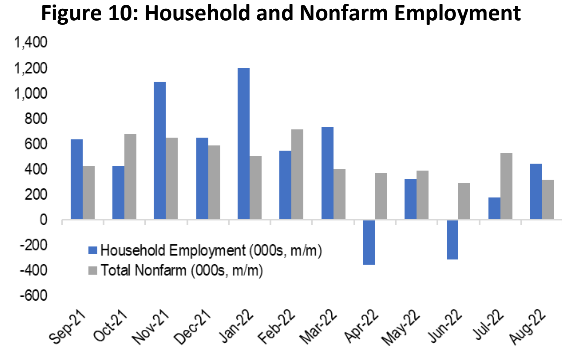
Figure 9: Average Hourly Earnings Growth (% y/y)



Sources: Bureau of Labor Statistics, Arch MI

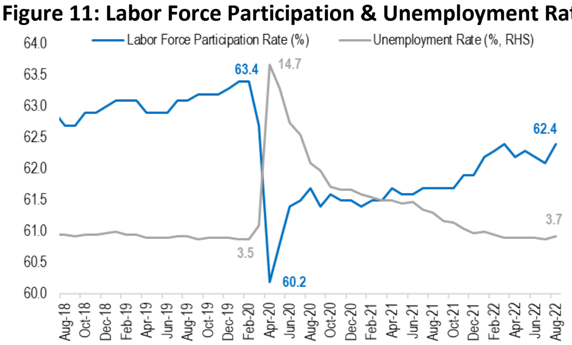
The household survey reversed the script from the prior few months and posted stronger growth than the establishment payrolls survey with an employment gain of 442k (Figure 10). Meanwhile, the labor force participation rate surged 30bps, more than offsetting the decline in July, standing at 62.4% (cons. 62.2%), and helping to increase the unemployment rate 20bps to 3.7% (Figure 11). The increase in participation was concentrated in the prime age group (i.e. 25 to 54-year-olds) that saw a healthy 40bps m/m uptick only to be outdone by a whopping 190bps m/m advance in the teenage age group (i.e. 16-19). The prime age participation rate is now 20bps shy of its pre-pandemic level (83%).

Figure 10: Household and Nonfarm Employment



Sources: Bureau of Labor Statistics, ArchMI

Figure 11: Labor Force Participation & Unemployment Rates

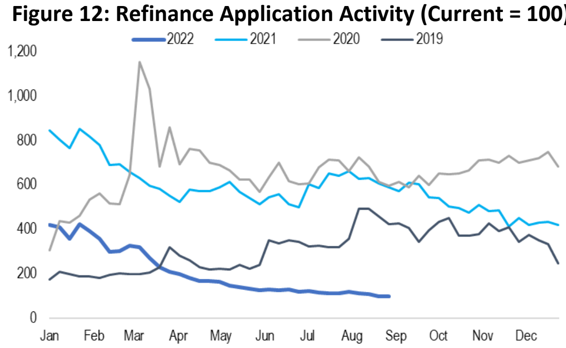


Sources: Bureau of Labor Statistics, Arch MI

MORTGAGE APPLICATION ACTIVITY CONTINUED TO SLOW ON HIGHER RATES

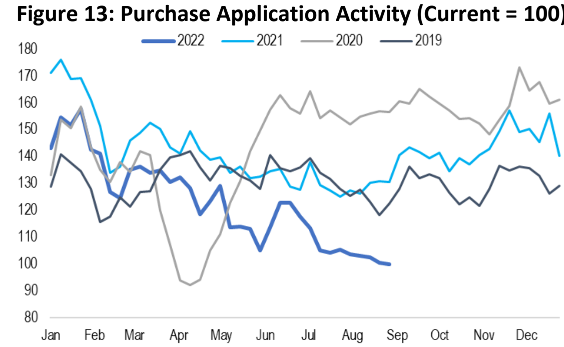
The MBA application survey for the week ending September 2nd declined -0.8% w/w and the index is now down -63% year-over-year, and down -54% compared with pre-pandemic levels (i.e. 3 years ago). The weekly decline was driven primarily by a -1.1% decline in refinancing applications, which remain down -83% y/y and down -76% over 3 years (Figure 12). Purchase applications declined -0.7% w/w and are down -23% y/y and -18% relative to 2019 (Figure 13).

Figure 12: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

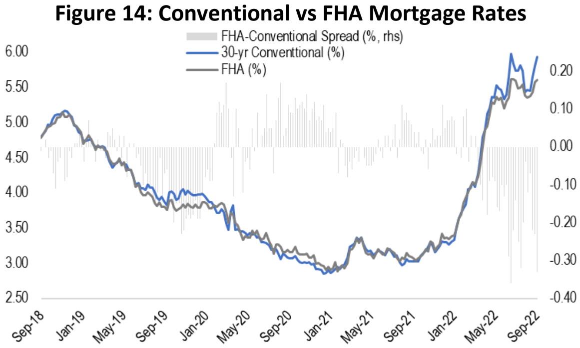
Figure 13: Purchase Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

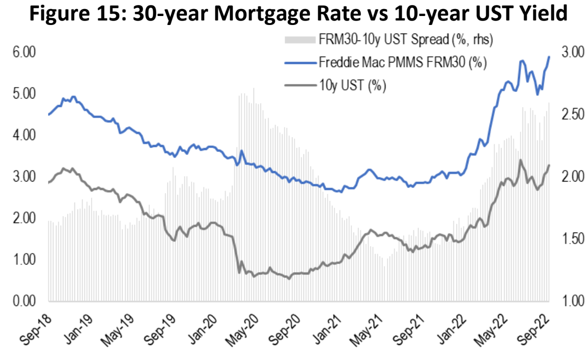
According to the MBA survey of lenders, the average contract conventional mortgage rate rose 14bps to 5.94% during the week ending September 2nd while the FHA contract mortgage rate also rose 4bps to 5.61%, resulting in a -10bps contraction in the spread between the FHA and conventional mortgage rate to -0.33% (Figure 14). Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the 3 days ending September 7th indicated that the FRM30 jumped 23bps w/w to 5.89% (Figure 15) as 10-year UST yields jumped 16bps to an average of 3.29% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 7bps to 2.60%, a new cycle peak and about 90bps above its typical non-stressed level. Although 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, increased regulatory constraints for the banking sector and elevated prepayment risk for new originations may result in a wider spread than prevailed prior to the pandemic.

Figure 14: Conventional vs FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

Figure 15: 30-year Mortgage Rate vs 10-year UST Yield

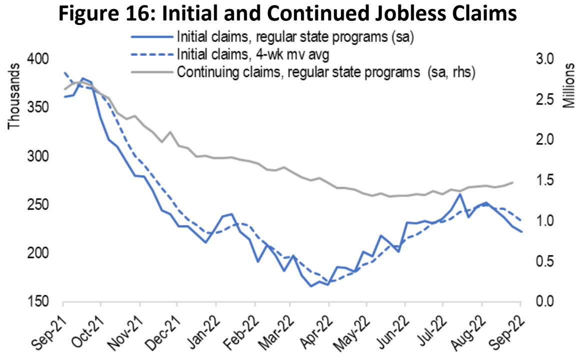


Sources: Freddie Mac PMMS, FRB, Arch MI

JOBLESS CLAIMS CONTINUE TO BEAT EXPECTATIONS

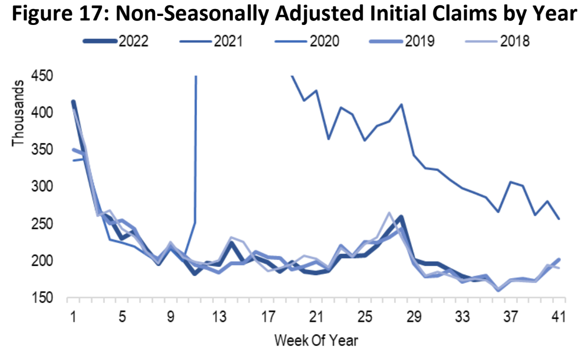
Initial jobless claims declined by -6k to 222k (consensus: 235k) during the week ending September 3rd from 228k the previous week, moving the 4-week average down to 233k from 241k (Figure 16). The recent downtrend in the seasonally adjusted series is unsurprising considering the how well the non-seasonally adjusted claims data has been tracking with pre-pandemic trends (Figure 17). Accordingly, we maintain our view that the labor market remains extremely tight and do not see any early warnings consistent with a recessionary slowdown in the jobless claims data. Meanwhile, continuing claims for regular state programs (i.e. repeat filers for unemployment insurance) climbed by 36k to 1,473k (consensus: 1,438k) during the week ending August 27th.

Figure 16: Initial and Continued Jobless Claims



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

Figure 17: Non-Seasonally Adjusted Initial Claims by Year



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

The Week Ahead

In the week ahead, we get the last CPI inflation print before the Fed's policy setting meeting on September 21st. Headline CPI will likely come in flat or a post a slight decline month-over-month as energy prices have continued to trend lower. We also will get a broader view on price pressures in the economy via the producer price index, import prices, and the all-important consumer inflation expectations via the University of Michigan's preliminary release for September. Economic sentiment will also be released for consumers and small businesses, providing insight on how influential lower energy prices have been and whether higher rates have curtailed business activity. On the latter front, industrial production will likely confirm softness seen in national and regional PMIs while nominal retail sales are likely to decline amid lower gasoline prices while overall real retail sales still point to a resilient consumer.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
9/13/22	NFIB Small Business Optimism	Aug	--	90.5	89.9	index, sa
9/13/22	CPI m/m	Aug	--	-0.1%	0.0%	sa
9/13/22	CPI Core (ex Food and Energy) m/m	Aug	--	0.3%	0.3%	sa
9/13/22	CPI y/y	Aug	--	8.0%	8.5%	nsa
9/13/22	CPI Core (ex Food and Energy) y/y	Aug	--	6.1%	5.9%	nsa
9/14/22	MBA Mortgage Applications	9/9/22	--	--	-0.8%	w/w, sa
9/14/22	PPI Core (ex Food and Energy) y/y	Aug	--	7.1%	7.6%	nsa
9/14/22	PPI Final Demand m/m	Aug	--	-0.1%	-0.5%	sa
9/14/22	PPI Core (ex Food and Energy) m/m	Aug	--	0.3%	0.2%	sa
9/14/22	PPI Final Demand y/y	Aug	--	8.8%	9.8%	nsa
9/15/22	Initial Jobless Claims	9/10/22	--	227	222	k, sa
9/15/22	Continuing Claims	9/3/22	--	1,477	1,473	k, sa
9/15/22	Advance Retail Sales m/m	Aug	--	0.0%	0.0%	sa
9/15/22	Retail Sales Control Group m/m	Aug	--	0.5%	0.8%	sa
9/15/22	Philadelphia Fed Business Outlook	Sep	--	3.0	6.2	index, sa
9/15/22	Import Price Index y/y	Aug	--	7.7%	8.8%	nsa
9/15/22	Industrial Production m/m	Aug	--	0.1%	0.6%	sa
9/15/22	Capacity Utilization	Aug	--	80.3%	80.3%	sa
9/15/22	Business Inventories m/m	Jul	--	0.6%	1.4%	sa
9/16/22	U. of Mich. Sentiment	Sep P	--	60.0	58.2	index, nsa
9/16/22	U. of Mich. 1 Yr Inflation	Sep P	--	4.6%	4.8%	nsa
9/16/22	U. of Mich. 5-10 Yr Inflation	Sep P	--	2.9%	2.9%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI