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HaMMR Digest

Stay current with economic and mortgage market trends.

September 18, 2023

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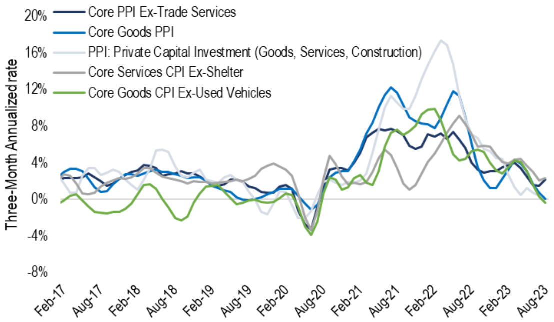
Weekly Wrap — Potential Tempest Ahead

- Energy prices jolted inflation higher in August, but underlying price pressures maintained a disinflationary trend.
- Real retail sales cooled slightly from July while industrial production showed broad-based strength in August.
- Despite solid economic momentum, several risks may converge to create growth headwinds in the months ahead.

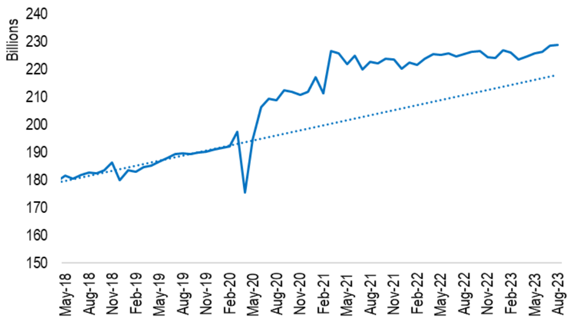
Last week was heavy with inflation data, with plenty of implications for the outlook. Headline inflation prints got whipsawed by rebounding energy prices, but the underlying trend of disinflationary pressures remained with minimal evidence that a reacceleration is around the corner. Headline consumer inflation jumped 0.6% m/m (cons. 0.6%) in August, a monthly pace not seen since last June, with energy accounting for ~40bps of the acceleration. Core consumer inflation (ex-food and energy) rose 0.3% (cons. 0.2%) with the annual pace easing to 4.3% from 4.7% last month. The upside surprise was due to a rebound in transport services such as airlines, public transport and vehicle insurance, while core goods prices contracted for the third straight month. Similarly, headline producer inflation increased by an outsized 0.7% m/m (cons. 0.4%) in August due to energy, with core measures rising by less than half that pace. Overall, price pressures still look well contained (Figure 1), but the spike in energy costs could spill over into other categories if the rise in oil prices is sustained.

Figure 1: Underlying Consumer and Producer Inflation



Sources: BLS, Arch MI

Figure 2: Real Control Group Retail Sales



Sources: Census Bureau, Arch MI

Retail sales rose well above of consensus expectations in August, up 0.6% m/m (cons. 0.1%) with notable support from gasoline sales on the heels of the uptick in prices. The control group (ex-food, autos, gas and building materials) rose 0.1% m/m (cons. -0.1%) but the prior two months were both revised down by -25bps. Even so, 3Q consumer spending is tracking robust growth with real control group sales up 5.1% annualized over the three months ending in August (Figure 2). Preliminary September results for the University of Michigan Consumer Sentiment index eased -1.8pts to 67.7 (cons. 69.0) from August with comments around the economic outlook slightly less positive. Medium-term inflation expectations (2.7% vs cons. 3.0%) were downgraded despite rising prices at the pump and will likely be revised upward in the final release.

Industrial production came in strong for August with notable breadth as headline output rose 0.4% m/m in August (cons. 0.1%) alongside capacity utilization hitting a four-month high at 79.7% (cons. 79.3%). Manufacturing rose 0.1% m/m and despite a -5% decline in autos production for the month, highlighting strength in other durable goods output such as materials, machinery and business equipment. Even the survey data from the New York Fed region was strong with improving outlooks on new orders and capital expenditure. On a weaker note, the August NFIB Small Business Optimism index turned lower (91.3 vs. cons. 91.5), led by dwindling prospects for the outlook. NFIB perceptions of labor constraints and tight credit conditions have eased, however, with capex intentions still elevated compared to three months ago.

On top of the tightest monetary policy in decades, economic activity will be presented with a potential convergence of risks in the months ahead, including student loan payments restarting, labor strikes, a likely government shutdown, elevated energy prices and interest rates, as well as a potentially large wave of COVID-19 infections from the latest dominant variant (Eris). While each in isolation isn't overly concerning, the potential synchronization of shocks bears watching. The duration of the shocks will be critical to monitor, particularly the labor strikes and government shutdown, alongside any further rise for oil prices and interest rates that would weigh heavily on real activity.

Recent Data Releases

Key economic and housing data releases over the prior week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
9/12/23	NFIB Small Business Optimism	Aug	91.3	91.5	91.9	index, sa
9/13/23	MBA Mortgage Applications	9/8/23	-0.8%	--	-2.9%	w/w, sa
9/13/23	CPI m/m	Aug	0.6%	0.6%	0.2%	sa
9/13/23	CPI Core (ex Food and Energy) m/m	Aug	0.3%	0.2%	0.2%	sa
9/13/23	CPI y/y	Aug	3.7%	3.6%	3.2%	nsa
9/13/23	CPI Core (ex Food and Energy) y/y	Aug	4.3%	4.3%	4.7%	nsa
9/14/23	Advance Retail Sales m/m	Aug	0.6%	0.1%	0.5%	sa
9/14/23	Retail Sales Control Group m/m	Aug	0.1%	-0.1%	0.7%	sa
9/14/23	Initial Jobless Claims	9/9/23	220	225	217	k, sa
9/14/23	Continuing Claims	9/2/23	1,688	1,690	1,684	k, sa
9/14/23	PPI Final Demand m/m	Aug	0.7%	0.4%	0.4%	sa
9/14/23	PPI Core (ex Food and Energy) m/m	Aug	0.2%	0.2%	0.4%	sa
9/14/23	PPI Final Demand y/y	Aug	1.6%	1.3%	0.8%	nsa
9/14/23	PPI Core (ex Food and Energy) y/y	Aug	2.2%	2.2%	2.4%	nsa
9/14/23	Business Inventories m/m	Jul	0.0%	0.1%	-0.1%	sa
9/15/23	Import Price Index y/y	Aug	-3.0%	-2.9%	-4.6%	nsa
9/15/23	Empire Manufacturing	Sep	1.9	-10.0	-19.0	index, sa
9/15/23	Industrial Production m/m	Aug	0.4%	0.1%	0.7%	sa
9/15/23	Capacity Utilization	Aug	79.7%	79.3%	79.5%	sa
9/15/23	U. of Mich. Sentiment	Sep P	67.7	69.0	69.5	index, nsa
9/15/23	U. of Mich. 1 Yr Inflation	Sep P	3.1%	3.5%	3.5%	nsa
9/15/23	U. of Mich. 5-10 Yr Inflation	Sep P	2.7%	3.0%	3.0%	nsa

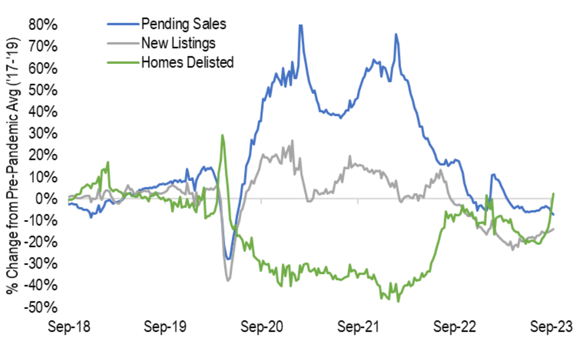
Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics

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

HOUSING MARKET CONTINUED TO COOL BUT PRICE GROWTH STEADY FOR NOW

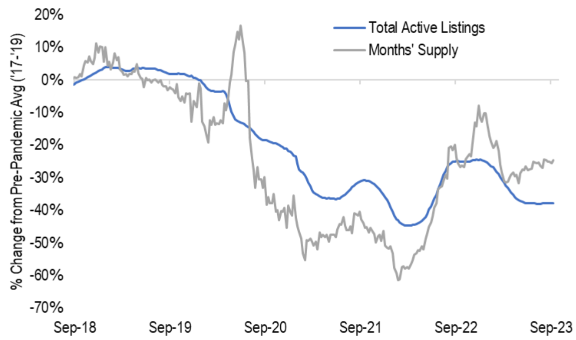
The pace of pending home sales cooled further to -7% below the pre-pandemic average (i.e., 2017–2019) for the four weeks ending Sep. 10, down slightly from -6% below last week and -4% four weeks ago (Figure 3). Higher mortgage rates have also weighed on potential sellers, but new listings have started to climb to -14% below the pre-pandemic average from -16% four weeks ago and a recent low of -22% below back in April. Meanwhile, the number of delisted homes rose sharply to 2% above the pre-pandemic average for this time of year from -16% four weeks ago.

Figure 3: U.S. Existing Home Sales Market Dynamics



Source: Redfin, Arch MI

Figure 4: U.S. Active Listings and Months' Supply



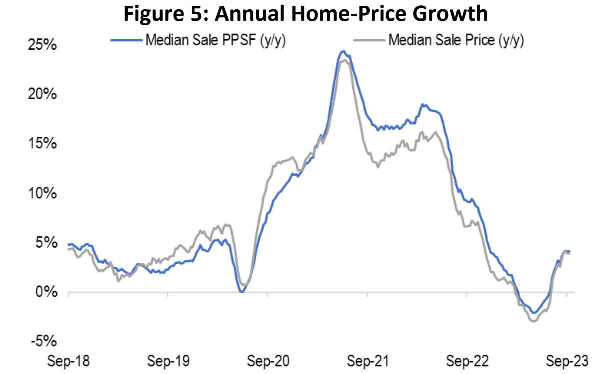
Source: Redfin, Arch MI

The pickup in delisted homes helped offset some of the increase in new listings and cooling pace of sales, keeping the number of active listings relatively unchanged at -38% below the pre-pandemic average and well below last year's peak of -25% (Figure 3). Despite total homes sold being down -17% y/y and -18% below the pre-pandemic average, the national market remained tight given months' supply is 2.8 months, -25% below the pre-pandemic average for this time of year.

The current months' supply is a modest decrease from the 2.8 months recorded for the same week in 2022 when the market was cooling rapidly from incredibly tight conditions.

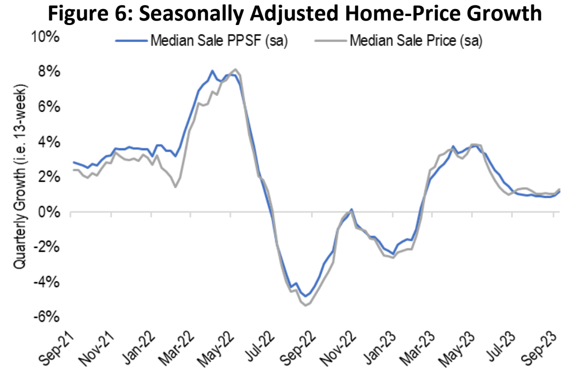
Given the relative stability of market conditions, annual growth in the national median sale price per square foot (ppsf) held steady at 4.1% y/y, up slightly from 3.6% four weeks ago. Seasonally adjusted (sa) home-price growth has stabilized in the ~5% annualized growth range since late June, roughly in line with the typical pre-COVID-19 pace of growth. However, there have been hints of a slight acceleration over the last couple of weeks: The quarterly (i.e., 13-week) change in the seasonally adjusted ppsf was up 1.2%, or 4.8% annualized, up from 1% the previous week.

Figure 5: Annual Home-Price Growth



Source: Redfin, Arch MI

Figure 6: Seasonally Adjusted Home-Price Growth



Source: Redfin, Arch MI

Of the major metros we track (Figure 7), annual home-price growth was weakest in Austin (-9%), Phoenix (-4%), Riverside (-1%), Dallas (-1%) and Portland (0%). Home-price growth slowed most rapidly compared with a year ago in Tampa (-21%-pts), Austin (-17%-pts), Dallas (-16%-pts), Phoenix (-16%-pts) and Nashville (-15%-pts). Conversely, annual home-price growth was strongest in Miami (14%), San Diego (11%) and Chicago (9%).

Figure 7: Weekly Housing Monitor (as of Sept. 10, 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	**4%**	**9%**	**6%**	**0%**	**33%**	**-1%**	**100%**	**0%**	**-17%**	**-15**	**-14**	**-25%**	**-25%**
Atlanta	3%	16%	7%	0%	30%	-3%	99%	0%	-35%	-7	-10	-33%	-17%
Austin	-9%	8%	9%	-2%	13%	-11%	98%	-1%	-6%	27	15	56%	49%
Baltimore	6%	6%	6%	0%	47%	5%	102%	1%	-24%	-13	-10	-43%	-43%
Boston	7%	4%	4%	0%	59%	4%	103%	1%	-26%	2	3	-22%	-18%
Chicago	9%	5%	3%	0%	43%	8%	100%	1%	-29%	15	20	-24%	-9%
Dallas	-1%	16%	8%	0%	22%	-11%	98%	-1%	-10%	-4	-10	-11%	-11%
Denver	2%	8%	10%	-2%	30%	4%	99%	0%	-12%	0	1	9%	1%
Houston	1%	15%	7%	0%	19%	-5%	98%	0%	-6%	-11	-17	-33%	-34%
Los Angeles	3%	5%	4%	-1%	53%	9%	101%	1%	-30%	-7	-2	-12%	9%
Miami	14%	14%	3%	0%	18%	-3%	97%	-1%	-17%	-8	-14	-39%	-39%
Minneapolis	4%	5%	7%	1%	46%	2%	101%	0%	-12%	-6	-5	-17%	-19%
Nashville	1%	16%	6%	0%	18%	-5%	98%	0%	0%	-3	-13	4%	-9%
New York	7%	4%	4%	0%	34%	3%	100%	1%	-20%	-33	-36	-27%	-29%
Phoenix	-4%	12%	7%	-4%	21%	5%	99%	1%	-40%	0	0	-2%	56%
Portland	0%	7%	8%	-1%	34%	2%	100%	0%	-13%	-3	-2	2%	-12%
Riverside	-1%	12%	5%	-1%	42%	3%	100%	1%	-32%	-17	-12	-19%	-1%
San Diego	11%	7%	5%	-2%	48%	15%	101%	2%	-41%	-9	1	-37%	-16%
Seattle	6%	4%	7%	-2%	37%	13%	100%	1%	-35%	-5	3	-13%	2%
Tampa	0%	21%	9%	-2%	16%	-6%	98%	0%	-12%	-9	-15	-22%	-15%
Washington DC	9%	7%	5%	-1%	43%	11%	101%	1%	-26%	3	8	-16%	-12%

Note: Data reflects four-week averages.

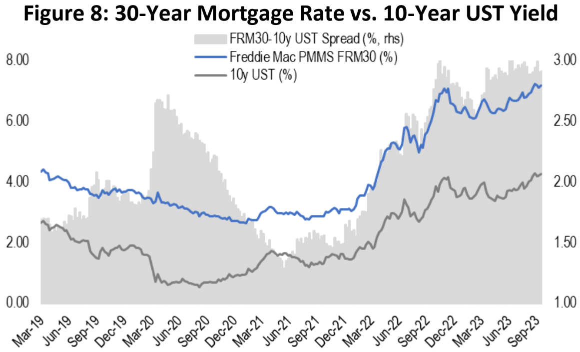
Source: Redfin, Arch MI

Median days on the market have decreased in most metros (-15 days below nationally) as the market has rebounded but a handful of metros still exceeded their pre-pandemic timelines. Markets with the longest median days on the market relative to the pre-pandemic norm included Austin (27 days longer), Chicago (15) and Washington, D.C. (3), while some markets like New York (-33), Riverside (-17), Baltimore (-13), Houston (-11) and Tampa (-9) remained well below pre-pandemic timelines. Months' supply remained well below pre-pandemic levels in most markets (-25% below nationally), with Baltimore (-43%), Miami (-39%), San Diego (-37%), Atlanta (-33%) and Houston (-33%) remaining the tightest relative to their pre-pandemic averages. Markets that have deteriorated the most based on months' supply include Austin, Denver and Nashville, where months' supply climbed to a respective 56%, 9% and 4% relative to their pre-pandemic averages from 49%, 1% and -9% below one year ago.

MORTGAGE PURCHASE APPLICATION ACTIVITY BOUNCED MODESTLY FROM MULTI-DECADE LOWS

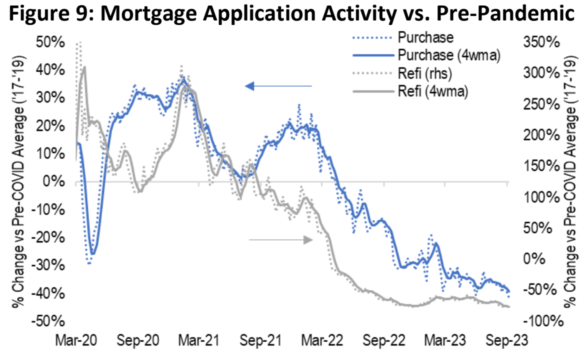
According to the MBA Weekly Applications Survey, the average contract conventional mortgage rate rose 6bps to 7.27% during the week ending Sep. 8 while the FHA contract mortgage rate also rose 1bps to 7.04%, resulting in a -5bps contraction in the spread between the FHA and conventional mortgage rate to -0.23%. Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending Sep. 13 indicated that the FRM30 climbed 6bps w/w to 7.18% (Figure 8) as the yield on the benchmark 10-year U.S. Treasury (UST) climbed 5bps to an average of 4.27% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST was roughly unchanged at 2.91%, 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 year.

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



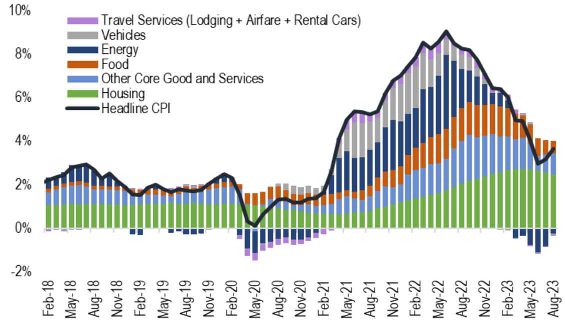
Sources: Mortgage Bankers Association, Arch MI

The MBA Weekly Applications Survey for the week ending Sep. 8 declined -0.8% w/w, leaving the index down -29% 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 -5.4% decline in refinancing applications, which remained down -31% y/y and -78% below the pre-pandemic level (Figure 9). Purchase applications increased 1.3% w/w but remained down -27% y/y and -42% relative to pre-pandemic levels.

CONSUMER INFLATION STILL ON DISINFLATIONARY TREND

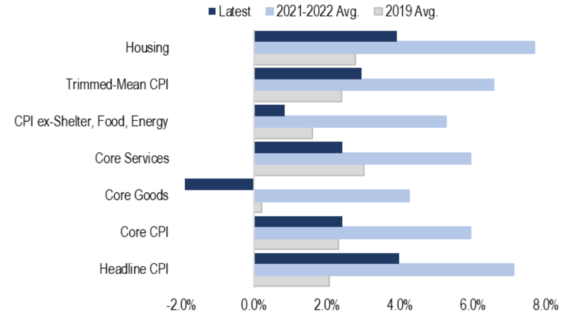
The August CPI inflation report was roughly in line with consensus expectations with underlying trends still pointing towards disinflation, even as headline CPI accelerated to 0.6% (cons. 0.6%). This was the fastest monthly pace since last June and lifted annual inflation to 3.7% from 3% two months ago (Figure 10). Energy surged 5.6% m/m after contracting by an average of -1.1% over the prior six months, with the largest contribution coming from gasoline at 10.6% m/m in August. The recent uptick in oil and gas prices suggests that energy will likely be contributing to headline inflation not only in August but in September as well. Grocery prices (food at home) slowed slightly to 0.2% over the month from 0.3% in July while food away from home (i.e., dining out) accelerated 10bps to 0.3% but still a step down from the torrid pace of 4Q22 and early 2023.

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



Sources: BLS, Arch MI

Figure 11: Three-Month Annualized CPI Inflation



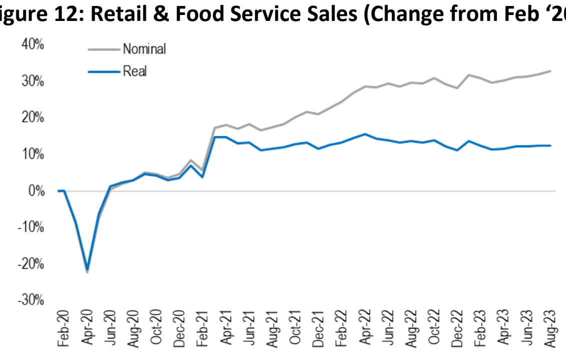
Sources: BLS, Arch MI

Core inflation (excluding food and energy) was a bit hotter than consensus expectations, coming in at 0.3% m/m (cons. 0.2%), translating to a 2.4% three-month annualized pace (Figure 11). That tenth of a percentage point stronger was not evidence of a broad-based reacceleration as cooler price pressures remain in place. Core goods prices declined for the third straight month and by -0.1%, aided by a -1.2% 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. New vehicles rose for the first time in five months (0.3%) with other categories providing enough of an offset, including motor vehicle parts (-0.3%) and recreational goods (-0.4%). Core services inflation rose 0.4% m/m for a second straight month but still a noticeable step down from the prior six months with the bulk of the increase coming from transportation services. Travel services were a mixed bag as hotel prices fell -3.0% while airline fares jumped 4.9% and vehicle rental services rose 1.3%. 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 of 1H23. The cooldown in housing inflation roughly coincides with our expectations, based on the roughly 12-month lag between rent growth (which has been slowing or declining since 2Q22) and the CPI measures. We expect housing inflation will continue to cool as the year progresses, based on this lagged relationship.

RETAIL SALES STILL ON TRACK FOR A SOLID 3Q

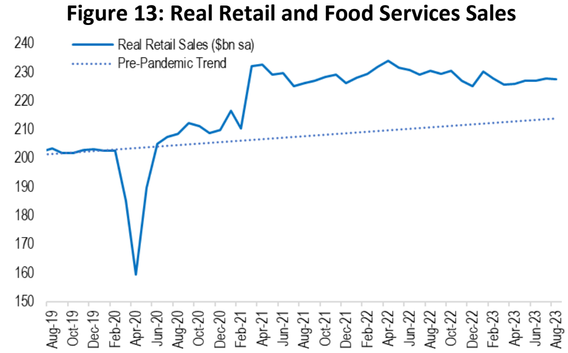
August nominal retail and food services rose to 0.6% m/m (cons. 0.2%) following a 0.5% gain in July. Retail sales grew in August for most categories but broadly cooled from the July pace outside of gas station sales, which were up 5.2% m/m on the back of higher gas prices. The next leading categories included clothing (0.9%), electronics and appliances (0.7%), health and personal care (0.5%) and grocery (0.4%), while auto sales rebounded to 0.4% from -0.5% in July. Conversely, sporting goods and hobby stores (-1.6%), miscellaneous retailers (-1.3%) and furniture stores (-1%) contracted. Retail sales, excluding autos, rose 0.6% m/m while the important control group (excluding food, autos, gasoline and building materials), which feeds directly into the GDP report, also rose by 0.1% (cons. -0.1%). Most categories were revised down in August, with the largest downward revisions for miscellaneous retailers (-0.7%), health and personal care (-0.6%) and restaurants and bars (-0.6%). Nonetheless, consumer spending remains steady with the three-month annualized pace of control sales at 4.7% during a time frame of core goods deflation.

Figure 12: Retail & Food Service Sales (Change from Feb '20)



Sources: Census Bureau, Arch MI

Figure 13: Real Retail and Food Services Sales



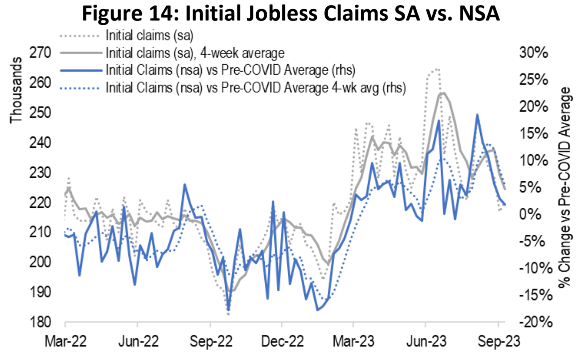
Sources: Census Bureau, Arch MI

Adjusted for inflation, headline retail sales declined -0.1% m/m (Figure 12), only partly offsetting the 0.3% rise in July. Real control group sales have performed slightly better, up 0.1% in August after a whopping 0.8% gain in July, suggesting that while consumers have pulled back a bit on their spending on goods, they have yet to completely shut their wallets. In fact, real retail sales remained 12% above February 2020 levels and 7% above the pre-COVID-19 trend (Figure 13).

JOBLESS CLAIMS CONTINUED TO REFLECT NORMALIZING LABOR MARKET

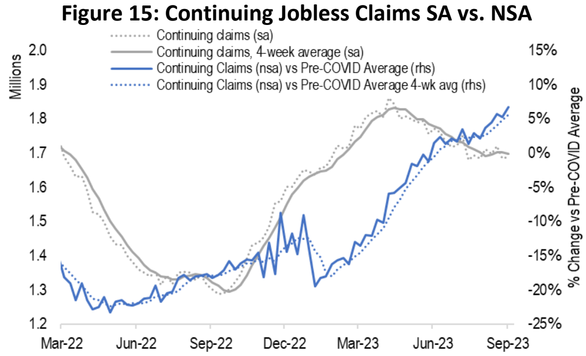
Seasonally adjusted jobless claims (initial filers and continuing claims) were both better than expectations, but the non-seasonally adjusted (nsa) level of continuing claims inched higher above its pre-COVID-19 norm for this time of year. Initial jobless claims rose by 3k to a seasonally adjusted 220k (cons. 225k) during the week ending Sep. 9, but the four-week average moved down to 225k from 230k (Figure 14). The four-week average of non-seasonally adjusted initial claims also moved down to 5.4% above its pre-COVID-19 average (i.e., 2017 to 2019) from 8.3% the week before but remained up from -1% below six months ago.

Figure 14: Initial Jobless Claims SA vs. NSA



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

Figure 15: Continuing Jobless Claims SA vs. NSA



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

The discrepancy between the seasonally adjusted and unadjusted claims data continued to widen, most notably for continuing claims. Continuing claims (i.e., repeat filers for unemployment insurance) climbed by 4k during the week ending Sep. 2 to a seasonally adjusted 1,688k (cons. 1,690k), but the four-week average moved down to 1,697k from 1,703k (Figure 15). Meanwhile, the four-week average of non-seasonally adjusted continuing claims moved up to 5.5% above its pre-COVID-19 average, from 4.8% the week before and up from -12% below six months ago. 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 suggesting an imminent recession.

The Week Ahead

This week's data releases will mostly focus on the housing market, with the Federal Open Market Committee (FOMC) meeting sandwiched in the middle. The September National Association of Home Builders (NAHB) Housing Market Index will kick things off, with the Bloomberg Consensus Survey of Economists expecting a tick down to 49 from 50 in August. On that note, housing starts and building permits are expected to have cooled in August by a respective -0.8% m/m (sa) and -0.2%, to a seasonally adjusted annual rate (saar) of 1,440k housing units for both. August existing home sales are expected to have accelerated slightly by 0.7% m/m to 4,100k saar.

The FOMC meeting should be a non-event, with most economists expecting no change to the fed funds rate and market pricing suggesting a less than 5% chance of a hike — we also expect no change the Fed's policy rate. The September FOMC meeting statement is likely to remain relatively unchanged and thus we expect the "additional policy firming that may be appropriate" phrase to remain in place as hawkish posturing. The press conference following the release of the statement is likely to be the most interesting development, where the tone of Fed Chairman Powell's responses to questioning about recent data releases will be closely analyzed. We do not anticipate any meaningful change in his tone and instead expect Powell to reemphasize that incoming data will dictate future adjustments to monetary policy. He is likely to acknowledge some improvements in inflation expectations and the inflation reports since the last FOMC meeting, but caution that the current pace of inflation remains too high for the Fed's liking. Accordingly, Powell is likely to reiterate the "additional policy firming" phrasing during his commentary to push back on expectations that the hiking cycle is finished. However, we view this likely hawkish delivery to ensure financial conditions do not loosen too soon in anticipation of rate cuts and instead see the Fed on hold through mid-2024.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Consensus	Previous	Note
9/18/23	NAHB Housing Market Index	Sep	49	50	index, sa
9/19/23	Housing Starts	Aug	1,440	1,452	k, saar
9/19/23	Housing Starts m/m	Aug	-0.8%	3.9%	sa
9/19/23	Building Permits	Aug	1,440	1,443	k, saar
9/19/23	Building Permits m/m	Aug	-0.2%	0.1%	sa
9/20/23	MBA Mortgage Applications	9/15/23	--	-0.8%	w/w, sa
9/20/23	FOMC Rate Decision (Upper Bound)	9/20/23	5.5%	5.5%	
9/21/23	Initial Jobless Claims	9/16/23	225	220	k, sa
9/21/23	Continuing Claims	9/9/23	1,695	1,688	k, sa
9/21/23	Philadelphia Fed Business Outlook	Sep	-1.5	12.0	index, sa
9/21/23	Existing Home Sales	Aug	4,100	4,070	k, saar
9/21/23	Existing Home Sales m/m	Aug	0.7%	-2.2%	sa
9/21/23	Conference Board Leading Index	Aug	-0.5%	-0.4%	m/m, sa
9/22/23	S&P Global US Manufacturing PMI	Sep P	47.8	47.9	index, sa
9/22/23	S&P Global US Services PMI	Sep P	50.3	50.5	index, sa
9/22/23	S&P Global US Composite PMI	Sep P	50.0	50.2	index, sa

Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics