HaMMR Digest

Stay current with economic and mortgage market trends.

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Weekly Wrap – Offsides

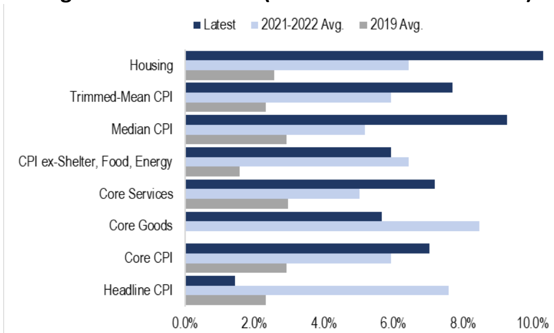
- Multiple data points reflect a mixed picture on the U.S. economy, but an imminent recession remains unlikely
- We expect the Fed to hike 75bps this week despite the hotter than expected August core CPI inflation print
- Mortgage rates surged above 6% last week, limiting any rebound in sales momentum in the coming months

U.S economic activity, while not exhibiting robust growth, is also not tipping into a recession based on the plethora of data released last week. The August NFIB Small Business Optimism index rose for the second straight month to 91.8 with labor components remaining robust and business outlook components firming. August industrial production fell 0.2% m/m (cons. 0.0%), with a 2.3% decline in utilities output more than offsetting growth in the manufacturing and autos components. August retail sales advanced 0.3% m/m (cons. -0.1%) and rose faster than CPI inflation, which increased by 0.1% m/m (cons. -0.1%). Underlying components of retail sales were mixed but overall, consumers are not pulling back sharply nor digging deeper into their wallets despite a strong labor market.

Inflation was the hottest release – figuratively and literally. The 10.6% monthly decline in gasoline prices drove overall energy inflation down 5% for August, helping keep a lid on CPI headline inflation that slowed its annual advance for the second straight month to 8.3% (cons. 8.0%) from 8.5% in July and 9.1% in June. However, core inflation surged 0.6% m/m, doubling consensus expectations. Markets clearly were caught offsides with the S&P 500 losing nearly 5% for the week while the UST-10yr tested its June peak of 3.5% and fed funds futures priced in another 50bps of cumulative hikes.

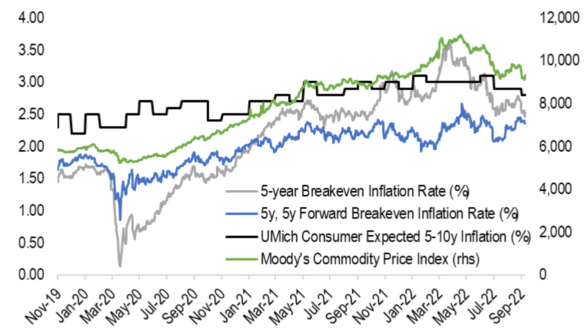
Core inflation remains strong and broad-based, with the August annualized pace of 7.0% (Figure 1) exceeding the 2021-2022 average of 5.9%. Core goods prices were surprisingly strong, accelerating to 0.5% m/m in August from 0.2% m/m in July despite easing supply chain pressures and rising inventory levels. Services components reaccelerated strongly in August even when excluding the housing components. Services prices are stickier and shift with a lag, suggesting that most near-term deceleration in core prices will need to come from goods.

Figure 1: CPI Inflation (1-Month Annualized Rate)



Sources: BLS, Arch MI

Figure 2: Inflation Monitor



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

The Fed is unlikely to overreact this week to the inflation data – we still expect a 75bps hike on Wednesday despite the non-zero chance markets are placing on a 100bps hike. Assuming the economy continues to evolve in-line with our base case, we still expect the fed funds rate to reach close to 4% by the end of this year and to stay at that level for most of 2023, below the 4.5% markets are expecting by 1Q23. Messaging around inflation from the Fed will be key given that price pressures are indeed cooling but are not yet fully reflected in the CPI figures. Rent and home price growth have decelerated sharply since the first quarter while import and producer prices continue to contract monthly. Importantly, market-based and consumer inflation expectations show further progress in normalizing toward their long-term averages, suggesting that a feedback loop between prices in the economy and those expected by economic participants is not in the offing (Figure 2).

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
9/13/22	NFIB Small Business Optimism	Aug	91.8	90.8	89.9	index, sa
9/13/22	CPI m/m	Aug	0.1%	-0.1%	0.0%	sa
9/13/22	CPI Core (ex Food and Energy) m/m	Aug	0.6%	0.3%	0.3%	sa
9/13/22	CPI y/y	Aug	8.3%	8.1%	8.5%	nsa
9/13/22	CPI Core (ex Food and Energy) y/y	Aug	6.3%	6.1%	5.9%	nsa
9/14/22	MBA Mortgage Applications	9/9/22	-1.2%	--	-0.8%	w/w, sa
9/14/22	PPI Core (ex Food and Energy) y/y	Aug	7.3%	7.0%	7.7%	nsa
9/14/22	PPI Final Demand m/m	Aug	-0.1%	-0.1%	-0.4%	sa
9/14/22	PPI Core (ex Food and Energy) m/m	Aug	0.4%	0.3%	0.3%	sa
9/14/22	PPI Final Demand y/y	Aug	8.7%	8.8%	9.8%	nsa
9/15/22	Initial Jobless Claims	9/10/22	213	227	218	k, sa
9/15/22	Continuing Claims	9/3/22	1,403	1,478	1,401	k, sa
9/15/22	Advance Retail Sales m/m	Aug	0.3%	-0.1%	-0.4%	sa
9/15/22	Retail Sales Control Group m/m	Aug	0.0%	0.5%	0.4%	sa
9/15/22	Philadelphia Fed Business Outlook	Sep	-9.9	2.3	6.2	index, sa
9/15/22	Import Price Index y/y	Aug	7.8%	7.7%	8.7%	nsa
9/15/22	Industrial Production m/m	Aug	-0.2%	0.0%	0.5%	sa
9/15/22	Capacity Utilization	Aug	80.0%	80.2%	80.2%	sa
9/15/22	Business Inventories m/m	Jul	0.6%	0.6%	1.4%	sa
9/16/22	U. of Mich. Sentiment	Sep P	59.5	60.0	58.2	index, nsa
9/16/22	U. of Mich. 1 Yr Inflation	Sep P	4.6%	4.6%	4.8%	nsa
9/16/22	U. of Mich. 5-10 Yr Inflation	Sep P	2.8%	2.9%	2.9%	nsa

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

ADVANTAGE: SELLERS OR BUYERS?

Housing markets were jolted once again by surging rates with the 30-year fixed-rate mortgage rising to 6.02% (Freddie Mac), the highest since 2008. Buyers who still qualify are forced to swallow higher mortgage payments for now and left hoping to refinance at a lower rate down the line. Sellers with substantial home equity and no rush or need to sell are in a much better position, arguably a reason why new listing price growth is still rising 12% y/y through the week of September 10th according to Realtor.com. Moreover, if buyers decide to wait for rates to come back down, they raise the risk of re-entering a market that still has a dearth of inventory and more competition from other buyers. Active listings growth has risen at a steady 27% y/y pace over the prior few weeks (Figure 3), but new listings growth continues to contract at an accelerating pace. The fall in new listings partly explains why median days on market is only six days longer than last year for the same week despite the recent housing market turmoil. Meanwhile, annual growth in the number of listings with price reductions (74% 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). Despite some eye-catching comparisons with a year ago, the market remains tighter than the onset of the pandemic. If mortgage rates remain at or above 6% for an extended period, demand will cool further and help to gradually bring the market more in balance.

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

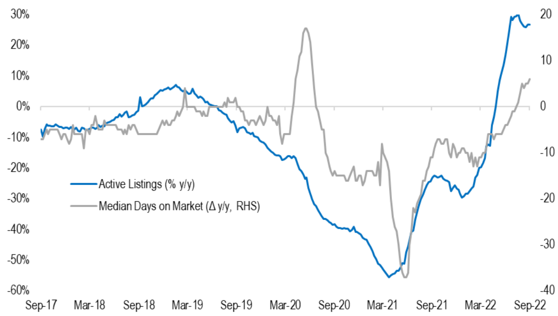
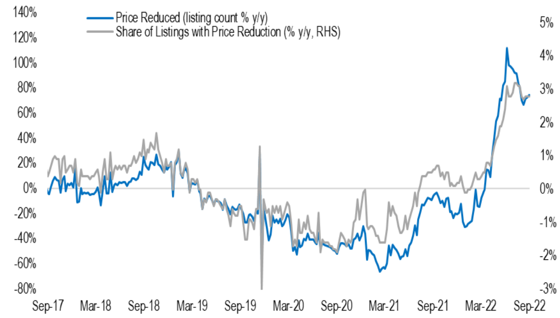


Figure 4: U.S. Active Listings with Price Reductions



Source: Realtor.com, Arch MI

Redfin data through the week ending September 11th reflect a somewhat more resilient housing backdrop. In particular, annual growth in active listings continue to trend lower as new listings slowed further and a greater share of homes were delisted. Homes are still not yet staying on the market for a month with median days on market at 28, up from 21 days at this time in 2021 but well below the 41 days in 2019. Buyers still in the market continue to move fast to close on a house with the percent of homes off the market within one week standing at 23%, still higher than the 2017-2019 average (19%). However, the sale-to-list ratio declined further to 99.5% (compared with a '17-'19 average of 98.2%), highlighting that sellers are losing pricing power even with falling inventory. That said, growth in the median new listing price ($ /sf) is still 11% y/y while median sale price ($/ sf) growth has been around 9% y/y for five weeks.

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 Redfin Metros	9%	18%	7%	3%	34%	-14%	99%	-2%	3%	-16	-20	-27%	-46%
Atlanta	15%	24%	8%	4%	33%	-18%	99%	-2%	15%	-9	-16	-15%	-51%
Austin	8%	38%	12%	7%	24%	-33%	99%	-4%	55%	14	-2	60%	-41%
Baltimore	6%	13%	7%	1%	42%	-2%	101%	0%	-22%	-14	-11	-50%	-47%
Boston	3%	15%	5%	1%	55%	-7%	102%	-1%	-11%	-5	5	-37%	-35%
Chicago	5%	11%	4%	0%	33%	-6%	99%	0%	13%	16	-20	-20%	-43%
Dallas	16%	24%	10%	5%	33%	-25%	99%	-3%	23%	-18	-18	-29%	-55%
Denver	8%	21%	13%	9%	26%	-32%	99%	-3%	33%	-4	-8	-15%	-50%
Houston	15%	18%	9%	3%	24%	-14%	98%	-1%	14%	-22	-21	-22%	-50%
Los Angeles	5%	16%	6%	3%	44%	-18%	100%	-3%	-7%	-8	-7	-7%	-36%
Miami	16%	25%	4%	2%	21%	1%	97%	0%	-13%	-20	-3	-27%	-48%
Minneapolis	5%	11%	7%	2%	43%	-16%	101%	-2%	-6%	-4	-10	-28%	-42%
Nashville	17%	23%	7%	4%	23%	-25%	99%	-3%	56%	-18	-23	-10%	-59%
New York	3%	23%	4%	0%	32%	4%	100%	0%	-12%	-40	-26	-34%	-34%
Phoenix	12%	31%	13%	8%	16%	-36%	98%	-3%	49%	2	-15	60%	-42%
Portland	7%	18%	9%	3%	32%	-28%	100%	-3%	23%	-8	-15	-22%	-55%
Riverside	12%	25%	7%	4%	38%	-26%	99%	-3%	17%	-16	-25	-10%	-50%
San Diego	7%	22%	8%	4%	33%	-26%	99%	-3%	10%	-2	-14	-20%	-60%
Seattle	3%	23%	9%	4%	24%	-35%	99%	-5%	47%	-2	-6	-11%	-65%
Tampa	21%	24%	12%	5%	22%	-19%	98%	-2%	52%	-16	-25	-17%	-58%
Washington	7%	10%	6%	1%	33%	-13%	100%	-1%	-19%	1	4	-20%	-32%

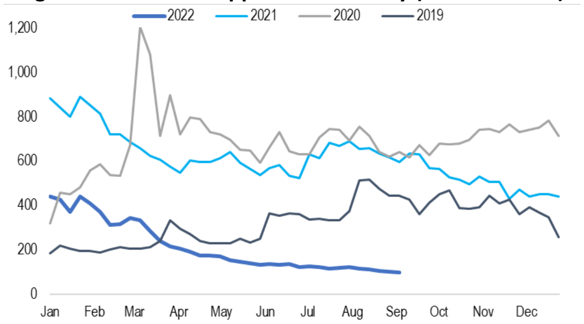
Note: Data on 4wk-ma basis; Median Days on Market and Months' Supply are 3y/3y changes on 4wk-ma basis; Source: Redfin, Arch MI

Of the major metros we track (Figure 5), annual home price growth was weakest in **Seattle** (3%), **New York** (3%) and **Boston** (3%) while home price growth has slowed most rapidly compared with a year ago in **Austin** (-30%-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** (14 days longer), **Chicago** (16), **Phoenix** (2) and **Washington DC** (1). 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% below the pre-pandemic trend one year ago.

MORTGAGE ACTIVITY SLOWED AS 30-YEAR MORTGAGE RATE TOPPED 6% FOR FIRST TIME SINCE 2008

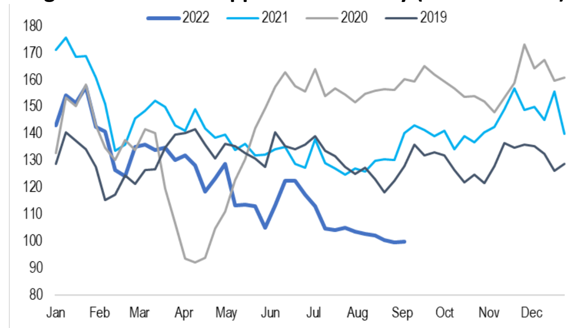
The MBA application survey for the week ending September 9th declined -1.2% w/w and the index is now down -64% year-over-year, and down -55% compared with pre-pandemic levels (i.e. 3 years ago). The weekly decline was driven primarily by a -4.2% decline in refinancing applications, which remain down -83% y/y and down -78% over 3 years (Figure 6). Purchase applications increased slightly by 0.2% w/w, but remain down -29% y/y and -22% relative to 2019 levels (Figure 7).

Figure 6: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

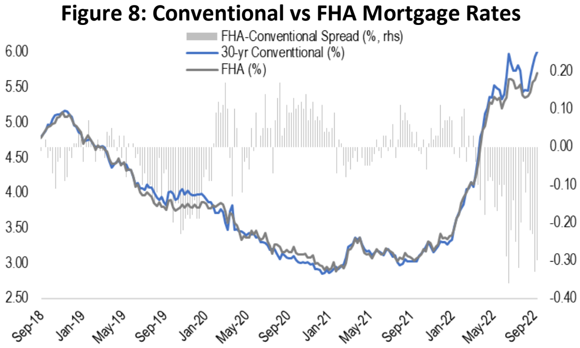
Figure 7: Purchase Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

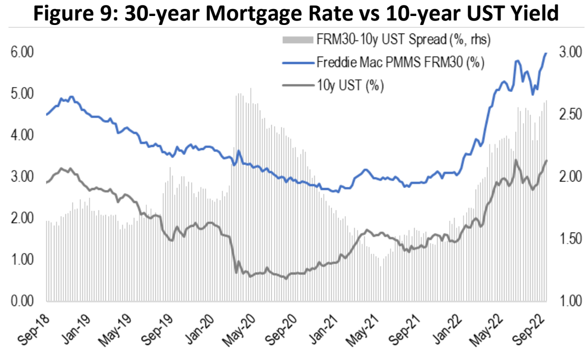
According to the MBA survey of lenders, the average contract conventional mortgage rate rose 7bps to 6.01% during the week ending September 9th while the FHA contract mortgage rate also rose 10bps to 5.71%, resulting in a 3bps widening of the spread between the FHA and conventional mortgage rate to -0.3% (Figure 8). Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the 3 days ending September 14th indicated that the FRM30 jumped 13bps w/w to 6.02% (Figure 9) as 10-year UST yields jumped another 11bps to an average of 3.40% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 2bps to 2.62%, a new cycle high and about 92bps 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 8: Conventional vs FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

Figure 9: 30-year Mortgage Rate vs 10-year UST Yield



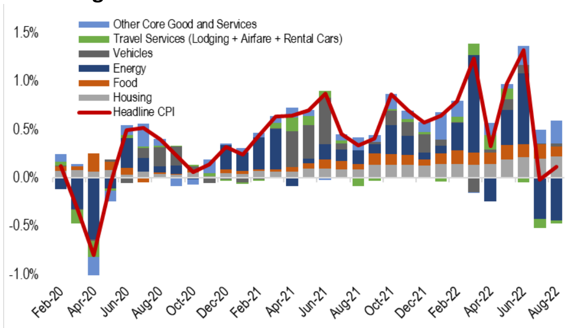
Sources: Freddie Mac PMMS, FRB, Arch MI

CORE CONSUMER PRICE INFLATION SIZZLES

August consumer price inflation rose 0.1% m/m on a seasonally adjusted basis (Figure 10), 20bps above consensus expectations despite energy prices subtracting 44bps from monthly headline inflation. The correction in gasoline prices accelerated over the month, falling by 10.6% with further easing expected in September given the continued decline in retail gasoline prices. Core inflation (excluding food and energy) reaccelerated to 0.6% m/m, or 7% annualized, double consensus expectations and the July pace (Figure 11).

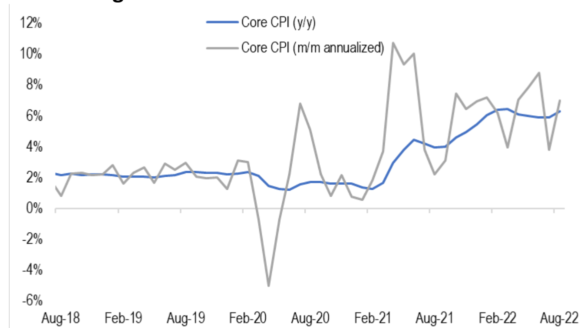
Core goods inflation rebounded from July, rising 0.5% and in-line with the prior twelve-month average led by household furnishings (1.1%), new vehicle prices (0.8%), and recreational goods (0.6%). Broad strength in core goods has lagged headwinds from cooling wholesale and import prices. Meanwhile, core services inflation climbed 0.6% m/m, reflecting strong growth of 0.7% m/m for rents and owners' equivalent rent (the BLS estimate of housing costs for homeowners), which both rebounded from their anomalous slowdown in July. Housing inflation is likely to remain elevated and keep upward pressure on core inflation well into early next year based on the historical lag between BLS data and real-time measures of rent growth and home price appreciation.

Figure 10: Month-Over-Month CPI Inflation



Sources: BLS, Arch MI

Figure 11: Core Consumer Price Inflation



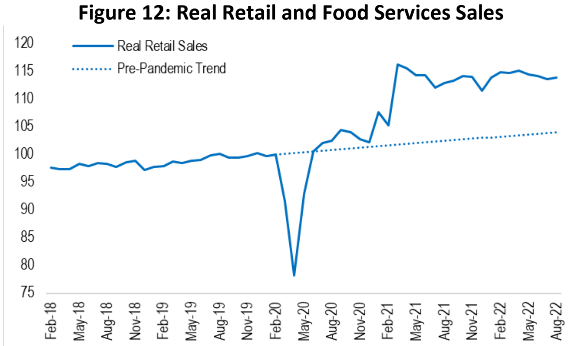
Sources: BLS, Arch MI

RETAIL SALES KEEP HANGING IN

August nominal headline retail and food services sales beat expectations for a -0.1% m/m decline with a 0.3% monthly advance on the back of a strong 2.8% gain in autos and auto parts, which more than offset the 4.2% m/m fall in gasoline station sales. Eight of the thirteen major categories recorded monthly increases, resulting in a 0.3% gain for total retail sales excluding auto and gas but a flat month for the important control group (excluding auto, gas, building materials, and food services) which feeds into the GDP report.

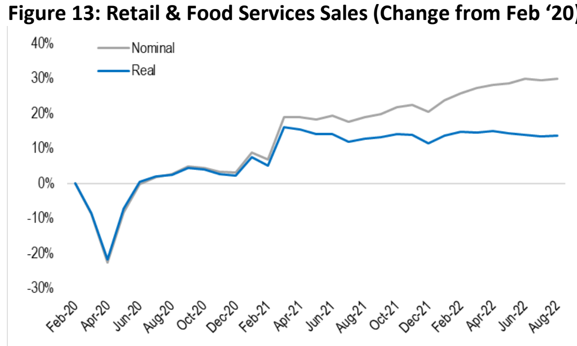
Adjusted for inflation, retail sales rose 0.2% m/m following three months of declines and remain nearly 14% above their February 2020 level and 9.3% above their pre-COVID trend (Figure 12). That said, real retail sales have generally remained flat this year, a sign that consumers are maintaining their spending on goods at elevated levels despite the surge in prices (Figure 13).

Figure 12: Real Retail and Food Services Sales



Sources: Census Bureau, Arch MI

Figure 13: Retail & Food Services Sales (Change from Feb '20)



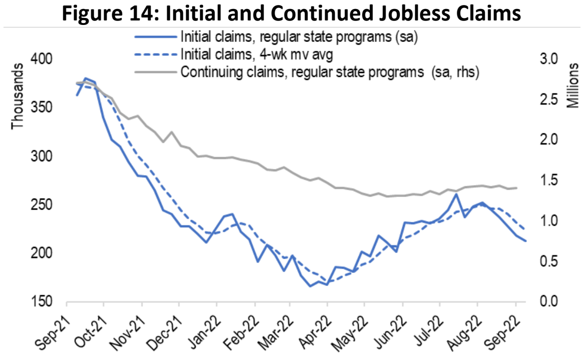
Sources: Census Bureau, Arch MI

The details of the report were somewhat mixed. As expected, online sales fell 0.7% m/m, giving back part of the 2.8% m/m surge in July induced by Amazon Prime Day, while building materials and food services sales both advanced 1.1% on the month. Furniture and home furnishings declined by 1.3% m/m, the fourth straight monthly drop and the fifth out of the last six months, which aligns with the slowdown in the housing market.

JOBLESS CLAIMS BEAT EXPECTATIONS AGAIN

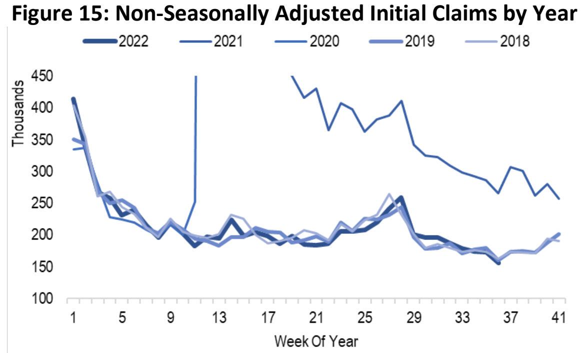
Initial jobless claims declined by -5k to 213k (consensus: 227k) during the week ending September 10th from 218k the previous week. Five consecutive weeks of declines brought the 4-week average of initial jobless claims down to 224k from 232k (Figure 14). The non-seasonally adjusted level of initial claims declined below its pre-pandemic level (Figure 15) and reached the lowest level recorded since 1969. Continuing claims for regular state programs (i.e. repeat filers for unemployment insurance) climbed by 2k to 1,403k (consensus: 1,478k) during the week ending September 3rd but remained about 20% below pre-pandemic levels.

Figure 14: Initial and Continued Jobless Claims



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

Figure 15: Non-Seasonally Adjusted Initial Claims by Year



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

The Week Ahead

This week will provide several updates on the housing market and broader economic activity, but all eyes will be on the Fed's policy statement on Wednesday, where we expect a 75bps hike to be announced as the Fed ventures "expeditiously" into restrictive territory. Housing market updates are all expected to remain weak, including the September National Association of Home Builders Housing Market Index, August housing construction activity from the U.S. Census Bureau, and August existing home sales from the National Association of Realtors®. On the broader economy, the August Conference Board Leading Index and September S&P Global US PMIs are expected to recover slightly but remain in contraction territory.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
9/19/22	NAHB Housing Market Index	Sep	--	47	49	index, sa
9/20/22	Building Permits	Aug	--	1,609	1,685	k, saar
9/20/22	Building Permits m/m	Aug	--	-4.5%	-0.6%	sa
9/20/22	Housing Starts	Aug	--	1,450	1,446	k, saar
9/20/22	Housing Starts m/m	Aug	--	0.3%	-9.6%	sa
9/21/22	MBA Mortgage Applications	9/16/22	--	--	-1.2%	w/w, sa
9/21/22	Existing Home Sales	Aug	--	4,700	4,810	k, saar
9/21/22	Existing Home Sales m/m	Aug	--	-2.3%	-5.9%	sa
9/21/22	FOMC Rate Decision (Upper Bound)	9/21/22	--	3.25%	2.50%	%
9/22/22	Initial Jobless Claims	9/17/22	--	216	213	k, sa
9/22/22	Continuing Claims	9/10/22	--	1,408	1,403	k, sa
9/22/22	Conference Board Leading Index	Aug	--	-0.1%	-0.4%	m/m, sa
9/23/22	S&P Global US Manufacturing PMI	Sep P	--	51.2	51.5	index, sa
9/23/22	S&P Global US Services PMI	Sep P	--	45.5	43.7	index, sa
9/23/22	S&P Global US Composite PMI	Sep P	--	46.0	44.6	index, sa

Sources: Bloomberg Consensus Survey of Economists, Arch MI