HaMMR Digest

Stay current with economic and mortgage market trends.

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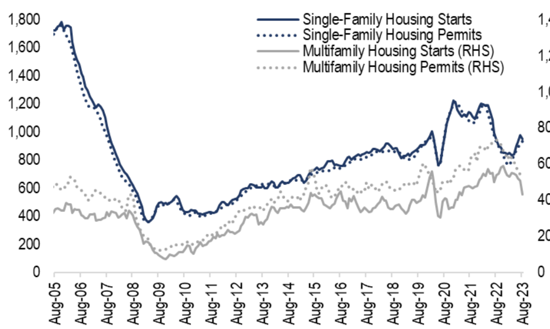
Weekly Wrap — Whither the Tide?

- The Fed reiterated its higher-for-longer stance and the market appears to finally be coming around to that view.
- Existing home sales remained hamstrung by higher mortgage rates and low inventory.
- New home construction sent mixed signals in August, with builder sentiment growing more cautious.

All eyes were on the Fed's policy meeting last week, which tilted hawkish. The policy statement's language around forward guidance was not altered with the key phrase regarding the "extent of additional policy firming that may be appropriate" remaining intact, ensuring optionality around further rate hikes. New economic projections showed an upgrade to GDP growth and a lower unemployment rate path for this year and next, suggesting minimal economic pain will be needed to cool inflation. Accordingly, the Fed still is penciling in one more hike this year while prior projections of 100bps worth of cuts in 2024 were cut in half. Chairman Jay Powell did his best to shroud the Fed's projections in uncertainty, stating that data dependency will remain the Fed's compass. Even so, the Fed seems content in maintaining a restrictive policy stance. Markets heeded the higher-for-longer messaging, as well as the possibility that the economy's run-rate may have shifted higher, with 10-year U.S. Treasury yields climbing to 4.5% and the 2s10s yield curve steepening by a hefty 14bps last Thursday. We expect the months ahead to be challenging for economic growth and as such anticipate the Fed will hold rates at the current level before ultimately starting to normalize rates by mid-2024.

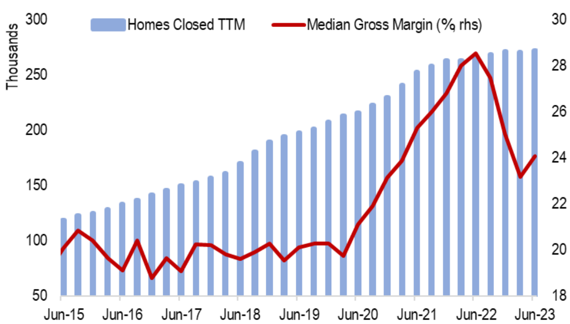
Existing home sales declined modestly by -0.7% m/m (cons. 0.7%) to a seasonally adjusted annual rate (saar) of 4,040k (cons. 4,100k). Tight inventory and constrained affordability have kept months' supply hovering around 2.9 months since April, well below what would be typical for a balanced market (i.e., ~5 months). Although mortgage rates remained stuck above 7%, the rate of change is important to consider as well. Last year, mortgage rates spiked from sub-3% to above 7% and existing home sales tumbled 52% y/y in December 2022, from a pace of 6,110k to 4,030k. This year, after sales jumped in February to 4,550k saar, they have since declined 13% through August as mortgage rates climbed back above 7% from roughly 6% at the beginning of the year. Essentially, the resale market has been oscillating around a 4,000k saar sales pace for the better part of the year with a significant move in rates or unemployment needed to jolt sales up or down.

Figure 1: Housing Starts and Permits



Souces: Census Bureau, Arch MI

Figure 2: Top 10 Public Builders: Orders and Profitability



Source: Bloomberg, Arch MI

Housing starts sunk -11.3% m/m (cons. -0.9%) with the bulk of the downdraft coming from multifamily (Figure 1). Permits on the other hand, a less volatile measure of activity and a leading indicator, rose 6.9% m/m (cons. -0.2%). Single-family homes under construction have been dwindling with the completions rate outpacing starts since June 2022. The rise in permits suggests single-family starts will continue to trend up even with builders seemingly growing more cautious. The NAHB homebuilder index fell 5pts m/m to 45 (cons. 49) in September, with all subcomponents softening as builders noted greater utilization of incentives to bolster sales from the prior month. However, builders who on average build fewer than 10 homes per year are over-represented on the NAHB survey. On the other hand, national public home builders have been more optimistic, given healthy profit margins and a rising count of homes closed (Figure 2). Smaller builders may be overstating how poor the outlook is for new construction but nonetheless are probably unable to compete on scale, costs and buyer incentives compared to their larger national counterparts. National builders are likely to keep meaningful incentives in place to offset affordability challenges and have capacity to do so with still very elevated profit margins.

Recent Data Releases

Key economic and housing data releases over the prior week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
9/18/23	NAHB Housing Market Index	Sep	45	49	50	index, sa
9/19/23	Housing Starts	Aug	1,283	1,439	1,447	k, saar
9/19/23	Housing Starts m/m	Aug	-11.3%	-0.9%	2.0%	sa
9/19/23	Building Permits	Aug	1,543	1,440	1,443	k, saar
9/19/23	Building Permits m/m	Aug	6.9%	-0.2%	0.1%	sa
9/20/23	MBA Mortgage Applications	9/15/23	5.4%	--	-0.8%	w/w, sa
9/20/23	FOMC Rate Decision (Upper Bound)	9/20/23	5.50%	5.50%	5.50%	
9/21/23	Initial Jobless Claims	9/16/23	201	225	221	k, sa
9/21/23	Continuing Claims	9/9/23	1,662	1,692	1,683	k, sa
9/21/23	Philadelphia Fed Business Outlook	Sep	-13.5	-1.0	12.0	index, sa
9/21/23	Existing Home Sales	Aug	4,040	4,100	4,070	k, saar
9/21/23	Existing Home Sales m/m	Aug	-0.7%	0.7%	-2.2%	sa
9/21/23	Conference Board Leading Index	Aug	-0.4%	-0.5%	-0.3%	m/m, sa
9/22/23	S&P Global US Manufacturing PMI	Sep P	48.9	48.2	47.9	index, sa
9/22/23	S&P Global US Services PMI	Sep P	50.2	50.7	50.5	index, sa
9/22/23	S&P Global US Composite PMI	Sep P	50.1	50.4	50.2	index, sa

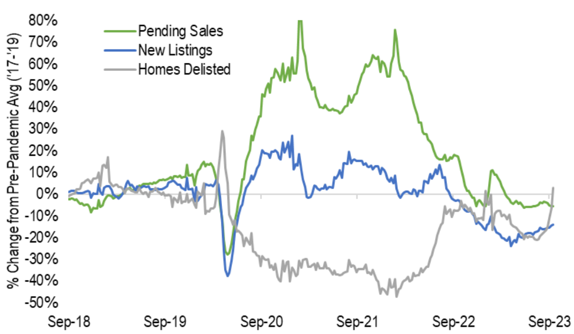
Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics

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

HOUSING MARKET CONTINUED TO COOL WITH MORTGAGE RATES STUCK ABOVE 7%

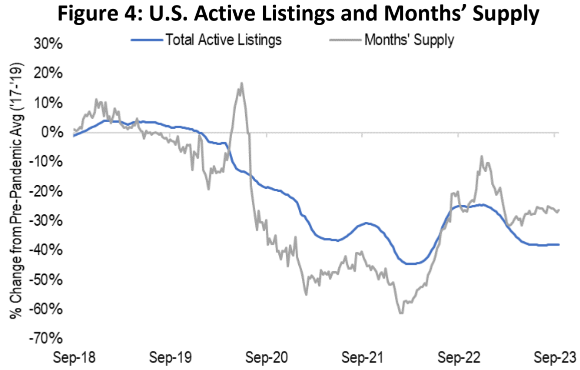
The pace of pending home sales cooled further to -6% below the pre-pandemic average (i.e., 2017–2019) for the four weeks ending Sept. 17, down slightly from -4% four weeks ago (Figure 3). Higher mortgage rates have also weighed on potential sellers, but new listings have started to climb to -14% below 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 to 3% above the pre-pandemic average for this time of year from -17% 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

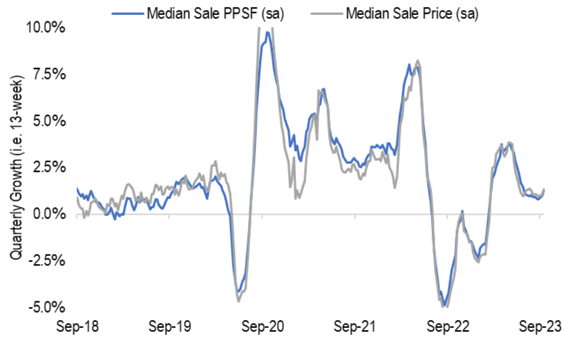


Source: Redfin, Arch MI

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 4). Despite total homes sold being down -17% y/y and -17% below the pre-pandemic average, the national market remained tight given months' supply is 2.8 months or -25% below the pre-pandemic average for this time of year. The current months' supply is roughly unchanged from the 2.8 months recorded for the same week in 2022 when the market was cooling rapidly from incredibly tight conditions.

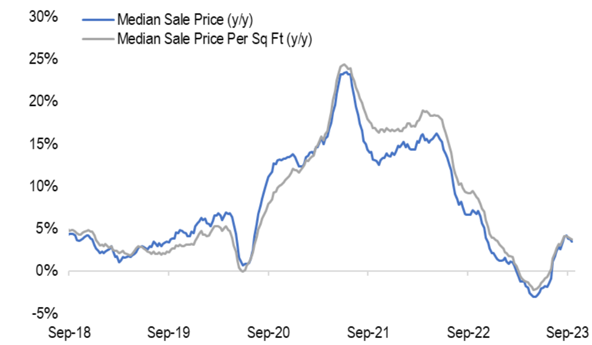
Given the relative stability of market conditions, the quarterly (i.e., 13-week) change in the seasonally adjusted (sa) median sale price per square foot (ppsf) was up 1.3% (Figure 5), or 5.3% annualized, up from 1% the previous week. However, annual price growth (Figure 6) cooled modestly to 3.7% from 3.9% the week before due to base effects. The most severe quarterly decline in home prices occurred at the end of August 2022, which was followed by a sharp recovery through October until a surge in mortgage rates above 7% caused a further decline in home prices into year-end. Given the volatile price swings in late 2022, we expect annual price comparisons to remain choppy over the remainder of 2023 as well and suggest focusing on the seasonally adjusted data for a better read on the trend.

Figure 5: Seasonally Adjusted Home-Price Growth



Source: Redfin, Arch MI

Figure 6: Annual 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 (-3%), Dallas (0%), Tampa (0%) and Riverside (0%). Home-price growth slowed most rapidly compared with a year ago in Tampa (-21%-pts), Dallas (-16%-pts), Nashville (-16%-pts), Phoenix (-15%-pts) and Austin (-15%-pts). Conversely, annual home-price growth was strongest in Miami (13%), San Diego (11%) and Chicago (9%).

Figure 7: Weekly Housing Monitor (as of Sept. 17, 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%**	**32%**	**0%**	**99%**	**0%**	**-17%**	**-15**	**-14**	**-26%**	**-27%**
Atlanta	3%	15%	5%	-2%	28%	-2%	99%	0%	-77%	-7	-9	-76%	-20%
Austin	-9%	6%	9%	-1%	14%	-9%	97%	-1%	-6%	27	15	61%	45%
Baltimore	5%	7%	7%	0%	46%	4%	101%	1%	-21%	-12	-10	-43%	-43%
Boston	7%	4%	5%	0%	58%	4%	102%	1%	-24%	1	3	-25%	-23%
Chicago	9%	5%	4%	0%	43%	9%	100%	1%	-28%	15	21	-26%	-13%
Dallas	0%	16%	9%	0%	22%	-9%	98%	-1%	-10%	-4	-10	-12%	-13%
Denver	1%	8%	10%	-2%	28%	4%	99%	0%	-11%	0	1	11%	-1%
Houston	1%	15%	8%	0%	18%	-5%	98%	0%	-2%	-10	-16	-29%	-34%
Los Angeles	4%	4%	4%	-1%	52%	10%	101%	1%	-29%	-7	-1	-12%	7%
Miami	13%	16%	3%	0%	19%	-2%	97%	0%	-15%	-10	-14	-56%	-58%
Minneapolis	3%	6%	7%	1%	45%	2%	101%	0%	-11%	-6	-5	-16%	-20%
Nashville	1%	17%	6%	0%	17%	-3%	98%	0%	-1%	0	-12	6%	-10%
New York	6%	4%	4%	0%	34%	3%	100%	1%	-19%	-34	-37	-26%	-30%
Phoenix	-3%	12%	7%	-5%	22%	6%	99%	1%	-40%	-1	2	0%	53%
Portland	2%	6%	8%	-1%	34%	3%	100%	0%	-13%	-2	-1	4%	-13%
Riverside	0%	11%	5%	-1%	43%	6%	100%	1%	-31%	-17	-11	-18%	-2%
San Diego	11%	7%	6%	-1%	49%	16%	101%	2%	-39%	-9	2	-34%	-17%
Seattle	6%	5%	7%	-2%	36%	14%	100%	1%	-34%	-5	5	-16%	-4%
Tampa	0%	21%	9%	-3%	17%	-5%	98%	0%	-11%	-9	-16	-27%	-23%
Washington DC	7%	7%	5%	-1%	42%	9%	100%	1%	-26%	3	9	-18%	-14%

Note: Data reflects four-week averages.

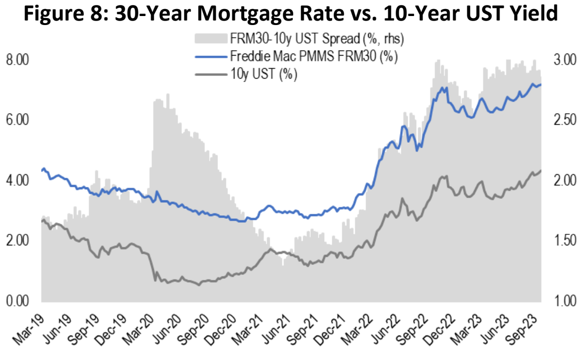
Source: Redfin, Arch MI

Median days on the market have decreased in most metros (-15 days below nationally) as the market rebounded but a handful of metros still exceed 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 (-34), Riverside (-17), Baltimore (-12), Miami (-10) and Houston (-10) remained well below pre-pandemic timelines. Months' supply remained below pre-pandemic levels in most markets (-26% below nationally), with Atlanta (-76%), Miami (-56%), Baltimore (-43%), San Diego (-34%) and Houston (-29%) 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 61%, 11% and 6% relative to their pre-pandemic averages from 45%, -1% and -10% below one year ago.

MORTGAGE PURCHASE APPLICATION ACTIVITY REBOUNDED TO 1995 LEVELS

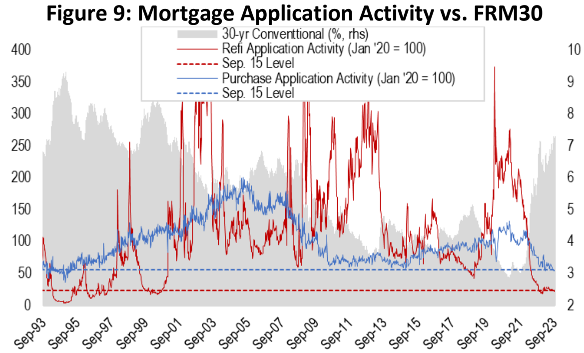
According to the MBA Weekly Applications Survey, the average contract rate for a conventional 30-year fixed-rate mortgage rose 4bps to 7.31% during the week ending Sept. 15 while the average FHA contract mortgage rate also rose 4bps to 7.08%, resulting in an unchanged spread (-0.23%) between the FHA and conventional rate. Meanwhile, the average contract rate for a jumbo 30-year fixed-rate mortgage rose 7bps to 7.32%, resulting in a 3bps widening of the jumbo-conventional spread to 0.01%. Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending Sept. 20 indicated that the FRM30 climbed 1bps week over week (w/w) to 7.19% (Figure 8) as the yield on the benchmark 10-year U.S. Treasury (UST) climbed 6bps to an average of 4.33% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST narrowed -5bps to 2.86%, about 115bps 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. FRM30



Sources: Mortgage Bankers Association, Arch MI

Mortgage application activity remained weak, despite a jump that was likely related to the timing of the Labor Day holiday. The MBA Weekly Applications Survey for the week ending Sept. 15 increased 5.4% w/w (sa), leaving the index down -27% y/y and down -57% compared with pre-pandemic levels (i.e., the average of the same week in 2017, 2018 and 2019). The weekly increase was driven primarily by a 13% (sa) increase in refinancing applications, which remained down -29% y/y despite the weekly increase and -73% below the pre-pandemic level (Figure 9). Purchase applications increased 2.3% w/w (sa) but remained down -27% y/y and -39% relative to pre-pandemic levels.

EXISTING HOME SALES STATUS QUO

Existing home sales remained at a depressed level in August, mostly due to a lack of inventory and continued buyer affordability challenges. That said, even with mortgage rates elevated over 7%, the decline in the pace of sales from the peak in February has thus far been only -12% compared to the -57% decline last year. For August, sales inched down -0.7% m/m (cons. 0.7%) to a seasonally adjusted annual rate of 4,040k (Figure 10). Inventory rose a seasonally adjusted 0.1% m/m and for the second straight month, however, supply conditions remained tight with total resale stock still below one million units (994k sa). Sales and inventory were -26% and -40% below their respective 2019 levels. Over the last six months, both sales and inventory averaged monthly declines of -2.0%, providing an offsetting impact to months' supply that stood at 2.9 (sa), 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 11). The seasonally adjusted median sale price of an existing single-family home rose 2.0% m/m and 0.4% y/y to a new record high of $403k, although it is important to note that this figure is not adjusted for the quality, size or geography of homes sold.

Figure 10: Existing Home Sales

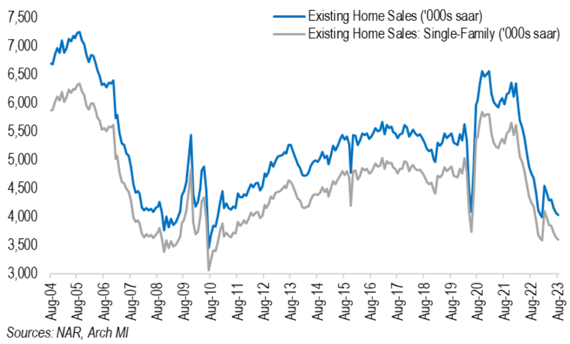
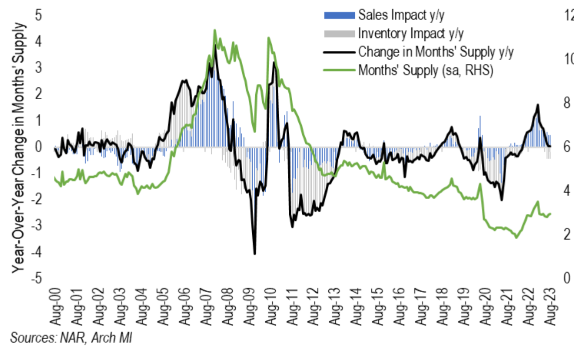


Figure 11: Months' Supply of Existing Homes



MIXED SIGNALS FROM NEW HOME CONTRUCTION IN AUGUST

Total August housing starts fell -11.3% m/m (cons. -0.9%) to a seasonally adjusted annual rate of 1,438k (cons. 1,440k) with underlying details painting a rather mixed picture. After a 5.7% m/m uptick in July, single-family starts declined -4.3% m/m but remained up 17% from November's cycle trough. Multifamily starts, which are far more volatile, declined for the third straight month, plunging -42% to 342k saar, as builders instead focus on working through a record level of multifamily units already under construction. We hold a more positive outlook for single-family construction given low resale inventory and positive demographics. We expect multifamily construction activity to continue to trend slower given the elevated pipeline of multifamily units that are slated for delivery over the coming years. However, our generally positive outlook for the single-family segment does not mean smooth sailing for new home sales. Builder confidence pulled back for the second consecutive month after seven months of gains, falling 5pts m/m to 45 (cons. 49) in September (Figure 12). All three index sub-components fell over the month, largely due to the impact of higher rates on buyer affordability and financing costs for new development. Indeed, the NAHB reported the share of builders using sales incentives, including rate buydowns and price cuts, rose to 59%, the highest share since September. Even so, it was not enough to drive buyer traffic with the index hitting a multi-month low.

Figure 12: NAHB Housing Index and Housing Starts

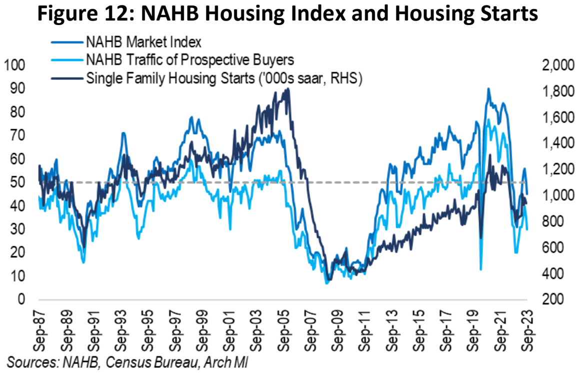
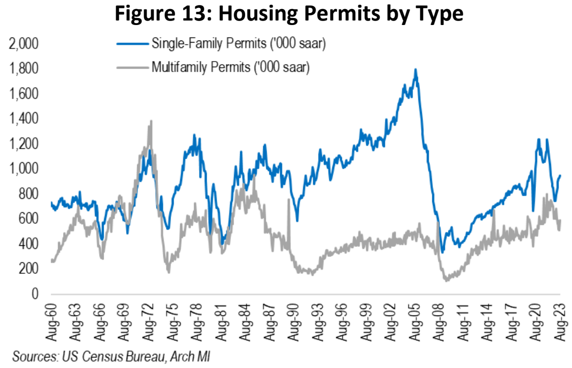
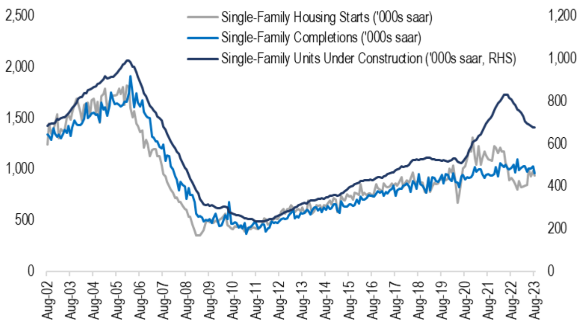


Figure 13: Housing Permits by Type



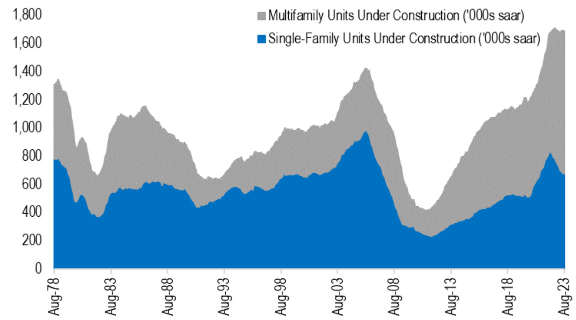
On a more positive note, single-family permits rose for the seventh month in a row, increasing 2.0% m/m, but remained down -24% from last January's peak (Figure 13). Multifamily permits rose 16% m/m, although the pace of permitting remained down -15% compared with a year ago even after the large monthly gain. Total completions rose 5.3% m/m with the year-over-year measure up 3.8% amid pronounced strength in the multifamily segment — up 45% m/m compared to single-family completions down -7%. Single-family completions declined -5.8% y/y and after a year's long stretch, the gap between starts and completions has essentially closed (Figure 14). Improving supply chains and easing labor market conditions have allowed builders to start chipping away at the elevated count of 1,688k units under construction (Figure 15). Single-family units under construction have been declining since May and were down -16% y/y to 676k in August in stark contrast to the 13% y/y increase to 1,012k in the multifamily segment.

Figure 14: Housing Completions



Sources: US Census Bureau, Arch MI

Figure 15: Housing Units under Construction



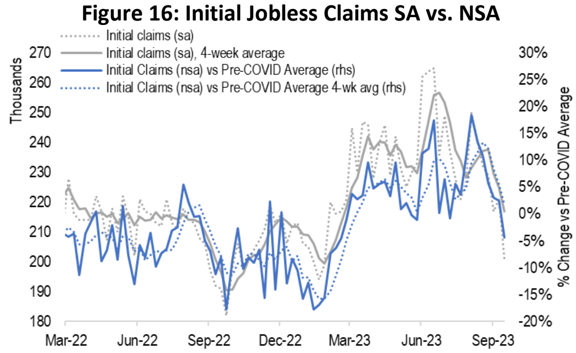
Sources: US Census Bureau, Arch MI

INITIAL JOBLESS CLAIMS COOLED FURTHER

Initial jobless claims took a big step down and continuing claims trended lower as well on a seasonally adjusted basis. However, the divergence remained between the seasonally adjusted and non-seasonally adjusted (nsa) continuing claims, which trended modestly higher vs. its typical pre-COVID-19 seasonal path. Altogether, the labor market appears to still be undergoing a normalization process from the pandemic shock. The gradual increase in continuing claims to modestly above pre-COVID-19 norms is consistent with our view that unemployment will gradually normalize higher as well, assuming the Fed dials back appropriately next year.

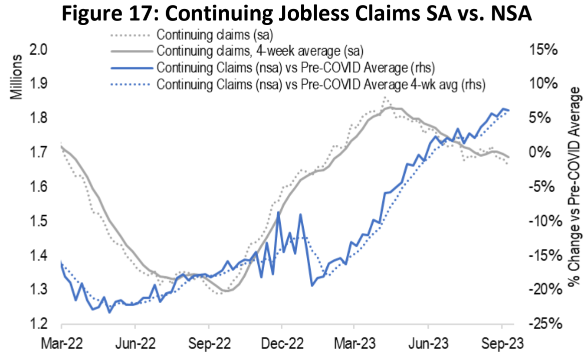
Initial jobless claims declined by -20k to a seasonally adjusted 201k (cons. 225k) during the week ending Sept. 16, moving the four-week average down to 217k from 225k (Figure 16). The four-week average of non-seasonally adjusted initial claims moved down to 1.8% above its pre-COVID-19 average (i.e., 2017 to 2019) from 5.5% the week before and down from a recent peak of nearly 20% in early August. Continuing claims (i.e., repeat filers for unemployment insurance) declined by -21k during the week ending Sept. 9 to a seasonally adjusted 1,662k (cons. 1,692k), moving the four-week average down to 1,687k from 1,696k (Figure 17). Meanwhile, the four-week average of non-seasonally adjusted continuing claims moved up slightly to 5.9% above its pre-COVID-19 average from 5.5% the week before and up from -12% below six months ago.

Figure 16: Initial Jobless Claims SA vs. NSA



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

Figure 17: Continuing Jobless Claims SA vs. NSA



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

The Week Ahead

The recent string of housing data will conclude this week with August new home sales expected to slow -2% m/m while July home-price indexes are generally expected to reflect modest home-price growth. August pending home sales are also expected to inch further down -1%, reversing the 0.9% increase in July. August PCE inflation is expected to accelerate to 0.5% m/m from 0.2% in July, even as core inflation is likely to remain relatively unchanged at 0.2%, consistent with the earlier August Consumer Price Index release. Meanwhile August personal income growth is expected to bounce back modestly (cons. 0.4% vs. 0.2% prior) but final September consumer confidence reads are expected to cool from August levels with modest declines for the Conference Board (cons. 105.5 vs. 106.1 prior) and University of Michigan (cons. 67.7 vs. 67.7 prelim and 69.5 prior). While the third estimate of 2Q23 GDP comes out on Thursday, those revisions will likely take a back seat to the comprehensive revisions to the National Income and Product Accounts (NIPA) data that is likely to narrow the gap between GDP and Gross Domestic Income (GDI). GDP and GDI are conceptually equivalent approaches to estimating national output, but the two series have diverged notably over the last few quarters with GDI much weaker than GDP growth. Based on the prior tendency of revisions to move the two measures closer to each other, we expect GDI to be revised up and GDP to be revised down.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Consensus	Previous	Note
9/26/23	FHFA House Price Index m/m	Jul	0.4%	0.3%	sa
9/26/23	S&P CoreLogic CS 20-City m/m SA	Jul	0.6%	0.9%	sa
9/26/23	S&P CoreLogic CS 20-City y/y NSA	Jul	0.1%	-1.2%	nsa
9/26/23	New Home Sales	Aug	700	714	k, saar
9/26/23	New Home Sales m/m	Aug	-2.0%	4.4%	sa
9/26/23	Conf. Board Consumer Confidence	Sep	105.5	106.1	index, sa
9/27/23	MBA Mortgage Applications	9/22/23	--	5.4%	w/w, sa
9/27/23	Durable Goods Orders	Aug P	-0.5%	-5.2%	m/m, sa
9/28/23	GDP Annualized q/q	2Q T	2.2%	2.1%	saar
9/28/23	Personal Consumption q/q	2Q T	1.7%	1.7%	saar
9/28/23	Core PCE Deflator q/q	2Q F	3.7%	3.7%	saar
9/28/23	Initial Jobless Claims	2Q F	215	201	k, sa
9/28/23	Continuing Claims	2Q F	1,675	1,662	k, sa
9/28/23	Pending Home Sales m/m	Aug	-1.0%	0.9%	sa
9/28/23	Pending Home Sales y/y	Aug	--	-13.8%	nsa
9/29/23	Wholesale Inventories m/m	Aug P	-0.2%	-0.2%	sa
9/29/23	Retail Inventories m/m	Aug	--	0.3%	sa
9/29/23	Personal Income	Aug	0.4%	0.2%	m/m, sa
9/29/23	Personal Spending	Aug	0.4%	0.8%	m/m, sa
9/29/23	Real Personal Spending	Aug	0.0%	0.6%	m/m, sa
9/29/23	PCE Inflation m/m	Aug	0.5%	0.2%	sa
9/29/23	PCE Inflation y/y	Aug	3.5%	3.3%	nsa
9/29/23	PCE Core Inflation (ex Food and Energy) m/m	Aug	0.2%	0.2%	sa
9/29/23	PCE Core Inflation (ex Food and Energy) y/y	Aug	3.9%	4.2%	nsa
9/29/23	U. of Mich. Sentiment	Sep F	67.7	67.7	index, nsa
9/29/23	U. of Mich. 1 Yr Inflation	Sep F	--	3.1%	nsa
9/29/23	U. of Mich. 5-10 Yr Inflation	Sep F	--	2.7%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics