HaMMR Digest

Stay current with economic and mortgage market trends.

September 26, 2022

Parker Ross — Global Chief Economist
pross@archgroup.com | 914 216 7270

Leonidas Mourelatos — Director of Real Estate Economics
lmourelatos@archgroup.com | 631 521 9048

ARCH MORTGAGE INSURANCE COMPANY® | 230 NORTH ELM STREET GREENSBORO NC 27401 | ARCHMI.COM

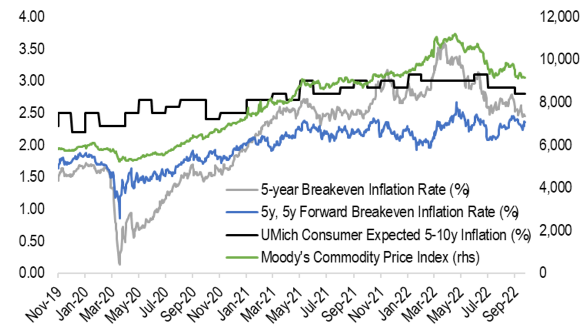
Weekly Wrap – Message Received

- All eyes were on the Federal Reserve, which surprising markets with a more hawkish outlook
- While the path for a soft landing has narrowed significantly, that remains our base case
- A slew of housing data indicate that more softness lies ahead for the U.S. housing market

The Federal Open Market Committee delivered a third straight 75bps rate hike that brought the benchmark federal funds rate to 3.00-3.25%, as expected. More importantly, the Fed's latest economic projections showed that participants expect stubbornly high inflation will stick around longer than they previously expected in the June projections, requiring a higher terminal rate alongside lower economic growth and a higher unemployment rate through 2025. The Fed's faith in a soft landing has wobbled but remains their median outlook. The procession of analyst recession calls that had abated earlier this year began in earnest again, but we still see a plausible path where the economy bends buts does not break as long as the Fed acknowledges cooling real-time indicators of future inflation in the months ahead.

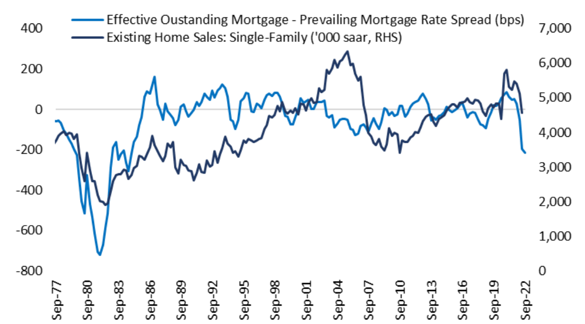
Chairman Powell did not mince words in his press conference and markets clearly got the message: the Fed is nowhere near prepared to begin pivoting towards a more dovish stance. Treasury yields responded as the 10-year UST jumped as high as 3.9% while the 2-year UST quickly breached 4%. Markets remained fractious for the remainder of the week on concern that the Fed could keep policy tighter longer than incoming data warrants. The Fed is clearly looking for monthly progress on inflation moving toward their 2% target and easing wage growth, preferably from reduced hiring and instead of a surge in layoffs, and below-trend growth instead of a recession. Market-based and consumer inflation expectations have been trending the right direction (Figure 1), so now it's a matter of realized inflation cooling as well.

Figure 1: Inflation Monitor



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

Figure 2: Effective-Prevailing Mortgage Spread & Home Sales



Sources: Census Bureau, NAR, Arch MI

The labor market is the crutch of economic strength the Fed will lean on as housing further slows amid higher rates. The sharp decline in existing home sales eased, falling only 0.4% m/m (cons. -2.3%) in August to a seasonally adjusted annualized rate (saar) of 4,800k, a positive sign that will likely prove ephemeral as August sales benefitted from lower mortgage rates in the prior two months. The spread between the mortgage rate on outstanding mortgages and the prevailing mortgage rate is the most negative since the early 1980s (Figure 2). The deeper this spread goes, the more incentive sellers (who are generally also buyers) will have to stay put, limiting turnover and price declines.

While the resale market faces a 'rate lock' scenario, home construction is challenged by decreased buyer affordability. Housing starts jumped 12.2% m/m (cons. 0.3%) in August to 1,575k saar primarily due to the multifamily segment. Permits fell across the board and by 10% m/m (cons. -4.5%) to 1,517k saar. The NAHB housing index declined three points to 46 (cons. 47) in September with survey respondents noting a use of incentives and price cuts. Furthermore, earnings releases for two large public builders, Lennar and KB Home, showed declining new orders, rising buyer cancellation rates, and cancellations of land deals – all signs that future construction spending will be weak. Single-family starts and permits have declined 23% and 25%, respectively, over the past six months. Single-family homes under construction peaked in May and have declined by 1.9% since then to an 812k annual rate, including a 0.4% drop in August.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
9/19/22	NAHB Housing Market Index	Sep	46	47	49	index, sa
9/20/22	Building Permits	Aug	1,517	1,604	1,685	k, saar
9/20/22	Building Permits m/m	Aug	-10.0%	-4.8%	-0.6%	sa
9/20/22	Housing Starts	Aug	1,575	1,450	1,404	k, saar
9/20/22	Housing Starts m/m	Aug	12.2%	0.3%	-10.9%	sa
9/21/22	MBA Mortgage Applications	9/16/22	3.8%	--	-1.2%	w/w, sa
9/21/22	Existing Home Sales	Aug	4,800	4,700	4,820	k, saar
9/21/22	Existing Home Sales m/m	Aug	-0.4%	-2.3%	-5.7%	sa
9/21/22	FOMC Rate Decision (Upper Bound)	9/21/22	3.25%	3.25%	2.50%	%
9/22/22	Initial Jobless Claims	9/17/22	213	217	208	k, sa
9/22/22	Continuing Claims	9/10/22	1,379	1,418	1,401	k, sa
9/22/22	Conference Board Leading Index	Aug	-0.3%	-0.1%	-0.5%	m/m, sa
9/23/22	S&P Global US Manufacturing PMI	Sep P	51.8	51.0	51.5	index, sa
9/23/22	S&P Global US Services PMI	Sep P	49.2	45.5	43.7	index, sa
9/23/22	S&P Global US Composite PMI	Sep P	49.3	46.1	44.6	index, sa

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

HOUSE OF PAIN

The fixed-rate 30-year mortgage increased for the fifth straight week to 6.29% (Freddie Mac), deteriorating both buying and selling conditions. Several surveys show that consumers increasingly see current conditions as poor for buying and selling a house while year-ahead expectations for prices continue to decline precipitously. Redfin data through the week ending September 18th show that competition is dwindling in the market with the prevalence of bidding wars dropping to the lowest level since the beginning of the pandemic. Higher financing costs will increasingly frustrate potential buyers and lead some to rent instead. Accordingly, the decline in pending sales has accelerated, down 20k relative to the same week a year ago (Figure 3) or -27% y/y and only 6% above 2019 levels. However, new listings have slowed even more sharply, down 23k or 24% y/y and delisted homes have increased 8k or 79% compared with a year ago. With the decline in new listings and delisted homes outpacing the decline in pending sales, the number of active listings remained roughly in-line with 2021 levels and 33% below 2019 levels and months' supply has remained about 28% below its pre-pandemic level (Figure 4).

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

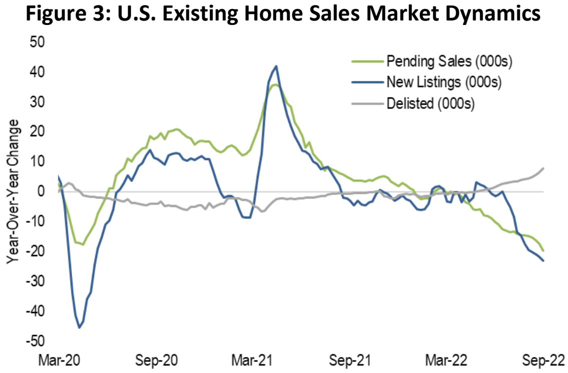
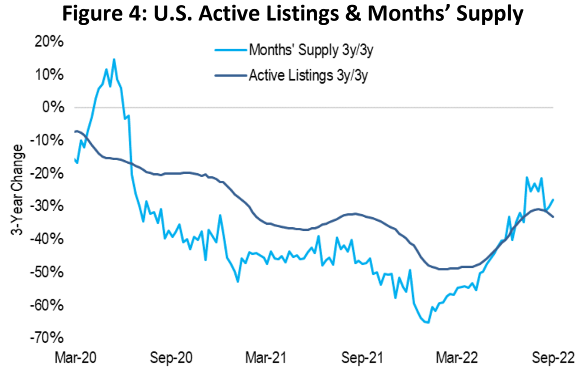


Figure 4: U.S. Active Listings & Months' Supply



Source: Redfin, Arch MI

Meanwhile, the national median sale price ($ / sf) inched up to 9.5% y/y from the 8.6% average in the prior four weeks even as the share of active listings with price drops hit a new cycle high of 7.4%. Of the major metros we track (Figure 5), annual home price growth was weakest in **Los Angeles** (3%), **New York** (3%) and **Boston** (4%) while home price growth has slowed most rapidly compared with a year ago in **Austin** (-32%-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** (15 days longer), **Chicago** (16), **Phoenix** (4) and **Washington DC** (2). 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.

Figure 5: Weekly Housing Monitor

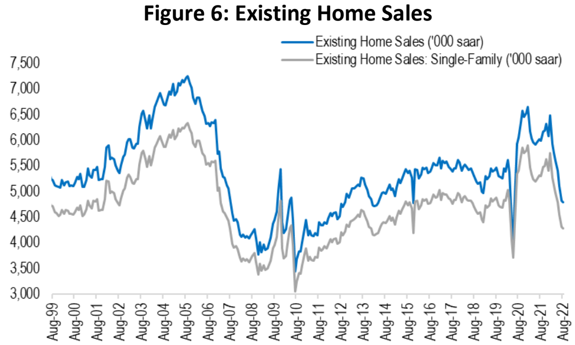
Metro	Median Sale Price psf (% y/y)	Median Sale Price Same Week '21 (% y/y)	Active Listings with Price Drops (% share)	Active Listings with Price Drops (ppt Δ y/y)	Homes Sold Above List (%)	Homes Sold Above List (ppt Δ y/y)	Average Sale-to-List Ratio (%)	Average Sale-to-List Ratio (ppt Δ y/y)	Total Active 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%	17%	7%	4%	33%	-14%	99%	-2%	0%	-16	-20	-28%	-47%
Atlanta	15%	24%	8%	4%	31%	-20%	99%	-2%	16%	-8	-16	-22%	-51%
Austin	6%	38%	12%	7%	23%	-32%	98%	-4%	58%	15	-3	60%	-43%
Baltimore	7%	11%	7%	1%	41%	-4%	101%	-1%	-25%	-14	-12	-50%	-52%
Boston	4%	15%	5%	1%	54%	-6%	102%	-1%	-12%	-6	4	-39%	-40%
Chicago	5%	10%	4%	0%	32%	-6%	99%	-1%	13%	16	-21	-20%	-44%
Dallas	16%	23%	10%	5%	31%	-25%	99%	-3%	18%	-18	-18	-33%	-57%
Denver	8%	20%	13%	9%	25%	-31%	99%	-3%	34%	-3	-9	-14%	-52%
Houston	15%	18%	9%	4%	23%	-14%	98%	-1%	17%	-21	-21	-23%	-50%
Los Angeles	3%	14%	6%	3%	42%	-20%	100%	-3%	-7%	-8	-8	-8%	-37%
Miami	16%	23%	4%	2%	20%	0%	97%	0%	-13%	-20	-5	-24%	-46%
Minneapolis	6%	10%	7%	2%	42%	-16%	100%	-2%	1%	-3	-10	-21%	-43%
Nashville	17%	23%	7%	4%	20%	-26%	99%	-3%	58%	-17	-25	-8%	-59%
New York	3%	23%	4%	1%	31%	3%	100%	0%	-17%	-42	-29	-38%	-35%
Phoenix	12%	31%	13%	9%	16%	-36%	98%	-3%	52%	4	-15	64%	-43%
Portland	6%	18%	10%	4%	31%	-28%	100%	-3%	21%	-8	-16	-21%	-56%
Riverside	11%	24%	8%	4%	36%	-27%	99%	-3%	16%	-14	-25	-10%	-50%
San Diego	7%	22%	8%	4%	32%	-26%	99%	-3%	10%	-1	-14	-21%	-62%
Seattle	4%	20%	10%	5%	22%	-36%	99%	-5%	48%	0	-7	-11%	-66%
Tampa	21%	25%	13%	5%	21%	-19%	98%	-2%	56%	-15	-26	-14%	-59%
Washington	7%	8%	6%	1%	33%	-12%	100%	-1%	-21%	2	4	-20%	-36%

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

SPEED OF EXISTING HOME SALES DECLINE EASES

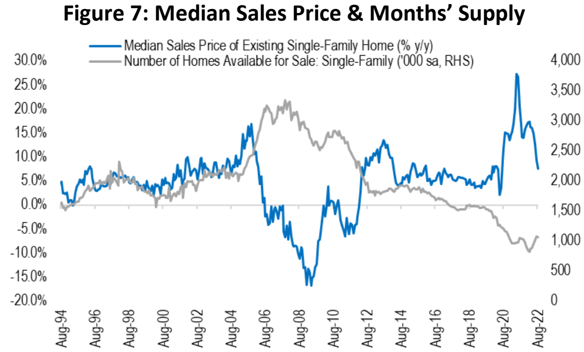
Existing home sales decreased for the seventh straight month in August, falling 0.4% m/m (sa) to a 4,800k (cons. 4,700k) annualized pace, marking a cumulative decline of 21% from the end of 2021 (Figure 6). National sales figures were dragged lower by a 3.3% m/m decline in the Midwest region, offsetting modest growth in the Northeast and West. August single-family home sales slowed by 0.9% m/m to 4,280k saar, the eighth decline in the last nine months but also the smallest monthly decline over that period. On a year-over-year basis, single-family home sales are down 19% and have been slowing since December. Sales are down nearly 28% from the January 2021 post-pandemic peak.

Figure 6: Existing Home Sales



Sources: NAR, Arch MI

Figure 7: Median Sales Price & Months' Supply



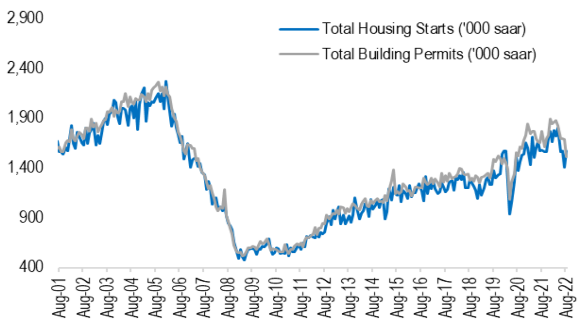
Sources: NAR, Arch MI

August existing home sales data reflects the housing market from June and July (i.e., when contracts were signed for August closings), a period that included a brief respite in mortgage rates before the recent runup. Supply conditions remain tight despite the slower pace of sales as inventory at the end of August was only 1,063k (sa) units, a 0.9% m/m drop and still 30% below its respective 2019 level (Figure 7). Unsold inventory sits at a seasonally adjusted 3.0 months' supply at the present sales pace, up from 1.8 months in January. The seasonally adjusted median sales price of an existing single-family home dropped 1.4% m/m, the third straight sequential decline, to $384k, although it is important to note that this figure is not adjusted for the mix of homes sold. Despite the monthly declines, home prices remain up 7.6% y/y in August, down from 17% in January. From a regional perspective, only the South still boasts double-digit price gains, with the region up 12% y/y in August while the weakest growth was recorded in the Northeast, coming in at 0.6% y/y, a significant declaration from last month's reading of 8% and likely influenced by the mix of homes sold last month.

HOUSING CONSTRUCTION SHOWS A PULSE

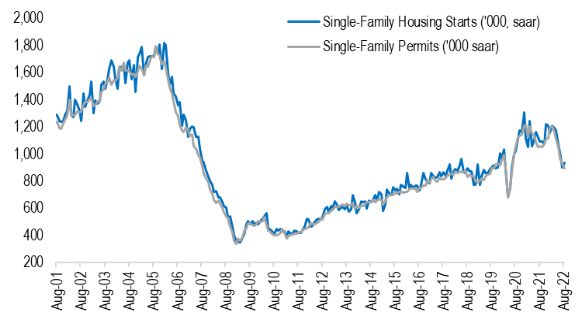
August housing starts rose 12% m/m to 1,575k saar (cons. 1,450k), recovering from the 23-month low reached in July. However, of the 171k m/m increase, multifamily starts accounted for 140k. Nonetheless, the single-family segment increased for the first time in six months and by 3.4% m/m to 935k (Figure 8). Multifamily starts, which have been volatile, increased 28% m/m as builders generally hold a more positive outlook on the rental market. In contrast, more forward-looking building permits continued to fall across the board with the total permits down 10% m/m to a 1,517k annual rate (cons. 1,604k) and driven by a 18% decline for multifamily homes. Single-family permits fell for the sixth consecutive month and are down 25% from the beginning of the year (Figure 9).

Figure 8: Housing Starts and Permits



Sources: US Census Bureau, Arch MI

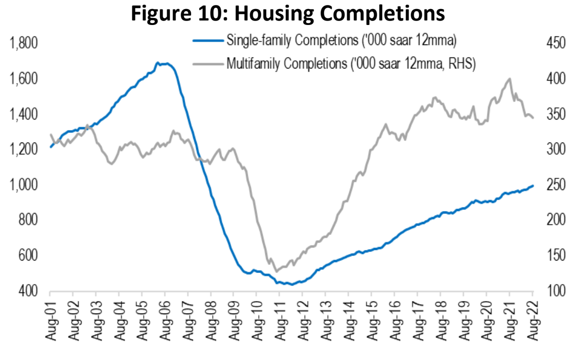
Figure 9: Single-Family Starts and Permits



Sources: US Census Bureau, Arch MI

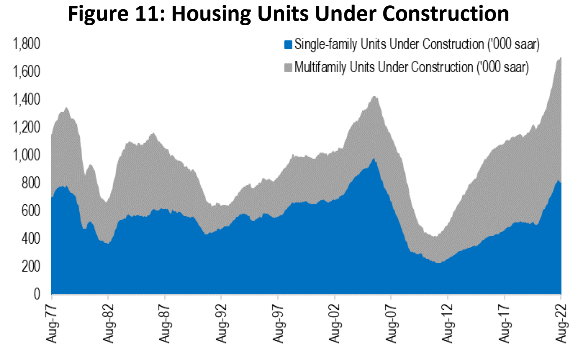
Completions pulled back by 5.4% m/m in August mostly due to a slowdown in the multifamily segment, while single-family completions are up about 7% y/y and nearly 11% above the pre-pandemic pace (Figure 10). Total completions have remained flat over the prior year as builders are still battling supply chain bottlenecks against a record level 1,702k units under construction (Figure 11). Both the single-family and multifamily segments continue to see growth in units under construction on an annual basis with the former up 14% and 56% on a one-year and three-year basis, respectively. On a monthly basis, single-family units under construction have slowed consistently since May, consistent with the multi-month downtrends permits and starts. With the dislocations occurring in the housing market amid rising rates and slowing sales, single-family units authorized but not started have remained flat over the prior months as builders curtail new construction to better manage their inventory relative to demand.

Figure 10: Housing Completions



Sources: US Census Bureau, Arch MI

Figure 11: Housing Units Under Construction

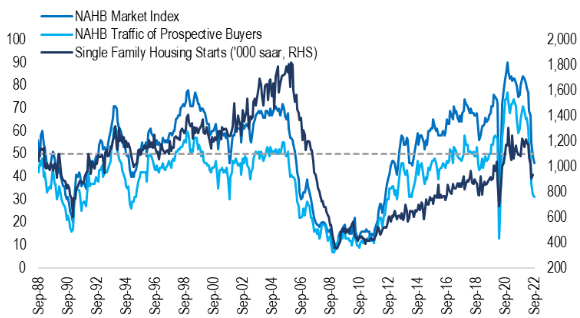


Sources: US Census Bureau, Arch MI

HOMEBUILDERS STILL EXPECT THINGS TO GET WORSE

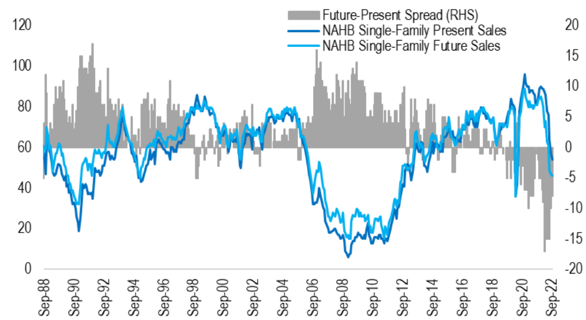
The bounce back in construction activity was not equally met by a rebound in homebuilder sentiment for the month of September. The headline NAHB housing market index dropped three points to 46, further below the breakeven '50' level, indicating that more builders view conditions as negative rather than positive. The West was the only region to further deteriorate from the month before, aligning with our view that the West is the most stretched in terms of valuations and affordability. National index components have slowed their pace of sequential decline with the headline index back at 2013-2014 levels, a period when the U.S. was recovering from the financial crisis and single-family housing starts were running at an annualized pace of about 630k. The index of buyer traffic fell one point to 31, the lowest reading since 2012 outside the pandemic (Figure 12), as did the index of future sales (Figure 13). Continued mortgage rate volatility keeps moving the housing market's supply and demand goalposts, suggesting the modest levelling off for the September housing market index was likely a one-off instead of a sign of stabilization.

Figure 12: NAHB Housing Indexes: Overall and Buyer Traffic



Sources: NAHB, Arch MI

Figure 13: NAHB Housing Indexes: Present and Future Sales

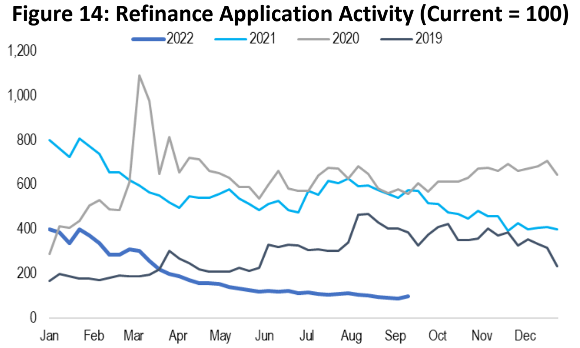


Sources: NAHB, Arch MI

MORTGAGE ACTIVITY BOUNCES BACK DESPITE SURGING MORTGAGE RATES

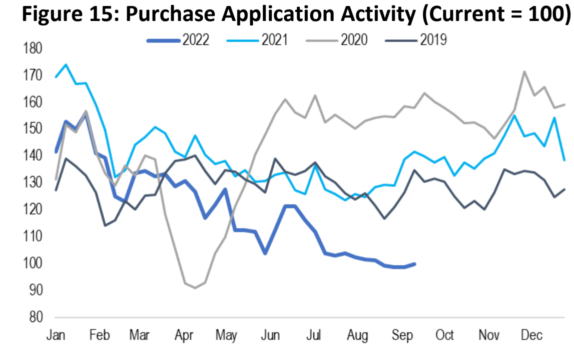
The MBA application survey for the week ending September 16th increased 3.8% w/w but the index remains down -64% year-over-year, and down -54% compared with pre-pandemic levels (i.e., 3 years ago). The weekly increase was driven primarily by a 10% jump in refinancing applications, which remain down -83% y/y despite the weekly gain, and down -74% over 3 years (Figure 14). Purchase applications increased 1% w/w but remain down -30% y/y and -26% relative to 2019 levels (Figure 15).

Figure 14: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

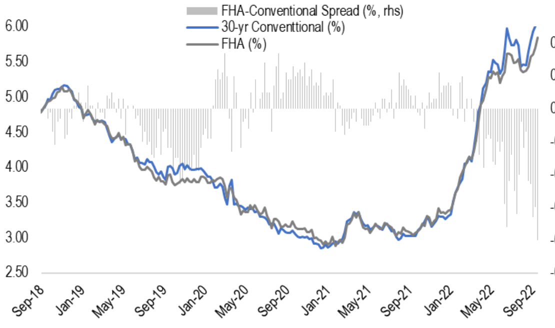
Figure 15: Purchase Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

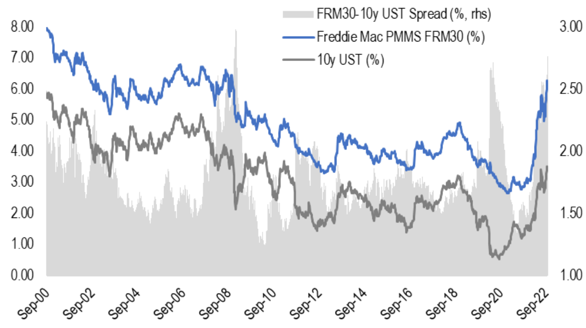
According to the MBA survey of lenders, the average contract conventional mortgage rate rose 24bps to 6.25% during the week ending September 16th while the FHA contract mortgage rate also rose 14bps to 5.85%, resulting in a -10bps contraction in the spread between the FHA and conventional mortgage rate to -0.4% (Figure 16). Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the 3 days ending September 21st indicated that the FRM30 jumped 27bps w/w to 6.29% (Figure 17) as 10-year UST yields jumped 12bps to an average of 3.52% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 15bps to 2.77%, about 107bps wider than its typical non-stressed level and wider than the peak of the pandemic (2.72%). Although we expect mortgage spreads to begin to normalize in 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 16: Conventional vs FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

Figure 17: 30-year Mortgage Rate vs 10-year UST Yield

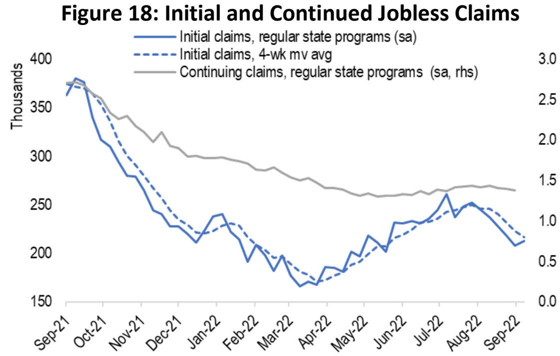


Sources: Freddie Mac PMMS, FRB, Arch MI

JOBLESS CLAIMS CONTINUE TO REFLECT LABOR MARKET STRENGTH

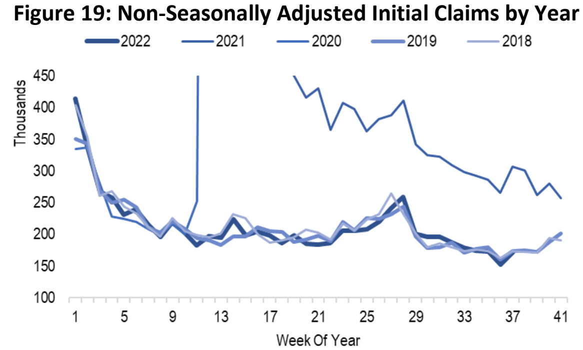
Initial jobless claims rose by 5k to 213k (consensus: 217k) during the week ending September 17th from 208k the previous week, moving the 4-week average down to 217k from 223k (Figure 18). The non-seasonally adjusted level of initial claims remained below pre-pandemic levels (Figure 19) and at the lowest level since 1969. Continuing claims for regular state programs (i.e., repeat filers for unemployment insurance) declined by 22k to 1,379k (consensus: 1,418k) during the week ending September 10th and are now 22% below pre-pandemic levels.

Figure 18: Initial and Continued Jobless Claims



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

Figure 19: Non-Seasonally Adjusted Initial Claims by Year



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

The Week Ahead

This week will provide further clarity on the housing market with a look at July home prices as well as new home sales and pending sales for August. While the home price indices released this week are lagged, they will nonetheless confirm that momentum for home price appreciation is clearly swinging in the opposite direction from the beginning of the year. New home sales are likely to fall further while rising rates will weigh on the pending home sales index, a negative sign for September's existing home sales release. Aside from housing, additional updates will be provided on consumer sentiment, which has turned up recently, as well as household spending and income in August. The downtrend in gasoline prices have given some breathing room to households but it is unclear if those savings are being redirected toward other categories or if higher prices elsewhere are offsetting the reprieve at the pump. The Fed's preferred inflation metric, the personal consumption expenditures price index, is expected to bounce back in August from an anomalously weak July print, mirroring the recent recovery in CPI data.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
9/27/22	FHFA House Price Index m/m	Jul	--	0.0%	0.1%	sa
9/27/22	S&P CoreLogic CS 20-City m/m SA	Jul	--	0.2%	0.4%	sa
9/27/22	S&P CoreLogic CS 20-City y/y NSA	Jul	--	17.4%	18.7%	nsa
9/27/22	Conf. Board Consumer Confidence	Sep	--	104.5	103.2	index, sa
9/27/22	New Home Sales	Aug	--	500	511	k, saar
9/27/22	New Home Sales m/m	Aug	--	-2.2%	-12.6%	sa
9/28/22	MBA Mortgage Applications	9/23/22	--	--	3.8%	w/w, sa
9/28/22	Pending Home Sales m/m	Aug	--	-1.5%	-1.0%	sa
9/28/22	Pending Home Sales y/y	Aug	--	--	-22.5%	nsa
9/29/22	Initial Jobless Claims	9/24/22	--	215	213	k, sa
9/29/22	Continuing Claims	9/17/22	--	1,383	1,379	k, sa
9/29/22	GDP Annualized q/q	2Q T	--	-0.6%	-0.6%	saar
9/29/22	Personal Consumption q/q	2Q T	--	1.5%	1.5%	saar
9/29/22	Core Personal Consumption q/q	2Q T	--	4.4%	4.4%	saar
9/30/22	Personal Income	Aug	--	0.3%	0.2%	m/m, sa
9/30/22	Personal Spending	Aug	--	0.2%	0.1%	m/m, sa
9/30/22	Real Personal Spending	Aug	--	0.2%	0.2%	m/m, sa
9/30/22	PCE Inflation m/m	Aug	--	0.1%	-0.1%	sa
9/30/22	PCE Inflation y/y	Aug	--	6.0%	6.3%	nsa
9/30/22	PCE Core Inflation (ex Food and Energy) m/m	Aug	--	0.5%	0.1%	sa
9/30/22	PCE Core Inflation (ex Food and Energy) y/y	Aug	--	4.7%	4.6%	nsa
9/30/22	U. of Mich. Sentiment	Sep F	--	59.5	59.5	index, nsa
9/30/22	U. of Mich. 1 Yr Inflation	Sep F	--	--	4.6%	nsa
9/30/22	U. of Mich. 5-10 Yr Inflation	Sep F	--	2.8%	2.8%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI