HaMMR Digest

Stay current with economic and mortgage market trends.

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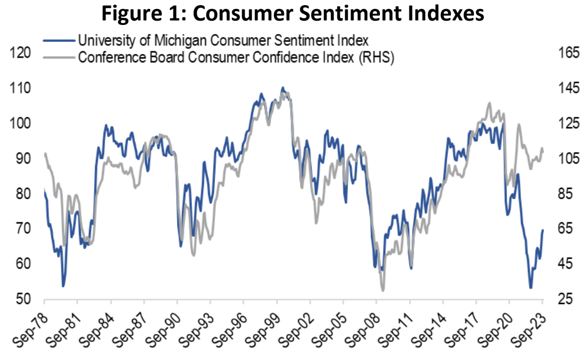
Weekly Wrap — Incoming Fog Delayed

- Financial market gyrations raise angst about the durability of the economic expansion.
- A government shutdown was averted at the 11th hour, but only for 45 days and remains a lingering risk over 4Q.
- GDP revisions were generally positive with the supply-side of the economy showing improving health.

The state of confusion over what is occurring in financial markets and the economy has been elevated recently and it will only increase. 10-year U.S. Treasury yields are up ~60bps in the month of September alone and ~140bps since the recent low in April, reaching a 15-year high of ~4.7%. There have been equally violent moves recently to the downside in equities and upside for energy prices and the U.S. dollar. Such drastic moves in markets have consequences, if sustained, and conjure memories of elevated volatility ahead of economic downturns. However, the link between market volatility and economic weakness is through financial/credit stress where access to capital is crimped dramatically, leading to lower investment/hiring, failed refinancings, removal of bank credit lines and ultimately higher defaults. While we do not cover financial markets in depth in our Weekly Wraps, it is an important element of our overall economic surveillance framework and currently there are few red flags. One piece of negative news that was removed, at least temporarily, is the potential for a government shutdown as a result of the signing of a short-term U.S. government funding bill through November 17.

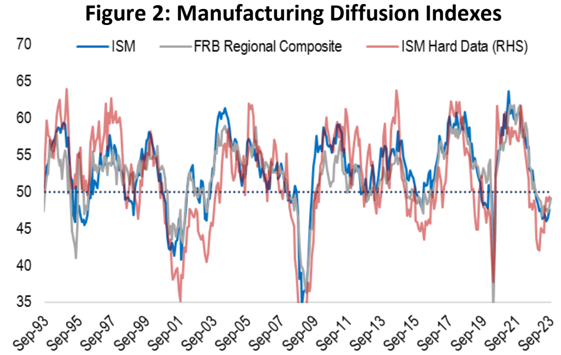
Another area of concern was the comprehensive revision by the U.S. Bureau of Economic Analysis (BEA), which occurs every five years or so, but this also did not result in a downgrade to growth as many feared. Despite the level shift up in dollar terms for consumer spending, the growth rate was downwardly revised with total contributions to real GDP growth down a cumulative 2.25%-pts since 1Q22, better aligning with poor consumer sentiment measures (Figure 1). The revision to consumption seems worrying on the surface with a low unemployment rate and solid income gains. However, the downward revision to spending was not due to inability to spend, but a preference to save given the upward revisions to disposable income primarily due to higher labor compensation, lifting the savings rate path by ~40bps for each month since January. A normalization of the savings rate is still underway and it remains unclear if it will return to the pre-pandemic average of ~7%. August spending was weak, as expected, with real consumption rising just 0.1% m/m (cons. 0.0%) after a 0.6% surge in July.

Figure 1: Consumer Sentiment Indexes



Sources: University of Michigan, Conference Board, Arch MI

Figure 2: Manufacturing Diffusion Indexes



Sources: ISM, FRB, Census Bureau, BLS, Arch MI

On the flip side, upgrades to private investment further widened the divide between survey and hard output data. To better capture this dynamic, we constructed a diffusion index in the same way the Institute of Supply Management (ISM) constructs its manufacturing survey using only hard data inputs, with evidence pointing to a recovery underway (Figure 2). Real capital goods shipments rose 0.5% m/m in August for the fastest pace since last October while real capital goods orders jumped 0.8%, the fastest pace since December 2021. The supply side of the economy has healed better than initially thought and is still improving, with positive knock-on effects for inflation. August core Personal Consumption Expenditures inflation rose 0.1% m/m (cons. 0.2%), a 2.2% annualized rate over the last three months, close to the Fed's target 2%. New home sales have seemingly downshifted to a lower gear, falling -8.7% m/m (cons. -2.2%) in August to a 675k annualized pace (seasonally adjusted, or sa). The U.S. Census data has been more volatile lately with alternative data showing steady growth in sales with builders growing their market share in select regions across the U.S., benefiting from more flexibility in alleviating affordability constraints of buyers compared to existing home sellers.

Recent Data Releases

Key economic and housing data releases over the prior week:

Date	Indicator	Period	Actual	Consensus	Revised	Prior	Note
9/26/23	FHFA House Price Index m/m	Jul	**0.8%**	0.4%	0.4%	0.3%	sa
9/26/23	S&P CoreLogic CS 20-City m/m SA	Jul	**0.9%**	0.7%	0.9%	0.9%	sa
9/26/23	S&P CoreLogic CS 20-City y/y NSA	Jul	**0.1%**	-0.1%	-1.2%	-1.2%	nsa
9/26/23	New Home Sales	Aug	**675**	698	739	714	k, saar
9/26/23	New Home Sales m/m	Aug	**-8.7%**	-2.2%	8.0%	4.4%	sa
9/26/23	Conf. Board Consumer Confidence	Sep	**103.0**	105.5	108.7	106.1	index, sa
9/27/23	MBA Mortgage Applications	9/22/23	**-1.3%**	--	--	5.4%	w/w, sa
9/27/23	Durable Goods Orders	Aug P	**0.2%**	-0.5%	-5.6%	-5.2%	m/m, sa
9/28/23	GDP Annualized q/q	2Q T	**2.1%**	2.2%	--	2.1%	saar
9/28/23	Personal Consumption q/q	2Q T	**0.8%**	1.7%	--	1.7%	saar
9/28/23	Core PCE Deflator q/q	2Q F	**3.7%**	3.7%	--	3.7%	saar
9/28/23	Initial Jobless Claims	2Q F	**204**	215	202	201	k, sa
9/28/23	Continuing Claims	2Q F	**1,670**	1,675	1,658	1,662	k, sa
9/28/23	Pending Home Sales m/m	Aug	**-7.1%**	-1.0%	0.5%	0.9%	sa
9/28/23	Pending Home Sales y/y	Aug	**-18.8%**	-13.0%	-14.1%	-13.8%	nsa
9/29/23	Wholesale Inventories m/m	Aug P	**-0.1%**	-0.2%	--	-0.2%	sa
9/29/23	Retail Inventories m/m	Aug	**1.1%**	0.5%	0.5%	0.3%	sa
9/29/23	Personal Income	Aug	**0.4%**	0.4%	--	0.2%	m/m, sa
9/29/23	Personal Spending	Aug	**0.4%**	0.5%	0.9%	0.8%	m/m, sa
9/29/23	Real Personal Spending	Aug	**0.1%**	0.0%	--	0.6%	m/m, sa
9/29/23	PCE Inflation m/m	Aug	**0.4%**	0.5%	--	0.2%	sa
9/29/23	PCE Inflation y/y	Aug	**3.5%**	3.5%	3.4%	3.3%	nsa
9/29/23	PCE Core Inflation (ex Food and Energy) m/m	Aug	**0.1%**	0.2%	--	0.2%	sa
9/29/23	PCE Core Inflation (ex Food and Energy) y/y	Aug	**3.9%**	3.9%	4.3%	4.2%	nsa
9/29/23	U. of Mich. Sentiment	Sep F	**68.1**	67.7	--	67.7	index, nsa
9/29/23	U. of Mich. 1 Yr Inflation	Sep F	**3.2%**	3.2%	--	3.1%	nsa
9/29/23	U. of Mich. 5-10 Yr Inflation	Sep F	**2.8%**	2.8%	--	2.7%	nsa

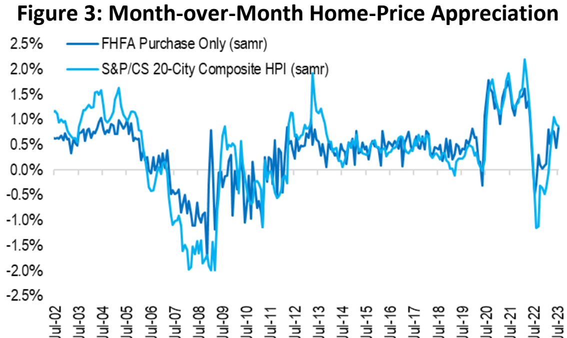
Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics

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

HOME PRICES CLIMBED HIGHER IN JULY

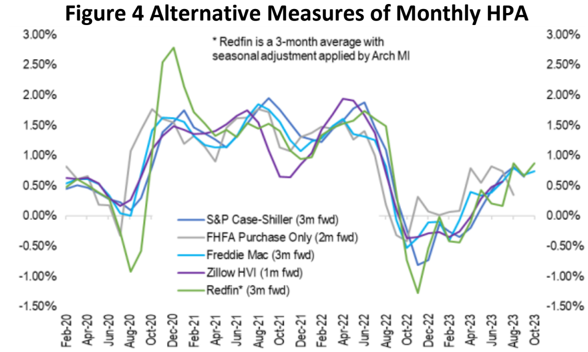
Repeat-sales home price index (HPI) growth improved again in July. The FHFA Purchase Only (PO) HPI rose 0.8% m/m (cons. 0.4%) on a seasonally adjusted basis, the eighth consecutive increase (Figure 3). The S&P/Case-Shiller 20-City Composite HPI rose 0.9% (cons. 0.7%) in July, the fifth consecutive uptick. All 20 metropolitan areas within the 20-city composite recorded monthly gains, same as last month and a stark improvement from the beginning of the year. Price gains were most pronounced in Seattle (1.7%), San Diego (1.5%) and Los Angeles (1.1%). Other more real-time measures of home-price appreciation (HPA) had already shown a similar improvement in the monthly trend (Figure 4).

Figure 3: Month-over-Month Home-Price Appreciation



Sources: S&P, FHFA, Arch MI

Figure 4 Alternative Measures of Monthly HPA



Sources: S&P, FHFA, Freddie Mac, Optimal Blue, Redfin, Zillow, Arch MI

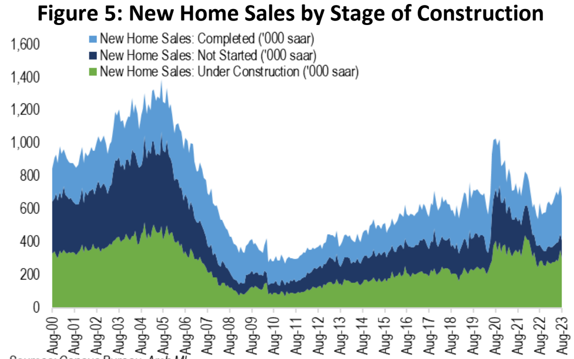
Based on data from Redfin, monthly home-price appreciation (HPA) continued to trend higher in August and September. While these improvements should be reflected in subsequent releases of the repeat-sales HPIs, we expect the recent persistence of mortgage rates above 7% to dampen price momentum heading into autumn.

It is important to note that during periods of market volatility, there can be divergences between the FHFA and S&P/Case-Shiller HPIs. Index compositional differences do play a factor where the FHFA index is compiled based on conforming, conventional loans purchased and securitized by the GSEs (data included in the index are based on loan origination data) while the S&P/Case-Shiller index captures more transactions and uses a different weighting that places greater emphasis on regions with higher home values. The S&P/Case-Shiller index is also a three-month average of closed sales, implying that closed sales for the most recent May–July period could include contracts signed as far back as February.

NEW HOME SALES GETTING CHOPPY

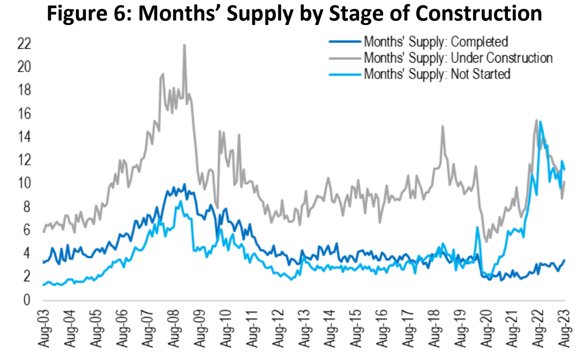
Data from the U.S. Census Bureau showed new home sales declined -8.7% m/m (cons. -2.2%) in August to a seasonally adjusted annual rate of 675k (cons. 698k) from 714k in July (revised down from 739k). Sales had been rising since 4Q22, albeit on a choppy path, while existing home sales had remained more depressed. However, with the latest data in hand, the trend in new home sales has turned lower with the trailing three-month average monthly sales pace at -1.4%. August's decline was the largest since September 2022, bringing the annual advance down to 5.8% from 36% last month with the current pace just above where it was at the onset of the pandemic (Figure 5). Large national builders have been optimistic with rising orders and healthy margins, allowing them to take advantage of a tight resale market. Accordingly, new home sales comprised 14% of the total home sales market over the past three months, up from 11% at the onset of the pandemic.

Figure 5: New Home Sales by Stage of Construction



Sources: Census Bureau, Arch MI

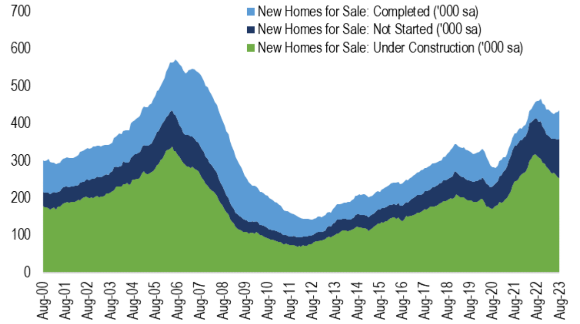
Figure 6: Months' Supply by Stage of Construction



Sources: Census Bureau, Arch MI

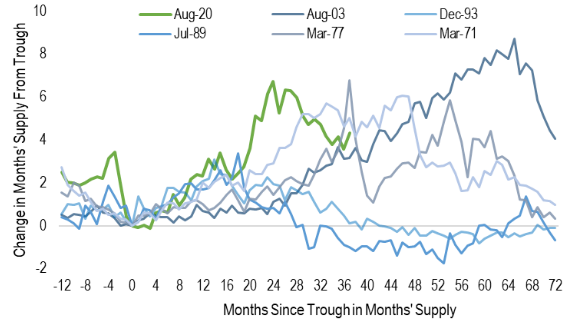
While new home sales have been choppy, the supply of new homes has been steadier, up 1.2% m/m in July for the third straight monthly advance. The inventory of new homes for sale in August represented a 7.8 months' supply, down from the cycle peak of 10.1 months in June and slightly above the historical average of 6 months. Completed home sales rose 4% m/m, lifting annual growth to 62% despite remaining -4% below four years ago. The rise of completed home inventory reflects a normalization of supply-chain constraints rather than a sign of stress given the median time to sell a completed home was just 2.3 months (sa) in August, same as last month and below the historical norm. Additionally, builders continued to prioritize reducing their backlogs of units under construction, which has lifted the months' supply of completed homes to 3.5 months (sa), which is still slightly below where it stood at the onset of the pandemic (Figure 6). The bulk of new home inventory remained skewed toward units not started and under construction, which comprise 83% of the total inventory when combined (Figure 7).

Figure 7: Inventory of New Homes for Sale



Sources: Census Bureau, Arch MI

Figure 8: New Home Months' Supply Cycles



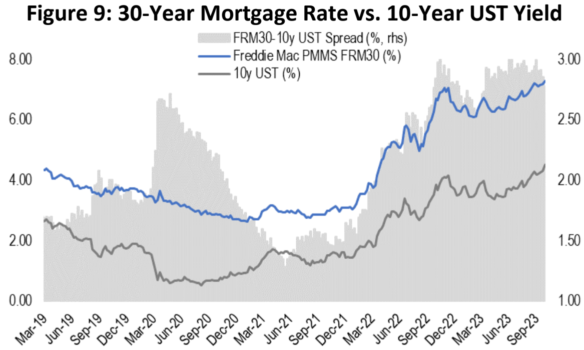
Sources: Census Bureau, Arch MI

Home builders have managed through this whiplash-inducing housing cycle much better than during the Global Financial Crisis (GFC). The current cycle for the new home market has been defined by extremes: The pace, magnitude and duration of the slump have been quite unique. The months' supply of new homes surged from a record low of 3.3 months in August 2020 (defined as the peak of the cycle) to a peak of 10.1 months in July 2022 (defined as the trough of the cycle), or an increase of 6.8 months — a deterioration surpassed only by the GFC when months' supply climbed by 8.7 months to a peak of 12.2 months (Figure 8). However, it took over half a decade for the new home sales market to go from its cycle peak in August 2003 to its trough in January 2009, compared with just under two years for the current cycle. Even more impressively, the months' supply of new homes has returned close to its historic average a mere few months after enduring a historic downturn.

MORTGAGE PURCHASE APPLICATION ACTIVITY REMAINED MORIBUND

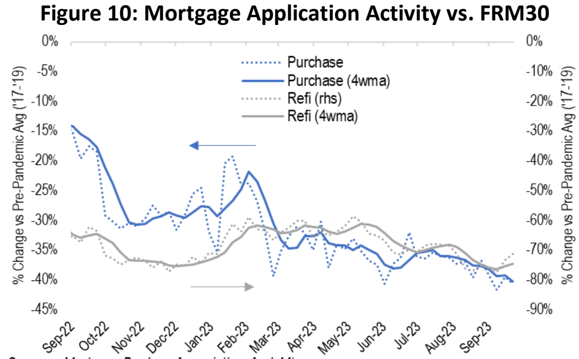
Mortgage application activity remained muted last week and has bounced around at the same low level since mid-August. According to the MBA Weekly Applications Survey for the week ending Sept. 22, the average contract rate for a conventional 30-year fixed-rate mortgage rose 10bps to 7.41% while the average FHA contract mortgage rate also rose 8bps to 7.16%, resulting in a -2bps contraction in the spread between the FHA and conventional rate to -0.25%. Meanwhile, the average contract rate for a jumbo 30-year fixed-rate mortgage rose 2bps to 7.34%, resulting in an -8bps contraction in the jumbo-conventional spread to -0.07%.

Figure 9: 30-Year Mortgage Rate vs. 10-Year UST Yield



Sources: Freddie Mac Primary Mortgage Market Survey, Federal Reserve Board, Arch MI

Figure 10: Mortgage Application Activity vs. FRM30



Sources: Mortgage Bankers Association, Arch MI

Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending Sept. 27 indicated that the FRM30 jumped 12bps w/w to 7.31% (Figure 9) as the yield on the benchmark 10-year U.S. Treasury (UST) jumped 20bps to an average of 4.53% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST narrowed -8bps to 2.78%, about 110bps wider than its typical non-stressed level prior to the pandemic but the lowest spread since March 2023. 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.

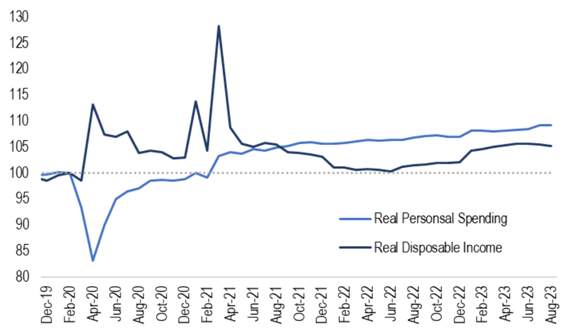
Mortgage application activity declined -1.3% w/w (sa), leaving the index down -26% year over year and down -56% compared with pre-pandemic levels (i.e., the average of the same week in 2017, 2018 and 2019). The weekly decline was driven primarily by a -1.5% (sa) decline in purchase applications, which remained down -27% y/y and -41% below the pre-pandemic level (Figure 10). Refinancing applications declined -0.9% w/w (sa) and were down -21% y/y and -71% relative to pre-pandemic levels.

CONSUMERS PARED BACK SPENDING IN AUGUST

The August personal income and outlay report indicated that income growth remained solid but only matched the pace of spending. Updated monthly data that came along with the recent comprehensive revisions from the BEA (occurs roughly every five years) reflected a higher level of income, led by a bump to labor compensation, and spending. Even with those upgrades, real spending growth on goods was downgraded 30bps to a monthly average of 0.3% since January, with services growth downgraded by 10bps to 0.2% over the same time period. The upshot from the comprehensive revisions was a higher savings rate post-COVID-19 with the pre-COVID-19 savings rate revised lower, resulting in an upgrade to the estimated savings buffers U.S. households have in aggregate.

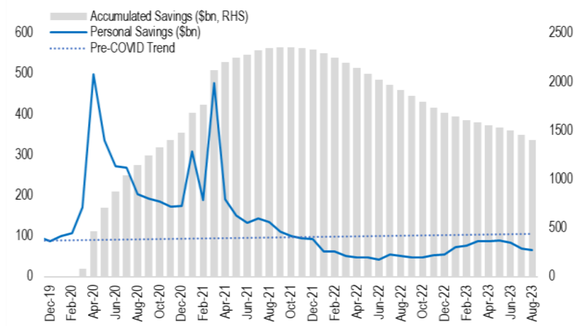
Nominal spending rose a 0.4% m/m (cons. 0.5%) with real spending up just 0.1% (cons. 0.0%) after a robust 0.6% advance in July. Goods spending was soft, subtracting 6bps from headline real consumer outlays driven by a decline in autos expenditures. Real services spending rose 0.2% m/m after a 0.6% bounce in July with gains in recreational services, transportation and dining out. Nominal personal income advanced 0.4% m/m (cons. 0.4%) with gains from private wages accelerating to 0.5% m/m, or 5.8% annualized over the prior three months, with added contributions coming from business (0.4% m/m), rental (1.0%), and interest income (0.5 m/m). Real disposable income growth remained negative for a third consecutive month but was still more than 5% above where it started the pandemic (Figure 11). Even with spending growth matching income growth, the personal savings rate fell 20bps to 3.9% due to an increase in personal tax payments brought on by a delayed tax filing season in select states impacted by disasters. California is the most notable state with a delayed tax filing date and has an outsized influence on the national income figures.

Figure 11: Real Income and Spending (Feb. 2020 = 100)



Sources: BEA, Arch MI

Figure 12: Personal Savings



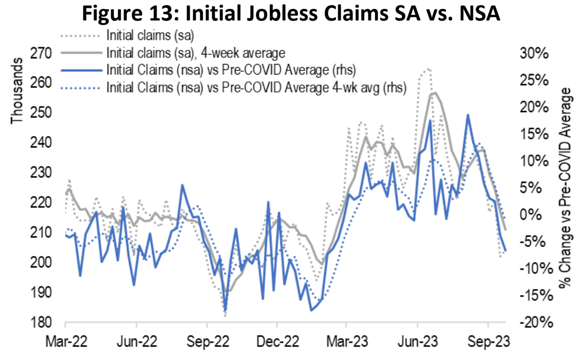
Sources: BEA, Arch MI

The savings rate may not return to its pre-pandemic average of ~7% in part due to the aging population (implies more aggregate spending down of savings) and the fact that households remained relatively flush with accumulated savings, at least in aggregate. Additionally, the gains for real disposable income and ability to further tap revolving credit are likely to keep consumers confident enough to maintain a lower savings rate. As such, the savings accumulated during the pandemic (Figure 12) do not necessarily need to be fully depleted in aggregate as households may view that savings as a form of wealth instead of a source for daily expenses. However, consumers may pivot to a more cautious stance given student loan repayments will restart soon and wage growth appears set to cool further in the months ahead.

SEASONALLY ADJUSTED INITIAL AND CONTINUING JOBLESS CLAIMS TRENDED LOWER

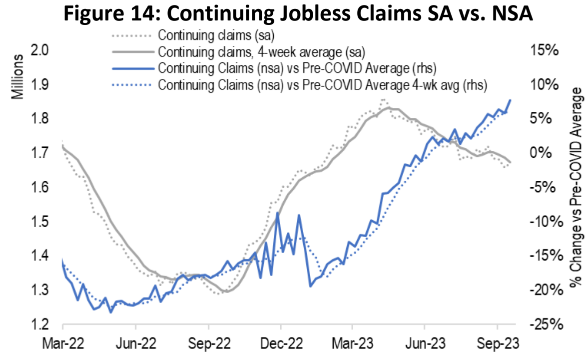
The trend in initial jobless claims remains lower, while continuing claims continued rising relative to the pre-COVID-19 norm. This suggests there has not been an increase in businesses laying off workers, but those who are unemployed are finding it more challenging to secure a new job. Initial jobless claims rose by 2k to a seasonally adjusted 204k (cons. 215k) during the week ending Sept. 23, but the four-week average moved down to 211k from 217k (Figure 13). The four-week average of non-seasonally adjusted (nsa) initial claims also moved down to -1.2% below its pre-COVID-19 average (i.e., 2017 to 2019) from 1.9% the week before. Continuing claims (i.e., repeat filers for unemployment insurance) climbed by 12k during the week ending Sept. 16 to a seasonally adjusted 1,670k (cons. 1,675k), but the four-week average moved down to 1,674k from 1,686k (Figure 14). Meanwhile, the four-week average of non-seasonally adjusted continuing claims moved up to 6.3% above its pre-COVID-19 average from 5.8% the week before and up from -10% below six months ago. 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.

Figure 13: Initial Jobless Claims SA vs. NSA



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

Figure 14: Continuing Jobless Claims SA vs. NSA



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

The Week Ahead

This week's data releases revolve mostly around the manufacturing sector and the broader labor market. The September S&P Global US Manufacturing Purchasing Managers' Index (PMI) and ISM Manufacturing PMI are expected to match or slightly beat the prior releases, suggesting the manufacturing sector remained somewhat weak despite recent signs of stabilization. On that note, September's Wards Total Vehicle Sales are expected to tick up to 15.4m saar, from 15.04m in August, according to the Bloomberg Consensus Survey of Economists. Meanwhile, August's Durable Goods Orders are expected to remain unchanged at 0.2% m/m (sa) in the final print, matching the preliminary release. On the services side of the economy, the September S&P Global US Services PMI is expected to remain steady at 50.2 in the final reading, while consensus economists expect the September ISM Services PMI to take a step down to 53.5 from 54.5 in August. The August Job Openings and Labor Turnover Survey (JOLTS) is expected to show further normalization of job openings, while the September Employment Situation Report from the U.S. Bureau of Labor Statistics is also likely to reflect further normalization of the labor market. September's Nonfarm Payroll growth is expected to cool further to 168k from 187k in August even as the Unemployment Rate is likely to tick down to 3.7% after spiking to 3.8% in August.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Consensus	Revised	Prior	Note
10/2/23	S&P Global US Manufacturing PMI	Sep F	48.9	--	48.9	index, sa
10/2/23	ISM Manufacturing	Sep	47.9	--	47.6	index, sa
10/2/23	ISM Prices Paid	Sep	49.0	--	48.4	index, nsa
10/3/23	JOLTS Job Openings	Aug	8.82	--	8.83	m, sa
10/3/23	Wards Total Vehicle Sales	Sep	15.40	--	15.04	m, saar
10/4/23	MBA Mortgage Applications	9/29/23	--	--	-1.3%	w/w, sa
10/4/23	ADP Employment	Sep	150	--	177	k, m/m, sa
10/4/23	S&P Global US Services PMI	Sep F	50.2	--	50.2	index, sa
10/4/23	S&P Global US Composite PMI	Sep F	50.1	--	50.1	index, sa
10/4/23	Durable Goods Orders	Aug F	0.2%	--	0.2%	m/m, sa
10/4/23	Cap Goods Orders Nondef Ex Air	Aug F	--	--	0.9%	m/m, sa
10/4/23	ISM Services Index	Sep	53.5	--	54.5	index, nsa
10/5/23	Initial Jobless Claims	9/30/23	210	--	204	k, sa
10/5/23	Continuing Claims	9/23/23	1,675	--	1,670	k, sa
10/6/23	Nonfarm Payrolls	Sep	168	--	187	k, m/m, sa
10/6/23	Private Payrolls	Sep	155	--	179	k, m/m, sa
10/6/23	Unemployment Rate	Sep	3.7%	--	3.8%	sa
10/6/23	Average Hourly Earnings m/m	Sep	0.3%	--	0.2%	sa
10/6/23	Average Hourly Earnings y/y	Sep	4.3%	--	4.3%	nsa
10/6/23	Average Weekly Hours All Employees	Sep	34.4	--	34.4	sa
10/6/23	Labor Force Participation Rate	Sep	62.8%	--	62.8%	sa
10/6/23	Consumer Credit	Aug	11.7	--	10.4	$B, m/m, sa

Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics