HaMMR Digest

Stay current with economic and mortgage market trends.

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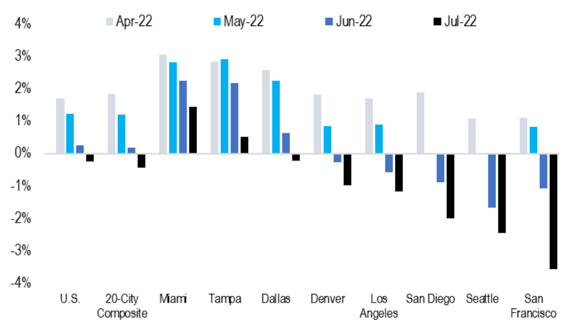
Weekly Wrap – Gut Check

- Although annual home price growth remains positive for now, the stage is set for further monthly price declines
- A Fed pivot in 2023 will be key to stabilizing mortgage rates and the broader housing market
- Should a timely pivot not materialize, more sustained home price declines and a recession would ensue

Reality is sinking in for housing as market dynamics are quickly deteriorating. While medium-term fundamentals are still in place, namely a dearth of inventory, positive demographics, prudent lending standards, and a solid income backdrop, affordability has decreased at such a furious pace that home prices will need to adjust in many housing markets. Mortgage payments have surged at an unprecedented pace over the past year, jumping 78% y/y through September. Mortgage rates are likely to stay elevated after a hawkish September Fed policy meeting repriced rate expectations higher, pressuring global central banks to move in lockstep to fight domestic inflation and to defend their currencies.

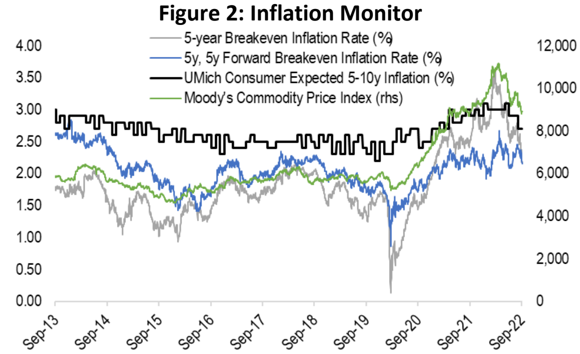
Given the increasingly hawkish Fed and continued upside inflation surprises, rate volatility is likely to remain elevated for longer than previously anticipated. In response, mortgage spreads have widened dramatically to near-GFC levels and are not likely to normalize until the Fed softens its messaging. As such, the correction mechanism for the housing market will come from lower sales, which is already well underway, and from declining home prices, which have begun and for which we expect to continue. The FHFA Purchase Only home price index declined 0.6% m/m (cons. 0.0%) in July while the Case-Shiller 20-city composite fell 0.4% (cons. -0.2%) for the same month, the first non-pandemic declines for both indexes since 2012. Price momentum has slowed rapidly across the nation, but outright price declines are still reserved for metro areas with the largest affordability challenges: seasonally adjusted home prices in San Francisco, Seattle and San Diego fell a respective 3.6%, 2.6%, and 2.0% in July (Figure 1) and are down 4.6%, 4.1% and 2.9% since May.

Figure 1: S&P Case-Shiller Home Price Index



Sources: S&P / Case-Shiller, Arch MI

Figure 2: Inflation Monitor



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

We do not see a downward spiral for the near-term national housing outlook given our expectation that the Fed will pivot by mid-2023, providing greater clarity on rates that will help stabilize the housing market. We still see a viable path where the economy slows to below potential but does not tip into outright recession. Slowing economic momentum will lift unemployment and cool wage growth. The build-up of slack in the economy will support further easing of price pressures and inflation expectations will continue to normalize (Figure 2). The critical factor will be a well-timed pivot by the Fed toward easier monetary policy, acknowledging disinflationary pressures and weakness in the housing sector.

The U.S. consumer has shown resiliency in the face of mounting headwinds and will have to endure more. Core PCE inflation rose 0.6% m/m (cons. 0.5%) and 4.9% y/y (cons. 4.7%) in August, still far too hot for the Fed. Real consumer spending inched up 0.1% m/m in August while core capital goods orders increased 1.3% m/m (cons. 0.3%). Households remain still flush with savings, albeit less than preliminary data showed given benchmark revisions, with a strong labor market providing support for moderate consumption ahead. Backorders are still being worked through, but inventory levels are rising, the dollar is strengthening, and foreign demand is set to weaken, suggesting that manufacturing will slow. Should the Fed push monetary policy even further than our base outlook, there is a good chance that the hit to the labor market would be severe enough to necessitate a deeper adjustment for home prices.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
9/27/22	FHFA House Price Index m/m	Jul	-0.6%	0.0%	0.1%	sa
9/27/22	S&P CoreLogic CS 20-City m/m SA	Jul	-0.4%	0.2%	0.2%	sa
9/27/22	S&P CoreLogic CS 20-City y/y NSA	Jul	16.1%	17.1%	18.7%	nsa
9/27/22	Conf. Board Consumer Confidence	Sep	108.0	104.6	103.6	index, sa
9/27/22	New Home Sales	Aug	685	500	532	k, saar
9/27/22	New Home Sales m/m	Aug	28.8%	-2.2%	-8.6%	sa
9/28/22	MBA Mortgage Applications	9/23/22	-3.7%	--	3.8%	w/w, sa
9/28/22	Pending Home Sales m/m	Aug	-2.0%	-1.5%	-0.6%	sa
9/28/22	Pending Home Sales y/y	Aug	-22.5%	-24.5%	-22.2%	nsa
9/29/22	Initial Jobless Claims	9/24/22	193	215	209	k, sa
9/29/22	Continuing Claims	9/17/22	1,347	1,385	1,376	k, sa
9/29/22	GDP Annualized q/q	2Q T	-0.6%	-0.6%	-0.6%	saar
9/29/22	Personal Consumption q/q	2Q T	2.0%	1.5%	1.5%	saar
9/29/22	Core Personal Consumption q/q	2Q T	4.7%	4.4%	4.4%	saar
9/30/22	Personal Income	Aug	0.3%	0.3%	0.3%	m/m, sa
9/30/22	Personal Spending	Aug	0.4%	0.2%	-0.2%	m/m, sa
9/30/22	Real Personal Spending	Aug	0.1%	0.1%	-0.1%	m/m, sa
9/30/22	PCE Inflation m/m	Aug	0.3%	0.1%	-0.1%	sa
9/30/22	PCE Inflation y/y	Aug	6.2%	6.0%	6.4%	nsa
9/30/22	PCE Core Inflation (ex Food and Energy) m/m	Aug	0.6%	0.5%	0.0%	sa
9/30/22	PCE Core Inflation (ex Food and Energy) y/y	Aug	4.9%	4.7%	4.7%	nsa
9/30/22	U. of Mich. Sentiment	Sep F	58.6	59.5	59.5	index, nsa
9/30/22	U. of Mich. 1 Yr Inflation	Sep F	4.7%	4.6%	4.6%	nsa
9/30/22	U. of Mich. 5-10 Yr Inflation	Sep F	2.7%	2.8%	2.8%	nsa

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

HOUSING MARKET RECALIBRATING TO HIGHER RATES

The fixed-rate 30-year mortgage increased for the sixth straight week to 6.70% (Freddie Mac), nearly two full percentage points higher than the beginning of August. The rapid climb in financing costs will render home purchases out of reach for many prospective buyers while sellers who remain in the market will need to adjust their prices accordingly. Buyers are indeed balking as median days on the market continue to climb and the average offer-to-list ratio hit a five-year low according to Redfin data through the week of September 25th. Sellers are also responding: the percent of active listings with price drops hit a new high for this time of year of 7.6%. As to be expected, the decline in pending sales has accelerated, down 20k relative to the same week a year ago (Figure 3) or -28% y/y and only 6% above 2019 levels.

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

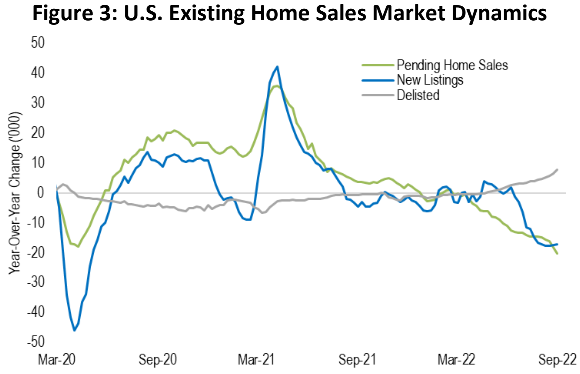
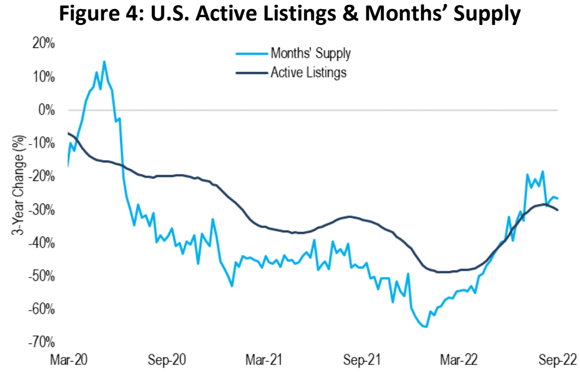


Figure 4: U.S. Active Listings & Months' Supply



Source: Redfin, Arch MI

The recent acceleration in the decline for pending sales has surpassed the fall in new listings, which are down 17k or 18% y/y while delisted homes have increased 8k or 81% compared with a year ago. Even as the pace of decline in pending sales outpaced that of new listings, the rise in the share of delisted homes provided enough of an offset such that annual growth in active listings continued to fall, remaining roughly in-line with 2021 levels and 30% below 2019 (Figure 4).

Meanwhile, the national median sale price ($ / sf) remained steady at 9.1% y/y for the second week in a row, although we expect price growth to take a leg lower in the weeks ahead. Of the major metros we track (Figure 5), annual home price growth was weakest in **Los Angeles** (4%), **Seattle** (4%) and **New York** (4%) while home price growth has slowed most rapidly compared with a year ago in **Austin** (-33%-pts) and **Phoenix** (-21%-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** (16 days longer), **Chicago** (16), **Phoenix** (7) 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%	8%	4%	32%	-15%	99%	-2%	6%	-14	-19	-27%	-47%
Atlanta	14%	24%	9%	5%	30%	-20%	99%	-2%	18%	-8	-17	-24%	-51%
Austin	5%	38%	13%	7%	21%	-31%	98%	-4%	61%	16	-4	57%	-42%
Baltimore	7%	11%	7%	2%	40%	-3%	101%	-1%	-17%	-14	-11	-45%	-52%
Boston	5%	13%	6%	2%	53%	-8%	102%	-1%	-11%	-6	4	-37%	-38%
Chicago	5%	10%	5%	0%	31%	-6%	99%	-1%	14%	16	-21	-22%	-43%
Dallas	16%	24%	10%	6%	29%	-25%	99%	-3%	32%	-18	-18	-27%	-57%
Denver	7%	20%	14%	9%	24%	-31%	99%	-3%	39%	-2	-11	-13%	-52%
Houston	14%	18%	10%	4%	21%	-14%	98%	-1%	20%	-21	-22	-23%	-49%
Los Angeles	4%	12%	6%	3%	40%	-21%	100%	-3%	1%	-6	-8	-6%	-41%
Miami	17%	24%	4%	2%	20%	0%	97%	0%	-13%	-22	-4	-30%	-48%
Minneapolis	6%	9%	8%	2%	41%	-15%	100%	-2%	1%	-4	-11	-21%	-40%
Nashville	17%	22%	8%	4%	19%	-27%	98%	-3%	60%	-16	-25	-9%	-58%
New York	4%	24%	5%	1%	30%	1%	100%	0%	-9%	-42	-30	-33%	-34%
Phoenix	10%	31%	14%	9%	15%	-36%	98%	-3%	55%	7	-16	59%	-43%
Portland	5%	17%	10%	4%	31%	-26%	100%	-3%	25%	-7	-16	-19%	-56%
Riverside	9%	25%	8%	5%	36%	-27%	99%	-3%	20%	-14	-26	-7%	-51%
San Diego	7%	23%	9%	4%	32%	-27%	99%	-3%	18%	-2	-15	-17%	-63%
Seattle	4%	20%	10%	5%	21%	-36%	99%	-5%	49%	0	-9	-14%	-66%
Tampa	20%	26%	12%	5%	21%	-19%	98%	-2%	59%	-14	-25	-14%	-60%
Washington	7%	7%	7%	2%	32%	-12%	99%	-1%	-11%	2	4	-10%	-35%

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

NEW HOME SALES ROAR BACK IN AUGUST ON BRIEF DIP IN RATES

August new home sales significantly beat consensus expectations coming in at a 685k (cons. 500k) seasonally adjusted annualized pace, a 29% m/m advance (Figure 6) and July sales data was revised up as well. Gains were made across all sales stages led by a 36% m/m uptick for sales of units not started while the pace of completed new home sales reached an eight-month high at 201k saar, up 26% y/y.

The strong August data, based on contracts signed during the month, coincided with lower mortgage rates (Freddie Mac average of 5.22% in August) and higher use of incentives / price cuts by builders. While this suggests that strong demand remains at the right price, new home sales are likely to cool going forward given the subsequent step higher for mortgage rates. It is also important to note that the Census Bureau reports gross sales, not net, meaning that cancellations may not be entirely captured until the data is revised in subsequent months.

Figure 6: Share of New Home Sales by Stage of Construction

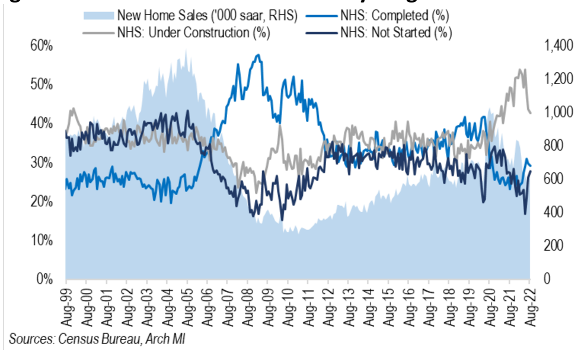
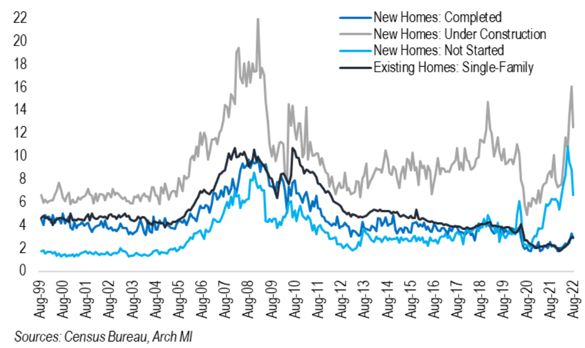


Figure 7: Months' Supply by Segment



The supply of new homes for sale rose 23% y/y to 461k in August, representing an 8.1 months' supply, up from 6.5 months one year ago (Figure 7). However, this figure is inflated by the number of homes under construction and not started while the months' supply of completed homes remains low at 2.9 months (2019 monthly average was 3.5 months). While the inventory of completed homes is up 44% from year-ago levels (Figure 8), this represents just 11% of total new home inventory compared to the share of homes for sale under construction (66%) and not yet started (23%).

The seasonally adjusted median sales price, $442,338, decreased 5.4% m/m, bringing the annual pace of price gains to 8.1%, a sharp slowdown from July (14.8%). Last month's decrease in the median sales price was due in part to the rise in the share of homes priced under $300,000 to 11% in August from 7% in July, while the share of homes priced over $500,000 retreated to 36% from 44% previously (Figure 9).

Figure 8: Available New Homes for Sale

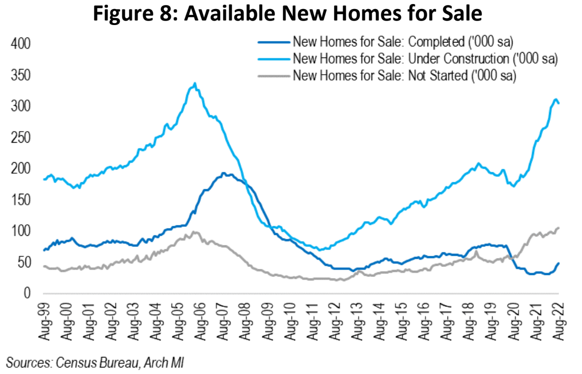
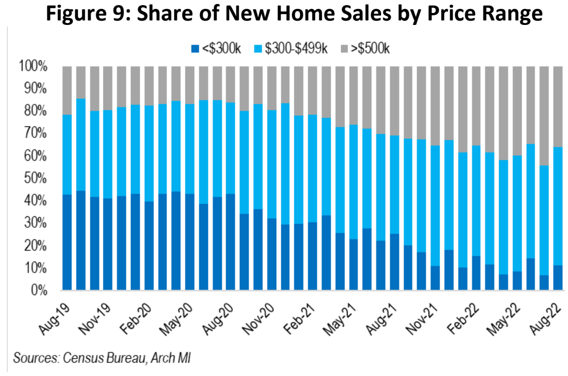


Figure 9: Share of New Home Sales by Price Range

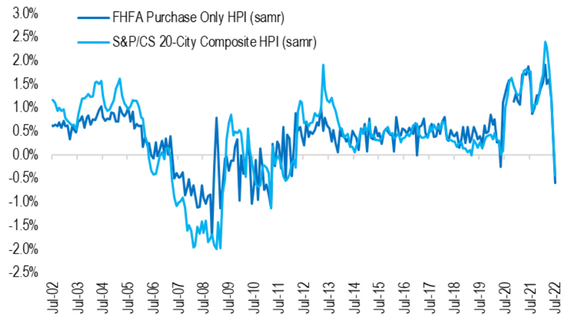


CUE THE MONTHLY HOME PRICE DECLINES

After months of anticipation, sequential home price declines finally appeared in the national seasonally adjusted repeat-sales indexes, and in convincing fashion. The FHFA Purchase Only House Price Index declined a seasonally adjusted -0.6% m/m in July (Figure 10), well below consensus expectations calling for no change in prices over the month. Despite the monthly decline, annual home price growth remained up double-digits but slowed to 13.9% in July from 16.3% in June and the three-month annualized growth rate collapsed to 2.8% from 12.1% previously.

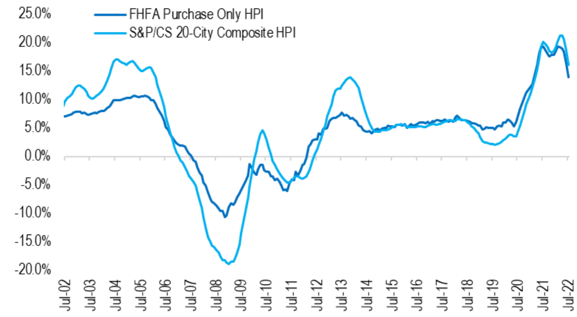
From a regional perspective, there was widespread slowing led by the Pacific (-1.6% m/m) and Mountain (-1.0% m/m) regions with the Pacific posting its third straight and accelerating monthly drop. The S&P/Case-Shiller 20-City Composite Home Price Index fell -0.4% in July (cons. +0.2%), the fifth straight monthly deceleration. Corroborating the FHFA release, Pacific metros drove the declines for the Case-Shiller index, led by San Francisco (-3.5%), Seattle (-3.1%) and San Diego (-2.5%). The year-over-year growth in the Case-Shiller index also decelerated 2.6%-pts to 16.1% in June from 18.7% in June (Figure 11).

Figure 10: Month-Over-Month Home Price Appreciation



Sources: S&P, FHFA, Arch MI

Figure 11: Year-Over-Year Home Price Appreciation

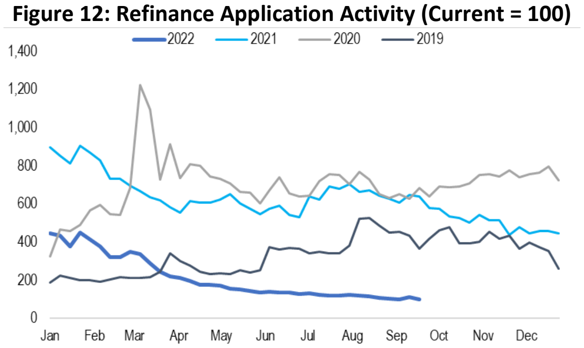


Sources: S&P, FHFA, Arch MI

MORTGAGE ACTIVITY DECLINES FURTHER AS MORTGAGE RATES SURGE CLOSER TO 7%

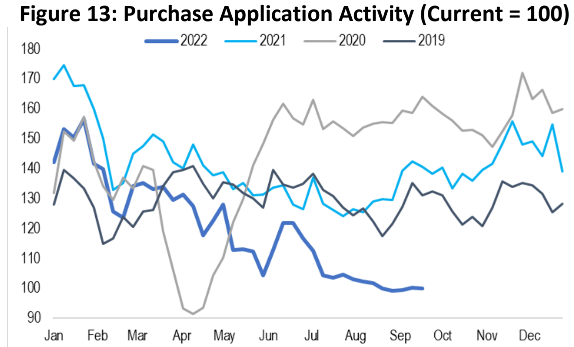
The MBA application survey for the week ending September 23rd declined -3.7% w/w and the index is now down -65% year-over-year and -50% compared with pre-pandemic levels (i.e. 3 years ago). The weekly decline was driven primarily by an -11% decline in refinancing applications, which remain down -84% y/y and down -73% over 3 years (Figure 12). Purchase applications declined -0.4% w/w and are now down -29% y/y and -24% relative to 2019 levels (Figure 13).

Figure 12: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

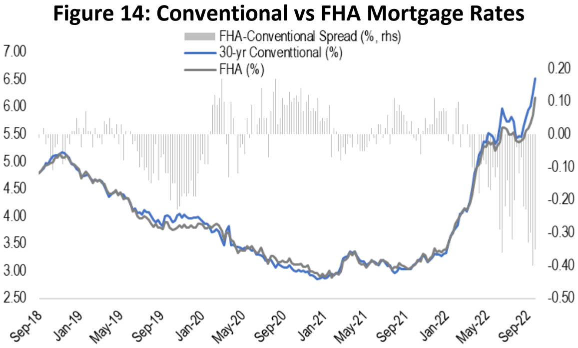
Figure 13: Purchase Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

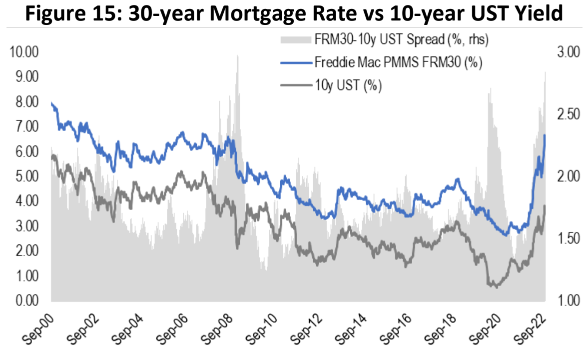
According to the MBA survey of lenders, the average contract conventional mortgage rate rose 27bps to 6.52% during the week ending September 23rd while the FHA contract mortgage rate also rose 32bps to 6.17%, resulting in a 5bps widening of the spread between the FHA and conventional mortgage rate to -0.35% (Figure 14). Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the 3 days ending September 28th indicated that the FRM30 jumped 41bps w/w to 6.70% (Figure 15) as 10-year UST yields also jumped 33bps to an average of 3.86% over the same period.

Figure 14: Conventional vs FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

Figure 15: 30-year Mortgage Rate vs 10-year UST Yield



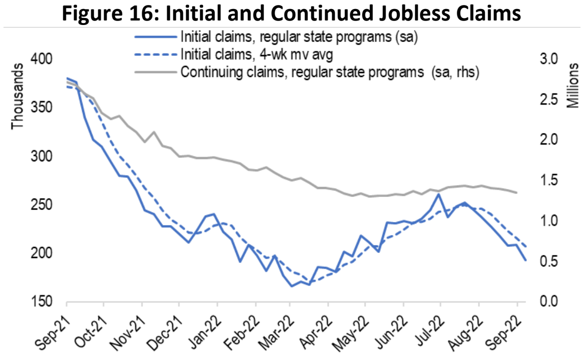
Sources: Freddie Mac PMMS, FRB, Arch MI

The increasingly negative housing market outlook and return of rate volatility to levels reached only briefly during the height of the pandemic have helped push the spread between the PMMS FRM30 and the 10-year UST to a new cycle peak of 2.84%, about 114bps wider than its typical non-stressed level. 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 well into the first half of next year given the Fed's increasingly hawkish stance and the lag in official inflation data relative to more real-time measures.

JOBLESS CLAIMS PLUNGE FURTHER

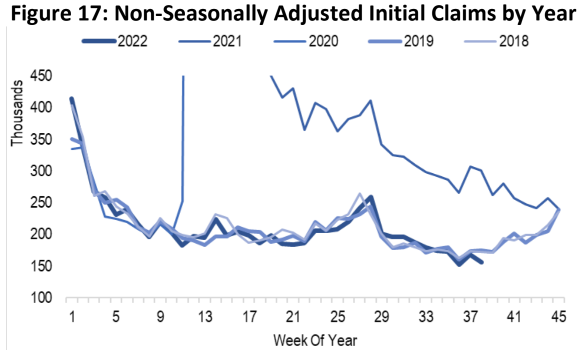
Initial jobless claims declined by -16k to 193k (consensus: 215k) during the week ending September 24th from 209k the previous week, moving the 4-week average down to 207k from 216k (Figure 16). The non-seasonally adjusted level of initial claims also declined further below pre-pandemic levels (Figure 17) and remain at the lowest level since 1969. Continuing claims for regular state programs (i.e. repeat filers for unemployment insurance) declined by 29k to 1,347k (consensus: 1,385k) during the week ending September 17th.

Figure 16: Initial and Continued Jobless Claims



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

Figure 17: Non-Seasonally Adjusted Initial Claims by Year



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

The Week Ahead – Survey Says?

Following last week's focus on housing market data, this week will be heavy on industry surveys and labor market data. Industry surveys from S&P Global and the Institute for Supply Management (ISM) are expected to reflect a further deceleration in economic activity over the course of September. Similarly, September job growth is expected to slow to 250k from 315k in August, but unemployment (3.7%) and wage growth (0.3% m/m, sa) are expected to remain relatively stable given the continued tightness in labor market conditions.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
10/3/22	S&P Global US Manufacturing PMI	Sep F	--	51.8	51.8	index, sa
10/3/22	ISM Manufacturing	Sep	--	52.1	52.8	index, sa
10/3/22	ISM Prices Paid	Sep	--	52.0	52.5	index, nsa
10/3/22	Wards Total Vehicle Sales	Sep	--	13.6	13.2	m, saar
10/4/22	JOLTS Job Openings	Aug	--	11.1	11.2	m, sa
10/5/22	MBA Mortgage Applications	9/30/22	--	--	-3.7%	w/w, sa
10/5/22	ADP Employment	Sep	--	200	132	k, m/m, sa
10/5/22	S&P Global US Services PMI	Sep F	--	49.2	49.2	index, sa
10/5/22	S&P Global US Composite PMI	Sep F	--	49.3	49.3	index, sa
10/5/22	ISM Services Index	Sep	--	56.0	56.9	index, nsa
10/6/22	Initial Jobless Claims	10/1/22	--	205	193	k, sa
10/6/22	Continuing Claims	9/24/22	--	1,380	1,347	k, sa
10/7/22	Nonfarm Payrolls	Sep	--	250	315	k, m/m, sa
10/7/22	Private Payrolls	Sep	--	300	308	k, m/m, sa
10/7/22	Unemployment Rate	Sep	--	3.7%	3.7%	sa
10/7/22	Average Hourly Earnings m/m	Sep	--	0.3%	0.3%	sa
10/7/22	Average Hourly Earnings y/y	Sep	--	5.1%	5.2%	nsa
10/7/22	Average Weekly Hours All Employees	Sep	--	34.5	34.5	sa
10/7/22	Labor Force Participation Rate	Sep	--	62.4%	62.4%	sa
10/7/22	Consumer Credit	Aug	--	25.0	23.8	$B, m/m, sa

Sources: Bloomberg Consensus Survey of Economists, Arch MI