HaMMR Digest

Stay current with economic and mortgage market trends.

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Weekly Wrap — Nothing to Fear but Fear Itself

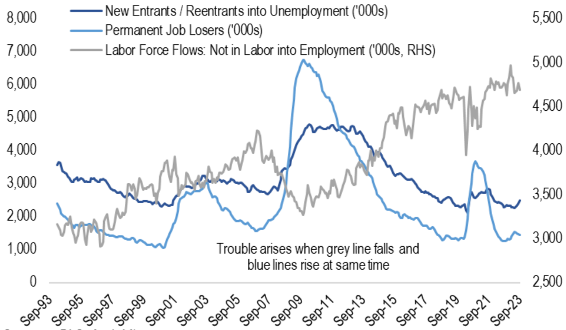
- September jobs report knocks it out of the park with a 336k gain yet details still support a Fed on hold.
- Other macro data point to healthy 3Q real GDP growth that lags the recent tightening of financial conditions.
- Headwinds to growth remain and we do not expect current economic momentum to carry into the fourth quarter.

The September jobs report handily beat consensus estimates. Headline payrolls rose a bumper 336k m/m (cons. 180k) on top of +119k worth of revisions over the prior two months — the first report with an upward revision this year — bringing the three-month average of gains to 266k. Most of the revisions were in government payrolls, reflecting the recovery still underway from the pandemic for state and local governments. That said, private job growth remained buoyant, averaging 195k over the last three months and up from 136k in August, with the breadth of private gains, as measured by the one-month diffusion index, rising to 64.2, the highest level since January and above last September's print.

Figure 1: Nonfarm Payrolls

Sources: BLS, Arch MI

Figure 2: Unemployment and Labor Force Flows (3mma)



Sources: BLS, Arch MI

Underlying details of the jobs report provide more than enough evidence for the Fed to stay on hold, particularly given the tightening in financial conditions we have seen over the prior month. The Job Openings and Labor Turnover Survey (JOLTS) report had an equal veneer of strength as job openings jumped 8% m/m to 9.6m in August (cons. 8.8m) with July's figure upwardly revised as well. However, that upturn is at odds with other real-time measures such as Indeed and LinkUp that show a flat-to-declining trend. The stable quits and hiring rates support cooling wage pressures, which are certainly heading in the right direction. Average hourly earnings for private non-managers increased at a 3.4% annualized pace over the prior three months. Encouragingly, the pace of job gains can remain robust without concern for reacceleration of wage growth as long as labor supply keeps improving. Evidence so far points in that direction, which is helping offset the gains in employment, keeping the unemployment rate low at 3.8% (cons. 3.7%). Various measures of layoffs remain contained as shown by permanent layoffs hitting an eight-month low while the rise of reentrants/new entrants into unemployment supports the notion of a healthy macro backdrop of normalizing hiring patterns and firms holding on to staff (Figure 2).

Real construction spending rose 0.3% m/m in August, driven by manufacturing and infrastructure. Real single-family spending continued its recovery, rising 0.9% m/m and 24% on a three-month annualized basis. Business Purchasing Manager Index (PMI) surveys came in mixed but generally pointed to steady activity. The ISM Manufacturing PMI Index improved to 49 (cons. 48) in September, the highest level since November, with decent improvement in new orders and production. The headline September ISM Services PMI declined to 53.6 from 54.5 as a plunge in new orders to 51.8 from 57.5 was only partly offset by higher production. The S&P PMIs showed similar trends for both major sectors: Manufacturing is recovering after months of softness while the previously hot services sector is cooling off. Headwinds to heady consumer spending are building with Services PMI survey respondents in consumer, financial and tourism sectors noting a step down in demand. While we do not expect a significant rebound in the goods sector, we do see enough momentum to not detract meaningfully from real GDP growth. Our theme of rolling sectoral weakness remains. However, risks for broader spillovers will rise, especially if tighter financial conditions persist. The next key signal for the Fed and markets regarding rates will come from this week's September Consumer Price Index (CPI) inflation report.

Recent Data Releases

Key economic and housing data releases over the prior week:

Date	Indicator	Period	Actual	Consensus	Revised	Prior	Note
10/2/23	S&P Global US Manufacturing PMI	Sep F	**49.8**	48.9	--	48.9	index, sa
10/2/23	ISM Manufacturing	Sep	**49.0**	47.9	--	47.6	index, sa
10/2/23	ISM Prices Paid	Sep	**43.8**	49.0	--	48.4	index, nsa
10/3/23	JOLTS Job Openings	Aug	**9.61**	8.82	8.92	8.83	m, sa
10/3/23	Wards Total Vehicle Sales	Sep	**15.67**	15.40	--	15.04	m, saar
10/4/23	MBA Mortgage Applications	9/29/23	**-6.0%**	--	--	-1.3%	w/w, sa
10/4/23	ADP Employment	Sep	**89**	150	180	177	k, m/m, sa
10/4/23	S&P Global US Services PMI	Sep F	**50.1**	50.2	--	50.2	index, sa
10/4/23	S&P Global US Composite PMI	Sep F	**50.2**	50.1	--	50.1	index, sa
10/4/23	Durable Goods Orders	Aug F	**0.1%**	0.2%	--	0.2%	m/m, sa
10/4/23	Cap Goods Orders Nondef Ex Air	Aug F	**0.9%**	0.9%	--	0.9%	m/m, sa
10/4/23	ISM Services Index	Sep	**53.6**	53.5	--	54.5	index, nsa
10/5/23	Initial Jobless Claims	9/30/23	**207**	210	205	204	k, sa
10/5/23	Continuing Claims	9/23/23	**1,664**	1,671	1,665	1,670	k, sa
10/6/23	Nonfarm Payrolls	Sep	**336**	170	227	187	k, m/m, sa
10/6/23	Private Payrolls	Sep	**263**	160	177	179	k, m/m, sa
10/6/23	Unemployment Rate	Sep	**3.8%**	3.7%	--	3.8%	sa
10/6/23	Average Hourly Earnings m/m	Sep	**0.2%**	0.3%	--	0.2%	sa
10/6/23	Average Hourly Earnings y/y	Sep	**4.2%**	4.3%	--	4.3%	nsa
10/6/23	Average Weekly Hours All Employees	Sep	**34.4**	34.4	--	34.4	sa
10/6/23	Labor Force Participation Rate	Sep	**62.8%**	62.8%	--	62.8%	sa
10/6/23	Consumer Credit	Aug	**-15.6**	11.7	11.0	10.4	$B, m/m, 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)

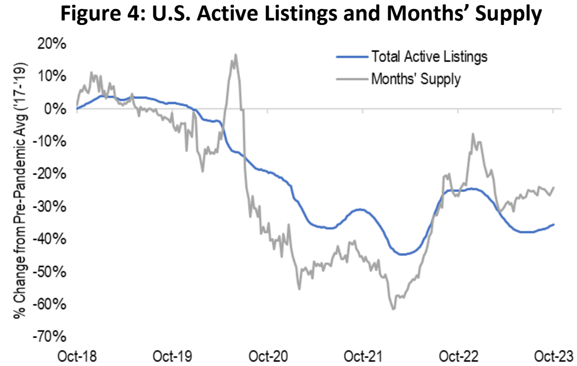
HOUSING MARKET SET TO COOL FURTHER IN RESPONSE TO HIGHER RATES

Elevated mortgage rates continued to keep a lid on demand through the beginning of October and we expect the recent surge in rates to weigh even more heavily on demand. The pace of pending home sales remained about -5% below the pre-pandemic average (i.e., 2017–2019) for the four weeks ending Oct. 1, roughly consistent with the pace since May (Figure 3). Higher mortgage rates have also weighed on potential sellers, but new listings have continued gradually climb to -13% below the pre-pandemic average from -24% below in early April. Meanwhile, the number of delisted homes rose to 7% above the pre-pandemic average for this time of year from -19% 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

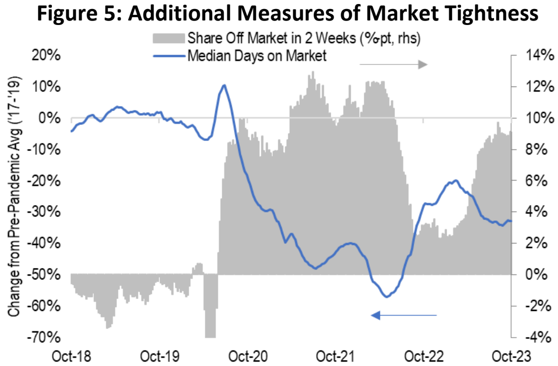


Source: Redfin, Arch MI

The gradual rise in new listings and muted pace of pending sales has started to lift the number of active listings to -36% below the pre-pandemic average after remaining roughly -38% below for most of the summer (Figure 4). Despite total homes sold being down -17% y/y and -17% below the pre-pandemic average, the national market remains somewhat tight given months' supply is three months, -24% below the pre-pandemic average for this time of year. The current months' supply is a modest increase from the 2.9 months recorded for the same week in 2022 when the market was in the midst of a rapid cooling from incredibly tight conditions. Other measures suggesting the housing market remains tighter than prior to the onset of the pandemic include the share of homes selling within two weeks and the median days homes remain on the market before selling (Figure 5). Nearly 38% of homes sold within two weeks at the beginning of October, up roughly 9%-pts from the pre-pandemic average for this time of year. Meanwhile, median days on market has started to inch up slightly in recent weeks after remaining close to -34% below normal for most of the summer. Higher rates should continue to cool demand enough to see some further softening of the housing market over 4Q.

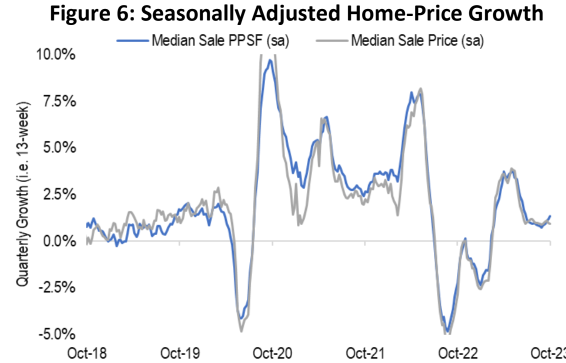
With the market still relatively tight, annual growth in the national median sale price per square foot (ppsf) remained close to 4%, roughly in line with the trend over the past two months. Meanwhile, the quarterly (i.e., 13-week) change in the seasonally adjusted price per square foot (ppsf) was up 1.4%, or 5.5% annualized, up from 1.2% the previous week (Figure 6). 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 (sa) data for a better read on the trend.

Figure 5: Additional Measures of Market Tightness



Source: Redfin, Arch MI

Figure 6: Seasonally Adjusted Home-Price Growth



Source: Redfin, Arch MI

Of the major metros we track (Figure 7), annual home-price growth was weakest in Austin (-7%), Phoenix (-2%), Dallas (-1%), Nashville (0%) and New York (1%). Home-price growth slowed most rapidly compared with a year ago in Tampa (-17%-pts), Nashville (-16%-pts), Dallas (-15%-pts), Houston (-13%-pts) and Phoenix (-11%-pts). Conversely, annual home-price growth was strongest in Miami (9%), Boston (8%) and San Diego (8%).

Figure 7: Weekly Housing Monitor (as of Oct. 1, 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%**	**7%**	**0%**	**31%**	**1%**	**99%**	**0%**	**-14%**	**-15**	**-13**	**-24%**	**-27%**
Atlanta	3%	*14%*	7%	-1%	27%	*-1%*	99%	0%	**-33%**	-8	-9	*-30%*	-17%
Austin	**-7%**	**3%**	**10%**	*-2%*	**13%**	**-8%**	**97%**	**-1%**	**-6%**	**26**	**14**	**66%**	**41%**
Baltimore	*6%*	7%	7%	*0%*	**45%**	6%	**101%**	*1%*	-18%	*-14*	-10	**-43%**	**-44%**
Boston	**8%**	*6%*	*6%*	0%	**56%**	4%	**102%**	1%	-22%	0	*2*	-25%	*-24%*
Chicago	**8%**	*5%*	**4%**	*0%*	*41%*	*9%*	100%	**1%**	*-27%*	**13**	**21**	*-27%*	-15%
Dallas	**-1%**	**15%**	**9%**	*0%*	*20%*	**-7%**	*98%*	**0%**	*-8%*	-4	-8	-11%	-16%
Denver	*1%*	*6%*	**11%**	-1%	27%	5%	99%	0%	*-10%*	1	*2*	**14%**	-1%
Houston	*1%*	**14%**	*8%*	-1%	**16%**	**-4%**	**98%**	*0%*	**-5%**	-9	*-15*	-13%	-19%
Los Angeles	3%	**4%**	**4%**	-1%	**51%**	**11%**	**101%**	**1%**	*-27%*	-8	-1	-9%	*4%*
Miami	**9%**	**16%**	**4%**	**1%**	**19%**	*0%*	**97%**	0%	-13%	*-14*	*-14*	**-56%**	**-57%**
Minneapolis	3%	*6%*	*8%*	**1%**	*42%*	3%	*101%*	0%	*-10%*	-6	-5	-15%	-19%
Nashville	*0%*	**17%**	6%	0%	**16%**	*-2%*	*98%*	*0%*	**-3%**	0	*-11*	*3%*	-14%
New York	*1%*	*4%*	**4%**	-1%	35%	*7%*	*100%*	*1%*	-15%	**-35**	**-36**	-16%	*-28%*
Phoenix	**-2%**	9%	7%	**-5%**	*22%*	*7%*	*99%*	*1%*	**-38%**	-2	*5*	*1%*	**48%**
Portland	3%	*5%*	*8%*	*-2%*	32%	2%	100%	*0%*	*-12%*	-1	0	*3%*	-12%
Riverside	*2%*	8%	*5%*	*-2%*	*43%*	*7%*	100%	1%	**-30%**	*-17*	-10	-18%	-4%
San Diego	**8%**	6%	6%	*-2%*	**47%**	**15%**	*100%*	**2%**	**-35%**	-9	*3*	*-30%*	-16%
Seattle	*6%*	*4%*	8%	**-2%**	32%	**11%**	100%	**1%**	**-30%**	-4	*5*	-15%	-6%
Tampa	*2%*	**19%**	**10%**	*0%*	**17%**	**-4%**	**98%**	**0%**	**-7%**	-9	*-14*	*-26%*	-2%
Washington DC	**7%**	7%	*6%*	0%	*40%*	*10%*	*100%*	1%	-23%	*2*	**9**	-17%	-16%

Note: Data reflects four-week averages.

Source: Redfin, Arch MI

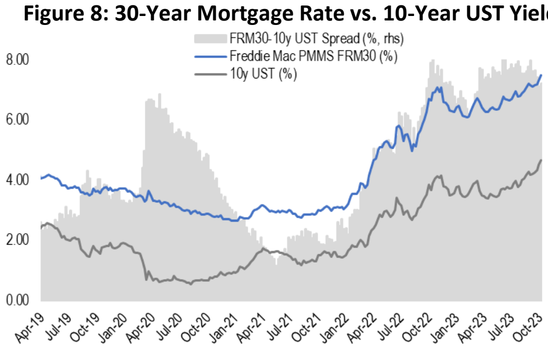
Median days on the market have decreased in most metros (-15 days below nationally) as the market stabilized but a handful of metros still exceed their pre-pandemic timelines. Markets with the longest median days on the market relative to the pre-pandemic norm included Austin (26 days longer), Chicago (13) and Washington, D.C. (2), while some markets like New York (-35), Riverside (-17), Miami (-14), Baltimore (-14) and Tampa (-9) remained well below pre-pandemic timelines. Months' supply also remained below pre-pandemic levels in most markets (-24% below nationally), with Miami (-56%), Baltimore (-43%), San Diego (-30%), Atlanta (-30%) and Chicago (-27%) 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 66%, 14% and 3% relative to their pre-pandemic averages from 41%, -1% and -14% below one year ago.

MORTGAGE PURCHASE APPLICATION ACTIVITY DECLINED FURTHER AS RATES JUMPED AGAIN

Higher rates weighed further on mortgage activity during the week ending Sept. 29, which is likely to also restrain home sales activity in 4Q unless cash buyers step in. According to the MBA Weekly Applications Survey, the average contract rate for a conventional 30-year fixed-rate mortgage rose 12bps to 7.53% during the week ending Sept. 29 while the average FHA contract mortgage rate also rose 13bps to 7.29%, resulting in a 1bps widening of the spread between the FHA and conventional rate to -0.24%. Meanwhile, the average contract rate for a jumbo 30-year fixed-rate mortgage rose 17bps to 7.51%, resulting in a 5bps widening of the jumbo-conventional spread to -0.02%.

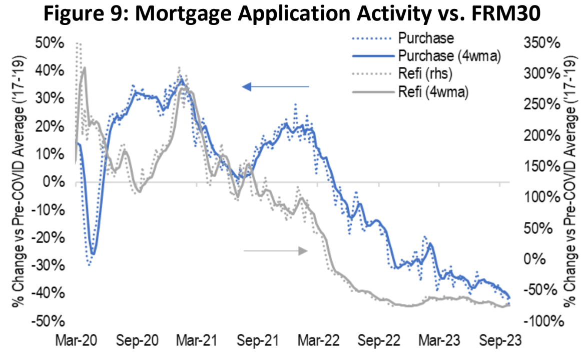
The MBA Weekly Applications Survey for the week ending Sept. 29 showed mortgage application activity declined -6% w/w (sa), leaving the index down -19% year over year and down -60% compared with pre-pandemic levels (i.e., the average of the same week in 2017, 2018 and 2019). The weekly decline was driven primarily by a -6.6% (sa) decline in refinancing applications, which remained down -11% y/y and -75% below the pre-pandemic level (Figure 8). Purchase applications declined -5.7% w/w (sa) and were down -22% y/y and -44% relative to pre-pandemic levels.

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



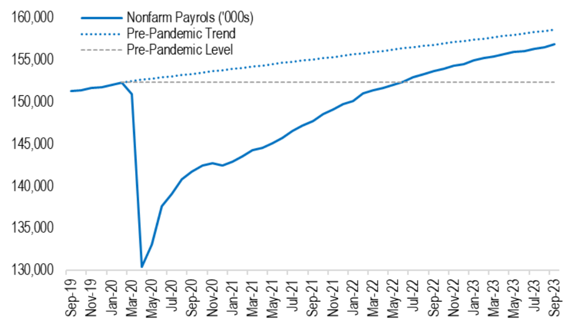
Sources: Mortgage Bankers Association, Arch MI

Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending Oct. 4 indicated that the FRM30 jumped 18bps w/w to 7.49% (Figure 9) as the yield on the benchmark 10-year U.S. Treasury (UST) jumped 15bps to an average of 4.68% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 3bps to 2.81%, about 110bps 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.

LABOR MARKET NOT "COOKED" YET

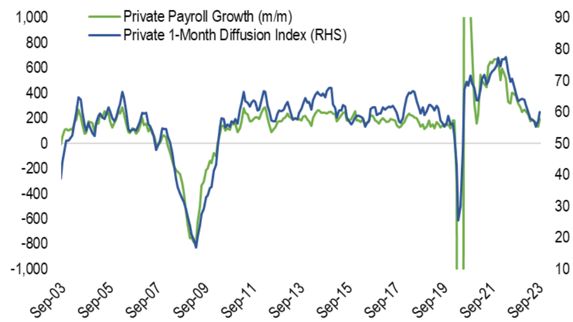
September job growth of 336k (cons. 180k) was a smashing upside surprise based on consensus economist forecasts, bringing the three-month average up to 266k from 189k in August alongside a combined upward revision of +119k to job growth in July and August. Through September, the U.S. economy had 4.5 million more jobs than at the onset of the pandemic (i.e., February 2020) but remained 1.7 million jobs below the pre-pandemic trend (Figure 10).

Figure 10: Nonfarm Payrolls vs Pre-Pandemic Trend & Level



Sources: Bureau of Labor Statistics, Arch MI

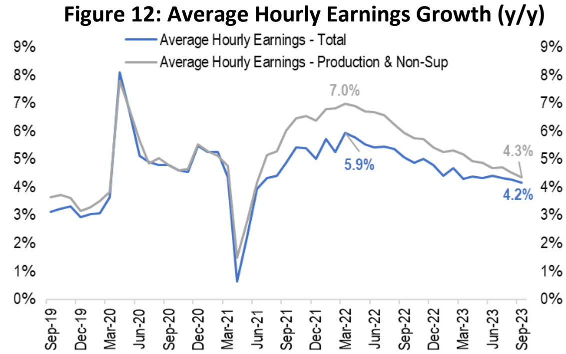
Figure 11: Private Payrolls & Diffusion Index



Sources: BLS, Arch MI

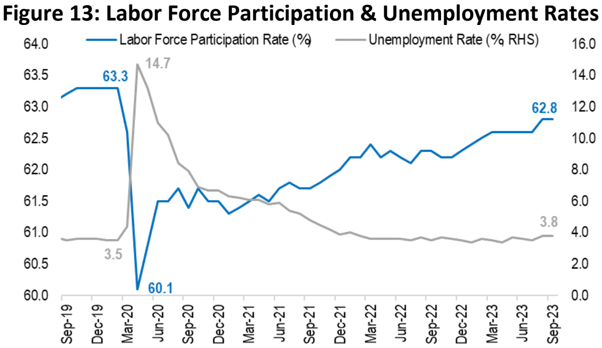
Private job gains were far and away led by Leisure & Hospitality, which posted a gain of 96k. The breadth of sectors adding jobs increased again in September, as measured by the one-month diffusion index (Figure 11), led by Private Education and Health Services (70k), Retail Trade (20k), Manufacturing (17k), and Wholesale Trade (12k). Most other sectors recorded growth as well, led by Construction (+22k), Professional Business Services (+19k), Manufacturing (+16k), and Other Services (+13k). Net job losses were solely in Information (-5k). Household employment increased in September by 86k, maintaining the trend seen in nonfarm payroll growth but at a slower pace in the latest month. Hourly earnings rose 0.2% m/m (cons. 0.3%) in September and 4.3% y/y (Figure 12) as the unemployment rate remained steady at 3.8% (cons. 3.7%) with the labor force participation holding firm at 62.8% (Figure 13). Underlying labor market strength remained despite obvious signs of cooling over the past year, which gives the Fed room to remain vigilant if inflation does not continue to moderate in the months ahead.

Figure 12: Average Hourly Earnings Growth (y/y)



Sources: Bureau of Labor Statistics, Arch MI

Figure 13: Labor Force Participation & Unemployment Rates

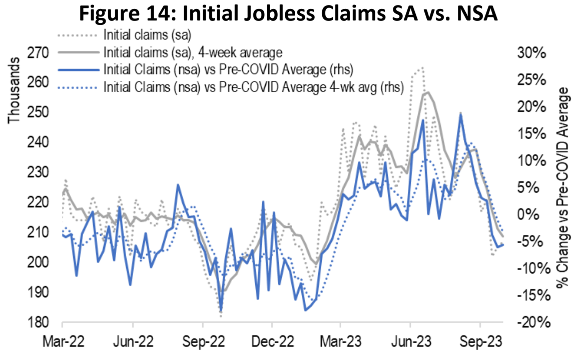


Sources: Bureau of Labor Statistics, Arch MI

STILL NO SIGNS OF DISTRESS IN CLAIMS DATA

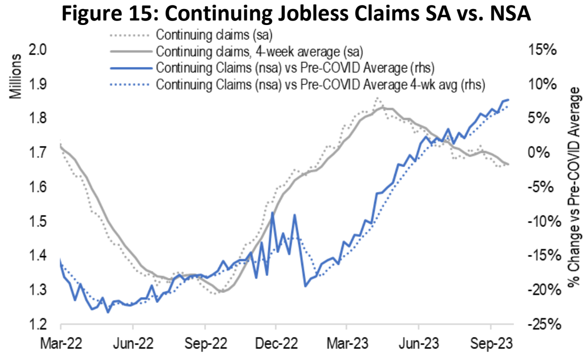
The trend in initial jobless claims remains lower, while continuing claims continued rising relative to the pre-COVID-19 norm. This continues to suggest there has not been an increase in layoffs, but those who are unemployed are finding it more challenging to secure a new job. Altogether, the labor market 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 14: Initial Jobless Claims SA vs. NSA



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

Figure 15: Continuing Jobless Claims SA vs. NSA



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

Initial jobless claims rose by 2k to a seasonally adjusted 207k (cons. 210k) during the week ending Sept. 30, but the four-week average moved down to 209k from 211k (Figure 14). The four-week average of non-seasonally adjusted (nsa) initial claims also moved down to -3.2% below its pre-COVID-19 average (i.e., 2017 to 2019) from -1.1% the week before and up from -6% below six months ago. Continuing claims (i.e., repeat filers for unemployment insurance) declined by 1k during the week ending Sept. 23 to a seasonally adjusted 1,664k (cons. 1,671k), moving the four-week average down to 1,668k from 1,673k (Figure 15). Meanwhile, the four-week average of non-seasonally adjusted continuing claims moved up to 6.8% above its pre-COVID-19 average from 6.2% the week before and up from -10% below six months ago.

The Week Ahead

This week's key data releases will center on the latest inflation developments in September. Headline consumer and producer price inflation are both expected to have cooled slightly in September, but core (excluding food and energy) measures are expected to have remained steady according to the Bloomberg Consensus Survey of Economists. September import prices are also expected to remain steady at 0.5% m/m, which would still keep the year-over-year figure in negative territory. The minutes from the Fed's September meeting will be released on Wednesday, which may provide some more insight into the internal debate about the future path of monetary policy.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Consensus	Prior	Note
10/10/23	NFIB Small Business Optimism	Sep	91.0	91.3	index, sa
10/10/23	Wholesale Inventories m/m	Aug F	-0.1%	-0.1%	sa
10/11/23	MBA Mortgage Applications	10/6/23	--	-6.0%	w/w, sa
10/11/23	PPI Final Demand m/m	Sep	0.3%	0.7%	sa
10/11/23	PPI Core (ex Food and Energy) m/m	Sep	0.2%	0.2%	sa
10/11/23	PPI Final Demand y/y	Sep	1.6%	1.6%	nsa
10/11/23	PPI Core (ex Food and Energy) y/y	Sep	2.3%	2.2%	nsa
10/11/23	FOMC Meeting Minutes	9/20/23	--	--	
10/12/23	CPI m/m	Sep	0.3%	0.6%	sa
10/12/23	CPI Core (ex Food and Energy) m/m	Sep	0.3%	0.3%	sa
10/12/23	CPI y/y	Sep	3.6%	3.7%	nsa
10/12/23	CPI Core (ex Food and Energy) y/y	Sep	4.1%	4.3%	nsa
10/12/23	Initial Jobless Claims	10/7/23	210	207	k, sa
10/12/23	Continuing Claims	9/30/23	1,675	1,664	k, sa
10/13/23	Import Price Index m/m	Sep	0.5%	0.5%	nsa
10/13/23	Import Price Index y/y	Sep	-1.4%	-3.0%	nsa
10/13/23	U. of Mich. Sentiment	Oct P	67.0	68.1	index, nsa
10/13/23	U. of Mich. 1 Yr Inflation	Oct P	3.3%	3.2%	nsa
10/13/23	U. of Mich. 5-10 Yr Inflation	Oct P	2.9%	2.8%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics