HaMMR Digest

Stay current with economic and mortgage market trends.

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Weekly Wrap – It's a Start

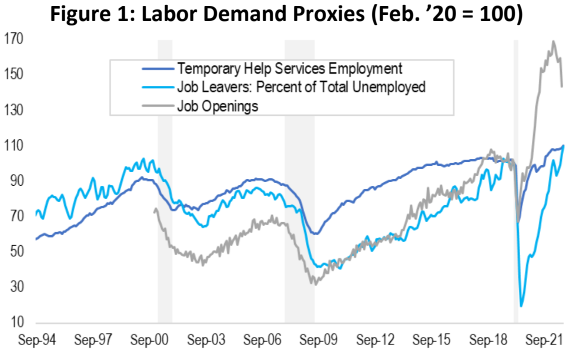
- Jobs data showed early signs of cooling but nowhere near enough for the Fed to alter their policy stance
- The large 1.1m drop in job openings will please the Fed but the labor market remains exceedingly tight
- A bevy of survey and trade data continue to reflect a modest expansion underway for the U.S. economy

The headline news for last week was the September jobs report, which reflected a labor market that remains far too tight to augur a change in stance from the Fed. Nonfarm payrolls advanced 263k m/m (consensus 255k) alongside an 11k upward revision to the prior two months, bringing the three-month moving average to 372k from 382k in August and 405k in July. The unemployment rate fell 20bps to 3.5% (cons. 3.7%) aided by a 57k drop in the labor force that brought the labor force participation rate down 10bps to 62.3%. The weak post-COVID rebound in labor supply bolsters the case for the Fed to remain steadfast on their current policy path to bring down labor demand and cool wage inflation.

Last week's data reflected some cooling in labor demand, but wage growth remained elevated. Total job openings fell by 1.1m in August – the largest one month drop on record excluding the pandemic – to 10m (cons. 11.1). The drop was broad-based and goes hand in hand with the slowing we have seen in the economy this year. Meanwhile, the quits rate held steady at 2.7% but remained below the peak of 3% reached in December 2021. September wage growth held steady at 0.3% m/m (cons. 0.3%), reflecting 5.0% annual growth that still far outpaces the roughly 3% average growth in the years preceding the pandemic.

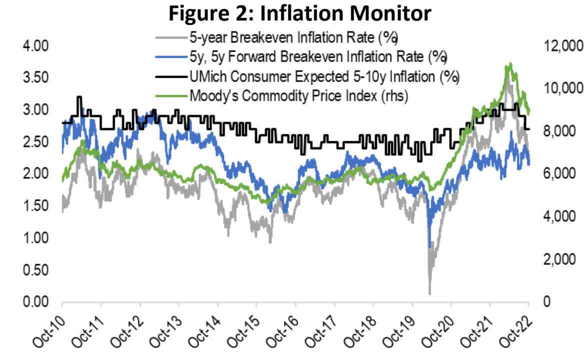
Although the rather stark drop in openings is a move in the right direction, the labor market remains tight. Job openings were one of the first labor market metrics to surge far above pre-pandemic levels and will likely be one of the first to downshift alongside the slowing economy. Despite the drop in job openings, the unemployment rate has returned to its pre-pandemic level and jobless claims remain near record lows. Additionally, other proxies for labor market labor tightness remain at or near record levels. Two of these proxies include the share of total unemployed individuals who voluntarily left their prior job (i.e., job leavers) as well as temporary help services payrolls, which are both still increasing despite already being at record levels (Figure 1). With softening global macro data, widespread earnings downgrades, and a rising cost of capital, it makes sense that firms are pulling back on hiring. The runway between declining openings and net job losses is rather long currently but there is an elevated risk that gap closes quickly if growth downshifts.

Figure 1: Labor Demand Proxies (Feb. '20 = 100)



Sources: BLS, Arch MI

Figure 2: Inflation Monitor



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

Last week's survey and trade data were somewhat mixed, but positive on balance and suggest the economy expanded at a healthy pace in the third quarter. On net, the data resulted in an upgrade to the Atlanta Fed's 3Q22 GDP Nowcast to 2.9% q/q saar from 2.4% a week ago. Despite the mixed headlines, the data was generally in alignment with respect to easing supply chain constraints, which would alleviate a key point of upside pressure on inflation if sustained. Accordingly, market-based measures of inflation expectations continued to normalize last week alongside further declines in commodity prices (Figure 2).

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
10/3/22	S&P Global US Manufacturing PMI	Sep F	52.0	51.8	51.8	index, sa
10/3/22	ISM Manufacturing	Sep	50.9	52.0	52.8	index, sa
10/3/22	ISM Prices Paid	Sep	51.7	51.8	52.5	index, nsa
10/3/22	Wards Total Vehicle Sales	Sep	13.49	13.50	13.18	m, saar
10/4/22	JOLTS Job Openings	Aug	10.1	11.1	11.2	m, sa
10/5/22	MBA Mortgage Applications	9/30/22	-14.2%	--	-3.7%	w/w, sa
10/5/22	ADP Employment	Sep	208	200	185	k, m/m, sa
10/5/22	S&P Global US Services PMI	Sep F	49.3	49.2	49.2	index, sa
10/5/22	S&P Global US Composite PMI	Sep F	49.5	49.3	49.3	index, sa
10/5/22	ISM Services Index	Sep	56.7	56.0	56.9	index, nsa
10/6/22	Initial Jobless Claims	10/1/22	219	204	190	k, sa
10/6/22	Continuing Claims	9/24/22	1,361	1,350	1,346	k, sa
10/7/22	Nonfarm Payrolls	Sep	263	255	315	k, m/m, sa
10/7/22	Private Payrolls	Sep	288	275	275	k, m/m, sa
10/7/22	Unemployment Rate	Sep	3.5%	3.7%	3.7%	sa
10/7/22	Average Hourly Earnings m/m	Sep	0.3%	0.3%	0.3%	sa
10/7/22	Average Hourly Earnings y/y	Sep	5.0%	5.0%	5.2%	nsa
10/7/22	Average Weekly Hours All Employees	Sep	34.5	34.5	34.5	sa
10/7/22	Labor Force Participation Rate	Sep	62.3%	62.4%	62.4%	sa
10/7/22	Consumer Credit	Aug	32.2	25.0	26.1	$B, m/m, sa

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

HOUSING DYNAMICS CONTINUE TO EVOLVE

Signals emanating from the housing market continue to weaken. Mortgage purchase applications have slowed sharply as the 30-year fixed rate mortgage surges closer to 7%, with Mortgage News Daily's survey showing rates above 7% on Thursday and Friday of last week. Even in the jobs report, the finance and insurance industry, where mortgage brokers and residential loan officers are recorded, declined by 13k m/m in September, the largest non-pandemic monthly decline since the height of the financial crisis. More weakness lies ahead as mortgage rates are likely to remain elevated for quite some time.

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

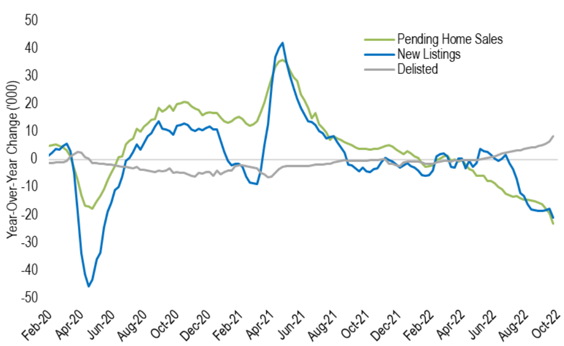


Figure 4: U.S. Active Listings & Months' Supply

Source: Redfin, Arch MI

Buyers have lost a significant amount of purchasing power over the course of the year and their exodus from the market is looking more pronounced. Pending home sales dropped by 23k y/y or -32% through the week of October 2nd according to data from Redfin. However, there were 18k fewer new listings compared with a year ago and an 8k increase in delisted homes over the same period (Figure 3). As sellers pulled back from the market even more quickly than buyers, the active inventory of homes for sale continued to decline relative to pre-pandemic levels and the months' supply remained lower than August levels (Figure 4). Many of the sellers who haven't delisting their homes have responded to weaker buyer demand by dropping their asking price: the share of active listings with price drops in the past week climbed to 7.7%, nearly double the share from a year ago. Buyers who remain in the market are increasingly augmenting their reduced buying power by bidding on smaller homes. The median size of pending home sales has declined back in-line with 2019 sales after starting the year about 4% above the typical pre-pandemic pending home sale size.

The shifting homebuyer calculus will increasingly weigh on sales prices. Annual growth in the national median sale price ($ / sf) slowed to 8.5% y/y, close to the slowest pace of the year. Of the major metros we track (Figure 5), annual home price growth was weakest in **Austin** (3%), **Seattle** (4%) and **Los Angeles** (4%) while home price growth has slowed most rapidly compared with a year ago in **Austin** (-36%-pts) and **Phoenix** (-22%-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 **Chicago** (16 days longer), **Austin** (15), **Phoenix** (8) and **Washington DC** (4). Markets that have deteriorated the most based on months' supply include **Austin** and **Phoenix**, where months' supply has climbed roughly 70% above pre-pandemic levels from about 40% below the pre-pandemic trend one year ago.

Figure 5: Weekly Housing Monitor (As of 10/2/22)

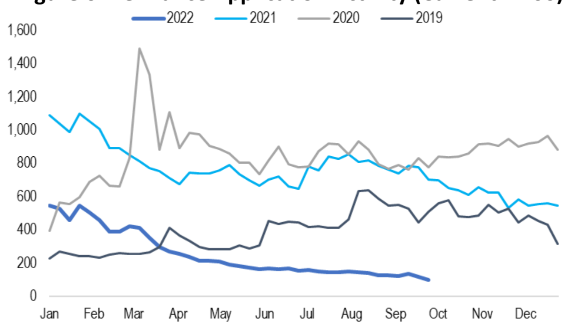
Metro	Median Sale Price psf (% y/y)	Median Sale Price Same Week '21 (% y/y)	Active Listings with Price Drops (% share)	Active Listings with Price Drops (ppt Δ y/y)	Homes Sold Above List (%)	Homes Sold Above List (ppt Δ y/y)	Average Sale-to-List Ratio (%)	Average Sale-to-List Ratio (ppt Δ y/y)	Total Active 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%	31%	-14%	99%	-2%	3%	-14	-20	-19%	-46%
Atlanta	14%	23%	9%	5%	28%	-21%	99%	-2%	18%	-7	-17	-17%	-50%
Austin	3%	39%	13%	7%	21%	-29%	98%	-4%	61%	15	-8	67%	-40%
Baltimore	7%	10%	7%	1%	40%	-3%	100%	-1%	-26%	-14	-13	-44%	-52%
Boston	6%	12%	7%	2%	52%	-9%	101%	-1%	-13%	-6	4	-32%	-35%
Chicago	5%	10%	5%	0%	30%	-6%	99%	-1%	13%	16	-22	-14%	-40%
Dallas	15%	24%	11%	6%	27%	-26%	99%	-3%	30%	-16	-19	-22%	-57%
Denver	6%	20%	14%	10%	23%	-31%	99%	-3%	34%	-1	-12	-5%	-51%
Houston	14%	18%	10%	4%	20%	-14%	98%	-1%	21%	-20	-24	-15%	-48%
Los Angeles	4%	14%	6%	3%	40%	-21%	100%	-3%	-5%	-6	-7	-1%	-37%
Miami	19%	23%	4%	2%	19%	-1%	97%	0%	-13%	-16	-6	-16%	-45%
Minneapolis	6%	9%	8%	2%	40%	-16%	100%	-2%	-15%	-4	-12	-18%	-38%
Nashville	17%	21%	8%	4%	19%	-27%	98%	-3%	59%	-15	-26	-4%	-59%
New York	5%	22%	5%	1%	27%	0%	99%	0%	-10%	-42	-30	-25%	-32%
Phoenix	9%	31%	14%	9%	15%	-35%	98%	-3%	52%	8	-15	70%	-43%
Portland	5%	18%	11%	4%	30%	-25%	100%	-2%	20%	-6	-18	-12%	-56%
Riverside	8%	26%	8%	5%	36%	-26%	99%	-3%	15%	-14	-28	-4%	-49%
San Diego	6%	22%	9%	4%	32%	-27%	99%	-3%	12%	-2	-16	-12%	-64%
Seattle	4%	20%	11%	6%	21%	-34%	99%	-5%	49%	0	-10	-5%	-66%
Tampa	19%	26%	11%	4%	21%	-18%	98%	-2%	54%	-14	-25	17%	-60%
Washington	7%	7%	6%	1%	31%	-13%	99%	-1%	-22%	4	0	-11%	-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

MORTGAGE ACTIVITY PLUNGED FURTHER WITH PERSISTENTLY ELEVATED RATES

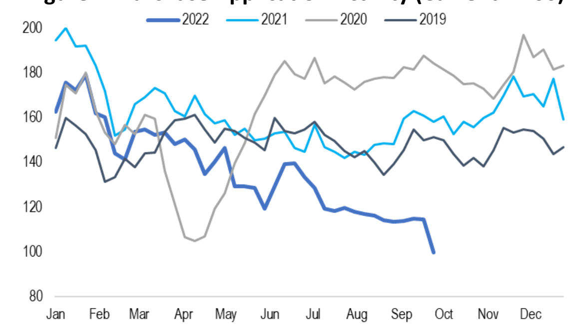
The MBA application survey for the week ending September 30th declined -14.2% w/w and the index is now down -68% year-over-year and -61% compared with pre-pandemic levels (i.e., 3 years ago). The weekly decline reflected a sharp drop for both refinancing and purchase applications. Refinancing applications plunged -18% w/w, which are also down -86% y/y and -80% over 3 years (Figure 6). Purchase applications also dropped -13% w/w and are down -37% y/y and -34% relative to 2019 levels (Figure 7).

Figure 6: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

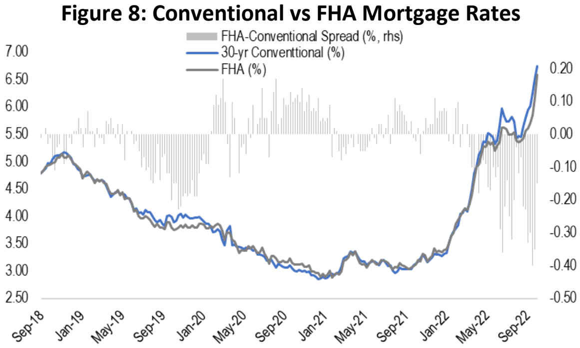
Figure 7: Purchase Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

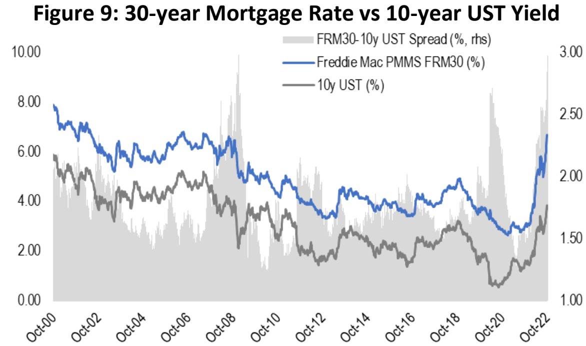
According to the MBA survey of lenders, the average contract conventional mortgage rate rose 23bps to 6.75% during the week ending September 30th while the FHA contract mortgage rate also rose 43bps to 6.60%, resulting in a 20bps widening of the spread between the FHA and conventional mortgage rate to -0.15% (Figure 8). Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the 3 days ending October 5th indicated that the FRM30 declined -4bps w/w to 6.66% (Figure 9) as 10-year UST yields fell -17bps to an average of 3.68% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 13bps to 2.98%, a new cycle high and matching the peak spread reached in 2008. 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.

Figure 8: Conventional vs FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

Figure 9: 30-year Mortgage Rate vs 10-year UST Yield

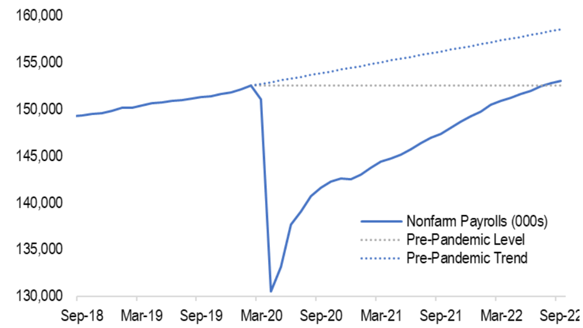


Sources: Freddie Mac PMMS, FRB, Arch MI

JOB MARKET STILL STRONG BUT SIGNS OF CHANGE ARE BREWING

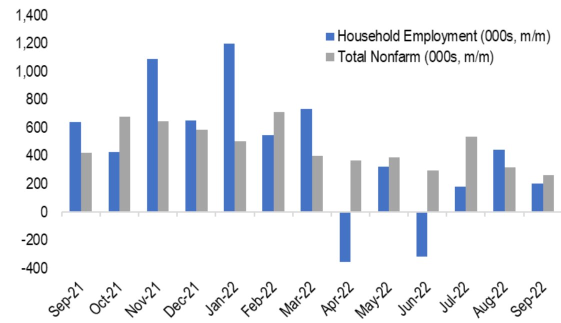
With a gain of 263k jobs in September, the U.S. economy now has 514k more jobs than it did in February 2020 but remains well below the pre-pandemic trend (Figure 10). The breadth of gains across industries increased slightly from August with gains led by education and health services (90k), leisure and hospitality (83k), and professional and business services (46k). The manufacturing sector added 22k jobs while construction also added 19k, a bit surprising given the negative outlooks for both goods production and residential housing. Then again, the large backlog of homes under construction requires workers to complete, which is confirmed by the increase in job openings in the sector during August – one of the few sectors to post an increase in vacancies. The household survey also posted a decent monthly gain of 204k but still shows a less sanguine picture than its establishment counterpart (Figure 11).

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



Sources: Bureau of Labor Statistics (BLS), ADP, Arch MI

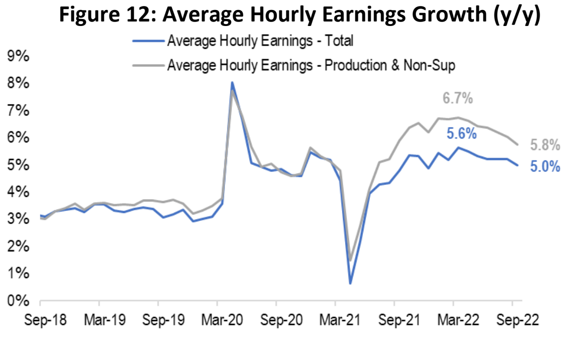
Figure 11: Household and Nonfarm Employment



Sources: Bureau of Labor Statistics (BLS), ADP, Arch MI

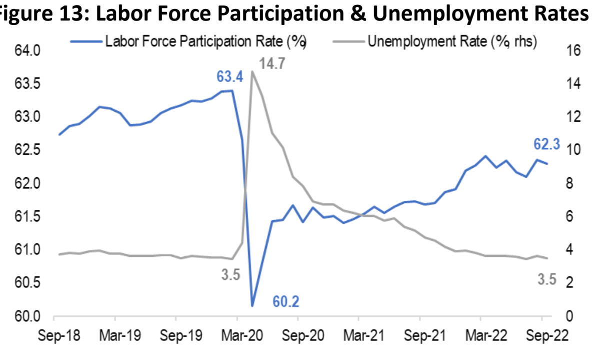
Average hourly earnings rose 0.3% (cons. 0.3%) in September and 5.0% y/y, down from a post-pandemic peak of 6.7% y/y in March, while the non-supervisory segment rose a bit faster at 0.4% m/m and 5.8% y/y (Figure 12). Cooling private hourly wage growth and the 1.1 million drop (-10%) in August job openings both suggest there are early signs of slack building in the labor market. However, the Fed will need to see substantial further cooling in future labor market data to consider easing monetary policy as wage growth remains well above trend despite the recent slowing. Wage growth is likely to remain elevated as the unemployment rate dropped back to 3.5% in September (cons. 3.7%) from 3.7% in August (Figure 13), helped in part by a 10bps decline in the labor force participation rate to 62.3% (cons. 62.4%). Overall, the participation rate is up 20bps since July with the prime age participation rate, those aged between 25 and 54-years-old, only 30bps shy of its pre-COVID level.

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



Sources: Bureau of Labor Statistics (BLS), Arch MI

Figure 13: Labor Force Participation & Unemployment Rates

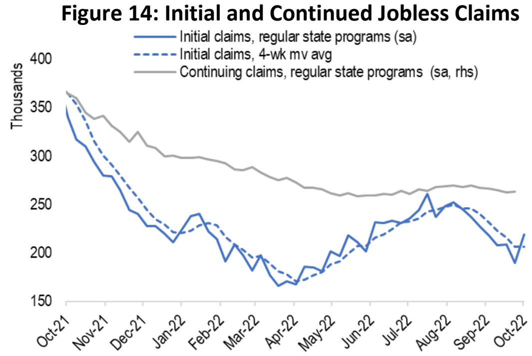


Sources: Bureau of Labor Statistics (BLS), Arch MI

SEASONALLY ADJUSTED CLAIMS JUMP BUT UNADJUSTED CLAIMS REMAIN AT 53-YEAR LOW

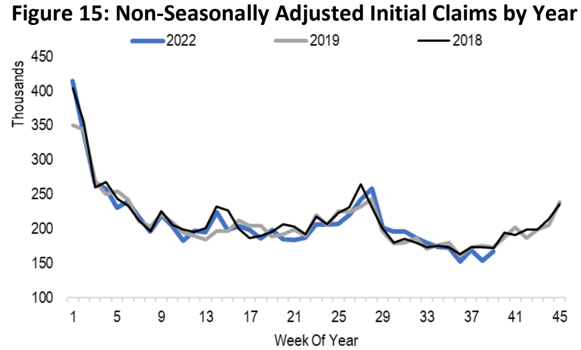
Initial jobless claims jumped by 29k to a seasonally adjusted 219k (consensus: 204k) during the week ending October 1st from 190k the previous week, moving the 4-week average up slightly to 207k from 206k (Figure 14). Although the unadjusted level of initial claims also climbed (Figure 15), they remain at the lowest level since 1969. Some of the recent increase was due to Hurricane Ian as claims jumped by 4k in Puerto Rico, but hurricane-related claims will likely increase further in the weeks ahead given the timing of landfall. Continuing claims for regular state programs (i.e., repeat filers for unemployment insurance) climbed by 15k to 1,361k (consensus: 1,350k) during the week ending September 24th.

Figure 14: Initial and Continued Jobless Claims



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

Figure 15: Non-Seasonally Adjusted Initial Claims by Year



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

The Week Ahead

This week will bring key updates on the Fed's battle against inflation as well as minutes from the FOMC's September meeting which could shed light on the Committee's resolve. On the inflation front, September import prices are expected to cool on a year-over-year basis and monthly core (excluding food and energy) producer and consumer prices are also expected to slow in September. Despite consensus expectations for a monthly slowdown, base effects will put upward pressure on the year-over-year pace for both PPI and CPI.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
10/11/22	NFIB Small Business Optimism	Sep	--	91.2	91.8	index, sa
10/12/22	MBA Mortgage Applications	10/7/22	--	--	-14.2%	w/w, sa
10/12/22	PPI Final Demand m/m	Sep	--	0.2%	-0.1%	sa
10/12/22	PPI Final Demand y/y	Sep	--	8.4%	8.7%	nsa
10/12/22	PPI Core (ex Food and Energy) m/m	Sep	--	0.3%	0.4%	sa
10/12/22	PPI Core (ex Food and Energy) y/y	Sep	--	7.3%	7.3%	nsa
10/12/22	FOMC Meeting Minutes	9/21/22	--	--	--	
10/13/22	CPI m/m	Sep	--	0.2%	0.1%	sa
10/13/22	CPI y/y	Sep	--	8.1%	8.3%	nsa
10/13/22	CPI Core (ex Food and Energy) m/m	Sep	--	0.4%	0.6%	sa
10/13/22	CPI Core (ex Food and Energy) y/y	Sep	--	6.5%	6.3%	nsa
10/13/22	Initial Jobless Claims	10/8/22	--	225	219	k, sa
10/13/22	Continuing Claims	10/1/22	--	1,365	1,361	k, sa
10/14/22	Advance Retail Sales m/m	Sep	--	0.2%	0.3%	sa
10/14/22	Retail Sales Control Group m/m	Sep	--	0.3%	0.0%	sa
10/14/22	Import Price Index y/y	Sep	--	6.2%	7.8%	nsa
10/14/22	Business Inventories m/m	Aug	--	0.9%	0.6%	sa
10/14/22	U. of Mich. Sentiment	Oct P	--	59.0	58.6	index, nsa
10/14/22	U. of Mich. 1 Yr Inflation	Oct P	--	--	4.7%	nsa
10/14/22	U. of Mich. 5-10 Yr Inflation	Oct P	--	2.8%	2.7%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI