HaMMR Digest

Stay current with economic and mortgage market trends.

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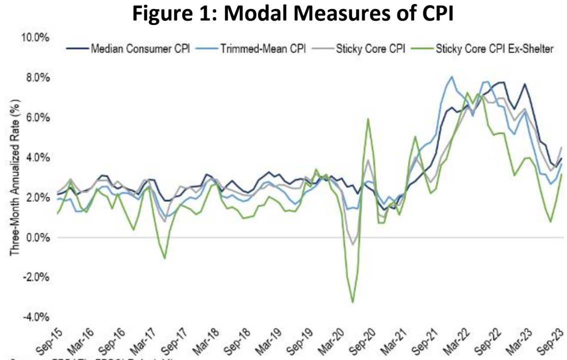
Weekly Wrap — Hurry Up and Wait

- Several reports on September inflation reflect a temporary pause in the normalization process.
- Consumer and small business sentiment both take a hit from recent negative headlines.
- Fed minutes and recent commentary suggest rates likely to remain on hold for some time.

We received multiple inflation reports last week, arguably the most pivotal data for the Fed aside from financial conditions. The minutes from the September Federal Open Market Committee (FOMC) were also made public and while on the surface may seem stale given what has transpired since Sept. 20, they nonetheless provided important clues to the committee's thought process on the outlook for rates. The key message from September's minutes was one of heightened importance placed on downside risks, which one could argue have only increased since then. Indeed, public comments from prominent Fed members since September's meeting have firmly pointed in that direction, specifically citing the increase in Treasury yields on top of the numerous economic risks facing the economy in the fourth quarter. Even with inflation data that showed a stall in the disinflationary process, the path of least resistance so far is for the Fed to hold come November.

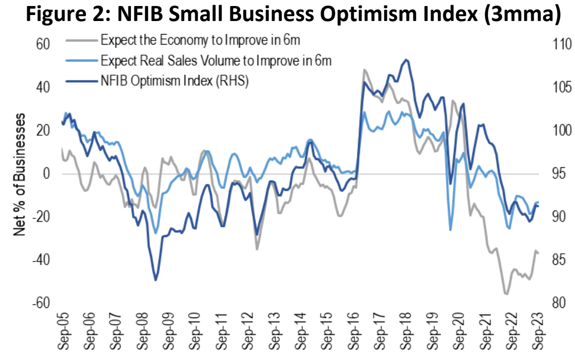
Headline Consumer Price Index (CPI) inflation for September was a bit stronger than consensus expectations, rising 0.4% m/m (cons 0.3%). Energy was a key support for higher prices, albeit a milder one with its contribution to headline falling to 11bps from 40bps in August. Gasoline prices have been inching lower in October, which should give respite to consumers at the pump, but conflicts in Europe and now the Middle East will add uncertainty to global prices in the weeks ahead. Core CPI, which removes volatile food and energy components, rose 0.3% m/m (cons. 0.3%), which was enough to cool annual growth to 4.1% from 4.3%. Positive as that may sound, peeling back the layers does offer reason to be cautious. Core services, excluding shelter, accelerated from 3.3% in August to 5.0% in September on a three-month annualized basis, the fastest pace since last November. Even when removing the most volatile components of the inflation report, captured by several modal measures of inflation, price pressures rebounded (Figure 1). One month is not alarming and we think this will be a blip in the disinflationary process that is underway and likely set to gather steam as the economy cools.

Figure 1: Modal Measures of CPI



Sources: FRBATL, FRBCLE, Arch MI

Figure 2: NFIB Small Business Optimism Index (3mma)



Sources: NFIB, Arch MI

Preliminary consumer sentiment results from the University of Michigan suggest households have grown much more concerned over the near-term economic outlook and prices. Headline consumer sentiment sank 4.9pts to 63 (cons. 67) from 68.1 in September, with similar declines in both the current and expectations components. Year-ahead consumer inflation expectations jumped to 3.8% (cons. 3.2%) from 3.2% in August, which may have been influenced by recent headlines about rising annual inflation figures. We note that preliminary results tend to be revised. The pull-back in consumer sentiment follows deterioration in the National Federation of Independent Business (NFIB) Small Business Optimism index, where the net percentage of respondents expecting the economy to improve over the next six months fell to -43%, the lowest share since May (Figure 2). Negative news and financial headlines certainly impacted consumers and small businesses recently. Should sentiment deteriorate further, economic activity is likely to cool as well. We continue to expect growth to decelerate from a strong first three quarters of 2023 and for the Fed to remain on hold into mid-2024 as they wait to observe the lagged impact of prior rate hikes. We expect a measured pace of rate cuts in the second half of 2024 to be necessary to avoid a hard landing for the economy.

Recent Data Releases

Key economic and housing data releases over the prior week:

Date	Indicator	Period	Actual	Consensus	Revised	Prior	Note
10/10/23	NFIB Small Business Optimism	Sep	**90.8**	91.0	--	91.3	index, sa
10/10/23	Wholesale Inventories m/m	Aug F	**-0.1%**	-0.1%	--	-0.1%	sa
10/11/23	MBA Mortgage Applications	10/6/23	**0.6%**	--	--	-6.0%	w/w, sa
10/11/23	PPI Final Demand m/m	Sep	**0.5%**	0.3%	--	0.7%	sa
10/11/23	PPI Core (ex Food and Energy) m/m	Sep	**0.3%**	0.2%	--	0.2%	sa
10/11/23	PPI Final Demand y/y	Sep	**2.2%**	1.6%	2.0%	1.6%	nsa
10/11/23	PPI Core (ex Food and Energy) y/y	Sep	**2.7%**	2.3%	2.5%	2.2%	nsa
10/11/23	FOMC Meeting Minutes	9/20/23	**--**	--	--	--	
10/12/23	CPI m/m	Sep	**0.4%**	0.3%	--	0.6%	sa
10/12/23	CPI Core (ex Food and Energy) m/m	Sep	**0.3%**	0.3%	--	0.3%	sa
10/12/23	CPI y/y	Sep	**3.7%**	3.6%	--	3.7%	nsa
10/12/23	CPI Core (ex Food and Energy) y/y	Sep	**4.1%**	4.1%	--	4.3%	nsa
10/12/23	Initial Jobless Claims	10/7/23	**209**	210	209	207	k, sa
10/12/23	Continuing Claims	9/30/23	**1,702**	1,676	1,672	1,664	k, sa
10/13/23	Import Price Index m/m	Sep	**0.1%**	0.5%	0.6%	0.5%	nsa
10/13/23	Import Price Index y/y	Sep	**-1.7%**	-1.4%	-2.9%	-3.0%	nsa
10/13/23	U. of Mich. Sentiment	Oct P	**63.0**	67.0	--	68.1	index, nsa
10/13/23	U. of Mich. 1 Yr Inflation	Oct P	**3.8%**	3.2%	--	3.2%	nsa
10/13/23	U. of Mich. 5-10 Yr Inflation	Oct P	**3.0%**	2.8%	--	2.8%	nsa

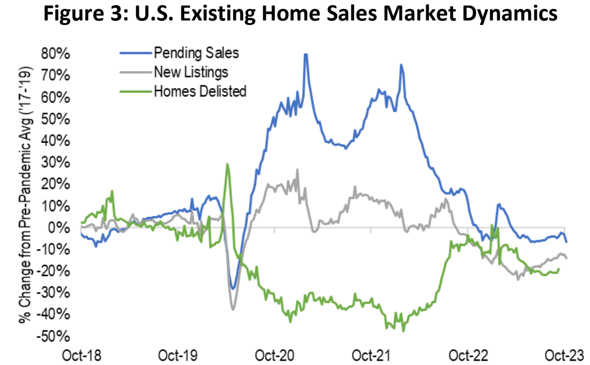
Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics

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

HOUSING MARKET SET TO COOL FURTHER IN RESPONSE TO HIGHER RATES

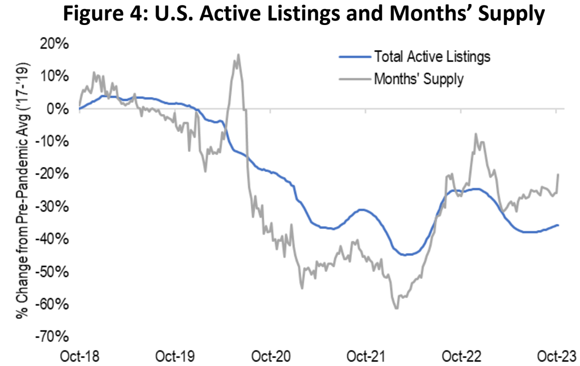
Elevated mortgage rates continued to cool demand through the first week of October and we expect the recent surge in rates to weigh even more heavily on demand. The pace of pending home sales cooled to -6% below the pre-pandemic average (i.e., 2017–2019) for the four weeks ending Oct. 8, a notable decline from -2% four weeks ago (Figure 3). Higher mortgage rates have also weighed on potential sellers and new listings have started to turn lower as well, down to -14% below the pre-pandemic average from -12% 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

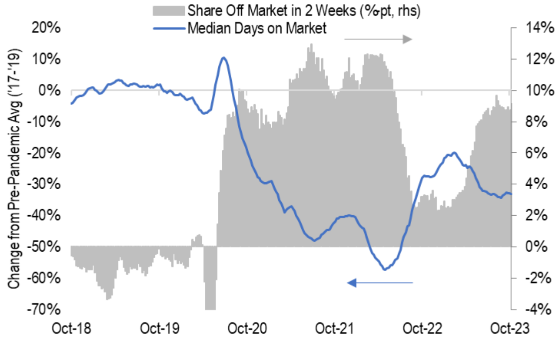


Source: Redfin, Arch MI

Pending sales have cooled faster than new listings, which have 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 -18% y/y and -19% below the pre-pandemic average, the national market remains somewhat tight given months' supply is three months, -20% 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 rapid cooling from incredibly tight conditions.

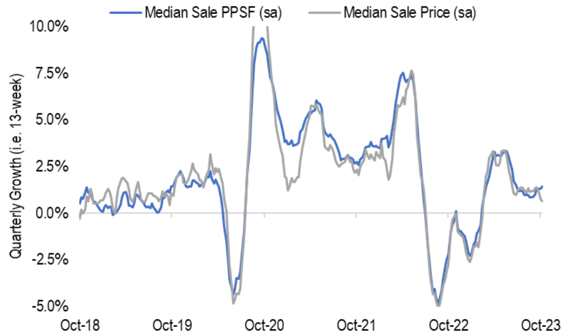
Other measures suggesting the housing market remains tighter than prior to the onset of the pandemic include the share of homes selling within two weeks and the median days homes remain on the market before selling (Figure 5). Nearly 38% of homes sold within two weeks during the first week of October, up roughly 9%-pts from the pre-pandemic average for this time of year. Meanwhile, median days on market have started to inch up slightly 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 Q4. 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 ppsf was up 1.4%, or 5.8% annualized, up from 1.3% 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 (-6%), Denver (-1%), Phoenix (-1%), Dallas (-1%) and Nashville (0%). Home-price growth slowed most rapidly compared with a year ago in Nashville (-17%-pts), Tampa (-16%-pts), Dallas (-14%-pts), Houston (-13%-pts) and Phoenix (-10%-pts). Conversely, annual home-price growth was strongest in San Diego (9%), Boston (8%) and Miami (8%).

Figure 7: Weekly Housing Monitor (as of Oct. 8, 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%**	**8%**	**7%**	**0%**	**31%**	**1%**	**99%**	**0%**	**-14%**	**-16**	**-13**	**-20%**	**-24%**
Atlanta	*4%*	*12%*	7%	-1%	26%	*-1%*	99%	0%	**-33%**	-7	-8	*-25%*	-13%
Austin	**-6%**	**2%**	**10%**	*-2%*	**12%**	**-8%**	**97%**	**-1%**	**-7%**	**25**	**13**	**68%**	**43%**
Baltimore	*4%*	9%	7%	*0%*	**45%**	*8%*	**101%**	1%	-19%	*-16*	*-12*	**-40%**	**-40%**
Boston	**8%**	7%	*6%*	0%	**54%**	6%	**102%**	*1%*	-21%	*1*	*3*	-19%	-19%
Chicago	**7%**	*5%*	**4%**	*0%*	*40%*	*9%*	100%	**1%**	*-27%*	**12**	**21**	*-24%*	-13%
Dallas	**-1%**	**14%**	**9%**	*0%*	*20%*	**-7%**	*98%*	**0%**	**-8%**	-4	-8	-7%	-15%
Denver	**-1%**	7%	**12%**	*-2%*	27%	3%	99%	0%	*-10%*	*1*	*2*	**17%**	*3%*
Houston	*1%*	**14%**	*8%*	-1%	**16%**	**-3%**	**98%**	**0%**	**-38%**	-9	**-16**	**-42%**	-19%
Los Angeles	*4%*	**4%**	**4%**	-1%	**51%**	**12%**	**101%**	**1%**	*-28%*	-8	-1	-9%	*5%*
Miami	**8%**	**17%**	**4%**	**1%**	*19%*	0%	**97%**	0%	*-11%*	*-13*	*-14*	**-49%**	**-53%**
Minneapolis	4%	*6%*	*9%*	**1%**	*40%*	2%	*100%*	0%	*-8%*	-6	-6	-8%	-14%
Nashville	**0%**	**17%**	6%	-1%	**15%**	**-4%**	*98%*	*0%*	**-4%**	*0*	*-11*	*6%*	-13%
New York	*1%*	*5%*	**4%**	-1%	33%	6%	100%	*1%*	*-14%*	**-28**	**-33**	-13%	*-25%*
Phoenix	**-1%**	9%	8%	**-5%**	*21%*	6%	99%	*1%*	**-38%**	-2	*7*	*9%*	**52%**
Portland	2%	*5%*	8%	*-2%*	31%	1%	99%	*0%*	*-10%*	0	0	*9%*	-8%
Riverside	*0%*	7%	*6%*	*-2%*	*42%*	*7%*	100%	1%	*-30%*	**-17**	*-11*	-16%	-1%
San Diego	**9%**	7%	6%	*-2%*	**47%**	**15%**	*100%*	**2%**	**-34%**	-10	*2*	*-30%*	-14%
Seattle	**6%**	**4%**	8%	**-3%**	32%	**12%**	*100%*	**1%**	*-30%*	-5	*5*	-10%	-5%
Tampa	2%	**18%**	**10%**	*0%*	**17%**	**-4%**	**98%**	**0%**	**-5%**	-11	*-14*	-12%	1%
Washington DC	*5%*	8%	*6%*	-1%	*41%*	**10%**	*100%*	1%	-23%	*0*	*8*	-13%	-13%

Note: Data reflects four-week averages.

Source: Redfin, Arch MI

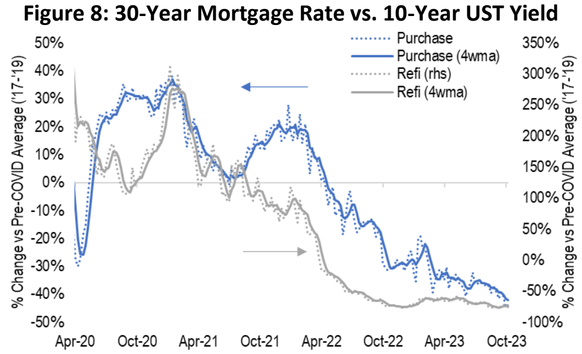
Median days on the market have decreased in most metros (-16 days below nationally) as the market has stabilized but a handful of metros still exceed their pre-pandemic timelines. Markets with the longest median days on the market relative to the pre-pandemic norm included Austin (25 days longer), Chicago (12) and Denver (1), while some markets like New York (-28), Riverside (-17), Baltimore (-16), Miami (-13) and Tampa (-11) remained well below pre-pandemic timelines. Months' supply also remained below pre-pandemic levels in most markets (-20% below nationally), with Miami (-49%), Houston (-42%), Baltimore (-40%), San Diego (-30%) and Atlanta (-25%) remaining the tightest relative to their pre-pandemic averages. Markets that have deteriorated the most based on months' supply include Austin, Denver and Phoenix, where months' supply climbed to a respective 68%, 17% and 9% relative to their pre-pandemic averages from 43%, 3% and 52% below one year ago.

MORTGAGE PURCHASE APPLICATION ACTIVITY INCHED HIGHER AS RATES CLIMBED AGAIN

Higher rates continued to weigh on mortgage purchase application activity during the week ending Oct. 6, which should restrain home sales activity in Q4 unless cash buyers step in. The average contract rate for a conventional 30-year fixed-rate mortgage rose 14bps to 7.67%, while 10-year U.S. Treasury (UST) yields jumped 15bps to an average of 4.68% during the week ending Oct. 6, resulting in a -1bps tightening of the FRM30-10y UST spread to 2.99%. The average FHA contract mortgage rate also rose 11bps to 7.40%, resulting in a -3bps contraction in the spread between the FHA and conventional rate to -0.27%. Meanwhile, the average contract rate for a jumbo 30-year fixed-rate mortgage rose 19bps to 7.70%, resulting in a 5bps widening of the jumbo-conventional spread back into positive territory (0.03%).

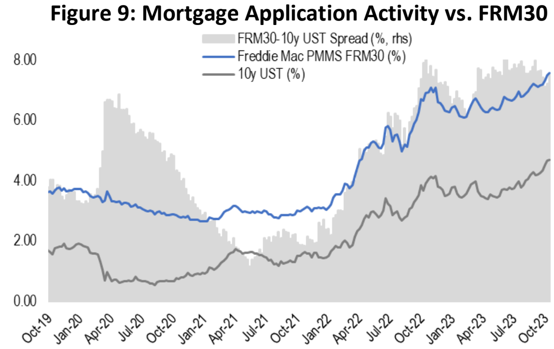
Despite the jump in mortgage rates, mortgage application activity increased 0.6% w/w (sa), leaving the index down -16% year over year and down -60% compared with pre-pandemic levels (i.e., the average of the same week in 2017, 2018 and 2019). The weekly increase was driven primarily by a 0.7% (sa) increase in purchase applications, which remained down -19% y/y despite the modest weekly increase, and -44% below the pre-pandemic level (Figure 8). Refinancing applications inched up 0.3% w/w (sa) but remained down -9% y/y and -75% relative to pre-pandemic levels.

Figure 8: 30-Year Mortgage Rate vs. 10-Year UST Yield



Sources: Mortgage Bankers Association, Arch MI

Figure 9: Mortgage Application Activity vs. FRM30



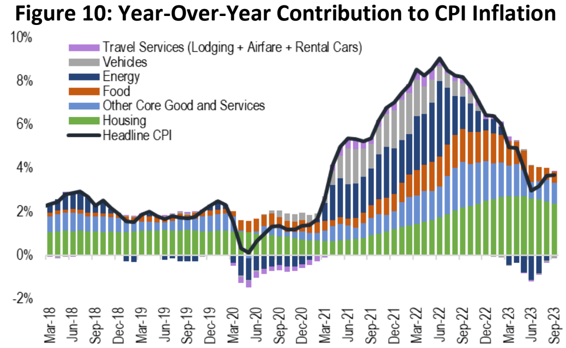
Sources: Freddie Mac Primary Mortgage Market Survey, Federal Reserve Board, Arch MI

Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending Oct. 11 indicated that the FRM30 climbed 8bps w/w to 7.57% (Figure 9) as the yield on the benchmark 10-year U.S. Treasury (UST) inched up 1bps to an average of 4.69% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 7bps to 2.88%, about 120bps 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 early next year.

CONSUMER INFLATION DOWNTREND PAUSES

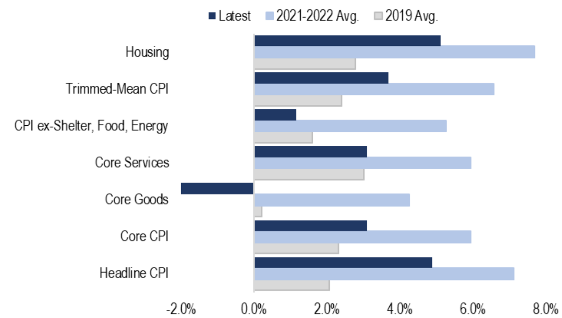
The September CPI inflation report was slightly stronger than consensus expectations as headline CPI rose 0.4% (cons. 0.3%), which also kept the annual pace at 3.7% for the second month in a row (Figure 10). Energy cooled to a 1.5% monthly gain from a 5.6% jump in August with the all-important gasoline component decelerating to 2.1% from 10.6% last month. It seems consumers will get some relief at the pump in October given the recent sharp drop in gasoline prices. Grocery prices (food at home) remained at 0.2% m/m while food away from home (i.e., dining out) accelerated for the second straight month to 0.4%, the highest monthly reading since May. Nonetheless, households are feeling less pressure from one year ago as total food cost growth has been decelerating rather rapidly since January.

Figure 10: Year-Over-Year Contribution to CPI Inflation



Sources: BLS, Arch MI

Figure 11: Three-Month Annualized CPI Inflation



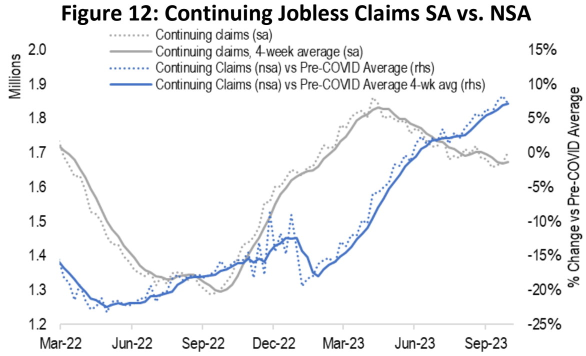
Sources: BLS, Arch MI

Core inflation (excluding food and energy) was in line with consensus expectations, coming in at 0.3% m/m (cons. 0.3%), translating to a 3.1% three-month annualized pace (Figure 11). Core goods prices declined by -0.4%, the fourth monthly decline, aided by a -2.5% drop in used vehicle prices. New vehicles rose by 0.3%, matching the August pace. Wholesale vehicle pricing has turned higher as of late, and a sustained, more disruptive UAW strike — which has already lasted over one month — will very likely place upside pressure on vehicle prices. Core services inflation rose a punchy 0.6% m/m, the fastest pace since February, in part due to a sharp reacceleration of housing inflation. Rent remained at 0.5% m/m but owners' equivalent rent jumped to 0.56% from 0.38% in August, contributing a hefty 14bps to headline CPI and 23bps to core. However, given the lagged nature of CPI housing components relative to changes in asking rents, we expect housing inflation will continue to cool as the year progresses.

INITIAL CLAIMS REMAINED BENIGN BUT CONTINUING CLAIMS SET TO SURGE DUE TO SEASONAL ADJUSTMENT ISSUES

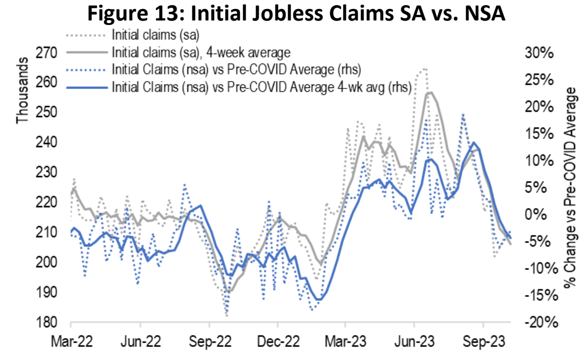
The trend in initial jobless claims remains lower, while continuing claims continued rising relative to the pre-COVID-19 norm. This continues to suggest there has not been an increase in layoffs, but those who are unemployed are finding it more challenging to secure a new job. Altogether, the labor market 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 12: Continuing Jobless Claims SA vs. NSA



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

Figure 13: Initial Jobless Claims SA vs. NSA



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

As we previously highlighted, most recently in "Calming Seas," we had expected the seasonally adjusted level of continuing claims to begin rising in late September and into year's end toward at least 2,000k. We expect a reacceleration by year's end for two reasons: 1) We anticipate a gradual cooldown in the economy and thus an increase in the pace of layoffs, and 2) recently revised seasonal factors will lift the level of claims even if there is no deterioration in the labor market. Right on cue, continuing claims (i.e., repeat filers for unemployment insurance) climbed by 30k during the week ending Sept. 30 to a seasonally adjusted 1,702k (cons. 1,675k), and the prior week was revised up to 1,672k from 1,664k, moving the four-week average up to 1,674k from 1,670k (Figure 12). The four-week average of non-seasonally adjusted (nsa) continuing claims also moved up to 7.2% above its pre-COVID-19 average from 7% the week before and up from -6% below six months ago. Initial jobless claims were unchanged at a seasonally adjusted 209k (cons. 210k) during the week ending Oct. 7 after the prior week was revised up to 209k from 207k, while the four-week average moved down to 206k from 209k (Figure 13). Meanwhile, the four-week average of non-seasonally adjusted initial claims moved down to -4.4% below its pre-COVID-19 average (i.e., 2017 to 2019) from -3% the week before.

The Week Ahead

This week's key data releases will be focused on the housing market, along with updates on the consumer and industrial production. The week kicks off with September advance retail sales, which are expected to cool to 0.3% m/m (sa) from 0.6% in August according to the Bloomberg Consensus Survey of Economists. However, the important control group (excluding food, autos, gas and building materials), which flows directly into the calculation of GDP, is expected to contract -0.1%, down from 0.1% in August and 0.7% in July. The first housing data release of the week will be the National Association of Home Builders' Housing Market Index for October, which is expected to tick down again to 44 from 45 in September. Housing construction activity is expected to remain mixed, with consensus looking for a -5.4% contraction in September building permits and a 7.6% jump in housing starts, which would reverse part of the large moves in August. The last data release of the week for housing will be September existing home sales, which are expected to cool further by -4% m/m (sa) to a seasonally adjusted annual rate of 3,880k.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Consensus	Prior	Note
10/17/23	Advance Retail Sales m/m	Sep	0.3%	0.6%	sa
10/17/23	Retail Sales Control Group m/m	Sep	-0.1%	0.1%	sa
10/17/23	Industrial Production m/m	Sep	0.0%	0.4%	sa
10/17/23	Capacity Utilization	Sep	79.6%	79.7%	sa
10/17/23	Business Inventories m/m	Aug	0.3%	0.0%	sa
10/17/23	NAHB Housing Market Index	Oct	44	45	index, sa
10/18/23	MBA Mortgage Applications	10/13/23	--	0.6%	w/w, sa
10/18/23	Building Permits	Sep	1,458	1,543	k, saar
10/18/23	Building Permits m/m	Sep	-5.4%	6.9%	sa
10/18/23	Housing Starts	Sep	1,380	1,283	k, saar
10/18/23	Housing Starts m/m	Sep	7.6%	-11.3%	sa
10/19/23	Initial Jobless Claims	10/14/23	212	209	k, sa
10/19/23	Continuing Claims	10/7/23	1,700	1,702	k, sa
10/19/23	Philadelphia Fed Business Outlook	Oct	-7.0	-13.5	index, sa
10/19/23	Existing Home Sales	Sep	3,880	4,040	k, saar
10/19/23	Existing Home Sales m/m	Sep	-4.0%	-0.7%	sa
10/19/23	Conference Board Leading Index	Sep	-0.4%	-0.4%	m/m, sa

Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics

