HaMMR Digest

Stay current with economic and mortgage market trends.

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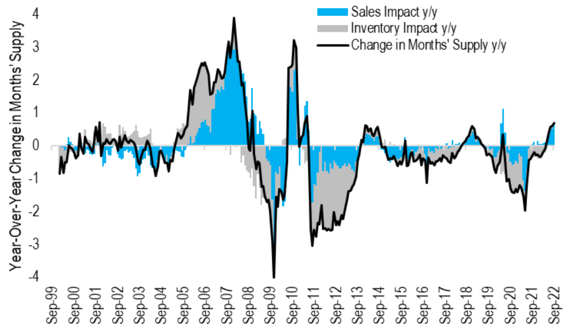
Weekly Wrap – A Chill in the Air

- Existing home sales likely to cool further while the outlook for residential construction also looks bleak
- Current slowdown driven by rapid deterioration in affordability as opposed to surging inventory / oversupply
- Broader economic data confirm labor market strength remains intact, which may force the Fed to press harder

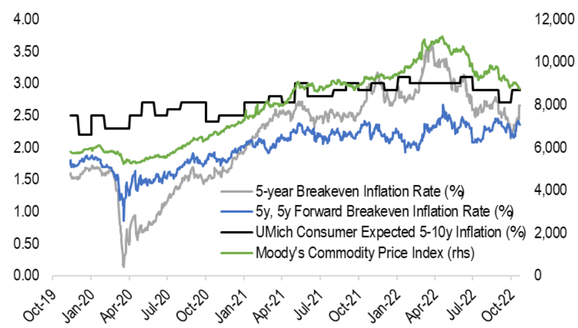
The frost is in for the housing market. September existing home sales grinded lower by -1.5% m/m (cons. -2.1%) to a seasonally adjusted annualized rate (saar) of 4,710k on top of the -20k revision to the August print. Last month was the second month in a row that sales did not drop as much as consensus forecasters were expecting, one of the few silver linings in the current market. However, sales are down -27% since January and have declined below their respective 2019 levels in each of the last five months. Moreover, the pace of the decline from the cycle peak has been par with that of the Great Financial Crisis (GFC) period, bringing back harrowing memories for individuals who were in the market at the time.

Figure 1: Contribution to Annual Change in Months' Supply



Sources: NAR, Arch MI

Figure 2: Inflation Monitor



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

However, the current slowdown is very different from the GFC as strong fundamental demand and a sound mortgage credit backdrop are preventing uneconomical sellers from driving inventories higher. The inventory of homes for sale fell for the second month in a row in September and stands at 1,176k (sa), -32% below 2019 levels and -31% below where inventory stood at the onset of the GFC. When looking at the contribution to the annual change in months' supply, essentially the contributions from inventory and the sales pace, inventory was the key driver in the run-up to the GFC before sales also collapsed (Figure 1). Despite the current slowdown in the pace of sales, months' supply has remained very low at 3.0 for the last three months as sellers have stepped back generally in-line with cooling demand.

The market's current primary ailment is a rapid deterioration in affordability. Compared with a year ago, the combined impact of mortgage rates rising to 7% from 3% and median home prices rising 8% has increased the typical mortgage payment by roughly 70%. Income growth has been solid over the past year, but certainly not strong enough to shoulder that jump in the cost of homeownership. We expect mortgage rates to remain above 6% into next year, which will not only crimp sales further but weigh on construction activity. September single-family housing starts fell -4.7% m/m to 892k saar with permits also posting a -3.1% decline. Further declines are likely ahead as NAHB builder sentiment fell for the tenth month in a row in October to 38 with the future sales index falling to 35, lower than at the worst of the pandemic.

Outside of housing and inflation expectations (Figure 2), there has been a muted response to the Fed's hiking cycle. September industrial production expanded 0.4% m/m (cons. 0.1%) with capacity utilization hitting its highest since 2006. A manufacturing slowdown is likely ahead based on Fed regional surveys suggesting weakness in October. However, those surveys, as well as the Fed's September Beige Book, an anecdotal account of economic activity across the U.S., suggest labor demand remains strong. The resiliency of the labor market is key to our outlook on the economy and housing but if the labor market does not ease in coming months, the Fed may feel compelled to hike further than the current 5.0% terminal rate markets have priced in for early next year.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
10/17/22	Empire Manufacturing	Oct	-9.1	-4.3	-1.5	index, sa
10/18/22	Industrial Production m/m	Sep	0.4%	0.1%	-0.1%	sa
10/18/22	Capacity Utilization	Sep	80.3%	80.0%	80.1%	sa
10/18/22	NAHB Housing Market Index	Oct	38	43	46	index, sa
10/19/22	MBA Mortgage Applications	10/14/22	-4.5%	--	-2.0%	w/w, sa
10/19/22	Building Permits	Sep	1,564	1,530	1,542	k, saar
10/19/22	Building Permits m/m	Sep	1.4%	-0.8%	-8.5%	sa
10/19/22	Housing Starts	Sep	1,439	1,461	1,566	k, saar
10/19/22	Housing Starts m/m	Sep	-8.1%	-7.2%	13.7%	sa
10/20/22	Philadelphia Fed Business Outlook	Oct	-8.7	-5.0	-9.9	index, sa
10/20/22	Initial Jobless Claims	10/15/22	214	233	226	k, sa
10/20/22	Continuing Claims	10/8/22	1,385	1,378	1,364	k, sa
10/20/22	Existing Home Sales	Sep	4,710	4,700	4,780	k, saar
10/20/22	Existing Home Sales m/m	Sep	-1.5%	-2.1%	-0.8%	sa
10/20/22	Conference Board Leading Index	Sep	-0.4%	-0.3%	0.0%	m/m, sa

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

Sources: Bloomberg Consensus Survey of Economists, Arch MI

HOME BUYERS INCREASINGLY SPOOKED AS HALLOWEEN APPROACHES

Various measures of housing activity continue to reflect the sector's sensitivity to mortgage rates. Home sales had cooled rapidly earlier this year as mortgage rates surged from around 3% at the start of the year to a late June peak close to 6%. However, a brief reprieve in July followed as mortgage rates dropped quickly back toward 5% and tempered the slowdown in home sales in August and September (when most July contracts would have closed). As mortgage rates have since surged higher and settled in closer to 7% for most of October, the pace of the decline in demand has reaccelerated.

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

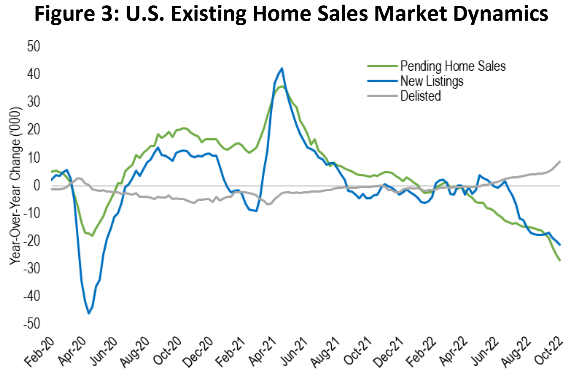
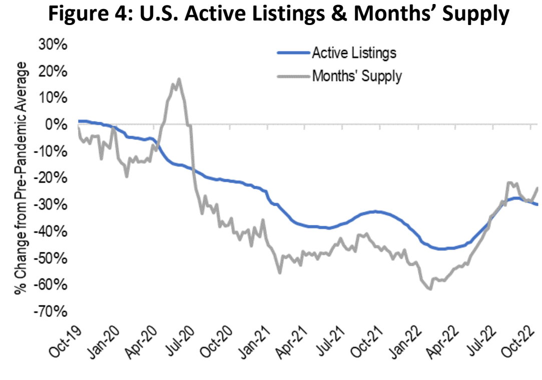


Figure 4: U.S. Active Listings & Months' Supply



Source: Redfin, Arch MI

Pending home sales dropped by 27k y/y or -37% for the week of October 16th according to data from Redfin. However, there were 21k fewer new listings, or -22%, compared with a year ago and a 9k increase, or 86%, in delisted homes over the same period (Figure 3). With sellers still pulling back 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). Committed sellers have no choice but to respond to buyers with much less purchasing power – accordingly, the share of active listings with price drops in the past week climbed to 7.9%, up from 6.7% from just four weeks ago and more than double the share from one year ago. Buyers who remain in the market are increasingly driving a harder bargain with the average offer-to-list ratio down to 97.8% from 100.5% a year ago.

Reduced competition in the market will increasingly weigh on sales prices. Annual growth in the national median sale price ($ / sf) slowed to 7.7% y/y, hitting the slowest pace of the year as momentum has slowed precipitously since the third week of September. Of the major metros we track (Figure 5), annual home price growth was weakest in **Austin** (2%), **Seattle** (3%) and **Los Angeles** (5%) 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** (15 days longer), **Austin** (13), and **Phoenix** (12). 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 46% below the pre-pandemic trend one year ago.

Figure 5: Weekly Housing Monitor (As of 10/16/22)

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	8%	17%	8%	4%	30%	-14%	99%	-2%	5%	-13	-20	-21%	-50%
Atlanta	11%	23%	9%	5%	26%	-21%	98%	-2%	20%	-6	-18	-11%	-56%
Austin	2%	38%	14%	8%	20%	-31%	98%	-4%	63%	13	-8	63%	-44%
Baltimore	8%	8%	8%	2%	37%	-3%	101%	0%	-18%	-14	-19	-38%	-52%
Boston	8%	10%	7%	2%	49%	-10%	101%	-2%	-13%	-6	4	-28%	-36%
Chicago	5%	11%	5%	0%	29%	-6%	99%	-1%	8%	15	-22	-19%	-46%
Dallas	13%	23%	11%	6%	26%	-26%	99%	-3%	33%	-15	-20	-25%	-62%
Denver	5%	20%	14%	10%	23%	-31%	99%	-3%	43%	-3	-13	3%	-56%
Houston	13%	18%	11%	5%	18%	-14%	98%	-1%	24%	-18	-27	-13%	-53%
Los Angeles	5%	14%	6%	3%	38%	-23%	100%	-3%	-2%	-4	-9	3%	-41%
Miami	18%	26%	4%	2%	17%	-3%	97%	0%	-14%	-12	-3	-25%	-49%
Minneapolis	5%	10%	9%	3%	37%	-16%	100%	-1%	1%	-3	-12	-4%	-38%
Nashville	16%	22%	8%	5%	19%	-25%	98%	-3%	60%	-12	-27	2%	-61%
New York	6%	18%	5%	1%	25%	-2%	99%	0%	-9%	-39	-30	-26%	-42%
Phoenix	8%	30%	14%	9%	14%	-33%	98%	-3%	53%	12	-14	63%	-48%
Portland	5%	18%	11%	4%	28%	-25%	99%	-2%	23%	-6	-18	-5%	-59%
Riverside	7%	25%	8%	5%	34%	-26%	99%	-3%	16%	-12	-26	-3%	-52%
San Diego	8%	19%	9%	4%	31%	-26%	99%	-3%	22%	-1	-17	-9%	-65%
Seattle	3%	23%	11%	6%	21%	-34%	99%	-5%	57%	1	-11	2%	-69%
Tampa	17%	27%	11%	4%	19%	-19%	98%	-2%	58%	-11	-25	4%	-63%
Washington	7%	8%	7%	2%	30%	-11%	100%	-1%	-15%	2	-10	-2%	-40%

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

SLOWDOWN IN EXISTING HOME SALES REACCELERATES

Existing home sales decreased for the eighth straight month in September, falling -1.5% m/m (sa) to a 4,710k (cons. 4,700k) annualized pace, marking a cumulative decline of -23% from the end of 2021 (Figure 6). All regions saw sequential declines in the pace of sales apart from the West, which was unchanged, led by the South at -1.9%. September single-family home sales slowed by -0.9% m/m to 4,220k saar, the ninth decline in the last ten months but also the smallest monthly drop over that period. On a year-over-year basis, single-family home sales are down -23% and have been slowing since December. Sales are down nearly -29% from the January 2021 post-pandemic peak.

Figure 6: Existing Home Sales

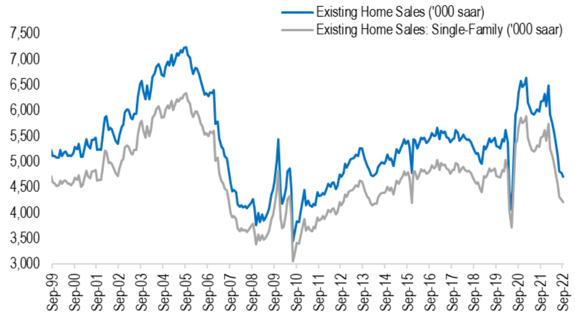
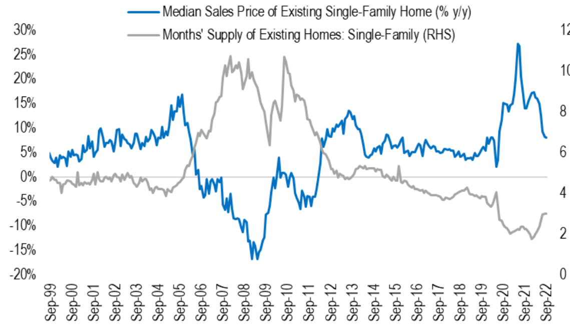


Figure 7: Median Sales Price & Months' Supply



September existing home sales data reflects the housing market from July and August (i.e., when contracts were signed for September closings), a period that included a brief respite in mortgage rates before the recent jump toward 7%. Supply conditions remain tight despite the slower pace of sales as inventory at the end of September was only 1,050k (sa) units, a -1.2% m/m drop and still -31% below its respective 2019 level. Unsold inventory remained at a seasonally adjusted 3.0 months' supply at the present sales pace, roughly where it's been for the last three months but still up from the record low 1.8 months in January (Figure 7). After three straight monthly declines, the seasonally adjusted median sales price of an existing single-family home rose 1.0% m/m to $391k, although it is important to note that this figure is not adjusted for the quality, size, or geography of homes sold. Home prices remained up 8.1% y/y in September, down from 17% in January. From a regional perspective, only the South still boasts double-digit price gains, with the region up 11% y/y in September, while the weakest growth was recorded in the Midwest (7% y/y).

HOME CONSTRUCTION CONTINUED TO COOL IN SEPTEMBER

September housing starts partly reversed the surprise jump in August, falling -8.1% m/m to 1,439k saar (cons. 1,461k) with modest negative revisions for the prior two months (Figure 8). Single-family starts slowed -4.7% m/m to 892k, more than erasing the 4.0% rise in August and suggesting that most of the momentum in starts has occurred in the multifamily segment. Multifamily starts, which have been volatile, decreased -13.2% m/m but have averaged a 2.7% monthly gain over the last six months, well above the -4.6% for single-family over the same time frame. More forward-looking building permits continue to show weakness led by single-family, which decreased -3.1% m/m to 872k saar and for the seventh month in a row, bringing the year-to-date decline to -27% (Figure 9).

Figure 8: Housing Starts and Permits

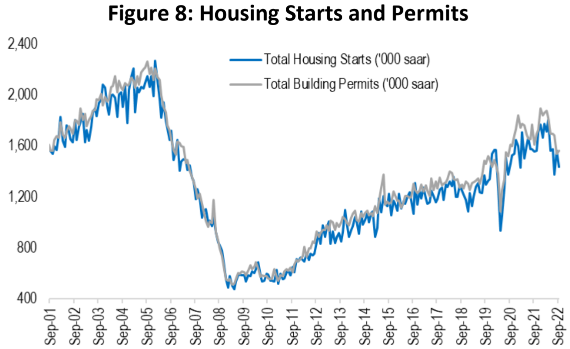
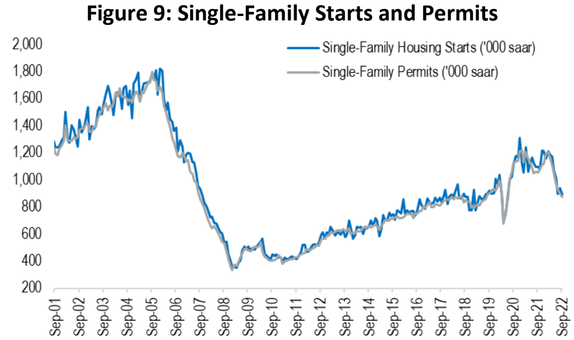
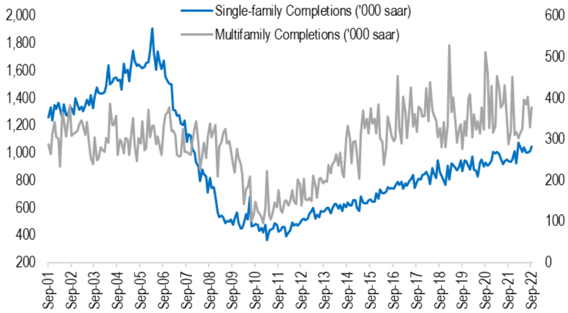


Figure 9: Single-Family Starts and Permits



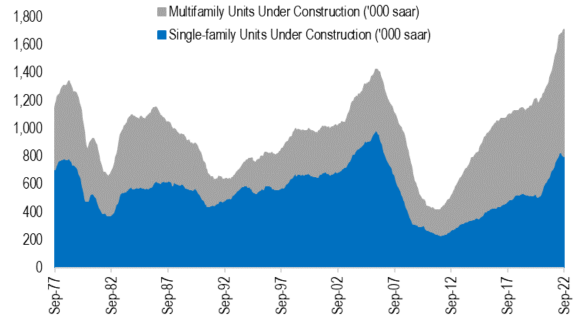
Completions rose 6.1% m/m, bolstered by a 15% uptick in in the multifamily segment. Single-family completions rose a respectable 3.2% m/m and are up about 11% y/y and nearly 16% above the pre-pandemic pace (Figure 10). Total completions have remained flat over the prior year as builders are still working through supply chain bottlenecks against a record level 1,710k units under construction (Figure 11).

Figure 10: Housing Completions



Sources: US Census Bureau, Arch MI

Figure 11: Housing Units Under Construction



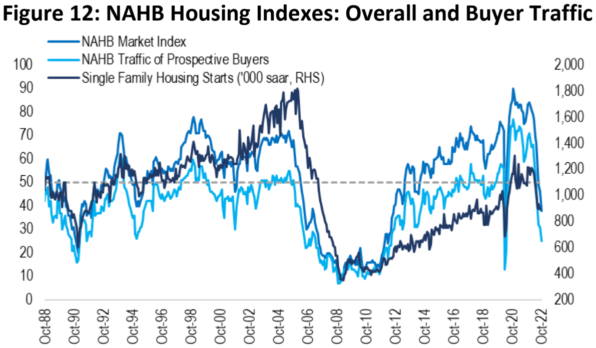
Sources: US Census Bureau, Arch MI

Both the single-family and multifamily segments continue to see growth in units under construction on an annual basis with the former up 11% and 52% on a one-year and three-year basis, respectively. On a monthly basis, single-family units under construction have slowed since May, consistent with the multi-month downtrends in permits and starts. With the dislocations occurring in the housing market amid rising rates and slowing sales, single-family units authorized but not started have remained flat over the prior months as builders curtail new construction to better manage their inventory relative to demand.

BUILDER PERCEPTION OF BUYER TRAFFIC WORSE THAN HEIGHT OF PANDEMIC

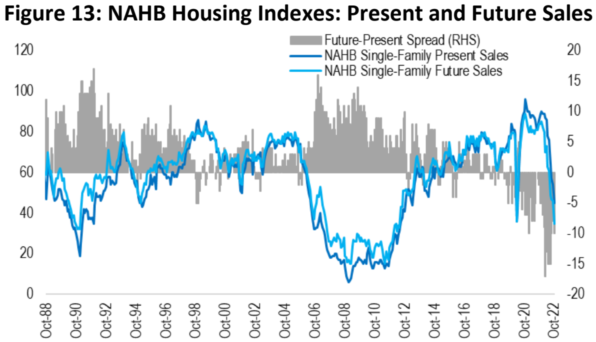
Downtrodden builder sentiment continued into October. The headline NAHB housing market index dropped eight points to 38 (Figure 12), further below the breakeven '50' level, indicating that a growing share of builders view conditions as negative rather than positive. There might have been an additional drag from Hurricane Ian on October's data as sentiment tends to drop the month after a hurricane makes landfall before bouncing back in the subsequent months. In that regard, it makes sense that the South saw the largest month-over-month drop of any region, falling eleven points to 41. The West still holds the lowest sentiment level of all regions at 25 after a nine-point m/m decline, which aligns with our view that the West is the most stretched in terms of valuations and affordability.

Figure 12: NAHB Housing Indexes: Overall and Buyer Traffic



Sources: NAHB, Arch MI

Figure 13: NAHB Housing Indexes: Present and Future Sales



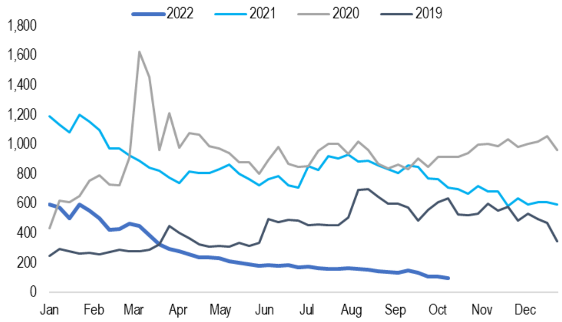
Sources: NAHB, Arch MI

National index components reinvigorated their sequential declines after slowing in September with the headline index back at 2012 levels, a period when the U.S. was recovering from the financial crisis and single-family housing starts were running at an annualized pace of about 520k. The brunt of the headline decline was led by the future sales component, falling eleven points to a reading of 38 while the index of buyer traffic fell six points to 25 (Figure 13). Continued mortgage rate volatility keeps moving the housing market's supply and demand goalposts but both dynamics are set for further declines.

MORTGAGE ACTIVITY DECLINES FURTHER AS MORTGAGE RATES REMAIN NEAR 7%

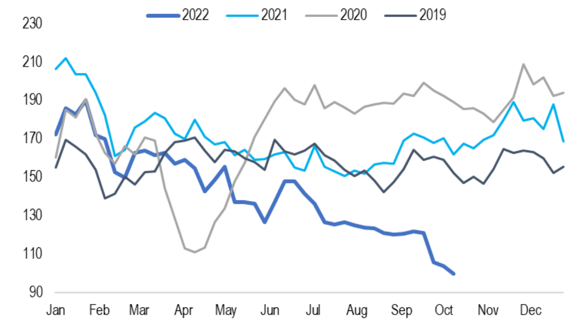
The MBA application survey for the week ending October 14th declined -4.5% w/w and the index is now down -68% year-over-year, and down -65% compared with pre-pandemic levels (i.e., 3 years ago). The weekly decline was driven primarily by a -6.8% decline in refinancing applications, which remain down -86% y/y and -84% over 3 years (Figure 14). Purchase applications declined -3.7% w/w and are down -38% y/y and -34% relative to 2019 levels (Figure 15).

Figure 14 Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

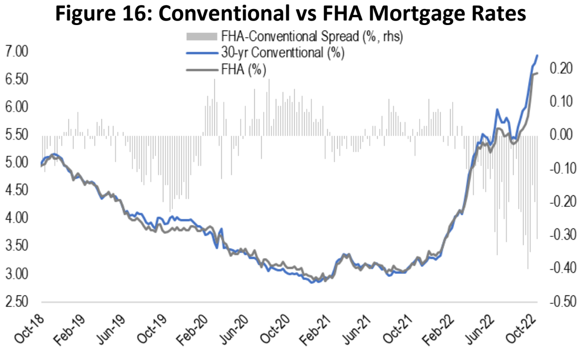
Figure 15: Purchase Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

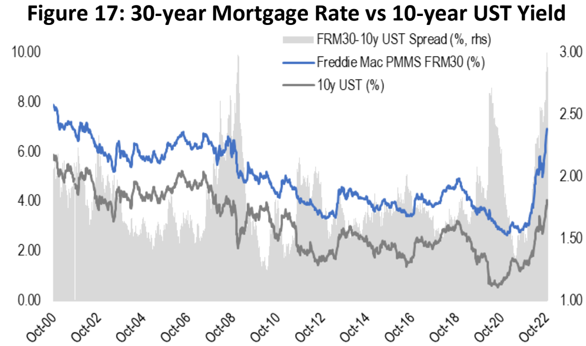
According to the MBA survey of lenders, the average contract conventional mortgage rate rose 13bps to 6.94% during the week ending October 14th while the FHA contract mortgage rate also rose 2bps to 6.63%, resulting in a -11bps contraction in the spread between the FHA and conventional mortgage rate to -0.31% (Figure 16). Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the 3 days ending October 19th indicated that the FRM30 climbed 2bps w/w to 6.94% (Figure 17) as 10-year UST yields jumped 14bps to an average of 4.06% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST narrowed -12bps to 2.88% but remained near the cycle high of 3.0%. 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 16: Conventional vs FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

Figure 17: 30-year Mortgage Rate vs 10-year UST Yield

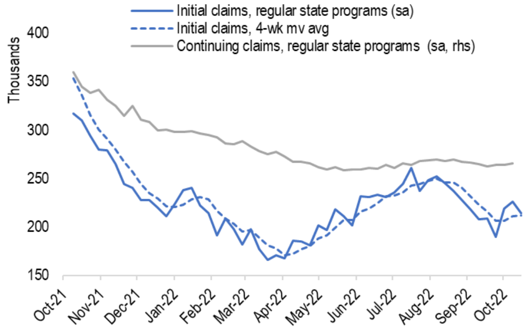


Sources: Freddie Mac PMMS, FRB, Arch MI

JOBLESS CLAIMS DECLINE AFTER HURRICANE IAN SPIKE

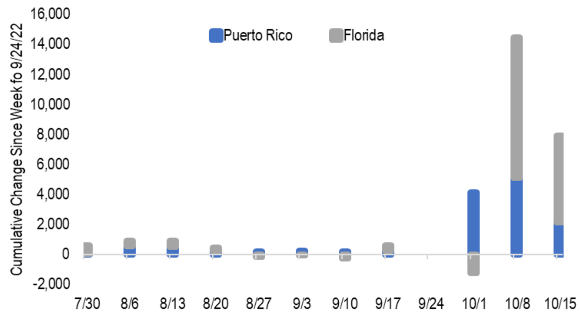
Initial jobless claims declined by -12k to 214k (consensus: 233k) during the week ending October 15th from 226k the previous week, moving the 4-week average up to 212k from 211k (Figure 18). Some of last week's decline was related to a normalization of claims activity in Florida and Puerto Rico, following the prior week's spike in claims activity related to Hurricane Ian (Figure 19). Despite the distortions caused by the hurricane, non-seasonally unadjusted claims remain at the lowest level since 1969. Meanwhile, continuing claims for regular state programs (i.e., repeat filers for unemployment insurance) climbed by 21k to 1,385k (consensus: 1,378k) during the week ending October 8th, reflecting the prior week's jump in hurricane-related claims given the weekly lag for continuing claims data.

Figure 18: Initial and Continued Jobless Claims



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

Figure 19: Jobless Claims in Florida & Puerto Rico



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

The Week Ahead

UPCOMING DATA RELEASES

This week will bring a wide range of updates on the economy, inflation, and the housing market. Home prices likely continued cooling in August, with the FHFA Purchase Only HPI and S&P CoreLogic Case Shiller HPI expected to decline -0.6% m/m and -0.7%, respectively. September new home sales should reverse much of the sharp jump in August as mortgage rates took another leg higher on the month. September pending sales of existing homes also likely cooled further in response to higher rates. 3Q22 GDP growth is expected to show a strong recovery (2.3% q/q saar) from a weak first half of the year, mostly driven by a large contribution from net exports as real consumer spending was held back by sharply higher prices during the quarter. On prices, September PCE inflation is expected to rise another 0.3% m/m and 6.3% y/y, with consensus looking for core (excluding food and energy prices) inflation to accelerate to 5.2% y/y from 4.9% in August.

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
10/24/22	S&P Global US Composite PMI	Oct P	--	49.3	49.5	index, sa
10/25/22	FHFA House Price Index m/m	Aug	--	-0.6%	-0.6%	sa
10/25/22	S&P CoreLogic CS 20-City m/m SA	Aug	--	-0.7%	-0.4%	sa
10/25/22	S&P CoreLogic CS 20-City y/y NSA	Aug	--	14.1%	16.1%	nsa
10/25/22	Conf. Board Consumer Confidence	Oct	--	105.3	108.0	index, sa
10/26/22	MBA Mortgage Applications	10/21/22	--	--	-4.5%	w/w, sa
10/26/22	New Home Sales	Sep	--	580	685	k, saar
10/26/22	New Home Sales m/m	Sep	--	-15.3%	28.8%	sa
10/27/22	GDP Annualized q/q	3Q A	--	2.3%	-0.6%	saar
10/27/22	Personal Consumption q/q	3Q A	--	0.9%	2.0%	saar
10/27/22	Core Personal Consumption q/q	3Q A	--	4.5%	4.7%	saar
10/27/22	Initial Jobless Claims	10/22/22	--	220	214	k, sa
10/27/22	Continuing Claims	10/15/22	--	1,383	1,385	k, sa
10/28/22	Employment Cost Index	3Q	--	1.2%	1.3%	q/q, sa
10/28/22	Personal Income	Sep	--	0.4%	0.3%	m/m, sa
10/28/22	Personal Spending	Sep	--	0.4%	0.4%	m/m, sa
10/28/22	Real Personal Spending	Sep	--	0.1%	0.1%	m/m, sa
10/28/22	PCE Inflation m/m	Sep	--	0.3%	0.3%	sa
10/28/22	PCE Inflation y/y	Sep	--	6.3%	6.2%	nsa
10/28/22	PCE Core Inflation (ex Food and Energy) m/m	Sep	--	0.5%	0.6%	sa
10/28/22	PCE Core Inflation (ex Food and Energy) y/y	Sep	--	5.2%	4.9%	nsa
10/28/22	Pending Home Sales m/m	Sep	--	-5.0%	-2.0%	sa
10/28/22	Pending Home Sales y/y	Sep	--	--	-22.5%	nsa
10/28/22	U. of Mich. Sentiment	Oct F	--	59.6	59.8	index, nsa
10/28/22	U. of Mich. 1 Yr Inflation	Oct F	--	5.1%	5.1%	nsa
10/28/22	U. of Mich. 5-10 Yr Inflation	Oct F	--	2.9%	2.9%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI