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HaMMR Digest

Stay current with economic and mortgage market trends.

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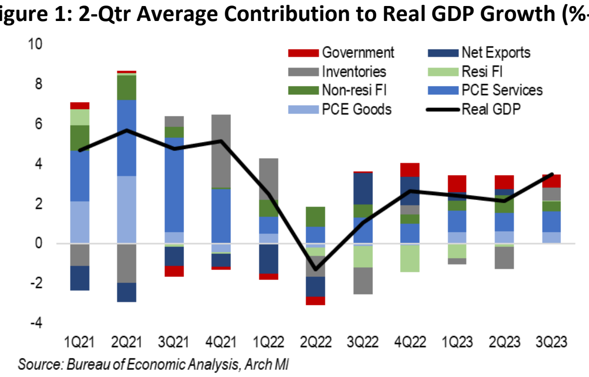
Weekly Wrap — No Trick, All Treat… For Now

- Real GDP growth knocked it out of the park, but do not expect the strength to continue.
- New homes remain an attractive option for potential homebuyers given builder incentives.
- The Fed's policy meeting this week will unlikely be a fright fest with the market pricing near-zero odds of a hike.

A week full of data largely confirmed what we already knew about the U.S. economy in the third quarter — that it expanded at a very robust clip. However, last week's strong data is not going to sway the Fed from holding rates at this week's policy meeting. Risks remain skewed to the downside for the economy and core inflation despite the labor market remaining firmer than the Fed would like. Last week's headline data report was the advance release for 3Q real GDP, which showed growth surged at a 4.9% (cons. 4.5%) seasonally adjusted annualized rate (saar). This was more than double the 2Q pace, but when smoothing some of the noise away with a rolling two-quarter average, the hot 3Q looks like a more modest acceleration (Figure 1). Underlying details were broadly as expected with the biggest lift coming from consumer spending, which rose 4.0% saar—contributing 2.7%-pts to headline GDP growth. Although business investment took a step back, residential investment rose for the first time in 10 quarters while private inventory builds accelerated and government consumption remained firm.

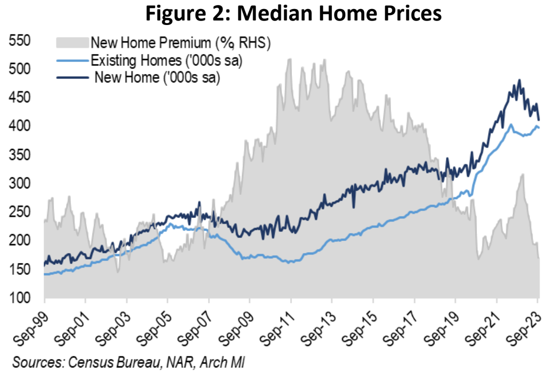
Further details on household spending came from the monthly personal spending report that showed consumers remained comfortable spending above trend while saving less. Personal income rose 0.3% m/m (cons. 0.4%) in September while spending surged by 0.7% (cons. 0.5%). Real spending rose 0.4% m/m driven by spending on services and durable goods. While income growth has been strong, it has been outpaced by spending growth over the prior four months, driving the savings rate 1.5%-pts lower over that period to 3.4% in September as consumer sentiment has deteriorated. The University of Michigan Consumer Sentiment index declined to 63.8 (cons. 63) in October, continuing a gradual grind lower since July. Moreover, near-term inflation expectations rose to 4.2% (cons. 3.8%), a multi-month high, likely in response to the recent headlines about accelerating inflation. Core Personal Consumption Expenditures (PCE) inflation accelerated in September to a 2.5% annualized pace over the prior three months from 2.0% in August.

Figure 1: 2-Qtr Average Contribution to Real GDP Growth (%-pt)



Source: Bureau of Economic Analysis, Arch MI

Figure 2: Median Home Prices



Sources: Census Bureau, NAR, Arch MI

The weak points of the 3Q GDP report are evident in in business fixed investment, which slowed sharply to -0.1% from 7.4% in 2Q largely due to a slowdown in nonresidential building activity and a decline in spending on business equipment. This was somewhat expected as shipments of core capital goods were down -0.4% annualized in 3Q. However, real core capital goods orders rebounded 2.6% on a three-month annualized basis in September. This suggests shipments should rebound unless firms cancel orders, which seems unlikely at the moment given the rebound in manufacturing surveys. New home sales rose 12.4% m/m in September (cons. 0.7%), more than offsetting the -8.2% decline in the prior month. The new home sales market remains the most attractive option for potential homebuyers as builders remain in a strong position to offer incentives, including rate buydowns and price cuts. Indeed, the median new home price fell -7% m/m and -13% y/y in September, shrinking the new home premium over existing homes to 7% (Figure 2). However, the continued rise in mortgage rates will likely temper homebuying sentiment and make it more costly for builders to buy rates down and temper a further upside in new home sales.

Recent Data Releases

Key economic and housing data releases over the prior week:

Date	Indicator	Period	Actual	Consensus	Revised	Prior	Note
10/24/23	S&P Global US Manufacturing PMI	Oct P	50.0	49.5	--	49.8	index, sa
10/24/23	S&P Global US Services PMI	Oct P	50.9	49.9	--	50.1	index, sa
10/24/23	S&P Global US Composite PMI	Oct P	51.0	50.0	--	50.2	index, sa
10/25/23	MBA Mortgage Applications	10/20/23	-1.0%	--	--	-6.9%	w/w, sa
10/25/23	New Home Sales	Sep	759	680	676	675	k, saar
10/25/23	New Home Sales m/m	Sep	12.3%	0.7%	-8.2%	-8.7%	sa
10/26/23	GDP Annualized q/q	3Q A	4.9%	4.5%	--	2.1%	saar
10/26/23	Personal Consumption q/q	3Q A	4.0%	4.0%	--	0.8%	saar
10/26/23	Durable Goods Orders	Sep P	4.7%	1.9%	-0.1%	0.1%	m/m, sa
10/26/23	Core PCE Deflator q/q	3Q A	2.4%	2.5%	--	3.7%	saar
10/26/23	Cap Goods Orders Nondef Ex Air	Sep P	0.6%	0.0%	1.1%	0.9%	m/m, sa
10/26/23	Initial Jobless Claims	10/21/23	210	207	200	198	k, sa
10/26/23	Continuing Claims	10/14/23	1,790	1,740	1,727	1,734	k, sa
10/26/23	Pending Home Sales m/m	Sep	1.1%	-2.0%	--	-7.1%	sa
10/27/23	Personal Income	Sep	0.3%	0.4%	--	0.4%	m/m, sa
10/27/23	Personal Spending	Sep	0.7%	0.5%	--	0.4%	m/m, sa
10/27/23	Real Personal Spending	Sep	0.4%	0.3%	--	0.1%	m/m, sa
10/27/23	PCE Inflation m/m	Sep	0.4%	0.3%	--	0.4%	sa
10/27/23	PCE Inflation y/y	Sep	3.4%	3.4%	3.4%	3.5%	nsa
10/27/23	PCE Core Inflation (ex Food and Energy) m/m	Sep	0.3%	0.3%	--	0.1%	sa
10/27/23	PCE Core Inflation (ex Food and Energy) y/y	Sep	3.7%	3.7%	3.8%	3.9%	nsa
10/27/23	U. of Mich. Sentiment	Oct F	63.8	63.0	--	63.0	index, nsa
10/27/23	U. of Mich. 1 Yr Inflation	Oct F	4.2%	3.8%	--	3.8%	nsa
10/27/23	U. of Mich. 5-10 Yr Inflation	Oct F	3.0%	3.0%	--	3.0%	nsa

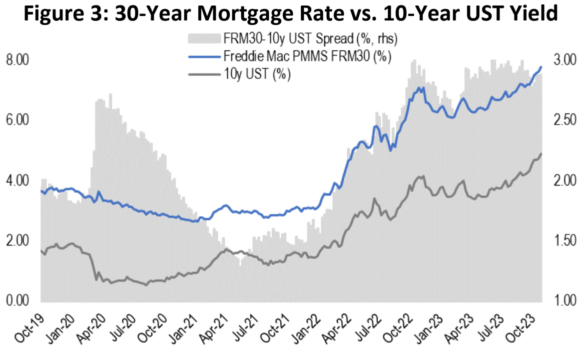
Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics

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

MORTGAGE PURCHASE APPLICATION ACTIVITY CONTINUED TO DECLINE

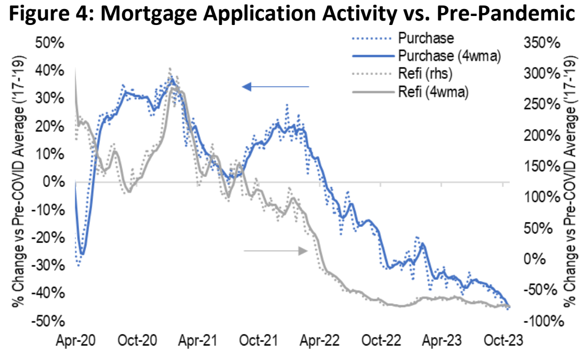
According to the MBA Weekly Applications Survey, the average contract rate for a conventional 30-year fixed-rate mortgage rose 20bps to 7.9% during the week ending Oct. 20 while the average FHA contract mortgage rate also rose 16bps to 7.52%, resulting in a -4bps contraction in the spread between the FHA and conventional rate to -0.38%. Meanwhile, the average contract rate for a jumbo 30-year fixed-rate mortgage rose 22bps to 7.78%, resulting in a 2bps widening of the jumbo-conventional spread to -0.12%.

Figure 3: 30-Year Mortgage Rate vs. 10-Year UST Yield



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

Figure 4: Mortgage Application Activity vs. Pre-Pandemic



Sources: Mortgage Bankers Association, Arch MI

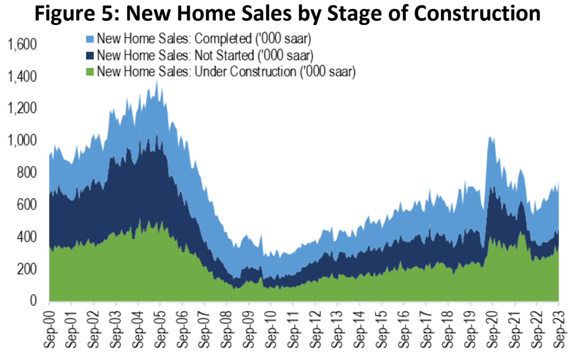
Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the week ending Oct. 25 indicated that the FRM30 jumped 16bps w/w to 7.79% (Figure 3) as the yield on the benchmark 10-year U.S. Treasury (UST) jumped 15bps to an average of 4.91% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 1bps 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.

The continued rise in rates weighed further on mortgage application activity. The MBA Weekly Applications Survey for the week ending Oct. 20 showed mortgage application activity declined -1% w/w (sa), leaving the index down -18% 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 -2.2% (sa) decline in purchase applications, which remained down -22% y/y and -45% below the pre-pandemic level (Figure 4). Refinancing applications increased 1.8% w/w (sa) but remained down -8% y/y and -76% relative to pre-pandemic levels.

NEW HOME SALES REBOUNDED IN SEPTEMBER

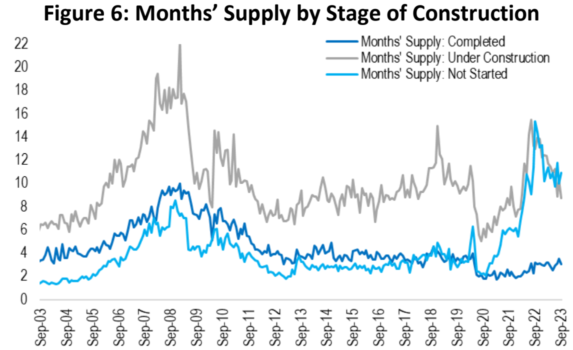
Data from the Census Bureau showed new home sales advanced 12.3% m/m (cons. 0.7%) in September to a seasonally adjusted annual rate of 759k (cons. 680k) from 676k in August. Sales have been rising since last summer, albeit on a choppy path, while existing home sales have remained more depressed. The monthly gain in September was the largest since August 2022, bringing the annual advance up to 34% from 6% last month with the current pace 16% above where it was pre-pandemic (Figure 5). Large national builders have been optimistic with rising orders and healthy margins, able to take advantage of a tight resale market with attractive incentives for homebuyers. Accordingly, new home sales comprised 17% of the total home sales market over the past three months, up from 11% at the onset of the pandemic.

Figure 5: New Home Sales by Stage of Construction



Sources: Census Bureau, Arch MI

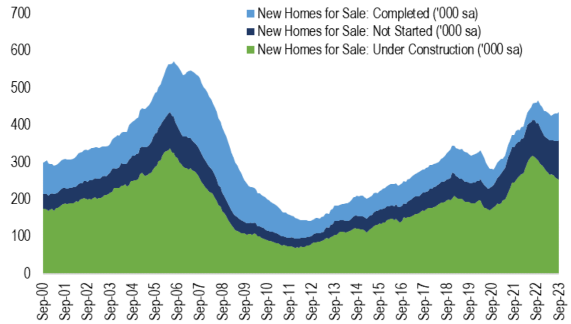
Figure 6: Months' Supply by Stage of Construction



Sources: Census Bureau, Arch MI

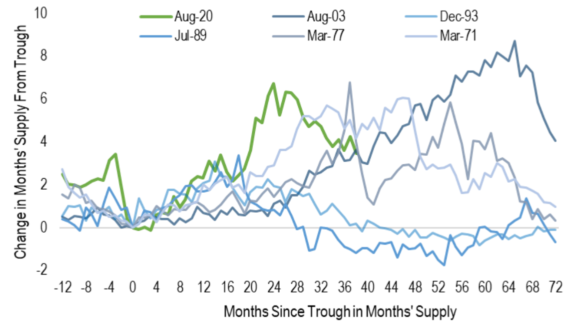
The inventory of new homes for sale in September represented a 6.9 months' supply, down from the cycle peak of 10.1 months in June 2022 and slightly above the historical average of six months. Completed homes for sale were flat on the month in terms of sequential growth but nonetheless advanced 43% over the year and up 13% from four years ago. The rise of completed home inventory reflects a normalization of supply chain constraints rather than a sign of stress given the median time to sell a completed home was just 2.4 months (nsa) in September, below the historical norm. Additionally, the 14% m/m increase in the sales pace of completed homes lowered the months' supply of completed homes to 3.1 months (sa), which is slightly below where it stood at the onset of the pandemic (Figure 6). The bulk of new home inventory remained skewed toward units not started and under construction, which comprise 83% of the total inventory when combined (Figure 7).

Figure 7: Inventory of New Homes for Sale



Sources: Census Bureau, Arch MI

Figure 8: New Home Months' Supply Cycles



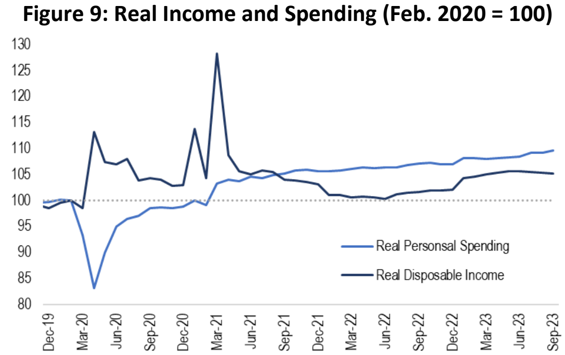
Sources: Census Bureau, Arch MI

Homebuilders have managed through this whiplash-inducing housing cycle much better than during the Global Financial Crisis (GFC). The current cycle for the new home market has been defined by extremes: the pace, magnitude and duration of the slump has been quite unique. The months' supply of new homes surged from a record-low of 3.3 months in August 2020 (defined as the peak of the cycle) to a peak of 10.1 months in July 2022 (defined as the trough of the cycle), or an increase of 6.8 months — a deterioration surpassed only by the GFC when months' supply climbed by 8.7 months to a peak of 12.2 months (Figure 8). However, it took over half a decade for the new home sales market to go from its cycle peak in August 2003 to its trough in January 2009, compared with just under two years for the current cycle. Even more impressively, the months' supply of new homes has returned close to its historic average a mere few months after enduring a historic downturn.

CONSUMERS INDULGED IN SEPTEMBER

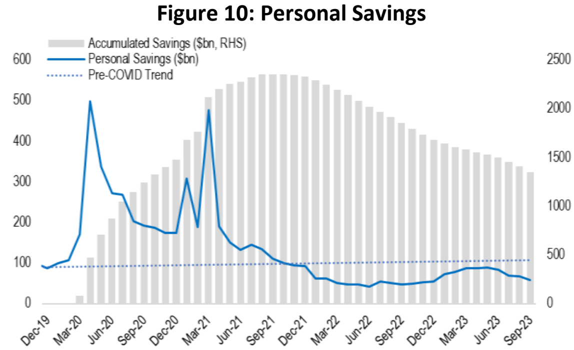
September nominal spending rose 0.7% m/m (cons. 0.5%) with real spending up a buoyant 0.4% (cons. 0.3%), rebounding from just a 0.1% advance in August. Real goods spending was robust, adding 18bps to the headline figure, driven by a rise in spending on cars. Real services spending rose 0.3% m/m after a 0.1% uptick in August with gains in recreational services, transportation, and dining out. Nominal personal income advanced 0.3% m/m (cons. 0.4%) with gains from private wages (0.4% % m/m), business (0.4% m/m), rental (0.7%) and interest income (1.0% m/m). Real disposable income has declined in each of the last three months and is down -1.7% annualized in 3Q (Figure 9). Aside from the recent rebound in inflation, the major culprit in cooling real disposable income has been the 19% annualized growth in personal current taxes paid for the quarter. With spending growth outpacing income growth, the personal savings rate fell 60bps m/m and 150bps over the quarter to 3.4%. We expect the savings rate is not likely to return to its pre-pandemic average of ~7% in part due to the aging population (implies more aggregate spending down of savings) and the fact that households remain relatively flush with accumulated savings (Figure 10), at least in aggregate.

Figure 9: Real Income and Spending (Feb. 2020 = 100)



Sources: BEA, Arch MI

Figure 10: Personal Savings

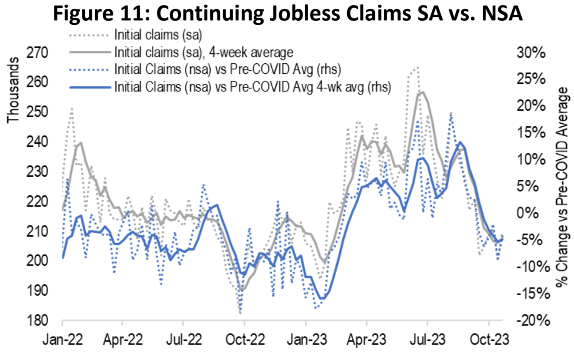


Sources: BEA, Arch MI

CONTINUING CLAIMS ON THE RISE WHILE INITIAL CLAIMS REMAINED LOW

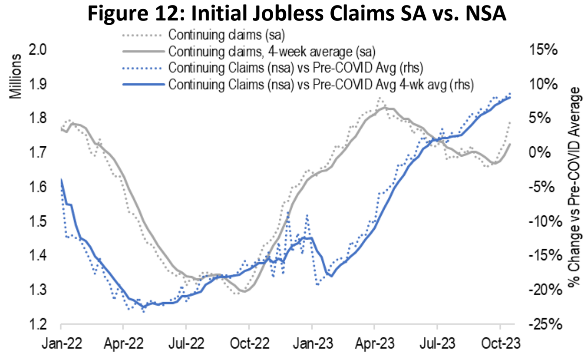
Seasonally adjusted continuing claims have started to move meaningfully higher, as we had been expecting since earlier this year due to issues with the new seasonal adjustment factors. However, the trend in initial jobless claims remained lower, while continuing claims continued rising relative to the pre-COVID-19 norm. This suggests 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. Additionally, due to issues with the new seasonal adjustment factors, we expect seasonally adjusted continuing claims to continue trending higher over the remainder of the year, ultimately surpassing 2m, even if the economy doesn't deteriorate. We expect the labor market to normalize further, so we see upside risk to the 2m figure.

Figure 11: Continuing Jobless Claims SA vs. NSA



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

Figure 12: Initial Jobless Claims SA vs. NSA



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

Initial jobless claims rose by 10k to a seasonally adjusted 210k (cons. 207k) during the week ending Oct. 21, moving the four-week average up to 208k from 206k (Figure 11). The four-week average of non-seasonally adjusted initial claims also moved up to -4.8% below its pre-COVID average (i.e., 2017 to 2019) from -5.3% the week before. Continuing claims (i.e., repeat filers for unemployment insurance) jumped by 63k during the week ending Oct. 14 to a seasonally adjusted 1,790k (cons. 1,740k), moving the four-week average up to 1,724k from 1,692k (Figure 12). Meanwhile, the four-week average of non-seasonally adjusted continuing claims merely inched higher to 8% above its pre-COVID average from 7.8% the week before and up from -5% below six months ago. We expect unadjusted continuing claims to continue creeping higher, suggesting a gradual normalization of the labor market, even as the seasonally adjusted series rises sharply over the remainder of the year.

The Week Ahead

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Consensus	Prior	Note
10/31/23	Employment Cost Index	3Q	1.0%	1.0%	q/q, sa
10/31/23	FHFA House Price Index m/m	Aug	0.5%	0.8%	sa
10/31/23	S&P CoreLogic CS 20-City m/m SA	Aug	0.7%	0.9%	sa
10/31/23	Conf. Board Consumer Confidence	Oct	100.0	103.0	index, sa
11/1/23	MBA Mortgage Applications	10/27/23	--	-1.0%	w/w, sa
11/1/23	ADP Employment	Oct	150	89	k, m/m, sa
11/1/23	S&P Global US Manufacturing PMI	Oct F	50.0	50.0	index, sa
11/1/23	JOLTS Job Openings	Sep	9.3	9.6	m, sa
11/1/23	ISM Manufacturing	Oct	49.0	49.0	index, sa
11/1/23	ISM Prices Paid	Oct	45.0	43.8	index, nsa
11/1/23	FOMC Rate Decision (Upper Bound)	11/1/23	5.50%	5.50%	
11/1/23	Wards Total Vehicle Sales	Oct	15.5	15.7	m, saar
11/2/23	Nonfarm Productivity	3Q P	4.3%	3.5%	q/q, saar
11/2/23	Unit Labor Costs	3Q P	0.7%	2.2%	q/q, saar
11/2/23	Initial Jobless Claims	10/28/23	210	210	k, sa
11/2/23	Continuing Claims	10/21/23	1,780	1,790	k, sa
11/2/23	Durable Goods Orders	Sep F	--	4.7%	m/m, sa
11/2/23	Cap Goods Orders Nondef Ex Air	Sep F	--	0.6%	m/m, sa
11/3/23	Nonfarm Payrolls	Oct	190.0	336.0	k, m/m, sa
11/3/23	Private Payrolls	Oct	150.0	263.0	k, m/m, sa
11/3/23	Unemployment Rate	Oct	3.8%	3.8%	sa
11/3/23	Average Hourly Earnings m/m	Oct	0.3%	0.2%	sa
11/3/23	Average Hourly Earnings y/y	Oct	4.0%	4.2%	nsa
11/3/23	Average Weekly Hours All Employees	Oct	34.4	34.4	sa
11/3/23	Labor Force Participation Rate	Oct	62.8%	62.8%	sa
11/3/23	S&P Global US Services PMI	Oct F	51.0	50.9	index, sa
11/3/23	S&P Global US Composite PMI	Oct F	--	51.0	index, sa
11/3/23	ISM Services Index	Oct	53.0	53.6	index, nsa

Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics