HaMMR Digest

Stay current with economic and mortgage market trends.

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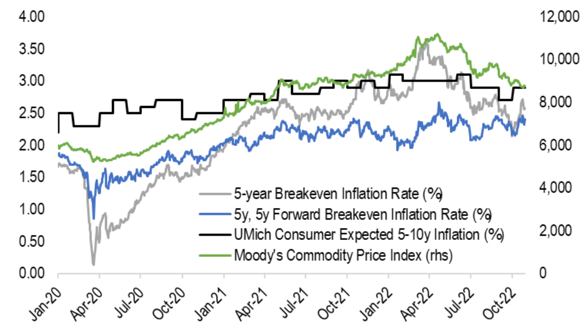
Weekly Wrap – Trick or Treat?

- Wage and inflation data cooled modestly but remain far too hot for comfort, confirming a 75bps hike this week
- 3Q22 GDP rebounded from negative growth in the first half, but underlying details were uninspiring
- The housing market correction continues to unfold with home prices falling for a second straight month

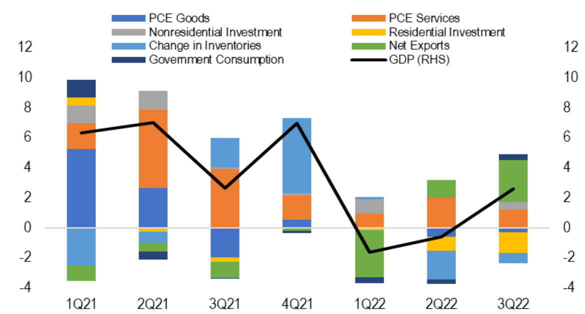
The most important data points from last week were arguably wages and inflation. The 3Q22 employment cost index (ECI), a preferred wage measure for the Fed, eased slightly to 1.2% q/q from 1.3% in 2Q but remained up 5% y/y – matching annual growth rates not observed since 1990 outside of the pandemic. September core PCE inflation also advanced 0.5% m/m (consensus: 0.5%), or 5.1% y/y, but inflation expectations remained well below recent peaks despite modest increases in recent weeks (Figure 1). With recent wage growth and inflation data remaining hot, the Fed is expected to hike 75bps to 4% on Wednesday. While many expect to receive a "treat" from the Fed with a nod to tapering the pace of future rate hikes, there remains risk of a "trick" if messaging is instead resolute in the face of elevated price pressures.

Figure 1: Inflation Monitor



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

Figure 2: Percentage Point Contribution to Real GDP Growth



Sources Bureau of Economic Analysis, Arch MI

On the surface, 3Q22 real GDP growth of 2.6% (cons. 2.3% q/q saar) put an end to recession fears that sprouted in the first half of the year, but the underlying details were not as encouraging. Real final domestic sales, a key gauge of underlying growth momentum that strips out the volatile trade and inventory components, grew by just 0.1%, and has decelerated in each of the last three quarters. Headline growth was propelled by a 2.8%-pts contribution from net exports (Figure 2) amid a surge in energy and industrial exports, which are unlikely to be sustained going forward given the challenging global macro backdrop. Real consumption grew by 1.4% driven by 2.8% growth in spending on services while spending on goods declined for the third straight quarter.

3Q22 real business investment grew by 3.7% amid a 10.8% surge in business equipment spending as firms have been busy with backorders that will likely dissipate moving forward. Manufacturing PMI numbers have already rolled over amid weaker business outlooks that will be a headwind for capital expenditures. September core capital goods fell -0.7% m/m (cons. -0.2%) with shipments declining -0.5% m/m, the first negative monthly print in over a year. 3Q22 real residential investment sunk -26% with further downside ahead. September new home sales fell -11% m/m (cons. -15.3%) while pending (existing homes) sales also dropped -10.2% m/m (cons. -4.0%). Lower sales activity and higher financing costs will keep downward pressure on home prices, as reflected by the -1.3% m/m (cons. -0.8%) August decline in the S&P / Case-Shiller 20-city composite Home Price Index.

The outlook for consumer spending remains tethered to the strength of the labor market, which is beginning to cool. The Conference Board's consumer confidence index fell 5.3 points m/m to 102.5 (cons. 105.9) led by a 5.6-point decline in the important labor differential, the spread between consumer attitudes on jobs being 'plentiful' versus 'hard to get,' to 32.5%, the lowest level since April 2021. Despite strong income growth, households continue to draw down their savings to offset the impact of rising prices. Nominal personal income rose 0.4% m/m (cons. 0.4%) in September while the savings rate fell 30bps m/m to 3.1%. As the labor market weakens further, households are likely to increasingly view their savings as precautionary rather than as a means to smooth their spending, which would choke off economic growth in the process.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
10/24/22	S&P Global US Composite PMI	Oct P	47.3	49.2	49.5	index, sa
10/25/22	FHFA House Price Index m/m	Aug	-0.7%	-0.6%	-0.6%	sa
10/25/22	S&P CoreLogic CS 20-City m/m SA	Aug	-1.3%	-0.8%	-0.7%	sa
10/25/22	S&P CoreLogic CS 20-City y/y NSA	Aug	13.1%	14.0%	16.0%	nsa
10/25/22	Conf. Board Consumer Confidence	Oct	102.5	105.9	107.8	index, sa
10/26/22	MBA Mortgage Applications	10/21/22	-1.7%	--	-4.5%	w/w, sa
10/26/22	New Home Sales	Sep	603	580	677	k, saar
10/26/22	New Home Sales m/m	Sep	-10.9%	-15.3%	24.7%	sa
10/27/22	GDP Annualized q/q	3Q A	2.6%	2.4%	-0.6%	saar
10/27/22	Personal Consumption q/q	3Q A	1.4%	1.0%	2.0%	saar
10/27/22	Core Personal Consumption q/q	3Q A	4.5%	4.5%	4.7%	saar
10/27/22	Initial Jobless Claims	10/22/22	217	220	214	k, sa
10/27/22	Continuing Claims	10/15/22	1,438	1,390	1,383	k, sa
10/28/22	Employment Cost Index	3Q	1.2%	1.2%	1.3%	q/q, sa
10/28/22	Personal Income	Sep	0.4%	0.4%	0.4%	m/m, sa
10/28/22	Personal Spending	Sep	0.6%	0.4%	0.6%	m/m, sa
10/28/22	Real Personal Spending	Sep	0.3%	0.2%	0.3%	m/m, sa
10/28/22	PCE Inflation m/m	Sep	0.3%	0.3%	0.3%	sa
10/28/22	PCE Inflation y/y	Sep	6.2%	6.3%	6.2%	nsa
10/28/22	PCE Core Inflation (ex Food and Energy) m/m	Sep	0.5%	0.5%	0.5%	sa
10/28/22	PCE Core Inflation (ex Food and Energy) y/y	Sep	5.1%	5.2%	4.9%	nsa
10/28/22	Pending Home Sales m/m	Sep	-10.2%	-4.0%	-1.9%	sa
10/28/22	Pending Home Sales y/y	Sep	-30.4%	--	-22.5%	nsa
10/28/22	U. of Mich. Sentiment	Oct F	59.9	59.6	59.8	index, nsa
10/28/22	U. of Mich. 1 Yr Inflation	Oct F	5.0%	5.1%	5.1%	nsa
10/28/22	U. of Mich. 5-10 Yr Inflation	Oct F	2.9%	2.9%	2.9%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI

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

PLENTY OF ROOM FOR HOUSING TO SLOW FURTHER

A minor pullback in U.S. Treasury yields from recent highs was not enough to ease the uptrend in mortgage rates, which hit a 20-year high of 7.08% (Freddie Mac), up 14bps w/w and a whopping 394bps y/y. That type of jolt would give any buyer pause and the tremors of the shock continue to reverberate across multiple facets of the housing market. Pending home sales dropped by -29k y/y or -40% for the week of October 23rd according to data from Redfin, an acceleration of the slowdown that coincided with the latest surge higher in rates. However, there were also 23k fewer new listings compared with a year ago, or -25%, as well as an 8k increase, or 82%, in delisted homes over the same period (Figure 3).

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

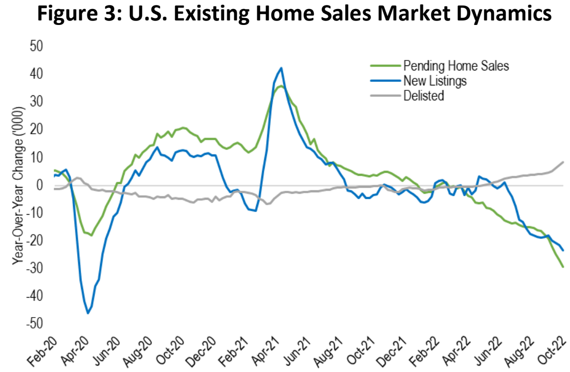
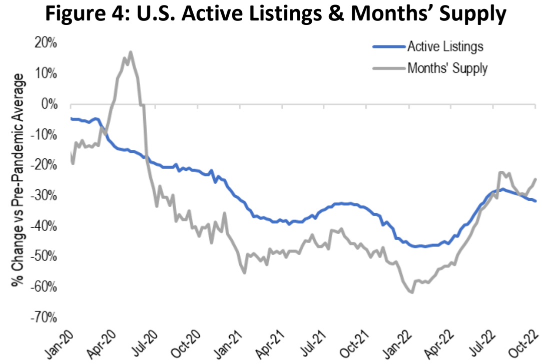


Figure 4: U.S. Active Listings & Months' Supply



Source: Redfin, Arch MI

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 the August peak despite increases over the past month (Figure 4). The opposing forces of buyers stepping back and sellers adjusting to the new market reality will likely persist until mortgage rates take a meaningful step lower, something we do not foresee until inflation data convincingly cools.

Accordingly, sales prices will continue to trend lower as the housing market recalibrates to much higher borrowing costs. Annual growth in the national median sale price ($ / sf) slowed to 7.1% y/y, reaching a new low for the year and down from 17% growth a year ago. The share of homes that sold above the listing price has declined to 29% from a peak of 55% in May but remains above the pre-pandemic average for this time of year (21%). With prices as the primary relief valve for the market, this share is likely to continue declining. Of the major metros we track (Figure 5), annual home price growth was weakest in **Austin** (1%), **Los Angeles** (3%) and **Seattle** (4%) while home price growth has slowed most rapidly compared with a year ago in **Austin** (-36%-pts) and **Phoenix** (-21%-pts). Median days on the market have extended alongside softening market conditions, with some markets exceeding pre-pandemic timelines including **Chicago** (14 days longer), **Austin** (14) and **Phoenix** (14). 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 51% below the pre-pandemic trend one year ago.

Figure 5: Weekly Housing Monitor (As of 10/23/22)

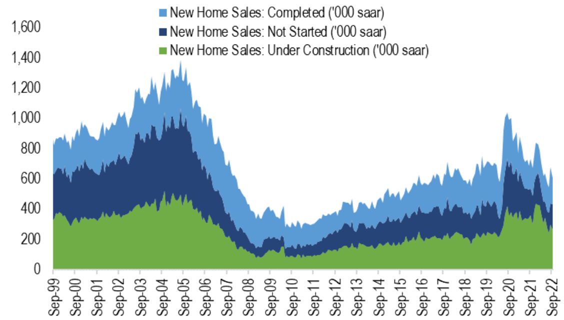
Metro	Median Sale Price psf (% y/y)	Median Sale Price Same Week '21 (% y/y)	Active Listings with Price Drops (% share)	Active Listings with Price Drops (ppt Δ y/y)	Homes Sold Above List (%)	Homes Sold Above List (ppt Δ y/y)	Average Sale-to-List Ratio (%)	Average Sale-to-List Ratio (ppt Δ y/y)	Total Active 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	7%	17%	8%	4%	29%	-15%	99%	-2%	4%	-13	-20	-23%	-54%
Atlanta	11%	23%	9%	5%	26%	-21%	98%	-2%	20%	-5	-18	-19%	-59%
Austin	1%	37%	13%	8%	18%	-33%	98%	-4%	61%	14	-10	61%	-50%
Baltimore	8%	7%	8%	2%	35%	-6%	101%	0%	-16%	-14	-22	-38%	-56%
Boston	9%	10%	7%	3%	48%	-11%	101%	-2%	-12%	-6	5	-24%	-40%
Chicago	5%	11%	5%	0%	28%	-7%	99%	-1%	8%	14	-22	-20%	-50%
Dallas	12%	23%	11%	7%	25%	-26%	99%	-3%	39%	-17	-21	-25%	-65%
Denver	6%	19%	14%	10%	23%	-31%	99%	-3%	44%	0	-13	0%	-60%
Houston	13%	17%	10%	5%	18%	-14%	98%	-1%	24%	-17	-27	-15%	-55%
Los Angeles	3%	14%	6%	3%	37%	-24%	100%	-3%	-28%	-4	-10	-26%	-45%
Miami	20%	25%	4%	2%	16%	-4%	97%	0%	-14%	-11	-3	-26%	-53%
Minneapolis	5%	10%	9%	3%	37%	-16%	100%	-1%	-9%	-3	-12	-16%	-42%
Nashville	16%	22%	8%	5%	19%	-25%	98%	-3%	60%	-8	-26	0%	-64%
New York	6%	18%	5%	1%	24%	-3%	99%	-1%	-11%	-35	-31	-25%	-45%
Phoenix	8%	29%	14%	9%	14%	-33%	98%	-3%	53%	14	-14	59%	-52%
Portland	5%	19%	11%	4%	28%	-25%	99%	-2%	24%	-5	-20	-6%	-62%
Riverside	8%	25%	7%	4%	34%	-26%	99%	-3%	-35%	-12	-25	-47%	-56%
San Diego	7%	19%	9%	4%	31%	-26%	99%	-3%	-5%	-1	-19	-30%	-68%
Seattle	4%	22%	11%	6%	21%	-33%	99%	-5%	61%	2	-12	8%	-72%
Tampa	17%	26%	10%	4%	18%	-20%	98%	-2%	61%	-11	-25	1%	-65%
Washington	6%	10%	7%	2%	31%	-10%	100%	-1%	-11%	2	-13	-1%	-45%

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

NEW HOME SALES EASE IN SEPTEMBER FOLLOWING AUGUST SPIKE

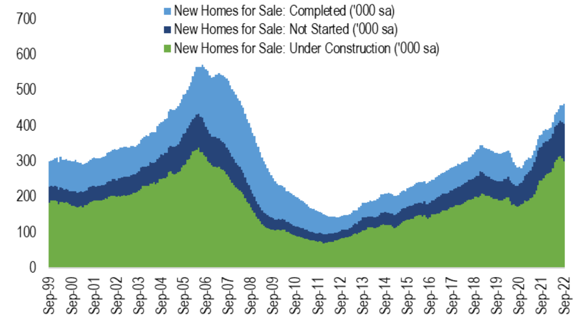
September new home sales fell to a 603k (cons. 580k) seasonally adjusted annualized pace, an -11% m/m decline while the prior two months were revised up by 3k (Figure 6). The -29% m/m decline for completed sales and the -12% m/m decline for units under construction were partially offset by a 23% jump in sales for the not started segment. September's new home sales reflect contracts signed during the month when mortgage rates were closer to 6% than 7%, suggesting further headwinds are likely ahead despite builders' rising use of incentives. It is also important to note that the Census Bureau reports gross sales, not net, meaning that cancellations may not be entirely captured until the data is revised in subsequent months.

Figure 6: New Home Sales by Stage of Construction



Sources: Census Bureau, Arch MI

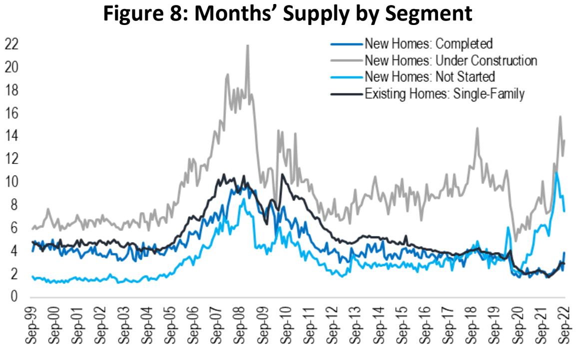
Figure 7: Inventory of New Homes for Sale



Sources: Census Bureau, Arch MI

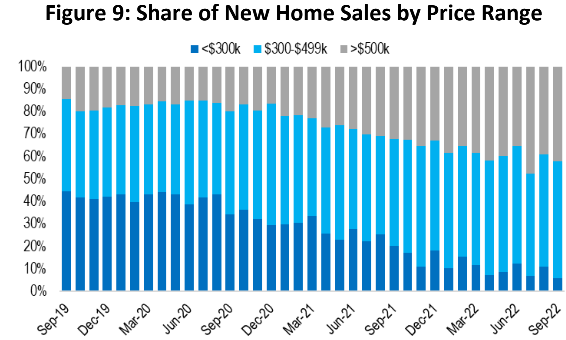
The supply of new homes for sale rose for the ninth straight month to 462k in September, up 23% y/y and representing an 9.2 months' supply. The overall months' supply of new homes remains inflated by the number of homes under construction and not started, which represent a combined 88% of the total available for-sale inventory (Figure 7). The months' supply of completed homes also increased to 3.9 from 2.4 in August and above the 2019 monthly average of 3.5 months (Figure 8). However, the median number of months to sell a completed home reached a record low of 1.5 months in September, suggesting the recent increase in months' supply has been driven more by an increase in completions rather than a sharp pullback in demand. Ready-to-occupy inventory has increased for seven straight months, bringing its share of total new home inventory to 12% from 8% over that time frame, but still well below the pre-pandemic average of 23%. Easing supply chain constraints and a slower pace of starts are allowing builders to place a greater focus on completions.

Figure 8: Months' Supply by Segment



Sources: Census Bureau, Arch MI

Figure 9: Share of New Home Sales by Price Range



Sources: Census Bureau, Arch MI

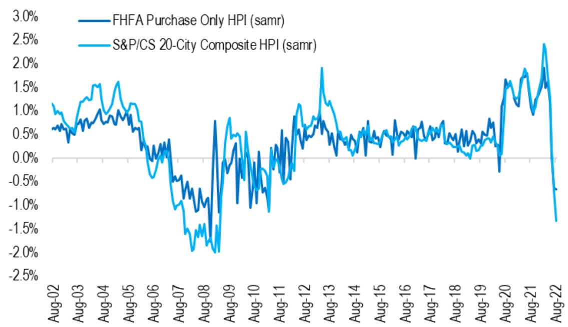
The seasonally adjusted median sales price, $465,609, increased 5.5% m/m, bringing the annual pace of price gains to 13.9%, a sharp acceleration from August (7.8%). Last month's increase in the median sales price was due in part to the rise in the share of homes priced over $500,000 to 42% from 39% while the share of homes priced under $300,000 fell to 6% from 11% previously (Figure 9).

MONTHLY HOME PRICE INDEXES FALL FURTHER

Repeat-sales home price indexes declined for a second straight month in August and accelerated relative to the decline recorded in July. The FHFA Purchase Only House Price Index declined a seasonally adjusted -0.7% m/m in August (Figure 10), 10bps below consensus expectations and is now down a cumulative -1.3% from its June peak. The monthly declines have slowed the annual pace of home price gains to 11.9% in August from 13.9% in July. From a regional perspective, there was widespread slowing led by the Mountain (-2.0% m/m) and Pacific (-1.3% m/m) regions with the Pacific posting its fourth straight monthly drop.

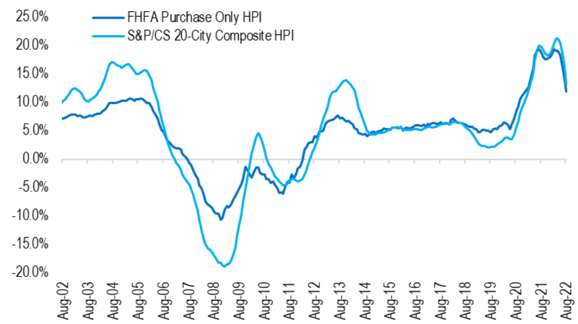
The S&P/Case-Shiller 20-City Composite Home Price Index fell -1.3% in August (cons. -0.8%), nearly doubling the -0.7% decline in July. Corroborating the FHFA release, metros in the West drove the declines for the Case-Shiller index, led by San Francisco (-3.7%), Seattle (-2.9%) and San Diego (-2.5%). All metros within the 20-city composite saw prices decline in August while all metros that declined in July saw a deeper slide in August. The year-over-year growth in the Case-Shiller index also decelerated to 13.1% in August from 16.0% in July, the sharpest monthly deceleration in annual home price growth on record (Figure 11).

Figure 10: Month-Over-Month Home Price Appreciation



Sources: S&P, FHFA, Arch MI

Figure 11: Year-Over-Year Home Price Appreciation

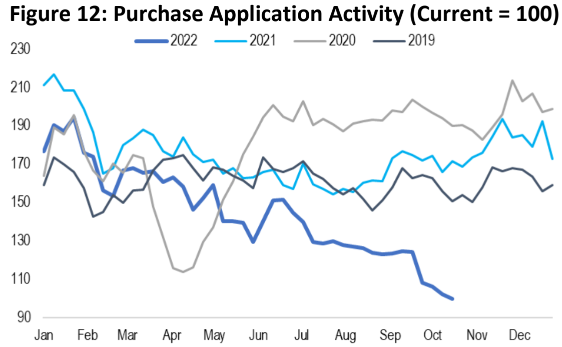


Sources: S&P, FHFA, Arch MI

MORTGAGE ACTIVITY INCHES DOWN AGAIN AS MORTGAGE RATES RISE ABOVE 7%

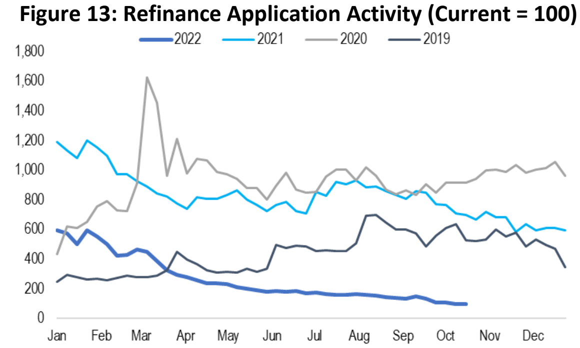
The MBA application survey for the week ending October 21st declined -1.7% w/w and the index is now down -69% year-over-year and -61% compared with pre-pandemic levels (i.e., 3 years ago). The weekly decline was driven by a -2.3% decline in purchase applications, which remain down -42% y/y and -34% over 3 years (Figure 12). Refinancing applications were unchanged on the week and remain down -86% y/y and -81% relative to 2019 levels (Figure 13).

Figure 12: Purchase Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

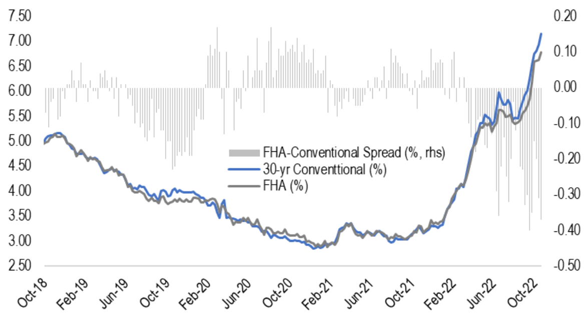
Figure 13: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

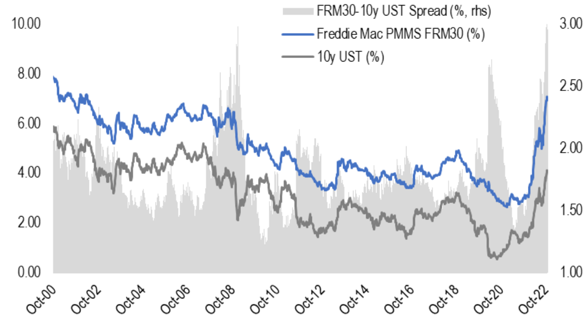
According to the MBA survey of lenders, the average contract conventional mortgage rate rose 22bps to 7.16% during the week ending October 21st while the FHA contract mortgage rate also rose 16bps to 6.79%, resulting in a -6bps contraction in the spread between the FHA and conventional mortgage rate to -0.37% (Figure 14). Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the 3 days ending October 26th indicated that the FRM30 jumped 14bps w/w to 7.08% (Figure 15) as 10-year UST yields climbed 7bps to an average of 4.13% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 7bps to 2.95%, close to 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 14: Conventional vs FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

Figure 15: 30-year Mortgage Rate vs 10-year UST Yield

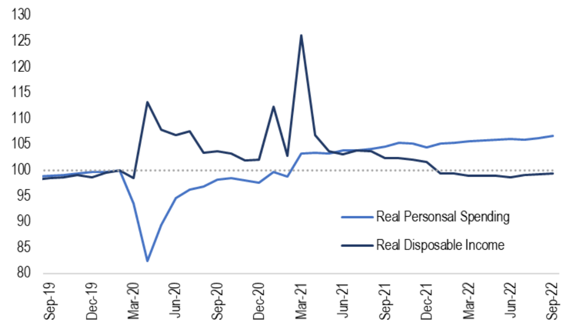


Sources: Freddie Mac PMMS, FRB, Arch MI

CONSUMER SPENDING MUDDLING ALONG

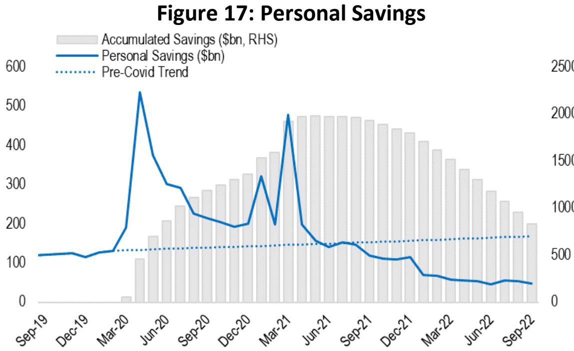
The September personal income and outlay report showed that consumers are holding the line in terms of spending. Nominal personal income rose in-line with consensus expectations at 0.4% m/m amid a 0.6% m/m bump in private wages that doubled the pace from August's advance. Nominal spending came in at a robust 0.6% m/m (cons. 0.4%) with real spending rising 0.3% m/m (cons. 0.2%) despite real disposable income growth coming in flat (Figure 16). Consumers continue to draw down their savings to keep spending elevated with the personal savings rate falling to 3.1% from 3.4% in August and 3.5% in July.

Figure 16: Real Income and Spending (Feb. 2020 = 100)



Sources: BEA, Arch MI

Figure 17: Personal Savings



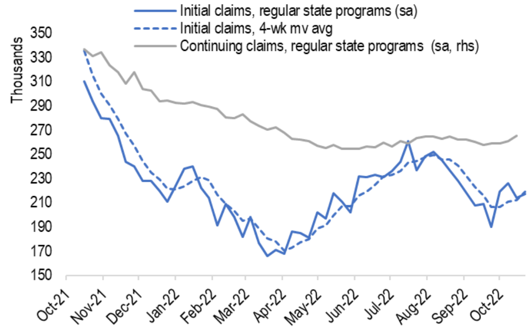
Sources: BEA, Arch MI

We revised down our estimate of savings accumulated during the pandemic to $1.9 trillion from $2.2 trillion given the revisions to the historical data. We estimate that roughly half of the pandemic-era savings have been drawn down as households have dipped into their savings to support spending activity (Figure 17). Households still have a savings buffer, but inflation has been more of a burden than previously indicated. Although the accumulated savings are not evenly distributed across households, the recent pace of the drawdown suggests a savings cushion of less than a year, which may be long enough to bridge the gap to a period with less elevated inflation.

JOBLESS CLAIMS RISE MODESTLY AS HURRICANE IAN IMPACT LINGERS

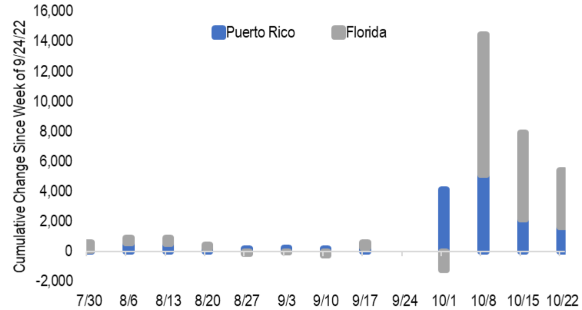
Initial jobless claims rose by 3k to 217k (consensus: 220k) during the week ending October 22nd from 214k the previous week, moving the 4-week average up to 219k from 212k (Figure 18). Some distortions remain from jobless claims related to Hurricane Ian, particularly in Florida and Puerto Rico (Figure 19), although the remaining claims above the pre-hurricane level are receding quickly. Continuing claims for regular state programs (i.e., repeat filers for unemployment insurance) climbed by 55k to 1,438k (consensus: 1,390k) during the week ending October 15th, reflecting some of the still elevated hurricane-related claims from the prior week.

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

The headliners for the week include the FOMC decision on Wednesday and the October employment report on Friday. The Fed is expected to respond to still elevated inflation with a 75bps hike at this week's meeting, lifting the upper bound of the target range for fed funds rate to 4%, which would be the highest level since 2008. According to the Bloomberg consensus survey of economists, the October employment report is expected to show another downshift in job growth to 191k from 263k in September and a tick up in the unemployment rate to 3.6% from 3.5%. Wage growth is expected to cool to 4.7% y/y from 5% as labor market tightness has eased somewhat. The recent softening in labor market conditions has been most apparent in the Job Openings and Labor Turnover Survey (JOLTS) data, which has reflected a decline in job openings from a peak of 11.9m in March to 10.1m in August, with a further decline to 9.6m expected in September.

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
11/1/22	S&P Global US Manufacturing PMI	Oct F	--	49.9	49.9	index, sa
11/1/22	JOLTS Job Openings	Sep	--	9.6	10.1	m, sa
11/1/22	ISM Manufacturing	Oct	--	50.0	50.9	index, sa
11/1/22	ISM Prices Paid	Oct	--	53.0	51.7	index, nsa
11/1/22	Wards Total Vehicle Sales	Oct	--	14.3	13.5	m, saar
11/2/22	MBA Mortgage Applications	10/28/22	--	--	-1.7%	w/w, sa
11/2/22	ADP Employment	Oct	--	180	208	k, m/m, sa
11/2/22	FOMC Rate Decision (Upper Bound)	11/2/22	--	4.00%	3.25%	
11/3/22	Nonfarm Productivity	3Q P	--	0.4%	-4.1%	q/q, saar
11/3/22	Unit Labor Costs	3Q P	--	4.1%	10.2%	q/q, saar
11/3/22	Initial Jobless Claims	10/29/22	--	220	217	k, sa
11/3/22	Continuing Claims	10/22/22	--	1,454	1,438	k, sa
11/3/22	S&P Global US Services PMI	Oct F	--	46.6	46.6	index, sa
11/3/22	S&P Global US Composite PMI	Oct F	--	47.3	47.3	index, sa
11/3/22	ISM Services Index	Oct	--	55.4	56.7	index, nsa
11/4/22	Nonfarm Payrolls	Oct	--	191	263	k, m/m, sa
11/4/22	Private Payrolls	Oct	--	200	288	k, m/m, sa
11/4/22	Unemployment Rate	Oct	--	3.6%	3.5%	sa
11/4/22	Average Hourly Earnings m/m	Oct	--	0.3%	0.3%	sa
11/4/22	Average Hourly Earnings y/y	Oct	--	4.7%	5.0%	nsa
11/4/22	Average Weekly Hours All Employees	Oct	--	34.5	34.5	sa
11/4/22	Labor Force Participation Rate	Oct	--	62.4%	62.3%	sa

Sources: Bloomberg Consensus Survey of Economists, Arch MI