HaMMR Digest

Stay current with economic and mortgage market trends.

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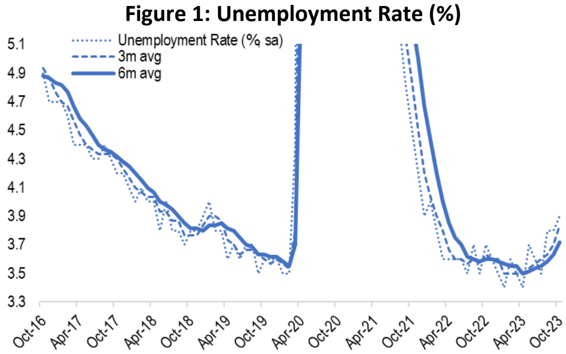
Weekly Wrap — A Shot Across the Bow

- The Fed is in no rush to raise rates further given progress on inflation and tighter financial conditions.
- A cooling labor market lifted the unemployment rate in October. We expect further normalization into 2024.
- Early Q4 data reflect the broad-based loss of momentum that we anticipated, with recession risks rising again.

The shine has come off the economy's stellar Q3 performance with a string of soft October data releases. The Fed kept its policy rate on hold for the second consecutive meeting at 5.50% with no change to the policy statement apart from an acknowledgement that financial conditions have tightened. Importantly, Chair Jerome Powell downplayed the Fed's September projection for another rate hike and did not provide any strong hawkish guidance as he has done after prior meetings. It seems the threshold to raise rates further has climbed, with Powell mentioning three flags that would warrant additional tightening: financial conditions loosening materially, inflation reaccelerating or a toppling of labor market "rebalancing."

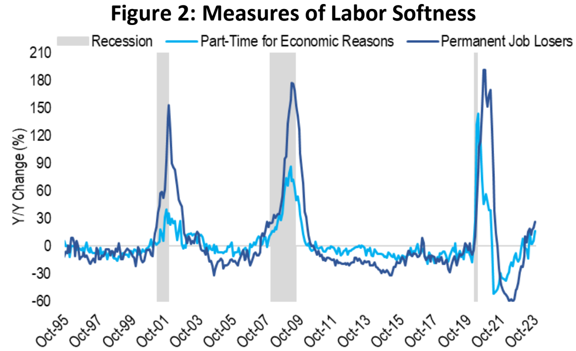
So far, it appears only one of Powell's three flags is starting to be hoisted as 10-year U.S. Treasury yields fell ~40bps w/w with market pricing pulling forward the first rate cut to May from June. The pivotal data point solidifying the move lower in yields was October's jobs report that was admittedly soft, yet arguably exactly what the Fed wants to see. Headline payrolls rose 150k m/m (cons. 180k) with -101k of downward revisions to the prior two months. Meanwhile, the unemployment rate ticked up to 3.9% (cons. 3.8%), 50bps above the cycle low hit earlier in the year (Figure 1). Even acknowledging the drag caused by labor strikes, October's report suggests the labor market is reaching a pivotal moment.

Figure 1: Unemployment Rate (%)



Sources: BLS, Arch MI

Figure 2: Measures of Labor Softness



Sources: BLS, Arch MI

The breadth of private job gains narrowed in October as reflected by the ~10pts m/m plunge to 52 in the one-month diffusion index, the lowest level since April 2020. The hiring rate has cooled below its pre-pandemic pace, but a slower quits rate and relatively few layoffs have kept net job growth respectable. This reduced labor market churn should begin to weigh on wage growth. Workers have not been able to secure employment with the same ease as earlier this year and there has been a surge in the number of people working part-time because they were unable to find full-time work (Figure 2). Most concerning is the steady rise in the number of individuals who permanently lost their prior job, which again suggests the labor market is nowhere near as tight as it was in 2022. However, if reduced hiring is the driver of labor market softening and not rising layoffs, the Fed will be inclined to maintain its policy stance and instead focus on incoming inflation data.

The further inflation cools, the more restrictive real rates will become even with the Fed on hold. This presents broad-based headwinds for the economy, which started creeping into several other October data releases as well. The Conference Board's Consumer Confidence Index fell 1.7pts m/m to 102.6 in Oct. from 104.3 in September. Consumers' assessment of future labor market and business conditions soured even as they maintained a relatively sanguine view of current conditions. The ISM Manufacturing Index fell ~3pts m/m to 46.7 (cons. 49) in October, a reminder that despite modest production activity in Q3, the manufacturing sector is far from hitting its stride. However, the six-week-long autoworker strike likely weighed on responses as the details of the report show that firms drew down backlogs to meet demand. The ISM Services Index was no better with the headline measure falling to 51.8 (cons. 53.0) with output at the lowest level since May. Real construction spending also tailed off late in Q3 with the single-family segment flat for September after beginning the quarter with 2.7% m/m growth in July.

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Recent Data Releases

Key economic and housing data releases over the prior week:

Date	Indicator	Period	Actual	Consensus	Revised	Prior	Note
10/31/23	Employment Cost Index	3Q	1.1%	1.0%	--	1.0%	q/q, sa
10/31/23	FHFA House Price Index m/m	Aug	0.6%	0.5%	--	0.8%	sa
10/31/23	S&P CoreLogic CS 20-City m/m SA	Aug	1.0%	0.8%	0.8%	0.9%	sa
10/31/23	Conf. Board Consumer Confidence	Oct	102.6	100.5	104.3	103.0	index, sa
11/1/23	MBA Mortgage Applications	10/27/23	-2.1%	--	--	-1.0%	w/w, sa
11/1/23	ADP Employment	Oct	113	150	--	89	k, m/m, sa
11/1/23	S&P Global US Manufacturing PMI	Oct F	50.0	50.0	--	50.0	index, sa
11/1/23	JOLTS Job Openings	Sep	9.55	9.40	9.50	9.61	m, sa
11/1/23	ISM Manufacturing	Oct	46.7	49.0	--	49.0	index, sa
11/1/23	ISM Prices Paid	Oct	45.1	45.0	--	43.8	index, nsa
11/1/23	FOMC Rate Decision (Upper Bound)	11/1/23	5.50%	5.50%	--	5.50%	
11/1/23	Wards Total Vehicle Sales	Oct	15.50	15.60	--	15.67	m, saar
11/2/23	Nonfarm Productivity	3Q P	4.7%	4.3%	3.6%	3.5%	q/q, saar
11/2/23	Unit Labor Costs	3Q P	-0.8%	0.3%	3.2%	2.2%	q/q, saar
11/2/23	Initial Jobless Claims	10/28/23	217	210	212	210	k, sa
11/2/23	Continuing Claims	10/21/23	1,818	1,800	1,783	1,790	k, sa
11/2/23	Durable Goods Orders	Sep F	4.6%	4.7%	--	4.7%	m/m, sa
11/2/23	Cap Goods Orders Nondef Ex Air	Sep F	0.5%	0.6%	--	0.6%	m/m, sa
11/3/23	Nonfarm Payrolls	Oct	150	180.0	297.0	336.0	k, m/m, sa
11/3/23	Private Payrolls	Oct	99	145.0	246.0	263.0	k, m/m, sa
11/3/23	Unemployment Rate	Oct	3.9%	3.8%	--	3.8%	sa
11/3/23	Average Hourly Earnings m/m	Oct	0.2%	0.3%	0.3%	0.2%	sa
11/3/23	Average Hourly Earnings y/y	Oct	4.1%	4.0%	4.3%	4.2%	nsa
11/3/23	Average Weekly Hours All Employees	Oct	34.30	34.4	--	34.4	sa
11/3/23	Labor Force Participation Rate	Oct	62.7%	62.8%	--	62.8%	sa
11/3/23	S&P Global US Services PMI	Oct F	50.6	50.9	--	50.9	index, sa
11/3/23	S&P Global US Composite PMI	Oct F	50.7	--	--	51.0	index, sa
11/3/23	ISM Services Index	Oct	51.8	53.0	--	53.6	index, nsa

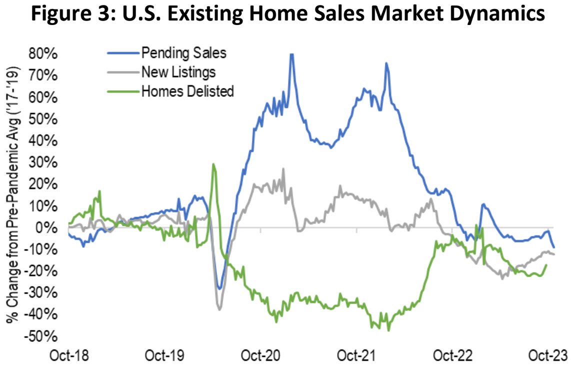
Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics

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

HOUSING MARKET COOLED IN RESPONSE TO RATES APPROACHING 8%

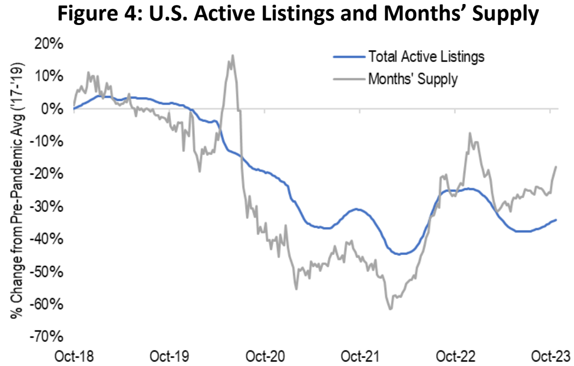
The continued surge in mortgage rates toward 8% has started to meaningfully dent demand. The pace of pending home sales sank to -9% below the pre-pandemic average (i.e., 2017–2019) for the four weeks ending Oct. 22, a notable decline from -2% four weeks earlier (Figure 3). Higher mortgage rates have also weighed on potential sellers and new listings have started to turn lower as well after rising steadily from April through October. New listings were -12% below the pre-pandemic average during the week ending Oct. 22, down from -10.5% four weeks earlier.

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

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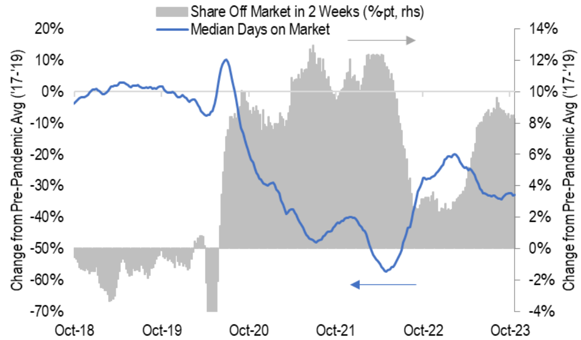
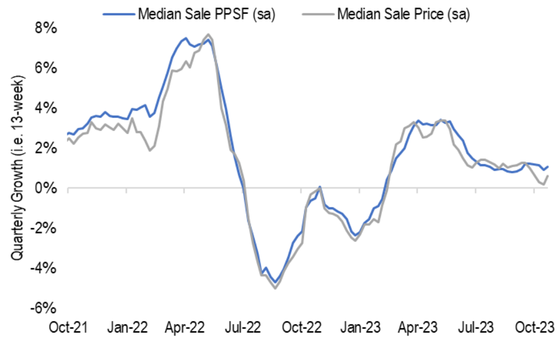
However, pending sales have cooled faster than the reduced pace of new listings, which have combined to lift the number of active listings to -34% below the pre-pandemic average after remaining roughly -38% below that average for most of the summer (Figure 4). Despite total homes sold being down -16% y/y and -20% below the pre-pandemic average, the national market remains somewhat tight given months' supply is 3.2 months, -18% below the pre-pandemic average for this time of year. The current months' supply is a modest increase from the 3 months recorded for the same week in 2022 when the market was in the midst of rapidly cooling from incredibly tight conditions.

Figure 5: Additional Measures of Market Tightness



Source: Redfin, Arch MI

Figure 6: Seasonally Adjusted Home-Price Growth



Source: Redfin, Arch MI

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 37% of homes sold within two weeks of being listed, up roughly 8%-pts from the pre-pandemic average for this time of year. Meanwhile, median days on market have remained close to one-third 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%, or 4.3% annualized, up from 0.9% the previous week (Figure 6) but roughly in-line with the pace of growth since late July. 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 7: Weekly Housing Monitor (as of Oct. 22, 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%	7%	7%	0%	30%	2%	99%	0%	-12%	-16	-14	-18%	-23%
Atlanta	4%	11%	7%	-1%	26%	0%	99%	0%	-33%	-6	-7	-23%	-10%
Austin	-7%	1%	10%	-2%	12%	-6%	97%	0%	-7%	24	12	60%	47%
Baltimore	4%	7%	7%	0%	44%	9%	101%	0%	-16%	-18	-13	-37%	-40%
Boston	9%	7%	6%	0%	56%	7%	102%	1%	-12%	0	3	-19%	-20%
Chicago	9%	5%	4%	0%	40%	10%	100%	1%	-26%	10	19	-25%	-13%
Dallas	0%	12%	9%	0%	19%	-5%	98%	0%	-6%	-5	-9	-6%	-14%
Denver	-1%	6%	11%	-2%	26%	3%	99%	0%	-8%	2	3	20%	10%
Houston	0%	13%	7%	-2%	15%	-2%	98%	0%	-32%	-15	-17	-35%	-17%
Los Angeles	4%	3%	4%	-1%	49%	12%	101%	1%	-25%	-7	1	-6%	8%
Miami	7%	17%	4%	1%	17%	1%	97%	0%	-11%	-8	-6	-24%	-30%
Minneapolis	4%	5%	8%	1%	38%	2%	100%	0%	-8%	-7	-5	-4%	-10%
Nashville	0%	15%	6%	-1%	16%	-4%	98%	0%	-5%	1	-7	6%	-6%
New York	3%	4%	4%	0%	30%	5%	100%	1%	-10%	-17	-29	-15%	-22%
Phoenix	0%	7%	8%	-4%	20%	6%	99%	1%	-36%	-1	11	14%	52%
Portland	2%	5%	8%	-1%	31%	2%	99%	0%	-10%	-1	0	14%	-4%
Riverside	0%	8%	6%	-2%	41%	6%	100%	1%	-28%	-17	-11	-12%	3%
San Diego	9%	6%	6%	-1%	45%	13%	100%	1%	-31%	-12	0	-27%	-8%
Seattle	4%	4%	8%	-3%	33%	11%	100%	1%	-28%	-6	3	-6%	1%
Tampa	2%	16%	11%	1%	16%	-2%	98%	0%	-2%	-12	-12	-2%	5%
Washington DC	6%	6%	6%	-1%	40%	9%	100%	1%	-21%	-2	4	-12%	-13%

Note: Data reflects four-week averages.

Source: Redfin, Arch MI

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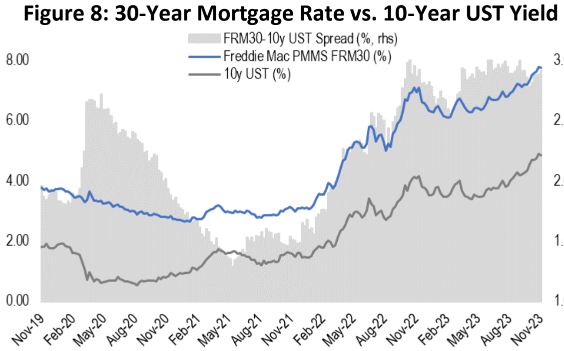
Of the major metros we track (Figure 7), annual home-price growth was weakest in Austin (-7%), Denver (-1%), Riverside (0%), Dallas (0%) and Houston (0%). Home-price growth slowed most rapidly compared with a year ago in Nashville (-15%-pts), Tampa (-14%-pts), Houston (-13%-pts), Dallas (-13%-pts) and Miami (-10%-pts). Conversely, annual home-price growth was strongest in Boston (9%), San Diego (9%) and Chicago (9%). 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 (24 days longer), Chicago (10) and Denver (2), while some markets like Baltimore (-18), New York (-17), Riverside (-17), Houston (-15) and San Diego (-12) remained well below pre-pandemic timelines. Months' supply also remained below pre-pandemic levels in most markets (-18% below nationally), with Baltimore (-37%), Houston (-35%), San Diego (-27%), Chicago (-25%) and Miami (-24%) remaining the tightest relative to their pre-pandemic averages. Markets that have deteriorated the most based on months' supply include Austin, Denver and Portland, where months' supply climbed to a respective 60%, 20% and 14% relative to their pre-pandemic averages from 47%, 10% and -4% below one year ago.

MORTGAGE PURCHASE APPLICATION ACTIVITY DECLINED FURTHER AS RATES REMAINED ELEVATED

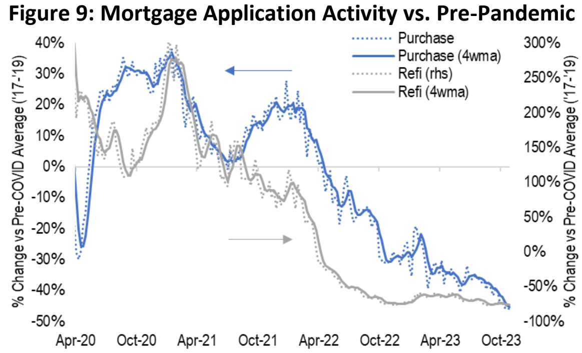
According to the MBA Weekly Applications Survey, the average contract rate for a conventional 30-year fixed-rate mortgage declined -4bps to 7.86% during the week ending Oct. 27. The average FHA contract mortgage rate rose 5bps to 7.57%, resulting in a 9bps widening of the spread between the FHA and conventional rate to -0.29%. Meanwhile, the average contract rate for a jumbo 30-year fixed-rate mortgage rose 2bps to 7.8%, resulting in a 6bps widening of the jumbo-conventional spread to -0.06%.

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



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

Figure 9: 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 Nov. 1 indicated that the FRM30 declined -3bps w/w to 7.76% (Figure 8) as the yield on the benchmark 10-year U.S. Treasury (UST) declined -6bps to an average of 4.85% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 3bps to 2.91%, 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.

Elevated rates continued to weigh on mortgage application activity. The MBA Weekly Applications Survey for the week ending Oct. 27 showed mortgage application activity declined -2.1% w/w (sa), leaving the index down -19% year-over-year and down -61% 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 -3.5% (sa) decline in refinancing applications, which remained down -12% y/y and -76% below the pre-pandemic level (Figure 9). Purchase applications declined -1.4% w/w (sa) and were down -22% y/y and -46% relative to pre-pandemic levels.

HOME PRICES CLIMB TO NEW HIGH IN AUGUST

Repeat-sales home price index (HPI) growth improved again in August. The FHFA Purchase Only (PO) HPI rose 0.6% m/m (cons. 0.5%) on a seasonally adjusted basis, the twelfth consecutive increase (Figure 10). The S&P/Case-Shiller 20-City Composite HPI rose 1.0% (cons. 0.8%) in August, the sixth consecutive uptick. All 20 metropolitan areas within the 20-city

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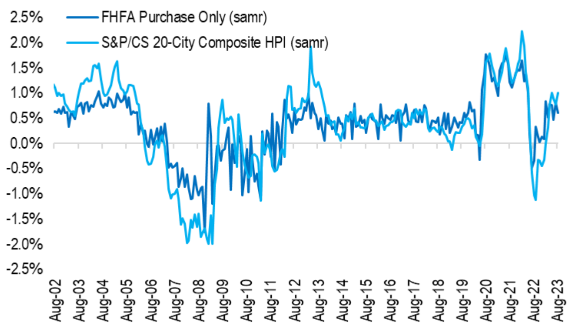
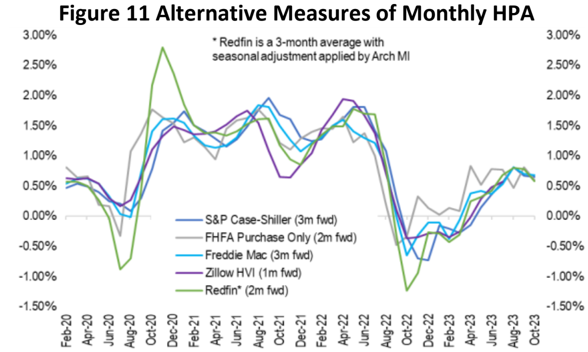
composite recorded monthly gains, same as last month and a stark improvement from the beginning of the year. Price gains were most pronounced in San Diego (1.7%), Seattle (1.5%) and Los Angeles (1.2%). Other more real-time measures of home price appreciation (HPA) had already shown a similar improvement in the monthly trend (Figure 11).

Figure 10: Month-Over-Month Home Price Appreciation



Sources: S&P, FHFA, Arch MI

Figure 11 Alternative Measures of Monthly HPA



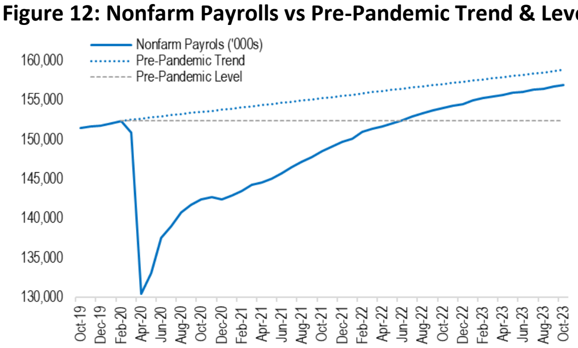
Sources: S&P, FHFA, Freddie Mac, Optimal Blue, Redfin, Zillow, Arch MI

Based on data from Redfin, monthly home price appreciation (HPA) continued to trend higher in September and October. While these improvements should be reflected in subsequent releases of the repeat-sales HPIs, we expect the recent persistence of mortgage rates well above 7% to dampen price momentum heading into autumn. It is important to note that during periods of market volatility, there can be divergences between the FHFA and S&P/Case-Shiller HPIs. Index compositional differences do play a factor where the FHFA index is compiled based on conforming, conventional loans purchased and securitized by the GSEs (data included in the index are based on loan origination data) while the S&P/Case-Shiller index captures more transactions and uses a different weighting that places greater emphasis on regions with higher home values. The S&P/Case-Shiller index is also a three-month average of closed sales, implying that closed sales for the most recent June-August period could include contracts signed as far back as March.

LABOR MARKET THROTTLES BACK IN OCTOBER

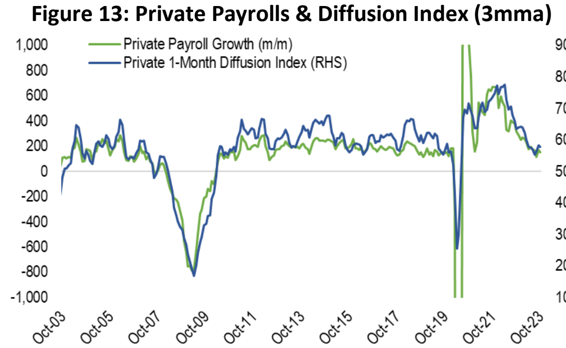
October job growth of 150k (cons. 180k) was a downside surprise based on consensus economist forecasts, bringing the three-month average down to 204k from 233k in September alongside a combined downward revision of -101k to job growth in August and September. Through October, the U.S. economy had 4.5 million more jobs than at the onset of the pandemic (i.e., February 2020) but remained 1.9 million jobs below the pre-pandemic trend (Figure 12).

Figure 12: Nonfarm Payrolls vs Pre-Pandemic Trend & Level



Sources: Bureau of Labor Statistics, Arch MI

Figure 13: Private Payrolls & Diffusion Index (3mma)



Sources: BLS, Arch MI

Private job gains were far and away led by Education & Health Services, which posted a gain of 89k. The breadth of sectors adding jobs declined in October, as measured by the one-month diffusion index (Figure 13), as job losses mounted in Manufacturing (-35k), Trade & Transport (-12k), Information (-9k) and Finance (-2k). Other sectors adding jobs in October included Government (+51k), Construction (+23k), Leisure & Hospitality (+19k) and Professional Business Services (+15k). Household employment decreased in October by -348k while the count of unemployed rose by 146k. Hourly earnings rose

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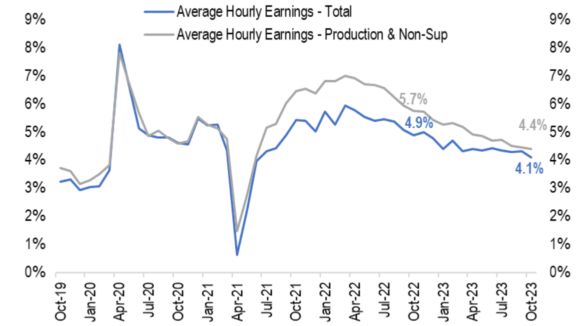
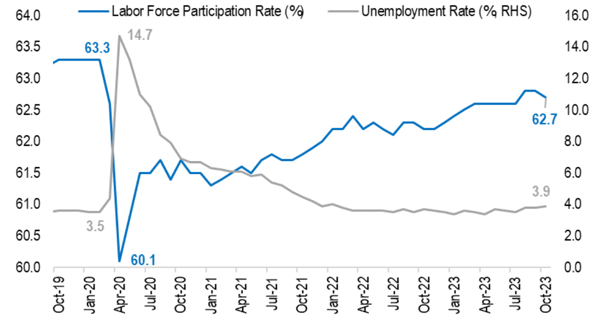
0.2% m/m (cons. 0.3%) in October and 4.1% y/y (Figure 14), with the unemployment rate rising to 3.9% (cons. 3.8%) as the labor force participation fell 10bps to 62.7% (Figure 15).

Figure 14: Average Hourly Earnings Growth (y/y)



Sources: Bureau of Labor Statistics, Arch MI

Figure 15: Labor Force Participation & Unemployment Rates

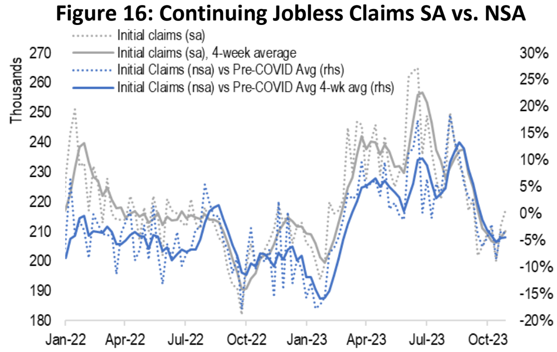


Sources: Bureau of Labor Statistics, Arch MI

INITIAL AND CONTINUING CLAIMS STARTING TO MOVE HIGHER

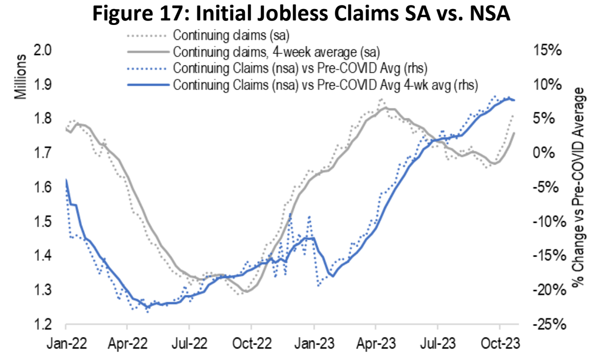
Both initial and continuing claims surprised to the upside but were in-line with our expectations. Interestingly, the unadjusted continuing claims data is starting to inch lower relative to its pre-pandemic average right as the seasonally adjusted series spikes. On the other hand, initial claims are starting to rise again after hovering just above 200k for roughly a month. The recent uptick in initial claims is likely to put further upward pressure on continuing claims in the weeks ahead. 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 as well, so we see upside risk to the 2m figure.

Figure 16: Continuing Jobless Claims SA vs. NSA



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

Figure 17: Initial Jobless Claims SA vs. NSA



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

Initial jobless claims rose by 5k to a seasonally adjusted 217k (cons. 210k) during the week ending Oct. 28, moving the four-week average up to 210k from 208k (Figure 16). The four-week average of non-seasonally adjusted initial claims also moved up to -4.4% below its pre-COVID average (i.e., 2017 to 2019) from -4.6% the week before. Continuing claims (i.e., repeat filers for unemployment insurance) climbed by 35k during the week ending Oct. 21 to a seasonally adjusted 1,818k (cons. 1,800k), moving the four-week average up to 1,758k from 1,722k (Figure 17). However, the four-week average of non-seasonally adjusted continuing claims inched down to 7.7% above its pre-COVID average from 7.9% the week before.

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The Week Ahead

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Consensus	Prior	Note
11/7/23	Consumer Credit	Sep	9.0	-15.6	$B, m/m, sa
11/8/23	MBA Mortgage Applications	11/3/23	--	-2.1%	w/w, sa
11/8/23	Wholesale Trade Sales	Sep	--	1.8%	m/m, sa
11/8/23	Wholesale Inventories	Sep F	0.0%	0.0%	m/m, sa
11/9/23	Initial Jobless Claims	11/4/23	220	217	k, sa
11/9/23	Continuing Claims	10/28/23	1,830	1,818	k, sa
11/10/23	U. of Mich. Sentiment	Nov P	63.5	63.8	index, nsa
11/10/23	U. of Mich. 1 Yr Inflation	Nov P	--	4.2%	nsa
11/10/23	U. of Mich. 5-10 Yr Inflation	Nov P	--	3.0%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics

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