HaMMR Digest

Stay current with economic and mortgage market trends.

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Weekly Wrap – The Talons Come Out

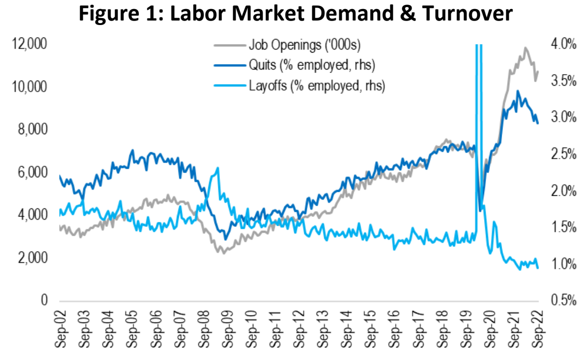
- Fed hiked by 75bps as expected, but signaled a higher terminal rate and potentially slower hikes going forward
- Employment data still suggest a tight labor market that will keep at least a 50bps rate hike in play for December
- Housing market continues to slow and recalibrate to a lower level of demand given persistently higher rates

Last week's news flow was dominated by the FOMC policy meeting and capped by October's payrolls report. While there was no surprise from the Fed raising the federal funds rate by 75bps to a band of 3.75%-4.00%, there was some market whiplash from the difference in tone presented by the official statement and the press conference. The policy statement hinted at stepping down the magnitude of future rate hikes by acknowledging "cumulative tightening of monetary policy" and the "lags with which monetary policy affects economic activity." Recent Fed commentary had prudently opened the door for this risk management move given the mounting global and domestic headwinds.

Chairman Powell's press conference lent more clarity on the policy outlook, most notably that the Fed "has some ways to go" with their rate hikes and that "the ultimate level of interest rates will be higher than previously expected." Markets quickly responded to this commentary and priced in a higher terminal rate of 5.25% by mid-2023, up from 5.00% prior to the press conference. Powell stressed that the committee still sees a higher risk of under rather than over tightening, suggesting that even though the terminal rate may be reached later than initially thought, rates will be higher and stay higher to achieve price stability. The Fed has turned increasingly hawkish as inflation data has been frustratingly slow to turn lower while tightness in the labor market has eased only marginally.

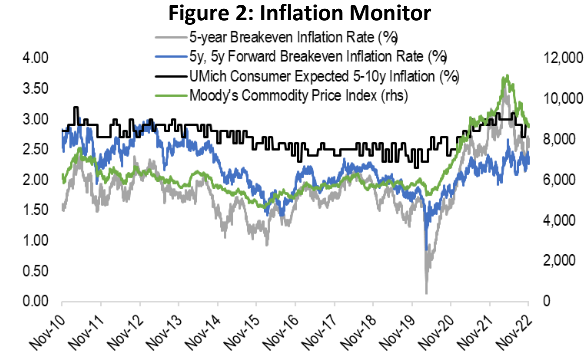
On the labor market front, October's net gain of 261k jobs beat consensus expectations (195k) and prior months were revised up by 29k as well. While the three-month average gain has slowed to 289k from 637k at the end of last year and 539k at the end of 1Q22, the October pace remained far too strong for the Fed's liking and firmly keeps us on the path toward higher rates. The unemployment rate did rise to 3.7% (cons. 3.5%) but for reasons the Fed is hoping to avoid: the labor force shrank for the second consecutive month while the number of unemployed climbed.

Figure 1: Labor Market Demand & Turnover



Sources: BLS, Arch MI

Figure 2: Inflation Monitor



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

The recovery of labor supply has been slow in the face of extremely strong labor demand with post-COVID demographic challenges remaining firmly in place. The implication of the slow labor force recovery is that to achieve greater labor market slack, labor demand will need to decline dramatically, otherwise unemployment will need to rise meaningfully. So far, there is more evidence to suggest the economy is on the weaker demand route. Job openings have declined by more than 1m or nearly 10% since peaking in March. Moreover, private industry quits as a share of employment have fallen 50bps since the November 2021 peak while private layoffs as a percent of total employment remain near record lows (Figure 1). Reduced labor market attrition and competition in the face of relatively low layoffs is leaving its mark on wages: growth in nonsupervisory average hourly earnings on a three-month rolling annualized basis have slowed to 4.3% in October from 5.9% in July and 7.5% in December 2021. As slack gradually builds in the labor market, inflation expectations continue to linger only modestly above pre-pandemic levels (Figure 2).

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
11/1/22	S&P Global US Manufacturing PMI	Oct F	50.4	49.9	49.9	index, sa
11/1/22	JOLTS Job Openings	Sep	10.7	9.8	10.3	m, sa
11/1/22	ISM Manufacturing	Oct	50.2	50.0	50.9	index, sa
11/1/22	ISM Prices Paid	Oct	46.6	53.0	51.7	index, nsa
11/1/22	Wards Total Vehicle Sales	Oct	14.9	14.5	13.5	m, saar
11/2/22	MBA Mortgage Applications	10/28/22	-0.5%	--	-1.7%	w/w, sa
11/2/22	ADP Employment	Oct	239	185	192	k, m/m, sa
11/2/22	FOMC Rate Decision (Upper Bound)	11/2/22	4.00%	4.00%	3.25%	
11/3/22	Nonfarm Productivity	3Q P	0.3%	0.5%	-4.1%	q/q, saar
11/3/22	Unit Labor Costs	3Q P	3.5%	4.0%	8.9%	q/q, saar
11/3/22	Initial Jobless Claims	10/29/22	217	220	218	k, sa
11/3/22	Continuing Claims	10/22/22	1,485	1,450	1,438	k, sa
11/3/22	S&P Global US Services PMI	Oct F	47.8	46.6	46.6	index, sa
11/3/22	S&P Global US Composite PMI	Oct F	48.2	47.3	47.3	index, sa
11/3/22	ISM Services Index	Oct	54.4	55.3	56.7	index, nsa
11/4/22	Nonfarm Payrolls	Oct	261	193	315	k, m/m, sa
11/4/22	Private Payrolls	Oct	233	200	319	k, m/m, sa
11/4/22	Unemployment Rate	Oct	3.7%	3.6%	3.5%	sa
11/4/22	Average Hourly Earnings m/m	Oct	0.4%	0.3%	0.3%	sa
11/4/22	Average Hourly Earnings y/y	Oct	4.7%	4.7%	5.0%	nsa
11/4/22	Average Weekly Hours All Employees	Oct	34.5	34.5	34.5	sa
11/4/22	Labor Force Participation Rate	Oct	62.2%	62.3%	62.3%	sa

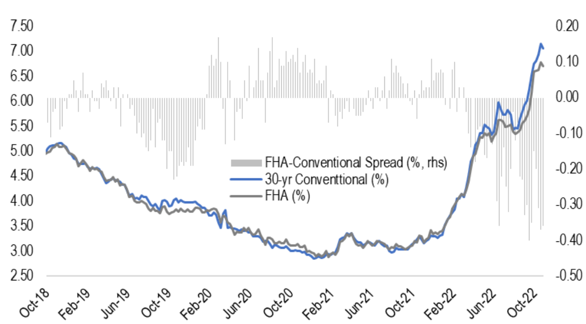
Sources: Bloomberg Consensus Survey of Economists, Arch MI

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

MORTGAGE APPLICATION ACTIVITY SLOWS TO 25 YEAR LOW DESPITE BRIEF RESPITE

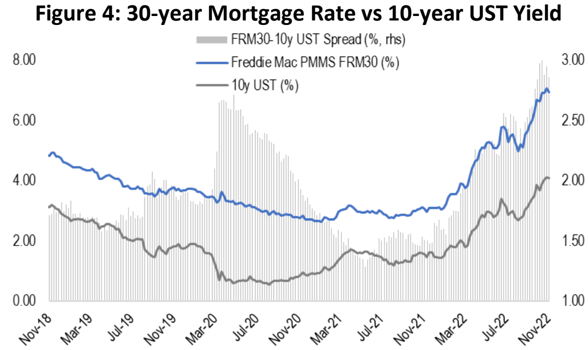
Mortgage rates dipped in the week leading up to the Fed's latest policy meeting. The average contract conventional mortgage rate declined -10bps to 7.06% during the week ending October 28th according to the MBA survey of lenders. Meanwhile, the FHA contract mortgage rate also declined -9bps to 6.70%, resulting in a 1bps widening of the spread between the FHA and conventional mortgage rate to -0.36% (Figure 3). Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the 3 days ending November 2nd indicated that the FRM30 fell -13bps w/w to 6.95% (Figure 4) as 10-year UST yields declined -4bps to an average of 4.09% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST narrowed -9bps to 2.86%, about 116bps wider than its typical non-stressed level but still close to the cycle high of 3.00%. 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.

Figure 3: Conventional vs FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

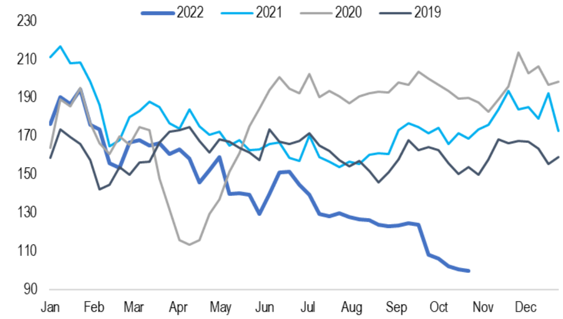
Figure 4: 30-year Mortgage Rate vs 10-year UST Yield



Sources: Freddie Mac PMMS, FRB, Arch MI

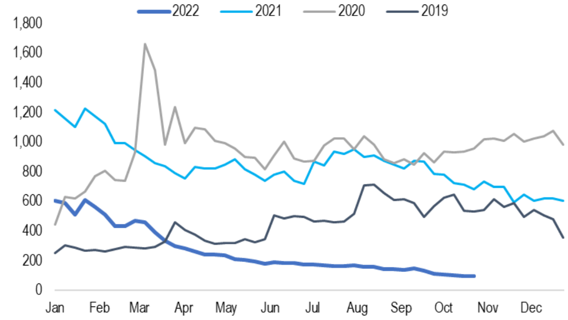
Mortgage application activity was relatively unmoved by the brief dip in rates. For the week ending October 28th, the MBA total mortgage market application activity index declined -0.5% w/w and is now down -68% year-over-year and -61% compared with pre-pandemic levels (i.e., 3 years ago). The weekly decline was driven by a -0.8% decline in purchase applications, which remain down -41% y/y and -35% over 3 years (Figure 5). Refinancing applications increased 0.2% w/w but remain down -85% y/y and -81% relative to 2019 levels (Figure 6). In the aftermath of the November Fed meeting, 10y UST yields have surged back toward 4.20%, which suggests mortgage rates are likely to jump higher this week.

Figure 5: Purchase Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

Figure 6: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

HOUSING MARKET CONTINUES TO RECALIBRATE TO HIGHER RATES

The slowdown in the housing market continued over the past week based on Redfin data through October 30th. Pending home sales dropped by -28k y/y or -40%, while new listings are down -19k y/y or 22% and delisted homes are up nearly 8k y/y or 76% (Figure 7). Despite the slower pace of sales, homes are generally still closing rather quickly with the share of homes off the market within two weeks climbing steadily since August to 34%, or about 5 percentage points higher than the pre-pandemic average. This has coincided with a levelling off in the share of homes sold with price drops at 31%, or only 3 percentage points higher than the pre-pandemic average. Even with sellers slowing the pace of their pullback from the market, active inventory continued its downward march and month's supply remained flat week-over-week with respect to its pre-pandemic average (Figure 8). This is unlikely the beginning of a new trend with current inertia in the housing market pointing towards slower momentum amid fewer buyers and sellers given affordability challenges.

Figure 7: U.S. Existing Home Sales Market Dynamics

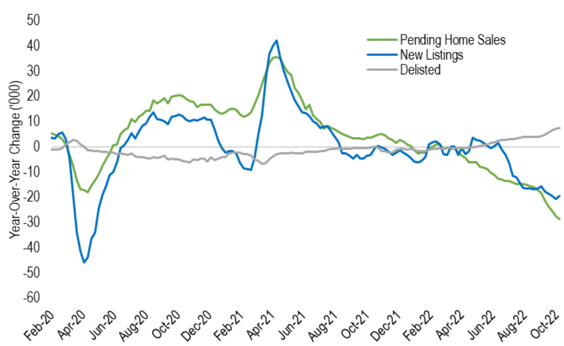
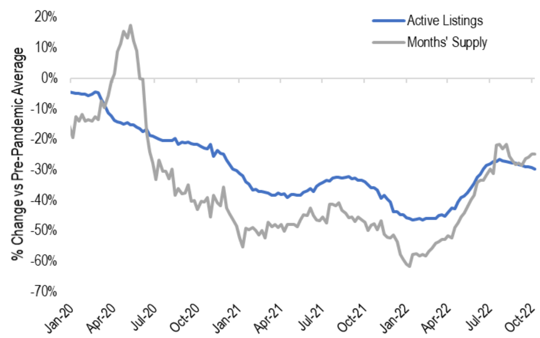


Figure 8: U.S. Active Listings & Months' Supply



Source: Redfin, Arch MI

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 6% 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 declined to 28% from a peak of 55% in May but remained 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 9), annual home price growth was weakest in **Austin** (2%), **Los Angeles** (3%) and **Seattle** (3%) with home price growth having slowed most rapidly compared with a year ago in **Austin** (-34%-pts) and **Phoenix** (-23%-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** (16) and **Phoenix** (15). Markets that have deteriorated the most based on months' supply include **Austin** and **Phoenix**, where months' supply has climbed to a respective 82% and 71% above pre-pandemic levels from -44% and -48% below pre-pandemic levels one year ago.

Figure 9: Weekly Housing Monitor (As of 10/30/22)

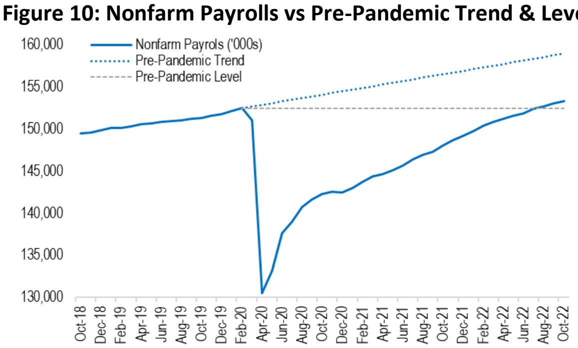
Metro	Median Sale Price psf (% y/y)	Median Sale Price Same Week '21 (% y/y)	Active Listings with Price Drops (% share)	Active Listings with Price Drops (ppt Δ y/y)	Homes Sold Above List (%)	Homes Sold Above List (ppt Δ y/y)	Average Sale-to-List Ratio (%)	Average Sale-to-List Ratio (ppt Δ y/y)	Total Active 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	6%	17%	8%	4%	28%	-15%	99%	-2%	7%	-13	-20	-17%	-50%
Atlanta	10%	23%	9%	5%	26%	-21%	98%	-2%	22%	-6	-19	-12%	-56%
Austin	2%	36%	13%	8%	16%	-35%	97%	-4%	60%	16	-10	82%	-44%
Baltimore	7%	8%	8%	2%	36%	-5%	101%	0%	-15%	-14	-22	-33%	-51%
Boston	7%	10%	7%	3%	47%	-11%	101%	-2%	-11%	-5	5	-24%	-33%
Chicago	5%	10%	4%	0%	27%	-7%	98%	-1%	7%	14	-22	-16%	-46%
Dallas	12%	23%	10%	6%	24%	-27%	98%	-3%	37%	-18	-22	-20%	-62%
Denver	6%	19%	14%	9%	22%	-31%	99%	-3%	47%	-2	-13	9%	-58%
Houston	12%	17%	10%	5%	18%	-14%	98%	-1%	26%	-18	-28	-10%	-52%
Los Angeles	3%	15%	6%	4%	37%	-24%	100%	-3%	1%	-4	-10	7%	-44%
Miami	18%	26%	4%	2%	16%	-4%	97%	-1%	-11%	-16	-2	-22%	-49%
Minneapolis	4%	10%	9%	3%	36%	-15%	100%	-1%	1%	-3	-12	-1%	-37%
Nashville	14%	23%	8%	5%	19%	-25%	98%	-3%	62%	-8	-25	7%	-61%
New York	3%	18%	5%	1%	25%	-1%	99%	-1%	-9%	-35	-30	-26%	-43%
Phoenix	7%	30%	13%	9%	14%	-33%	97%	-3%	50%	15	-14	71%	-48%
Portland	5%	18%	10%	4%	28%	-25%	99%	-3%	28%	-6	-20	2%	-59%
Riverside	7%	24%	8%	5%	33%	-27%	99%	-3%	17%	-11	-26	5%	-54%
San Diego	7%	18%	9%	5%	31%	-25%	99%	-3%	30%	1	-20	-1%	-68%
Seattle	3%	22%	11%	6%	21%	-35%	99%	-5%	67%	2	-12	14%	-70%
Tampa	16%	26%	12%	6%	17%	-22%	98%	-2%	66%	-9	-26	-7%	-61%
Washington	5%	10%	7%	2%	30%	-11%	100%	-1%	-10%	2	-14	8%	-39%

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

JOB MAKET KEEPS ROLLING BUT AT A SLOWER PACE

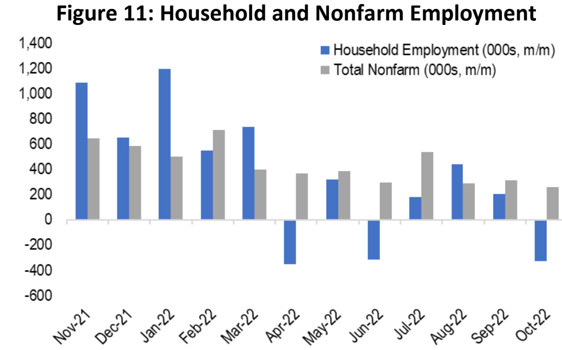
With a gain of 261k jobs in October, the U.S. economy now has 804k more jobs than it did in February 2020 but remains well below the pre-pandemic trend (Figure 10). While the pace of job gains continued to slow, labor market indicators generally still point to strong demand. Jobs openings for September rebounded to 10.7m (cons. 9.8m) on top of an upward revision to August openings to 10.3m from 10m previously. The job filling rate, the ratio of hires to openings which reflects firms' ability to fill positions relative to their demand, fell back to 0.6 and remains well below the pre-pandemic norm of ~0.8. Meanwhile, the ratio of job vacancies to unemployed rose as well to 1.9 and just below the cycle high of 2.0. The overall level of involuntary part-time employment, temporary services staffing levels, and voluntary job leavers as a percent of unemployed all suggest the labor market remains on solid footing for now.

Figure 10: Nonfarm Payrolls vs Pre-Pandemic Trend & Level



Sources: Bureau of Labor Statistics, Arch MI

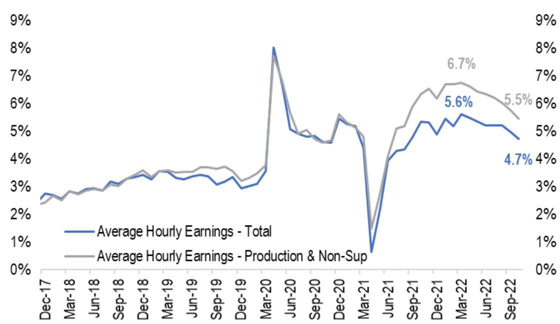
Figure 11: Household and Nonfarm Employment



Sources: Bureau of Labor Statistics, ArchMI

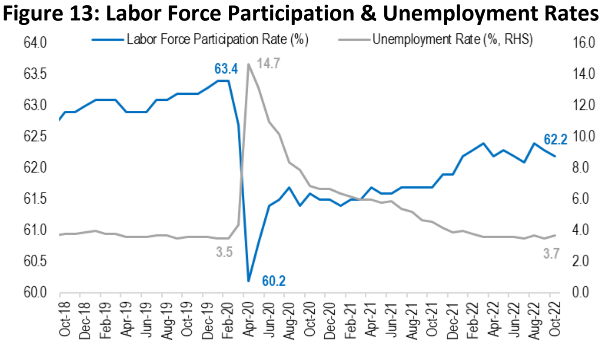
The breadth of job gains also implies healthy labor demand as gains were led by education and health services (79k), professional and business services (39k), and leisure and hospitality (35k). The manufacturing sector also added 32k jobs while construction added just 1k. Industrial activity has turned weaker lately and will likely trend even lower from here as the lagged impact of a strong U.S. dollar and weak global demand bites into export orders while a drawdown in backlogs suppresses domestic-oriented production. Residential construction will remain depressed but the backlog of units under construction as well as the uptrend in private residential renovation construction spending should keep a floor under construction employment. The household survey has been showing a much less rosy picture of the labor market since April, posting a 328k decline in employment for October (Figure 11). It is important to note that the household survey is a much smaller survey with a larger sampling error and uses a different a methodology compared to the establishment payroll report, but the weakness still warrants watching.

Figure 12: Average Hourly Earnings Growth (y/y)



Sources: Bureau of Labor Statistics, Arch MI

Figure 13: Labor Force Participation & Unemployment Rates



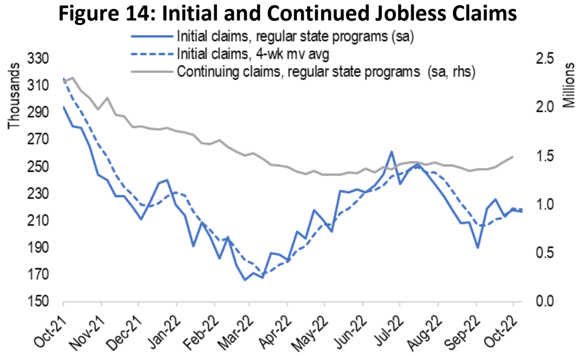
Sources: Bureau of Labor Statistics, Arch MI

Average hourly earnings rose 0.4% (cons. 0.3%) in October and 4.7% y/y, down from 5.6% y/y in March, while the non-supervisory segment rose a bit slower during the month (0.3%) but remained stronger year-over-year at 5.5% (Figure 12). Cooling private hourly wage growth implies that peak tightness in the labor market is in the rear-view mirror with further slack likely to build up in the months ahead. However, the Fed will need to see substantial further cooling in future labor market data as they evaluate any shift in their monetary policy strategy. The unemployment rate rose 20bps to 3.7% in October (cons. 3.6%) from 3.5% in September (Figure 13) despite a 10bps decline in the labor force participation rate to 62.2% (cons. 62.3%) as the number of unemployed rose 308k m/m. While the overall participation rate remains 120bps below its pre-pandemic level, the prime age participation rate, those aged between 25 and 54-years-old, has recovered to within 50bps its February 2020 level.

JOBLESS CLAIMS DECLINE SLIGHTLY BUT REMAIN ABOVE PRE-HURRICANE LOWS

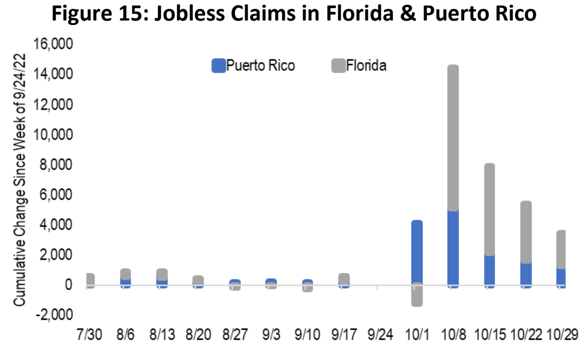
Initial jobless claims declined by -1k to 217k (consensus: 220k) during the week ending October 29th from 218k the previous week, moving the 4-week average down to 219k from 219k (Figure 14). Some distortions remain from jobless claims related to Hurricane Ian, particularly in Florida and Puerto Rico (Figure 15), 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 47k to 1,485k (consensus: 1,450k) during the week ending October 22nd, reflecting some of the still elevated hurricane-related claims.

Figure 14: Initial and Continued Jobless Claims



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

Figure 15: Jobless Claims in Florida & Puerto Rico



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

The Week Ahead

UPCOMING DATA RELEASES

This week's key data release will be the October consumer price inflation report on Thursday, which is expected to show a slight acceleration of headline inflation to 0.6% m/m (sa) from 0.4% in September, according to the Bloomberg consensus survey of economists. Given the impact of base effects from strong monthly inflation readings a year ago, the monthly acceleration in headline inflation would translate to a deceleration in annual inflation to 7.9% from 8.2% in September. Meanwhile, core CPI inflation (excluding food and energy prices) is expected to decelerate slightly on both a monthly (0.5%) and annual (6.5%) basis, although upside risk certainly remains from rising housing inflation which trails changes in market rents and home prices by roughly one year.

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
11/7/22	Consumer Credit	Sep	--	30.0	32.2	$B, m/m, sa
11/8/22	NFIB Small Business Optimism	Oct	--	91.3	92.1	index, sa
11/9/22	MBA Mortgage Applications	11/4/22	--	--	-0.5%	w/w, sa
11/9/22	Wholesale Inventories m/m	Sep F	--	0.8%	0.8%	sa
11/10/22	CPI m/m	Oct	--	0.6%	0.4%	sa
11/10/22	CPI Core (ex Food and Energy) m/m	Oct	--	0.5%	0.6%	sa
11/10/22	CPI y/y	Oct	--	7.9%	8.2%	nsa
11/10/22	CPI Core (ex Food and Energy) y/y	Oct	--	6.5%	6.6%	nsa
11/10/22	Initial Jobless Claims	11/5/22	--	220	217	k, sa
11/10/22	Continuing Claims	10/29/22	--	1,500	1,485	k, sa
11/11/22	U. of Mich. Sentiment	Nov P	--	59.5	59.9	index, nsa
11/11/22	U. of Mich. 1 Yr Inflation	Nov P	--	5.1%	5.0%	nsa
11/11/22	U. of Mich. 5-10 Yr Inflation	Nov P	--	2.9%	2.9%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI