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HaMMR Digest

Stay current with economic and mortgage market trends.

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Weekly Wrap – False Dawn?

- CPI inflation throttles back with core inflation slowing to half the pace of the prior two months
- Market expectations for Fed rate hikes took a big step back in response to the cool inflation print
- We still see this hiking cycle ending around 5%, with a downshift to a 50bps hike likely at the December meeting

After multiple months of inflation overshooting expectations, the reverse occurred with the October data release. Headline CPI inflation came in at 0.4% m/m on a seasonally adjusted basis, or 7.7% y/y, compared with consensus expectations for a 0.6% monthly advance. Importantly, core CPI (excluding food and energy) eased markedly to 0.3% m/m (cons. 0.5%) after two straight months at 0.6% and just above its 2019 monthly average (0.2%). If housing inflation is stripped out as well, which gained 0.5% m/m and accounts for just over 50% of core inflation, core prices outside of food, housing and energy contracted -0.1% m/m, the first negative print since May 2020 (Figure 1).

Figure 1: CPI Inflation Select Categories

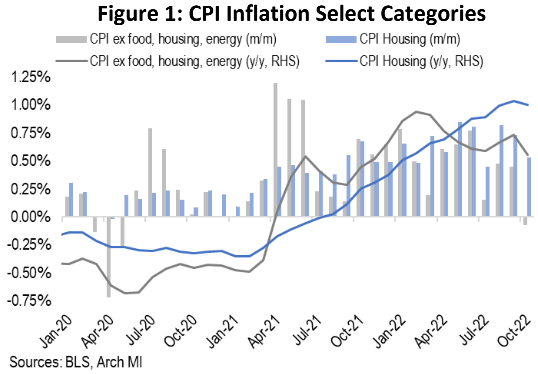
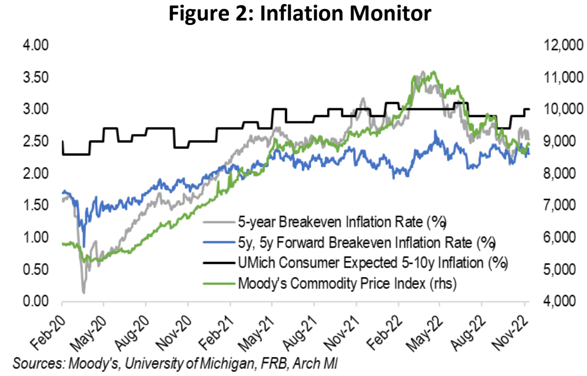


Figure 2: Inflation Monitor



The underlying details were encouraging as well. The accumulated impacts of rising inventories, a stronger US dollar, lower freight rates, and mending supply chains have tilted core goods prices into negative territory with a -0.4% m/m decline in October, well below the 2021-2022 average of 0.6%. Core services inflation slowed to 0.5% m/m from 0.8% previously with a noticeable slowing in travel services, medical services, and even a modest deceleration in rental components.

After digesting the inflation news, equities posted one of their best rallies since the pandemic while rates fell across the curve. 10-year U.S. Treasury yields dropped roughly 30bps to 3.8%, the largest one-day drop since March 2009 as the outlook for Fed rate hikes was trimmed by 25bps to a terminal rate of 5.00%. Mortgage rates quickly responded as well with the 30-year fixed-rate mortgage plunging 60bps to 6.62% on November 10th from 7.22% the day before according to Mortgage News Daily. Extrapolating forward, October's CPI print has reduced some of the uncertainty around the Fed's rate path. Regardless, we expect mortgage market participants to remain cautiously optimistic at best and thus any further narrowing of mortgage spreads is likely to remain limited until the Fed actually eases the pace of rate hikes and further progress on inflation is confirmed by future data releases.

October's CPI certainly opens the door for the Fed to adjust their policy, but we expect the Fed to still be far from declaring 'mission accomplished.' CPI data can be choppy and sharp changes in momentum are typically reversed in subsequent months. This places extra emphasis on November's CPI data, which is released the day before the Fed's December policy statement. The Fed has also clearly linked its policy path with the strength of the labor market, which currently remains synonymous with above-trend inflation. A net 32% of firms from the NFIB's October survey are planning to raise worker compensation, up from 23% last week and matching the record peak for the series during the pandemic's grab for labor frenzy. Meanwhile, the Atlanta Fed's wage growth tracker showed median wage growth remained firm in October, suggesting that one-way easing of wage pressures is still not underway. Furthermore, long-term consumer inflation expectations surprised to the upside (3.0%) in preliminary November data (Figure 2), a key measure the Fed has been monitoring closely. As we have noted previously, bringing inflation down to 4-5% will be easier than getting it to 2-3%. We are still in the early innings of the Fed's inflation fight with multiple ebbs and flows to follow.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
11/7/22	Consumer Credit	Sep	**25.0**	30.0	30.2	$B, m/m, sa
11/8/22	NFIB Small Business Optimism	Oct	**91.3**	91.4	92.1	index, sa
11/9/22	MBA Mortgage Applications	11/4/22	**-0.1%**	--	-0.5%	w/w, sa
11/9/22	Wholesale Inventories m/m	Sep F	**0.6%**	0.8%	0.8%	sa
11/10/22	CPI m/m	Oct	**0.4%**	0.6%	0.4%	sa
11/10/22	CPI y/y	Oct	**7.7%**	7.9%	8.2%	nsa
11/10/22	CPI Core (ex Food and Energy) m/m	Oct	**0.3%**	0.5%	0.6%	sa
11/10/22	CPI Core (ex Food and Energy) y/y	Oct	**6.3%**	6.5%	6.6%	nsa
11/10/22	Initial Jobless Claims	11/5/22	**225**	220	218	k, sa
11/10/22	Continuing Claims	10/29/22	**1,493**	1,492	1,487	k, sa
11/11/22	U. of Mich. Sentiment	Nov P	**54.7**	59.5	59.9	index, nsa
11/11/22	U. of Mich. 1 Yr Inflation	Nov P	**5.1%**	5.1%	5.0%	nsa
11/11/22	U. of Mich. 5-10 Yr Inflation	Nov P	**3.0%**	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)

SELLERS CONTINUE WAIT FOR BETTER TIMES WHILE BUYERS INCREASINGLY PULL BACK

Existing home sales activity continued to cool based on the latest Redfin data for the week ending November 6th. Pending home sales dropped by -28k y/y or -40%, while new listings declined -18k y/y or 21% and the number of delisted homes climbed nearly 9k y/y or 86%. From this vantage point, buyers are falling out of the market in droves, which makes sense when compared to the affordability backdrop of 2021. For additional context, we compared the above metrics to their respective pre-pandemic averages for each week, which shows that sellers have been leaving the market more quickly than buyers, for now (Figure 3). New listings have been falling further below the pre-pandemic pace for twelve straight weeks compared to pending sales which only fell below the pre-pandemic pace four weeks ago. However, the slope of the decline in pending sales is much steeper and suggests an acceleration to the downside is likely to continue unless there is a sustained decline in mortgage rates.

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

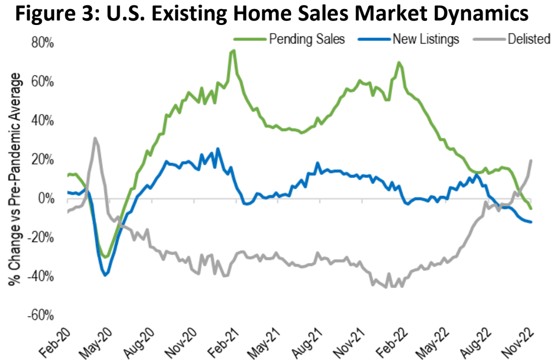
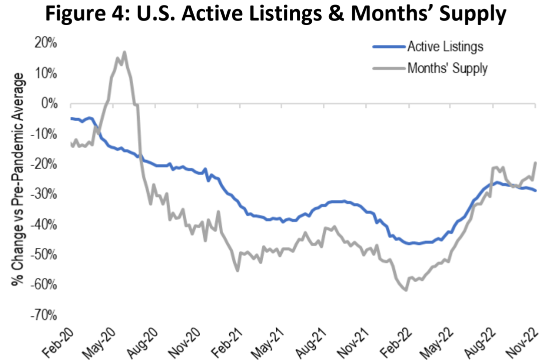


Figure 4: U.S. Active Listings & Months' Supply



Source: Redfin, Arch MI

As we prefaced in our weekly wrap, mortgage rates tumbled this week to levels not seen since September per high-frequency data provider Mortgage News Daily. Although we expect rates to remain relatively elevated through 2023, should the downward move in rates continue, housing demand could stabilize a bit faster than expected, albeit to levels well below than the height of the pandemic. As the decline in the pace of sales has gathered steam, months' supply has climbed and is now only -19% below typical pre-pandemic levels, the highest relative level since the summer of 2020 (Figure 4). Even with active listings trending further below their pre-pandemic trend, falling sales will keep upward pressure on months' supply and downward pressure on prices in the months ahead.

Annual growth in the national median sale price ($ / sf) slowed to 5.3% y/y, reaching a fresh 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%). There is certainly further room for prices to decline in overstretched markets and underlying data show that most of that price weakness is emanating from the West region of the U.S. Of the major metros we track (Figure 5), annual home price growth was weakest in **Austin** (1%), **Seattle** (2%), **Los Angeles** (3%) and **New York** (3%) with home price growth having slowed most rapidly compared with a year ago in **Austin** (-35%-pts) and **Phoenix** (-25%-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** (16), with markets like **Washington D.C.** (2) and **San Diego** (1) also starting to climb above pre-pandemic days on market. Markets that have deteriorated the most based on months' supply include **Austin** and **Phoenix**, where months' supply has climbed to a respective 84% and 77% above pre-pandemic levels from -43% and -49% below one year ago.

Figure 5: Weekly Housing Monitor (As of 11/6/22)

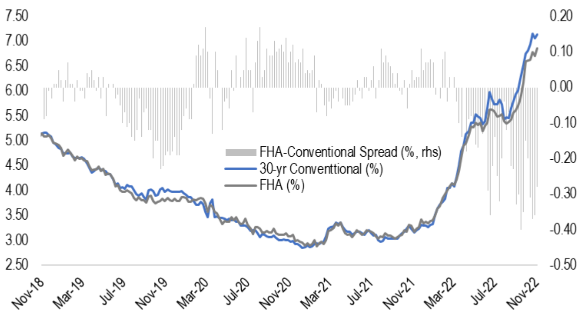
Metro	Median Sale Price psf (% y/y)	Median Sale Price Same Week '21 (% y/y)	Active Listings with Price Drops (% share)	Active Listings with Price Drops (ppt Δ y/y)	Homes Sold Above List (%)	Homes Sold Above List (ppt Δ y/y)	Average Sale-to-List Ratio (%)	Average Sale-to-List Ratio (ppt Δ y/y)	Total Active 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	**5%**	**17%**	**8%**	**4%**	**28%**	**-15%**	**99%**	**-2%**	**10%**	**-13**	**-20**	**-15%**	**-50%**
Atlanta	10%	23%	9%	5%	26%	-21%	98%	-2%	24%	-6	-19	-10%	-54%
Austin	1%	36%	13%	8%	16%	-32%	97%	-4%	67%	14	-12	84%	-43%
Baltimore	5%	9%	8%	2%	36%	-6%	101%	0%	-14%	-14	-23	-35%	-54%
Boston	6%	11%	8%	3%	48%	-11%	101%	-2%	-8%	-5	5	-24%	-32%
Chicago	4%	11%	5%	0%	26%	-7%	98%	-1%	13%	14	-22	-15%	-47%
Dallas	11%	24%	11%	7%	23%	-27%	98%	-3%	50%	-19	-22	-16%	-62%
Denver	6%	19%	13%	9%	22%	-33%	99%	-3%	51%	-2	-14	15%	-59%
Houston	12%	18%	10%	5%	17%	-15%	98%	-2%	27%	-18	-29	-10%	-50%
Los Angeles	3%	15%	6%	4%	35%	-25%	99%	-3%	2%	-3	-10	11%	-43%
Miami	16%	26%	4%	2%	16%	-5%	96%	-1%	-10%	-20	-2	-26%	-51%
Minneapolis	4%	10%	9%	3%	35%	-15%	100%	-1%	3%	-2	-12	0%	-38%
Nashville	13%	23%	8%	5%	18%	-26%	98%	-3%	67%	-10	-25	7%	-61%
New York	3%	18%	5%	1%	25%	-1%	99%	0%	-8%	-34	-30	-26%	-40%
Phoenix	5%	30%	13%	8%	13%	-34%	97%	-3%	56%	16	-14	77%	-49%
Portland	6%	18%	10%	3%	28%	-24%	99%	-3%	32%	-5	-23	7%	-59%
Riverside	5%	24%	8%	5%	31%	-28%	99%	-3%	19%	-10	-25	8%	-55%
San Diego	5%	19%	9%	5%	31%	-25%	99%	-3%	32%	1	-20	3%	-69%
Seattle	2%	21%	10%	6%	21%	-36%	99%	-5%	73%	0	-14	27%	-70%
Tampa	15%	26%	12%	6%	16%	-23%	98%	-2%	71%	-7	-28	2%	-61%
Washington DC	3%	11%	7%	2%	30%	-12%	100%	-1%	-8%	2	-13	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

MORTGAGE APPLICATION ACTIVITY RELATIVELY UNCHANGED IN FIRST WEEK OF NOVEMBER

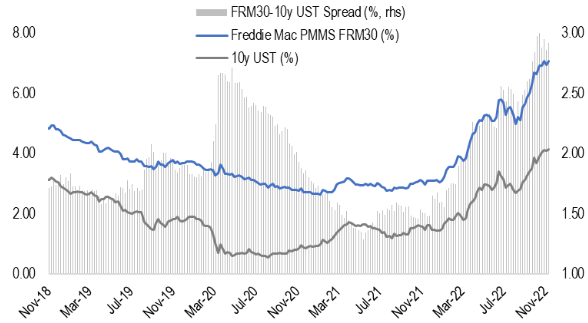
Mortgage rates climbed again last week according to the latest data from the MBA and Freddie Mac, but neither reflect the sharp drop in rates following last week's surprisingly cool inflation print. According to the MBA survey of lenders, the average contract conventional mortgage rate rose 8bps to 7.14% during the week ending November 4th while the FHA contract mortgage rate also rose 16bps to 6.86%, resulting in an 8bps widening of the spread between the FHA and conventional mortgage rate to -0.28% (Figure 6).

Figure 6: Conventional vs FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

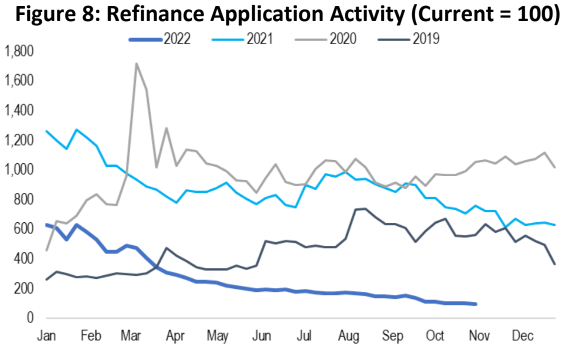
Figure 7: 30-year Mortgage Rate vs 10-year UST Yield



Sources: Freddie Mac PMMS, FRB, Arch MI

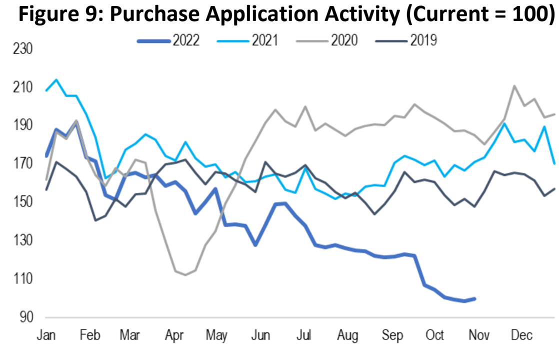
Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the 3 days ending November 9th indicated that the FRM30 jumped 13bps w/w to 7.08% (Figure 7) as 10-year UST yields climbed 7bps to an average of 4.16% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 6bps to 2.92%, about 122bps wider than its typical non-stressed level and just below the cycle high of 3%. 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 sharp drop in U.S. Treasury yields last week, mortgage rates are likely to fall in this week's surveys.

Figure 8: Refinance Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

Figure 9: Purchase Application Activity (Current = 100)



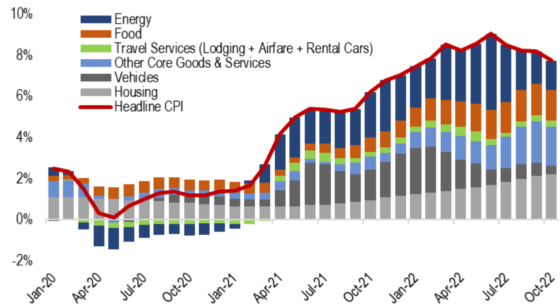
Sources: Mortgage Bankers Association, Arch MI

Mortgage refinancing activity continues to wither away with virtually no mortgages in-the-money at current rates, but purchase applications climbed for the first time in seven weeks. The MBA mortgage application survey for the week ending November 4th declined -0.1% w/w and the index is now down -70% year-over-year and -61% compared with pre-pandemic levels (i.e., 3 years ago). The weekly decline was driven primarily by a -3.5% decline in refinancing applications, which remain down -87% y/y and -82% over 3 years (Figure 8). Purchase applications increased 1.3% w/w but remain down -42% y/y and -33% relative to 2019 levels (Figure 9).

CORE CPI GOODS DEFLATION IN MOTION

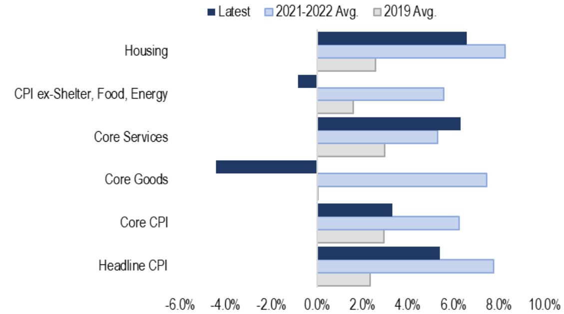
October's consumer price inflation broke decidedly in the right direction as headline inflation rose by 0.4% m/m (sa), well below consensus expectations for a 0.6% gain. Given the deceleration in the monthly pace of inflation, year-over-year price gains also slowed to 7.7% from 8.2% in September (Figure 10). Gasoline prices rebounded 4.0% on the month with energy contributing 14bps to headline inflation, the first monthly contribution in four months. Mild weather has so far kept energy services in check, falling -1.2% m/m led by a -4.6% sequential decline in piped gas. Energy prices are likely to trend flat to higher in the coming months dependent on weather and geopolitical events, which should keep energy's impact on headline inflation steady.

Figure 10: Year-Over-Year Contribution to CPI Inflation



Sources: BLS, Arch MI

Figure 11: Annualized Monthly CPI Inflation



Sources: BLS, Arch MI

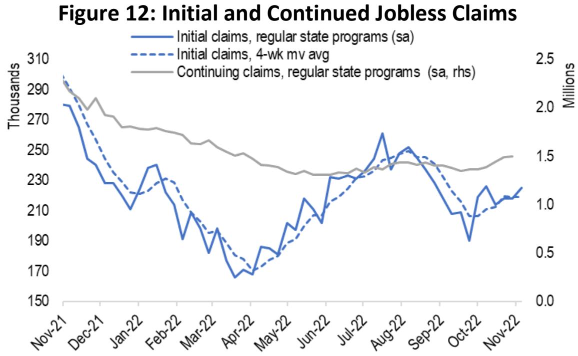
The big news, came with core inflation (excluding food and energy), which rose 0.3% m/m, or 3.3% annualized (Figure 11), 20bps shy of consensus expectations and half the pace of the prior two months. The main drag lower within core inflation was goods, which declined -0.4% m/m, or -4.5% annualized, with signs that goods deflation is spreading more broadly led by used vehicles (-2.4%), apparel (-0.7%), and appliances (-0.5%). Meanwhile, core services inflation decelerated to 0.5% m/m from 0.8% prior, bringing the annualized pace down to 6.3% from 9.9% last month and the 2022 average to 7.2%. There was also a big drop of -0.6% in medical services amid updated inputs used by the BLS while transportation services eased to 0.8% m/m from 1.9% prior amid a -1.1% drop in airfares and a -0.5% decline in vehicle rentals.

Growth in rents and owners' equivalent rent slowed to a respective 0.7% and 0.6% m/m in October from 0.8% in September, which represented multi-decade highs for both measures of housing inflation. Housing tends to be choppy on a month-to-month basis but real-time measures for both rents and home prices have been showing weakness for several months now which may be finally beginning to slowly manifest into the BLS data. However, based on the historical lag, housing inflation is likely to remain elevated and keep upward pressure on core inflation into early next year.

SEASONALLY ADJUSTED CLAIMS TICK UP BUT UNADJUSTED CLAIMS REMAIN AT 53-YEAR LOW

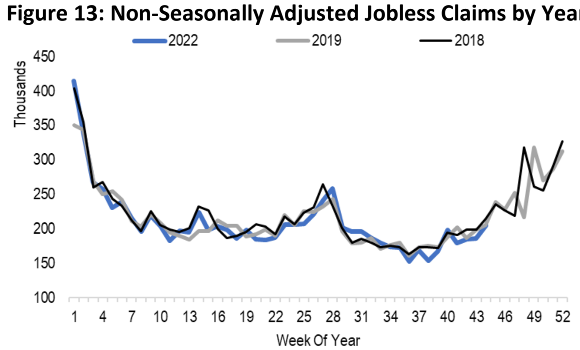
Initial jobless claims inched up by 7k to 225k (consensus: 220k) during the week ending November 5th from 218k the previous week, keeping the 4-week average at 219k (Figure 12). Pandemic-related distortions to the seasonal adjustment process appear to continue to be creating noise in the headline series as the unadjusted level of initial claims remained at the lowest level since 1969 (Figure 13). Although claims remain slightly elevated in Florida and Puerto Rico from Hurricane Ian, both appear likely to normalize soon. Meanwhile, continuing claims for regular state programs (i.e., repeat filers for unemployment insurance) climbed by 6k to 1,493k (consensus: 1,492k) during the week ending October 29th. While the labor market remains strong, the recent increase in high-profile job layoffs warrant watching closely for broader contagion. For now, most large-scale layoffs remain concentrated in industries that hired beyond sustainable levels in response to the pandemic-driven surge in demand.

Figure 12: Initial and Continued Jobless Claims



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

Figure 13: Non-Seasonally Adjusted Jobless Claims by Year



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

The Week Ahead

UPCOMING DATA RELEASES

This week kicks off with an update on producer prices and wraps up with several key housing market data releases. According to the Bloomberg consensus survey of economists, October producer prices are expected to have climbed by 0.4% m/m (sa), matching the September pace, which would result in a slight cooling to 8.4% y/y from 8.5% in September. October retail sales are expected to bounce back with 1.0% (sa) growth last month, up from unchanged in September, with the control group (excluding gasoline, auto dealers, building materials and food services) expected to slow only slightly to 0.3% from 0.4% previously. Home construction activity likely slowed further in October: housing starts are expected to decline by -1.9% m/m (sa) to a seasonally adjusted annualized rate (saar) of 1,412k units while building permits are also expected to contract by -3.1% to 1,515k. Existing home sales are also expected to take a big step back with a decline of -7.2% m/m (sa) to 4,370k saar in October.

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
11/15/22	PPI Final Demand m/m	Oct	--	0.4%	0.4%	sa
11/15/22	PPI Final Demand y/y	Oct	--	8.4%	8.5%	nsa
11/15/22	PPI Core (ex Food and Energy) m/m	Oct	--	0.3%	0.3%	sa
11/15/22	PPI Core (ex Food and Energy) y/y	Oct	--	7.2%	7.2%	nsa
11/16/22	MBA Mortgage Applications	11/11/22	--	--	-0.1%	w/w, sa
11/16/22	Advance Retail Sales m/m	Oct	--	1.0%	0.0%	sa
11/16/22	Retail Sales Control Group m/m	Oct	--	0.3%	0.4%	sa
11/16/22	Import Price Index y/y	Oct	--	4.3%	6.0%	nsa
11/16/22	Industrial Production m/m	Oct	--	0.1%	0.4%	sa
11/16/22	Capacity Utilization	Oct	--	80.4%	80.3%	sa
11/16/22	Business Inventories m/m	Sep	--	0.5%	0.8%	sa
11/16/22	NAHB Housing Market Index	Nov	--	36.0	38.0	index, sa
11/17/22	Housing Starts m/m	Oct	--	-1.9%	-8.1%	sa
11/17/22	Housing Starts	Oct	--	1,412	1,439	k, saar
11/17/22	Building Permits m/m	Oct	--	-3.1%	1.4%	sa
11/17/22	Building Permits	Oct	--	1,515	1,564	k, saar
11/17/22	Philadelphia Fed Business Outlook	Nov	--	-6.0	-8.7	index, sa
11/17/22	Initial Jobless Claims	11/12/22	--	222	225	k, sa
11/17/22	Continuing Claims	11/5/22	--	1,509	1,493	k, sa
11/18/22	Existing Home Sales m/m	Oct	--	-7.2%	-1.5%	sa
11/18/22	Existing Home Sales	Oct	--	4,370	4,710	k, saar
11/18/22	Conference Board Leading Index	Oct	--	-0.4%	-0.4%	m/m, sa

Sources: Bloomberg Consensus Survey of Economists, Arch MI