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HaMMR Digest

Stay current with economic and mortgage market trends.

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Weekly Wrap – Looking Forward

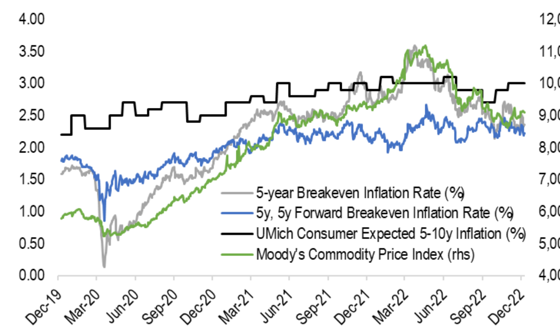
- Last week was light on data but this week's Fed meeting will set the stage for the year ahead.
- Producer prices surprised to the upside but not enough to cause the Fed to hike more than 50bps.
- Mortgage rates continued to trend lower, possibly putting a floor under homebuying activity as 2022 ends.

Last week was light on the data front, with markets looking forward to the last two crucial economic events of the year: November's CPI inflation report on Tuesday and the Fed's monetary policy announcement on Wednesday. Last week's consumer credit report showed a $27b m/m increase in October, led by a $10.1 build in revolving credit. The pace of revolving credit growth has been robust this year but as we have highlighted recently (*see* *'The Good, the Bad, and the Ugly'*), consumers' credit profile remains a point of health instead of risk. The ISM Services index came in at a "hot" 56.5 for November (cons. 53.4) with the business activity index surging nine points on the month to 64.7.

One cautionary aspect, however, was the export order index that plunged to 38.4 in November from 47.7 in October, mimicking the export struggles (specifically non-petroleum categories) for the manufacturing sector despite resilient factory orders. Indeed, factory orders increased 1.0% m/m (cons. 0.7%) in October with shipments up 0.7% m/m led by nondurables and transportation equipment. Core capital goods orders (excluding defense and aircraft) bounced back 0.7% m/m after a -0.8% decline in September with core capital goods shipments, an input into the GDP report, rising 1.3% m/m, the fastest sequential pace since January.

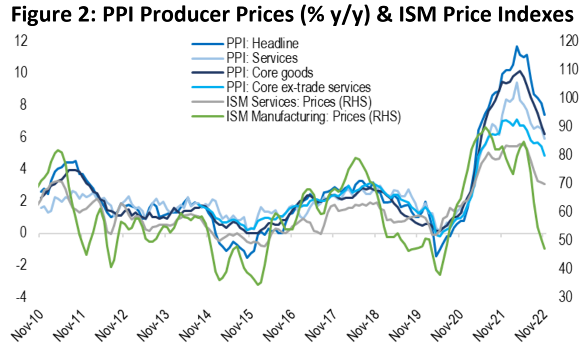
Additional data on inflation added further fodder for this week's main events. On a positive note, unit labor costs were revised down to a 2.4% q/q (cons. 3.1%) annualized pace from the preliminary reading of 3.5% and down from 6.7% in 2Q and 8.5% in 1Q, easing fears that wage pressures will continue to build and lead to a self-feeding cycle back into overall inflation (i.e., a wage-price spiral). Short-term consumer inflation expectations fell to 4.6% (cons. 4.9%) in December's preliminary release, likely aided by cooling gas prices, currently at $3.32/gal. and down 34% from June's peak. Meanwhile, medium-term consumer inflation expectations (i.e., over the next five to 10 years) held steady at 3.0% (Figure 1).

Figure 1: Inflation Monitor



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

Figure 2: PPI Producer Prices (% y/y) & ISM Price Indexes



Sources: BLS, ISM, Arch MI

Negatively, within the November ISM services report, the prices subcomponent index remained a very robust 70, down only marginally from July's print of 72.3, highlighting the sticky services price pressures that remain. Meanwhile, supplier price pressures beat consensus expectations in November with headline PPI producer prices rising 0.3% m/m (cons. 0.2%) and core advancing 0.4% m/m (cons. 0.2%). Producer prices for core goods rose at the fastest monthly pace (0.3%) in five months while core services also strengthened. The read-through for consumer prices is not one-for-one but November's PPI report does point to one of the risks we have been highlighting: Mainly, that even as price pressures cool in the months ahead, progress is unlikely to be linear (Figure 2). Last week's inflation data is unlikely to dissuade the Fed from slowing the pace of rate hikes to 50bps on Wednesday but does add further support that interest rates will need to stay higher for longer until sustained evidence of price stability is firmly in hand. Our outlook remains that the Fed will revise the terminal rate higher to at least 5% and hold at that level for the entirety of 2023 before cutting in early 2024.

Recent Data Releases

Key economic and housing data releases over the last week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
12/5/22	S&P Global US Services PMI	Nov F	46.2	46.1	46.1	index, sa
12/5/22	S&P Global US Composite PMI	Nov F	46.4	46.3	46.3	index, sa
12/5/22	Factory Orders	Oct	1.0%	0.7%	0.3%	m/m, sa
12/5/22	Durable Goods Orders	Oct F	1.1%	1.0%	1.0%	m/m, sa
12/5/22	ISM Services Index	Nov	56.5	53.5	54.4	index, nsa
12/7/22	MBA Mortgage Applications	12/2/22	-1.9%	--	-0.8%	w/w, sa
12/7/22	Nonfarm Productivity	3Q F	0.8%	0.6%	0.3%	q/q, saar
12/7/22	Unit Labor Costs	3Q F	2.4%	3.1%	3.5%	q/q, saar
12/7/22	Consumer Credit	Oct	27.1	28.0	25.8	$B, m/m, sa
12/8/22	Initial Jobless Claims	12/3/22	230	230	226	k, sa
12/8/22	Continuing Claims	11/26/22	1,671	1,618	1,609	k, sa
12/9/22	PPI Final Demand m/m	Nov	0.3%	0.2%	0.3%	sa
12/9/22	PPI Final Demand y/y	Nov	7.4%	7.2%	8.1%	nsa
12/9/22	PPI Core (ex Food and Energy) m/m	Nov	0.4%	0.2%	0.1%	sa
12/9/22	PPI Core (ex Food and Energy) y/y	Nov	6.2%	5.9%	6.8%	nsa
12/9/22	U. of Mich. Sentiment	Dec P	59.1	57.0	56.8	index, nsa
12/9/22	U. of Mich. 1 Yr Inflation	Dec P	4.6%	4.9%	4.9%	nsa
12/9/22	U. of Mich. 5-10 Yr Inflation	Dec P	3.0%	3.0%	3.0%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch MI

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

Wait and See Housing Market

Mortgage rates continued their modest descent for the fourth week in a row, falling by 16bps w/w to 6.33% (Freddie Mac) and giving some hope to homebuyers who had been sidelined as rates surged above 7%. The Fannie Mae Home Purchase Sentiment Index increased 0.6 points to 57.3 in November, its first monthly increase in nine months. Index components associated with both buying and selling conditions improved, suggesting the housing market in the Spring of 2023 could look meaningfully different should rates continue to trend lower.

Some signs of this change in buyer attitudes may already be showing up in real-time market data: the annual decline in pending home sales has seemingly found a floor based on the latest data from Redfin for the week ending Dec. 4, having hovered around -26k y/y (Figure 3) for the prior four weeks, or -40% below the year ago level. Sellers continue to leave the market and have helped keep downward pressure on total inventory: new listings were down -17% and delisted homes up 14% relative to their pre-pandemic averages for this time of year. The weak inventory growth backdrop and modest improvement in the pace of pending sales saw months' supply tick down to -10% below the pre-pandemic average from -8% last week (Figure 4).

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

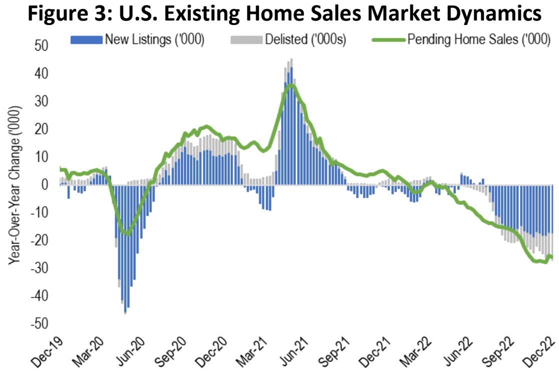
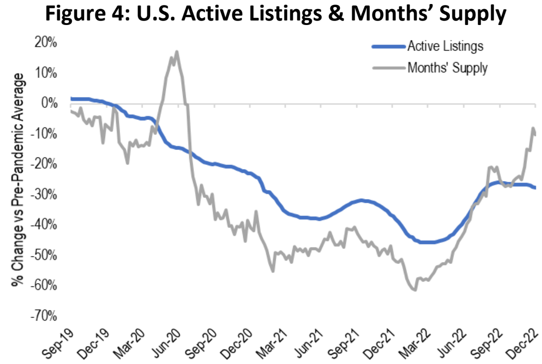


Figure 4: U.S. Active Listings & Months' Supply



Source: Redfin, Arch MI

Annual growth in the national median sale price ($ / sf) ticked up slightly to 4.2% y/y from 4.1% in the prior week but remained well below the double-digit growth rates that had become the pandemic norm. Risks for prices are still skewed to the downside given the downward trajectories for the sale-to-list ratio and the share of homes sold above list price. Overstretched markets are particularly vulnerable to negative price action and underlying data show that most of the national price weakness is emanating from the West region. Of the major metros we track (Figure 5), annual home-price growth was weakest in **Austin** (-5%), **Seattle** (-2%), **New York** (0%) and **Phoenix** (0%), with home-price growth having slowed most rapidly compared with a year ago in **Austin** (-42%-pts), **Phoenix** (-30%-pts), **Seattle** (-25%-pts) and **Denver** (-20%-pts). The four-week average of annual home-price growth has been negative for four straight weeks in Austin and for three straight weeks in Seattle.

Figure 5: Weekly Housing Monitor (as of 12/4/22)

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 Pre-Covid Avg)	Median Days on Market Same Week '21(Δ Pre-Covid Avg)	Months' Supply (% Pre-Covid Avg)	Months' Supply Same Week '21 (% Pre-Covid Avg)
All Redfin Metros	**4%**	**17%**	**6%**	**3%**	**25%**	**-16%**	**98%**	**-2%**	**15%**	**-13**	**-21**	**-10%**	**-51%**
Atlanta	8%	25%	7%	4%	22%	-27%	98%	-3%	30%	-5	-22	-3%	-57%
Austin	-5%	37%	9%	5%	12%	-35%	96%	-5%	70%	20	-7	87%	-41%
Baltimore	5%	8%	7%	2%	33%	-6%	101%	0%	-9%	-15	-18	-31%	-54%
Boston	3%	10%	5%	2%	43%	-14%	100%	-2%	0%	2	0	-8%	-40%
Chicago	3%	11%	4%	0%	26%	-7%	98%	-1%	17%	15	-25	-5%	-49%
Dallas	8%	24%	9%	6%	20%	-31%	98%	-4%	61%	-8	-26	-3%	-60%
Denver	0%	20%	9%	7%	19%	-34%	98%	-3%	70%	7	-15	22%	-59%
Houston	8%	20%	8%	4%	15%	-15%	97%	-2%	37%	-17	-32	2%	-51%
Los Angeles	1%	14%	4%	3%	35%	-25%	99%	-4%	7%	2	-10	15%	-40%
Miami	13%	26%	4%	2%	14%	-5%	96%	-1%	-6%	-10	-13	-15%	-54%
Minneapolis	4%	10%	6%	2%	30%	-16%	99%	-2%	13%	-5	-13	10%	-41%
Nashville	8%	27%	6%	4%	15%	-28%	98%	-3%	76%	0	-24	12%	-62%
New York	0%	17%	4%	1%	25%	-1%	99%	0%	-6%	-30	-31	-18%	-40%
Phoenix	0%	30%	9%	5%	13%	-31%	97%	-3%	57%	13	-13	58%	-48%
Portland	3%	17%	7%	3%	25%	-25%	99%	-3%	43%	-5	-20	18%	-56%
Riverside	3%	23%	6%	3%	29%	-28%	98%	-3%	26%	-6	-23	11%	-53%
San Diego	3%	21%	6%	4%	27%	-30%	98%	-4%	43%	0	-17	-3%	-63%
Seattle	-2%	23%	7%	4%	19%	-37%	98%	-6%	104%	3	-13	32%	-65%
Tampa	10%	27%	10%	5%	15%	-23%	98%	-2%	90%	-7	-26	15%	-62%
Washington DC	3%	11%	5%	2%	27%	-13%	99%	-1%	-2%	4	-4	5%	-42%

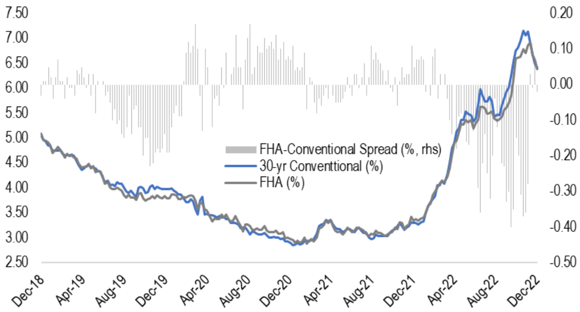
Note: Data on 4-week moving average basis; Median Days on Market and Months' Supply are 3y/3y changes on 4-week moving average basis; Source: Redfin, Arch MI

Median days on the market have extended alongside softening market conditions, with some markets exceeding pre-pandemic timelines, including **Austin** (20 days longer), **Chicago** (15) and **Phoenix** (13), with markets like **Washington, D.C.** (4) and **Seattle** (3) also starting to climb above their 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 87% and 58% above their pre-pandemic average for the same week from -41% and -58% below one year ago.

MORTGAGE PURCHASE APPLICATION COOLED AFTER FOUR WEEKS OF GAINS

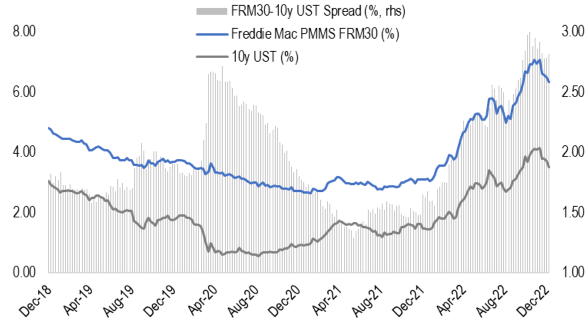
According to the MBA survey of lenders, the average contract conventional mortgage rate declined -8bps to 6.41% during the week ending Dec. 2, while the FHA contract mortgage rate also declined -18bps to 6.39%, resulting in a -10bps contraction in the spread between the FHA and the conventional mortgage rate to -0.02% (Figure 6). As mentioned above, Freddie Mac's more recent Primary Mortgage Market Survey (PMMS) for the three days ending Dec. 7 indicated that the FRM30 fell -16bps w/w to 6.33% (Figure 7) as 10-year UST yields fell -20bps to an average of 3.51% over the same period. Accordingly, the spread between the PMMS FRM30 and the 10-year UST widened 4bps to 2.82%, roughly 110bps wider than its typical non-stressed level but about 20bps below the cycle peak of 300bps. We expect rate volatility and mortgage spreads to remain wider than normal until more clarity is gained about the path of inflation and monetary policy, which is not likely to occur until well into the first half of next year.

Figure 6: Conventional vs. FHA Mortgage Rates



Sources: Mortgage Bankers Association, Arch MI

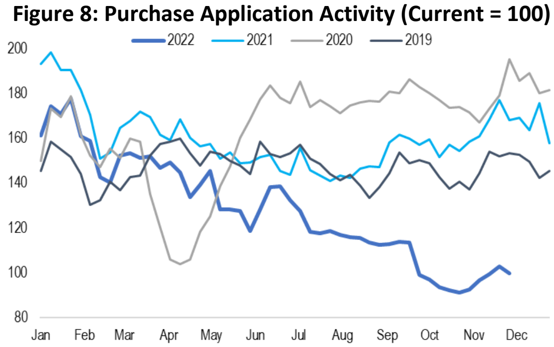
Figure 7: 30-year Mortgage Rate vs. 10-year UST Yield



Sources: Freddie Mac PMMS, FRB, Arch MI

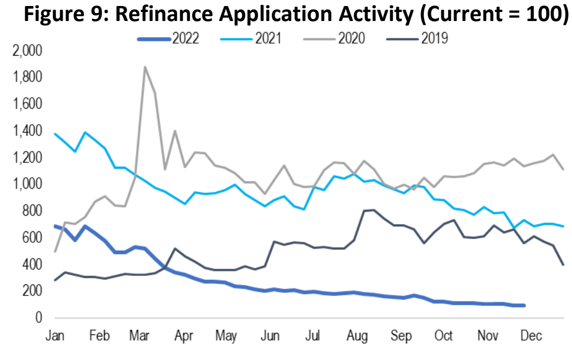
The MBA mortgage application survey for the week ending Dec. 2 declined -1.9% w/w, leaving the index down -67% year-over-year and down -60% compared with pre-pandemic levels (i.e., three years ago). The weekly decline was driven primarily by a -3% decline in purchase applications, which remained down -41% y/y and -35% over three years (Figure 8). Refinancing applications increased 4.7% w/w but remained down -86% y/y and -82% relative to 2019 levels (Figure 9).

Figure 8: Purchase Application Activity (Current = 100)



Sources: Mortgage Bankers Association, Arch MI

Figure 9: Refinance Application Activity (Current = 100)

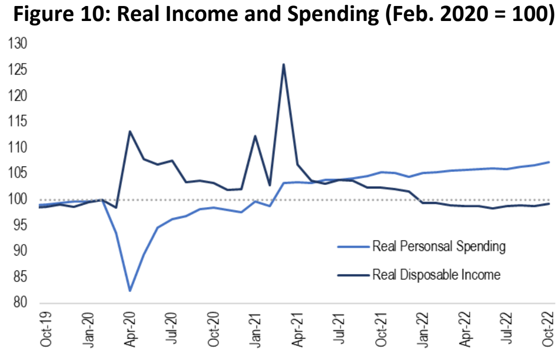


Sources: Mortgage Bankers Association, Arch MI

CONSUMERS INCREASINGLY DIPPING INTO SAVINGS AND TAPPING CREDIT

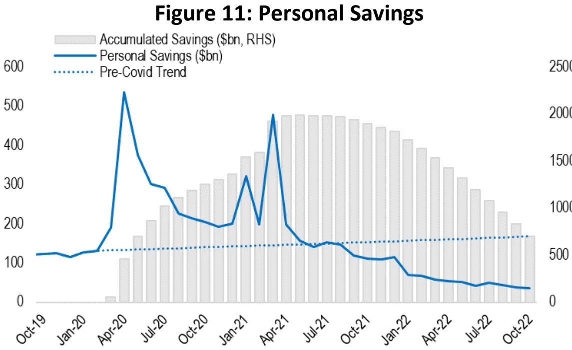
The October personal income and outlay report showed that consumers are still drawing down their savings to support spending as opposed to reserving them for tough times ahead. Nominal personal income rose 0.7% m/m (cons. 0.4%), flattered by state-sponsored rebate checks that saw transfer receipts surge 1.6% m/m, the largest monthly increase in over a year. Even without government stimulus, personal income, excluding transfer receipts, rose by a similarly strong pace of 0.5% aided by strong wage gains. Slack in the labor market is indeed having an impact on wage income, as the three-month annualized pace of private wage income growth has slowed to 6.1% in October from 7.1% in July. Real disposable income rose 0.4% m/m aided by cooling inflation but is still trending lower than pre-COVID-19 levels (Figure 10).

Figure 10: Real Income and Spending (Feb. 2020 = 100)



Sources: BEA, Arch MI

Figure 11: Personal Savings



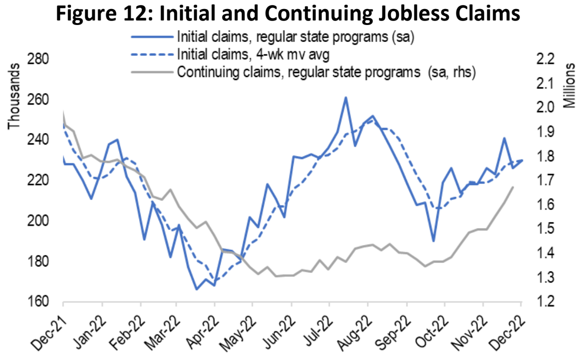
Sources: BEA, Arch MI

Consumers continue to draw down their savings to keep spending elevated with the personal savings rate falling to 2.3%, the second lowest on record going back to 1959. As noted in the Weekly Wrap above, consumers have also increasingly tapped credit lines to help shoulder the burden of rising costs. Moreover, savings data has been revised lower from April onward due to upward revisions to spending and downward revisions to disposable income. Our conservative estimate of accumulated savings, based on savings trends from 2016 to 2019, totaled roughly $2.0 trillion during the pandemic with less than half of that figure remaining as of October (Figure 11). The savings buffer is still ample in aggregate, but other data point to a disproportionate share sitting with higher-income households. With the stock of savings being drawn down rather quickly, the outlook for the consumer rests on how long the labor market will remain resilient, which we expect will soften in the months ahead.

JOBLESS CLAIMS KEEP CREEPING HIGHER

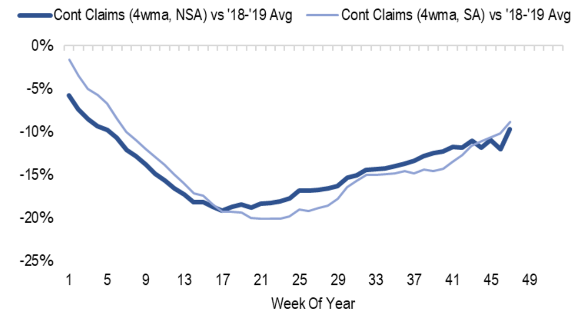
Initial jobless claims rose by 4k to 230k (consensus: 230k) during the week ending Dec. 3 from 226k the previous week, moving the 4-week average up to 230k from 229k (Figure 12). Continuing claims for regular state programs (i.e., repeat filers for unemployment insurance) climbed by 62k to 1,671k (consensus: 1,618k) during the week ending Nov. 26. Looking at the 4-week average of continuing claims, the trend is creeping higher for both the seasonally adjusted and non-seasonally adjusted series, but they remain about 10% below pre-pandemic levels (Figure 13). With continuing claims trending up solidly as initial claims have remained relatively low, this suggests that unemployed individuals are remaining unemployed for a longer period of time in between jobs relative to earlier this year.

Figure 12: Initial and Continuing Jobless Claims



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

Figure 13: Continuing Claims vs. Pre-Pandemic Average



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

The Week Ahead – All Eyes on CPI and the Fed

This week's economic news will revolve around Tuesday's November CPI report and the FOMC's monetary policy decision on Wednesday. According to the Bloomberg Consensus Survey of Economists, the CPI report is expected to show inflation continued to moderate in November, with headline CPI inflation slowing to 0.3% m/m from 0.4% in October and annual inflation slowing to 7.3% y/y from 7.7% previously. The next day, we expect the Fed to slow the pace of its rate hikes from 75bps to 50bps, with the key risk to that call being a large upside surprise in the November CPI report. We expect the Fed to also signal that the future pace of rate hikes is likely to continue to slow if incoming data develops as they anticipate.

UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Actual	Consensus	Previous	Note
12/13/22	NFIB Small Business Optimism	Nov	--	90.5	91.3	index, sa
12/13/22	CPI m/m	Nov	--	0.3%	0.4%	sa
12/13/22	CPI Core (ex Food and Energy) m/m	Nov	--	0.3%	0.3%	sa
12/13/22	CPI y/y	Nov	--	7.3%	7.7%	nsa
12/13/22	CPI Core (ex Food and Energy) y/y	Nov	--	6.1%	6.3%	nsa
12/14/22	MBA Mortgage Applications	12/9/22	--	--	-1.9%	w/w, sa
12/14/22	Import Price Index y/y	Nov	--	3.2%	4.2%	nsa
12/14/22	FOMC Rate Decision (Upper Bound)	12/14/22	--	4.50%	4.00%	
12/15/22	Empire Manufacturing	Dec	--	-0.6	4.5	index, sa
12/15/22	Advance Retail Sales m/m	Nov	--	-0.2%	1.3%	sa
12/15/22	Retail Sales Control Group m/m	Nov	--	-0.1%	0.7%	sa
12/15/22	Initial Jobless Claims	12/10/22	--	232	230	k, sa
12/15/22	Continuing Claims	12/3/22	--	1,650	1,671	k, sa
12/15/22	Philadelphia Fed Business Outlook	Dec	--	-10.0	-19.4	index, sa
12/15/22	Industrial Production m/m	Nov	--	0.1%	-0.1%	sa
12/15/22	Capacity Utilization	Nov	--	79.8%	79.9%	sa
12/15/22	Business Inventories m/m	Oct	--	0.4%	0.4%	sa
12/16/22	S&P Global US Composite PMI	Dec P	--	46.8	46.4	index, sa

Sources: Bloomberg Consensus Survey of Economists, Arch MI