

An aerial photograph of a suburban neighborhood with several houses, green lawns, and trees. A blue semi-transparent banner is overlaid on the left side of the image, containing the title and contact information.

# HaMMR Digest

Stay current with economic and mortgage market trends.

December 18, 2023

**Parker Ross** — Global Chief Economist  
pross@archgroup.com | 914 216 7270

**Leonidas Mourelatos** — Director of Real Estate Economics  
lmourelatos@archgroup.com | 631 521 9048

**ARCH MORTGAGE INSURANCE COMPANY® | 230 NORTH ELM STREET GREENSBORO NC 27401 | ARCHMI.COM**

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## The Gift That Keeps on Giving

- **Key Takeaway:** The Fed opening the door to talking about rate cuts ensures financial conditions remain supportive of growth.
- **Macro Implications:** Policymakers putting more weight on inflation progress reduces the near-term risk of an adverse labor market outcome.
- **Housing Implications:** Lower mortgage rates set the stage for a boost to housing activity in early 2024.

### Macro: 2024 Looks More Positive than One Month Ago

- “Higher for longer” replaced by “how far and how fast” for rate cuts.
- Disinflation is in tow while economic activity is looking solid.
- Should current trends continue, sentiment will rebound.

### Rates: 10-Year U.S. Treasury Yields Sink to Five-Month Low

- Fed’s hint at rate cuts pulled 10-year yields 16bps lower to 3.9%.
- Market odds for first rate cut is well above 50% for March.
- Shorter-term UST yields have more downside risk than long-term.

### Housing: Mortgage Rates Lowest Since August

- Mortgage rates have fallen for seven straight weeks to below 7%.
- Mortgage applications continued to rebound.
- Stabilization in housing market expected after a weak Q4.

### Retail Sales: Households Feeling Holiday Spirit

- Retail sales rebounded 0.3% in Nov. and are up 4.1% y/y.
- Real control group sales up eight months in a row and 3.8% y/y.
- The trend in consumer spending remained robust.

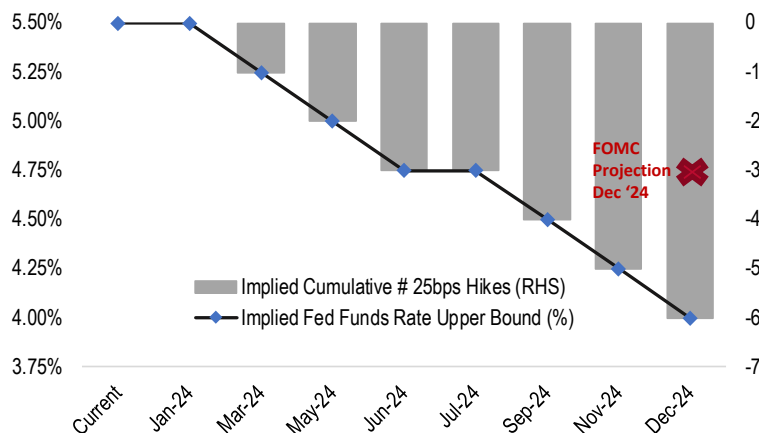
### Inflation: Keep Calm and Carry On

- Consumer prices were up 0.1% in Nov. with core inflation up 0.3%.
- Wholesale inflation was even softer with headline and core flat.
- Price pressures remain in a downtrend with minimal upside risk.

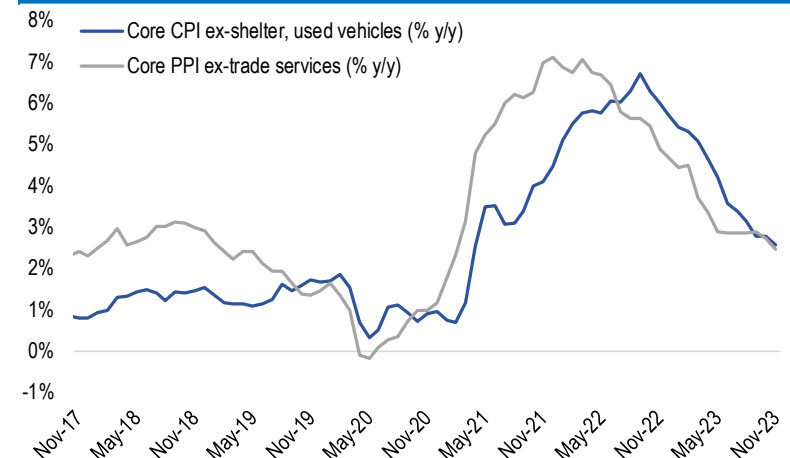
### Industrial Production: End of UAW Strike Provided a Lift

- Total production rose 0.2% in Nov. but was down -0.4% y/y.
- Auto rebound in Nov. only partly made up for its Oct. decline.
- Manufacturing output is up modestly from the 2022 low.

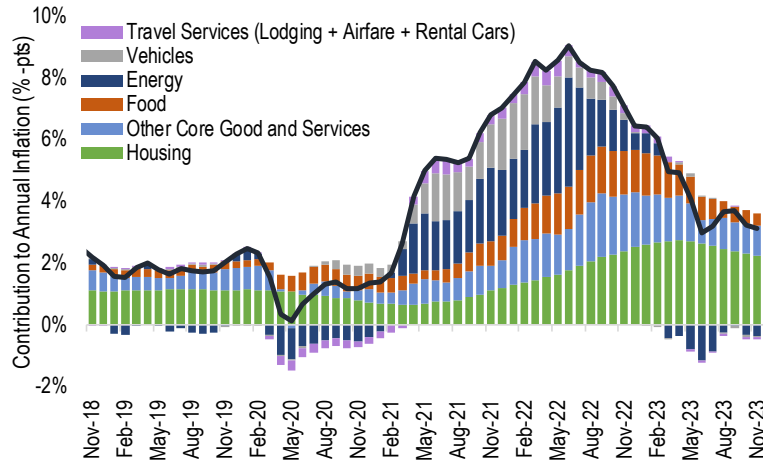
### Market-Implied Path for Rate Cuts Is Much Steeper than the Dec. FOMC Summary of Economic Projections



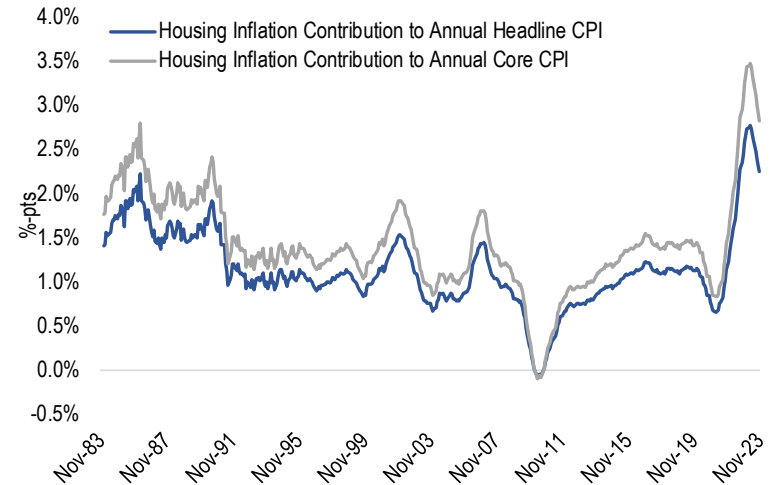
### Extent of Rate Cuts Will Depend on How Quickly Inflation Continues to Cool



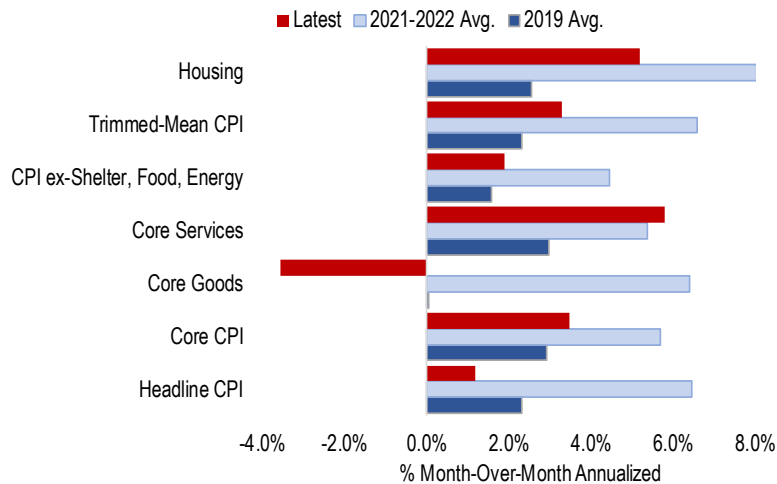
### Core Goods and Services and Housing Inflation Will Determine Disinflation Trajectory in 2024



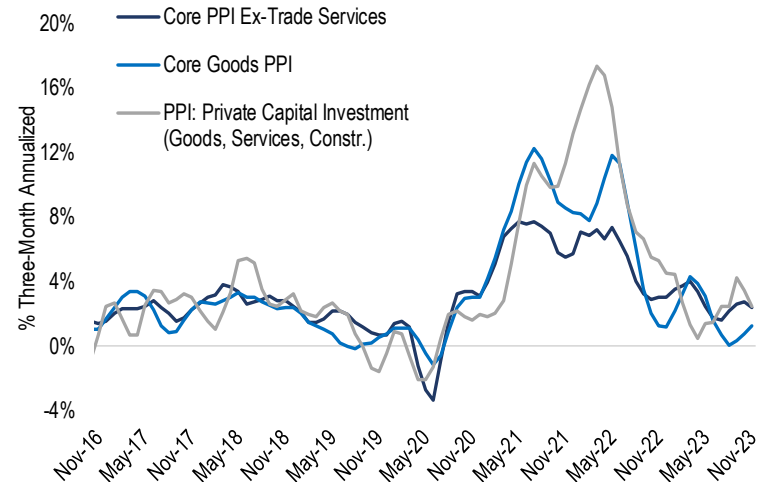
### Housing Inflation Still Elevated but Trending the Right Direction



### Monthly Inflation Inching Closer to 2019 Averages Across Key Groupings



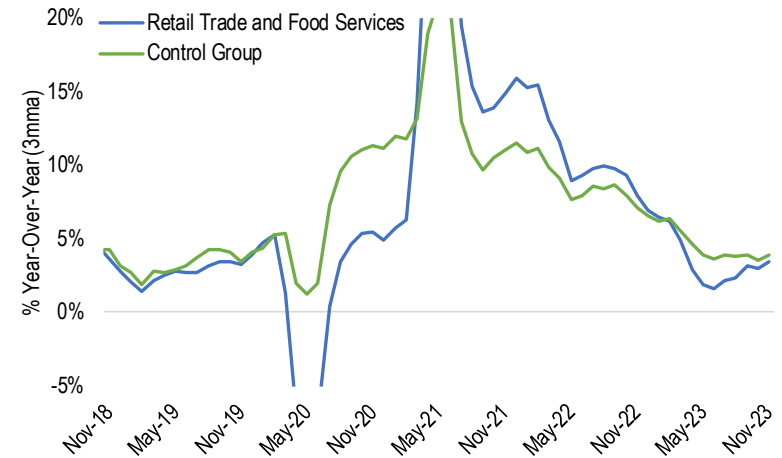
### Wholesale Inflation Remained Tame as Supply Chains Have Mended and Demand Has Generally Normalized



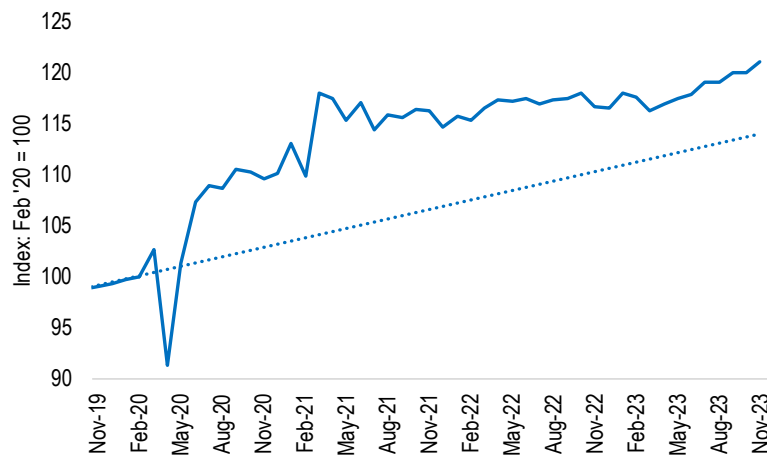
### Monthly Growth in Retail Sales Trending Lower After a Very Strong Q3



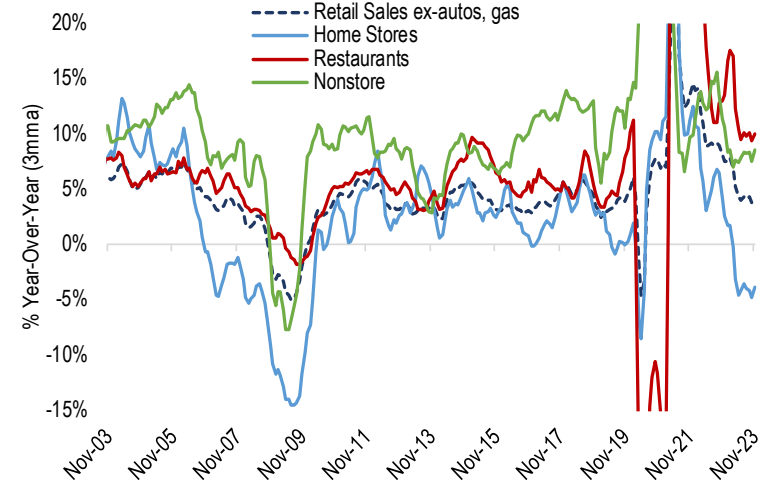
### Annual Growth Has Returned to Pre-Pandemic Trend



### Real (Inflation-Adjusted) Control Group Sales Remain Well Above Pre-Pandemic Trend

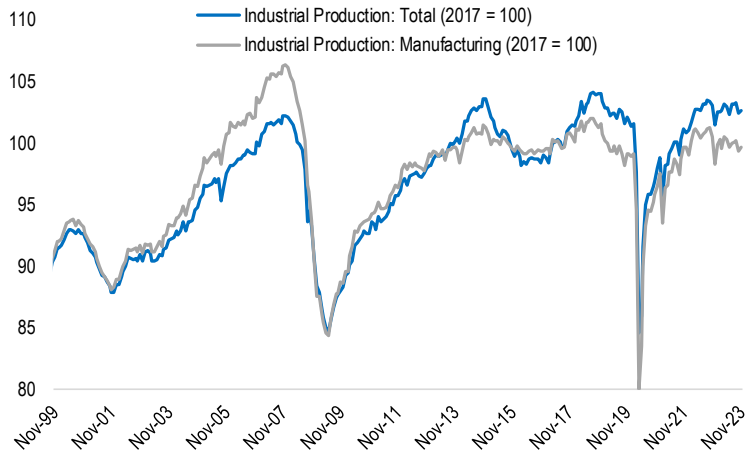


### Consumers Have Shifted Focus to Spending on Services While Buying Fewer Goods for the Home

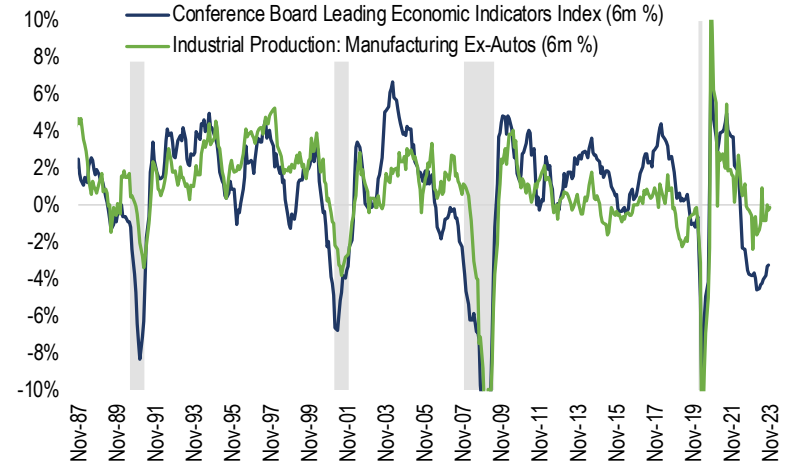




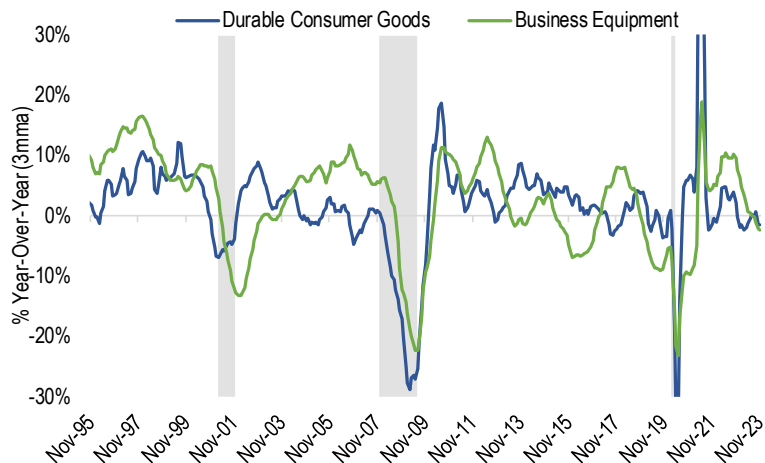
### Total Industrial Production Has Remained Elevated Despite Numerous Headwinds



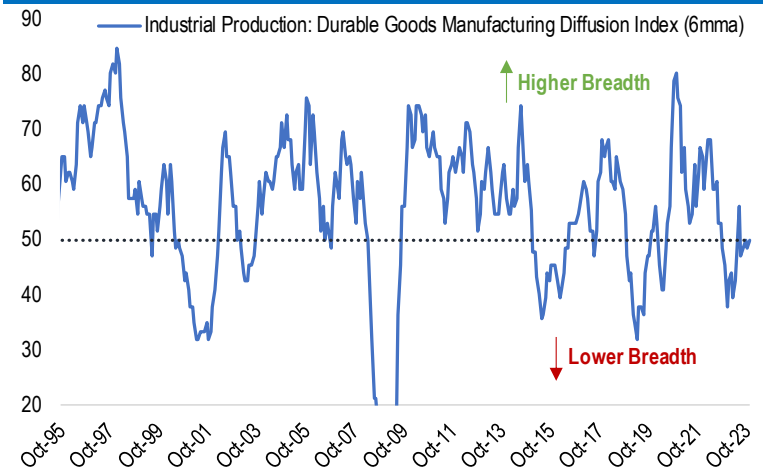
### Excluding Autos, Manufacturing Output Has Also Been Better than Leading Indicators Would Suggest



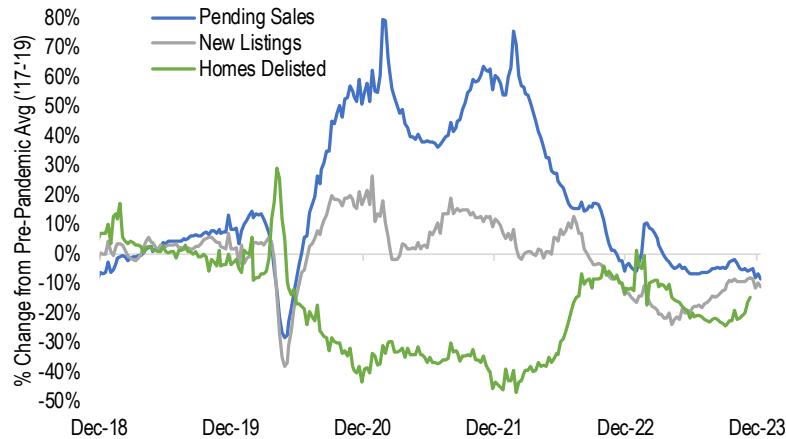
### Consumer Shift to Services Weighing on Durables While Business Investment Has Cooled from '22 Boom



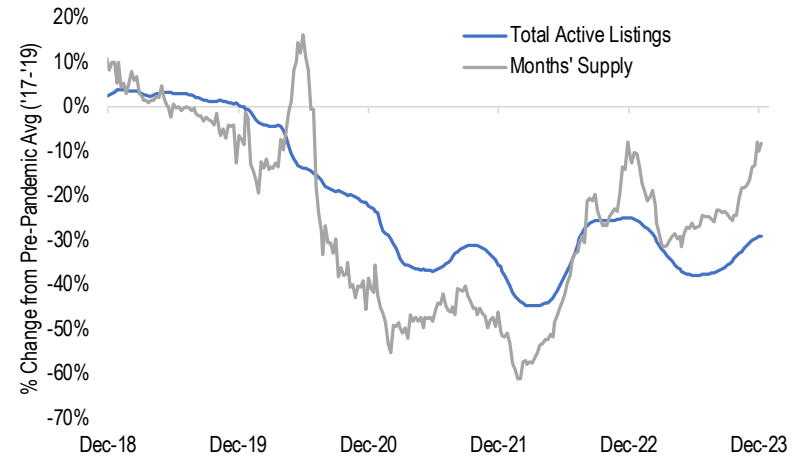
### Share of Durable Goods Sectors Contracting Appears to Have Bottomed



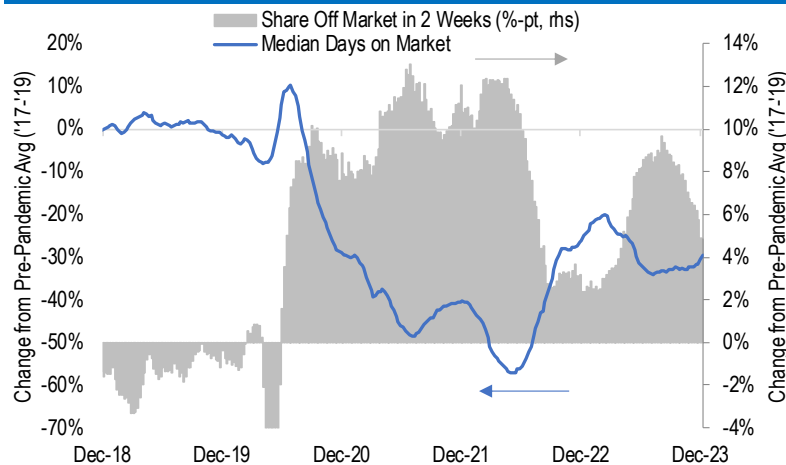
## Pending Sales Still Slowing but Pace of New Listings Has Also Taken a Step Back Recently



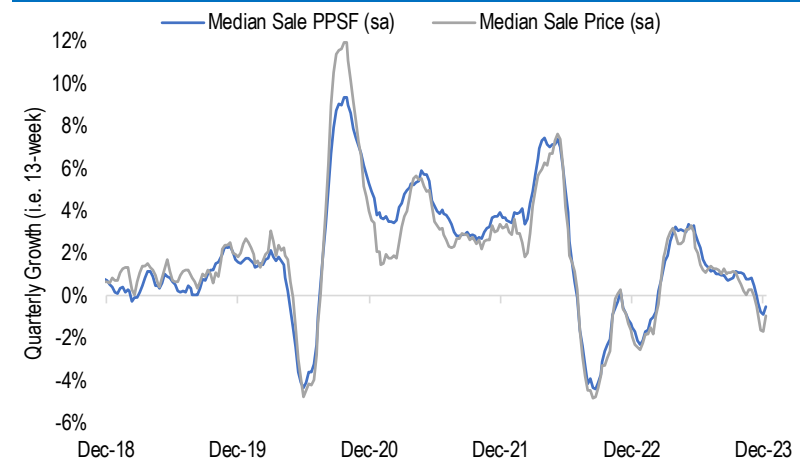
## Causing a Tentative Pause in the Rapid Softening of the National Housing Market



## Days on Market Continued to Trend Higher but Remained Below Pre-Pandemic Norm



## Softening Market Conditions Have Pulled Down Seasonally Adjusted Home Prices Over the Past Quarter

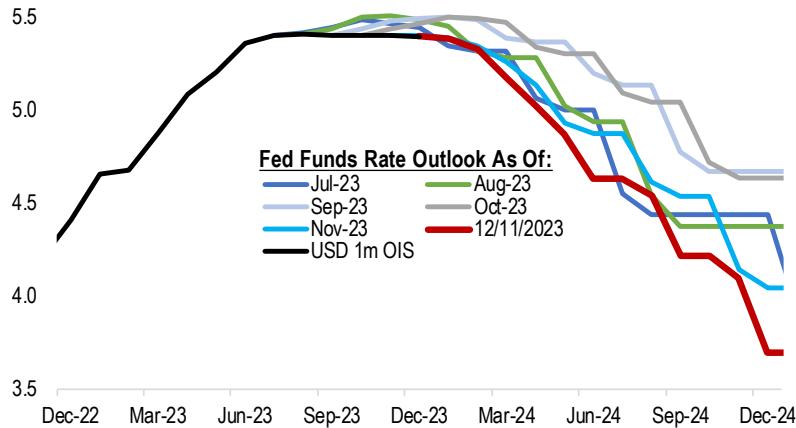


## National Market Remained Relatively Tight but Trends Growing Mixed Across Metro Areas

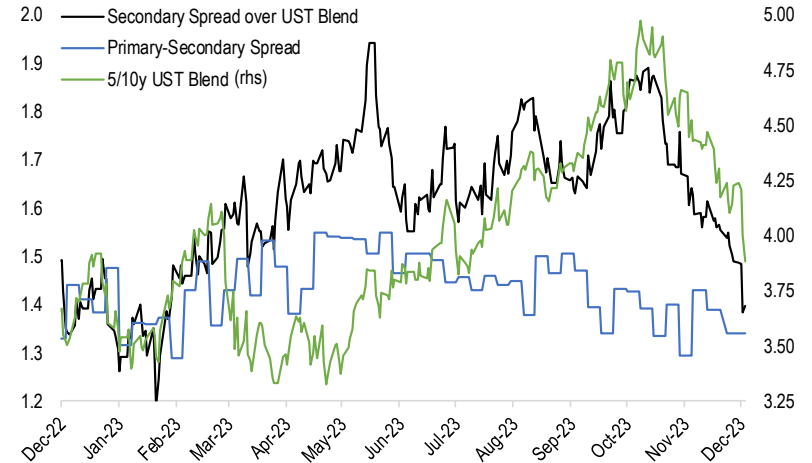
Metro	Median Sale Price Per Square Foot (y/y)		Active Listings with Price Drops		Share of Homes Sold Above List		Average Sale-to-List Ratio		Total Active Listings (y/y)	Median Days on Market vs Pre-COVID		Months' Supply vs Pre-COVID	
	Current	Year Ago	Current	(Δ y/y, ppt)	Current	(Δ y/y, ppt)	Current	(Δ y/y, ppt)		Current	Year Ago	Current	Year Ago
All Redfin Metros	4.6%	4.1%	5.3%	0.5%	26%	1.8%	99%	0.4%	-5%	-15.1	-12.8	-8%	-13%
Atlanta	5.4%	6.7%	5.0%	0.2%	23%	1.1%	98%	0.5%	-27%	-1.8	-2.8	-13%	2%
Austin	-5.9%	-6.1%	6.1%	-0.9%	11%	-1.3%	97%	0.7%	-5%	28.8	20.8	78%	75%
Baltimore	5.9%	4.9%	5.8%	0.2%	39%	6.5%	101%	0.4%	-10%	-16.5	-12.7	-32%	-31%
Boston	8.6%	1.2%	4.3%	0.0%	51%	9.4%	101%	1.4%	-15%	-0.7	1.5	-11%	-11%
Chicago	10.7%	1.9%	3.0%	0.4%	33%	6.7%	99%	1.0%	-21%	5.9	13.8	-18%	-5%
Dallas	1.7%	6.9%	6.4%	-1.1%	16%	-4.0%	98%	-0.2%	-3%	-6.3	-7.8	6%	2%
Denver	0.9%	0.5%	6.9%	-1.0%	21%	3.9%	99%	0.3%	-3%	6.4	5.8	36%	26%
Houston	0.4%	8.3%	6.2%	0.1%	13%	-1.4%	97%	0.1%	2%	-12.5	-13.6	4%	-2%
Los Angeles	7.3%	0.8%	3.4%	0.0%	45%	10.2%	101%	1.7%	-19%	-5.8	2.2	-3%	19%
Miami	10.1%	11.2%	4.0%	0.8%	14%	-0.1%	96%	0.0%	-3%	-11.5	-8.0	-4%	-20%
Minneapolis	3.2%	3.5%	5.5%	0.8%	31%	1.4%	99%	0.3%	-2%	-4.2	-3.8	16%	9%
Nashville	1.7%	8.3%	4.5%	-0.1%	15%	-0.1%	98%	0.3%	-3%	0.8	-0.8	17%	4%
New York	4.1%	4.0%	3.4%	-0.7%	32%	8.0%	100%	0.8%	-16%	-26.3	-28.6	-15%	-19%
Phoenix	3.5%	-0.3%	6.5%	-1.0%	16%	3.0%	98%	0.9%	-23%	1.8	13.6	30%	63%
Portland	1.8%	2.4%	5.0%	-0.8%	26%	1.5%	99%	0.2%	-3%	1.0	-4.3	48%	18%
Riverside	4.9%	2.0%	4.7%	0.1%	37%	8.3%	99%	1.0%	-22%	-16.5	-6.0	-13%	13%
San Diego	11.8%	3.0%	4.5%	-0.6%	38%	12.3%	99%	1.2%	-21%	-10.0	-0.8	-12%	-4%
Seattle	8.5%	-4.9%	4.6%	-1.5%	27%	9.3%	99%	1.5%	-26%	-4.7	2.6	11%	31%
Tampa	3.0%	9.7%	8.3%	-0.7%	13%	-1.8%	97%	0.1%	6%	-5.5	-6.0	25%	10%
Washington DC	4.7%	2.5%	4.3%	0.0%	32%	6.2%	100%	0.5%	-17%	-2.9	3.2	-4%	3%

Data as of December 10, 2023, and reflects 4-week averages.

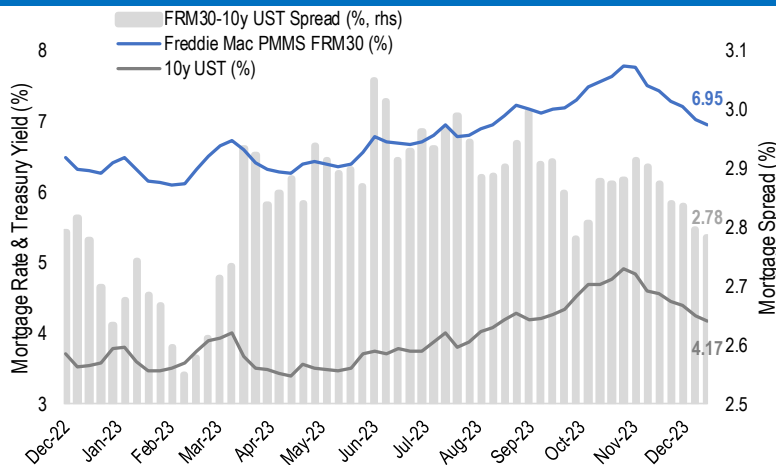
### Market Priced in Nearly Seven Rate Cuts in '24 after Dec. FOMC Meeting vs. Five Previously ...



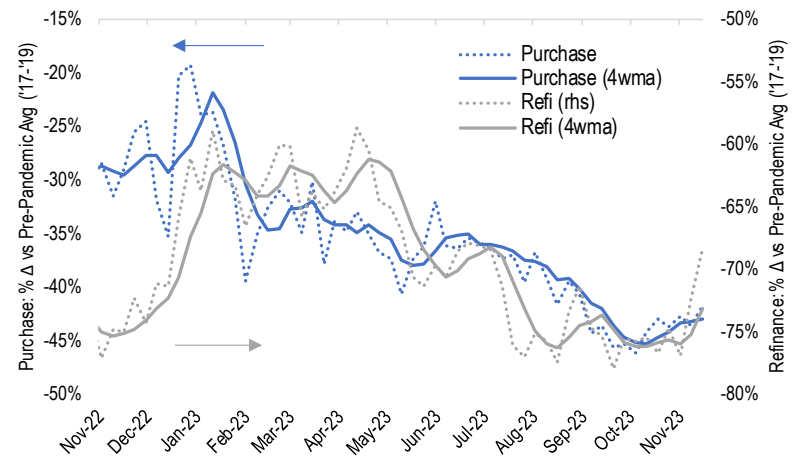
### Mortgage Spreads Have Narrowed Sharply as Additional Rate Cuts Were Priced in ...



### ... leading to Seven Consecutive Weekly Declines in Mortgage Rates from a Peak of 7.79% to 6.95%

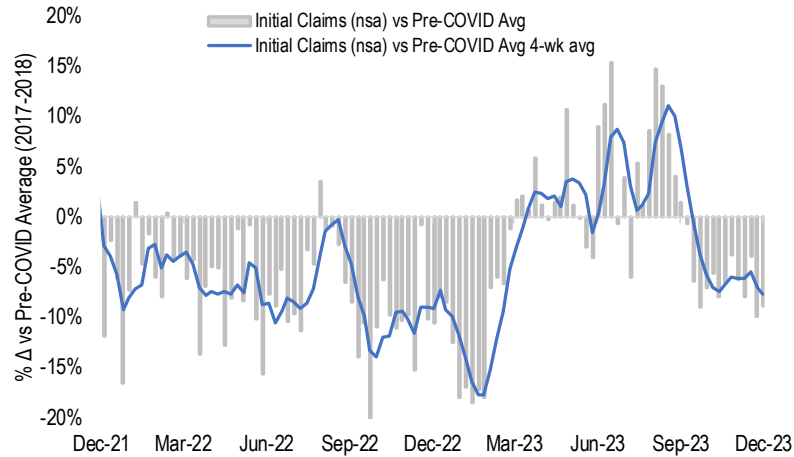


### ... and Spurred a Modest Increase in Mortgage Purchase and Refinancing Applications

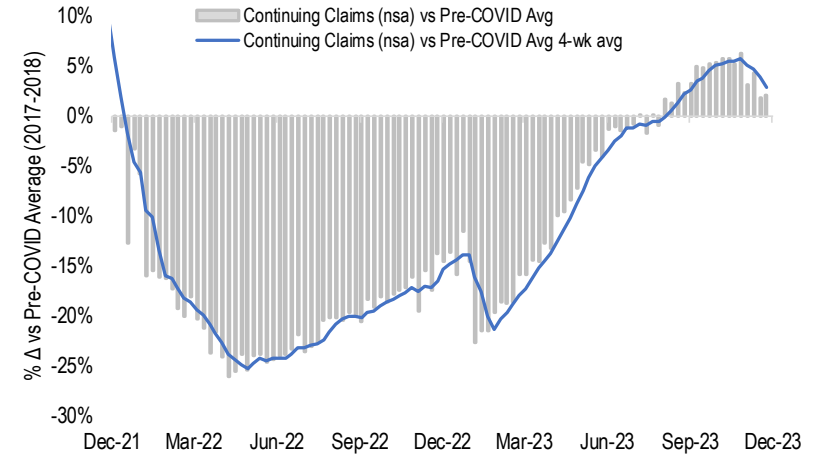




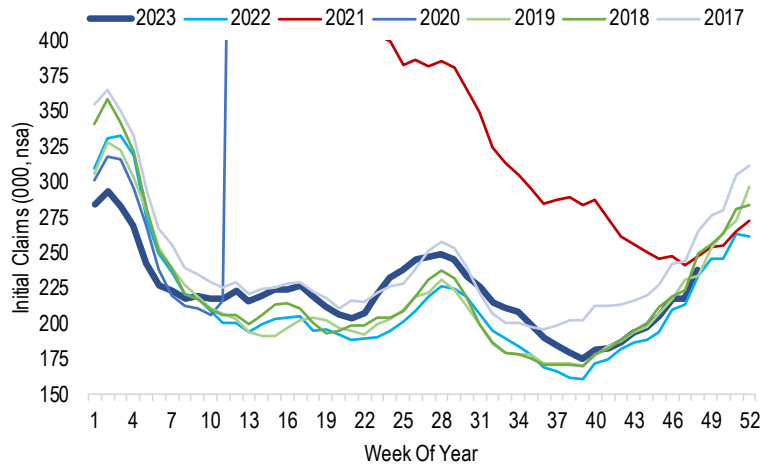
### Initial Claims Have Remained Below Pre-Pandemic Norm Since Sept. and Moved Lower in Recent Weeks



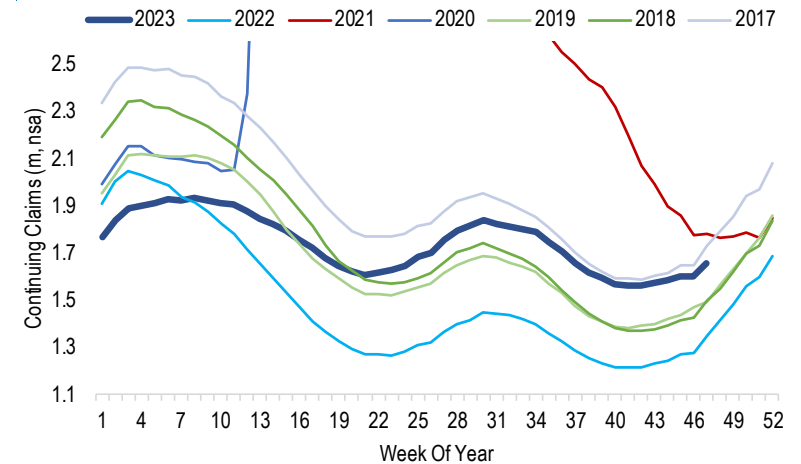
### Continuing Claims Have Entered a Downtrend vs. Pre-Pandemic Norm Since Peaking in Late Oct.



### Little Concern as Initial Claims Following Typical Pre-Pandemic Path Into Year-End



### Continuing Claims No Longer Trending Higher vs. Pre-Pandemic Norm or Year-Ago Level



## Recent Data Releases

Key economic and housing data releases over the prior week:

Date	Indicator	Period	Actual	Consensus	Revised	Prior	Note
12/12/23	NFIB Small Business Optimism	Nov	<b>90.6</b>	90.7	--	90.7	index, sa
12/12/23	CPI m/m	Nov	<b>0.1%</b>	0.0%	--	0.0%	sa
12/12/23	CPI Core (ex Food and Energy) m/m	Nov	<b>0.3%</b>	0.3%	--	0.2%	sa
12/12/23	CPI y/y	Nov	<b>3.1%</b>	3.1%	--	3.2%	nsa
12/12/23	CPI Core (ex Food and Energy) y/y	Nov	<b>4.0%</b>	4.0%	--	4.0%	nsa
12/13/23	MBA Mortgage Applications	12/8/23	<b>7.4%</b>	--	--	2.8%	w/w, sa
12/13/23	PPI Final Demand m/m	Nov	<b>0.0%</b>	0.0%	-0.4%	-0.5%	sa
12/13/23	PPI Core (ex Food and Energy) m/m	Nov	<b>0.0%</b>	0.2%	--	0.0%	sa
12/13/23	PPI Final Demand y/y	Nov	<b>0.9%</b>	1.0%	1.2%	1.3%	nsa
12/13/23	PPI Core (ex Food and Energy) y/y	Nov	<b>2.0%</b>	2.2%	2.3%	2.4%	nsa
12/13/23	FOMC Rate Decision (Upper Bound)	12/13/23	<b>5.5%</b>	5.5%	--	5.5%	
12/14/23	Advance Retail Sales m/m	Nov	<b>0.3%</b>	-0.1%	-0.2%	-0.1%	sa
12/14/23	Retail Sales Control Group m/m	Nov	<b>0.4%</b>	0.2%	0.0%	0.2%	sa
12/14/23	Initial Jobless Claims	12/9/23	<b>202</b>	220	221	220	k, sa
12/14/23	Continuing Claims	12/2/23	<b>1,876</b>	1,879	1,856	1,861	k, sa
12/14/23	Import Price Index m/m	Nov	<b>-0.4%</b>	-0.8%	-0.6%	-0.8%	nsa
12/14/23	Import Price Index y/y	Nov	<b>-1.4%</b>	-2.1%	-1.8%	-2.0%	nsa
12/14/23	Business Inventories m/m	Oct	<b>-0.1%</b>	-0.1%	0.2%	0.4%	sa
12/15/23	Empire Manufacturing	Dec	<b>-14.5</b>	2.0	--	9.1	index, sa
12/15/23	Industrial Production	Nov	<b>0.2%</b>	0.3%	-0.9%	-0.6%	m/m, sa
12/15/23	Capacity Utilization	Nov	<b>78.8%</b>	79.1%	78.7%	78.9%	sa
12/15/23	S&P Global US Manufacturing PMI	Dec P	<b>48.2</b>	49.5	--	49.4	index, sa
12/15/23	S&P Global US Services PMI	Dec P	<b>51.3</b>	50.7	--	50.8	index, sa
12/15/23	S&P Global US Composite PMI	Dec P	<b>51.0</b>	50.5	--	50.7	index, sa

Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics

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

## UPCOMING DATA RELEASES

Key economic and housing data releases for the coming week:

Date	Indicator	Period	Consensus	Prior	Note
12/18/23	NAHB Housing Market Index	Dec	37.0	34.0	index, sa
12/19/23	Housing Starts	Nov	1,360	1,372	k, saar
12/19/23	Housing Starts m/m	Nov	-0.9%	1.9%	sa
12/19/23	Building Permits	Nov	1,460	1,487	k, saar
12/19/23	Building Permits m/m	Nov	-2.5%	1.1%	sa
12/20/23	MBA Mortgage Applications	12/15/23	--	7.4%	w/w, sa
12/20/23	Existing Home Sales	Nov	3,770	3,790	k, saar
12/20/23	Existing Home Sales m/m	Nov	-0.5%	-4.1%	sa
12/20/23	Conf. Board Consumer Confidence	Dec	104.0	102.0	index, sa
12/21/23	GDP Annualized q/q	3Q T	5.2%	5.2%	saar
12/21/23	Personal Consumption q/q	3Q T	3.6%	3.6%	saar
12/21/23	Core PCE Deflator q/q	3Q T	2.3%	2.3%	saar
12/21/23	Initial Jobless Claims	12/16/23	215	202	k, sa
12/21/23	Continuing Claims	12/9/23	1,880	1,876	k, sa
12/21/23	Philadelphia Fed Business Outlook	Dec	-3.0	-5.9	index, sa
12/21/23	Conference Board Leading Index	Nov	-0.5%	-0.8%	m/m, sa
12/22/23	Personal Income	Nov	0.4%	0.2%	m/m, sa
12/22/23	Personal Spending	Nov	0.3%	0.2%	m/m, sa
12/22/23	Real Personal Spending	Nov	0.3%	0.2%	m/m, sa
12/22/23	PCE Inflation m/m	Nov	0.0%	0.0%	sa
12/22/23	PCE Inflation y/y	Nov	2.8%	3.0%	nsa
12/22/23	PCE Core Inflation (ex Food and Energy) m/m	Nov	0.2%	0.2%	sa
12/22/23	PCE Core Inflation (ex Food and Energy) y/y	Nov	3.3%	3.5%	nsa
12/22/23	Durable Goods Orders	Nov P	2.2%	-5.4%	m/m, sa
12/22/23	Cap Goods Orders Nondef Ex Air	Nov P	0.1%	-0.3%	m/m, sa
12/22/23	New Home Sales	Nov	688	679	k, saar
12/22/23	New Home Sales m/m	Nov	1.3%	-5.6%	sa
12/22/23	U. of Mich. Sentiment	Dec F	69.4	69.4	index, nsa
12/22/23	U. of Mich. 1 Yr Inflation	Dec F	--	3.1%	nsa
12/22/23	U. of Mich. 5-10 Yr Inflation	Dec F	--	2.8%	nsa

Sources: Bloomberg Consensus Survey of Economists, Arch Global Economics