MONDAY ECONOMIC REPORT

10-Year U.S. Treasury Yields Hit a Two-Year High

By Chad Moutray – Jan. 24, 2022

The Weekly Toplines

- Market yields on U.S. Treasury securities hit 1.87% last Tuesday, the highest since Jan. 8, 2020, or before the pandemic began. Financial market participants have begun to process expectations of three to four rate hikes by the Federal Reserve in 2022, with consumers and businesses more concerned about inflationary pressures. As a result, yields have drifted higher. (To be fair, yields slipped somewhat later in the week but remained elevated.)

- All eyes will be on the Federal Open Market Committee this week, with analysts looking for additional clues regarding upcoming monetary policy moves following its Jan. 25–26 meeting. The Federal Reserve is expected to wrap up its asset purchases by March, and it could start increasing the federal funds rate as soon as the March 15–16 meeting.

- New housing starts rose 1.4% to 1,702,000 units at the annual rate in December, extending the 8.1% gain in November and the best reading since March. Housing construction has been challenged by rising building costs, affordability issues and difficulties in finding workers, and single-family housing starts declined 2.3% to 1,172,000 units.

- Fortunately, builders remained optimistic about the coming months, with solid sales growth expected over the next six months despite ongoing concerns, even with a slight easing in the latest NAHB Housing Market Index.

- Along those lines, housing permits jumped 9.1% to an annualized 1,873,000 units in December, an 11-month high. As such, it was not far from the January 2021 reading (1,883,000 units), which was the strongest since May 2006. These data suggest that housing construction should improve over the coming months.

- Nonetheless, existing home sales fell 4.6% to 6.18 million at the annual rate in December, a four-month low. Even with weaker data at the end of the year, the annual pace of existing home sales in 2021 was the strongest since 2006.

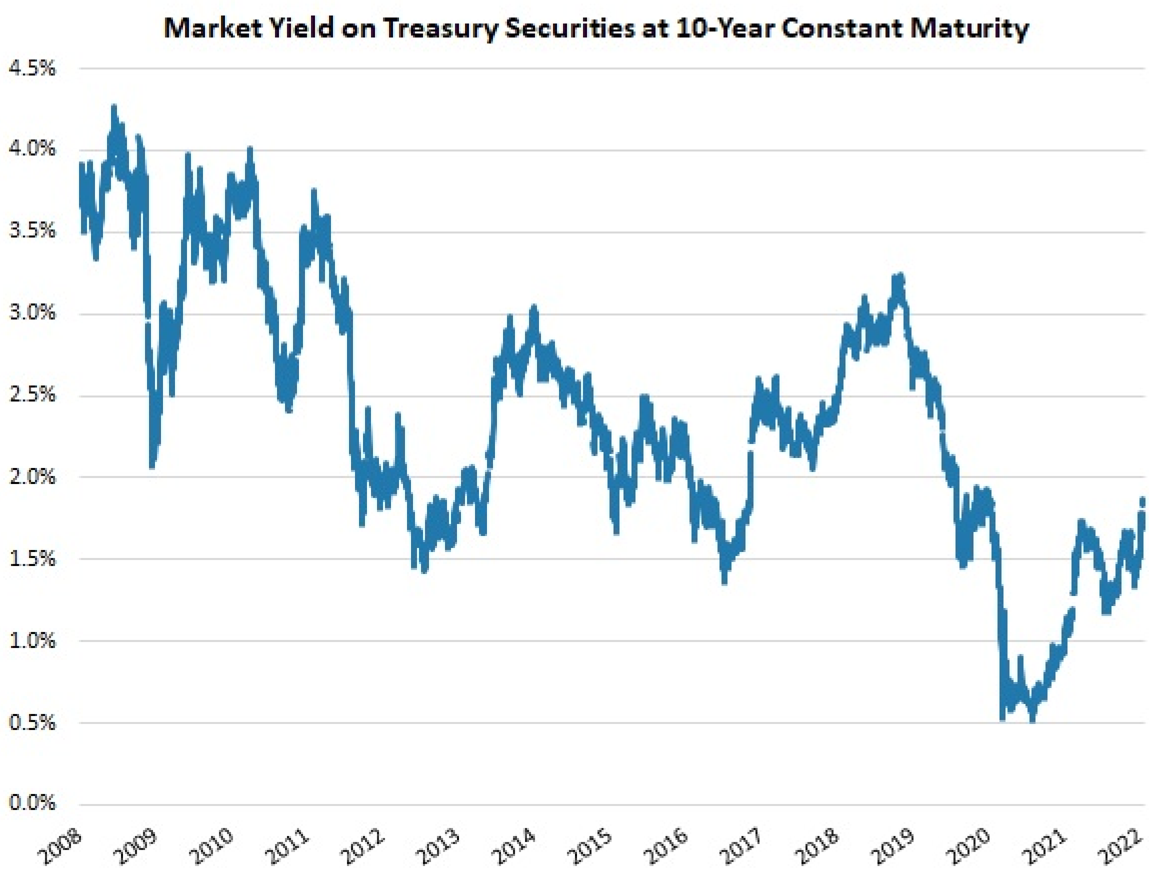
- There were 1.8 months of unsold inventory for existing homes on the market in December, which was a record low. The median sales price for existing homes has jumped 15.8% year-over-year, up to $358,000. That is not far from the record price recorded in July ($359,500).

- The two regional manufacturing Federal Reserve Bank surveys in January provided mixed results. In New York, activity contracted for the first time since June 2020, with declining new orders and slowing shipments and employment. In contrast, Philadelphia Fed respondents reported a rebound in January after slowing materially in December.

- Both surveys noted ongoing challenges with supply chain constraints, and input costs remained highly elevated. In the Philly Fed survey, respondents expected raw material costs to jump 8.9% on average in 2022, with wages rising 4.9%. Respondents predicted overall compensation, including wages and benefits, to increase 6.4% this year on average.

- Initial unemployment claims increased to 286,000 for the week ending Jan. 15, a 13-week high, with continuing claims also rising. This likely reflects the impacts of rising omicron cases, even as the data continue to reflect a labor market that has improved mightily over the past year.

- The latest Household Pulse Survey from the Census Bureau found that 8.8 million Americans, or 8.2% of all adults who were not working between Dec. 29, 2021, and Jan. 10, 2022, were out of work because they were caring for someone or sick from coronavirus symptoms. In addition, another 5.0%, or 5.3 million Americans, were caring for their children who were not in child care or school, and 3.0%, or 3.2 million adults, were not working because they were concerned about getting or spreading the virus.



Last Week's Indicators:
(Summaries Appear Below)

Monday, Jan. 17
MARTIN LUTHER KING, JR. DAY HOLIDAY

Tuesday, Jan. 18
NAHB Housing Market Index
New York Fed Manufacturing Survey

Wednesday, Jan. 19
Housing Starts and Permits

Thursday, Jan. 20
Existing Home Sales
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, Jan. 21
Conference Board Leading Indicators

This Week's Indicators:

Monday, Jan. 24
Chicago Fed National Activity Index
IHS Markit Flash U.S. Manufacturing PMI

Tuesday, Jan. 25
Conference Board Consumer Confidence
Richmond Fed Manufacturing Survey
State Employment Report

Wednesday, Jan. 26
Business Employment Dynamics
FOMC Monetary Policy Statement
International Trade in Goods (Preliminary)
New Home Sales

Thursday, Jan. 27
Durable Goods Orders and Shipments
Gross Domestic Product
Kansas City Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, Jan. 28
Employment Cost Index
Personal Consumption Expenditures Deflator
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision)

Need Some Proven Strategies to Retain Your Key Employees?
No less than 40% of workers considered leaving their employers by the end of 2021, and the

Great Resignation continues into 2022. Here are six strategies to boost your employee retention.

Deeper Dive

- **Conference Board Leading Indicators:** The Leading Economic Index increased 0.8% in December. Over the past six months, the LEI has risen 4.0%, with the U.S. economy continuing to rebound solidly despite lingering challenges. Overall, the data point to solid growth over the coming months. Manufacturing helped buoy the headline index in December, and other positive contributors included building permits, initial unemployment claims, the interest rate spread, lending conditions and stock prices. Consumer confidence was the lone drag for the month, with the average employee workweek being neutral.

  Meanwhile, the Coincident Economic Index rose 0.2% in December, increasing for the third straight month. Industrial production edged down for the month, including for manufacturers. The other three components of the CEI—manufacturing and trade sales, nonfarm payrolls and personal income less transfer payments—made positive contributions in the latest data. The CEI has increased a very modest 1.3% over the past six months.

- **Existing Home Sales:** Existing home sales fell 4.6% from 6.49 million units at the annual rate in November to 6.18 million units in December, a four-month low, according to the National Association of Realtors. Activity weakened in every region of the country. Supply chain challenges, the lack of inventory and affordability have been issues for the existing home sales market, with all likely dampening demand in December. Surging omicron cases might also have been a factor. With that said, the annual pace of existing home sales in 2021 was the strongest since 2006.

  In December, single-family sales decreased 4.3% from 5.77 million units to 5.52 million units, the slowest rate since August. Similarly, condominium and co-op sales dropped 7.0% from 710,000 units to 660,000 units. Existing home sales have fallen 7.1% since December 2020, with single-family and condo and co-op sales down 6.8% and 9.6% year-over-year, respectively.

  There were 1.8 months of unsold inventory for existing homes on the market in December, which was a record low. The median sales price for existing homes has jumped 15.8% year-over-year, up to $358,000. That is not far from the record price recorded in July ($359,500).

- **Housing Starts and Permits:** New residential construction activity rose 1.4% from 1,678,000 units at the annual rate in November to 1,702,000 units in December, extending the 8.1% gain in November and the best reading since March. Housing construction has been challenged by rising building costs, affordability issues and difficulties in finding workers, and single-family housing starts declined 2.3% from 1,199,000 units to 1,172,000 units. In contrast, multifamily construction activity, which can be very volatile from month to month, jumped 10.6% from 479,000 units to 530,000 units, the best reading since February 2020.

  Overall, housing starts have trended lower since peaking at 1,725,000 in March, which was the best reading since July 2006. The gains over the past two months are hopefully the beginning of an upward trend. On a year-over-year basis, new residential construction has risen a modest 2.5%, driven largely by the volatile multifamily segment. Single-family housing starts have dropped 10.9% over the past 12 months, speaking to the hurdles described above.

Fortunately, builders remained optimistic about the coming months, with solid sales growth expected over the next six months despite ongoing concerns, even with a slight easing in the latest NAHB Housing Market Index. (See below.) Along those lines, housing permits jumped 9.1% from an annualized 1,717,000 units in November to 1,873,000 units in December, an 11-month high. As such, it was not far from the January 2021 reading (1,883,000 units), which was the strongest since May 2006. These data suggest that housing construction should improve over the coming months.

Single-family and multifamily permits increased 2.0% and 21.9% in December, respectively. Over the past 12 months, single-family permits have declined 8.5% but have edged higher since July. Multifamily activity has soared 41.9% year-over-year, however.

- **NAHB Housing Market Index:** The Housing Market Index edged down from 84 in December to 83 in January, according to the National Association of Home Builders and Wells Fargo. The index for current single-family homes was unchanged at 90 in January, a very solid reading, with the index for expected single-family sales declining from 85 to 83.

  Several significant challenges continue for builders, including higher building costs and worker shortages, and for potential buyers, affordability has become a major issue. As the release states, these issues have added weeks to construction projects, with “the aggregate cost of residential construction materials [increasing] almost 19% since December 2021.” Yet, builders remain upbeat in their assessments of the housing market, and demand remains strong. (Readings greater than 50 suggest that more respondents feel positive than negative in their outlook.)

- **New York Fed Manufacturing Survey:** Manufacturing activity began the new year declining slightly, according to the Empire State Manufacturing Survey, contracting for the first time since June 2020. The composite index dropped from 31.9 in December to -0.7 in January. New orders also fell at the start of the new year for the first time in 17 months, and shipments slowed to almost a halt. Employment and the average employee workweek slowed somewhat. Delivery times eased a bit but remained lengthy, consistent with supply chain woes. Even with some continued deceleration in January, input costs expanded at very elevated rates, not far from May’s record pace.

  Manufacturers in the region remained upbeat about growth over the next six months, albeit with the forward-looking composite index declining from 36.4 in December to 35.1 in January. Respondents expected new orders, capital expenditures and technology to pick up slightly, with some slowing predicted for shipments, delivery times, employment and the average employee workweek. Importantly, the anticipated capital spending rate was the strongest since February 2006. In addition, respondents expected both input and output costs to rise at the fastest paces on record, for a series dating to July 2001.

- **Philadelphia Fed Manufacturing Survey:** The Philadelphia Federal Reserve Bank’s composite index of general business conditions rebounded from a 12-month low, rising from 15.4 in December to 23.2 in January. Growth accelerated somewhat for new orders and shipments, but with lingering supply chain disruptions. Raw material costs accelerated once again, remaining highly elevated. After expanding at the fastest pace in the survey's history in December, which dates to May 1968, the index for employment pulled back from 33.9 to 26.1 in the latest survey. That is still a solid reading despite being the lowest since May. The average employee workweek also narrowed in January.

In some special questions, respondents expected raw material costs to jump 8.9% on average in 2022, with wages rising 4.9%. Respondents predicted overall compensation, including wages and benefits, to increase 6.4% this year on average.

Meanwhile, the forward-looking composite index rose from 19.0 in December, the lowest since February 2016, to 28.7 in January. Respondents predicted that new orders, shipments and capital spending would improve, rising strongly over the next six months. In addition, respondents expected hiring to increase solidly despite some easing in the latest survey and anticipated input costs to rise at the fastest pace since August 1988.

- **Weekly Initial Unemployment Claims:** There were 286,000 initial unemployment claims for the week ending Jan. 15, rising for the third straight report to a 13-week high. There were 231,000 claims in the previous release for the week ending Jan. 8. Meanwhile, there were 1,635,000 continuing claims for the week ending Jan. 8, increasing from 1,551,000 for the week ending Jan. 1, which was the lowest level since the week ending June 2, 1973. Despite upticks in initial and continuing claims in the latest data, the labor market has improved mightily over the course of the past year.

Take Action

- Please join me for a webinar on "Successfully Navigating Current Supply Chain Disruptions" on Thursday, Jan. 27, at 2:00 p.m. EST. This webinar will discuss the action industry leaders can take to improve their supply chain visibility, resilience and a sufficient workforce to secure supply and successfully navigate the risk of future disruptions. Panelists include Debjit Banerjee (PwC), Dennis Hoeg (Nexteer Automotive) and Ernest Nicolas, Jr. (Rockwell Automation). To register, click here.

Interested in becoming a presenter of the *Monday Economic Report*? Email us.

Questions or comments? Email NAM Chief Economist Chad Moutray at cmoutray@nam.org.