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MONDAY ECONOMIC REPORT

Elevated Mortgage Rates and Affordability Drag Down the Housing Market

August 22, 2022

The Weekly Toplines

- Existing home sales fell 5.9% to 4.81 million units at the annual rate in July, declining for the sixth straight month to the slowest pace since June 2020, according to the National Association of Realtors. On a year-over-year basis, existing home sales plummeted 20.2% from 6.03 million units in July 2021.

- Inventories of unsold existing homes for sale have continued to rise year to date. Yet, the median sales price pulled back from an all-time high of $413,800 in June to $403,800 in July, but with 10.8% growth from $364,600 one year ago.

- New residential construction activity fell 9.6% to 1,446,000 units at the annual rate in July, a 23-month low. Single-family housing starts dropped 10.1% to 916,000 units, the slowest pace since June 2020. New housing starts have fallen 8.1% from 1,573,000 units on a year-over-year basis, with single-family construction activity plummeting 18.5% over the past 12 months.

- At the same time, new housing permits—which are a proxy for future residential construction—were off 1.3% to an annualized 1,674,000 units in July, a 10-month low. Single-family permits declined 4.3% from 970,000 units to 928,000, a pace not seen since June 2020. On a year-over-year basis, single-family permits dropped 11.7% over the past 12 months.

- These figures continue to reflect significant weakening in the housing market, which has been rocked by sharply higher mortgage rates, issues surrounding affordability of housing units and uncertainties in the economic outlook.

- The average 30-year fixed-rate mortgage was 5.13% last week, according to Freddie Mac. While this was down from 5.81% on June 23, the average was 3.11% at the end of 2021.

- Home builders were negative in their assessments of the housing market for the first time since May 2020. The Housing Market Index fell from 55 in July to 49 in August, according to the National Association of Home Builders and Wells Fargo. Readings below 50 are consistent with more builders being negative than positive in their views of the housing market.

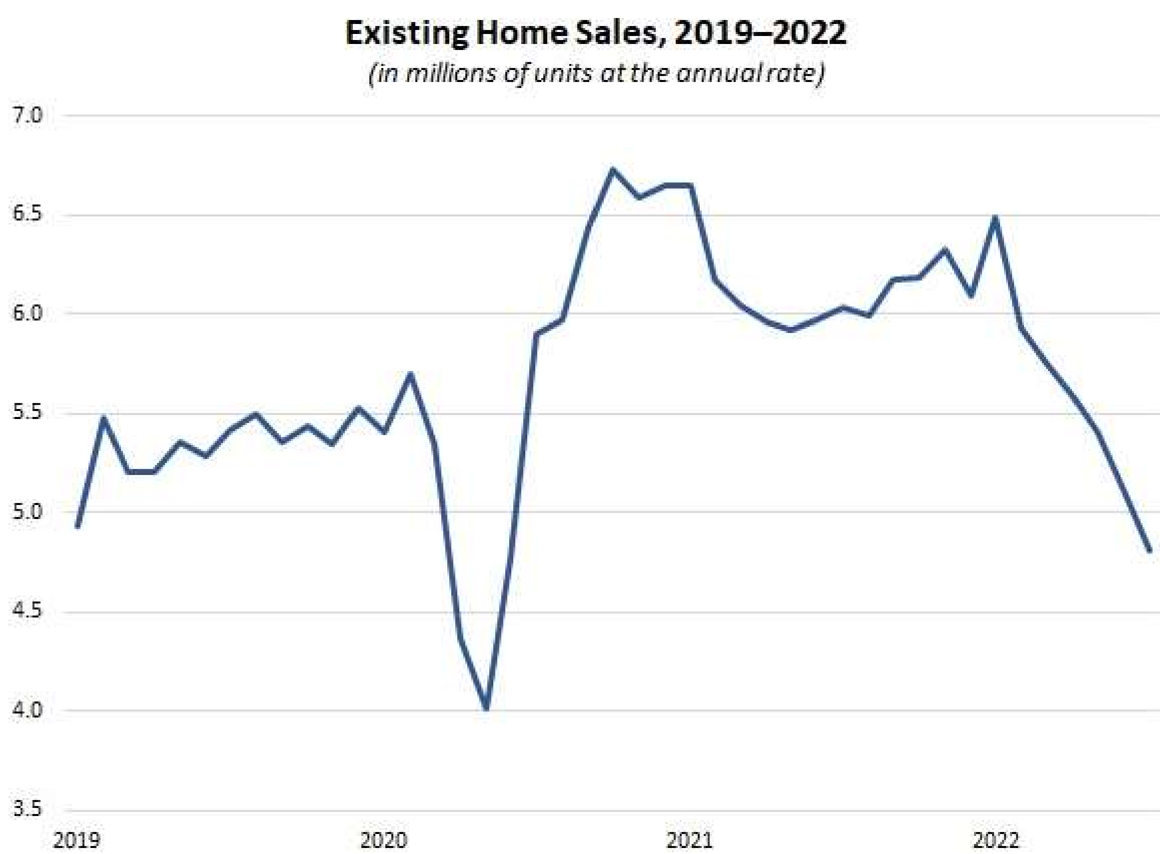
- After declining in the two prior months, manufacturing production rebounded in July, rising by 0.7%. The manufacturing sector has been surprisingly resilient in the face of ongoing challenges with soaring production costs, supply chain bottlenecks, geopolitical and economic uncertainties and workforce shortages. Overall, manufacturing production has risen 3.2% over the past 12 months.

- In addition, manufacturing capacity utilization increased from 79.3% in June to 79.8% in July, which was not far from April's reading (80.1%), which was the highest since August 2000.

- Total industrial production (which includes manufacturing, mining and utilities) increased 0.6% in July after being flat in June, rising to a new record level. On a year-over-year basis, industrial production has increased 3.9%. Total capacity utilization returned to 80.3% in July, matching the pace seen in April, which was the best reading since September 2018.

- Finally, retail sales were flat in July, slowing from the 0.8% gain seen in June and the weakest reading since December. There was reduced spending at gasoline stations and motor vehicles and parts dealers in July, weighing down the headline number. Retail spending excluding automobiles and gasoline were more encouraging, up 0.7% for the month, suggesting that sales growth was somewhat more broad-based than the top-line number might suggest.

- Yet these data are also consistent with a consumer that is more selective and anxious. Consumer sentiment remains near historic lows, for instance, with Americans concerned about inflation.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

This Week's Indicators:

Monday, August 15
NAHB Housing Market Index
New York Fed Manufacturing Survey

Tuesday, August 16
Housing Starts and Permits
Industrial Production

Wednesday, August 17
Retail Sales

Thursday, August 18
Conference Board Leading Indicators
Existing Home Sales
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, August 19
State Employment Report

Monday, August 22
Chicago Fed National Activity Index

Tuesday, August 23
New Home Sales
Richmond Fed Manufacturing Survey
S&P Global Flash US Composite PMI

Wednesday, August 24
Durable Goods Orders and Shipments

Thursday, August 25
Gross Domestic Product (Revision)
Kansas City Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, August 26
International Trade in Goods (Preliminary)
Personal Consumption Expenditures Deflator
PCE Deflator
University of Michigan Consumer Sentiment (Revision)

Deeper Dive

- **Conference Board Leading Indicators:** The Leading Economic Index decreased 0.4% in July, falling for the fifth straight month. Over the past six months, the LEI declined 1.6%, suggesting weaker growth over the coming months as firms grapple with supply chain, workforce and inflationary challenges and renewed economic uncertainties. The release notes that this is a reversal from the 1.6% gain seen in the prior six-month period. With that said, the Coincident Economic Index rose 0.3% in July, up from 0.1% in June. The CEI increased just 0.8% over the past six months.

- **Existing Home Sales:** Existing home sales fell 5.9% from 5.11 million units at the annual rate in June to 4.81 million units in July, declining for the sixth straight month to the slowest pace since June 2020, according to the National Association of Realtors. Affordability has become a big challenge for potential homebuyers, with soaring costs and higher mortgage rates dampening demand. Existing home sales weakened in every region. In July, single-family sales decreased 5.5% from 4.56 million units to 4.31 million units, and condominium and co-op sales fell 9.1% from 550,000 units to 500,000 units. On a year-over-year basis, existing home sales plummeted 20.2% from 6.03 million units in July 2021.

  There were 3.3 months of unsold inventory of existing homes for sale on the market in July, continuing to trend higher after hitting a record low of 1.6 months in January. For perspective, there were 3.9, 3.1 and 2.3 months of supply on average in 2019, 2020 and 2021, respectively. The median sales price pulled back from an all-time high of $413,800 in June to $403,800 in July, but with 10.8% growth from $364,600 one year ago.

- **Housing Starts and Permits:** New residential construction activity fell 9.6% from 1,599,000 units at the annual rate in June to 1,446,000 units in July, a 23-month low.

Single-family housing starts dropped 10.1% from 1,019,000 units to 916,000 units, the slowest pace since June 2020. At the same time, multifamily activity, which can be highly volatile from month to month, decreased by 8.6% from 580,000 units to 530,000 units. On a year-over-year basis, new housing starts have fallen 8.1% from 1,573,000 units in July 2021, with single-family construction activity plummeting 18.5% over the past 12 months.

These figures continue to reflect significant weakening in the housing market, which has been rocked by sharply higher mortgage rates, issues surrounding affordability of housing units and uncertainties in the economic outlook. On these concerns, builder sentiment turned negative in the August National Association of Home Buyers survey for the first time since May 2020. (See below.)

Meanwhile, new housing permits—which are a proxy for future residential construction—were off 1.3% from an annualized 1,696,000 units in June to 1,674,000 units in July, a 10-month low. Single-family permits declined 4.3% from 970,000 units to 928,000, a pace not seen since June 2020. In contrast, multifamily activity increased 2.8% from 726,000 units to 746,000 units. On a year-over-year basis, housing permits have increased 1.1% from 1,655,000 units in July 2021, but with single-family permits dropping 11.7% over the past 12 months from 1,051,000 units one year ago.

- **Industrial Production:** After declining in the two prior months, manufacturing production rebounded in July, rising by 0.7%. Durable and nondurable goods production rose 1.3% and 0.1% in July, respectively. The manufacturing sector has been surprisingly resilient in the face of ongoing challenges with soaring production costs, supply chain bottlenecks, geopolitical and economic uncertainties and workforce shortages. Overall, manufacturing production rose 3.2% over the past 12 months. In addition, manufacturing capacity utilization increased from 79.3% in June to 79.8% in July, which was not far from April's reading (80.1%), which was the highest since August 2000.

  The manufacturing production data in July were mixed. Motor vehicles and parts (up 6.6%), fabricated metal products (up 2.1%), apparel and leather products (up 1.6%), aerospace and miscellaneous transportation equipment (up 1.5%) and plastics and rubber products (up 1.3%) experienced the largest gains in manufacturing production in July. In contrast, notable declines in production in July included printing and related support activities (down 1.7%), furniture and related products (down 1.6%), electrical equipment and appliances (down 1.4%), paper (down 0.9%) and primary metals (down 0.9%).

  Speaking to the strength noted above over the past 12 months, all but three of the major manufacturing sectors had year-over-year growth in production in July. The biggest year-over-year increases in output in the sector since July 2021 occurred in motor vehicles and parts (up 13.3%), nonmetallic mineral products (up 7.8%), miscellaneous durable goods (up 7.7%), apparel and leather products (up 6.2%) and plastics and rubber products (up 6.1%), among others. At the other end of the spectrum, textile and product mills (down 4.0%), primary metals (down 1.9%) and petroleum and coal products (down 0.2%) had declining production over the past year.

  Meanwhile, total industrial production increased 0.6% in July after being flat in June, rising to a new record level. In addition to manufacturing, mining production also rose by 0.7% for the month, but output in the utilities sector was off by 0.8%. On a year-over-year basis, industrial production has increased 3.9%, and over the past 12 months, mining and utilities output rose 7.9% and 2.2%, respectively. Total capacity utilization returned to 80.3% in July, matching the pace seen in April, which was the best reading since September 2018.

- **NAHB Housing Market Index:** Home builders were negative in their assessments of the housing market for the first time since May 2020. The Housing Market Index fell from 55 in July to 49 in August, according to the NAHB and Wells Fargo. Readings below 50 are consistent with more builders being negative than positive in their views of the housing market. Indeed, residential activity has weakened dramatically, with higher mortgage rates and affordability being top of mind for builders and potential home buyers. NAHB Chief Economist Robert Dietz said that the market had fallen into a "housing recession," but he also noted that, with long-term interest rates stabilizing, demand might improve moving forward.

  Beyond the headline index, the index of current activity for single-family homes dropped from 64 to 57, and the index for the traffic of potential buyers deteriorated further from 37 to 32. Meanwhile, the index for expected single-family sales in the next six months decreased from 49 to 47. Each were also the weakest readings since May 2020.

- **New York Fed Manufacturing Survey:** Manufacturing activity fell sharply in the New York Federal Reserve Bank's district, with the composite index of general business conditions plummeting from 11.3 in July to -31.3 in August. It was the weakest reading since May 2020, and the underlying data were lower across the board, including sizable contractions for new orders, shipments, unfilled orders and the average employee workweek. Employment and inventory growth softened but remained positive. Input prices continued to decelerate in August, with the index for that measure suggesting the slowest pace since January 2021.

  Meanwhile, manufacturers responding to the Empire State Survey were marginally positive in their outlook for next six months, with the forward-looking composite index rising from -6.2 in July, the first negative reading since February 2009, to 2.1 in August. New orders, shipments and hiring were seen strengthening over the coming months, with slower growth predicted for capital expenditures and technology spending.

- **Philadelphia Fed Manufacturing Survey:** After contracting in June and July, the Philadelphia Federal Reserve Bank's composite index of general business conditions improved to its best reading since April, rising from -12.3 in July to 6.2 in August. While new orders shrank for the third straight month, the pace of decline narrowed in the latest month. At the same time, shipments and employment strengthened, and inventories rebounded. Raw material costs have decelerated notably over the past four months after notching a new record in April. In fact, the index for prices paid was the weakest growth rate since December 2020.

  With that said, respondents predict 5.0% growth in prices and compensation over the next four quarters, the same pace as seen in the May survey. Manufacturers in the district see consumer prices increasing by 6.0% over the next year, with 3.0% growth on average over the next decade.

  Meanwhile, the forward-looking composite index improved somewhat from -18.6 in July, the weakest reading since December 1979, to -10.6 in August. Respondents expect new orders to contract over the coming months, but they also predict better growth for employment, hours worked and capital expenditures. As such, these data suggest that manufacturers in the Philly Fed region are mixed in their assessments of the economic outlook.

- **Retail Sales:** Retail sales were flat in July, slowing from the 0.8% gain seen in June and the weakest reading since December. There was reduced spending at gasoline stations (down 1.8% on lower prices) and motor vehicles and parts dealers (down 1.6%) in July, weighing down the headline number. Retail spending excluding automobiles and gasoline were more encouraging, up 0.7% for the month, suggesting that sales growth was somewhat more broad-based than the top-line number might suggest. Yet these data are also consistent with a consumer that is more selective and anxious. Consumer sentiment remains near historic lows, for instance, with Americans concerned about inflation.

  Looking at the underlying data, the largest increases in retail spending in July were at nonstore retailers (up 2.7%), building material and garden supply stores (up 1.5%) and miscellaneous store retailers (up 1.5%). Beyond autos and gasoline, other segments with declining retail sales in July included clothing and accessories stores (down 0.6%) and department stores (down 0.6%), with weak spending data for furniture and home furnishings stores (up 0.2%), grocery stores (up 0.2%), food services and drinking places (up 0.1%) and sporting goods and hobby stores (up 0.1%).

  Despite the softer data in July, retail sales have been strong over the past 12 months, buoyed by pent-up demand as the economy reopened from COVID-19 restrictions. On a year-over-year basis, retail spending has risen 10.3% since July 2021, or 9.3% with motor vehicles and gasoline excluded.

- **State Employment Report:** Illinois created the most net new manufacturing jobs in July, adding 6,300 workers. Other states with notable employment growth for the month included Ohio (up 4,100), Missouri (up 3,600), Texas (up 3,400) and Minnesota (up 2,600). Over the past 12 months, Texas (up 53,500) had the most manufacturing employment growth. Other states with significant year-over-year gains included California (up 40,100), Michigan (up 30,200), Florida (up 27,000) and Illinois (up 25,700).

  In July, the U.S. unemployment rate edged down to 3.5%, and rates fell in 14 states and the District of Columbia. At 1.8%, Minnesota had the lowest unemployment rate nationally, followed closely by Nebraska (2.0%), New Hampshire (2.0%), Utah (2.0%) and Vermont (2.1%). At the other end of the spectrum, the District of Columbia had the highest unemployment rate in the country at 5.2%. Other states with elevated rates included Alaska (4.5%), New Mexico (4.5%), Delaware (4.4%), Illinois (4.4%), Nevada (4.4%) and New York (4.4%).

- **Weekly Initial Unemployment Claims:** The week ending Aug. 13 saw 250,000 initial unemployment claims, edging down from 252,000 for the week ending Aug. 6. These data have trended gradually higher since reaching 166,000 claims for the week ending March 19, which was the second-lowest reading in the history of the series and the lowest since the week ending Nov. 30, 1968.

  At the same time, the week ending Aug. 6 saw 1,437,000 continuing claims, up from 1,430,000 for the week ending July 30 and the highest since the week ending April 2. These data have trended somewhat higher since falling to 1,306,000 claims for the week ending May 21, which was the lowest since the week ending Dec. 27, 1969.

Take Action

NAM Manufacturers' Outlook Survey—Third Quarter 2022
If you have not already done so, please take a moment to complete the latest survey, which will help gauge how manufacturing sentiment has changed since the second-quarter survey. In addition, this survey includes some special questions on the supply chain and recession outlook, inflation, energy reliability, the CHIPS and Science Act and green cards. To complete the survey, click here. Responses are due by Tuesday, Aug. 30, at 5:00 p.m. EDT. As always, all responses are anonymous.

Be Part of Manufacturing's Premier Workforce Event
The Manufacturing Institute invites you to its inaugural Workforce Summit on Oct. 18–20 at the Hyatt Regency in Cincinnati, Ohio, where manufacturers, thought leaders, educators, business association leaders and human resource and workforce development professionals will convene to discuss innovations in workforce development and the future of manufacturing. Register today to take advantage of the discounted early bird registration rate available until Labor Day.

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