MONDAY ECONOMIC REPORT

Housing Starts Pulled Back in April, but Residential Outlook Remains Bright

By Chad Moutray – May 24, 2021

The Weekly Toplines

- New housing starts pulled back from the fastest pace since July 2006, falling 9.5% from an annualized 1,733,000 units in March to 1,569,000 units in April, with rising construction costs and difficulties in finding talent likely taking a toll, particularly in the single-family market. Yet, residential activity continues to be a strength in the economy overall, and builders remain optimistic about growth over the coming months.

- Indeed, the housing permits data—a proxy of future activity in the sector—are consistent with stronger residential growth moving forward, exceeding 1.7 million units for five straight months and jumping 19.1% since February 2020.

- With that said, existing home sales fell for the third consecutive month, down to 5.85 million units at the annual rate, largely on low inventories of homes for sale. The median sales price for existing homes has jumped 19.1% year-over-year, up to $341,600 in April.

- Meanwhile, the IHS Markit Flash U.S. Manufacturing PMI rose to an all-time high, buoyed by growth in new orders and exports that were the fastest on record. The service-sector also expanded at a historic pace, with the U.S. economy bouncing back as more Americans get vaccinated and activity accelerating on the lifting of COVID-19 restrictions.

- Yet, raw material costs and output prices soared once again at all-time high rates, and IHS Markit survey respondents continued to cite severe supply chain disruptions.

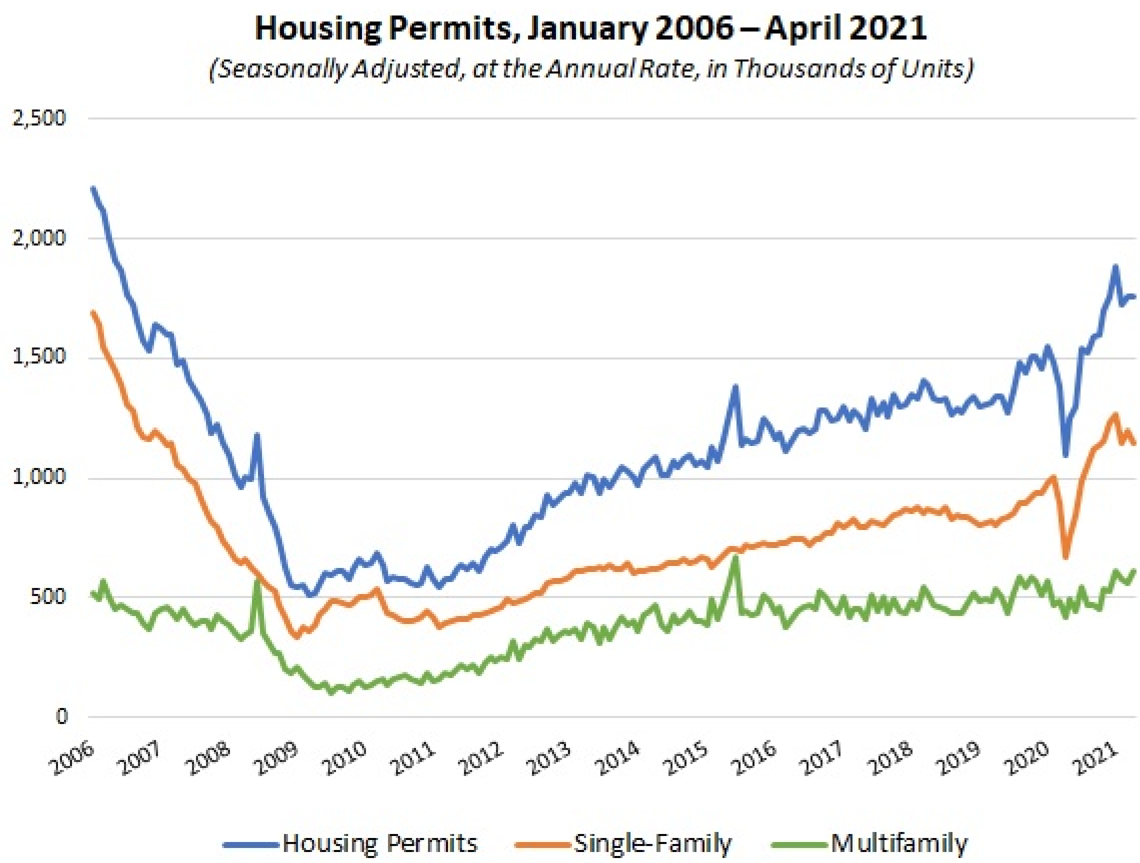
- Manufacturing surveys from the New York and Philadelphia Federal Reserve Banks produced similar findings. While manufacturing activity eased in both districts in May, the underlying data and the outlook remained strong overall, even with supply chain disruptions and soaring prices.

- Across the Atlantic, Eurozone manufacturing activity also expanded solidly in May, with hiring accelerating at the best pace since February 2018, according to preliminary survey results from IHS Markit. Like the U.S., input costs and product prices soared to new records, and the service sector has bounced back as more virus restrictions are lifted.

- Outside the Eurozone, the United Kingdom's manufacturing sector expanded at rates not seen since January 1992.

- Initial unemployment claims fell to 444,000 for the week ending May 15, the lowest since the week of March 14, 2020.

- New York [created]() the most net new manufacturing jobs in April. Just five states have produced higher employment in the sector since the pandemic began: Utah, Nevada, Alaska, Nebraska and Montana.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, May 17
NAHB Housing Market Index
New York Fed Manufacturing Survey

Tuesday, May 18
Housing Starts and Permits

Wednesday, May 19
None

Thursday, May 20
Conference Board Leading Indicators
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, May 21
Existing Home Sales

This Week's Indicators:

Monday, May 24
Chicago Fed National Activity Index

Tuesday, May 25
Conference Board Consumer Confidence
New Home Sales
Richmond Fed Manufacturing Survey

Wednesday, May 26
None

Thursday, May 27
Durable Goods Orders and Shipments
Gross Domestic Product (Revision)
Kansas City Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, May 28
International Trade in Goods (Preliminary)

IHS Markit Flash U.S. Manufacturing PMI
State Employment Report

Personal Consumption Expenditures Deflator
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision

Deeper Dive

- **[Conference Board Leading Indicators](#):** The Leading Economic Index increased 1.6% in April, extending the 1.3% gain in March. More importantly, the LEI has now surpassed the pre-pandemic level, with the measure up 1.3% since February 2020, recovering from the sharp decline from the COVID-19 pandemic early last year. New manufacturing orders data contributed 0.20 to the headline index in April, with the sector continuing to be a bright spot in the economy. The underlying data mostly increased for the month, including positive contributions from consumer confidence, initial unemployment claims, the interest rate spread, lending conditions and the stock market. Contributions from the average workweek of production workers and building permits were both essentially neutral in April.

  Meanwhile, the Coincident Economic Index rose 0.3% in April, slowing from the 0.9% gain in March. Despite progress since last spring, the measure remained down 3.3% from the pre-pandemic pace seen 14 months ago. Manufacturing production rose 0.4% in April, but output in the sector remained down 1.7% from pre-pandemic levels. All four of the subcomponents were positive contributors to the CEI in April, including industrial production, manufacturing and trade sales, nonfarm payrolls and personal income less transfer payments.

- **Existing Home Sales:** The National Association of Realtors reported that existing home sales fell for the third straight month, down 2.7% from 6.01 million units in March to 5.85 million units in April, a 10-month low. NAR Chief Economist Lawrence Yun attributed the decline to low inventory, but he expressed optimism for more inventory coming online later this year. The April data weakened in every region of the country except for the Midwest. Single-family sales declined for the fourth consecutive month, down from 5.30 million units in March to 5.13 million units in April, but condominium and co-op sales edged up from 710,000 units to 720,000 units.

  Since the pandemic began, existing home sales have risen a modest 2.6% since February 2020, but on a year-over-year basis (against a challenging comparable month in April 2020), growth was a robust 33.9%.

  Inventories of existing homes for sale have risen from a record low of 1.9 months of supply on the market in December and January to 2.4 months in April, but the supply of homes on the market remains historically low overall. The median sales price for existing homes has jumped 19.1% year-over-year, up to $341,600 in April.

- **Housing Starts and Permits:** New residential construction activity pulled back from the fastest pace since July 2006, falling 9.5% from an annualized 1,733,000 units in March to 1,569,000 units in April. Housing starts rose in the Northeast and West, but the headline number declined on weaker data in the Midwest and South. In addition, single-family starts dropped 13.4% from 1,255,000 units to 1,087,000 units, but multifamily construction activity edged up from 478,000 units to 482,000 units, a three-month high.

  Overall, housing starts were disappointing in April, with rising construction costs and difficulties in finding talent likely taking a toll on residential construction for the month, particularly in the single-family market. Since February 2020, housing starts have fallen 1.2%, with single-family construction off 3.3% from pre-pandemic levels. Yet, residential activity continues to be a strength in the economy overall, and builders remain optimistic about growth over the coming months (see the NAHB Housing Market Index below).

  Indeed, the housing permits data—a proxy of future activity in the sector—are consistent with stronger residential growth moving forward. Permits inched up 0.3% from 1,755,000 units at the annual rate in March to 1,760,000 units in April and have exceeded 1.7 million units for five straight months. Single-family permitting decreased from 1,194,000 units to 1,149,000 units, but multifamily activity increased from 561,000 units to 611,000 units. Housing permits have risen 19.1% since February 2020, with single-family and multifamily permitting up 13.8% and 30.3% over the past 14 months, respectively.

- **IHS Markit Flash U.S. Manufacturing PMI:** Manufacturing activity in the U.S. expanded at a record pace, for a data series dating to May 2007, with the preliminary headline index rising from 60.5 in April to 61.5 in May. The data were buoyed by growth in new orders (up from 61.7 to 65.3) and exports (up from 56.2 to 56.7), both of which expanded in May at the fastest paces on record, with output (up from 57.2 to 58.1) also strengthening for the month. Measures of employment (down from 55.7 to 53.3) and future output (down from 74.6 to 70.7) slowed in May but continued to be encouraging. Yet, raw material costs (up from 77.2 to 78.8) and output prices (up from 68.0 to 70.9) soared once again at all-time high rates, and respondents continued to cite severe supply chain disruptions.

The good news was not limited to manufacturing, with the service sector also experiencing rebounding activity as more Americans are getting vaccinated and with COVID-19 restrictions being lifted in many areas. The IHS Markit Flash U.S. Services Business Activity Index improved from 64.7 to 70.1, the best reading on record, for the series dating to October 2009.

Meanwhile, the IHS Markit Flash Eurozone Manufacturing PMI inched down from an all-time high, declining from 62.9 in April to 62.8 in May, but with activity continuing to expand very strongly overall. The underlying data reflected slowing but still very solid expansions for new orders, exports and output. Employment growth strengthened in May to the best reading since February 2018, and respondents remained upbeat in their assessments of future output, albeit with some easing in May. Input costs and product prices both soared at record paces in May, for the data series dating to June 1997. In addition, the IHS Markit Flash Eurozone Composite PMI jumped from 53.8 to 56.9, the highest since February 2018 and buoyed by renewed service-sector activity as Europe begins to reopen on the lifting of recent COVID-19 restrictions.

Manufacturing activity improved in France in May, boosted by output growth that was the strongest since January 2018, but slowed in Germany in preliminary survey results from IHS Markit. The expansions were solid in both countries. Outside the Eurozone, the United Kingdom's manufacturing sector expanded at rates not seen since January 1992, as the economy rebounds on some easing in COVID-19 restrictions.

- **NAHB Housing Market Index:** The Housing Market Index was unchanged at 83 in May, according to the National Association of Home Builders and Wells Fargo, remaining above 80 for the ninth straight month. As such, builders felt very upbeat in their assessments of the housing market despite some lingering challenges. Along those lines, respondents continue to cite sharply higher construction costs, supply shortages, low inventories and increased delivery times as challenges. Mortgage rates have also started to drift higher, albeit at still low rates historically.

  The HMI improved in May in the South but eased in the Midwest and Northeast. The index for current single-family home sales held steady at 88 in May, with the index for expected single-family sales edging up from 80 to 81. These are very solid readings, and as such, builders continued to feel extremely optimistic about increased sales moving forward despite the challenges mentioned above.

- **New York Fed Manufacturing Survey:** Manufacturing activity continued to expand robustly in May, according to the Empire State Manufacturing Survey, despite the composite index slipping from 26.3 in April to 24.3 in May. New orders, shipments and the average employee workweek strengthened for the month, and employment remained solid despite easing slightly. More troublesome, input costs and selling prices both accelerated at the fastest rate on record, mirroring trends in other indicators and reflecting the sizable supply chain challenges in the sector nationally.

  Meanwhile, manufacturers in the New York Federal Reserve's district remained very upbeat about growth over the next six months, albeit with the forward-looking composite index slipping from 39.8 in April to 36.6 in May. Roughly half of respondents predict new orders and shipments expanding moving forward, with 45.0% and 33.6% anticipating more hiring and capital spending, respectively. The index for expected prices paid pulled back from the highest pace since March 2011 but continued to point toward robust growth in raw material costs over the coming months.

- **Philadelphia Fed Manufacturing Survey:** After soaring to the fastest pace in 48 years in April, manufacturing activity slowed in May but continued to expand solidly. The composite index declined from 50.2 in April to 31.5 in May, with some softening in new orders, shipments and employment. At the same time, inventories jumped at a rate not seen since July 1973, and the index for prices paid rose at the briskest rate since March 1980. Likewise, prices received also increased sharply at a rate not seen since May 1981. The data speak to the severity of supply chain disruptions in the system, with delivery times increasing at a record pace.

  Manufacturers in the district remain very positive in their outlook, albeit with the forward-looking composite index easing from 66.6 in April, the best reading since October 1991, to 52.7 in May. More than 64% of business leaders expect shipments to rise over the next six months, with roughly 55% predicting higher sales and employment and 44.9% anticipating more capital spending.

  Yet, survey respondents expect raw material prices to continue to accelerate robustly. Manufacturers in the region predict that prices for final goods and services will jump 5.0% over the next four quarters, with compensation costs and consumer inflation rising 4.0% between now and Q2 2022.

- **State Employment Report:** New York created the most net new manufacturing jobs in April, adding 2,400 workers. Other states with notable employment growth for the month included North Carolina (up 2,100), Nevada (up 1,800), California (up 1,500), Indiana (up 1,300) and Virginia (up 1,300). Over the past 14 months, just five states have notched increased manufacturing employment since February 2020, or since the pandemic began. Those states were Utah (up 5,200), Nevada (up 1,000), Alaska (up 500), Nebraska (up 400) and Montana (up 100). The largest declines over that time period occurred in big states, such as California (down 75,600), Michigan (down 56,800), Texas (down 41,400), Illinois (down 40,100) and Ohio (down 35,800).

  The national unemployment rate was 6.1% in April, and the rate fell in 12 states in the latest data. Hawaii had the highest unemployment rate in the country at 8.5%, followed by California (8.3%), New Mexico (8.2%), New York (8.2%), Connecticut (8.1%) and Nevada (8.0%). At the other end of the spectrum, the lowest unemployment rates in the United States in April occurred in Nebraska, New Hampshire, South Dakota and Utah, each with 2.8%. Vermont and Idaho had unemployment rates of 2.9% and 3.1%, respectively.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 444,000 for the week ending May 15, down from 478,000 for the week ending May 8 and the lowest since the week of March 14, 2020. Meanwhile, continuing claims ticked up from 3,640,000 for the week ending May 1 to 3,751,000 for the week ending May 8. That pace remains elevated, consistent with 2.7% of the workforce, up from 2.6% in the previous release.

  At the same time, 15,975,448 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending May 1. That figure was down from 16,862,016 for the week ending April 24, largely on reduced pandemic assistance and state claims for the week.

Take Action

- If you have not already done so, please take a moment to complete the latest NAM Manufacturers' Outlook Survey. This survey will help gauge how manufacturing sentiment has changed since the first-quarter survey. In addition, there are some special questions on tax policy, infrastructure spending, supply chain challenges, workforce issues and vaccinations. To complete the survey, click here. Responses are due by Wednesday, June 2, at 5:00 p.m. EDT. As always, all responses are anonymous.