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MONDAY ECONOMIC REPORT



Housing Market Rocked by Higher Mortgage Rates and Affordability

July 25, 2022

The Weekly Toplines

- [New residential construction activity](#) declined 2.0% to 1,559,000 units at the annual rate in June, the slowest pace in nine months, and new single-family housing starts dropped 8.1% to 982,000 units, the slowest pace since June 2020. On a year-over-year basis, new housing starts have fallen 6.3% from 1,664,000 units in June 2021, with single-family construction activity plummeting 15.7% over the past 12 months.
- New housing permits—which are a proxy for future residential construction—decreased 0.6% to an annualized 1,685,000 units in June, also a nine-month low, and single-family permits declined 8.0% to 967,000 units, a pace not seen since July 2020.
- [Existing home sales](#) fell 5.4% to 5.12 million units at the annual rate in June, declining for the fifth straight month to the slowest pace since June 2020. On a year-over-year basis, existing home sales have plummeted 14.2% from 5.97 million units in June 2021. Nonetheless, the median sales price was \$416,000 in June, an all-time high and up 13.4% from one year ago.
- 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 renewed uncertainties in the economic outlook. On these concerns, [builder sentiment](#) and traffic for potential buyers were the lowest since May 2020.
- Meanwhile, manufacturing production contracted slightly for the first time since June 2020, pulling the [S&P Global Flash U.S. Manufacturing PMI](#) somewhat lower and down to the weakest growth rate in two years. New orders and exports also declined at faster rates in July, and hiring softened. Manufacturers continue to grapple with geopolitical challenges, supply chain bottlenecks, workforce shortages and soaring costs.

- With that said, the index for future output signaled cautious optimism for production over the next six months, albeit at the weakest outlook since October 2020. Raw material costs eased somewhat in July but remained very elevated.
- On the regional front, the Philadelphia Federal Reserve Bank's composite index of general business conditions [contracted](#) for the second straight month. New orders deteriorated further, with inventories and unfilled orders also negative. Hiring and the average employee workweek slowed. At the same time, the forward-looking composite index dropped to the weakest reading since December 1979.
- Overseas, the [S&P Global Flash Eurozone Manufacturing PMI](#) contracted for the first time since June 2020, declining from 52.1 in June to 49.6 in July. New orders, exports, output and future output reflected deteriorating activity, falling at the fastest paces since the start of the pandemic and continuing to be impacted negatively by the ongoing Russian invasion in Ukraine and by soaring costs, especially for energy.
- Texas [created](#) the most net new manufacturing jobs in June and added the most employees in the sector over the past 12 months. In June, Minnesota had the lowest unemployment rates nationally (1.8%).

Single-Family Housing Starts and Permits, 2020–2022

(Seasonally Adjusted, at the Annual Rate, in Thousands of Units)



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, July 18
NAHB Housing Market Index

Tuesday, July 19
Housing Starts and Permits

Wednesday, July 20
Existing Home Sales

This Week's Indicators:

Monday, July 25
Chicago Fed National Activity Index
Dallas Fed Manufacturing Survey

Tuesday, July 26
Conference Board Consumer Confidence
New Home Sales
Richmond Fed Manufacturing Survey

Thursday, July 21

*Conference Board Leading Indicators
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims*

Friday, July 22

*S&P Global Flash U.S. Manufacturing PMI
State Employment Report*

Wednesday, July 27

*Business Employment Dynamics
Durable Goods Orders and Shipments
FOMC Monetary Policy Statement
International Trade in Goods (Preliminary)*

Thursday, July 28

*Gross Domestic Product (First Estimate)
Kansas City Fed Manufacturing Survey
Weekly Initial Unemployment Claims*

Friday, July 29

*Employment Cost Index
Personal Consumption Expenditures
Deflator
Personal Income and Spending
University of Michigan Consumer Sentiment
(Revision)*

Deeper Dive

- **Conference Board Leading Indicators:** The Leading Economic Index decreased 0.8% in June, falling for the fourth straight month. Over the past six months, the LEI has declined 1.8%, suggesting weaker growth over the coming months as firms grapple with supply chain, workforce and inflationary challenges and renewed economic uncertainties. With that said, the Coincident Economic Index rose 0.2% in June, matching the increase in May. The CEI has increased 1.2% over the past six months.
- **Existing Home Sales:** Existing home sales fell 5.4% from 5.41 million units at the annual rate in May to 5.12 million units in June, declining for the fifth 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 substantially higher mortgage rates dampening demand. Existing home sales weakened in every region except the Northeast, which was flat. In June, single-family sales decreased 4.8% from 4.80 million units to 4.57 million units, and condominium and co-op sales fell 9.8% from 610,000 units to 550,000 units. On a year-over-year basis, existing home sales have plummeted 14.2% from 5.97 million units in June

2021.

There were 3.0 months of unsold inventory of existing homes for sale on the market in June, 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 was \$416,000 in June, an all-time high and up 13.4% from \$366,900 one year ago.

- **Housing Starts and Permits**: New residential construction activity declined 2.0% from 1,591,000 units at the annual rate in May to 1,559,000 units in June, the slowest pace in nine months. Single-family housing starts dropped 8.1% from 1,068,000 units to 982,000 units, the slowest pace since June 2020. In contrast, multifamily activity, which can be highly volatile from month to month, rose 10.3% from 523,000 units to 577,000 units. On a year-over-year basis, new housing starts have fallen 6.3% from 1,664,000 units in June 2021, with single-family construction activity plummeting 15.7% 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 renewed uncertainties in the economic outlook. On these concerns, builder sentiment in the July NAHB survey was the lowest since May 2020. (See below.)

Meanwhile, new housing permits—which are a proxy for future residential construction—decreased 0.6% from an annualized 1,695,000 units in May to 1,685,000 units in June, also a nine-month low. Single-family permits declined 8.0% from 1,051,000 units to 967,000 units, a pace not seen since July 2020. At the same time, multifamily activity increased 11.5% from 644,000 units to 718,000 units. On a year-over-year basis, housing permits have increased 1.4% from 1,661,000 units in June 2021, but with single-family permits dropping 11.4% over the past 12 months from 1,091,000 units one year ago.

- **NAHB Housing Market Index**: The Housing Market Index fell from 67 in June to 55 in July, the lowest reading since May 2020, according to the National Association of Home Builders and Wells Fargo. The index of current activity for single-family homes dropped from 76 to 64, and the index for the traffic of potential buyers deteriorated further from 48 to 37, the weakest since May 2020. Readings above 50 are consistent with more builders being positive than negative in their market assessments and vice versa. Meanwhile, the index for expected single-family sales in the next six months decreased from 61 to 50 or neutral.

These data suggest that the housing market is cooling significantly, with higher mortgage rates and affordability being top of mind for builders and potential homebuyers. Sales growth remains slightly positive, but as the traffic measure above suggests, buyers have been spooked by still-elevated home prices and higher borrowing costs. Beyond those challenges, builders also continue to cite worker shortages and low inventories as concerns.

- **[Philadelphia Fed Manufacturing Survey](#)**: The Philadelphia Federal Reserve Bank's composite index of general business conditions contracted for the second straight month, dropping further from -3.3 in June to -12.3 in July. New orders deteriorated further, with inventories and unfilled orders also negative. Hiring and the average employee workweek slowed. At the same time, shipments improved. More importantly, raw material costs have decelerated notably over the past three months after notching a new record in April. In fact, the index for prices paid was the weakest growth rate since January 2021.

In special questions, 78.6% of manufacturing companies in the district have increased wages and compensation over the past three months, and 57.1% are planning to hike wages and compensation in 2022 more than originally planned. The median wage increases in 2022 were 4–5%, with health benefits up 5–7.5%. Manufacturers expected energy costs to rise by a median 7.5–10% this year.

Meanwhile, the forward-looking composite index dropped from -6.8 in June to -18.6 in July, the weakest reading since December 1979. Respondents expect new orders to contract further over the coming months, with softer growth for hours worked and capital expenditures. Yet, respondents predict shipments and employment to improve. As such, these data suggest that manufacturers in the Philly Fed's district have become more concerned about the economic outlook compared to prior months. Along those lines, the expected prices paid index dropped below 50 for the first time in 18 months.

- **[S&P Global Flash U.S. Manufacturing PMI](#)**: Manufacturing production (down from 50.2 to 49.9) contracted slightly for the first time since June 2020, pulling the S&P Global Flash U.S. Manufacturing PMI somewhat lower, down from 52.7 in June to 52.3 in July. It was the weakest growth rate in two years. New orders (down from 48.7 to 48.6) and exports (down from 48.6 to 47.7) also declined at faster rates in July. Hiring growth (down from 52.9 to 50.9) softened as well. Manufacturers continue to grapple with geopolitical challenges, supply chain bottlenecks, workforce shortages and soaring costs. With that said, the index for future output (down from 63.4 to 62.7) signaled cautious optimism for production over the next six months, albeit at the weakest outlook since October 2020. Raw material costs (down from 79.5 to 77.2)

eased somewhat in July but remained very elevated.

Meanwhile, the [S&P Global Flash Eurozone Manufacturing PMI](#) contracted for the first time since June 2020, declining from 52.1 in June to 49.6 in July. New orders, exports, output and future output reflected deteriorating activity, falling at the fastest paces since the start of the pandemic and continuing to be impacted negatively by the ongoing Russian invasion in Ukraine and by soaring costs, especially for energy. Hiring slowed to the weakest rate since February 2021, and coincidentally, raw material costs also decelerated to the slowest rate in 17 months despite continuing to rise sharply. The Eurozone manufacturing data were pulled lower by contractions in activity in both [France](#) and [Germany](#) for the first time in roughly two years, and outside the Eurozone, manufacturers in the [United Kingdom](#) reported softening growth, but with declining new orders and production for the first time post-pandemic.

- **[State Employment Report](#):** Texas created the most net new manufacturing jobs in June, adding 7,000 workers. Other states with notable employment growth for the month included Michigan (up 3,600), California (up 3,200), Kentucky (up 3,000), Florida (up 2,700) and Georgia (up 2,500). Over the past 12 months, Texas (up 51,300) also had the most manufacturing employment growth. Other states with significant year-over-year gains included California (up 39,300), Michigan (up 29,800) and Florida (up 27,900).

In June, the [U.S. unemployment rate](#) remained at 3.6%, and rates fell in 10 states and the District of Columbia. At 1.8%, Minnesota had the lowest unemployment rate nationally, followed closely by Nebraska (1.9%), New Hampshire (2.0%) and Utah (2.0%). At the other end of the spectrum, the District of Columbia had the highest unemployment rate in the country at 5.5%. Other states with elevated rates included New Mexico (4.9%), Nevada (4.7%), Alaska (4.6%), Delaware (4.5%), Illinois (4.5%) and Pennsylvania (4.5%).

- **[Weekly Initial Unemployment Claims](#):** The week ending July 16 saw 251,000 initial unemployment claims, up from 244,000 for the week ending July 9 and the highest reading since the week ending Nov. 13, 2021. 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 Nov. 30, 1968. Yet, even with recent increases, initial claims data remain historically low.

At the same time, the week ending July 9 saw 1,384,000 continuing claims, up from 1,333,000 for the week ending July 2. Nonetheless, these data remain not far from 53-year lows.

Take Action

Join me on Thursday, July 28, at 2:00 p.m. EDT for a quarterly economic update for manufacturers. I will discuss the results from the [Q2 Manufacturers' Outlook Survey](#) and provide a forecast for the U.S. and global economies. Click [here](#) for more information and to register.

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