

MONDAY ECONOMIC REPORT



Higher Mortgage Rates Have Dampened New Home Sales

By Chad Moutray – May 31, 2022

The Weekly Toplines

- [New single-family home sales](#) tumbled 16.6% to 591,000 units at the annual rate in April, declining sharply for the fourth straight month and dropping to a post-pandemic low. The steep hike in mortgage rates and affordability issues have dampened enthusiasm for new home sales. At the same time, the median sales price for new homes was \$450,600 in April, a new record.
- The [personal consumption expenditures deflator](#) (the preferred measure of inflation for the Federal Reserve) rose 0.2% in April, slowing from the 0.9% gain in March. Energy prices fell 2.8%, falling for the first time in 11 months, helping to keep the headline number in check. At the same time, food prices continued to rise solidly, up 1.0% in April.
- Excluding food and energy prices, the PCE deflator increased 0.3% in April, the same pace as in February and March. Overall, the PCE deflator has risen 6.3% year-over-year, pulling back from 6.6% in March, which was the strongest increase since January 1982. Core inflation has increased 4.9% over the past 12 months, down from 5.2% in the prior release.
- These data will put continued pressure on the Federal Reserve to tackle inflation. The Federal Open Market Committee is likely to increase the federal funds rate by 50 basis points at each of its next two meetings (June 14–15 and July 26–27), and it will also start to reduce the size of its balance sheet on June 1.
- [New orders for durable goods](#) rose 0.4% to a record \$265.3 billion in April. As such, these data continue to reflect resilience in the manufacturing sector despite supply chain bottlenecks, global uncertainties, workforce shortages and soaring costs. With that said, this was slower than the expected gain of 0.7% among forecasters. Nonetheless, new orders have jumped 12.2% over the past 12 months, or 7.6% with transportation equipment excluded.
- Core capital goods—a proxy for capital spending in the U.S. economy—rose 0.3% to a record \$73.1 billion in April, with 7.5% growth year-over-year.
- The [S&P Global Flash U.S. Manufacturing PMI](#) declined from 59.2 in April to 57.5 in May, a three-month low but continuing to expand modestly despite numerous challenges. New orders, output and exports slowed in May, but respondents remained optimistic in their outlook.
- The two regional manufacturing surveys moved in opposite directions in May. The Kansas City Federal Reserve Bank [reported](#) solid expansions in activity, with hiring rising at a record pace but other data mixed. However, manufacturing activity

[contracted](#) in the Richmond Fed survey in May for the first time since September. Inflation remained a significant challenge, as were other factors.

- [Personal spending](#) rose 0.9% in April, a solid pace despite slowing from the 1.4% gain in March, with 9.2% growth year-over-year. Personal income increased 0.4% in April, and manufacturing wages and salaries increased 0.6% for the month, or 10.3% year-over-year.
- With spending growth outpacing income, the personal saving rate fell from 5.0% to 4.4%, the lowest since September 2008. This suggests that, while consumer spending remains strong, Americans are dipping heavily into their savings to finance those purchases.
- The [Index of Consumer Sentiment](#) fell from 65.2 in April to 58.4 in May, according to preliminary data from the University of Michigan and Thomson Reuters.
- In revised data, the U.S. economy [shrank](#) 1.5% at the annual rate in the first quarter, contracting for the first time since the second quarter of 2020. Overall, real GDP growth contracted on reduced government spending, inventories, net exports and nondurable goods spending, offsetting stronger data for durable goods purchases, service-sector consumer spending and nonresidential fixed investment.
- Overall, the current forecast is for 2.7% growth in real GDP in 2022, with the economy rebounding in the second quarter. With that said, the growth outlook has been dampened by uncertainties surrounding the situation in Ukraine, the shutdowns in China related to COVID-19 and attempts to slow pricing pressures. Indeed, there are notable downside risks to the forecast, and consumers and businesses openly worry about a slowdown, especially in 2023.



Economic Indicators

Last Week's Indicators: (Summaries Appear Below)

Monday, May 23

Chicago Fed National Activity Index

Tuesday, May 24

New Home Sales

Richmond Fed Manufacturing Survey

S&P Global Flash U.S. Manufacturing PMI

Wednesday, May 25

Durable Goods Orders and Shipments

Thursday, May 26

Gross Domestic Product (Revision)

Kansas City Fed Manufacturing Survey

Weekly Initial Unemployment Claims

Friday, May 27

International Trade in Goods (Preliminary)

Personal Consumption Expenditures

Deflator

Personal Income and Spending

University of Michigan Consumer Sentiment

(Revision)

This Week's Indicators:

Monday, May 30

MEMORIAL DAY HOLIDAY

Tuesday, May 31

Conference Board Consumer Confidence

Dallas Fed Manufacturing Survey

Wednesday, June 1

Construction Spending

ISM® Manufacturing Purchasing Managers' Index®

Job Openings and Labor Turnover Survey

Thursday, June 2

ADP National Employment Report

Factory Orders and Shipments

Productivity and Costs (Revision)

Weekly Initial Unemployment Claims

Friday, June 3

BLS National Employment Report

Deeper Dive

- **[Chicago Fed National Activity Index](#)**: The National Activity Index improved from 0.36 in March to 0.47 in April, a solid reading. The three-month moving average inched down slightly from 0.49 to 0.48. Positive index readings suggest that the U.S. economy is growing above trend. As such, the three-month moving average suggests that the national economy continues to expand despite ongoing challenges with supply chain disruptions, workforce shortages, soaring costs, COVID-19 and geopolitical uncertainties.

Manufacturing production rose 0.8% in April, expanding strongly for the third straight month, with the headline index notching its best reading since July 2008. In addition, manufacturing capacity utilization jumped to 79.2% in April, the highest reading since April 2007. With that in mind, production-related indicators added 0.26 to the NAI in April. In addition, employment-related indicators contributed 0.10 to the headline index for the month, with personal consumption and housing providing 0.08 to the NAI in April, largely on strength in retail sales.

- **[Durable Goods Orders and Shipments](#)**: New orders for durable goods rose 0.4% from \$264.2 billion in March to a record \$265.3 billion in April. (Note that, for comparison purposes, these data reflect a new seasonal adjustment.) Excluding transportation equipment, new durable goods orders increased 0.3% from \$178.0 billion to \$178.6 billion, an all-time high. As such, these data continue to reflect

resilience in the manufacturing sector despite supply chain bottlenecks, global uncertainties, workforce shortages and soaring costs. With that said, this was slower than the expected gain of 0.7% among forecasters. Nonetheless, new orders have jumped 12.2% over the past 12 months, or 7.6% with transportation equipment excluded.

In April, demand increased for machinery (up 1.0%), primary metals (up 0.6%), transportation equipment (up 0.6%), other durable goods (up 0.3%) and computers and electronic products (up 0.1%). In contrast, motor vehicles and parts (down 0.2%) and fabricated metal products (down 0.1%) had declining new orders in April.

Core capital goods (or nondefense capital goods excluding aircraft)—a proxy for capital spending in the U.S. economy—rose 0.3% from \$72.8 billion in March to a record \$73.1 billion in April, with 7.5% growth year-over-year.

Meanwhile, durable goods shipments edged up 0.1% from \$264.0 billion in March to a record \$264.3 billion in April. On a year-over-year basis, durable goods shipments have risen 12.2% since April 2021, or 10.8% excluding transportation equipment. In addition, core capital goods shipments increased 0.8% from \$71.5 billion to \$72.1 billion, an all-time high, with 11.4% growth over the past 12 months.

- **Gross Domestic Product (Revision):** The U.S. economy shrank 1.5% at the annual rate in the first quarter, contracting for the first time since the second quarter of 2020. This was slightly worse than the previous estimate, which was a decline of 1.4%. Overall, real GDP growth contracted on reduced government spending, inventories, net exports and nondurable goods spending, offsetting stronger data for durable goods purchases, service-sector consumer spending and nonresidential fixed investment. The data reflect negative impacts from supply chain disruptions, the Russian invasion of Ukraine, slower global growth relative to the U.S., the spread of the omicron variant (earlier in the quarter) and inflation.

Note that these data suggest some underlying strength in the U.S. economy that might not be obvious in the headline number. If one were to only include personal consumption expenditures and fixed investment, for instance, real GDP growth would have been 3.3% at the annual rate in the first quarter. The continued reopening of the economy and pent-up demand, especially in the service sector, remain encouraging. (Goods consumption was neutral toward growth.) Yet, other factors—including government spending, inventories and net exports—were simply enough to outweigh those positives.

Overall, the current forecast is for 2.7% growth in real GDP in 2022, with the economy rebounding in the second quarter. With that said, the growth outlook has been dampened by uncertainties surrounding the situation in Ukraine, the shutdowns in China related to COVID-19 and attempts to slow pricing pressures. Indeed, there are notable downside risks to the forecast, and consumers and businesses openly worry about a slowdown, especially in 2023.

- **International Trade in Goods (Preliminary):** After soaring to a record \$125.94 billion in March, the U.S. goods trade deficit dropped to \$105.94 billion in April, according to preliminary figures. These data continued to be highly volatile and skewed by supply chain disruptions, petroleum prices and stronger economic growth in the U.S. relative to other markets. In April, goods exports jumped from \$168.74 billion to \$173.92 billion, an all-time high. At the same time, goods imports plummeted from a record \$294.68 billion to \$279.86 billion.

Goods exports were mostly higher, rising by \$5.18 billion and led by strength in foods, feeds and beverages (up \$2.04 billion), industrial supplies (up \$1.79 billion) and capital goods (up \$1.20 billion). Meanwhile, goods imports fell by \$14.82 billion in April, including very sizable declines for consumer goods (down \$6.53 billion), industrial supplies (down \$6.21 billion), capital goods (down \$2.86 billion) and automotive vehicles (down \$1.08 billion). Final data, which will also include the service-sector trade surplus, will be released June 7.

- **[Kansas City Fed Manufacturing Survey](#):** Manufacturing in the Kansas City Federal Reserve Bank's district continued to expand solidly, albeit with the composite index of general business activity declining from 25 in April to 23 in May, the lowest reading since December. The underlying data provided mixed results. Hiring registered the fastest pace on record, for a survey dating to July 2001, and new orders, exports and the average employee workweek also strengthened in May. In contrast, production and shipments softened somewhat. The index for prices paid decelerated in May but remained very elevated. In their comments, manufacturers cited supply chain disruptions, soaring costs and workforce difficulties as significant challenges.

Nonetheless, manufacturers in the district remained optimistic about growth over the next six months, even with the forward-looking composite index decreasing from 34 to 31. In special questions, 87% of respondents said that they expected rising prices and the lack of availability/delivery times to "persist for at least six months or longer." In addition, nearly 60% felt that wages and prices would grow slightly or significantly faster than one year ago.

- **[New Home Sales](#):** New single-family home sales tumbled 16.6% from 709,000 units at the annual rate in March to 591,000 units in April, declining sharply for the fourth straight month and dropping to a post-pandemic low. Sales decreased in every region of the country. The steep hike in mortgage rates and affordability issues have dampened enthusiasm for new home sales, and builders also cite lingering supply chain disruptions, workforce shortages and inflation as significant challenges in the housing market. Indeed, single-family home sales have fallen 26.9% over the past 12 months, down from 809,000 units in April 2021.

With demand down, the supply of new single-family homes for sale on the market [jumped](#) from 6.9 months in March to 9.0 months in April, the most since May 2010. At the same time, the median sales price for new homes was \$450,600 in April, a new record and up 19.6% year-over-year from \$376,600 one year ago.

- **[Personal Consumption Expenditures Deflator](#):** The PCE deflator rose 0.2% in April, slowing from the 0.9% gain in March. Energy prices fell 2.8%, falling for the first time in 11 months, helping to keep the headline number in check. At the same time, food prices continued to rise solidly, up 1.0% in April. Excluding food and energy prices, the PCE deflator increased 0.3% in April, the same pace as in February and March. Overall, the PCE deflator has risen 6.3% year-over-year, pulling back from 6.6% in March, which was the strongest increase since January 1982. Core inflation has increased 4.9% over the past 12 months, down from 5.2% in the prior release.

Rising raw material costs [continued to be a major concern](#) for manufacturers, especially with supply chain disruptions, labor market tightness and soaring pent-up demand in the marketplace. The Russian invasion of Ukraine has accelerated those cost pressures. With that said, it is notable that core inflation eased for the second straight month in April, consistent with expectations. The current outlook is for the core

PCE deflator to stabilize around 3.5% by year's end.

These data will put continued pressure on the Federal Reserve to tackle inflation. The Federal Open Market Committee is likely to increase the federal funds rate by 50 basis points at each of its next two meetings (June 14–15 and July 26–27), and it will also start to reduce the size of its balance sheet on June 1.

- **[Personal Income and Spending](#)**: Personal consumption expenditures rose 0.9% in April, a solid pace despite slowing from the 1.4% gain in March. Spending on durable goods jumped 2.4% in April, but nondurable goods sales edged down 0.1%. Personal spending rose 9.2% year-over-year, with durable and nondurable goods consumption rising 1.3% and 9.6% over the past 12 months, respectively. At the same time, service-sector spending soared 10.8% year-over-year, consistent with the reopening of the economy and pent-up demand for services.

Meanwhile, personal income increased 0.4% in April, easing from 0.5% growth in March. Wages and salaries increased 0.6% for the month, including for manufacturers. More importantly, total wages and salaries in the economy have soared 11.7% over the past 12 months, with manufacturing wages and salaries rising 10.3% year-over-year to \$1,060.1 billion in April.

With spending growth outpacing income, the personal saving rate fell from 5.0% to 4.4%, the lowest since September 2008. This suggests that, while consumer spending remains strong, Americans are dipping heavily into their savings to finance those purchases.

- **[Richmond Fed Manufacturing Survey](#)**: Manufacturing activity contracted in May for the first time since September, according to the Richmond Federal Reserve Bank. The composite index of general business activity fell from 14 in April to -9 in May, the weakest reading since May 2020. The underlying data were mostly weaker in the key measures, including declining new orders, shipments, capacity utilization and inventories. Hiring slowed, but wage growth remained solid. Meanwhile, manufacturers remained positive in their outlook for the next six months, albeit with less enthusiasm in May than in April. Wage growth was expected to increase at elevated rates moving forward, with healthy gains predicted for capital spending.

Inflation remained a significant challenge. Costs for raw materials soared 15.13% in May, with the prices received for goods and services rising 9.57%. In addition, respondents anticipated an annualized 7.28% increase in costs six months from now, with the expected prices received increasing 5.30%.

- **[S&P Global Flash U.S. Manufacturing PMI](#)**: The S&P Global Flash U.S. Manufacturing PMI declined from 59.2 in April to 57.5 in May, a three-month low. New orders (down from 59.0 to 56.9), output (down from 57.6 to 55.2) and exports (down from 56.4 to 52.3) slowed in May. As such, manufacturing activity continued to expand somewhat modestly but pulled back on global challenges and ongoing supply chain, workforce and inflationary pressures. Raw material costs (up from 81.9 to 84.9) accelerated once again, rising at a pace not far from November's record (87.6). Delivery times (up from 26.9 to 31.0) remained too long but lessened a bit in May. Still, the index for future output (down from 73.6 to 70.3) signaled optimism about production growth moving forward despite pulling back a little in May's survey.

Meanwhile, the [S&P Global Flash Eurozone Manufacturing PMI](#) decreased from 55.5 in April to 54.4 in May, the weakest reading since November 2020. The Russian

invasion of Ukraine continued to impact activity negatively, with new orders contracting for the first time since June 2020 and with exports declining for the third straight month. With that said, output and employment growth picked up somewhat in May. The index for future output fell slightly but continued to indicate modest growth for the months ahead. Input prices (83.9) remained not far from the record pace in October (89.5) but decelerated somewhat in the latest figures. Manufacturing activity also slipped in [France](#) and, outside the Eurozone, in the [United Kingdom](#). The [headline German index](#) reported a very slight improvement, but output contracted for the first time since June 2020.

- [University of Michigan Consumer Sentiment \(Revision\)](#): The Index of Consumer Sentiment fell from 65.2 in April to 58.4 in May, according to preliminary data from the University of Michigan and Thomson Reuters. This was lower than the previous estimate, which was 59.1. The data declined across the board for all segments, with reduced assessments for both current and future economic conditions. Americans continued to worry about inflation, with lingering uncertainties related to the Russian invasion of Ukraine, and the latest data reverse the rebound in April, which was attributed to the strong labor market. Inflation expectations remain elevated. More worrisome, buying intentions declined, particularly for durable goods, which were the lowest since the question was added in 1978.
- [Weekly Initial Unemployment Claims](#): The week ending May 21 saw 210,000 initial unemployment claims, down from 218,000 for the week ending May 14. These data have seesawed from week to week recently, averaging 198,905 year to date. At the same time, the week ending May 7 saw 1,346,000 continuing claims, rising slightly after declining for six straight weeks. Continuing claims remained not far from the 1,315,000 recorded for the week ending May 7, which was the lowest level since the week ending Dec. 27, 1969.

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, this survey includes some special questions on supply chain disruptions, inflation, workforce challenges and new legislation. To complete the survey, click [here](#). Responses are due by today at 5:00 p.m. EDT. As always, all responses are anonymous.

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