If you're having trouble reading this, click here.

# MONDAY ECONOMIC REPORT

## S&P Global: Manufacturing Activity Strengthened in April Despite Challenges

By Chad Moutray – April 25, 2022

The Weekly Toplines

- The S&P Global Flash U.S. Manufacturing PMI rose to 59.7 in April, the best reading since September, with key measures strengthening, proving that manufacturing activity remained resilient despite numerous challenges. Still, the index for future output eased to a six-month low, even as it continued to point to optimism about production growth moving forward.

- Manufacturers continued to cite supply chain bottlenecks and workforce shortages as significant challenges to growth, and inflation remained highly elevated, with output prices soaring to a new all-time high and input costs not far from November's record high.

- Meanwhile, the S&P Global Flash Eurozone Manufacturing PMI decreased from 56.5 in March to 55.3 in April, the weakest reading since January 2021. The Russian invasion of Ukraine negatively impacted activity, with new orders and output expanding at the slowest pace since June 2020 and exports contracting for the second straight month.

- The Philadelphia Federal Reserve Bank's composite index declined from 27.4 in March to 17.6 in April but continued to signal expanding growth in the manufacturing sector in the district. Hiring grew at the fastest pace in the survey's history, which dates to May 1968. Raw material costs also picked up solidly in April, expanding at a pace not seen since June 1979.

- Yet, respondents to the Philly Fed's survey felt less optimistic in their outlook and orders, with the forward-looking composite index dropping to the lowest reading since December 2008.

- The average fixed-rate 30-year mortgage was 5.11% this week, up from 3.11% at the end of 2021 and the highest since Thursday, April 8, 2010, according to Freddie Mac.

- Nonetheless, new housing starts proved to be quite resilient, edging up 0.3% to 1,793,000 units at the annual rate in March, the fastest pace since June 2006, largely on multifamily activity. Single-family starts declined 1.7% from 1,221,000 units to 1,200,000 units.

- The housing market continues to be challenged by rising building costs, higher mortgage rates, affordability issues and difficulties in finding workers. For their part, builders felt less optimistic in their outlook, with inflation, affordability and higher rates pushing the NAHB Housing Market Index to a seven-month low in April.

- Nonetheless, housing permits increased 0.4% to an annualized 1,873,000 units in March, which was just shy of January's reading (1,895,000 units), which was the best reading since May 2006, consistent with still-healthy growth in housing construction despite numerous challenges and slower single-family activity.

- [Existing home sales] fell 2.7% to 5.77 million units at the annual rate in March, the slowest pace since June 2020. On a year-over-year basis, existing home sales fell 4.5% from 6.04 million units in March 2021. With that said, the median sales price was $375,300 in March, an all-time high and up 15.0% from $326,300 one year ago.

- There were 1,417,000 [continuing unemployment insurance claims] for the week ending April 9, the lowest level since the week ending Feb. 21, 1970.


Economic Indicators

**Last Week's Indicators:**
*(Summaries Appear Below)*

**Monday, April 18**
*NAHB Housing Market Index*

**Tuesday, April 19**
*Housing Starts and Permits*

**Wednesday, April 20**

**This Week's Indicators:**

**Monday, April 25**
*Chicago Fed National Activity Index*
*Dallas Fed Manufacturing Survey*

**Tuesday, April 26**
*Conference Board Consumer Confidence*
*Durable Goods Orders and Shipments*

*Existing Home Sales*

**Thursday, April 21**
*Conference Board Leading Indicators*
*Philadelphia Fed Manufacturing Survey*
*Weekly Initial Unemployment Claims*

**Friday, April 22**
*S&P Global Flash U.S. Manufacturing PMI*

*New Home Sales*
*Richmond Fed Manufacturing Survey*

**Wednesday, April 27**
*Business Employment Dynamics*
*International Trade in Goods (Preliminary)*

**Thursday, April 28**
*Gross Domestic Product*
*Kansas City Fed Manufacturing Survey*
*Weekly Initial Unemployment Claims*

**Friday, April 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 increased 0.3% in March, slowing from the 0.6% gain in February. Over the past six months, the LEI has risen 1.9%, with the U.S. economy expanding modestly despite lingering supply chain, workforce and inflationary challenges. There are also new uncertainties related to the Russian invasion of Ukraine. Meanwhile, the Coincident Economic Index rose 0.4% in March, matching the pace in February and increasing for the sixth straight month. The CEI has increased 2.2% over the past six months.

The Conference Board expects the U.S. economy to expand by 3.0% year-over-year in 2022. Conference Board Senior Director of Economic Research Ataman Ozyildirim added though that "…downside risks to the growth outlook remain, associated with intensification of supply chain disruptions and inflation linked to lingering pandemic shutdowns and the war, as well as with tightening monetary policy and persistent labor shortages."

- **Existing Home Sales:** Existing home sales fell 2.7% from 5.93 million units at the annual rate in February to 5.77 million units in March, the slowest pace since June 2020, according to the National Association of Realtors. Supply chain challenges, the lack of inventory, higher mortgage rates and affordability have been issues for the existing home sales market. In March, single-family sales decreased 2.7% from 5.27 million units to 5.13 million units, and condominium and co-op sales fell 3.0% from 660,000 units to 640,000 units. Activity declined in every region of the country except the West, which was flat for the month. On a year-over-year basis, existing home sales fell 4.5% from 6.04 million units in March 2021.

  There were 2.0 months of unsold inventory of existing homes for sale on the market in March, up from 1.7 months in February and a record low of 1.6 months in January. The median sales price was $375,300 in March, an all-time high and up 15.0% from $326,300 one year ago.

- **Housing Starts and Permits:** New residential construction activity edged up 0.3% from 1,788,000 units at the annual rate in February to 1,793,000 units in March, the fastest pace since June 2006. Multifamily housing starts, which can be volatile from month to month, rose 4.6% from 567,000 units to 593,000 units, but single-family starts declined 1.7% from 1,221,000 units to 1,200,000 units. On a year-over-year basis, new residential construction has increased 3.9%, but with single-family activity down 4.4% since March 2021.

  These figures reflect resilience in the housing market, with solid housing starts overall, despite significant challenges from rising building costs, higher mortgage rates, affordability issues and difficulties in finding workers. With mortgage rates soaring to levels not seen since 2018, there could be some cooling in the months ahead, but the data do not reflect that yet. For their part, builders felt less optimistic in their outlook, with inflation, affordability and higher rates pushing the NAHB Housing Market Index to a seven-month low in April. (See below.)

  Yet, housing permits have also proved resilient, increasing 0.4% from an annualized 1,865,000 units in February to 1,873,000 units in March. That was just shy of January's reading (1,895,000 units), which was the best reading since May 2006, consistent with still-healthy growth in housing construction despite numerous challenges and slower single-family activity.

  Single-family permits declined 4.8% from 1,205,000 units to 1,147,000 units, but multifamily activity jumped 10.0% from 660,000 units to 726,000 units, buoying the headline number. On a year-over-year basis, housing permits have increased by a strong 6.7%, up from 1,755,000 units in March 2021, but with single-family permits down 3.9% over the past 12 months.

- **NAHB Housing Market Index:** The Housing Market Index declined from 79 in March to 77 in April, a seven-month low, according to the National Association of Home Builders and Wells Fargo. The index for current single-family homes decreased from

87 to 85, and the index for the traffic of potential buyers dropped from 66 to 60. At the same time, the index for expected single-family sales bounced back from 70, the lowest reading since June 2020, to 73. Readings above 50 are consistent with more builders being positive than negative in their market assessments.

While these data continue to suggest that builders remain positive overall, sentiment among respondents continues to ease. NAHB Chief Economist Robert Dietz noted, "The housing market faces an inflection point as an unexpectedly quick rise in interest rates, rising home prices and escalating material costs have significantly decreased housing affordability conditions, particularly in the crucial entry-level market." Beyond those challenges, builders also continue to cite worker shortages and low inventories as concerns, with each pushing prices higher, further exacerbating affordability for potential buyers.

- **Philadelphia Fed Manufacturing Survey:** The Philadelphia Federal Reserve Bank's composite index of general business conditions declined from 27.4 in March to 17.6 in April but continued to signal expanding growth in the manufacturing sector in the district. New orders, shipments and the average employee workweek softened somewhat in April. Hiring grew at the fastest pace in the survey's history, which dates to May 1968. Raw material costs also picked up solidly in April, expanding at a pace not seen since June 1979.

  In special questions, 80% of respondents said that they had increased wages and compensation over the past three months. More than 65% plan to increase wages and compensation in 2022 by more than originally planned, with nearly one-third suggesting that they are doing so sooner than originally planned. Wages were seen rising by 4–5% on average among those completing the survey this year. At the same time, energy costs were expected to rise by 7.5–10% in 2022 on average, with other raw material costs up 10–12.5%.

  Meanwhile, the forward-looking composite index dropped from 22.7 in March to 8.2 in April, the lowest reading since December 2008, pulled lower by dramatically reduced optimism about new orders. Pricing pressures were seen continuing to rise at highly elevated rates, even with some easing in the latest data. Shipments, employment and capital spending expectations remained solid, however.

- **S&P Global Flash U.S. Manufacturing PMI:** The S&P Global Flash U.S. Manufacturing PMI rose from 58.8 in March to 59.7 in April, the best reading since September. New orders (up from 59.1 to 59.4), output (up from 56.1 to 57.4), exports (up from 54.9 to 57.1) and employment (up from 54.0 to 54.6) each strengthened in April, proving that manufacturing activity remained resilient despite numerous challenges. Still, the index for future output (down from 78.2 to 73.3) eased to a six-month low, even as it continued to point to optimism about production growth moving forward.

  Manufacturers continued to cite supply chain bottlenecks and workforce shortages as significant challenges to growth, and delivery times (down from 28.5 to 27.6) remain too long. Inflation continued to be highly elevated, with output prices (up from 69.7 to 78.4) soaring to a new all-time high. At the same time, input costs (up from 79.5 to 84.1) accelerated once again despite remaining below November's record high (87.6).

  Meanwhile, the S&P Global Flash Eurozone Manufacturing PMI decreased from 56.5 in March to 55.3 in April, the weakest reading since January 2021. The Russian invasion of Ukraine negatively impacted activity, with new orders and output expanding at the slowest pace since June 2020 and exports contracting for the second straight month. With that said, employment and future output measures improved somewhat. Supplier delivery times improved slightly but remained significantly long, and input prices (87.5) remained not far from the record pace in October (89.5). Manufacturing activity also slipped in Germany in April, but French and, outside the Eurozone, United Kingdom manufacturers reported slightly stronger data.

- **Weekly Initial Unemployment Claims:** The week ending April 16 saw 184,000 initial unemployment claims, edging down from 186,000 for the week ending April 9. At the same time, the week ending April 9 saw 1,417,000 continuing claims, down from 1,475,000 for the week ending April 2 and the lowest level since the week ending Feb. 21, 1970. Overall, these data continued to reflect a labor market that has improved significantly across the past year.

Thank you for subscribing to the **NAM's Monday Economic Report.**

If you're part of an NAM member company and not yet subscribed, email us. If you're not an NAM member, become one today!

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.