

### Lack of supply and rising costs constraining housing

Existing home sales dropped by 2.7 percent for April to extend a three-month slide. This was counter to expectations of a modest rise, as signed contracts rose during March coming out of February's worse-than-usual weather. The annualized sales pace of 5.85 million units is still above the trend over the past decade but sales volumes have pulled back from their end-of-2020 highs.

Persistent lack of supply is likely the primary reason for fading sales this year. There were only 1.16 million existing homes available during April, down 20.5 percent from the shutdown-depressed market a year ago. From a historical perspective, there were fewer single-family homes listed for April than during any April over at least the past 40 years, and on a seasonally adjusted basis there have never been fewer homes for sale in that period than in the past three months. Industry groups continue to note that any listed homes go into contract very quickly and usually above asking price. Average days on market decreased to a record low of only 17 in April.

At the same time, the fundamentals for housing demand remain highly positive – and with lack of supply this means that transacted prices are rising sharply. The median price of an existing home sold rose above \$340,000 for April and is up by more than 19 percent over the past year (a record pace). Despite still-low mortgage rates, a strong job market, and continued desire for space, rising costs and the increasing competition for listed homes could be dissuading some homebuyers. Mortgage applications for purchase have dropped in seven of the past eight weeks, falling to the second lowest reading over the past year.

We continue to expect existing home sales to trend higher over the rest of 2021 as the ebbing of the pandemic gives more current homeowners the confidence to list their homes for sale. Until more supply comes on board, however, existing sales could struggle to move higher while prices will continue to rise sharply, and more home sales will shift to new builds.

#### Concerns for home builders, too

Housing starts fell by 9.5 percent for April from March's recent peak, which was the highest level since 2006. While still elevated at an annualized rate of 1.57 million units, home construction may be showing supply chain strains from rising costs and a lack of buildable lots and available labor. Single-family units led the decline, pulling back by 13.4 percent for April despite continued strong demand for new homes on the market. Many home builders are simply limiting sales they know they can't fulfill in the near term.

If this slowdown in starts persists, it could be a worrisome sign for the supply of single-family housing this year. Housing completions have moved higher in recent months but continue to run far below that needed to improve the balance between supply and demand. This likely means that strong price gains will continue into at least 2022.

### You Need to Know

#### Week in Review

##### Existing home sales slip modestly for April

*The supply of existing homes has yet to show any post-pandemic bounce, limiting sales volumes while driving up the prices of transacted homes.*

##### Housing starts drop as builders face supply shortages and higher prices

*Housing starts fell back sharply for April as cost pressures and supply constraints have cut into construction despite strong market demand.*

#### Week Ahead (Forecasts)

##### New home sales expected to fall, but remain strong

*Although they should pull back from March's rapid pace, robust housing demand and a low supply of existing homes likely led to strong new home sales for April.*

##### Consumer income/spending likely to drop

*March's stimulus checks resulted in a jump in incomes and spending, but April's drop in retail sales already show that the spending surge was unsustainable.*

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## The Week Ahead

This is a busy week for economic data. It includes the S&P/Case Shiller house price index, consumer confidence, new home sales, the Richmond and Kansas City Fed manufacturing indices, durable goods orders, personal income and personal consumption expenditures (PCE), the PCE price index, and consumer sentiment.

### New home sales expected to fall, but remain strong

New home sales rose in March to their fastest pace since 2006, and we expect that they remained close to that pace in April. Although home prices are rising, mortgage rates continue to be very low, helping to keep affordability from dropping too far. Additionally, the National Association of Home Builders index for homebuyer confidence and its underlying index for sales expectations for new homes in the present were both elevated (though a little below their all-time highs from November). Additionally, the record-low supply of existing homes on the market continues to push prospective homebuyers into the market for new homes. We project the annualized pace for new home sales fell slightly in April to 980,000 units, which would be the third fastest pace since 2006.

### Another month of strong growth likely for durable goods orders

After 11 straight months of strong gains following the crash last spring, robust economic demand likely led to another strong gain in durable goods orders for April. The new orders component of the Institute for Supply Management (ISM) manufacturing index continued to indicate strong growth with a reading that would have been the highest since January 2018 prior to the growth seen in the COVID recovery (but has been commonplace over the past year). Even with a drop in civilian aircraft orders from Boeing, we project growth in durable goods orders of 1.3 percent for April.

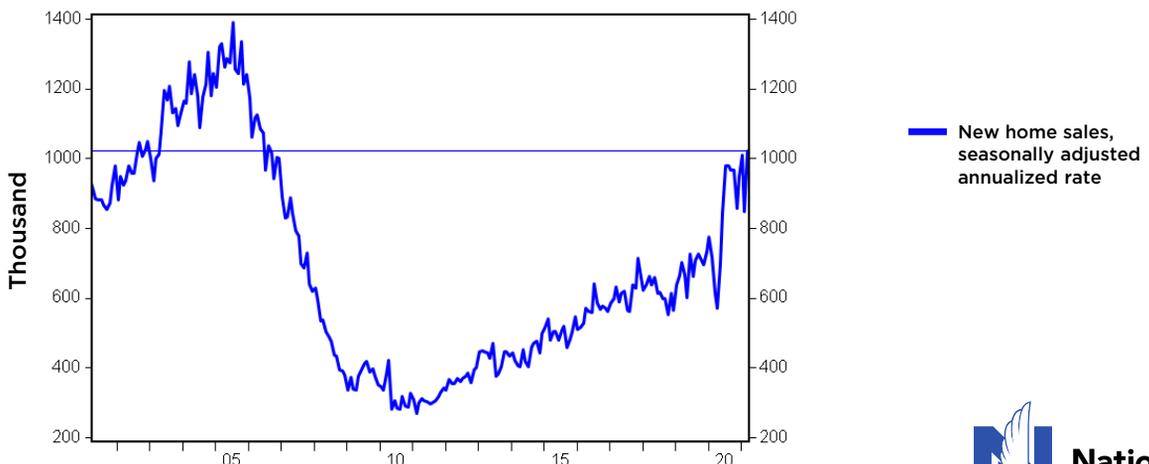
### Personal income and consumer spending should fall; large inflation expected

Personal income and personal consumption expenditures (PCE) almost certainly fell for April after March's stimulus check distribution led to the largest and second largest gains on record for these two, respectively. At 6.5 percent, our forecasted decline in personal income would be behind only February as the largest ever – limited by strong job and wage gains. The fall in PCE is expected to be less, however, as retail sales were down only modestly and the services component of PCE should be up, as usual. We project a decline in PCE of -0.5 percent for April.

Consumer inflation jumped for April according to the CPI, and the PCE price index is expected to show a large jump as well. Much of the higher inflation is from likely transitory price increases, such as airline fares (due to pent-up demand for travel) and used cars (due to the microchip shortage for new cars). Inflation numbers should come back to earth once these temporary issues are resolved, although they should remain above their pre-COVID averages. We project core PCE inflation of 0.7 percent for April, which would bring the 12-month trend rate to 3.0 percent – the fastest pace in nearly 30 years.

## Worth Watching

### New home sales climbed to their fastest pace since 2006 for March.



Sources: Census Bureau/Haver Analytics

Weekly Market Snapshot

Equity	Last	Returns		
		1 Week	YTD*	1 Year*
S&P 500 (Large)	4,156	-0.39%	11.29%	43.24%
S&P 400 (Mid)	2,690	-1.16%	17.14%	60.99%
S&P 600 (Small)	1,343	-0.82%	20.56%	76.46%
S&P 500 (High Quality)	46	0.46%	10.01%	36.81%
Russell 1000	4,489	-0.29%	10.70%	45.63%
Russell 2000	5,505	-0.41%	12.55%	66.22%
Dow Jones	34,208	-0.43%	12.61%	42.66%
NASDAQ	13,471	0.33%	4.81%	46.17%
MSCI EAFE	2,315	1.08%	9.38%	43.51%
MSCI EM	1,330	1.75%	3.64%	46.48%

\*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS	NTM EPS
			Growth	Growth
Current	25.16	21.13	6.37	25.45
Prior Month	25.92	22.33	1.04	24.08
Prior Year	20.00	21.04	-7.63	-1.65

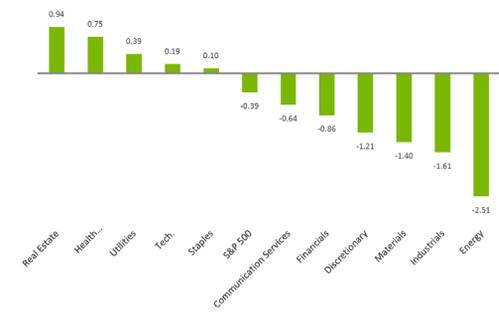
Fixed Income	Last	Returns		
		1 Week	YTD	1 Year
U.S. Aggregate	1.55%	0.07%	-2.63%	-0.47%
U.S. Inv Grade	2.21%	0.18%	-3.38%	4.11%
U.S. High Yield	4.85%	-0.09%	1.88%	16.72%
TIPS	1.08%	-0.38%	0.56%	6.56%

Rates	Last	Change		
		1 Week	YTD	1 Year
6M T-Bill	0.02%	-0.01	-0.07	-0.12
2 Yr Treasury	0.17%	0.01	0.04	-2.168E-17
5 Yr Treasury	0.84%	0.02	0.48	0.49
10 Yr Treasury	1.63%	0.00	0.7	0.95
30 Yr Treasury	2.33%	-0.02	0.68	0.93

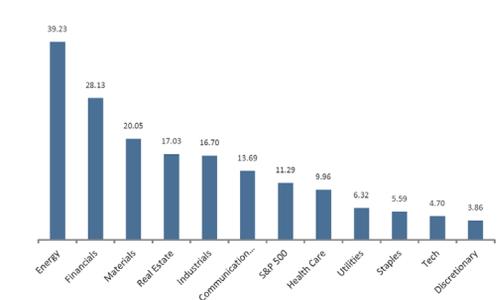
Spreads	Last	Change (Abs %)		
		1 Week	YTD	1 Year
AAA Rated	0.46	-0.01	-0.09	-0.44
BBB Rated	1.16	0.00	-0.16	-1.42
High Yield	3.37	0.02	-0.49	-3.71
10 to 2 yr Treasury	1.46	0.00	0.66	0.95

Commodities/FX	Last	Returns (Currencies in \$ strength)		
		1 Week	YTD	1 Year
Gold	1876.70	2.11%	-0.87%	9.08%
Bitcoin	36943.61	-26.13%	27.29%	308.64%
WTI Oil	63.88	-2.20%	32.12%	86.24%
EUR/USD	1.21885	-0.45%	0.38%	-11.40%
USD/JPY	108.97	-0.43%	5.54%	1.06%

S&P Sector Returns — Week (%)

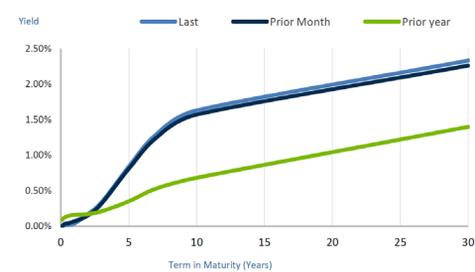


S&P Sector Returns — YTD (%)\*



\*represents total return

U.S. Yield Curve



Russell Style Returns — Week

	Value	Core	Growth
Large	-0.7	-0.3	0.1
Mid	-0.9	-0.2	1.3
Small	-1.0	-0.4	0.3

Russell Style Returns — YTD

	Value	Core	Growth
Large	17.3	10.7	4.6
Mid	19.1	12.7	1.2
Small	24.6	12.5	1.4

## Previous Week's Indicators

	Period	Actual	Previous
NY Fed Empire State manufacturing survey	May	24.3	26.3
NAHB Housing Market Index	May	83	83
Housing starts	Apr.	1.57 M	1.73 M
Housing permits	Apr.	1.76 M	1.76 M
Initial jobless claims	Week ending May 15	444,000	478,000
Philly Fed manufacturing index	May	31.5	50.2
Index of leading economic indicators	Apr.	1.6%	1.3%
Markit flash manufacturing index	May	61.5	60.5
Markit flash services PMI index	May	70.1	64.7
Existing home sales	Apr.	5.85 M	6.01 M

## This Week's Indicators

	Release Date	Period	Forecast*	Previous
S&P/Case-Shiller 20-city home price index (y/y)	Tues.	March	12.0%	12.0%
Consumer confidence	Tues.	May	120.5	121.7
New home sales	Tues.	April	980,000	1.02 M
Richmond Fed manufacturing index	Tues.	May	15	17
Initial jobless claims	Thurs.	Week ending May 22	411,000	444,000
Durable goods orders	Thurs.	April	1.3%	1.0%
Real GDP	Thurs.	Q1	6.9%	6.4%
Pending home sales	Thurs.	April	1.2%	1.9%
Kansas City Fed manufacturing index	Thurs.	May	28	31
Personal income	Fri.	April	-6.5%	21.1%
Personal consumption expenditures	Fri.	April	-0.5%	4.2%
Core PCE price index (m/m)	Fri.	April	0.7%	0.4%
Core PCE price index (y/y)	Fri.	April	3.0%	1.8%
Chicago purchasing manager's index	Fri.	May	69.5	104.3
Consumer sentiment	Fri.	May	87.5	82.8

\* *Nationwide Economics Forecast*



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