

June 27, 2022

Skyrocketing mortgage rates weaken home sales

The economic data last week were mostly weaker compared with consensus expectations. Existing home sales slumped, the flash purchasing managers indexes (PMIs) slowed (but remained in expansionary territory), while new home sales jumped unexpectedly. Overall economic growth is slowing in fits and starts, but there is still enough underlying strength to keep a positive outlook for now.

Home sales are mixed

Existing home sales dropped for a fourth straight month in May to an annualized pace of 5.41 million units, a decline of 3.4 percent. The median price of an existing home sold continued to soar, however, up by 14.8 percent from a year earlier — indicating that demand continues to outpace supply. The number of available units to purchase moved modestly higher and now stands at 1.16 million — the highest level in seven months. Still, this remains historically low and nearly half of the increase in units for sale came from the usual seasonal gains that occur in the spring.

New home sales surprised to the upside, jumping to an annualized pace of 696,000 units. The monthly median price of a new home sold moderated slightly for the first time since February, but the 12-month change was still up by 15 percent. Unsold inventories of new homes rose to the highest level since 2010 — but almost all of this came from homes not yet completed or under construction.

A big contributor to worsening housing affordability has been rising mortgage rates. The average 30-year fixed mortgage rate has jumped by 270 basis points so far this year to 5.81 percent. There is still plenty of pent-up demand for housing, and job growth and demographics are positive, but declining affordability has helped to bring the significant supply/demand imbalance closer to neutral. With the underinvestment that has persisted since the housing bust more than a decade ago, it will take more time to right-size the imbalance, but, for now, the housing market is cooling thanks in large part to a deterioration in affordability.

Flash PMIs disappoint

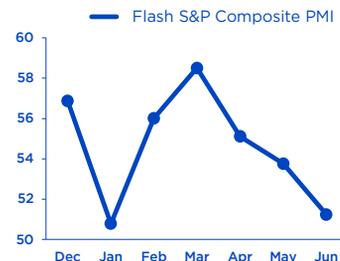
The early reading of the PMIs showed a sharp slowing from last month. The S&P Global flash manufacturing PMI decelerated from 57.0 for May to 52.4 for June. The flash services PMI dropped from 53.4 to 51.6. Both were expected to slow, but these moves were larger than anticipated. Production and new orders are suspected to have fallen below the expansion/contraction line of 50 for the first time since the early days of the pandemic in the manufacturing sector. Inflationary pressures are starting to overwhelm consumers beyond the joy of returning to their favorite services now that they feel more comfortable as pandemic fears continue to ebb. Still, the PMI levels reflect growth — just much slower than what has been seen in the past several quarters. Easing supply chain issues can help to alleviate some of the price pain felt by consumers, but there is still a long way to go to retrace the inflationary concerns that are creeping into the outlook.

↓ Total home sales continue to decline



Total home sales are down for a fourth straight month. While still at reasonable levels, there is likely more downside if mortgage rates rise further.

↓ Flash PMIs hint at slower growth



Growth likely slowed for June as the flash S&P Global composite PMI decelerated to 51.2. New orders fell into contraction and suggest the road ahead is likely to be bumpy.

Source: Haver Analytics

The Week Ahead

Here's what we are watching this week:

Durable goods orders



↑ Growth in durable goods expected to be slower, but still positive

With economic growth slowing and inflation affecting the propensity to consume, growth in durable goods orders likely also slowed for May. Boeing contributed little to growth, adding only two net orders over April's total (fewer gross orders but fewer cancellations). In total, we project an increase in durable goods orders of 0.2 percent for May. This would mark the seventh (but smallest) rise in the last eight months for durable goods orders.

Personal income, consumer spending, core PCE inflation



↑ Growth expected for consumer spending while prices continue to rise

Growth in personal income has been strong this year and this likely continued for May due to increasing wage income. Additionally, much as with nonautomotive retail sales, personal consumption expenditures (PCE) would have been boosted by more strong price gains during the month and should show decent growth. We project growth of 0.4 percent for both personal income and consumer spending. Lastly, we project growth in the core PCE price index (the overall index less food and energy) of 0.5 percent due to fast growth for both goods and services. This would lower the 12-month trend rate slightly to 4.8 percent.

ISM manufacturing index



↓ Growth likely to slow, but manufacturing should remain in expansion

The flash PMIs from S&P Global and the regional Federal Reserve bank indicators suggest that growth continued to slow for manufacturing in June (Dallas and Richmond readings come out this week). This aligns with general slowing economic growth, although part of what we expect to be a decline in the Institute for Supply Management (ISM) manufacturing index should be explained by decreased growth in supplier delays (a positive for the manufacturing sector). We project a reading of 55.3 for June's ISM manufacturing index. While still in expansion, it would represent the slowest growth in manufacturing since July 2020.



Sources: Institute for Supply Management

Weekly Market Snapshot

Provided by IMG Business and Product Development - Data Analytics Team

Equity

	Last	Returns		
		1 Week	YTD*	1 Year*
S&P 500 (Large)	3,912	6.46%	-17.31%	-6.98%
S&P 400 (Mid)	2,334	5.13%	-17.26%	-12.38%
S&P 600 (Small)	1,152	5.24%	-17.25%	-15.80%
S&P 500 (High Quality)	43	5.15%	-18.24%	-8.91%
Russell 1000	4,132	6.57%	-18.16%	-9.37%
Russell 2000	4,388	6.02%	-20.88%	-23.45%
Dow Jones	31,501	5.39%	-12.43%	-6.09%
NASDAQ	11,608	7.51%	-25.52%	-18.66%
MSCI EAFE	1,874	2.83%	-18.08%	-17.02%
MSCI EM	1,011	0.81%	-16.84%	-23.94%

*represents total return

S&P Metrics

	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	19.07	16.32	29.68	9.70
Prior Month	19.48	16.58	32.66	9.73
Prior Year	24.86	21.29	11.12	23.83

Fixed Income

	Last	Returns		
		1 Week	YTD	1 Year
U.S. Aggregate	3.81%	0.61%	-10.94%	-10.64%
U.S. Inv Grade	4.73%	0.34%	-14.59%	-13.58%
U.S. High Yield	8.44%	0.57%	-12.61%	-10.86%
TIPS	3.47%	0.56%	-7.79%	-3.47%

Rates

	Last	Change		
		1 Week	YTD	1 Year
6M T-Bill	2.51%	0.26	2.32	2.46
2 Yr Treasury	3.04%	-0.13	2.31	2.78
5 Yr Treasury	3.18%	-0.16	1.92	2.28
10 Yr Treasury	3.13%	-0.12	1.61	1.64
30 Yr Treasury	3.26%	-0.04	1.36	1.16

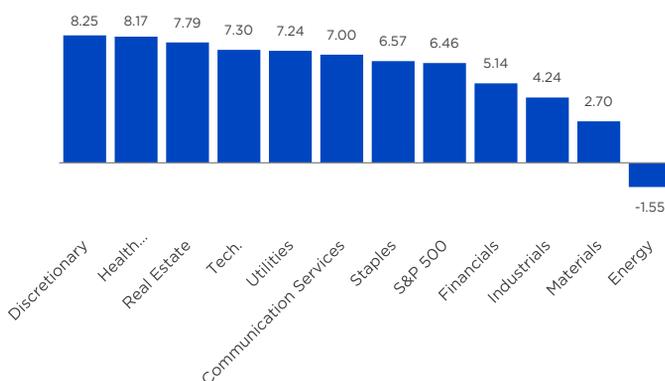
Spreads

	Last	Change (Abs %)		
		1 Week	YTD	1 Year
AAA Rated	0.67	0.00	0.16	0.22
BBB Rated	1.93	0.07	0.70	0.83
High Yield	5.18	0.03	2.08	2.10
10 to 2 yr Treasury	0.09	0.00	-0.70	-1.14

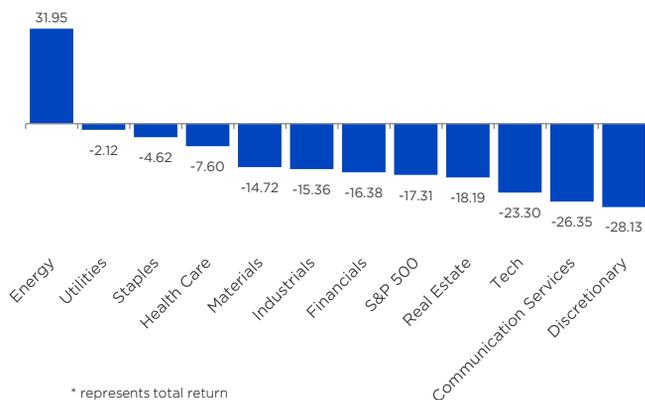
Commodities/FX

	Last	Returns (Currencies in \$ strength)		
		1 Week	YTD	1 Year
Gold	1826.50	-0.50%	-0.05%	2.87%
Bitcoin	21371.29	4.54%	-53.93%	-38.30%
WTI Oil	107.62	-1.77%	42.86%	46.80%
EUR/USD	1.05	-0.83%	7.28%	11.59%
USD/JPY	135.22	-0.06%	17.42%	21.98%

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	5.3	6.6	7.9
Mid	4.9	6.0	8.6
Small	4.0	6.0	8.4

Russell Style Returns - YTD

	Value	Core	Growth
Large	-10.7	-18.2	-24.8
Mid	-13.9	-18.8	-27.7
Small	-14.9	-20.9	-26.9

Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
Existing home sales	May	5.41 M	5.60 M
Initial jobless claims	Week ending June 18	229,000	231,000
S&P Global U.S. flash manufacturing PMI	June	52.4	57.0
S&P Global U.S. flash services PMI	June	51.6	53.4
Kansas City Fed manufacturing survey	June	12	23
Consumer sentiment	June	50.0	58.4
New home sales	May	696,000	629,000

This Week's Indicators

	Release Date	Period	Forecast*	Previous
Durable goods orders	Mon.	May	0.2%	0.5%
Pending home sales	Mon.	May	-4.6%	-3.9%
Dallas Fed manufacturing survey	Mon.	June	-9.4	-7.3
S&P/Case-Shiller 20-city house price index (y/y)	Tues.	Apr.	21.5%	21.2%
Richmond Fed manufacturing survey	Tues.	June	-11	-9
Consumer confidence	Tues.	June	101.1	106.4
Real GDP (revision)	Wed.	Q1	-1.4%	-1.5%
GDP price index (revision)	Wed.	Q1	8.1%	8.1%
Personal income	Thurs.	May	0.4%	0.4%
Personal consumption expenditures	Thurs.	May	0.4%	0.9%
Core PCE price index (m/m)	Thurs.	May	0.5%	0.3%
Core PCE price index (y/y)	Thurs.	May	4.8%	4.9%
Initial jobless claims	Thurs.	Week ending June 25	227,000	229,000
Chicago purchasing manager's index	Thurs.	June	56.5	60.3
S&P Global manufacturing survey	Fri.	June	52.0	57.0
ISM manufacturing PMI	Fri.	June	55.3	56.1
Construction spending	Fri.	June	0.3%	0.2%

* Nationwide Economics Forecast



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