

Nationwide Economics

Weekly Economic Review & Outlook

June 28, 2021

The housing market cooled off this spring

Home sales fell again for May as a lack of supply and rising prices have slowed activity in recent months. Existing home sales dropped modestly for May to an annualized pace of 5.80 million units, the fourth consecutive monthly decline. New home sales were down, too, falling by 5.9 percent to an annualized pace of 769,000 units. Despite the recent retrenchment, these sales rates would still be the highest since 2006 in the pre-pandemic period.

Historically tight housing supply remains the biggest hurdle for faster sales activity. New listings are lagging this year while the few homes that enter the market sell quickly. The National Association of Realtors noted that 89 percent of existing homes sold in May were on the market for less than a month. On a seasonally adjusted basis, the number of existing homes for sale was only a tad higher than April and still near an all-time low. Supply conditions for new homes are not as dire as for existing units, but there were only 330,000 new builds on the market at the end of May. Although this was the highest level of supply in two years, many have yet to be completed owing to material and labor shortages while the market needs far more than is being built.

Sharply rising prices are a growing concern, too. The median sales price during May rose above \$350,000 for existing homes and \$375,000 for new builds — each a record high. Most local markets have seen double-digit house price appreciation over the past year in response to the severe imbalance between supply and demand. While mortgage rates remain low, applications for purchase have edged slower recently — perhaps reflective of waning demand on the margin as prices climb rapidly with bidding wars among buyers.

Despite these constraints, we expect total home sales to remain elevated through year-end 2021, likely climbing this year to the highest level since 2006. But activity would be even stronger if homebuyers could find more options on the market. While there could be a post-pandemic increase in new listings as owners jump into the sellers' market, supply conditions will probably remain tight in most areas. Housing starts have also slowed due to supply chain concerns, further inhibiting the availability of single-family housing. On the upside, lumber prices, while still elevated, have fallen sharply in June which should lessen price pressures for home builders in coming months.

Personal income fell but saving rates remain elevated

Topline personal income fell by 2.0 percent for May, pulled down by reduced government unemployment insurance payments and other temporary pandemic benefits. Wage income rose by a solid 0.8 percent, however, and has been stronger over the past few months as businesses have expanded incentives and pay for new workers as the economy has opened nearly fully.

Saving rates remain high and should add to consumer spending power at least over the rest of the year. Personal saving as a percent of disposable personal income was 12.4 percent in May — still nearly double the median over the past 30 years. Continued rising wages and the high level of savings should give the wherewithal to propel spending forward even as federal stimulus support fades.

You Need to Know

Week in Review

Home sales drop again with low supply limiting transactions

Both new and existing home sales continued to fade in May from their recent peaks as rising prices and historically few homes for sale have taken some strength out of the market.

Personal income falls as government benefits sunset post-pandemic

While total personal income decreased again for May, wage income grew solidly while elevated saving rates should continue to boost spending by consumers.

Week Ahead (Forecasts)

Very strong job gains expected for June

Riding the full reopening of the economy, nonfarm payrolls should rise by 870,000 for June — led by a further surge in hiring by service sector firms.

Manufacturing reading should improve further

The ISM manufacturing index is expected to rise for June with higher new orders and production even as supply shortages remain a concern.



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is on your side

Ben Ayers
Senior Economist

Daniel Vielhaber
Economist

The Week Ahead

This week's economic news is headlined by June data on hiring and unemployment, the ISM manufacturing index, and light vehicle sales.

A jump in hiring is expected for June

A shortage of workers limited payroll gains for April and May even as most restrictions on in-person activities were lifted. The labor force participation rate has been little changed for nearly a year as many potential workers remain on the sidelines. We expect an overdue surge in hiring for June, especially among service businesses, as strong demand from employers has led to rising wages and increased incentives for new hires (sign-on bonuses, etc.). Nonfarm payroll growth for the month should be around 870,000 but has the potential to be even higher.

Faster job gains should help to lower the unemployment rate even if there is a corresponding increase in the size of the labor force. We expect the U-3 rate to drop to 5.6 percent for June in a continued improvement from last year's peak rates. Wage gains should also be solid with average hourly earnings climbing by 0.4 percent.

Stronger expansion expected for manufacturing

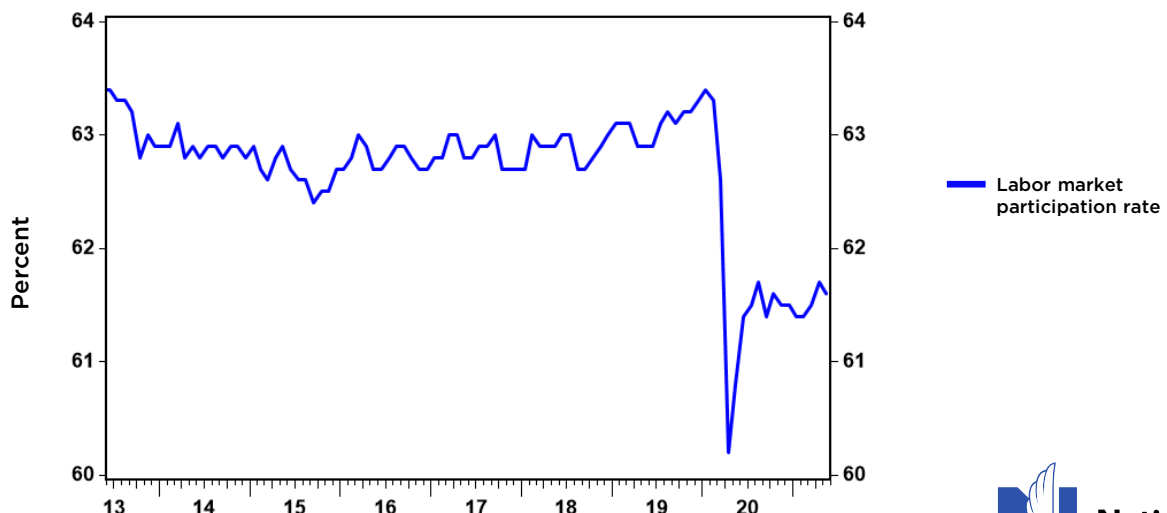
Higher input prices and material shortages weighed on manufacturing production for May, offsetting strong demand readings for manufactured goods. Slow supplier deliveries and rising costs have led to a building backlog of orders for manufacturers that could take time to unwind. June's survey findings from the Institute for Supply Management (ISM) are likely to show similar trends, although the overall reading should rise modestly. The IHS Markit flash manufacturing survey rose to a record high for June driven by strong output and new order growth. We expect a similar improvement in the ISM manufacturing index, rising to 62.6, showing strong expansion for the sector despite lingering concerns about supply chains.

Auto sales likely rebounded in June

Light vehicle sales fell sharply for May after posting very strong figures for March and April, as consumers increasingly had difficulty finding vehicles for sale. Inventories at auto dealerships continue to be stressed as automakers have cut production due to the widespread shortage of microchips. Demand for light trucks and cars remains high, however, as rising incomes and increased work-from-home options drive interest in auto purchases. We expect sales to recover a bit for May, climbing to an annualized pace of 17.4 million units.

Worth Watching

Labor participation rates remains low with worker shortages lingering for many sectors



Sources: Bureau of Labor Statistics/Haver Analytics

Weekly Market Snapshot

Equity	Last	Returns		
		1 Week	YTD*	1 Year*
S&P 500 (Large)	4,281	2.76%	14.79%	41.01%
S&P 400 (Mid)	2,726	4.39%	18.88%	57.56%
S&P 600 (Small)	1,389	4.39%	24.75%	73.25%
S&P 500 (High Quality)	48	3.61%	15.83%	39.99%
Russell 1000	4,642	2.87%	14.62%	43.51%
Russell 2000	5,802	4.33%	18.71%	66.96%
Dow Jones	34,434	3.44%	13.56%	36.43%
NASDAQ	14,360	2.36%	11.79%	44.41%
MSCI EAFE	2,342	1.51%	10.89%	35.10%
MSCI EM	1,380	1.42%	7.87%	40.53%

*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	24.86	21.32	11.37	23.89
Prior Month	25.16	21.24	6.92	25.27
Prior Year	21.09	21.66	-9.82	3.17

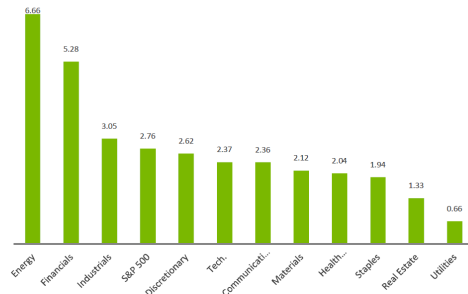
Fixed Income	Last	Returns		
		1 Week	YTD	1 Year
U.S. Aggregate	1.55%	-0.41%	-2.00%	-0.54%
U.S. Inv Grade	2.14%	-0.70%	-1.90%	3.07%
U.S. High Yield	4.64%	0.37%	3.34%	14.22%
TIPS	1.14%	0.26%	1.26%	6.01%

Rates	Last	Change		
		1 Week	YTD	1 Year
6M T-Bill	0.06%	0.00	-0.03	-0.11
2 Yr Treasury	0.28%	0.02	0.15	0.11
5 Yr Treasury	0.92%	0.03	0.56	0.6
10 Yr Treasury	1.54%	0.09	0.61	0.86
30 Yr Treasury	2.16%	0.15	0.51	0.73

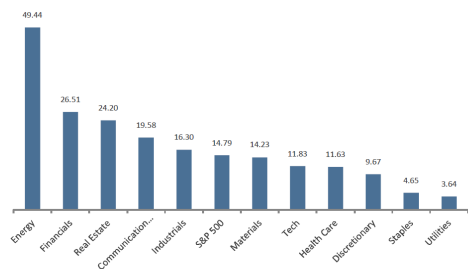
Spreads	Last	Change (Abs %)		
		1 Week	YTD	1 Year
AAA Rated	0.44	-0.01	-0.11	-0.37
BBB Rated	1.09	-0.01	-0.23	-1.00
High Yield	3.04	-0.14	-0.82	-3.26
10 to 2 yr Treasury	1.26	0.00	0.46	0.75

Commodities/FX	Last	Returns (Currencies in \$ strength)		
		1 Week	YTD	1 Year
Gold	1776.60	0.49%	-6.15%	0.82%
Bitcoin	31809.13	-11.11%	9.60%	243.92%
WTI Oil	74	3.29%	53.05%	91.41%
EUR/USD	1.1951	-0.80%	2.33%	-6.58%
USD/JPY	110.77	0.49%	7.29%	3.35%

S&P Sector Returns — Week (%)

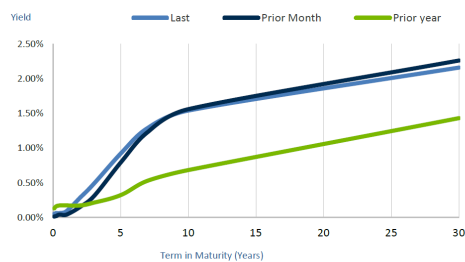


S&P Sector Returns — YTD (%)*



*represents total return

U.S. Yield Curve



Russell Style Returns — Week

	Value	Core	Growth
Large	3.2	2.9	2.5
Mid	3.9	3.8	3.6
Small	4.1	4.3	4.5

Russell Style Returns — YTD

	Value	Core	Growth
Large	17.6	14.6	11.9
Mid	20.5	16.8	10.1
Small	29.0	18.7	9.2

Previous Week's Indicators

	Period	Actual	Previous
Existing home sales	May	5.80 M	5.85 M
New home sales	May	769,000	817,000
Initial jobless claims	Week ending June 19	411,000	418,000
Durable goods orders	May	2.3%	-0.8%
Real GDP (revision)	Q1 2021	6.4%	6.4%
Personal income	May	-2.0%	-13.1%
Consumer spending	May	0.0%	0.9%
Core PCE price index	May	0.5%	0.7%

This Week's Indicators

	Release Date	Period	Forecast*	Previous
Consumer confidence	Tues.	June	118.7	117.2
Chicago PMI	Wed.	June	75.5	75.2
Initial jobless claims	Thurs.	Week ending June 26	395,000	411,000
ISM manufacturing index	Thurs.	June	62.9	61.2
Construction spending	Thurs.	May	0.4%	0.2%
Light vehicle sales	Thurs.	June	17.4 M	17.0 M
Nonfarm payrolls	Fri.	June	870,000	559,000
Unemployment rate	Fri.	June	5.6%	5.8%
Average hourly earnings	Fri.	June	0.4%	0.5%
Trade deficit	Fri.	May	-\$70.1 B	-\$68.9 B
Factory orders	Fri.	May	4.4%	-0.6%

* Nationwide Economics Forecast



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