Nationwide Economics

# Weekly Economic Review & Outlook

July 26, 2021

## Strong sellers' market for housing continues

Home construction picked up for June even as builders contend with rising costs, a lack of workers, and few buildable lots. Housing starts rose by a solid 6.3 percent, climbing to an annualized pace of 1.64 million units. There were gains for both single-family and multifamily units as households continue to show strong interest in all types of housing. While below the recent March peak, June's level of starts was the third highest monthly reading in the past 14 years.

Permits for future starts dropped for a fourth consecutive month, however, and reflect cost and labor pressures being felt by builders. This suggests that starts could struggle to move higher in the months ahead. Lumber prices have fallen sharply over the past two months, however (dropping from $1,670 per 1,000 board feet on May 10 to below $550 last week), and this should ease some of the higher costs for new construction — although it may take a few months for wholesale prices to show a similar decline. Moreover, the availability of labor should improve as more workers reenter the workforce over the next year.

Although mortgage applications for purchase have pulled back recently, market conditions suggest continued strong demand for new homes. Home builders remained confident based on the NAHB Housing Market Index for July, expecting elevated sales over the next six months. Any additional pickup in home construction would be a welcome sign for buyers with the inventory of existing homes near a record low. We still expect growth in sales for new homes to be stronger than for existing homes given the relative supply situations.

**Record prices for existing homes**

Existing home sales edged higher for June to an annualized pace of 5.86 million units, although this was weaker than implied by the jump in pending home sales from the prior month. While June's increase halted a four-month skid, the sales pace remained below than the recent peaks from October through January — but it was still well above pre-COVID sales. The supply of existing homes for sale didn't improve much for June as new listings continue to lag. There were 1.25 million units listed for sale during June, down by nearly 19 percent from a year earlier and only a tad higher than the record low after seasonal adjustment.

With supply extremely limited and demand solid, housing prices continue to climb sharply. The median sales price of an existing home sold soared above $360,000 for June and was up by more than 23 percent over the past year. Despite still low mortgage rates and improving economic conditions, demand from homebuyers has cooled a bit — likely in response to fewer available options and increasingly above-asking contract prices. The National Association of Realtors noted that 89 percent of the homes sold for June were on the market for less than a month. Mortgage applications for purchase in recent weeks were the weakest in more than a year.

We still expect existing sales to remain elevated into 2022 in response to strong demand drivers as the expansion continues at an above-trend pace. Still, purchases will likely be limited by the tight supply conditions unless more listings enter the market soon. Also, house price appreciation is expected to remain very strong for some time, reducing affordability for buyers.

## You Need to Know

### Week in Review

**Housing starts rise solidly for June**

*Despite continued concerns about rising costs and a shortage of workers and buildable lots, new home construction accelerated for June as builders respond to strong market demand.*

**Existing home sales rise but so do prices for homebuyers**

*Sales edged higher for June while the median sales price climbed to an all-time high and supply conditions remained exceptionally tight.*

### Week Ahead (Forecasts)

**Massive growth in real GDP expected**

*Although constrained by supply chain disruptions and a shortage of workers, soaring demand almost certainly led to substantial growth in real GDP for the second quarter.*

**Strong gains likely for consumer spending and core inflation**

*Widespread lifting of in-person restrictions likely led to a large gain in consumer spending, while strong upward price pressures continued for June.*

**Ben Ayers**
*Senior Economist*

**Daniel Vielhaber**
*Economist*

# The Week Ahead

This week's economic data include new home sales, durable goods orders, consumer confidence, second quarter real GDP, personal income and spending, the PCE price index, and consumer sentiment. The Federal Open Market Committee meets this week, but no change in policy is expected.

## Little movement expected in new home sales

While it remained well above pre-pandemic levels for May, the pace of new home sales has fallen significantly from the 14-year high seen in January. June's pace was likely strong historically due to positive housing demand, but new sales continue to be held back by supply constraints. We project the annualized pace of new home sales for June will edge lower to 760,000 units, a modest step down from May's number. Additionally, the median sales price for new homes likely continued its rapid ascent with demand exceeding supply.

## Second quarter real GDP growth expected to be very rapid

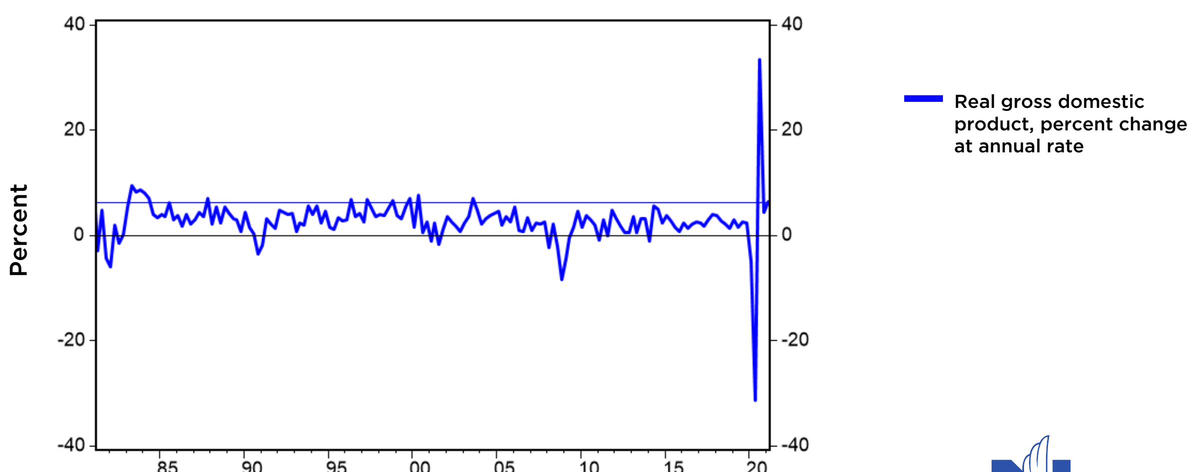
Annualized first quarter real GDP growth was the second highest since 2003, lagging only behind the still amazing 33 percent gain in the third quarter of last year, but we expect that growth was much faster in the second quarter. Fewer COVID-19 infections and widespread vaccinations (particularly among the most vulnerable populations) resulted in the lifting of most COVID-related restrictions. More normal levels of travel and dining out resumed, and strong job growth and leftover stimulus money helped to drive up demand, which soared. We project second-quarter growth in real GDP of 8.1 percent, which would be the second highest since 1983 (again behind the third quarter of 2020). Without continuing supply chain disruptions and labor shortages, second-quarter growth likely would have been in double digits.

## Strong growth in consumer spending likely, but outsized price gains continue

Personal income likely slipped again for June as average weekly earnings rose only modestly and there were no new stimulus checks. We expect a fall in personal income of 0.5 percent, but this is not expected to carry over to personal consumption expenditures (PCE) which were boosted by increased gasoline consumption, relatively normal levels of dining out, and the elimination of most in-person activity restrictions. With consumers mostly out and about, we project a rise in PCE of 0.9 percent. But the combination of strong economic activity and supply constraints likely resulted in another outsized gain in the PCE price index. We project a rise in the core PCE — which leaves out the volatile food and energy components — of 0.7 percent, bringing the 12-month trend rate up to 3.7 percent, the fastest pace since the start of 1991.

# Worth Watching

**Real GDP growth was rapid in the first quarter.**




*Sources: Bureau of Economic Analysis/Haver Analytics*

# Weekly Market Snapshot

| Equity | Last | Returns 1 Week | YTD* | 1 Year* |
|---|---|---|---|---|
| S&P 500 (Large) | 4,412 | 1.97% | 18.41% | 38.47% |
| S&P 400 (Mid) | 2,673 | 2.14% | 16.62% | 45.26% |
| S&P 600 (Small) | 1,319 | 1.63% | 18.56% | 54.17% |
| S&P 500 (High Quality) | 50 | 1.59% | 19.20% | 36.64% |
| Russell 1000 | 4,766 | 2.20% | 17.80% | 40.06% |
| Russell 2000 | 5,492 | 2.15% | 12.44% | 49.85% |
| Dow Jones | 35,062 | 1.12% | 15.72% | 34.16% |
| NASDAQ | 14,837 | 2.84% | 15.53% | 42.85% |
| MSCI EAFE | 2,307 | 0.21% | 9.33% | 26.24% |
| MSCI EM | 1,311 | -2.08% | 2.96% | 24.28% |

*represents total return

| S&P Metrics | LTM P/E | NTM P/E | LTM EPS Growth | NTM EPS Growth |
|---|---|---|---|---|
| Current | 24.58 | 21.44 | 17.04 | 22.77 |
| Prior Month | 24.81 | 21.18 | 11.01 | 23.90 |
| Prior Year | 22.12 | 22.17 | -11.11 | 6.85 |

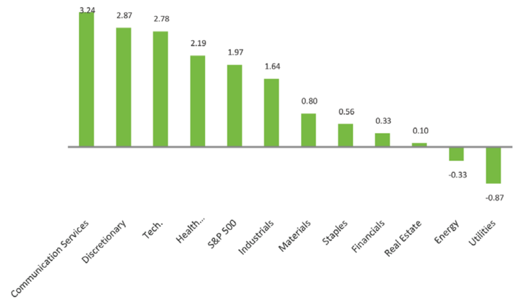
| Fixed Income | Last | Returns 1 Week | YTD | 1 Year |
|---|---|---|---|---|
| U.S. Aggregate | 1.41% | 0.19% | -0.75% | -0.69% |
| U.S. Inv Grade | 2.01% | 0.24% | -0.27% | 1.55% |
| U.S. High Yield | 4.63% | 0.07% | 3.95% | 11.51% |
| TIPS | 0.97% | 0.51% | 3.63% | 6.85% |

| Rates | Last | Change 1 Week | YTD | 1 Year |
|---|---|---|---|---|
| 6M T-Bill | 0.05% | 0.00 | -0.04 | -0.08 |
| 2 Yr Treasury | 0.22% | -0.03 | 0.09 | 0.06 |
| 5 Yr Treasury | 0.72% | -0.07 | 0.36 | 0.45 |
| 10 Yr Treasury | 1.30% | -0.01 | 0.37 | 0.71 |
| 30 Yr Treasury | 1.92% | -0.01 | 0.27 | 0.68 |

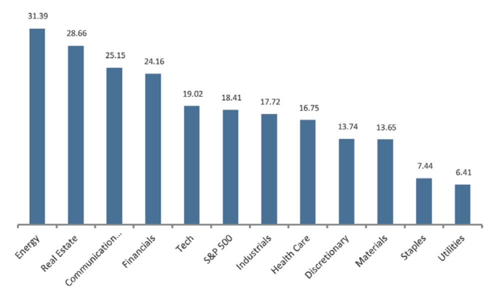
| Spreads | Last | Change (Abs %) 1 Week | YTD | 1 Year |
|---|---|---|---|---|
| AAA Rated | 0.5 | 0.02 | -0.05 | -0.19 |
| BBB Rated | 1.16 | 0.02 | -0.16 | -0.68 |
| High Yield | 3.22 | 0.04 | -0.64 | -2.04 |
| 10 to 2 yr Treasury | 1.08 | 0.00 | 0.28 | 0.65 |

| Commodities/FX | Last | Returns (Currencies in $ strength) 1 Week | YTD | 1 Year |
|---|---|---|---|---|
| Gold | 1801.40 | -0.72% | -4.84% | -4.64% |
| Bitcoin | 33514.63 | 6.77% | 15.47% | 248.91% |
| WTI Oil | 72.07 | 0.43% | 49.06% | 75.82% |
| EUR/USD | 1.17615 | 0.40% | 3.87% | -1.44% |
| USD/JPY | 110.57 | 0.42% | 7.09% | 3.34% |

## S&P Sector Returns — Week (%)

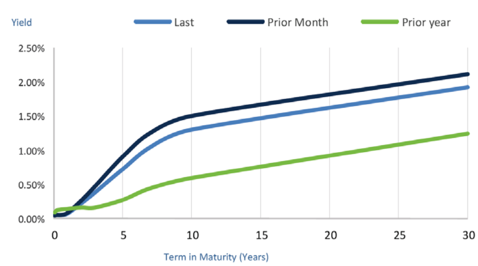



## S&P Sector Returns — YTD (%)*




*represents total return

## U.S. Yield Curve




## Russell Style Returns — Week

| | Value | Core | Growth |
|---|---|---|---|
| Large | 1.0 | 2.2 | 3.3 |
| Mid | 1.5 | 2.5 | 4.4 |
| Small | 0.9 | 2.2 | 3.4 |

## Russell Style Returns — YTD

| | Value | Core | Growth |
|---|---|---|---|
| Large | 17.3 | 17.8 | 18.2 |
| Mid | 19.1 | 16.7 | 12.1 |
| Small | 20.5 | 12.4 | 4.8 |

*Sources: IMG Business and Product Development -Data Analytics Team; FactSet*

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## Previous Week's Indicators

| | Period | Actual | Previous |
|---|---|---|---|
| Housing market index | July | 80 | 81 |
| Housing starts | June | 1.64 M | 1.55 M |
| Building permits | June | 1.60 M | 1.68 M |
| Initial jobless claims | Week ending July 17 | 419,000 | 360,000 |
| Existing home sales | June | 5.98 M | 5.94 M |
| Index of leading economic indicators | June | 0.7% | 1.2% |
| Kansas City Fed manufacturing survey index | July | 30 | 27 |
| Markit flash manufacturing index | July | 63.1 | 62.1 |
| Markit flash services index | July | 59.8 | 64.6 |

## This Week's Indicators

| | Release Date | Period | Forecast* | Previous |
|---|---|---|---|---|
| New home sales | Mon. | June | 760,000 | 769,000 |
| Dallas Fed manufacturing survey index | Mon. | July | 29.9 | 27.1 |
| Durable goods orders | Tues. | June | 1.2% | 2.3% |
| S&P/Case-Shiller HPI (y/y) | Tues. | May | 16.3% | 14.6% |
| Consumer confidence | Tues. | July | 124.8 | 127.3 |
| Richmond Fed. Manufacturing survey index | Tues. | July | 23 | 22 |
| Initial jobless claims | Thurs. | Week ending July 24 | 385,000 | 419,000 |
| Real GDP | Thurs. | Q2 | 8.1% | 6.4% |
| GDP price index | Thurs. | Q2 | 5.2% | 4.3% |
| Pending home sales | Thurs. | June | 2.1% | 8.0% |
| Personal income | Fri. | June | -0.5% | -2.0% |
| Personal consumption expenditures | Fri. | June | 0.9% | 0.0% |
| Core PCE price index (m/m) | Fri. | June | 0.7% | 0.5% |
| Core PCE price index (y/y) | Fri. | June | 3.7% | 3.4% |
| Employment cost index | Fri. | Q2 | 1.2% | 0.9% |
| Chicago PMI | Fri. | July | 71.1 | 66.1 |
| Consumer sentiment | Fri. | July | 80.0 | 80.8 |

** Nationwide Economics Forecast*

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