Nationwide Economics

Weekly Economic Review & Outlook

November 21, 2022

Consumer resiliency shines through

Households continued to spend into the fourth quarter as October retail sales beat expectations. Additionally, upward revisions to the prior two months suggest solid momentum for consumer activity despite rising costs and recession worries. Also, housing market data continued to cool as existing home sales and housing starts fell again.

Broad growth for retail spending

October's growth in retail sales was stronger than expected at 1.3 percent. The surge in auto sales and a large increase in sales at gasoline stations after gas prices climbed over the month helped to boost the topline figure. But core retail sales — total sales less autos, gasoline, and building materials — also expanded by 0.7 percent, indicative of broad growth across retail categories. It doesn't appear to be evident, however, that growth was driven by early holiday spending. Spending declined for clothing, department, sporting goods, and electronics stores — all areas which would be expected to see bumps in spending if consumers shifted their holiday shopping into October.

Consumer activity appeared to be losing steam in recent months, weighed down by persistent high inflation for necessities like gasoline and groceries as well as rising interest rates. But following October's retail surge along with upward revisions for August and September, the momentum for consumer spending is strong at the start of the fourth quarter. This should help to lift real GDP growth expectations over the period, especially with job and wages gains still so buoyant.

It is becoming clear that the Fed will have a hard time meaningfully reducing demand (and prices) until there is more substantial weakening in the labor market. St. Louis Fed President James Bullard said last week that the federal funds rate should be hiked to at least 5.00-5.25 percent next year, and that the high end of the restrictive range could be as high as 7.00 percent. These comments follow Chair Powell's post-FOMC sentiments in shifting market expectations toward more (perhaps significant) tightening to come in 2023.

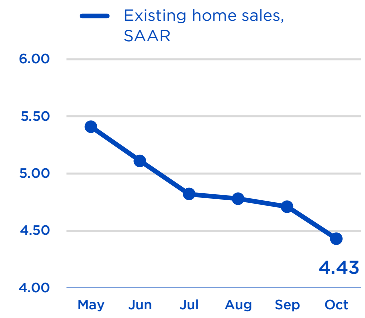
Housing data continue to decline

Existing home sales fell for a record ninth consecutive month in October to an annualized rate of 4.43 million units. October's pace was the slowest since May 2020 (the low point during the Covid lockdowns); and excluding the Covid recession, it's the slowest pace in 11 years. Homebuyer demand has plummeted in response to rising house prices and mortgage rates, which have severely hurt housing affordability. September's reading of the NAR housing affordability index represented the largest year-over-year decline in its history (data back to 1972) and follows previous record declines earlier this year. With mortgage rates expected to remain at 7.0 percent or higher for some time, the worst might not be over for single-family sales activity.

Housing starts also fell in October with single-family starts down for the tenth month over the past year. But, conversely, the pace of multifamily starts was one of the fastest since the mid-1980s as builders shift away from single-family construction. This reflects the effects of high mortgage rates as many potential homebuyers remain stuck in the rental market.

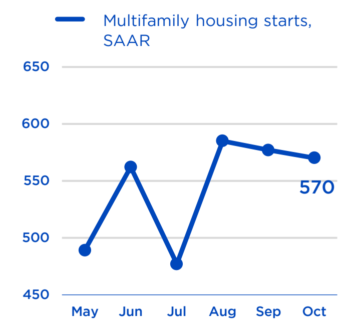
Aside from slowing housing demand, starts are also being held back by a lack of labor as well as high costs for land and construction materials. The number of houses permitted but not started in October was only marginally below July's record high, suggesting that some builders are delaying or walking away from projects in response to market conditions.

Existing home sales continue to fall



After falling for a record ninth straight month, the pace of existing home sales has reached its lowest level since May 2020.

Multifamily starts remain strong



The six-month trend is up for multifamily starts as high mortgage rates push more households into the market for rentals.

Sources:
National Association of Realtors; Census Bureau

Contributors: Daniel Vielhaber, Economist | Scott Murray, Financial Markets Economist

The Week Ahead

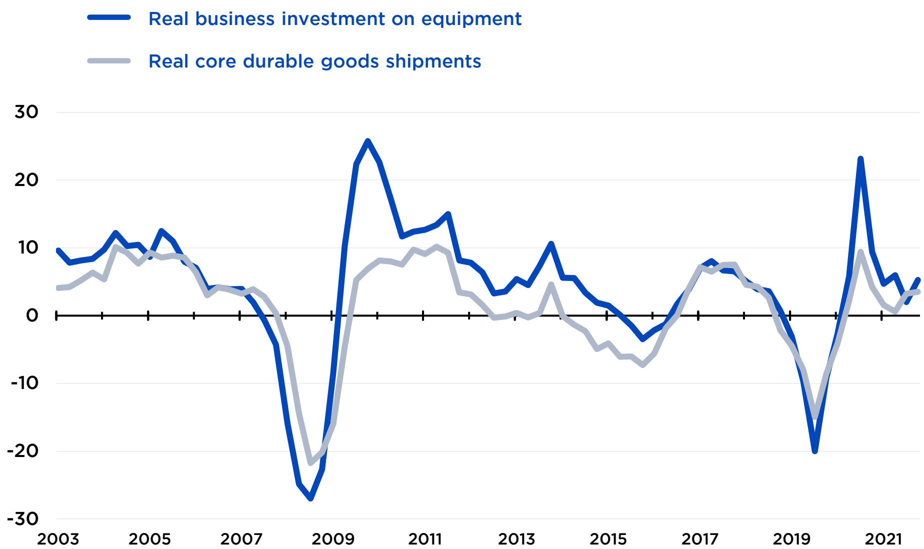
Here's what we are watching this week during the holiday-shortened week:

Durable Goods Orders

Nov 23

Durable goods orders are expected to advance modestly

Durable goods orders likely advanced a moderate 0.4 percent in October, the same as in September. Aircraft and motor vehicles orders should lift the headline reading. However, away from the transportation sector, we look for continued weakening. The core (non-defense capital goods ex aircraft) shipments reading adjusted for core goods inflation should remain soft, indicating just moderate increases in corporate spending on nonresidential equipment.



Sources: Bureau of Economic Analysis, Census Bureau

New Home Sales

Nov 23

New home sales should continue to slow

Following on the heels of the 5.9 percent decline in existing home sales for October, we forecast a five percent fall in new home sales to an annualized pace of 572,000. The combination of mortgage rates hovering around seven percent, high prices, and lean inventories should continue to exert downward pressure on home-buying activity. Looking ahead, with the Federal Reserve on course to keep tightening monetary policy, the outlook for the housing sector remains dour.

University of Michigan Consumer Sentiment Index

Nov 23

Consumer sentiment forecasted to improve

The final November reading for the University of Michigan consumer sentiment index is expected to improve slightly to 55.5 from the preliminary 54.7 reading. However, this would still leave the index just modestly above its all-time low of 50.0 posted in June. The key five-year ahead inflation expectations measure might ease slightly from the preliminary three percent reading, which would be welcomed by the Federal Reserve but would still be above the pre-Covid average of 2.4 percent in 2019.

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Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
PPI Final Demand MoM	October	0.2%	0.4%
PPI Ex Food and Energy MoM	October	0.0%	0.3%
Empire Manufacturing	November	4.5	-9.1
Retail Sales Advance MoM	October	1.3%	0.0%
Retail Sales Ex Auto and Gas	October	0.9%	0.3%
Import Price Index MoM	October	-0.2%	-1.2%
Export Price Index MoM	October	-0.3%	-0.8%
Industrial Production MoM	October	-0.1%	0.4%
Capacity Utilization	October	79.9	80.3
NAHB Housing Market Index	November	33	38
Housing Starts	October	1425	1439
Building Permits	October	1526	1564
Housing Starts MoM	October	-4.2%	-8.1%
Building Permits MoM	October	-2.4%	1.4%
Philadelphia Fed Business Outlook	November	-19.4	-8.7
Initial Jobless Claims	Week ending November 12	222k	225k
Existing Home Sales	October	4.43m	4.71m
Existing Home Sales MoM	October	-5.9%	-1.5%
Leading Index	October	-0.8%	-0.4%

This Week's Indicators

	Release Date	Period	Forecast*	Previous
Durable Goods Orders	Wednesday	October	0.4%	0.4%
Initial Jobless Claims	Wednesday	Week ending November 19	230k	222k
U. of Mich. Sentiment	Wednesday	October	55.5	54.7
New Home Sales	Wednesday	October	572k	603k
New Home Sales MoM	Wednesday	October	-5.0%	-10.9%

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NFM-9898AO.7

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