MONDAY ECONOMIC REPORT

Housing Starts Rose in August, but Single-Family Activity Fell to a Four-Month Low

By Chad Moutray – September 27, 2021

The Weekly Toplines

- New housing starts rose 3.9% from 1,554,000 units at the annual rate in July to 1,615,000 units in August. Despite the uptick, single-family housing starts fell 2.8%, down from 1,107,000 units to 1,076,000 units, a four-month low. Housing construction has dampened in recent months on rising construction costs, affordability issues and difficulties in finding workers.

- In contrast, multifamily construction activity, which can often be highly volatile from month to month, soared from 447,000 units to 539,000 units, the strongest reading since January 2020, buoying the headline number.

- Builders remained optimistic about growth over the coming months despite ongoing concerns. Along those lines, housing permits increased for the second straight month, up 6.0% from an annualized 1,630,000 units in July to 1,728,000 units in August, a four-month high.

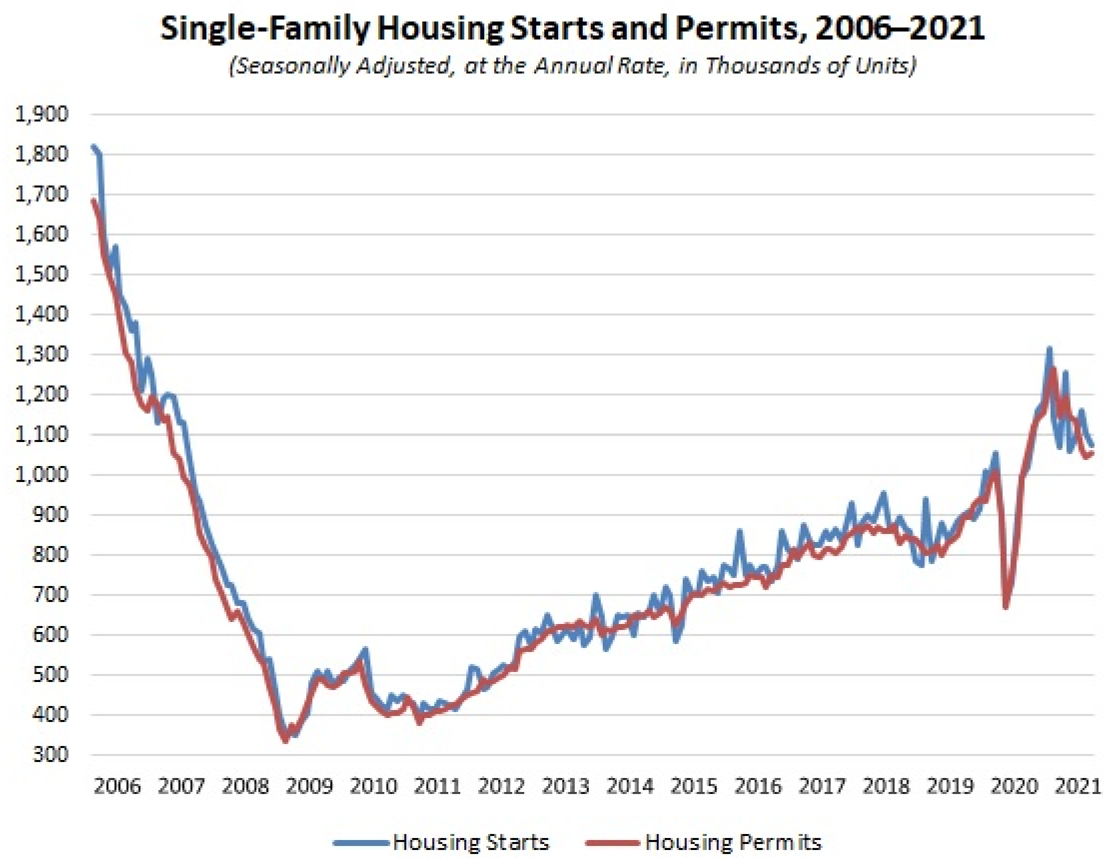
- The new and existing home sales data for August were mixed, but the larger trend year to date has reflected some softening in activity. Affordability issues, workforce shortages and reduced inventories are often cited as reasons for weaknesses. Median sales prices remained not far from record levels.

- The IHS Markit Flash U.S. Manufacturing PMI slipped from 61.1 in August to 60.5 in September, a five-month low. While the expansion in activity remained solid, production growth weakened to an 11-month low, and output prices soared to a new record. Input prices pulled back from an all-time high but remained very elevated.

- Manufacturers in the Kansas City Federal Reserve Bank's district noted solid expansions in activity in September, albeit with some deceleration across the board. Raw material costs continued to grow robustly, at a pace that was not far from May's record. Encouragingly, respondents continued to be very upbeat in their outlook for the next six months.

- The Federal Open Market Committee left short-term interest rates unchanged, as expected. In addition, the Federal Reserve will continue buying at least $80 billion each month in Treasury securities and up to $40 billion per month in agency mortgage-backed securities. Market participants have begun expecting the FOMC to start tapering those purchases soon, potentially at the next meeting, which is Nov. 2–3.

- The FOMC is not expected to hike the federal funds rate until at least mid-2022. In the latest economic projections, the median federal funds rate would seem to suggest one rate hike in 2022, with three increases in 2023.
- Federal Reserve participants expect 5.9% growth in the U.S. economy in 2021, with the unemployment rate falling to 4.8% by year's end. The core PCE deflator should jump by 3.7% in 2021, but with 2.3% and 2.2% estimates for 2022 and 2023, respectively. That suggests some stabilization in pricing pressures starting next year.
- I spoke about supply chain disruptions, workforce shortages and cost pressures at the "Fed Listens: Perspectives on the Pandemic Recovery" virtual event on Friday, Sept. 24. You can watch the proceedings here.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, September 20
NAHB Housing Market Index

Tuesday, September 21
Housing Starts and Permits

Wednesday, September 22

This Week's Indicators:

Monday, September 27
Dallas Fed Manufacturing Survey
Durable Goods Orders and Shipments

Tuesday, September 28
Conference Board Consumer Confidence
International Trade in Goods (Preliminary)
Richmond Fed Manufacturing Survey

Existing Home Sales
FOMC Monetary Policy Statement

Thursday, September 23
Chicago Fed National Activity Index
Conference Board Leading Indicators
IHS Markit Flash U.S. Manufacturing PMI
Kansas City Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, September 24
New Home Sales

Wednesday, September 29
None

Thursday, September 30
Gross Domestic Product (Second Revision)
Real GDP by Industry
Weekly Initial Unemployment Claims

Friday, October 1
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®
Personal Consumption Expenditures Deflator
Personal Income and Spending

Deeper Dive

- **Chicago Fed National Activity Index:** The U.S. economy expanded for the fourth straight month in August, albeit with some softening from July, according to the Chicago Federal Reserve Bank. The National Activity Index declined from 0.75 in July to 0.29 in August, and the three-month moving average ticked up from 0.36 to 0.43. Positive index readings suggest that the U.S. economy is growing above trend, and as such, the data remained encouraging. Still, it would be nice to see stronger growth, and it was clear that activity was held back in some categories, likely due to continuing supply chain challenges and the continued spread of COVID-19.

  Production-related indicators contributed 0.11 to the NAI in August, slowing from 0.40 in July. Manufacturing production rose to the strongest reading since January 2019, but growth eased in August, edging up 0.1% for the month after rising by 1.6% in July. Employment also decelerated in August, with nonfarm payrolls rising by just 235,000 for the month. At the same time, manufacturing employment increased by 37,000, and the unemployment rate dropped to 5.2%, a post-pandemic low.

- **Conference Board Leading Indicators:** The Leading Economic Index increased 0.9% in August, building on the solid gains seen in the six previous months, including 0.8% growth in July. Over the past six months, the LEI rose a robust 6.4%, with the U.S. economy continuing to rebound strongly. Overall, these data point to solid growth over the coming months. Consumer confidence slipped and the number of hours worked for manufacturing workers was flat, but all other categories were positive in August, including for new manufacturing orders.

  Meanwhile, the Coincident Economic Index rose 0.2% in August, slowing from the 0.6% gain seen in July. All four components of the CEI — industrial production, manufacturing and trade sales, nonfarm payrolls and personal income less transfer payments — made positive contributions to the latest data.

- **Existing Home Sales:** Existing home sales declined 2.0%, from 6.00 million units in July at the annual rate to 5.88 million units in August, according to the National Association of Realtors. Growth was lower in every region of the country. Overall, existing home sales have drifted lower since peaking at 6.73 million units in October

2020, which was the strongest pace since March 2006. The deceleration in activity has been largely attributed to affordability issues and reduced inventories. Indeed, NAR Chief Economist Lawrence Yun noted, “Although there was a decline in home purchases, potential buyers are out and about searching, but much more measured about their financial limits, and simply waiting for more inventory.”

In August, single-family sales decreased 1.9% from 5.29 million units to 5.19 million units, with condominium and co-op sales off 2.8% from 710,000 units to 690,000 units, an 11-month low. On a year-over-year basis, existing home sales have fallen 1.5% since August 2020.

There were 2.6 months of existing home sales on the market in August, the same pace as in July. Inventories remain historically low overall despite rising from a record low of 1.9 months of supply on the market in December and January. The median sales price for existing homes has jumped 14.9% year-over-year, up to $356,700 and not far from June’s record high ($362,800).

- **FOMC Monetary Policy Statement:** The Federal Open Market Committee left short-term interest rates unchanged, as expected. In addition, the Federal Reserve will continue buying at least $80 billion each month in Treasury securities and up to $40 billion per month in agency mortgage-backed securities. Market participants have begun expecting the FOMC to start tapering those purchases soon, potentially at the next meeting, which is Nov. 2–3. To that end, the Fed teed up that possibility, noting, “If progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted.”

  The FOMC is not expected to hike the federal funds rate until at least mid-2022. In the latest economic projections, the median federal funds rate would seem to suggest one rate hike in 2022, with three increases in 2023.

  The statement notes significant progress in economic growth and employment, including solid rebounds in sectors hard-hit by the COVID-19 pandemic. With that said, it also mentioned some softening recently associated with the continued spread of the virus, and inflationary pressures remain a challenge, albeit one that continues to reflect “transitory factors.”

  In terms of the economic outlook, Federal Reserve participants expect 5.9% growth in the U.S. economy in 2021, down from a forecast of 7.0% in June’s projections. Real GDP should increase by 3.8% in 2022, up from 3.3% in the prior estimate. The unemployment rate should fall to 4.8% by year’s end, with 3.5% and 3.3% forecasts for 2022 and 2023, respectively. The core PCE deflator should jump by 3.7% in 2021, stronger than the 3.0% estimate seen three months ago, but with 2.3% and 2.2% estimates for 2022 and 2023, respectively. That suggests some stabilization in pricing pressures starting next year.

- **Housing Starts and Permits:** New residential construction activity rose 3.9%, from 1,554,000 units at the annual rate in July to 1,615,000 units in August. Despite the uptick, single-family housing starts fell 2.8%, down from 1,107,000 units to 1,076,000 units, a four-month low. Housing construction has dampened in recent months on rising construction costs, affordability issues and difficulties in finding workers. In contrast, multifamily construction activity, which can often be highly volatile from month to month, soared from 447,000 units to 539,000 units, the strongest reading since January 2020, buoying the headline number.

Overall, new residential construction activity has decelerated from March's pace (1,725,000 units), which was the strongest level since July 2006. The data provide a mixed perspective on the current state of the housing market. On the one hand, housing starts have risen by a very solid 17.4% over the past 12 months, up from 1,376,000 units in August 2020, with single-family construction starts up 5.2% year-over-year from 1,023,000 units last year. That speaks to the upward trend seen in the housing market over the past year. With that said, single-family housing starts have drifted lower year to date, down from 1,315,000 units in December 2020, which was the best reading since September 2006.

Encouragingly, builders remained optimistic about growth over the coming months, with sentiment edging higher in the latest NAHB Housing Market Index despite ongoing concerns. (See below.) Along those lines, housing permits increased for the second straight month, up 6.0% from an annualized 1,630,000 units in July to 1,728,000 units in August, a four-month high. This remains a solid figure despite trending lower since the recent peak in January, which was 1,883,000 units, the highest since June 2006.

Most of the increase in permitting in August, however, stemmed from a rise in multifamily units, jumping 15.8% from 582,000 units to 674,000 units, a new record high. At the same time, single-family permitting rose 0.6%, from 1,048,000 units to 1,054,000 units. As with starts, this speaks to the affordability challenges that are dampening new construction growth. Over the past 12 months, housing permits have risen 13.5% since August 2020, with multifamily permitting soaring 44.3%. Single-family housing permits have inched down 0.1% year-over-year, however, pulling back from January's pace (1,268,000 units), which was the strongest since August 2006.

- **IHS Markit Flash U.S. Manufacturing PMI:** The IHS Markit Flash U.S. Manufacturing PMI slipped from 61.1 in August to 60.5 in September, a five-month low. While it was the sixth straight month with the index exceeding 60—a threshold which would signal very solid expansions—the data are consistent with supply chain and workforce challenges seen in the sector. At the same time, manufacturers have also grappled with cost pressures and rising COVID-19 cases. In September, new orders (down from 61.6 to 60.8), output (down from 56.7 to 55.2) and future output (down from 76.0 to 72.9) slowed, with production weakening to an 11-month low. Nonetheless, exports (up from 53.6 to 54.9) and employment (up from 52.7 to 53.5) both strengthened in September. The index for output prices (up from 73.2 to 74.4) soared to a new record, with input prices (down from 87.5 to 86.9) pulling back from an all-time high but remaining very elevated.

  With the delta variant a lingering concern, the IHS Markit Flash U.S. Services PMI dropped from 55.1 to 54.4, easing for the fourth straight month from the record high in May (70.4) and reaching a 14-month low.

  Meanwhile, the IHS Markit Flash Eurozone Manufacturing PMI declined from 61.4 in August to 58.7 in September, expanding at the slowest pace since February. Manufacturing activity slowed on supply chain disruptions and worries about the continued spread of the delta variant in Europe. Growth in new orders, exports and output were the weakest since December, with hiring slowing to a pace not seen since February. Indices for input prices (up from 87.0 to 87.6) and output prices (up from 68.6 to 70.6) drifted higher in September, with both not far from record paces. Despite softer than desired activity in the latest survey, manufacturers remained optimistic about production over the next six months.

Manufacturing activity decelerated in September in [France](#) and [Germany](#) to the slowest in eight months, and, outside the Eurozone, sentiment in the [United Kingdom](#) was the weakest in seven months. In France, input costs jumped in September at the fastest pace on record.

- **Kansas City Fed Manufacturing Survey:** Manufacturing activity continued to expand solidly, albeit with the composite index of general business conditions declining from 29 in August to 22 in September. These data reflect challenges with supply chain and logistics constraints, workforce shortages and rising input costs, as noted once again in the sample comments. The underlying data were slower across the board, with new orders and production expanding at the weakest paces since the summer months of 2020. At the same time, the index for raw material prices was unchanged at 80 in September, signifying robust cost pressures that were not far from May's record high (86).

  Meanwhile, respondents continued to feel very upbeat about additional growth over the next six months, but with the forward-looking composite index edging down from 36 in August to 35 in September. It remained just shy of the record 37 in June. Input prices were expected to remain very elevated, with the forward-looking measure rising from 75 to 79, matching the all-time high seen in April. More importantly, production was forecast to rebound strongly, with the index for expected output increasing from 46 to 58, matching the record seen in October 2003.

- **NAHB Housing Market Index:** After falling to a 13-month low in the previous release, the Housing Market Index edged up from 75 in August to 76 in September, according to the National Association of Home Builders and Wells Fargo. While housing demand remained strong, builders continued to struggle with building material costs and worker shortages. The improvement in the latest data coincided with some relief in terms of lumber prices. While sentiment has drifted lower over the course of this year, builders remained optimistic in their outlook for growth in the months ahead. (Readings over 50 suggest that more respondents are positive than negative in their outlook.)

  The index for current single-family homes inched up from 81 in August to 82 in September, with the index for expected single-family sales unchanged for the third straight month at 81. These remain solid readings, reflecting an upbeat assessment of sales moving forward, despite the challenges mentioned above.

- **New Home Sales:** New single-family home sales rose 1.5% from 729,000 units at the annual rate in July to 740,000 units in August, a four-month high. In the latest figures, sales were higher in every region of the country except for the Midwest. While higher in the past two months, these data have trended lower since peaking at 993,000 units in January, which was the strongest pace since December 2006, largely on affordability issues, supply chain challenges and workforce shortages. With weaker data since January, new single-family home sales declined 24.3% year-over-year, down from 977,000 units in August 2020. Hopefully, the rebounds seen in July and August continue moving forward.

  There were 6.1 months of supply on the market in August, with inventories rising year to date, up from 3.6 months in January. The median sales price for new homes was $390,900 in August, matching the record seen in July and up 20.1% from $325,500 one year ago.

- **Weekly Initial Unemployment Claims:** Initial unemployment claims totaled 351,000 for the week ending Sept. 18, rising for the second straight month, up from 335,000 for the week ending Sept. 11. Meanwhile, continuing claims rose from a post-pandemic low of 2,714,000 for the week ending Sept. 4 to 2,845,000 for the week ending Sept. 11. Continuing claims were consistent with 2.1% of the workforce, up from 2.0% in the previous report.

  At the same time, 11,250,287 Americans received some form of unemployment insurance benefit (including state and federal programs) for the week ending Sept. 4. That figure was down from 12,106,727 for the week ending Aug. 28. The decrease stemmed largely from reduced pandemic and state unemployment assistance, which was enough to offset increased extended benefits assistance.

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