Weekly Market Update

January 17, 2022

Week of January 17, 2022 in Review

Low inventory, high demand and higher material costs continue to be the themes in the housing sector. Plus, Omicron showed its impact on manufacturing and unemployment claims.

Sales of existing homes fell by 4.6% from November to December to an annualized pace of 6.2 million units. But the real story was record-low inventory. There were only 910,000 homes for sale at the end of December, which is down significantly from the 1.1 million homes that were available at the end of November.

Homes were only on the market for 19 days, even with higher prices and the lack of inventory, which speaks to the high demand for homes among potential buyers around the country. The ongoing tight supply and strong demand should be very supportive of home prices.

The high demand for homes has kept builders confident even in the face of higher building material costs and the lack of skilled labor. Builder confidence fell 1 point to 83 in January per the National Association of Home Builders Housing Market Index. Any reading over 50 on this index, which runs from 0 to 100, signals expansion so confidence remains at a strong level despite the slight decline.

Meanwhile, Housing Starts, which measure the start of construction on homes, rose by almost 1.4% in December to an annualized pace of 1.702 million homes. However, starts for single-family homes, which are the most important because they are in such high demand among buyers, fell by 2.3% from November to December and they were also nearly 11% lower than they were in December 2020.

On the positive front, Building Permits, which are a good forward-looking indicator for Housing Starts, increased for single-family homes and overall as well in December. Yet, one of the main takeaways is that the backlog of homes continues to grow. Homes authorized but not yet started increased by 1.1% and were up 44% year over year. Single-family homes authorized but not yet started were up nearly 39% year over year.

Rental prices were also on the rise, as CoreLogic's Single-family Rent Report showed they increased 11.5% year over year in November – the fastest increase in over 16 years. All of the metros saw rental increases, but Miami was the clear leader with rental prices up 33%, showing the demand to escape to the warmer climates of Florida for the winter.

There was important news to note from the manufacturing sector. While the Philadelphia Fed Index showed that manufacturing grew more than expected in that region, the Empire State Index, which measures manufacturing activity for the New York region, fell sharply from 32 in December to -0.7 in January. This was well below the estimate of 25.

Continue on to next page.

Was this decline in the New York region due to Omicron impacting supply chains, a hangover after the holidays, cost pressures or rising wages? It is likely a combination of all of these factors and is something we need to monitor, as it could be signaling a slowdown in our economy.

Omicron's impact on the labor sector was also reflected in the latest Initial Jobless Claims figures, which reached the highest level since October. The number of people continuing to receive benefits after their initial claim also increased. There are now 2.128 million people in total receiving benefits, and while this is an increase of 180,000 in the latest week, it is still a stark contract to the nearly 17 million people receiving benefits in the comparable week the previous year.

Lastly, Wednesday's 20-Year Bond Auction was met with above average demand. The bid to cover of 2.48 was higher than the one-year average of 2.36. Direct and indirect bidders took 83.2% of the auction compared to 79.1% in the previous 12.