Consumers Send Mixed Signals, Mortgage Rates Drop, Construction Employment Rises

By Lou Hirsh

Consumers Send Mixed Signals

Analysts are closely watching consumers for signs of whether the U.S. is indeed heading for a much-predicted recession in 2023, and January's signals have been decidedly mixed. The latest Commerce Department numbers showed consumer spending fell 0.2% from the prior month in December, while January's final consumer sentiment numbers from the University of Michigan showed confidence this month, posting a significant boost from December tallies.

There is still caution created by historically high inflation and interest rates, even as the job market remains strong. University of Michigan researchers said Friday this helps explain why its overall consumer sentiment index rose for the second consecutive month, posting a 64.9 for January, well above the 59.7 for December. But that number, indicating the percentage of nationwide respondents who view overall economic prospects favorably, remained low by historical standards and below the 67.2 posted in January 2022.

Even with respondents this month also rating current conditions and future expectations higher than for December in separate indexes, there is persistent caution. "There are considerable downside risks to sentiment, with two-thirds of consumers expecting an economic downturn during the next year," Joanne Hsu, the university's consumer surveys director, said in a statement.

Among positive indicators, consumer expectations for year-ahead inflation receded for the fourth-consecutive month, and the Commerce Department noted Friday that core price inflation for consumer goods, outside of volatile food and energy prices, rose 4.4% in December from a year earlier for its lowest annual increase since October 2021.

But the government also reported that disposable personal income rose by 0.3% from the prior month in December, a slower growth rate than October 2022's 0.9%. High costs for energy, housing and healthcare are still weighing on household finances.

Mortgage Rates Drop

There are still few signs that apartment renters and other prospective homebuyers are flooding back to the market even as mortgage rates continued a general pattern of decline for the week ended Jan. 26.

A weekly lender survey by government loan-backing agency Freddie Mac showed 30-year, fixed-rate mortgages averaging 6.13%, down from 6.15% a week earlier but still well above 3.55% in the comparable week of 2022. Rates for 15-year, fixed-rate loans averaged 5.17%, down from

5.28% a week earlier but higher than the year-earlier average of 2.8%.

“Mortgage rates continue to tick down and, as a result, home purchase demand is thawing from the months-long freeze that gripped the housing market,” Freddie Mac Chief Economist Sam Khater said in a statement. “Potential homebuyers remain sensitive to changes in mortgage rates, but ample demand remains, fueled by first-time buyers.”

Renters are keeping apartment demand high in many regions as they wait for buying conditions to improve further, with affordability still a big concern. Home sales remain historically sluggish, though the Commerce Department reported that sales of new U.S. single-family homes rose 2.3% from the prior month in December, with the 616,000 units sold marking a third-straight month of increases but still down nearly 27% from December 2021.

Construction Employment Rises

A rise in construction employment shows steady momentum for commercial projects, especially industrial developments, is helping to counter continued slowdowns in residential demand, according to a prominent builder trade group.

Analyzing the latest federal jobs data, the Associated General Contractors of America noted that construction employment climbed from the prior month in December in 30 states and the District of Columbia. Most states, 42, posted year-over-year gains in construction jobs.

“Construction employment growth was less widespread in December than in some recent months as homebuilding slowed,” Ken Simonson, the trade group’s chief economist, said in a statement. “But most nonresidential contractors continue to report strong demand and that they would like to add more workers than are available.”

Data firm Dodge Construction Network reported that nonresidential building construction starts rose 51% from the prior month in December to nearly $550 billion in project value, while residential project starts increased less than 1% to $354 billion. For full-year 2022, the value of all newly started projects was up 15% from 2021, but nonresidential projects rose 38% for the year.

“December starts revealed where the current strength in the construction lies: manufacturing and infrastructure,” Richard Branch, chief economist for Dodge Construction Network, said in a statement. “It is those segments that will provide insulation for the sector as the economy softens in 2023.”