Nationwide Economics

Weekly Economic Review & Outlook

January 10, 2022

Jobs: a year like no other

With data going back to 1939, no year saw more jobs added than 2021. Of course, this followed an even larger Covid-caused drop in the prior year (also a record). By most measures, the labor market is tight even if nonfarm payrolls are not back to pre-pandemic levels (with much lower labor force participation). Unemployment continues to move lower while wage gains remain elevated. Purchasing manger surveys show that demand remains robust (even if more muted) while prices on the goods manufacturing side have started to ease. Supply chains and labor shortages remain major headwinds for the economy, but there are early signs of easing pressures.

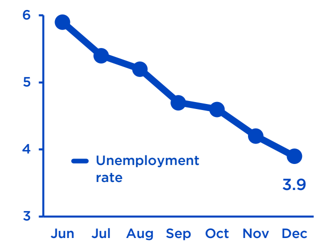
December payrolls show a tight labor market
Nonfarm payrolls grew by 199,000 for December, missing expectations for a second consecutive month. But an additional 141,000 jobs were added to the previous two months. This modest gain in payrolls was counter to a strong increase in household survey employment, up by 650,000. Some of this difference likely comes from those who are starting businesses or working for small firms not captured in the establishment survey (business formations are up quite a bit since the pandemic began), with the quits rate at record highs. The strong household survey numbers helped to drive the U-3 unemployment rate down to 3.9 percent with the broader U-6 rate dipping to 7.3 percent. This also came with a jump in average hourly earnings, increasing by 0.6 percent for the month and now up by 4.7 percent from a year earlier.

For all of 2021, the economy added over 6.4 million nonfarm payroll jobs. While the labor market is still about 3.5 million jobs below where it was prior to the pandemic, it has become extremely tight very quickly. Jobless claims have fallen to where they were prior to the pandemic and job openings remain extremely high. Generally, it takes years for the labor market to recover to levels last seen before a recessionary period, while in this cycle the job market has (mostly) recovered in less than 24 months. An area that continues to lag, however, is the labor force participation rate which stands at 61.9 percent — the highest level in the expansion, but well below its pre-Covid level. This measure has been in a downtrend since mid-2000, only plateauing when the labor market was extremely tight (toward the end of the last two business cycles). While it would make sense for the participation rate to continue to recover as Covid fears recede over time and other barriers to entering the labor force are mitigated, it is unlikely that we will get back to pre-pandemic levels and eventually it is likely to move lower again — mostly for demographic reasons. With fewer workers, technology advancement leading to greater increases in productivity will be key to keeping economic growth up and inflationary pressures subdued.

ISM surveys show robust, if slower, growth
The ISM manufacturing survey moderated for December, decelerating to 58.7 as new orders and production moved modestly lower while supplier deliveries eased. The big story was the large decline in the prices paid index. The ISM services index also moderated last month to a still high level of 62.0 from 69.1. Similarly, new orders ebbed, but the prices paid metric remained lofty at 82.5. This suggests that slowing in inflationary pressures should occur first in the goods portion of the economy, as supply chains slowly heal.

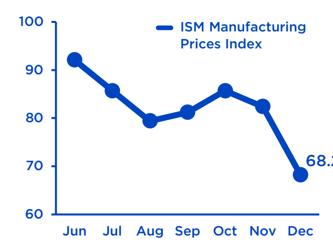
Finally, the Federal Reserve released the minutes of its most recent FOMC meeting. Most important was that the Fed is considering shrinking its swollen balance sheet (quantitative tightening) sooner rather than later. While no definite plans were mentioned, this potential additional tightening move would occur much earlier in the expansion than in the prior expansion. Financial markets reacted quickly, with broad equity market averages moving lower and Treasury yields climbing. The 10-year Treasury yield jumped by almost 25 basis points over the week to the highest level since before the pandemic.

The unemployment rate continues to fall



The unemployment rate fell to 3.9 percent for December and is now close to the previous cycle low.

The ISM manufacturing prices index plummeted



Pricing pressures remain elevated but have receded dramatically since June, falling by more than 20 percentage points.

Sources: Standard & Poor's/Haver Analytics

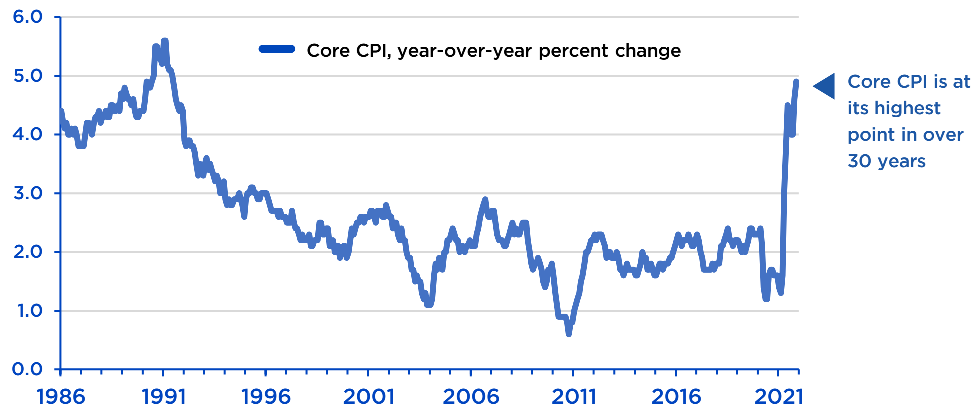
Contributors: Dan Hadden, Financial Markets Economist | Daniel Vielhaber, Economist

Here's what we are watching this week:

Consumer price index — Jan 12

CPI gains likely strong again for December

In keeping with the theme of rapid consumer price growth for 2021, December likely saw another jump in the consumer price index (CPI). Energy-related prices pulled back some in December (rare for last year), but prices for many foods, grains, and feeds were up. Furthermore, ongoing rapid increases in house prices probably pushed up the rent components of the index. We project the CPI jumped by 0.5 percent for December, with an increase in the core rate — which excludes the volatile food and energy components — of 0.4 percent. This would bring the 12-month change for these rates to 6.9 percent and 5.3 percent, respectively.



Sources: Bureau of Labor Statistics/Haver Analytics

Retail sales — Jan 14

Retail sales should climb despite slipping auto sales

Solid job gains and rising wages suggest that consumer demand factors continued to be strong for December. Combined with positive estimates for travel and mobility to close out the year, this should mean another gain in retail sales. The Omicron variant may have had a negative impact at restaurants and bars, but significant impacts haven't been seen in the data yet. Total sales were probably held back a bit by a decline in auto sales but rising prices for autos should offset this to some extent. We project an increase of 0.4 percent in total retail sales, and 0.6 percent in retail sales excluding autos.

Industrial production — Jan 14

Industrial production (IP) expected to slip with unseasonably warm December weather

According to the ISM, growth in manufacturing production fell for December, likely hampered by supply chain disruptions and a shortage of workers. Additionally, December was an extremely warm month, seasonally speaking, which should have resulted in a sharp decline in utility output. Even with an expected gain in energy production (with still high oil prices), we project a decline in IP of 0.6 percent. This would result in IP ending 2021 slightly above its level prior to the start of the pandemic.

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Weekly Market Snapshot

Provided by IMG Business and Product Development – Data Analytics Team

Equity	Last	Returns 1 Week	YTD*	1 Year *
S&P 500 (Large)	4,677	-1.83%	-1.83%	24.71%
S&P 400 (Mid)	2,793	-1.70%	-1.70%	16.83%
S&P 600 (Small)	1,384	-1.22%	-1.22%	16.81%
S&P 500 (High Quality)	53	-0.55%	-0.55%	25.41%
Russell 1000	4,974	-2.16%	-2.16%	21.88%
Russell 2000	5,417	-2.91%	-2.91%	4.99%
Dow Jones	36,232	-0.25%	-0.25%	18.90%
NASDAQ	14,936	-4.52%	-4.52%	15.04%
MSCI EAFE	2,329	-0.29%	-0.29%	9.14%
MSCI EM	1,226	-0.47%	-0.47%	-4.98%

* represents total return

S&P Metrics	LTN P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	22.28	20.48	47.90	8.82
Prior Month	23.10	21.17	41.60	10.79
Prior Year	27.65	22.59	-12.61	22.38

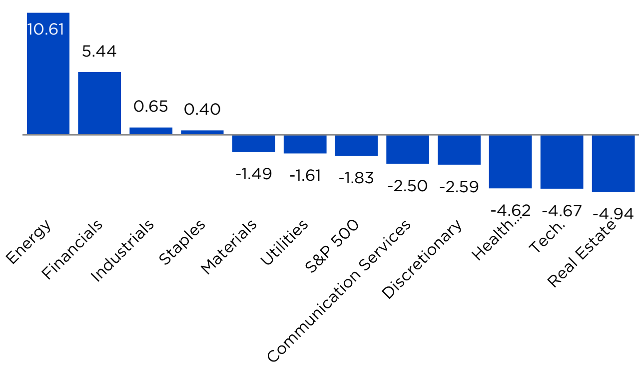
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	1.98%	-1.53%	-1.53%	-2.22%
U.S. Inv Grade	2.59%	-1.93%	-1.93%	-1.39%
U.S. High Yield	5.08%	-0.94%	-0.94%	4.09%
TIPS	1.61%	-2.21%	-2.21%	3.83%

Rates	Last	Returns 1 Week	YTD	1 Year
6M T-Bill	0.24%	0.05	0.05	0.15
2 Yr Treasury	0.87%	0.14	0.14	0.73
5 Yr Treasury	1.50%	0.24	0.24	1.04
10 Yr Treasury	1.76%	0.24	0.24	0.68
30 Yr Treasury	2.11%	0.21	0.21	0.26

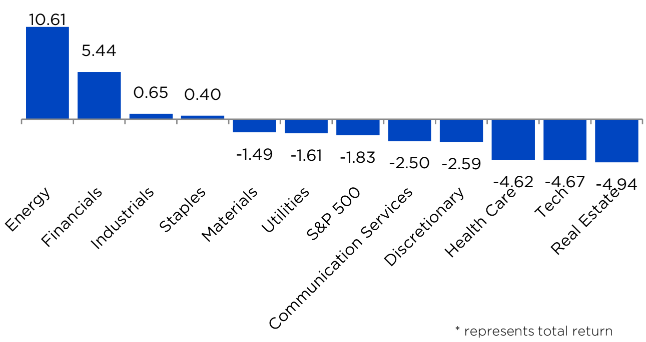
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.5	-0.01	-0.01	-0.07
BBB Rated	1.2	-0.03	-0.03	-0.10
High Yield	3.2	0.10	0.10	-0.58
10 to 2 yr Treasury	0.89	0.00	0.1	-0.05

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1797.00	-1.67%	-1.67%	-6.03%
Bitcoin	41451.34	-10.65%	-10.65%	5.70%
WTI Oil	78.9	4.74%	4.74%	55.84%
EUR/USD	1.1348001	0.21%	0.21%	7.44%
USD/JPY	115.63	0.41%	0.41%	11.25%

S&P Sector Returns — Week (%)

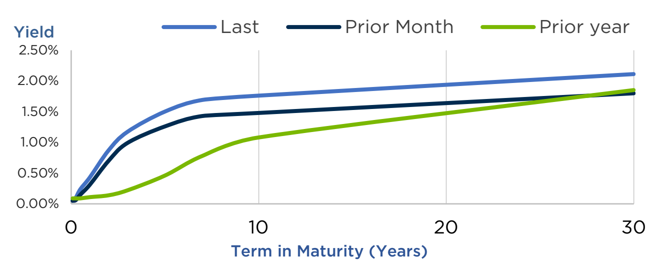


S&P Sector Returns — YTD (%)*



* represents total return

U.S. Yield Curve



Russell Style Returns - Week

	Value	Core	Growth
Large	0.8	-2.2	-4.8
Mid	-0.1	-2.8	-7.5
Small	0.0	-2.9	-5.8

Russell Style Returns - YTD

	Value	Core	Growth
Large	0.8	-2.2	-4.8
Mid	-0.1	-2.8	-7.5
Small	0.0	-2.9	-5.8

Source: FactSet

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Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
Markit manufacturing PMI	Dec.	57.7	57.8
Construction spending	Nov.	0.4%	0.4%
ISM manufacturing PMI	Dec.	58.7	61.1
JOLTS (job openings)	Nov.	10.6 M	11.1 M
ADP private nonfarm employment	Dec.	807,000	505,000
Markit services business activity	Dec.	57.6	57.5
Initial jobless claims	Week ending Jan 1	207,000	200,000
U.S. trade balance	Nov.	-$80.2	-$67.2 B
Manufacturer's new orders	Nov.	1.6%	1.2%
ISM non-manufacturing PMI	Dec.	62.0	69.1
Nonfarm payrolls	Dec.	199,000	249,000
U-3 unemployment rate	Dec.	3.9%	4.2%
Average hourly earnings (m/m)	Dec.	0.6%	0.3%

This Week's Indicators

	Release Date	Period	Forecast*	Previous
NFIB small busines optimism index	Tues.	Dec.	98.9	98.4
Consumer price index (m/m)	Wed.	Dec.	0.5%	0.8%
CPI (y/y)	Wed.	Dec.	6.9%	6.8%
Core CPI (m/m)	Wed.	Dec.	0.4%	0.5%
Core CPI (y/y)	Wed.	Dec,	5.3%	4.9%
Initial jobless claims	Thurs.	Week ending Jan. 8	197,000	207,000
Producer price index	Thurs.	Dec.	0.6%	0.8%
Core PPI	Thurs.	Dec.	0.5%	0.8%
Retail sales	Fri.	Dec.	0.4%	0.3%
Retail sales ex autos	Fri.	Dec.	0.6%	0.3%
Import prices	Fri.	Dec.	0.4%	0.7%
Industrial production	Fri.	Dec.	-0.6%	0.5%
Capacity utilization	Fri.	Dec.	76.2%	76.8%
Consumer sentiment	Fri.	Jan.	68.0	70.6

*** Nationwide Economics Forecast**

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