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Nationwide Economics
Weekly Economic Review & Outlook

May 17, 2021

Inflation spikes but underlying trend is more stable

The consumer price index (CPI) jumped by 0.8 percent for April despite a moderation in gasoline prices. When combined with the sharp decline a year ago during the COVID shutdown, the 12-month change in the CPI soared to 4.2 percent — the highest level since 2008. Most of the rise in April came from core inflation components as the core CPI spiked by 0.9 percent, the largest monthly increase in nearly 40 years. Correspondingly, the 12-month pace of core inflation climbed to 3.0 percent, the fastest reading since December 1995.

While the headline increases jump out, most of the key price categories showed only modest gains for April as COVID-related disruptions caused outsized jumps in a few areas. Prices for used cars rose by more 10 percent for the month (helped by chip shortages for new vehicles) while the economic reopening led to jumps in costs for airline fares, hotels, and auto insurance. The Cleveland Fed's trimmed-mean CPI, which excludes monthly outliers, rose by 0.37 percent for April and is up by 2.4 percent over the past year. This suggests that much of the uptick in inflation is tied to idiosyncratic COVID impacts rather than broad-based price growth.

Inflation readings are likely to remain elevated this year until the COVID-induced supply chain dislocations have been mended. May's CPI figure will also be pushed higher by the rise in gasoline prices caused by the Colonial Pipeline shutdown. Still, the year-over-year comparisons from the recovery in prices during the summer of 2020 imply that these fast annual inflation readings will moderate soon. We expect that the 12-month change in the overall CPI will fall back toward 2.0-2.5 percent in 2022 as the supply and demand of many commodities comes into better balance over the next year. While slower than the likely gains in the next few months, this will be a bit higher than the average in the pre-COVID period.

Retail spending slows in April post-stimulus

Retail sales were flat for April after an outsized jump the previous month induced by stimulus checks. While March's gain was upwardly revised to 10.7 percent, the slowdown in April was surprising given the multiple positive tailwinds for consumer spending. The highest pace of light vehicle sales in 16 years buoyed the topline figure as retail sales ex-autos declined by 0.8 percent for the month.

April's weakness follows the similar pattern seen in February when sales dropped in the aftermath of January's stimulus check surge. With job gains accelerating and local economies moving closer to a full reopening, we expect that consumer activity will shift into a much faster gear in coming months. Mobility measures show that consumers are visiting stores and restaurants at the highest levels since the start of the pandemic. As such, the pause for April will likely be viewed as a blip in an otherwise strong upward trend in consumer expenditures.

When combined with the surprising slowdown in hiring for April, the second quarter has gotten off to a slower start than expected. Still, we expect that economic readings will improve sharply for May and June in response to a surge in activity as the pandemic ebbs. Real GDP growth for the second quarter is still projected to accelerate to an annualized pace of 10 percent — rounding out a rapid first half of 2021 for economic growth.

You Need to Know

Week in Review

▲ A jump in consumer inflation for April, but mostly in a few areas

The consumer price index jumped by 0.8 percent led by a few core price components – pushing up annual inflation to the fastest rate since 2008.

↔ Flat retail sales in stimulus hangover

Following the post-stimulus pattern, retail sales showed no growth in April after the surge in spending during March.

Week Ahead (Forecasts)

▼ Housing starts expected to pull back

Coming off their best month since 2006, housing starts are expected to fall as a result of a retrenchment in the volatile multifamily sector.

▲ Existing home sales expected to rebound

Strong housing demand combined with bad winter weather holding down sales in March likely led to a faster pace of existing home sales in April.

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The Week Ahead

This week's economic data include the New York and Philadelphia Fed manufacturing survey indices, the Wells Fargo/NAHB housing market index, housing starts, the Conference Board's index of leading economic indicators, Markit flash manufacturing and services survey indices, and existing home sales.

Mixed housing data with starts expected to fall and existing home sales to climb

The annualized pace of housing starts rose to its highest level since 2006 for March, in part a make-up for the slow pace in February resulting from bad winter weather. This factor should have had a smaller impact a month later. While single-family starts are expected to rise (demand for single-family homes continues to be extremely strong and single-family building permits were up for March), the volatile multifamily starts rose in March to their highest point since before the pandemic and are unlikely to sustain that pace for a second straight month. On balance, we project a fall in the annualized pace of housing starts to 1.68 million units. Although down a bit from March, this would still be the second fastest pace of starts since 2006.

Existing home sales have declined recently – down about 10 percent over the past two months mostly because of bad winter weather which prevented contracts from closing – but this is not reflective of the increasing demand for homes. While job gains were disappointingly slow for April, the labor market is improving, and the expectation of rising mortgage rates tends to drive potential homebuyers into the market in order to lock in a low rate. Sales continue to be limited by a dearth of existing homes on the market, however, which are at all-time lows. Moreover, pending sales rose for March, indicating a rise in April closings (and thus reported sales). We project a modest rise in the annualized pace of existing home sales to 6.13 million units for April.

Another strong gain likely for the index of leading economic indicators (LEI)

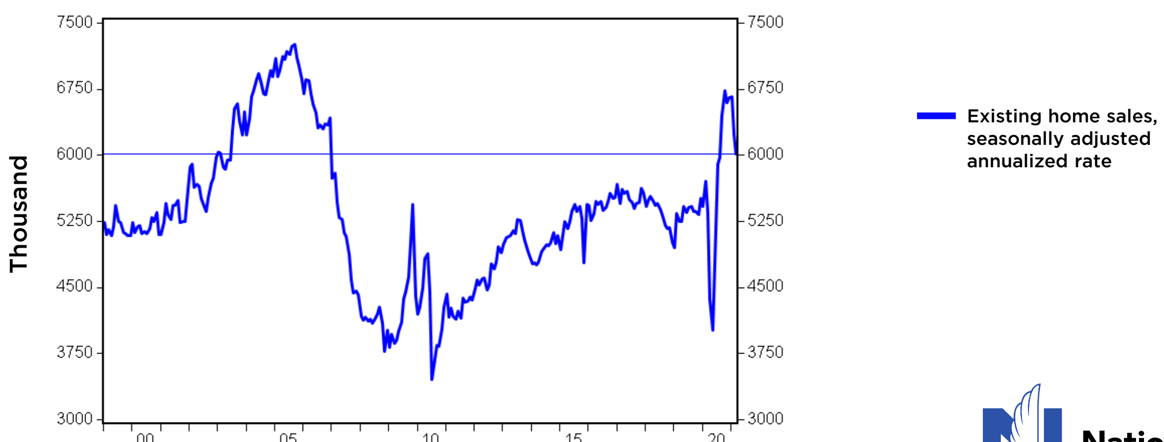
The LEI grew at its fastest pace in March since August, and the strong growth likely continued for April. A rise in building permits and consumer confidence, a fall in initial unemployment claims, and growth in manufacturers' new orders and the S&P 500 index are all positives for the LEI. Taking all of these into account, we believe the LEI rose by 0.9 percent in April. A year after a second straight outsized decline, this growth would bring the year-over-year change to over 16 percent for the first time on record.

Initial jobless claims should continue to fall

In the second week of April, initial jobless claims fell below the pre-pandemic all-time high for the first time in 13 months and have remained well below that level every week since. With more businesses returning to normal operations – reducing the need for layoffs – and hiring new employees, claims likely continued to fall last week. Consequently, we project that initial jobless claims fell to 445,000 for the week ending May 15.

Worth Watching

Despite high demand, existing home sales fell in February and March due to bad winter weather.



Sources: National Association of Realtors/Haver Analytics

Weekly Market Snapshot

Equity	Last	Returns 1 Week	YTD*	1 Year*
S&P 500 (Large)	4,174	-1.35%	11.73%	48.72%
S&P 400 (Mid)	2,722	-1.71%	18.51%	76.16%
S&P 600 (Small)	1,355	-1.38%	21.56%	95.27%
S&P 500 (High Quality)	46	-0.99%	9.51%	39.58%
Russell 1000	4,503	-1.40%	11.03%	51.47%
Russell 2000	5,529	-2.04%	13.01%	81.80%
Dow Jones	34,382	-1.08%	13.09%	48.58%
NASDAQ	13,430	-2.32%	4.46%	51.32%
MSCI EAFE	2,292	-1.28%	8.21%	48.23%
MSCI EM	1,308	-2.99%	1.87%	48.67%

*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	25.32	21.34	5.33	25.60
Prior Month	25.98	22.28	-0.03	23.77
Prior Year	19.59	20.35	-7.08	-2.44

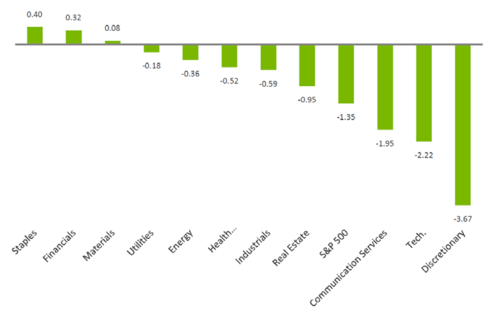
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	1.55%	-0.37%	-2.70%	-0.24%
U.S. Inv Grade	2.22%	-0.47%	-3.55%	5.54%
U.S. High Yield	4.82%	-0.27%	1.97%	19.51%
TIPS	1.07%	0.03%	0.94%	7.13%

Rates	Last	Change 1 Week	YTD	1 Year
6M T-Bill	0.03%	-0.01	-0.06	-0.12
2 Yr Treasury	0.16%	0.02	0.03	0
5 Yr Treasury	0.82%	0.05	0.46	0.51
10 Yr Treasury	1.63%	0.03	0.7	1
30 Yr Treasury	2.35%	0.07	0.7	1.05

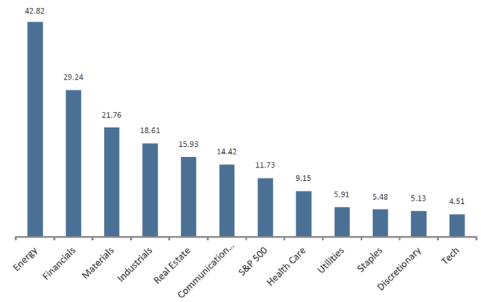
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.47	0.00	-0.08	-0.63
BBB Rated	1.16	-0.01	-0.16	-1.71
High Yield	3.35	0.08	-0.51	-4.42
10 to 2 yr Treasury	1.47	0.00	0.67	1

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1837.90	0.37%	-2.92%	5.74%
Bitcoin	50011.49	-12.87%	72.31%	409.29%
WTI Oil	65.51	0.85%	35.49%	139.09%
EUR/USD	1.2133499	0.07%	0.83%	-12.21%
USD/JPY	109.44	0.80%	6.00%	2.23%

S&P Sector Returns — Week (%)

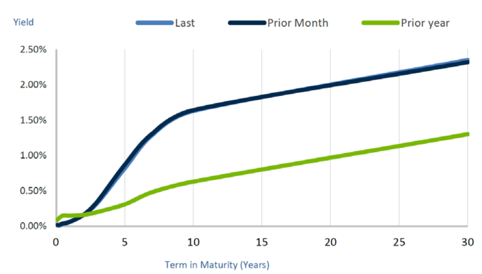


S&P Sector Returns — YTD (%)*



*represents total return

U.S. Yield Curve



Russell Style Returns — Week

	Value	Core	Growth
Large	-0.7	-1.4	-2.1
Mid	-1.1	-1.4	-2.0
Small	-1.2	-2.0	-3.0

Russell Style Returns — YTD

	Value	Core	Growth
Large	18.1	11.0	4.5
Mid	20.1	12.8	-0.1
Small	25.9	13.0	1.2

Sources: IMG Business and Product Development -Data Analytics Team; FactSet

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Previous Week's Indicators

	Period	Actual	Previous
NFIB small business optimism	April	99.8	98.2
JOLTS job openings	March	8.1 M	7.5 M
CPI (m/m)	April	0.8%	0.6%
CPI (y/y)	April	4.2%	2.6%
Core CPI (m/m)	April	0.9%	0.3%
Core CPI (y/y)	April	3.0%	1.6%
Initial jobless claims	Week ending May 8	473,000	507,000
Producer price index	April	0.6%	1.0%
Retail sales	April	0.0%	10.7%
Retail sales ex-autos	April	-0.8%	9.0%
Import prices	April	0.7%	1.4%
Industrial production	April	0.7%	2.4%
Capacity utilizations	April	74.9%	74.4%

This Week's Indicators

	Release Date	Period	Forecast*	Previous
NY Fed Empire State manufacturing survey	Mon.	May	27.5	26.3
NAHB Housing Market Index	Mon.	May	84	83
Housing starts	Tues.	Apr.	1.68 M	1.74 M
Housing permits	Tues.	Apr.	1.82 M	1.76 M
Initial jobless claims	Thurs.	Week ending May 15	445,00	473,000
Philly Fed manufacturing index	Thurs.	May	50.0	50.2
Index of leading economic indicators	Thurs.	Apr.	0.9%	1.3%
Markit flash manufacturing index	Fri.	May	61.0	60.5
Markit flash services PMI index	Fri.	May	65.2	64.7
Existing home sales	Fri.	Apr.	6.13 M	6.01 M

* *Nationwide Economics Forecast*

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