Nationwide Economics
Weekly Economic Review & Outlook
June 1, 2021

Strong demand but supply constraints across the economy

High frequency economic data continue to suggest an upcoming surge in consumer activity as the economy nears a full reopening. Initial jobless claims fell sharply for the week ending May 22, the sixth decline in seven weeks. While claims are still about double the pre-COVID trend, layoffs have fallen sharply over the past month as businesses find it increasingly difficult to find qualified workers for an increasing number of open positions. Other recent data show restaurant capacity nearly at pre-pandemic levels and a sharp increase in air passenger traffic, signals that in-person activities are primed for a summer explosion.

Negatively, however, inflation concerns are building – although the Fed expects that the recent jump in prices will prove to be transitory. The core price index for personal consumption expenditures (PCE) climbed sharply for April to push the 12-month trend inflation reading up to a 29-year high of 3.1 percent. Home prices (not in the PCE price index) are spiking, too, as the CoreLogic/Case-Shiller home price index rose by 13.3 percent over the year ending in March 2021, the fastest pace since the 2000s housing boom. Additionally, inflation expectations from consumers spiked for May, helping to pull down consumer sentiment.

But most of the rise in inflation through April can be tied to COVID-based supply chain disruptions in the production of some key goods and services as well as base effects compared with falling prices a year ago. Supply chains should heal over time and ease prices for many commodities. Futures prices for lumber, industrial metals, and agricultural products have already dropped in anticipation of more supply entering the market.

Even with the spike in the core PCE, the Fed's preferred inflation measure, Fed officials have reiterated that the faster inflation is expected to be transitory with a shift in policy not likely in the near-term. Based upon the minutes from the April FOMC meeting, discussions on when to start tapering asset purchases may begin soon, although we still don't expect a moderation until next year. Certainly, an outright increase in policy rates remains far into the future.

Home sales slip further

Despite significant optimism on the part of home builders, still low mortgage rates, and strong overall economic activity, high input costs, constraints on buildable lots, and lack of workers are holding sales back, as builders delay contract signings rather than disappoint potential buyers. New home sales dropped by 5.9 percent for April, although the annualized pace of 863,000 units was still higher than any month between April 2007 and July 2020. With demand for new homes strong and costs for builders (for both labor and materials) climbing, the median price of a new home sold was just shy of an all-time high at $372,400.

Pending home sales were weaker than expectations as well, falling by 4.4 percent for April as the extreme lack of existing inventory continues to hamper transactions. This suggests a slower pace of existing sales in May and June, typically periods when sales activity accelerates. Despite these constraints, the underlying demand for owner-occupied housing is not expected to abate, with listed homes likely to disappear quickly at even higher prices.

You Need to Know

Week in Review

▲ **Core inflation spikes to nearly a 30-year high**

The 12-month change in the core PCE price index jumped to 3.1 percent for April, although the Fed expects this stronger pace of price gains will be transitory with little impact on monetary policy decisions.

▼ **New home sales fall, although they are still elevated**

Sales dropped by 5.9 percent for April as lack of labor, higher input costs, and land constraints are delaying construction and incenting builders to put off new home contracts.

Week Ahead (Forecasts)

▲ **ISM surveys expected to rise**

Both the manufacturing and services ISM survey indices are expected to rise, benefiting from overall economic growth and increasingly fewer restrictions on business activity.

▲ **Nonfarm payrolls likely to rebound**

With labor demand very high (job openings at record highs), payroll gains are expected to rebound after April's disappointing increase.

Nationwide® is on your side

Ben Ayers
Senior Economist

Daniel Vielhaber
Economist

The Week Ahead

This is a big week for economic data. It includes the Markit and ISM manufacturing and services survey indices, construction spending, light vehicle sales, and the key employment report.

Both ISM survey indices expected to climb

Growth likely continued in the Institute for Supply Management (ISM) manufacturing survey index for a twelfth straight month for May. Regional Fed manufacturing surveys were mixed, but growth remained strong for each of them relative to their histories, and the Chicago PMI rose to its highest level since 1973. Additionally, the "flash" Markit manufacturing survey showed a gain for the month. We project a small increase in the ISM manufacturing index to 61.9, marking the first period of four-straight months over a level of 60 for the index since 2004.

The ISM services index is also expected to rise. The service sector continues to benefit the most from decreasing government-mandated COVID restrictions, and a further decline in those restrictions for May should drive more growth. Moreover, the Markit flash estimate rose to an all-time high for the month. We project a climb in the ISM services index to 63.9 for May, which would be a record high.

Vehicle sales expected to subside modestly

Motor vehicle sales have set a blistering pace over the past couple of months, reaching their highest two-month average since mid-2005. This heady pace of sales is likely unsustainable, however, partially held in check by a microchip shortage that is holding back production. Still, demand factors remain extremely strong, so any pullback in sales is likely to be modest and to leave the annualized sales pace at a still-high level. We project a drop in light vehicle sales to an annualized pace of 17.7 million units. The most recent three-month average sales pace would be the strongest since 2015.

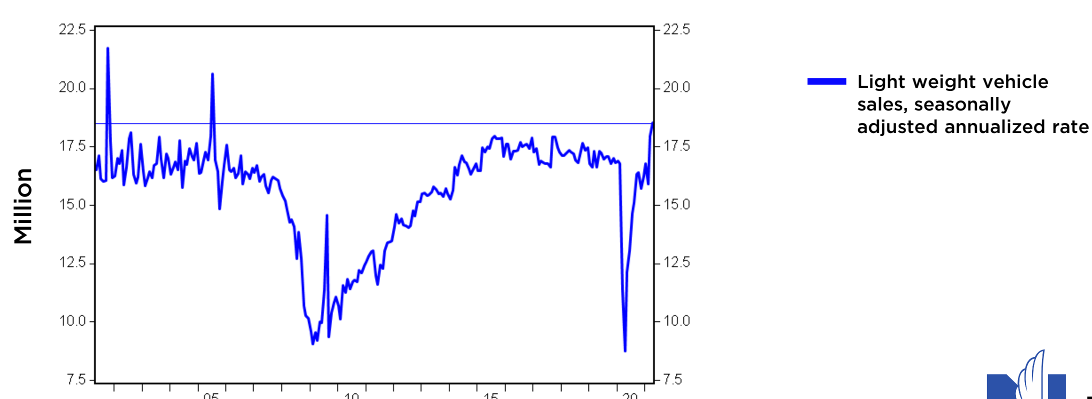
Nonfarm payrolls should rebound

Job gains were much less than expected for April at only 266,000 – far below estimates of around one million. This was especially surprising given that the number of open positions has risen to an all-time high. Lingering fears of COVID may be keeping some people out of the labor market, and generous temporary unemployment benefits are also likely playing a role. Still, as the economy continues to re-open from the pandemic and an increasingly large percentage of the population has either recovered from COVID or been inoculated against it, job gains should accelerate. Moreover, the April figure was so far out of line from the prior couple of months, and market expectations, that it may have been a statistical fluke. We project an additional 910,000 nonfarm payrolls for May – the largest increase since August.

The U-3 unemployment rate, which rose for the first time in a year for April, is projected to fall to 5.9 percent. This would be its first time since March 2020 with a reading below six percent. Finally, with labor demand so strong, we expect average hourly earnings to jump by 1.0 percent for the month.

Worth Watching

Light vehicle sales climbed to their highest level since 2005 in April; can May top that?



Sources: Bureau of Economic Analysis/Haver Analytics

Weekly Market Snapshot

Equity	Last	Returns 1 Week	YTD*	1 Year*
S&P 500 (Large)	4,204	1.20%	12.62%	41.02%
S&P 400 (Mid)	2,727	1.43%	18.81%	55.98%
S&P 600 (Small)	1,372	2.15%	23.15%	71.32%
S&P 500 (High Quality)	47	0.91%	11.00%	34.69%
Russell 1000	4,545	1.30%	12.14%	43.43%
Russell 2000	5,639	2.45%	15.30%	63.81%
Dow Jones	34,529	1.03%	13.76%	38.80%
NASDAQ	13,749	2.08%	6.98%	47.85%
MSCI EAFE	2,341	1.24%	10.74%	38.04%
MSCI EM	1,361	2.39%	6.13%	50.60%

**represents total return*

S&P Metrics	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	25.13	21.27	7.38	25.20
Prior Month	25.73	21.98	2.46	24.90
Prior Year	20.38	21.57	-8.10	-0.73

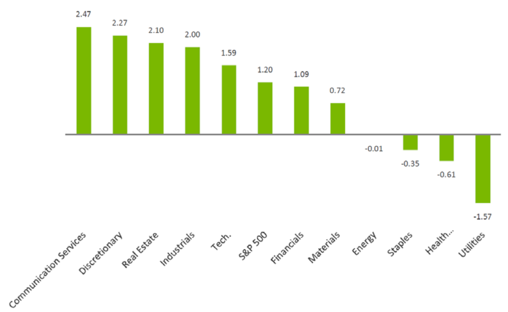
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	1.51%	0.35%	-2.29%	-0.40%
U.S. Inv Grade	2.16%	0.55%	-2.85%	3.82%
U.S. High Yield	4.78%	0.36%	2.25%	14.90%
TIPS	1.04%	0.55%	1.12%	7.03%

Rates	Last	Change 1 Week	YTD	1 Year
6M T-Bill	0.03%	0.01	-0.06	-0.15
2 Yr Treasury	0.14%	-0.03	0.01	-0.03
5 Yr Treasury	0.79%	-0.05	0.43	0.45
10 Yr Treasury	1.58%	-0.05	0.65	0.88
30 Yr Treasury	2.26%	-0.07	0.61	0.79

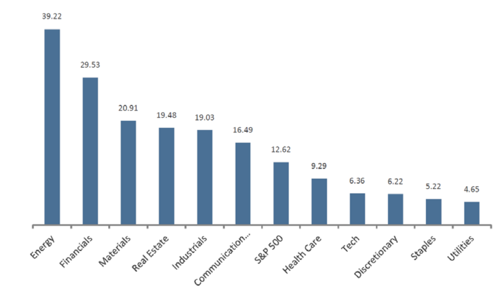
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.46	0.00	-0.09	-0.41
BBB Rated	1.15	0.00	-0.17	-1.27
High Yield	3.34	-0.03	-0.52	-3.37
10 to 2 yr Treasury	1.44	0.00	0.64	0.91

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1902.50	1.37%	0.50%	11.04%
Bitcoin	35730.15	-3.28%	23.11%	274.31%
WTI Oil	66.32	4.26%	37.17%	96.97%
EUR/USD	1.22265	-0.31%	0.07%	-9.92%
USD/JPY	109.39	0.39%	5.96%	1.54%

S&P Sector Returns — Week (%)



S&P Sector Returns — YTD (%)*



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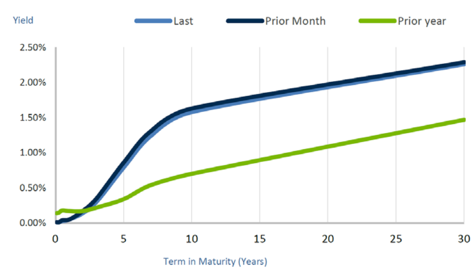
U.S. Yield Curve



Russell Style Returns — Week

	Value	Core	Growth
Large	1.0	1.3	1.6
Mid	1.5	1.7	2.2
Small	2.3	2.4	2.6

Russell Style Returns — YTD

	Value	Core	Growth
Large	18.4	12.1	6.3
Mid	20.9	14.6	3.4
Small	27.5	15.3	4.1

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

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Previous Week's Indicators

	Period	Actual	Previous
S&P/Case-Shiller 20-city home price index (y/y)	March	13.2%	12.0%
Consumer confidence	May	117.2	117.5
New home sales	April	863,000	917,000
Richmond Fed manufacturing index	May	18	17
Initial jobless claims	Week ending May 22	406,000	444,000
Durable goods orders	April	-1.3%	1.3%
Real GDP	Q1	6.4%	4.3%
Pending home sales	April	106.2	111.1
Kansas City Fed manufacturing index	May	26	31
Personal income	April	-13.1%	20.9%
Personal consumption expenditures	April	0.5%	4.7%
Core PCE price index (m/m)	April	0.7%	0.4%
Core PCE price index (y/y)	April	3.1%	1.9%
Chicago purchasing manager's index	May	75.2	72.1
Consumer sentiment	May	82.9	88.3

This Week's Indicators

	Release Date	Period	Forecast*	Previous
Markit manufacturing survey index	Tues.	May	61.6	61.5
ISM manufacturing survey index	Tues.	May	61.9	60.7
Dallas Fed manufacturing survey index	Tues.	May	39.9	37.3
Construction spending	Tues.	April	0.5%	0.2%
Motor vehicle sales	Tues.	May	17.7 M	18.5 M
ADP jobs	Thurs.	May	850,000	742,000
Initial jobless claims	Thurs.	Week ending May 29	385,000	406,000
Productivity	Thurs.	Q1	5.6%	-4.5%
Unit labor costs	Thurs.	Q1	-0.1%	5.6%
Markit services survey index	Thurs.	May	71.1	70.1
ISM services survey index	Thurs.	May	63.9	62.7
Nonfarm payrolls	Fri.	May	910,000	266,000
U-3 unemployment rate	Fri.	May	5.9%	6.1%
Average hourly earnings	Fri.	May	1.0%	0.7%
Factory orders	Fri	April	0.2%	1.1%

* *Nationwide Economics Forecast*

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