

Hiring accelerates but labor supply still a concern

Nonfarm payrolls rose by 559,000 for May, doubling the pace from April. As has been the case for several months, the sector of the economy that was hardest hit during the pandemic – leisure and hospitality – had the strongest job gains during May, up by 292,000. Other service areas, including education, health care, and information, also saw improved hiring. As an increasing number of state and local governments allow for more in-person activity, we should see a further service sector rebound in coming months.

While strong in an absolute sense, May's job growth was weaker than expected for a second consecutive month, despite a record level of unfilled jobs and surveys indicating that firms increasingly can't find qualified workers. The supply of workers remains tight within many sectors and likely held down hiring again in May. It's unclear why many unemployed workers remain reticent to get jobs, although some combination of extra unemployment benefits, lack of in-person schooling, difficulty in finding childcare, and lingering virus concerns are all playing a role. The unemployment rate fell to a recovery low of 5.8 percent, helped by a jump in employment and a small decline in the labor force for May. Still, the labor force participation rate has been little changed since last summer and is at a level well below that seen before the COVID recession hit.

There remains plenty of capacity for strong job gains ahead. Payroll employment is still more than 7.6 million below its pre-pandemic peak, led by a 2.5 million job shortage in the leisure and hospitality sector. As the pandemic ebbs further, special unemployment insurance payments end, and wages continue to rise, we expect more unemployed workers to reenter the workforce this summer and into the fall. The unemployment rate should improve further over the rest of the year, likely falling below 5.0 percent by year-end.

Business surveys climb even as supply concerns worsen

The ISM services index rose to a record high for May (data back to July 1997), reflecting the building optimism for a surge in in-person activities. The business activity and new orders components each moved up from already elevated levels as more respondents noted that demand for services was expanding. The ISM manufacturing data also showed increasing demand with stronger new orders pushing up the overall index to the second highest level since 2004.

But COVID-stressed supply chains continue to raise input prices while many managers within both reports highlighted shortages of key materials. The supply issues are most acute for manufacturers where supplier deliveries were the slowest since the early 1970s, while the backlog of orders climbed to an all-time high. Reflecting the pressures felt by producers, reported production fell to the lowest level since last June (although still in expansion territory).

Manufacturing supply constraints are flowing into the retail sector as light vehicle sales dropped to an annualized pace of 17.0 million units during May. Many auto dealers had little inventory to sell after strong sales in March and April while few cars were delivered from automakers due to lingering microchip shortages. As with the other COVID supply chain disruptions, these issues should be resolved over time but could continue to restrict production and sales (and raise prices) in the near term.

You Need to Know

Week in Review

- ▲ Sharp uptick in payroll gains for May
The economy added 559,000 jobs and the unemployment rate dropped to a pandemic low – but lack of labor supply continues to prevent even stronger hiring.
- ▲ Business surveys show strong expansion
The ISM surveys for services and manufacturing both climbed for May despite difficulty in hiring and supply chain issues that are raising input prices.

Week Ahead (Forecasts)

- ▲ Strong demand should drive higher optimism for small businesses
While difficulty filling job openings is an ongoing concern, further expansion of in-person activity should boost small business optimism modestly.
- ▲ Monthly CPI gain expected to be moderate, but the annual gain should accelerate
While we expect the monthly increase in the consumer price index to be moderate, even this gain will boost the 12-month trend rate to the fastest pace since 2008.

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The Week Ahead

This week's economic news and data includes the NFIB small business optimism index, the U.S. trade balance, the Job Openings and Labor Turnover Survey (JOLTS), the consumer price index (CPI), and consumer sentiment.

Further reopening of the economy should boost small business optimism

The National Federation of Independent Business small business optimism index rose a bit for April but remained below 100 for only the eighth time in the last 53 months – all of which occurred since the onset of the pandemic. Factors currently influencing small business optimism are a mixed bag. Consumer demand is very strong and small business owners have responded with plans to increase employment reaching a record high in May (employment planning numbers are available ahead of the overall index). This aligns with our forecast of a record number of job openings from the Job Openings and Labor Turnover Survey (JOLTS) for May (8.3 million). But the share of firms with positions they are unable to fill also climbed to an all-time high (breaking the record set a month prior), and rising input prices and supply chain issues continue to present challenges. On balance, we project a modest climb in the small business optimism index to 101 for May, which would be its first time over 100 since November.

Monthly consumer price growth should slow – but watch out for the 12-month change

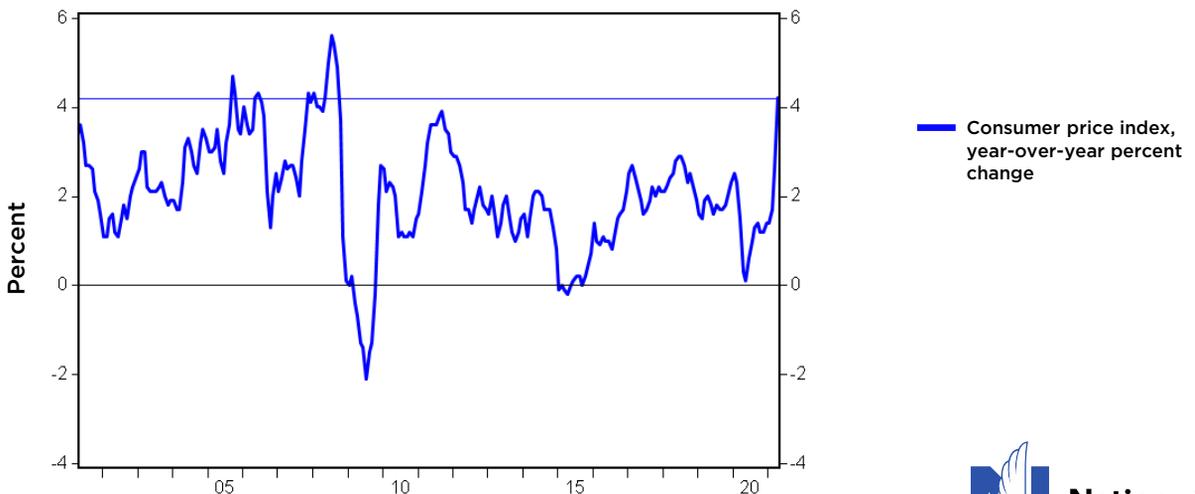
Monthly gains in the consumer price index (CPI) are expected to slow after the massive jump for April, but upward price pressures remained for May. Demand for dining out and travel likely continued to climb after the CDC loosened its guidelines for vaccinated individuals (and several states which were not already ahead of the CDC followed suit). Additionally, oil and retail gasoline prices were higher in May, with gasoline topping three dollars per gallon for the first time since 2014. We project an increase in the overall CPI of 0.3 percent for May, bringing the 12-month trend rate up to 4.6 percent. The core rate – which strips out food and energy due to their volatility – is expected to rise by 0.2 percent, bringing the 12-month trend rate for core CPI up to 3.3 percent. These would be the largest year-over-year increases in the overall index and the core since 2008 and 1993, respectively.

Modest climb expected for consumer sentiment as jobs/income improve

The University of Michigan's consumer sentiment index tumbled unexpectedly for May, perhaps as inflation jumped, leaving the latest reading closer to its pandemic trough than its pre-pandemic level. As of June, there are plenty of reasons for consumer optimism (strong economic growth, plentiful jobs, very low and falling COVID infections to name just a few), but inflation continues to rise relative to year-earlier levels and this may (partially) offset the positive job/income and infection news. The one- and five-year expected inflation figures in the survey will be closely watched by analysts and financial markets. Overall, we project a small rise in consumer sentiment for June to 83.6.

Worth Watching

Trend CPI inflation hit its highest point since 2008 for April.



Sources: Bureau of Labor Statistics/Haver Analytics

Weekly Market Snapshot

Equity	Last	Returns		
		1 Week	YTD*	1 Year*
S&P 500 (Large)	4,230	0.64%	13.35%	38.08%
S&P 400 (Mid)	2,729	0.06%	18.88%	49.35%
S&P 600 (Small)	1,384	0.87%	24.23%	62.74%
S&P 500 (High Quality)	47	0.90%	12.00%	32.86%
Russell 1000	4,569	0.55%	12.77%	40.01%
Russell 2000	5,682	0.78%	16.20%	59.20%
Dow Jones	34,756	0.69%	14.55%	34.92%
NASDAQ	13,814	0.49%	7.51%	44.72%
MSCI EAFE	2,358	0.73%	11.54%	33.09%
MSCI EM	1,382	1.60%	7.83%	43.03%

*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS	NTM EPS
			Growth	Growth
Current	25.07	21.31	8.28	24.76
Prior Month	25.47	21.47	3.83	25.72
Prior Year	20.77	22.06	-8.53	0.22

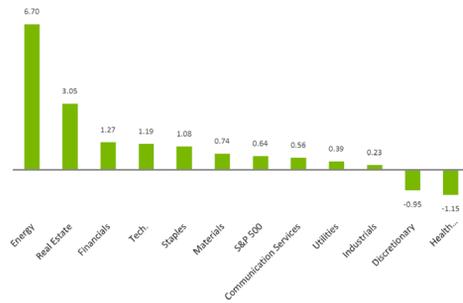
Fixed Income	Last	Returns		
		1 Week	YTD	1 Year
U.S. Aggregate	1.51%	0.12%	-2.17%	0.16%
U.S. Inv Grade	2.15%	0.23%	-2.63%	3.95%
U.S. High Yield	4.74%	0.28%	2.53%	12.85%
TIPS	1.06%	0.14%	1.26%	7.88%

Rates	Last	Change		
		1 Week	YTD	1 Year
6M T-Bill	0.04%	0.01	-0.05	-0.14
2 Yr Treasury	0.14%	0.00	0.01	-0.05
5 Yr Treasury	0.78%	-0.01	0.42	0.38
10 Yr Treasury	1.56%	-0.02	0.63	0.74
30 Yr Treasury	2.24%	-0.02	0.59	0.63

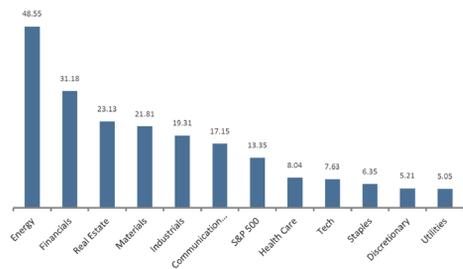
Spreads	Last	Change (Abs %)		
		1 Week	YTD	1 Year
AAA Rated	0.47	0.01	-0.08	-0.29
BBB Rated	1.15	0.01	-0.17	-1.05
High Yield	3.28	-0.01	-0.58	-2.55
10 to 2 yr Treasury	1.42	0.00	0.62	0.79

Commodities/FX	Last	Returns (Currencies in \$ strength)		
		1 Week	YTD	1 Year
Gold	1889.80	-0.67%	-0.17%	9.94%
Bitcoin	36910.86	3.30%	27.18%	276.42%
WTI Oil	69.37	4.61%	43.47%	85.38%
EUR/USD	1.21635	0.15%	0.59%	-7.22%
USD/JPY	109.52	-0.42%	6.07%	0.47%

S&P Sector Returns — Week (%)

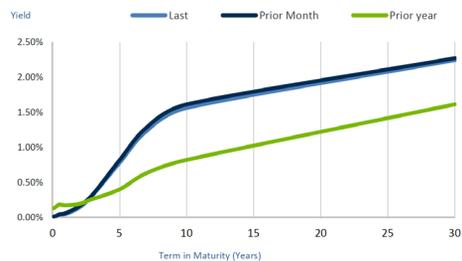


S&P Sector Returns — YTD (%)*



*represents total return

U.S. Yield Curve



Russell Style Returns — Week

	Value	Core	Growth
Large	0.8	0.6	0.3
Mid	0.8	0.5	-0.2
Small	1.8	0.8	-0.4

Russell Style Returns — YTD

	Value	Core	Growth
Large	19.3	12.8	6.7
Mid	21.8	15.1	3.2
Small	29.8	16.2	3.7

Previous Week's Indicators

	Period	Actual	Previous
Markit manufacturing survey index	May	62.1	61.5
ISM manufacturing survey index	May	61.2	60.7
Dallas Fed manufacturing survey index	May	34.9	37.3
Construction spending	April	0.2%	1.0%
Motor vehicle sales	May	17.0 M	18.5 M
ADP jobs	May	978,000	654,000
Initial jobless claims	Week ending May 29	385,000	405,000
Productivity	Q1	5.4%	-3.8%
Unit labor costs	Q1	1.7%	14.0%
Markit services survey index	May	70.4	70.1
ISM services survey index	May	64.0	62.7
Nonfarm payrolls	May	559,000	278,000
U-3 unemployment rate	May	5.8%	6.1%
Average hourly earnings	May	0.5%	0.7%
Factory orders	April	-0.6%	1.4%

This Week's Indicators

	Release Date	Period	Forecast*	Previous
Consumer credit outstanding	Mon.	April	\$18.5 B	\$26.0 B
NFIB small business optimism index	Tues.	May	101.0	99.8
U.S. trade balance	Tues.	April	-\$69.8 B	-\$74.4 B
JOLTS, job openings	Tues.	April	8.3 M	8.1 B
Jobless claims	Thurs.	Week ending June 5	370,000	385,000
CPI (m/m)	Thurs.	May	0.3%	0.8%
CPI (y/y)	Thurs.	May	4.6%	4.2%
Core CPI (m/m)	Thurs.	May	0.2%	0.9%
Core CPI (y/y)	Thurs.	May	3.3%	3.0%
Consumer sentiment	Fri.	June	83.6	82.9

* Nationwide Economics Forecast



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