Nationwide Economics
Weekly Economic Review & Outlook

June 14, 2021

# Inflation spike likely at its peak

The consumer price index (CPI) rose more sharply than expected for May, up by 0.6 percent, although this was down from April's torrid pace. The May increase pushed up the year-over-year trend rate to 5.0 percent, the fastest since August 2008. The core CPI also climbed sharply, but again by less than in April, increasing by 0.7 percent to raise year-over-year core inflation to the highest rate in nearly 30 years at 3.8 percent.

As occurred in April, much of May's increase was caused by outsized price increases in a few categories, led by further jumps in used car prices and airline fares. The Bureau of Labor Statistics noted that the 7.3 percent spike in used car prices accounted for about a third of the increase in the overall index. There were also strong monthly increases in costs for apparel and food away from home likely tied to a near-term surge of demand in response to the reopening of the economy this spring. New car prices also jumped, as supply-chain issues tied to computer chips reduced supply.

While the topline figures are startling, the underlying trend in inflation remains higher but more modest. The Cleveland Fed's Trimmed-Mean CPI (which excludes positive and negative outliers) rose by 0.4 percent for May with a year-over-year reading of 2.6 percent. While this measure has also trended upward this year, it still implies that price pressures are not as broad-based as suggested by the spike in the headline reading.

With prices for many products/services having already reset to pre-COVID levels and stronger inflation comparisons from the summer of 2020, this is likely to be the peak for annual consumer inflation readings — which should fade slowly over the next year, although still to a level a bit above the longer-term trend. We expect that the Fed will look past the recent spike in inflation to keep monetary policy highly accommodative until well into the current expansion. If there are signs that inflation trends remain hot into the fall, the Fed could change course, but that is not expected as supply chains should continue to heal in coming months.

**Acute labor shortages within many sectors**

The demand for workers continues to expand, especially as many service operations ramp up for a post-COVID summer. Job openings rose to a record high (data back to December 2000) of 9.3 million for April, according to the Job Openings and Labor Turnover Survey (JOLTS), led by a sharp spike in listings within the leisure and hospitality sector. Total hires remained more subdued, however, reflecting the tight supply of labor holding back stronger job gains. The tight labor market can also be seen with the jump in the number of quits to a record level, as workers tend not to leave jobs unless they can get another.

Lack of available labor is also a growing concern for small businesses, according to the latest survey findings from the National Federation of Independent Business (NFIB). A record 57 percent of firms reported that they had few or no qualified applicants for job openings, while an increasing share place quality of labor as their most important problem. While more owners plan to increase employment over the next few months, the inability to fill positions could limit growth prospects in the near term until more workers reenter the workforce.

## You Need to Know

### Week in Review

▲ **Inflation slowed but remained hot in May**

*While the monthly gain in the consumer price index slowed, the 12-month trend rate surged to 5.0 percent for May mostly from base effects and COVID-caused supply chain problems.*

▲ **Job openings aplenty but who wants them?**

*Job postings surged to a record 9.3 million for April as businesses expand but can't find qualified workers; meanwhile the workers are quitting jobs at a record pace, too.*

### Week Ahead (Forecasts)

▼ **Small decline expected for retail sales**

*Despite gains in jobs and wage/salary income, we expect retail sales will dip a bit based on the already reported sharp drop in light vehicle sales – which was primarily a supply-side phenomenon.*

▲ **Modest climb anticipated for housing starts**

*We expect a modest rise in housing starts for May, led by the single-family sector, although land and labor supply issues are restraining new production and holding down the pace of starts.*

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# The Week Ahead

This week's economic news and data includes retail sales, the producer price index, industrial production and capacity utilization, the NAHB housing market index, housing starts, the Conference Board's index of leading economic indicators, and the June FOMC meeting.

## Retail sales expected to decline in response to the sharp drop in light vehicle sales

Retail sales were flat for April, remaining at March's elevated and stimulus-driven level due to an outsized gain in light vehicle sales. But these sales fell by the third largest amount in over 11 years for May, mostly from lack of supply as a COVID-caused shortage of computer chips has reduced production. This will suppress May's total retail sales significantly. Elsewhere, job and wage/salary gains remain solid and the number of government-mandated restrictions on businesses continues to decline, offering consumers more outlets for their desire to spend. Furthermore, the personal saving rate remains elevated following the stimulus checks distributed earlier in the year, giving consumers another pool of money (in addition to income) from which to spend. In total, we project a decline in retail sales of 0.1 percent for May, but a rise in retail sales ex-autos of 0.6 percent.

## Industrial production set for another strong gain

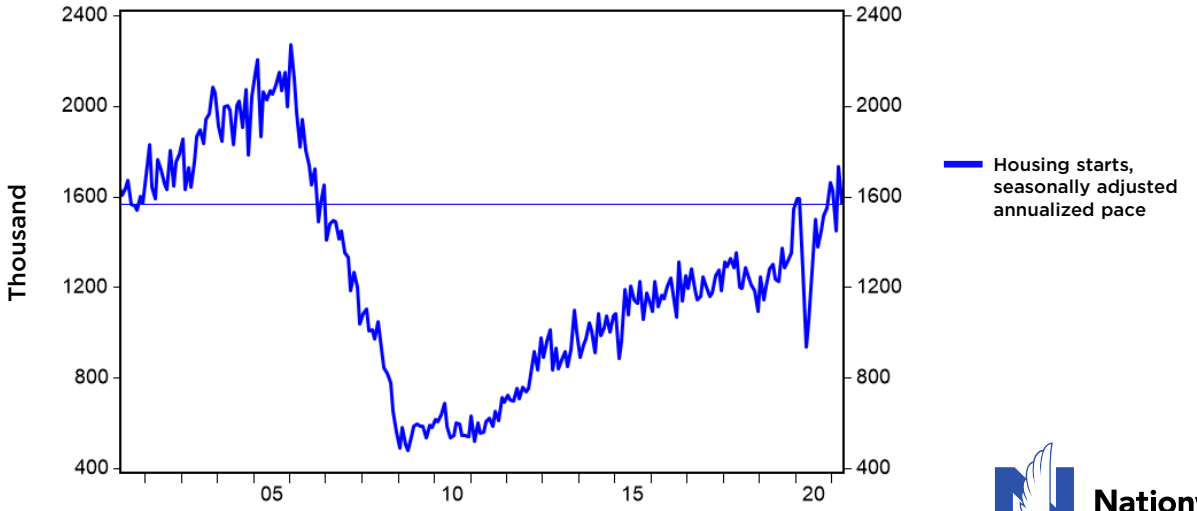
April was the second straight month of solid growth in industrial production (IP), and we expect that this trend continued in May. The Markit and ISM purchasing managers' surveys both climbed for May and show strong growth, although manufacturing IP should still be held back by COVID-related supply chain issues (e.g., the microchip shortage). Additionally, the utilities contribution likely continued to climb after May was, on average, a relatively cooler month than April (after seasonal adjustment). Taken together, we project an increase in IP of 0.9 percent. Although it has been common in the past year, growth this large in IP is typically an unusual occurrence, having happened only five times in the ten years prior to the pandemic.

## Modest increase expected for housing starts

As with many parts of the economy, home construction is likely suffering from a shortage of labor and higher input costs (high lumber prices). Additionally, homebuilders face a shortage of buildable lots. But housing demand continues to be strong, and the supply of existing homes remains near record lows – pushing potential buyers into the new home market. This should keep homebuilders operating as close to their capacity as possible and keep starts at a robust pace. On balance, we project a small rise in the annualized pace of housing starts in May to 1.60 million units, with most of the gain coming from single-family units.

# Worth Watching

**Housing starts fell sharply in April as supply chain issues have hit home construction.**




*Sources: Census Bureau/Haver Analytics*

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# Weekly Market Snapshot

| Equity | Last | Returns 1 Week | YTD* | 1 Year* |
|---|---|---|---|---|
| S&P 500 (Large) | 4,247 | 0.43% | 13.84% | 43.73% |
| S&P 400 (Mid) | 2,752 | 0.89% | 19.93% | 61.78% |
| S&P 600 (Small) | 1,396 | 0.91% | 25.36% | 78.54% |
| S&P 500 (High Quality) | 48 | 1.11% | 13.23% | 40.05% |
| Russell 1000 | 4,598 | 0.65% | 13.49% | 46.21% |
| Russell 2000 | 5,805 | 2.18% | 18.73% | 74.11% |
| Dow Jones | 34,480 | -0.78% | 13.65% | 39.98% |
| NASDAQ | 14,069 | 1.85% | 9.50% | 49.29% |
| MSCI EAFE | 2,366 | 0.34% | 11.93% | 35.83% |
| MSCI EM | 1,382 | 0.09% | 7.92% | 42.41% |

*represents total return

| S&P Metrics | LTM P/E | NTM P/E | LTM EPS Growth | NTM EPS Growth |
|---|---|---|---|---|
| Current | 25.00 | 21.33 | 9.27 | 24.46 |
| Prior Month | 25.31 | 21.25 | 4.93 | 25.73 |
| Prior Year | 20.50 | 21.17 | -8.92 | 1.19 |

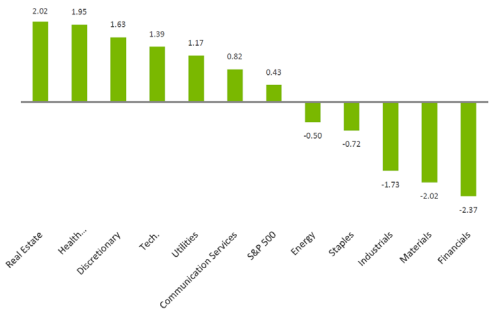
| Fixed Income | Last | Returns 1 Week | YTD | 1 Year |
|---|---|---|---|---|
| U.S. Aggregate | 1.47% | 0.47% | -1.71% | -0.20% |
| U.S. Inv Grade | 2.08% | 0.87% | -1.78% | 3.76% |
| U.S. High Yield | 4.67% | 0.50% | 3.04% | 14.11% |
| TIPS | 1.02% | 0.10% | 1.36% | 6.55% |

| Rates | Last | Change 1 Week | YTD | 1 Year |
|---|---|---|---|---|
| 6M T-Bill | 0.04% | 0.00 | -0.05 | -0.14 |
| 2 Yr Treasury | 0.16% | 0.02 | 0.03 | -0.03 |
| 5 Yr Treasury | 0.76% | -0.02 | 0.40 | 0.44 |
| 10 Yr Treasury | 1.47% | -0.09 | 0.54 | 0.81 |
| 30 Yr Treasury | 2.15% | -0.09 | 0.5 | 0.74 |

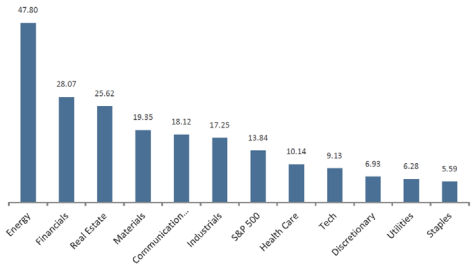
| Spreads | Last | Change (Abs %) 1 Week | YTD | 1 Year |
|---|---|---|---|---|
| AAA Rated | 0.47 | 0.00 | -0.08 | -0.35 |
| BBB Rated | 1.13 | -0.02 | -0.19 | -1.06 |
| High Yield | 3.21 | -0.07 | -0.65 | -3.19 |
| 10 to 2 yr Treasury | 1.31 | 0.00 | 0.51 | 0.84 |

| Commodities/FX | Last | Returns (Currencies in $ strength) 1 Week | YTD | 1 Year |
|---|---|---|---|---|
| Gold | 1877.40 | -0.66% | -0.83% | 8.39% |
| Bitcoin | 37323.98 | 1.12% | 28.60% | 301.84% |
| WTI Oil | 70.91 | 1.93% | 46.66% | 94.65% |
| EUR/USD | 1.21105 | 0.44% | 1.02% | -6.41% |
| USD/JPY | 109.77 | 0.23% | 6.32% | 2.93% |

## S&P Sector Returns — Week (%)

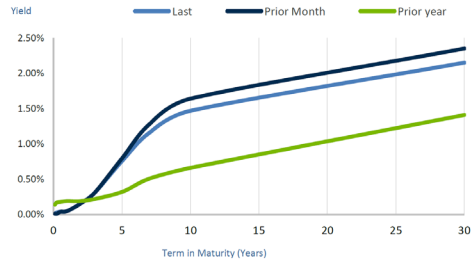



## S&P Sector Returns — YTD (%)*




*represents total return

## U.S. Yield Curve




## Russell Style Returns — Week

| | Value | Core | Growth |
|---|---|---|---|
| Large | -0.5 | 0.6 | 1.8 |
| Mid | -0.1 | 0.8 | 2.7 |
| Small | 1.0 | 2.2 | 3.5 |

## Russell Style Returns — YTD

| | Value | Core | Growth |
|---|---|---|---|
| Large | 18.7 | 13.5 | 8.6 |
| Mid | 21.7 | 16.0 | 6.0 |
| Small | 31.1 | 18.7 | 7.3 |

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

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## Previous Week's Indicators

| | Period | Actual | Previous |
|---|---|---|---|
| Consumer credit outstanding | April | $19 B | $19 B |
| NFIB small business optimism index | May | 99.6 | 99.8 |
| U.S. trade balance | April | -$68.9 B | -$75.0 B |
| JOLTS, job openings | April | 9.3 M | 8.3 M |
| Jobless claims | Week ending June 5 | 376,000 | 385,000 |
| CPI (m/m) | May | 0.6% | 0.8% |
| CPI (y/y) | May | 5.0% | 4.2% |
| Core CPI (m/m) | May | 0.7% | 0.9% |
| Core CPI (y/y) | May | 3.8% | 3.0% |
| Consumer sentiment | June | 86.4 | 82.9 |

## This Week's Indicators

| | Release Date | Period | Forecast* | Previous |
|---|---|---|---|---|
| Retail sales | Tues. | May | -0.1% | 0.0% |
| Retail sales ex autos | Tues. | May | 0.6% | -0.8% |
| Producer price index | Tues. | May | 0.6% | 0.6% |
| PPI core | Tues. | May | 0.3% | 0.7% |
| NY Fed Empire State manufacturing index | Tues. | June | 24.7 | 24.3 |
| Industrial production | Tues. | May | 0.9% | 0.5% |
| Capacity utilization | Tues. | May | 75.2 | 74.6% |
| NAHB Housing Market Index | Tues. | June | 83 | 83 |
| Housing starts | Wed. | May | 1.60 M | 1.57 M |
| Building permits | Wed, | May | 1.76 M | 1.73 M |
| Initial jobless claims | Thurs. | Week ending June 12 | 360,000 | 376,000 |
| Philadelphia Fed manufacturing index | Thurs. | June | 32.5 | 31.5 |
| Index of leading economic indicators | Thurs. | May | 1.1% | 1.6% |

** Nationwide Economics Forecast*

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