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Nationwide Economics

Weekly Economic Review & Outlook

August 2, 2021

Solid data, but below expectations

It is not often that strong data leave us questioning “why not more?”, but that has been the trend recently. It was most apparent in second-quarter GDP as the headline print of 6.5 percent on a seasonally adjusted annualized basis underwhelmed. Expectations had been for 8.5 percent, and at one point during the quarter were well into double-digits. But the details were stronger than the headline number. Final sales to private domestic purchasers (which removes the impacts from trade, inventories, and government) jumped by a rapid 9.9 percent. Personal consumption expenditures increased by 11.8 percent while nonresidential fixed investments (a proxy for business investment) rose by 8.0 percent. Government spending and net exports were a drag on growth. And inventory decumulation has subtracted over three percent from growth so far this year. Given supply chain issues and uncertainty around reopening, companies had been unwilling to stock up, but consumers with stimulus checks in hand had no problem spending. Going forward, inventory drawdowns are unlikely to be the detractor from growth that they were in the first half of the year, but it could be well into next year before we see inventory rebuilds which add to the GDP figures. Overall, growth in 2021 is shaping up to be the best since the 1980s with full year GDP expected to be well over 6.0 percent. COVID still plays a big part in how the economic numbers will play out, but 2021 is shaping up to be an extraordinary year.

Some ways away

The FOMC kept policy unchanged at its regular meeting last week while indicating that there has been some progress toward the goals that have to be met to taper its Quantitative Easing (QE) programs. Fed Chair Jay Powell was very clear, however, in stating that reaching substantial further progress is still “some ways away.” The internal discussion on tapering asset purchases has begun and will continue in coming meetings. The expectation is for an announcement to come before year-end on the size and path of tapering – if economic data continue to be solid. It is clear from their recent statements that the FOMC does not want to taper and raise rates at the same time, given concerns about tightening too much. Moreover, there was little support for tapering MBS purchases faster than Treasuries given that the impact to financial conditions is roughly similar. While the Fed is likely to begin tapering its asset purchases by early next year, the first hike in rates will probably be well into the future.

New home sales underwhelm

New home sales fell by 6.6 percent for June to an annualized pace of 676,000 units. This is well off the pace of nearly one million units for January, but still well above average since 2009. There are many factors weighing on the ability to sell new homes, primarily on the supply side. These factors include elevated prices, land and component supply shortages, and labor constraints. But while down a smidge in recent months, the NAHB housing market index (a measure of homebuilder confidence) remains in solid growth territory. Fundamentals are solid with the pace of overall hiring picking up, mortgage rates remaining near historic lows, and a continued demand for “space.” But it will be difficult for sales to pick up meaningfully until the supply and cost pressures are relieved.

You Need to Know

Week in Review

▲ Strong underlying GDP growth, but the top line disappoints

While strong, the headline number for GDP growth in the second quarter missed expectations.

▼ New home sales fall again

Held back by supply and labor constraints as well as elevated prices, new home sales fell for a third straight month.

Week Ahead (Forecasts)

▲ ISM indices expected to climb

Demand likely continued to drive strong growth in manufacturing and services despite both sectors facing high input prices and labor shortages.

▲ Another outsized gain likely for nonfarm payrolls

Although labor supply remains a limiting factor, very strong labor demand likely produced another large gain in nonfarm payrolls in July.

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Ben Ayers
Senior Economist

Daniel Vielhaber
Economist

The Week Ahead

This week's economic data include the ISM and Markit manufacturing and services survey indices, construction spending, factory orders, and the all-important July employment report.

Growth in manufacturing should remain strong despite headwinds

The issues weighing on manufacturing in recent months (e.g., high input prices and material and labor shortages) were still present in July and likely held back expansion in manufacturing. Supplier delivery delays remain as high as they've been for any several-month stretch in nearly 50 years, driving further growth in the backlog of orders. Despite these factors, strong demand should still produce rapid growth in new orders and, consequently, increased growth in manufacturing. We project an increase in the Institute for Supply Management (ISM) manufacturing index to 61.4 for July, up from 60.6 in June.

...and the same goes for services

As with manufacturing, the service sector is facing high input prices and labor shortages, but strong demand likely kept growth well into expansion territory for July. High-frequency data suggest a mild pullback in restaurant and hotel activity in the latter half of the month (possibly due to rising COVID infections) which could slow growth some, but this effect would be small at this point. We project a rise in the ISM services index to 62.1 for July. This would be roughly equal to the average for the second quarter and indicates continued strong growth for services. Concerns over the Delta variant of COVID could lead to some slowing in future months, however.

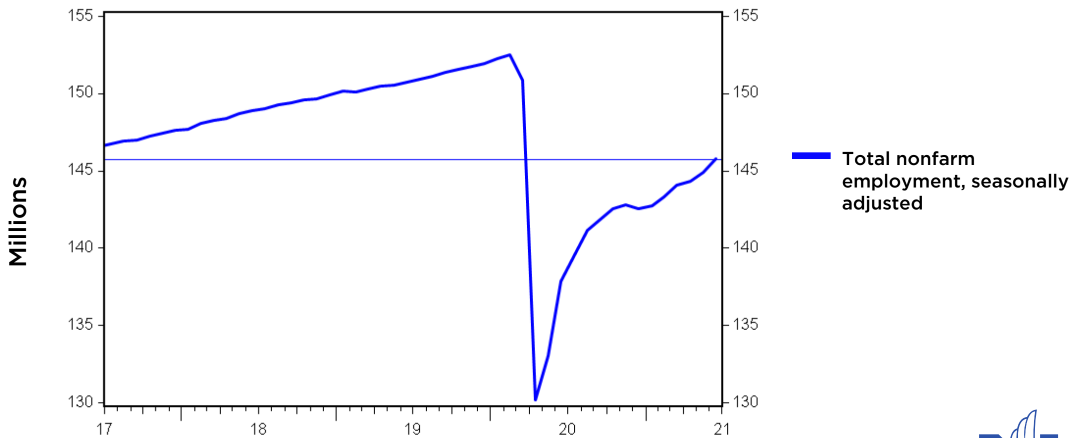
Another large gain expected for nonfarm payrolls

Despite a shortage of labor supply, nonfarm payroll growth climbed to its highest level in 10 months for June as a result of very strong labor demand as evidenced by job openings setting a record high in each of their last three readings. Several states eliminated extended unemployment benefits in July to spur labor force growth, but labor supply is likely still being limited by other factors (e.g., COVID fears and parents who left the labor force to care for children when full-time in-person schooling was rare). Still, high demand for workers likely kept job growth strong, and we project a gain of 720,000 in nonfarm payrolls. This would be the third straight month with a gain of over 500,000.

Tight labor market conditions and a very low layoff rate likely resulted in strong average hourly earnings growth and a fall in the unemployment rate; our forecasts for these are an increase of 0.4 percent and a fall to 5.7 percent, respectively.

Worth Watching

Job growth has picked up, but total employment remains well below the pre-pandemic high.



Sources: Bureau of Labor Statistics/Haver Analytics

Weekly Market Snapshot

Equity	Last		2.17%	
		1 Week	YTD*	1 Year*
S&P 500 (Large)	4,395	-0.35%	17.99%	37.51%
S&P 400 (Mid)	2,704	1.18%	18.00%	46.02%
S&P 600 (Small)	1,341	1.73%	20.61%	55.87%
S&P 500 (High Quality)	50	-0.04%	19.15%	37.55%
Russell 1000	4,747	-0.39%	17.34%	38.89%
Russell 2000	5,533	0.76%	13.29%	50.48%
Dow Jones	34,935	-0.36%	15.31%	35.38%
NASDAQ	14,673	-1.10%	14.26%	39.58%
MSCI EAFE	2,321	0.62%	10.01%	29.04%
MSCI EM	1,278	-2.48%	0.41%	20.66%

*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	24.21	21.01	19.17	22.70
Prior Month	24.83	21.35	12.05	23.57
Prior Year	22.14	21.97	-11.00	7.62

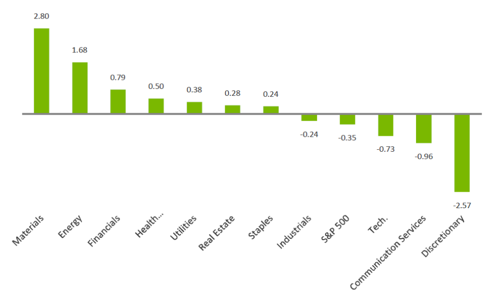
Fixed Income	Last		Returns	
		1 Week	YTD	1 Year
U.S. Aggregate	1.37%	0.25%	-0.50%	-0.70%
U.S. Inv Grade	1.97%	0.36%	0.08%	1.54%
U.S. High Yield	4.64%	0.06%	4.01%	10.62%
TIPS	0.93%	0.79%	4.44%	6.90%

Rates	Last		Change	
		1 Week	YTD	1 Year
6M T-Bill	0.05%	0.00	-0.04	-0.06
2 Yr Treasury	0.19%	-0.03	0.06	0.08
5 Yr Treasury	0.69%	-0.03	0.33	0.46
10 Yr Treasury	1.24%	-0.06	0.31	0.69
30 Yr Treasury	1.89%	-0.03	0.24	0.69

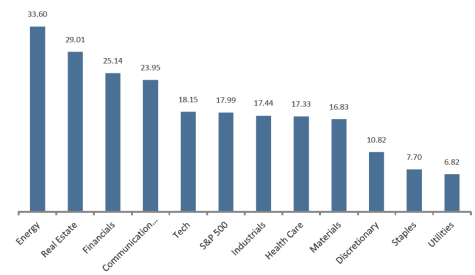
Spreads	Last		Change (Abs %)	
		1 Week	YTD	1 Year
AAA Rated	0.49	-0.01	-0.06	-0.23
BBB Rated	1.15	-0.01	-0.17	-0.70
High Yield	3.26	0.04	-0.60	-1.88
10 to 2 yr Treasury	1.05	0.00	0.25	0.61

Commodities/FX	Last		Returns (Currencies in $ strength)	
		1 Week	YTD	1 Year
Gold	1812.60	0.62%	-4.25%	-6.68%
Bitcoin	41930.00	25.11%	44.47%	276.47%
WTI Oil	73.81	2.17%	52.66%	85.22%
EUR/USD	1.1858001	-0.82%	3.09%	-0.54%
USD/JPY	109.75	-0.74%	6.30%	4.50%

S&P Sector Returns — Week (%)

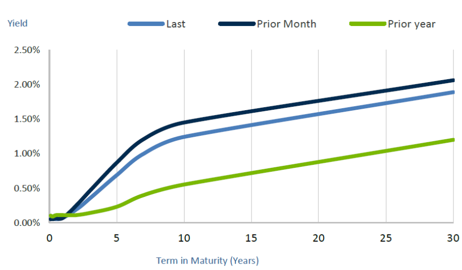


S&P Sector Returns — YTD (%)*



*represents total return

U.S. Yield Curve



Russell Style Returns — Week

	Value	Core	Growth
Large	0.6	-0.4	-1.3
Mid	0.9	0.4	-0.5
Small	1.4	0.8	0.2

Russell Style Returns — YTD

	Value	Core	Growth
Large	18.0	17.3	16.7
Mid	20.2	17.1	11.6
Small	22.2	13.3	5.0

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

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Previous Week's Indicators

	Period	Actual	Previous
New home sales	June	676,000	724,000
Dallas Fed manufacturing survey index	July	27.3	31.1
Durable goods orders	June	0.8%	3.2%
S&P/Case-Shiller HPI (y/y)	May	16.6%	14.8%
Consumer confidence	July	129.1	128.9
Richmond Fed. Manufacturing survey index	July	27	26
Initial jobless claims	Week ending July 24	400,000	424,000
Real GDP	Q2	6.5%	6.3%
GDP price index	Q2	5.98%	4.31%
Pending home sales	June	-1.9%	8.3%
Personal income	June	-0.4%	-2.7%
Personal consumption expenditures	June	1.0%	-0.1%
Core PCE price index (m/m)	June	0.5%	0.5%
Core PCE price index (y/y)	June	3.5%	3.4%
Employment cost index	Q2	0.7%	0.9%
Chicago PMI	July	73.4	66.1
Consumer sentiment	July	81.2	85.5

This Week's Indicators

	Release Date	Period	Forecast*	Previous
Markit manufacturing survey index	Mon.	July	62.9	63.1
ISM manufacturing survey index	Mon.	July	61.4	60.6
Construction spending	Mon.	June	1.5%	-0.3%
Factory orders	Tues.	June	1.0%	1.7%
ADP jobs	Wed.	July	750,000	692,000
Markit services survey index	Wed.	July	59.7	59.8
ISM services survey index	Wed.	July	62.1	60.1
Initial jobless claims	Thurs.	Week ending July 31	383,000	400,000
U.S. trade balance	Thurs.	June	-$73.7 B	-$71.2 B
Nonfarm payrolls	Fri.	July	720,000	850,000
U-3 unemployment rate	Fri.	July	5.7%	5.9%
Average hourly earnings (m/m)	Fri.	July	0.4%	0.3%
Average hourly earnings (y/y)	Fri.	July	3.9%	3.6%
Consumer credit	Fri.	June	$19.9 B	$35.0 B

** Nationwide Economics Forecast*

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