

# Nationwide Economics

## Weekly Economic Review & Outlook

August 9, 2021

### Summer heats up for job gains

Nonfarm payrolls jumped by 943,000 for July, the second consecutive month above 900,000 after upward revisions for June (May was revised upward, too). Sectors that continue to rebuild staffs again led the way with strong hiring for restaurants, hotels, health care and educational services. There was also a surge in employment at local governments as districts ramp up for the return of in-person schooling. The economy has added nearly 2.5 million jobs over the past three months as many sectors are finally getting back to more typical levels of activity.

The U-3 unemployment rate saw its largest decline since October, falling by 0.5 percentage points to 5.4 percent. July's sharp decrease is a positive sign after unemployment readings had essentially flatlined from March through June. The broader U-6 unemployment rate, which includes the underemployed, also fell to a pandemic low of 9.2 percent, although still much higher than pre-COVID norms.

Finding workers remains an issue for many businesses, however, and is likely preventing even stronger hiring gains. There was a solid increase in the size of the labor force during July, but the participation rate remained low at only 61.7 percent — nearly unchanged over the past year. This suggests that many workers remain reticent to reenter the workforce despite plenty of available jobs and rising compensation. The opening of in-person schooling across the country may spur more reentry by parents that have been at home with their children while most extra unemployment benefits will sunset soon.

The recent pace of job growth is likely unsustainable, but we still expect job gains to remain strong through the remainder of 2021. The Delta variant is a rising concern, however, and may impact hiring decisions by firms or employees in coming months — especially if a renewed surge of the virus impacts schools.

#### Supply issues still afflicting the business sector

The ISM manufacturing index edged down again for July as supply chain issues continue to weigh on overall production. While still at a solid level of 59.5 (readings above 50 indicate expansion), survey readings showed that prices paid by manufacturers remained high while the backlog of orders continues to build with many supplier deliveries delayed. On the upside, the employment indicator climbed back into expansion after a brief dip into contraction during June.

Reflecting the microchip supply shortage for automakers, inventories at auto dealers remain very tight. As a result, light vehicle sales fell for a third consecutive month during July — dropping to the lowest level in nearly a year at an annualized pace of 14.75 million units. Sales of domestic light trucks, SUVs, and crossovers have seen the sharpest declines as many U.S. auto plants have shut down this summer. Strong demand and truncated supply pushed up sales prices again.

Service sector growth accelerated for July as the ISM services index jumped to its strongest reading ever at 64.1 (slightly above May). Increases in the business activity and new orders components led the way as many service firms saw a surge in activity this summer. Shortages of workers and supplies remain top of mind for business owners, however, as many respondents noted constraints on growth despite rising demand from consumers.

### You Need to Know

#### Week in Review

##### ▲ Another surge in job gains for July

*The economy added more than 900,000 jobs for a second straight month for July while the unemployment rate saw its largest decline since October.*

##### ▼▲ Mixed business surveys for July as supply concerns persist

*The ISM services index rose to an all-time high as demand continues to improve, but supply constraints are limiting manufacturing production with a large backlog on orders.*

#### Week Ahead (Forecasts)

##### ▼ Consumer price inflation likely to slow a bit

*While price gains were likely still fairly rapid, it is unlikely that they kept pace with the gains seen in recent months.*

##### ▼ Small decline expected for small business optimism

*Headwinds facing small businesses in July likely caused a fall in optimism, but the magnitude of the drop should be small due to strong demand.*



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is on your side

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### The Week Ahead

This week's economic data include the consumer price index, the producer price index, the JOLTS survey, NFIB's small business optimism index, productivity and costs, and consumer sentiment.

#### CPI inflation expected to be slower, but still rapid

Consumer prices have soared recently, rising by at least 0.6 percent in each month from March through June – the longest period with monthly inflation at least that high since 1981. Much of the recent surge in prices has been due to transitory factors such as the microchip shortage contributing to skyrocketing car prices or increased travel driving up airline prices. While high levels of consumer demand likely kept inflation elevated in July, we believe the largest effects from some of the transitory factors are dissipating. We project a smaller (but still rapid) 0.4 percent increase in the consumer price index (CPI). We expect the core CPI (which strips out the volatile food and energy components) also rose by 0.4 percent. This would bring the 12-month trend rates down for each of these to 5.2 percent and 4.3 percent, respectively.

#### Job openings likely to remain elevated; should come down from record high

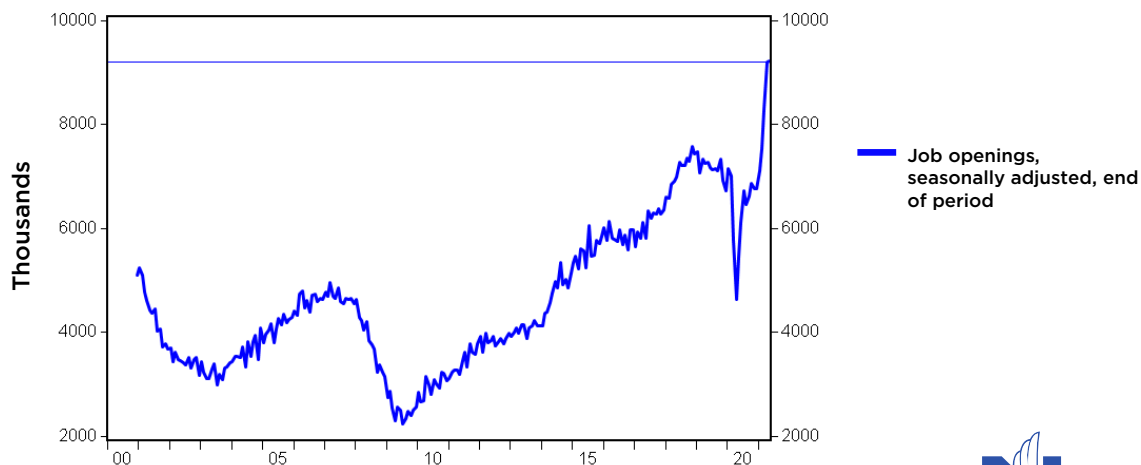
With “help wanted” signs seemingly in the windows of every business, job openings for March, April, and May each topped the previous all-time high (data back to 2000). As the economy has picked up and businesses have dealt with booming demand, the availability of labor has fallen far behind. The effects of the pandemic on personal lives (e.g., more children at home and fewer childcare options), the possible effects on personal health, and perhaps elevated unemployment benefits have all contributed to sluggish growth in the labor force. A faster pace of hiring for June likely made a dent in the number of job openings, which we believe fell for the first time since December. We project a small dip in total job openings for June to 9.0 million – still a very high level.

#### Small decline expected for small business optimism

Small business optimism climbed into triple digits for the first time in seven months in June, but small businesses are still facing headwinds. As of June, supply chain disruptions had driven inventories to all-time lows, and those disruptions are expected to remain for some time. Additionally, the percent of firms with positions they are not able to fill climbed to a record high in July. As a result, many firms raised worker compensation which – along with low inventory levels – likely translated to higher average selling prices. Robust demand likely kept optimism from falling too far, but the Delta variant may have started to take a toll. We project a decline in the NFIB small business optimism index to 101.8.

### Worth Watching

**Job openings have recently been far higher than any other period on record.**



Sources: Bureau of Labor Statistics/Haver Analytics

## Weekly Market Snapshot

Equity	Last	Returns		
		1 Week	YTD*	1 Year*
S&P 500 (Large)	4,437	0.96%	19.12%	34.53%
S&P 400 (Mid)	2,717	0.53%	18.62%	43.78%
S&P 600 (Small)	1,356	1.14%	21.99%	53.28%
S&P 500 (High Quality)	50	1.18%	20.56%	34.82%
Russell 1000	4,789	0.92%	18.42%	35.93%
Russell 2000	5,586	0.98%	14.41%	47.05%
Dow Jones	35,209	0.79%	16.22%	31.09%
NASDAQ	14,836	1.14%	15.56%	34.53%
MSCI EAFE	2,345	1.05%	11.16%	29.20%
MSCI EM	1,293	1.18%	1.59%	19.34%

\*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS	NTM EPS
			Growth	Growth
Current	24.15	21.06	20.57	22.22
Prior Month	24.86	21.51	12.90	23.22
Prior Year	22.52	22.33	-10.69	8.31

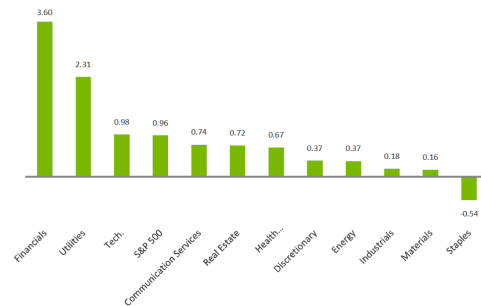
Fixed Income	Last	Returns		
		1 Week	YTD	1 Year
U.S. Aggregate	1.45%	-0.42%	-0.92%	-1.28%
U.S. Inv Grade	2.06%	-0.68%	-0.60%	0.49%
U.S. High Yield	4.68%	-0.19%	3.81%	9.80%
TIPS	1.01%	-0.72%	3.69%	5.47%

Rates	Last	Change		
		1 Week	YTD	1 Year
6M T-Bill	0.06%	0.01	-0.03	-0.05
2 Yr Treasury	0.21%	0.02	0.08	0.1
5 Yr Treasury	0.77%	0.08	0.41	0.56
10 Yr Treasury	1.31%	0.07	0.38	0.76
30 Yr Treasury	1.94%	0.05	0.29	0.74

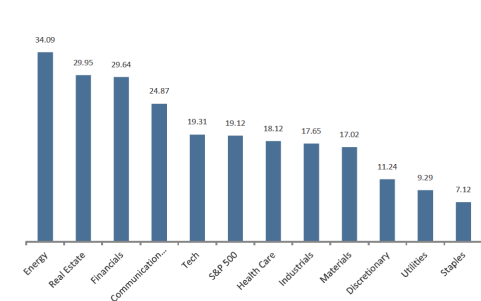
Spreads	Last	Change (Abs %)		
		1 Week	YTD	1 Year
AAA Rated	0.52	0.03	-0.03	-0.20
BBB Rated	1.17	0.02	-0.15	-0.62
High Yield	3.32	0.06	-0.54	-1.74
10 to 2 yr Treasury	1.1	0.00	0.3	0.66

Commodities/FX	Last	Returns (Currencies in \$ strength)		
		1 Week	YTD	1 Year
Gold	1760.00	-2.90%	-7.03%	-14.21%
Bitcoin	42848.21	2.19%	47.63%	263.59%
WTI Oil	68.28	-7.64%	41.22%	62.84%
EUR/USD	1.176	0.83%	3.89%	0.70%
USD/JPY	110.33	0.52%	6.86%	4.55%

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	0.9	0.9	1.0
Mid	0.8	0.8	0.7
Small	1.1	1.0	0.9

Russell Style Returns — YTD

	Value	Core	Growth
Large	19.0	18.4	17.8
Mid	21.2	18.0	12.4
Small	23.4	14.4	6.0

## Previous Week's Indicators

	Period	Actual	Previous
Markit manufacturing survey index	July	63.4	63.1
ISM manufacturing survey index	July	59.5	60.6
Construction spending	June	0.1%	-0.2%
Factory orders	June	1.5%	2.3%
ADP jobs	July	330,000	680,000
Markit services survey index	July	59.9	59.8
ISM services survey index	July	64.1	60.1
Initial jobless claims	Week ending July 31	385,000	399,000
U.S. trade balance	June	-\$75.7 B	-\$71.0 B
Nonfarm payrolls	July	943,000	938,000
U-3 unemployment rate	July	5.4%	5.9%
Average hourly earnings (m/m)	July	0.4%	0.4%
Average hourly earnings (y/y)	July	4.0%	3.7%

## This Week's Indicators

	Release Date	Period	Forecast*	Previous
JOLTS (job openings)	Mon.	June	9.0 M	9.2 M
Small business optimism index	Tues.	July	101.8	102.5
Productivity	Tues.	Q2	5.2%	5.4%
Unit labor costs	Tues.	Q2	1.9%	1.7%
Consumer price index (m/m)	Wed.	July	0.4%	0.9%
CPI (y/y)	Wed.	July	5.2%	5.4%
Core CPI (m/m)	Wed.	July	0.4%	0.9%
Core CPI (y/y)	Wed.	July	4.3%	4.5%
Initial jobless claims	Thurs.	Week ending Aug. 7	372,000	385,000
Producer price index	Thurs.	July	0.4%	1.0%
PPI ex food & energy	Thurs.	July	0.4%	1.0%
Import prices	Fri.	July	0.6%	1.0%
Consumer sentiment	Fri.	Aug.	82.3	81.2

\* Nationwide Economics Forecast



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