

Inflation moderates but remains above-trend

The consumer price index (CPI) rose by a rapid 0.5 percent for July, although this was the smallest gain in five months. Price gains were especially strong for energy (mainly gasoline) and food, up by 1.6 and 0.7 percent, respectively. As a result, the core CPI (removing the volatile food and energy components) climbed by only 0.3 percent for the month, the slowest rise in four months.

These monthly increases still represent above-trend rates of consumer inflation as price gains remained faster into the summer. The 12-month trend rate for overall inflation was unchanged at a strong 5.4 percent, as there was a similar increase in July 2020. Trend core inflation moderated slightly, edging down to 4.3 percent, although this only trails June for the fastest reading in nearly 30 years.

Supply chain disruptions continued to flow into consumer prices. New vehicle prices rose rapidly for a third consecutive month (up by 1.7 percent) as the microchip shortage has reduced the available for sale inventory. Some categories which have spiked this year, including used car prices and airline fares, showed signs of stabilization in July. Additionally, the shelter component of the CPI rose by a stronger 0.4 percent, partially reflecting rising house prices and rents, although this was down a tad from June and the cumulative impact on inflation has been modest so far.

While inflation was still above average for July, the slowdown from prior months lends support to the view that a substantial portion of price gains have been driven by outliers within a subset of categories and will decelerate as supply chains heal. We expect that trend CPI gains will slow to around 4.5 percent by year-end and settle to near 2.5 percent by the end of 2022. But because readings can be extremely volatile from month-to-month, it will take several months of slower inflation data to be sure that much of the recent price spike was temporary. In fact, input prices for producers remained hot in July, climbing by 1.0 percent, and could place further upward pressure on consumer prices soon.

Delta variant and lack of workers concern small businesses

The National Federation of Independent Business Small Business Optimism Index reversed its increase from the prior month in July, falling to nearly the same levels as April and May. While improved from 2020's lows, small business owners remained cautious about the sector's recovery as renewed virus concerns weighed on the outlook. Optimism about sales and the future state of the economy fell in July, presumably on fears that the Delta variant could prompt reduced consumer activity in the months ahead. Additionally, the University of Michigan's consumer sentiment index plunged over the first half of August to the lowest level since 2011, perhaps also from COVID fears.

The tight labor market is also holding back growth for small businesses which can't find enough workers. Despite a record number of job openings, 57 percent of responding firms had few or no qualified applicants for openings. Supply delays have also been disruptive as a record number of firms reported too low inventory levels in July with inflation cited as a growing concern as rising prices (and wages) compress earnings.

You Need to Know

Week in Review

▲ Inflation modestly cooler for July, but still hot

The consumer price index increased by 0.5 percent to keep the 12-month trend inflation rate at a rapid 5.4 percent; core price gains were slower with a rise of 0.3 percent.

▼ Small business optimism drops for July

Despite rising demand, the recovery for small businesses continues to be uneven as the lack of available workers and rising costs constrains growth – perhaps with some new COVID concerns.

Week Ahead (Forecasts)

▲ Auto sales likely to hold back stronger growth in retail sales

Declining auto sales should limit total retail sales, which were likely boosted in July by high demand for travel, a jump in gasoline prices, and back-to-school spending.

↔ Little change expected for housing starts

While homebuilders would like to build more, they are likely already building close to capacity given labor, material, and land constraints.


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The Week Ahead

This week's economic data include retail sales, industrial production, the NAHB housing market index, housing starts and building permits, the Conference Board's index of leading economic indicators, and the New York and Philadelphia Fed manufacturing survey indices.

Slow auto sales likely held back growth in retail sales

June was a strong month for retail sales, and we suspect the momentum carried over to July (at least excluding auto sales) as child-credit payments made their way to some households and job/income growth was solid. Rising prices, especially for motor fuel, will push spending higher, too. Dining out and travel was solid though much of July and back-to-school spending was likely higher than normal as there wasn't much of it last year. July sales will not have the usual bump from Amazon Prime Day, however, as that took place in June this year — and rising COVID concerns could hold sales back, but probably not until next month. Auto sales should once again hold total retail sales back after a third straight large decline. We project an increase of 0.1 percent in total retail sales and 0.7 percent in retail sales ex-autos.

Growth in industrial production (IP) continues to be limited by supply chain issues

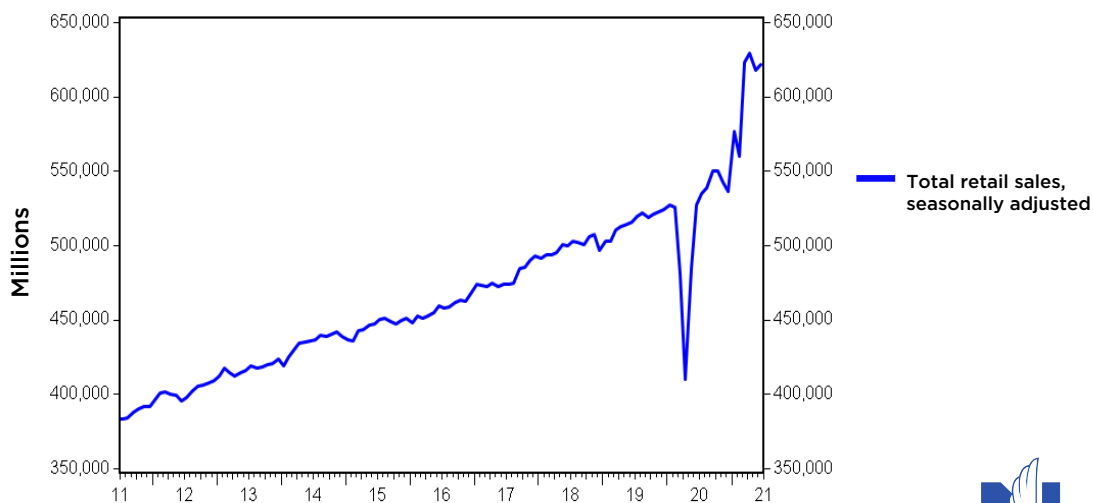
While growth in IP was relatively strong for May and June, production — particularly for durable goods such as automobiles and home appliances — has been held back by supply chain issues (especially a shortage of microchips). These issues were still present in July and likely worked to slow growth again. Still, the production component of the ISM manufacturing index for July was well in expansion territory, suggesting that growth continued, although at a slower pace. Additionally, heating degree days were close to average suggesting that utility output was little changed. We project growth of 0.3 percent in IP for July. This would be roughly equal to the median for the series over time.

July housing starts expected to little changed

While down from their recent high, housing starts for June were still elevated compared with the last 15 years of data (as they have been for several months). With very strong housing demand and the historically low supply of houses for sale, homebuilders would like to build more houses, but are constrained by high construction costs, low availability of lots on which to build, and a lack labor — as well as greater uncertainty than normal about how much it will cost to build a unit and when it can be delivered. We project an annualized pace for housing starts of 1.63 million units in July, which would be nearly even with June.

Worth Watching

Total retail sales have far exceeded their pre-pandemic level.



Sources: Census Bureau/Haver Analytics

Weekly Market Snapshot

Equity	Last	Returns		
		1 Week	YTD*	1 Year*
S&P 500 (Large)	4,468	0.75%	20.02%	34.48%
S&P 400 (Mid)	2,731	0.56%	19.29%	41.75%
S&P 600 (Small)	1,350	-0.44%	21.46%	48.98%
S&P 500 (High Quality)	51	0.87%	21.60%	35.24%
Russell 1000	4,818	0.64%	19.18%	35.86%
Russell 2000	5,525	-1.06%	13.19%	42.20%
Dow Jones	35,515	0.94%	17.31%	29.75%
NASDAQ	14,823	-0.07%	15.47%	35.19%
MSCI EAFE	2,379	1.56%	12.90%	27.67%
MSCI EM	1,281	-0.84%	0.74%	19.40%

*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS	NTM EPS
			Growth	Growth
Current	24.12	21.13	21.73	21.65
Prior Month	24.80	21.55	14.01	22.77
Prior Year	22.76	22.38	-11.02	9.13

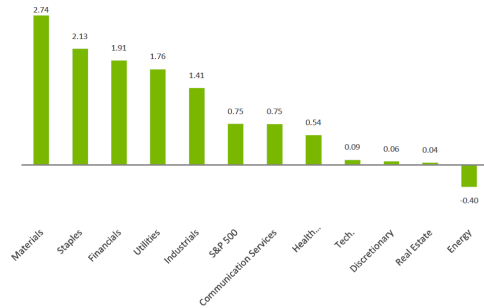
Fixed Income	Last	Returns		
		1 Week	YTD	1 Year
U.S. Aggregate	1.44%	0.11%	-0.82%	-0.27%
U.S. Inv Grade	2.05%	0.18%	-0.42%	1.83%
U.S. High Yield	4.74%	-0.16%	3.65%	9.82%
TIPS	1.02%	0.28%	3.98%	6.58%

Rates	Last	Change		
		1 Week	YTD	1 Year
6M T-Bill	0.05%	-0.01	-0.04	-0.07
2 Yr Treasury	0.23%	0.02	0.10	0.07
5 Yr Treasury	0.79%	0.02	0.43	0.47
10 Yr Treasury	1.29%	-0.02	0.36	0.58
30 Yr Treasury	1.94%	0.00	0.29	0.52

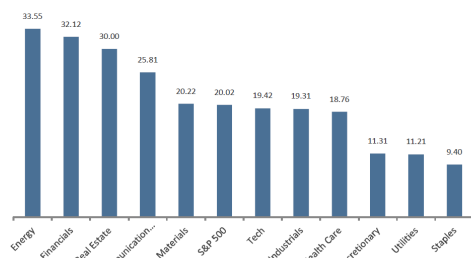
Spreads	Last	Change (Abs %)		
		1 Week	YTD	1 Year
AAA Rated	0.51	-0.01	-0.04	-0.22
BBB Rated	1.17	0.00	-0.15	-0.57
High Yield	3.36	0.04	-0.50	-1.80
10 to 2 yr Treasury	1.06	0.00	0.26	0.51

Commodities/FX	Last	Returns (Currencies in \$ strength)		
		1 Week	YTD	1 Year
Gold	1775.20	0.86%	-6.23%	-9.28%
Bitcoin	47776.69	11.50%	64.61%	305.73%
WTI Oil	68.44	-1.18%	41.55%	61.95%
EUR/USD	1.1793	-0.28%	3.62%	0.38%
USD/JPY	109.87	-0.42%	6.41%	2.79%

S&P Sector Returns — Week (%)

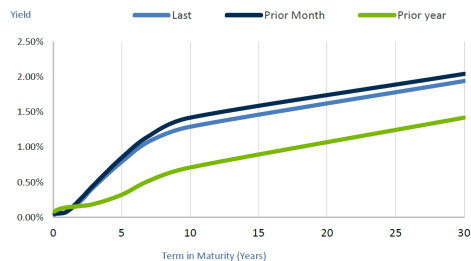


S&P Sector Returns — YTD (%)*



*represents total return

U.S. Yield Curve



Russell Style Returns — Week

	Value	Core	Growth
Large	1.1	0.6	0.2
Mid	0.9	0.5	-0.2
Small	-0.2	-1.1	-1.9

Russell Style Returns — YTD

	Value	Core	Growth
Large	20.4	19.2	18.0
Mid	22.3	18.6	12.1
Small	23.2	13.2	4.0

Previous Week's Indicators

	Period	Actual	Previous
JOLTS (job openings)	June	10.1 M	9.5 M
Small business optimism index	July	99.7	102.5
Productivity	Q2	2.3%	4.3%
Unit labor costs	Q2	1.0%	-2.8%
Consumer price index (m/m)	July	0.5%	0.9%
CPI (y/y)	July	5.4%	5.4%
Core CPI (m/m)	July	0.3%	0.9%
Core CPI (y/y)	July	4.3%	4.5%
Initial jobless claims	Week ending Aug. 7	375,000	387,000
Producer price index	July	1.0%	1.0%
PPI ex food & energy	July	1.0%	1.0%
Import prices	July	0.3%	1.1%
Consumer sentiment	Aug.	70.2	81.2

This Week's Indicators

	Release Date	Period	Forecast*	Previous
NY Fed Empire State manufacturing survey index	Mon.	Aug.	35.5	43.0
Retail sales	Tues.	July	0.1%	0.6%
Retail sales ex. Autos	Tues.	July	0.7%	1.3%
Industrial production	Tues.	July	0.3%	0.4%
Capacity utilization	Tues.	July	75.6%	75.4%
NAHB housing market index	Tues.	Aug.	79	80
Housing starts	Wed.	July	1.63 M	1.64 M
Building permits	Wed.	July	1.66 M	1.59 M
Initial jobless claims	Thurs.	Week ending Aug. 14	365,000	375,000
Philadelphia Fed manufacturing survey index	Thurs.	Aug.	23.1	21.9
Index of leading economic indicators	Thurs.	July	0.7%	0.7%

* Nationwide Economics Forecast



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