

# Nationwide Economics

## Weekly Economic Review & Outlook

August 23, 2021

### Mostly weaker economic data

Recent economic data have generally been below expectations, as the COVID Delta variant is starting to show some negative impacts on activity, although only modestly thus far. Not all the data have been worse than predicted, with industrial production jumping strongly for July. The July FOMC minutes and Fed speakers appear to have accelerated the timetable for the tapering of asset purchases. Overall, the data continue to show a solid expansion, even if it is at a slower pace than what has been seen in the past few quarters.

#### Supply constraints impact purchases

Headline retail sales fell by 1.1 percent for July, with the control group (core sales) sliding by 1.0 percent. The decline was led by motor vehicles and parts, clothing, and non-store retailers (the last mostly from Amazon moving its “Prime Day” from July to June). On the other side, food and beverage, gas stations, and the miscellaneous categories all rose. This mix of increases and decreases helped to show that consumers continue to move from goods purchases to more service-driven options. There is also an element of waning stimulus making its way into this report as some states have been eliminating the additional federal unemployment benefits. Looking forward, the fundamentals remain solid for continued consumer spending as supply chain constraints fade. To highlight this, industrial production (IP) for July rose by more than expected on the back of stronger auto production. This is the first sign that the chip shortage that has pushed light vehicle sales down sharply over the past few months is starting to abate. It will take time and many more chips to get inventories back to normal, but this is at least a first step in the right direction.

#### Housing data impacted by supply

Housing starts fell by 7.0 percent for July to a seasonally adjusted annualized rate of 1.53 million units. Building permits, an indicator that flows into the Index of Leading Economic Indicators (LEI) and is a predictor of future starts, improved modestly for the month. Still, homebuilders are less confident in the outlook following a reduction in foot traffic given elevated prices and supply constraints. Fundamentals are positive for the housing market, however, but supply constraints and elevated prices are likely to keep a lid on sales in the near term.

#### FOMC minutes hint at tapering

The minutes from the July FOMC meeting provided some insight into how the Fed is thinking about tapering its asset purchase program. While there is yet to be a consensus on the exact timing and path, given the Fed’s speak of the past two weeks there is a growing likelihood that the tapering will begin sometime in the fourth quarter. The Fed is likely to follow its playbook from the previous tapering of purchases by setting it up on “autopilot.” This would mean that purchases are reduced by a specified amount each month until there are no longer any new Treasury notes or AAA-rated mortgage-backed securities (MBS) being acquired. While there has been some speculation that MBS purchases may be tapered sooner or quicker than Treasuries, the core members of the FOMC have not given any indication that they’ll do this. Our forecast is for tapering to be announced at the September FOMC meeting, beginning in December, and lasting for 8-11 months.

### You Need to Know

#### Week in Review

##### Large decline for retail sales in July

*Retail sales fell sharply for July, led by substantial drops in auto, clothing, and non-store (online) sales.*

##### Housing starts fall amid supply constraints

*While builders are likely building near capacity, labor and lot shortages plus elevated construction costs resulted in a slower pace of housing starts.*

#### Week Ahead (Forecasts)

##### Modest decline expected for existing home sales

*Demand is still strong, but a very low supply of homes for sale and soaring prices are expected to result in a modest decline in existing home sales, as indicated by a drop in pending home sales.*

##### Core inflation expected to slow, but remain high

*With transitory impacts on prices beginning to wane, we expect July’s core inflation reading to be the slowest since February, although the monthly gain should still be rapid.*



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is on your side

**Ben Ayers**  
Senior Economist

**Daniel Vielhaber**  
Economist

### The Week Ahead

This is a busy week for economic data. It includes the Markit flash manufacturing and services surveys, new and existing home sales, Richmond and Kansas City Fed manufacturing surveys, durable goods orders, consumer spending, personal income, and the PCE price index. Plus, markets will be focused on the KC Fed's Jackson Hole symposium for any additional information on the Fed's tapering of asset purchases.

#### Modest decline expected for July's existing home sales

Existing home sales have slowed in 2021, falling over the first five months before a modest uptick for June. Still, they remain strong compared with most of the past 15 years, and this likely continued for July. Historically low mortgage rates and an ongoing desire for "space" have helped to keep demand high, but sales continue to be held back by a dearth of homes for sale, which have risen only modestly from their all-time low in March. Soaring prices are likely keeping some potential homebuyers sidelined, as well. Taken together, we project a small decline in the annualized pace of existing home sales for July to 5.80 million — as indicated by the modest drop in pending home sales. For comparison, this pace would still be higher than the pre-COVID peak from February 2020.

#### New home sales should see a small rebound

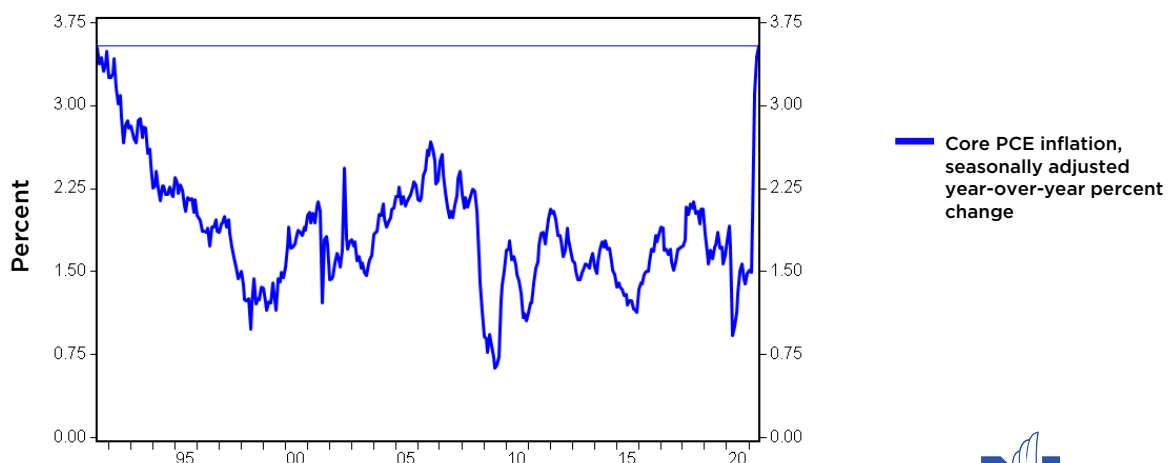
The story for new home sales is like that for existing home sales, except the recent decline in new home sales has dropped the pace below the pre-COVID peak from early 2020. The market for new homes continues to benefit from the historically low number of existing homes on the market, but the supply of new homes has not risen by enough to take advantage of this extra demand. Some rebound is expected for July based on the MBA's new home purchase applications index. We project a rise in the annualized pace of new home sales to 701,000 units for July, partially offsetting the decline in existing home sales.

#### Pull-back in consumer spending and slowdown in core inflation likely

While it's expected that personal income saw a gain for July as the job market and wage gains were strong and the child income tax credit kicked in, personal consumption expenditures (PCE) likely declined as July's retail sales numbers suggest the increased pace of spending on services struggled to keep up with the decreased pace of spending on goods. We project an increase in personal income of 1.0 percent, but a decrease in PCE of 0.7 percent for July. With transitory impacts on price gains beginning to wane, we project a climb in the core PCE price index (which leaves out the volatile food and energy components) of 0.3 percent, which would keep the 12-month trend rate at 3.5 percent.

### Worth Watching

#### Core PCE inflation has risen to its highest level in 30 years.



Sources: Bureau of Economic Analysis/Haver Analytics

## Weekly Market Snapshot

| Equity                 | Last   | Returns |        |         |
|------------------------|--------|---------|--------|---------|
|                        |        | 1 Week  | YTD*   | 1 Year* |
| S&P 500 (Large)        | 4,442  | -0.55%  | 19.36% | 33.20%  |
| S&P 400 (Mid)          | 2,676  | -2.02%  | 16.88% | 41.53%  |
| S&P 600 (Small)        | 1,321  | -2.11%  | 18.89% | 48.51%  |
| S&P 500 (High Quality) | 51     | -0.75%  | 20.70% | 32.98%  |
| Russell 1000           | 4,781  | -0.73%  | 18.31% | 34.15%  |
| Russell 2000           | 5,387  | -2.47%  | 10.39% | 40.01%  |
| Dow Jones              | 35,120 | -1.01%  | 16.13% | 29.10%  |
| NASDAQ                 | 14,715 | -0.70%  | 14.67% | 31.54%  |
| MSCI EAFE              | 2,307  | -2.94%  | 9.57%  | 25.62%  |
| MSCI EM                | 1,221  | -4.61%  | -3.90% | 15.52%  |

\*represents total return

| S&P Metrics | LTM P/E | NTM P/E | Returns        |                |
|-------------|---------|---------|----------------|----------------|
|             |         |         | LTM EPS Growth | NTM EPS Growth |
| Current     | 23.92   | 20.93   | 22.92          | 21.11          |
| Prior Month | 24.47   | 21.14   | 15.55          | 22.53          |
| Prior Year  | 22.91   | 22.30   | -11.20         | 9.99           |

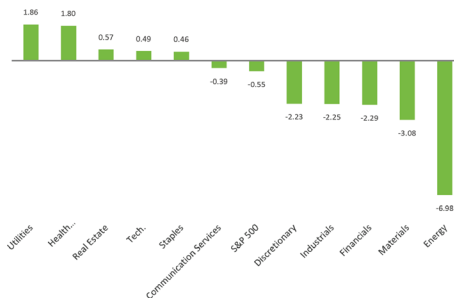
| Fixed Income    | Last  | Returns |        |        |
|-----------------|-------|---------|--------|--------|
|                 |       | 1 Week  | YTD    | 1 Year |
| U.S. Aggregate  | 1.44% | 0.16%   | -0.65% | -0.27% |
| U.S. Inv Grade  | 2.05% | 0.19%   | -0.23% | 2.13%  |
| U.S. High Yield | 4.77% | -0.06%  | 3.59%  | 10.02% |
| TIPS            | 1.02% | -0.39%  | 3.58%  | 6.01%  |

| Rates          | Last  | Change |       |        |
|----------------|-------|--------|-------|--------|
|                |       | 1 Week | YTD   | 1 Year |
| 6M T-Bill      | 0.05% | 0.00   | -0.04 | -0.08  |
| 2 Yr Treasury  | 0.23% | 0.00   | 0.10  | 0.1    |
| 5 Yr Treasury  | 0.80% | 0.01   | 0.44  | 0.54   |
| 10 Yr Treasury | 1.26% | -0.03  | 0.33  | 0.61   |
| 30 Yr Treasury | 1.87% | -0.07  | 0.22  | 0.49   |

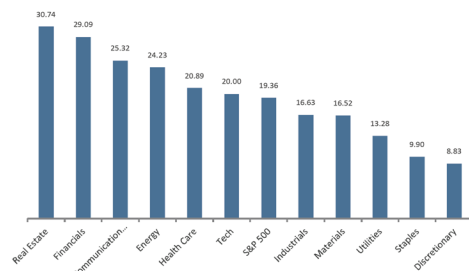
| Spreads             | Last | Change (Abs %) |       |        |
|---------------------|------|----------------|-------|--------|
|                     |      | 1 Week         | YTD   | 1 Year |
| AAA Rated           | 0.53 | 0.02           | -0.02 | -0.23  |
| BBB Rated           | 1.2  | 0.03           | -0.12 | -0.60  |
| High Yield          | 3.37 | 0.01           | -0.49 | -1.91  |
| 10 to 2 yr Treasury | 1.03 | 0.00           | 0.23  | 0.51   |

| Commodities/FX | Last     | Returns (Currencies in \$ strength) |        |         |
|----------------|----------|-------------------------------------|--------|---------|
|                |          | 1 Week                              | YTD    | 1 Year  |
| Gold           | 1781.00  | 0.33%                               | -5.92% | -7.90%  |
| Bitcoin        | 49090.89 | 2.75%                               | 69.14% | 313.62% |
| WTI Oil        | 62.32    | -8.84%                              | 28.89% | 46.22%  |
| EUR/USD        | 1.16795  | 0.96%                               | 4.54%  | 1.37%   |
| USD/JPY        | 109.81   | -0.05%                              | 6.35%  | 3.64%   |

S&P Sector Returns — Week (%)

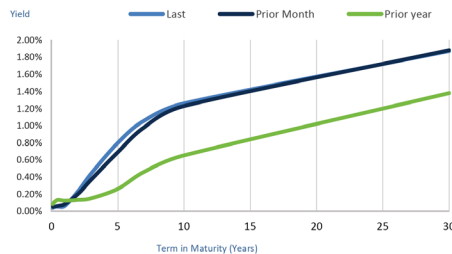


S&P Sector Returns — YTD (%)\*



\*represents total return

U.S. Yield Curve



Russell Style Returns — Week

|       | Value | Core | Growth |
|-------|-------|------|--------|
| Large | -1.2  | -0.7 | -0.3   |
| Mid   | -1.9  | -1.5 | -1.0   |
| Small | -2.3  | -2.5 | -2.6   |

Russell Style Returns — YTD

|       | Value | Core | Growth |
|-------|-------|------|--------|
| Large | 18.9  | 18.3 | 17.7   |
| Mid   | 20.0  | 16.8 | 11.0   |
| Small | 20.4  | 10.4 | 1.2    |

## Previous Week's Indicators

|  | Period              | Actual  | Previous |
|--|---------------------|---------|----------|
| NY Fed Empire State manufacturing survey index | Aug.                | 18.3    | 43.0     |
| Retail sales                                   | July                | -1.1%   | 0.7%     |
| Retail sales ex. Autos                         | July                | -0.4%   | 1.6%     |
| Industrial production                          | July                | 0.9%    | 0.2%     |
| Capacity utilization                           | July                | 76.1%   | 75.4%    |
| NAHB housing market index                      | Aug.                | 75      | 80       |
| Housing starts                                 | July                | 1.53 M  | 1.64 M   |
| Building permits                               | July                | 1.64 M  | 1.59 M   |
| Initial jobless claims                         | Week ending Aug. 14 | 348,000 | 377,000  |
| Philadelphia Fed manufacturing survey index    | Aug.                | 19.4    | 21.9     |
| Index of leading economic indicators           | July                | 0.9%    | 0.5%     |

## This Week's Indicators

|  | Release Date | Period              | Forecast* | Previous |
|--|--------------|---------------------|-----------|----------|
| Markit flash manufacturing survey index    | Mon.         | Aug.                | 63.5      | 63.4     |
| Markit flash services survey index         | Mon.         | Aug.                | 60.7      | 59.9     |
| Existing home sales                        | Mon.         | July                | 5.80 M    | 5.86 M   |
| New home sales                             | Tues.        | July                | 701,000   | 676,000  |
| Richmond Fed manufacturing survey index    | Tues.        | Aug.                | 24        | 27       |
| Durable goods orders                       | Wed.         | July                | 1.5%      | 0.9%     |
| Initial jobless claims                     | Thurs.       | Week ending Aug. 21 | 339,000   | 348,000  |
| Real GDP                                   | Thurs.       | Q2                  | 7.1%      | 6.5%     |
| Kansas City Fed manufacturing survey index | Thurs.       | Aug.                | 28        | 30       |
| Personal income                            | Fri.         | July                | 1.0%      | 0.1%     |
| Personal consumption expenditures          | Fri.         | July                | -0.7%     | 1.0%     |
| Core PCE price index (m/m)                 | Fri.         | July                | 0.3%      | 0.4%     |
| Core PCE price index (y/y)                 | Fri.         | July                | 3.5%      | 3.5%     |
| Consumer sentiment                         | Fri.         | Aug.                | 71.5      | 70.2     |

\* Nationwide Economics Forecast



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