Nationwide Economics
Weekly Economic Review & Outlook

August 30, 2021

Solid, but modestly slowing, economic data

Economic data from last week continued to show a modest deceleration from the rapid pace over the first half of 2021. The housing market took a breather from its downward trajectory in July while flash PMIs fell by more than expected. Durable goods shipments suggested a solid start to third quarter capital spending by businesses, but waning orders indicate there could be a lull moving forward.

Home sales advance for July

Existing home sales rose by 2.0 percent for July to an annualized pace of 5.99 million units — the second consecutive monthly climb. Unsold inventories edged a bit higher at 1.32 million units, a jump of 7.3 percent over the month. But this is still an extremely low level and most of the gain was seasonal. With the rise in Delta variant cases, however, new listings could take a step back amid renewed virus concerns. The median price of an existing home sold moved modestly lower to $359,900 but that was still 17.8 percent above a year ago — and with supply struggling to keep up with demand, it is unlikely that prices will drop much further. Listed homes still disappeared quickly with the average time on the market at a record low of 17 days.

New home prices moved upward again, with the median price of a home sold jumping to an all-time high of $390,500. That didn't stop buyers from signing on the dotted line, however, as sales increased by 1.0 percent to an annualized pace of 708,000 units. Given another drop in the NAHB housing market index and further declines in the MBA's survey index for new home mortgage applications, new sales could move lower again in coming months. Fundamentals for housing are still solid with strong job gains, a continued desire for "space" and low mortgage rates, but there are still headwinds with extremely elevated prices and supply constraints that are not abating quickly. Home sales are still at elevated levels compared with history, but there is some concern ahead in the near term.

Solid capex spending via durable goods

Durable goods orders came in a little better than expected, falling by 0.1 percent versus an expected drop of 0.3 percent. Capital goods orders fell by 5.0 percent on the month, but taking out the volatile defense and aircraft sectors, core capital goods orders were flat. This metric is a good proxy for capex spending (business investment) which has been solid but suggests that there could be some weakness heading into the fourth quarter. Core capital goods shipments, the better proxy for current quarter capex, rose by 1.0 percent for July and is up by more than 12.0 percent on a three-month annualized basis. This rebound should continue as the economy moves to a new normal post peak-COVID but will certainly come with plenty of ebbs and flows.

Rapid inflation but Powell hints at tapering later this year

Both personal income and spending were up for August, while inflation remained rapid. The core PCE price index, the preferred inflation measure of the Fed, rose by 0.3 percent for July — the smallest rise in five months — maintaining an above-trend pace of 3.6 percent. In line with the consumer price index, the core PCE may have peaked but still shows strong inflationary pressure. Federal Reserve Board Chair Jay Powell reiterated the Fed's stance that this year's inflation spike is mostly transitory during his opening remarks at the Kansas City Fed's annual Jackson Hole Economic Symposium. Importantly, given the improvement in the economy (especially the job market), he laid the groundwork for the tapering of asset purchases later this year in a generally "dovish" speech — perhaps with an official announcement after September's FOMC meeting.

You Need to Know

Week in Review

▲ Home sales move a bit higher for July

Both new and existing home sales climbed for July even as rising prices and lack of supply continue to limit transactions.

▲ Personal income and spending both up as inflation remains elevated (albeit slowing)

Although the PCE price index moderated a bit for July, it still rose solidly, while the Fed gave a further signal that asset tapering could occur later this year.

Week Ahead (Forecasts)

▼ ISMs both expected to drop

While still strong, we expect that growth slowed in both the manufacturing and services sectors in August.

▲ Another big rise in job gains expected for August

Nonfarm payrolls are projected to rise strongly again for August, although the gain is expected to moderate a bit compared with the extremely rapid pace of the past couple of months.

Nationwide is on your side

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The Week Ahead

This is a big week for economic data. Among the key releases are the Markit and ISM manufacturing and services survey indices, motor vehicle sales, consumer confidence and sentiment, and the all-important employment report.

ISMs both expected to drop, but they should still show solid growth

Growth appears to be slowing in the manufacturing sector which, as with much of the economy, is being weighed down by supply constraints and a shortage of workers. All the already-reported regional Fed manufacturing surveys have shown declines for August. Still, shipments of durable goods were up for July, suggesting that solid growth continued. We project a small decline in the Institute for Supply Management (ISM) manufacturing survey index to 59.0 for August, with figures over 50 showing expansion.

In the services sector, high-frequency data have started to show minor impacts from the Delta variant in the form of slightly lower travel and dining out figures. This, combined with the services index coming off a record high, should result in a drop in the ISM survey index. We project a reading of 59.8 for the ISM services index for August, still showing solid expansion.

Light vehicle sales expected to edge higher as supply constraints begin to ease

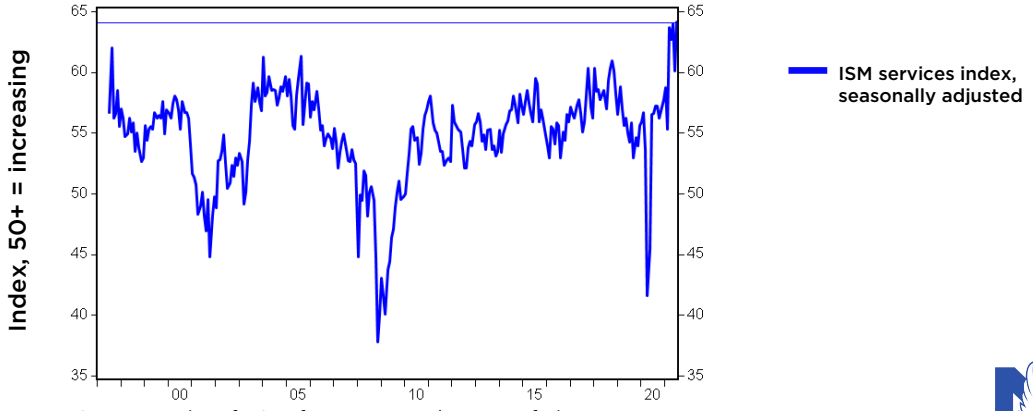
Motor vehicle sales have fallen in each of the past three months as the microchip shortage has severely limited production and sharply cut sales. Production was up a bit for August, however, suggesting the chip shortage is starting to modestly ease. Demand factors are still strong, with rapid job gains and increases in personal income, but supply constraints are still holding back production (and thus sales). We project a small increase in the annualized pace of motor vehicle sales for August to 15.1 million units.

Another blowout number likely for nonfarm payrolls

Nonfarm payrolls grew by more than 900,000 in each of the prior two months, and hiring was likely still as strong for August as firms attempt to meet rising demand. The service sector — the part of the economy most negatively affected by the pandemic — continues to have a significant need for additional workers as consumers shift their spending from goods to services, but hires remain below job openings and quit rates have soared. With the number of workers receiving unemployment insurance payments declining further, we project a rise in nonfarm payrolls of 810,000 for August. This would be the third straight month over 800,000 which has only happened once before (May-August 2020). With the start of in-person schooling and reduced unemployment payments in many states, we expect some growth in labor force participation, which will temporarily limit declines in the unemployment rate. We project the unemployment rate held steady at 5.4 percent.

Worth Watching

The ISM services index climbed to an all-time high in July.



Sources: Institute for Supply Management/Haver Analytics

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Weekly Market Snapshot

Equity	Last	Returns 1 Week	YTD*	1 Year*
S&P 500 (Large)	4,509	1.54%	21.20%	31.38%
S&P 400 (Mid)	2,767	3.43%	20.88%	44.78%
S&P 600 (Small)	1,375	4.10%	23.77%	53.77%
S&P 500 (High Quality)	51	1.29%	22.24%	30.73%
Russell 1000	4,867	1.83%	20.47%	32.76%
Russell 2000	5,659	5.06%	15.98%	47.06%
Dow Jones	35,456	0.98%	17.26%	26.85%
NASDAQ	15,130	2.82%	17.90%	31.05%
MSCI EAFE	2,349	1.86%	11.61%	26.82%
MSCI EM	1,273	4.29%	0.22%	16.48%

*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	24.02	21.18	24.00	20.49
Prior Month	24.47	21.32	17.69	22.48
Prior Year	23.52	22.82	-11.46	10.79

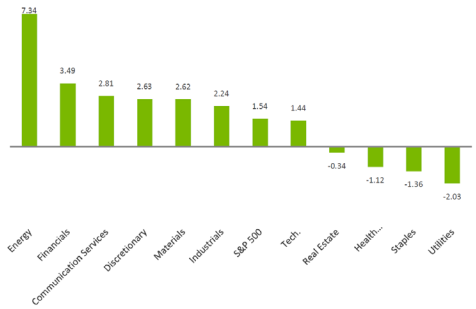
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	1.44%	-0.05%	-0.70%	0.21%
U.S. Inv Grade	2.05%	0.00%	-0.23%	2.85%
U.S. High Yield	4.66%	0.70%	4.31%	10.01%
TIPS	1.03%	0.90%	4.51%	6.73%

Rates	Last	Change 1 Week	YTD	1 Year
6M T-Bill	0.05%	0.00	-0.04	-0.06
2 Yr Treasury	0.22%	-0.01	0.09	0.06
5 Yr Treasury	0.79%	-0.01	0.43	0.48
10 Yr Treasury	1.31%	0.05	0.38	0.57
30 Yr Treasury	1.91%	0.04	0.26	0.41

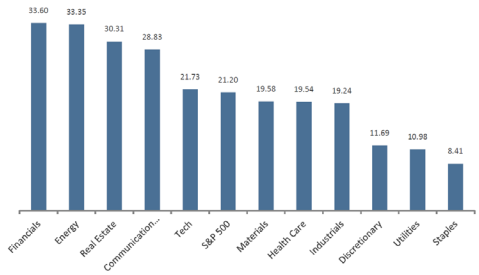
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.49	-0.04	-0.06	-0.27
BBB Rated	1.17	-0.03	-0.15	-0.61
High Yield	3.17	-0.20	-0.69	-1.81
10 to 2 yr Treasury	1.09	0.00	0.29	0.51

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1816.60	2.00%	-4.04%	-5.46%
Bitcoin	49083.75	-0.01%	69.12%	333.61%
WTI Oil	68.74	10.43%	42.17%	60.31%
EUR/USD	1.1786001	-0.91%	3.67%	0.03%
USD/JPY	109.98	0.15%	6.52%	3.32%

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	1.5	1.8	2.1
Mid	2.6	3.0	3.9
Small	4.5	5.1	5.6

Russell Style Returns — YTD

	Value	Core	Growth
Large	20.7	20.5	20.2
Mid	23.1	20.4	15.3
Small	25.8	16.0	6.9

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

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Previous Week's Indicators

	Period	Actual	Previous
Markit flash manufacturing survey index	Aug.	61.2	63.4
Markit flash services survey index	Aug.	55.2	59.9
Existing home sales	July	5.99 M	5.86 M
New home sales	July	708,000	701,000
Richmond Fed manufacturing survey index	Aug.	9	22
Durable goods orders	July	-0.1%	0.8%
Initial jobless claims	Week ending Aug. 21	353,000	349,000
Real GDP	Q2	6.6%	6.5%
Kansas City Fed manufacturing survey index	Aug.	29	30
Personal income	July	1.1%	0.1%
Personal consumption expenditures	July	0.3%	1.0%
Core PCE price index (m/m)	July	0.3%	0.4%
Core PCE price index (y/y)	July	3.6%	3.6%
Consumer sentiment	Aug.	70.3	81.2

This Week's Indicators

	Release Date	Period	Forecast*	Previous
Pending home sales	Mon.	July	-1.5%	-1.9%
Dallas Fed manufacturing survey	Mon.	Aug.	23.5	27.3
S&P/Case-Shiller HPI (y/y)	Tues.	June	18.9%	16.6%
Chicago PMI	Tues.	Aug.	69.9	73.4
Consumer confidence	Tues.	Aug.	121.1	129.1
ADP jobs	Wed.	Aug.	490,000	329,000
Markit manufacturing survey index	Wed.	Aug.	61.0	63.4
ISM manufacturing survey index	Wed.	Aug.	59.0	59.5
Construction spending	Wed.	July	-0.2%	0.1%
Motor vehicle sales	Wed.	Aug.	15.1 M	14.8 M
Initial jobless claims	Thurs.	Week ending Aug. 28	342,000	353,000
U.S. trade balance	Thurs.	July	-$77.8 B	-$75.7 B
Productivity	Thurs.	Q2	2.4%	2.3%
Unit labor costs	Thurs.	Q2	0.9%	1.0%
Factory orders	Thurs.	July	0.5%	1.5%
Nonfarm payrolls	Fri.	Aug	810,000	943,000
U-3 unemployment rate	Fri.	Aug.	5.4%	5.4%
Average hourly earnings (m/m)	Fri.	Aug.	0.3%	0.4%
Average hourly earnings (y/y)	Fri.	Aug.	4.3%	4.0%
Markit services survey index	Fri.	Aug.	55.4	59.9
ISN services survey index	Fri.	Aug.	59.8	64.1

** Nationwide Economics Forecast*

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