Nationwide Economics

Weekly Economic Review & Outlook

September 7, 2021

Signs of Delta on both demand and supply

The Delta variant of Covid has been having a growing impact on the economy over the past few months. Last week's economic data showed this with consumer confidence/sentiment, the ISM services survey, and the employment report. Supply constraints remain a severe bottleneck for the economy and given how much these problems have weighed on the housing market, they are likely to elongate the process of rebuilding for those impacted by Hurricane Ida.

Job growth solid, but sharply decelerating

Nonfarm payrolls for August disappointed, up by only 235,000 after upwardly revised gains averaging around 1,000,000 for the prior two months. The U-3 unemployment rate fell to 5.2 percent while the broader U-6 rate dropped to 8.8 percent (both pandemic lows). Average hourly earnings rose by 0.6 percent for the month and are now up by 4.3 percent from a year earlier, indicating that the demand for workers continues to outweigh the supply. The typical August seasonal factor likely played a role in creating a smaller job gain and leaves the door open to a decent-sized revision in the months ahead. But the biggest factor in play was likely the Delta variant. The leisure and hospitality industry was flat for the month while retail trade, construction, and temporary help were all negative.

This lower, if still solid, gain in payroll employment will likely delay the announcement by the Fed on when it will start to taper its asset purchases. Many had expected it to come at the Fed's September meeting, but it is now more likely to at the November meeting. This gives the FOMC participants time to see another labor market report which will include any revisions for this month. Financial market participants reacted to the employment report by pushing out expectations for when rate hikes will occur. This caused the yield curve to steepen with the 10-year Treasury note yield pushing up to around 1.33 percent to finish the week.

Confidence/sentiment take a hit

Consumer confidence declined in August to the lowest level since February. The present situation and expectation indexes both fell and confirmed the drop in sentiment earlier in the month from the University of Michigan survey. According to the survey, consumers are more hesitant about making big purchases due to the Delta variant. Moving forward, it has yet to be seen if the fall in confidence will lead to a significant pullback in actual purchases from consumers, but that is something that could happen if the higher infection rates linger.

ISM surveys move in opposite directions

The ISM manufacturing report was above expectations and rose slightly to 59.9 for August. New orders and production advanced while prices paid decelerated and employment contracted. Comments from industry purchasing managers continued to highlight the supply constraint issues caused by manufacturing slowdowns globally, port backups, and issues finding skilled labor. On the other hand (demonstrating demand-side impacts from the Delta variant) the ISM services survey index dipped to 61.7 for the month. Since these surveys are constructed so that figures over 50 show expansion, the ISM surveys continue to show growth — but with both demand- and supply-side impacts from the Delta variant.

You Need to Know

Week in Review

▼ Fewer jobs added in August

The Delta variant weighed on hiring for August, but the overall trend remains solid with plenty of demand remaining for labor.

▲ ISM surveys diverge: manufacturing up and services down

Advancing new orders and production helped to lift the manufacturing survey for August.

Week Ahead (Forecasts)

▲ Job openings likely to rise a bit to a new record high

We expect job openings to edge a tad higher – setting a record for a fifth straight month – as strong demand for workers continues to collide with low supply.

▲ More rapid input price growth expected

While the most intense upward price pressures should be in the rearview mirror, producers likely still faced rapid price growth in August.

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The Week Ahead

This is a light week for economic data. It includes the detailed Job Openings and Labor Turnover Survey (JOLTS), weekly initial jobless claims, and the producer price index (PPI).

Job openings likely edged higher to a new record level

There were record numbers of job openings in each month from March through June, highlighting both the strong demand for labor and the inability of firms to fill open positions. To remedy this, firms have offered larger benefit packages, higher starting salaries, and other perks in order to recruit needed workers. They have also reduced layoffs to record-low levels. But even with such a strong labor market, the size of the labor force has not risen appreciably, and the quits rate remains at record highs. Factors contributing to a reluctance to work (e.g., concern for personal health, difficulty finding childcare, elevated unemployment benefits, etc.) were all still in place in July as the economy was still expanding (albeit less quickly), so job openings likely rose again. We project a small increase in job openings to 10.2 million at the end of July, which would be a fifth consecutive monthly record.

Initial jobless claims should continue their downward trend

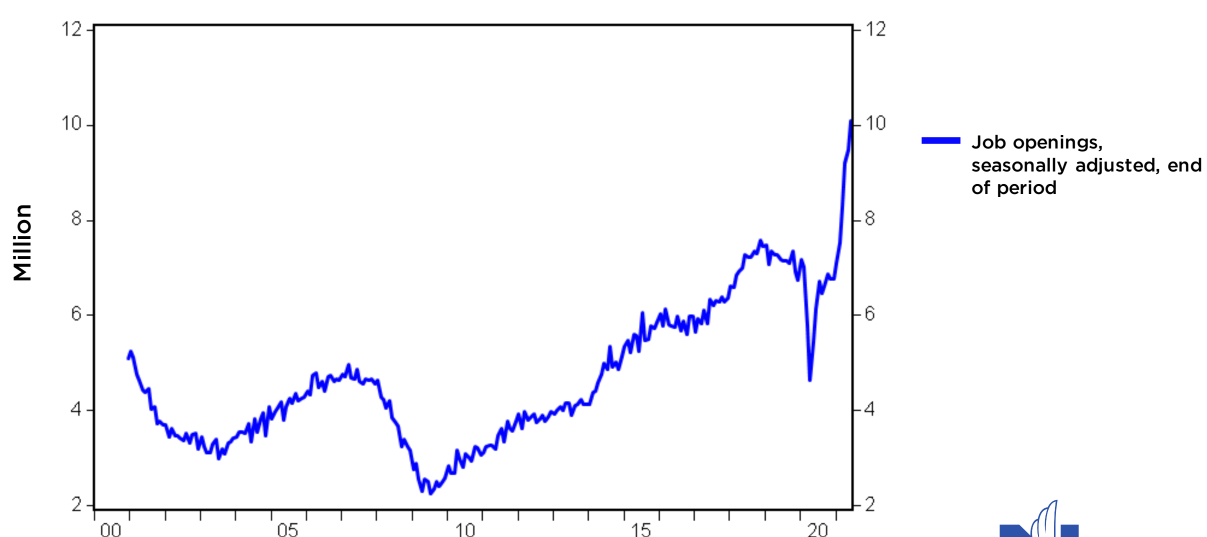
Despite the occasional week-to-week bump in the road, weekly initial jobless claims have fallen for seven straight months from an average of 849,000 in January to 355,000 in August. The most recent reading was below the median for the series for the first time since March 2020 (data back to 1967). Readings close to the long-run average are an indication that most people who want a job can find one (in stark contrast with the early months of the pandemic). With high demand leading employers to keep as many of their workers as they can, we expect the steady downward trend in claims to continue and project a fall to 333,000 for the week ending September 4.

Input price growth expected to moderate but remain high

Producers have seen input prices skyrocket this year amid supply chain disruptions and supply shortages. So far, three separate months in 2021 have seen price gains which would have been records prior to this year (although the data for the current version of the PPI extend back only to 1997). While the most intense upward price pressure is likely behind us, we still expect that producers faced rapid price growth relative to the norm for August. We project a 0.6 percent increase for the PPI, with a rise in the core rate (excluding the volatile food and energy components) of 0.5 percent.

Worth Watching

Job openings have set a record high for four straight months.



Sources: Bureau of Labor Statistics/Haver Analytics

Weekly Market Snapshot

Equity	Last	Returns 1 Week	YTD*	1 Year*
S&P 500 (Large)	4,535	0.62%	21.95%	33.25%
S&P 400 (Mid)	2,761	-0.20%	20.64%	46.73%
S&P 600 (Small)	1,370	-0.36%	23.33%	54.76%
S&P 500 (High Quality)	51	-0.74%	21.34%	30.86%
Russell 1000	4,897	0.64%	21.24%	34.79%
Russell 2000	5,696	0.68%	16.77%	49.91%
Dow Jones	35,369	-0.14%	17.10%	27.42%
NASDAQ	15,364	1.57%	19.75%	35.02%
MSCI EAFE	2,389	1.80%	13.62%	29.23%
MSCI EM	1,316	3.42%	3.65%	21.35%

represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	24.02	21.27	25.01	19.88
Prior Month	24.18	21.06	19.85	22.30
Prior Year	23.52	22.53	-11.74	11.53

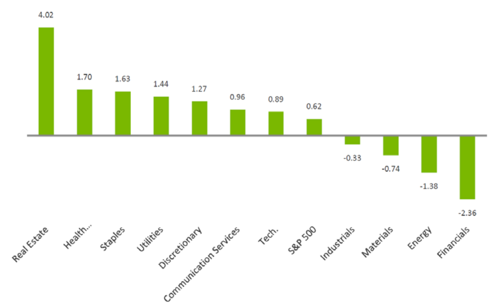
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	1.45%	-0.06%	-0.76%	-0.65%
U.S. Inv Grade	2.05%	-0.08%	-0.31%	1.59%
U.S. High Yield	4.59%	0.41%	4.74%	10.13%
TIPS	1.01%	-0.34%	4.15%	5.76%

Rates	Last	Change 1 Week	YTD	1 Year
6M T-Bill	0.05%	0.00	-0.04	-0.07
2 Yr Treasury	0.21%	-0.01	0.08	0.08
5 Yr Treasury	0.78%	-0.01	0.42	0.54
10 Yr Treasury	1.33%	0.02	0.4	0.7
30 Yr Treasury	1.94%	0.03	0.29	0.60

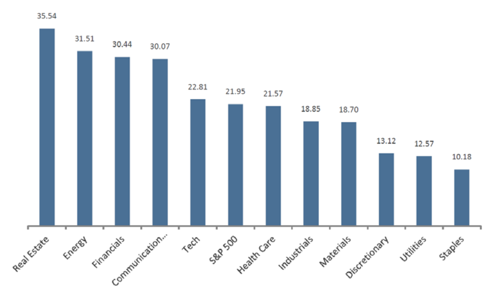
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.49	0.00	-0.06	-0.24
BBB Rated	1.16	-0.01	-0.16	-0.59
High Yield	3.14	-0.03	-0.72	-1.90
10 to 2 yr Treasury	1.12	0.00	0.32	0.62

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1830.90	0.79%	-3.29%	-5.02%
Bitcoin	49998.22	1.86%	72.27%	391.41%
WTI Oil	69.29	0.65%	43.31%	67.41%
EUR/USD	1.1881	-0.81%	2.90%	-0.37%
USD/JPY	109.66	-0.28%	6.22%	3.23%

S&P Sector Returns — Week (%)

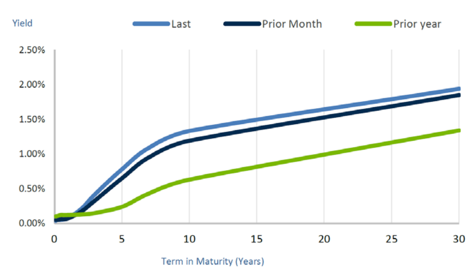


S&P Sector Returns — YTD (%)*



represents total return

U.S. Yield Curve



Russell Style Returns — Week

	Value	Core	Growth
Large	-0.1	0.6	1.3
Mid	0.1	0.5	1.2
Small	-0.1	0.7	1.4

Russell Style Returns — YTD

	Value	Core	Growth
Large	20.6	21.2	21.8
Mid	23.2	21.0	16.7
Small	25.8	16.8	8.4

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

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Previous Week's Indicators

	Period	Actual	Previous
Pending home sales	July	-1.8%	-1.9%
Dallas Fed manufacturing survey	Aug.	9.0	27.3
S&P/Case-Shiller HPI (y/y)	June	18.6%	16.8%
Chicago PMI	Aug.	66.8	73.4
Consumer confidence	Aug.	113.8	125.1
ADP jobs	Aug.	374,000	326,000
Markit manufacturing survey index	Aug.	61.1	61.2
ISM manufacturing survey index	Aug.	59.9	59.5
Construction spending	July	0.3%	0.0%
Motor vehicle sales	Aug.	13.1 M	14.8 M
Initial jobless claims	Week ending Aug. 28	340,000	354,000
U.S. trade balance	July	-$70.1 B	-$73.2 B
Productivity	Q2	2.1%	2.3%
Unit labor costs	Q2	1.3%	1.0%
Factory orders	July	0.4%	1.5%
Nonfarm payrolls	Aug	235,000	1.05 M
U-3 unemployment rate	Aug.	5.2%	5.4%
Average hourly earnings (m/m)	Aug.	0.6%	0.4%
Average hourly earnings (y/y)	Aug.	4.3%	4.1%
Markit services survey index	Aug.	55.1	55.2
ISN services survey index	Aug.	61.7	64.1

This Week's Indicators

	Release Date	Period	Forecast*	Previous
JOLTS (job openings)	Wed.	July	10.2 M	10.1 M
Initial jobless claims	Thurs.	Week ending Sept. 4	333,000	340,000
Producer price index	Fri.	Aug.	0.6%	1.0%
PPI, excluding food and energy	Fri.	Aug.	0.5%	1.0%

** Nationwide Economics Forecast*

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