Nationwide Economics
Weekly Economic Review & Outlook

September 13, 2021

Policy changes do not come easily

The impact from the Delta variant of Covid has had a decidedly negative impact on the supply side of many industries and the overall economy. Despite solid economic activity, strong demand for workers, plentiful hiring, and even rising prices, lingering supply chain problems — worsened by Delta — are holding back growth in the global economy.

Central banks debate policy

Central banks have maintained unprecedentedly accommodative policy since the start of the pandemic last year. Many lowered interest rates, and most of the larger central banks also started purchasing longer-dated government bonds as an additional way to ease policy and financial conditions. Now that most countries have likely been through the worst of the pandemic, discussions about removing some of the extraordinary stimulus have begun. This past week, the Reserve Bank of Australia (RBA), the Bank of Canada (BoC), and the European Central Bank (ECB) all had their normal policy meetings at which the need for the ongoing stimulus was discussed.

The deliberations are based around the overall outlook for economic activity, labor market conditions, and the outlook for inflationary pressures. While the Delta variant has had some impact globally, particularly in Asia and Australia where some lockdowns and restrictions are in place, in other places the outlook has been brightening. Labor markets have been recovering strongly, even in the U.S. where payroll employment was disappointing for August. The demand for workers is strong, as the July JOLTS release showed an all-time high 10.9 million job openings — 2.2 million more than the number of unemployed persons. The RBA, BoC, and ECB all noted that labor markets are doing well despite the uptick in Covid cases, which has led to the discussion about the transitory nature of current inflationary pressures.

In most instances, the policymakers who are suggesting that inflation is transitory have thus far carried the day as the underlying inflation details show the price pressures mostly stemming from supply chain bottlenecks and areas of the economy that are still in recovery mode. Many businesses have indicated that they intend to continue to pass any cost increases into price hikes when they can, but even these businesses have generally noted that increased prices are not likely to persist beyond the supply bottlenecks. Last week in the U.S., the August producer price index (PPI) rose by 0.7 percent (and 0.3 percent for the core rate), which represented a deceleration. So far, these higher producer prices have translated only partially into increased consumer prices.

So what?

Central bankers will continue to discuss and ultimately remove accommodation via bond purchases. While this should have a modest upward impact on bond yields, financial conditions should remain extremely easy for the foreseeable future. The removal of bond purchases will also lead to discussions about normalizing interest rate policies. These debates about rate hikes are not likely to take place until after the bond purchases have been wound down, and in any case, not until the economies appear ready to stand without central bank support.

You Need to Know

Week in Review

▲ **Job openings rise to another all-time high**

At 10.9 million, there are many more job openings than unemployed. But that doesn't mean that excess demand related imbalances will end soon.

▼ **Jobless claims continue to trend lower**

Initial jobless claims continue to progress toward pre-Covid levels, having fallen by more than 90 percent from the peak.

Week Ahead (Forecasts)

▲ **Consumer price growth should slow but remain rapid**

Even if many of the impacts from transitory factors are behind us, upward price pressures remain and will likely continue to drive strong growth in consumer prices.

▼ **Retail sales held back by vehicle sales again**

Although there are reasons to believe some retail sectors experienced a rebound in August, another bad month for vehicle sales should result in a further decline in retail sales.

Nationwide is on your side

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Financial Markets Economist

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The Week Ahead

This week's economic data include the NFIB small business optimism index, the consumer price index, industrial production, retail sales, and the University of Michigan's consumer sentiment index.

While still rapid, consumer price growth should slow

July saw the slowest (but still fast) growth in the consumer price index (CPI) since February, suggesting that the largest impacts from the transitory factors causing consumer price spikes could be in the rearview mirror. Upward price pressures remain, however, due to both economic growth and supply chain disruptions. While not a major factor yet, record gains in house prices may eventually filter into CPI components and keep inflation from falling back to pre-Covid levels. We project CPI growth of 0.4 percent for August, which — while rapid — would be the slowest gain since February. Growth in the core rate — excluding the volatile food and energy components — should rise a bit less, at 0.3 percent. These growth rates would keep the 12-month trend rates for the overall and the core CPI at 5.4 percent and 4.2 percent, respectively.

Continued growth expected for industrial production (IP)

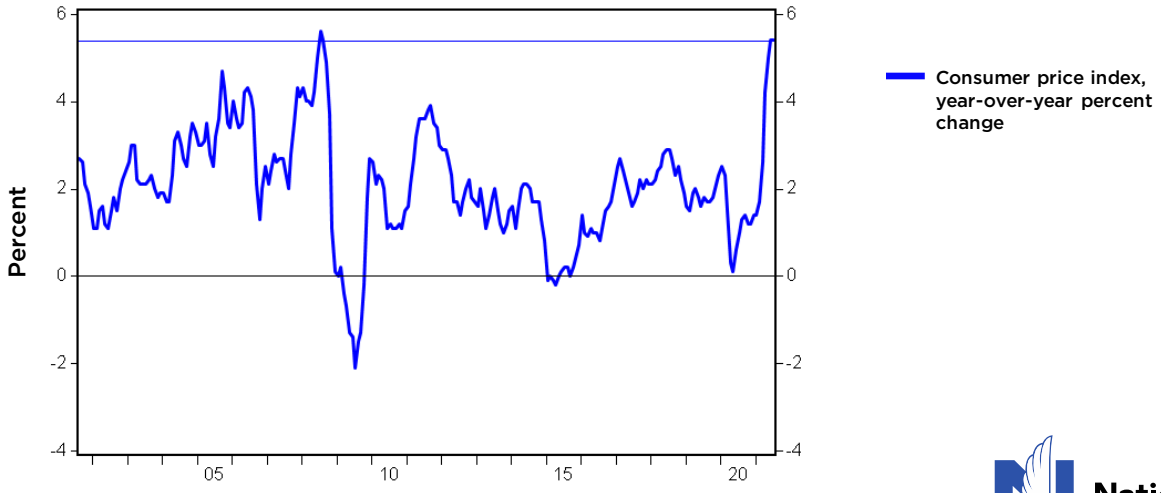
Overall business activity is expanding, especially in manufacturing, with the ISM survey at levels suggesting strong growth. But auto production likely slipped for August as the ongoing microchip shortage has caused some product lines to temporarily stop. Still, other manufacturing industries likely expanded again given the ISM survey. Additionally, the Baker Hughes rig count continues to edge higher, suggesting more mining activity. Weather should not have been a major factor impacting utility output. We project growth of 0.3 percent in IP for August, giving a modest boost to capacity utilization — but not yet to levels that have generated inflation pressures in the past.

Weak auto sales continue to hold back retail sales

Retail sales continue to be severely limited by motor vehicle sales, which plummeted again in August and, outside of the pandemic shutdown in 2020, were at their lowest level in 10 years. Aside from this significant drag, retail sales likely saw a modest rebound after a difficult July. August would have seen the last of the back-to-school spending as most schools returned to in-person learning, car travel kept up its relatively strong recent pace (boosting gasoline spending), and expenditures at restaurants continued to be solid despite rising Covid infections. We project a drop in total retail sales of -0.5 percent for August, but with a modest gain of 0.5 percent excluding autos.

Worth Watching

Inflation began to jump in the spring — did it start to moderate in August?



Sources: Bureau of Labor Statistics/Haver Analytics

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Weekly Market Snapshot

Equity	Last	Returns 1 Week	YTD*	1 Year*
S&P 500 (Large)	4,459	-1.68%	19.91%	35.54%
S&P 400 (Mid)	2,687	-2.66%	17.43%	46.52%
S&P 600 (Small)	1,327	-3.11%	19.49%	54.87%
S&P 500 (High Quality)	50	-1.59%	19.42%	32.93%
Russell 1000	4,810	-1.75%	19.12%	37.06%
Russell 2000	5,536	-2.80%	13.50%	49.25%
Dow Jones	34,608	-2.11%	14.63%	28.14%
NASDAQ	15,115	-1.61%	17.82%	39.38%
MSCI EAFE	2,381	-0.30%	13.28%	28.93%
MSCI EM	1,309	-0.46%	3.17%	23.37%

*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	23.66	20.84	26.12	19.39
Prior Month	24.07	21.02	21.15	21.80
Prior Year	23.04	21.66	-12.03	12.35

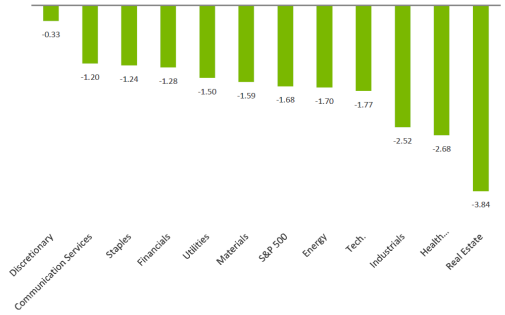
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	1.46%	0.02%	-0.74%	-0.21%
U.S. Inv Grade	2.05%	0.11%	-0.20%	2.35%
U.S. High Yield	4.59%	0.11%	4.86%	10.71%
TIPS	1.04%	0.47%	4.65%	6.40%

Rates	Last	Change 1 Week	YTD	1 Year
6M T-Bill	0.06%	0.01	-0.03	-0.06
2 Yr Treasury	0.23%	0.02	0.10	0.09
5 Yr Treasury	0.82%	0.04	0.46	0.56
10 Yr Treasury	1.35%	0.02	0.42	0.67
30 Yr Treasury	1.94%	0.00	0.29	0.51

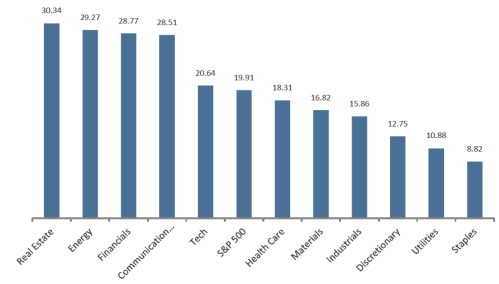
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.49	0.00	-0.06	-0.25
BBB Rated	1.14	-0.02	-0.18	-0.63
High Yield	3.11	-0.03	-0.75	-2.05
10 to 2 yr Treasury	1.12	0.00	0.32	0.58

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1789.60	-2.26%	-5.47%	-8.42%
Bitcoin	44825.51	-10.35%	54.44%	332.82%
WTI Oil	69.72	0.55%	44.20%	87.17%
EUR/USD	1.18345	0.39%	3.28%	0.30%
USD/JPY	109.84	0.16%	6.39%	3.45%

S&P Sector Returns — Week (%)

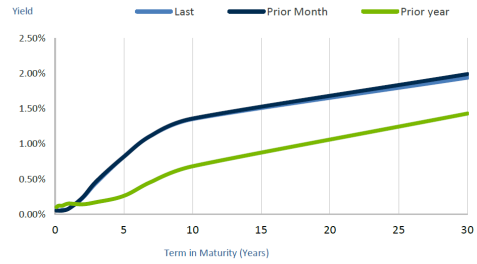


S&P Sector Returns — YTD (%)*



*represents total return

U.S. Yield Curve



Russell Style Returns — Week

	Value	Core	Growth
Large	-2.0	-1.8	-1.5
Mid	-2.2	-2.1	-1.8
Small	-2.7	-2.8	-2.9

Russell Style Returns — YTD

	Value	Core	Growth
Large	18.2	19.1	19.9
Mid	20.4	18.5	14.6
Small	22.3	13.5	5.3

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

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Previous Week's Indicators

	Period	Actual	Previous
JOLTS (job openings)	July	10.9 M	10.2 M
Initial jobless claims	Week ending Sept. 4	310,000	340,000
Producer price index	Aug.	0.7%	1.0%
PPI, excluding food and energy	Aug.	0.6%	1.0%

This Week's Indicators

	Release Date	Period	Forecast*	Previous
NFIB small business optimism index	Tues.	Aug.	98.5	99.7
Consumer price index (m/m)	Tues.	Aug.	0.4%	0.5%
CPI (y/y)	Tues.	Aug.	5.4%	5.4%
Core CPI (m/m)	Tues.	Aug.	0.3%	0.3%
Core CPI (y/y)	Tues.	Aug.	4.2%	4.3%
NY Fed Empire State manufacturing survey index	Wed.	Sept.	21.1	18.3
Import prices	Wed.	Aug.	0.2%	0.3%
Industrial production	Wed.	Aug.	0.3%	0.9%
Capacity utilization	Wed.	Aug.	76.3%	76.1%
Initial jobless claims	Thurs.	Week ending Sept. 11	297,000	310,000
Retail sales	Thurs.	Aug.	-0.5%	-1.1%
Retail sales ex-autos	Thurs.	Aug.	0.5%	-0.4%
Philadelphia Fed manufacturing survey index	Thurs.	Sept.	22.2	19.4
Consumer sentiment	Fri.	Sept.	70.0	70.3

** Nationwide Economics Forecast*

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