Nationwide Economics
Weekly Economic Review & Outlook
September 20, 2021

# Modestly better economic data

The economic data last week showed a bit of a turn toward a brighter outlook for the next few months, and hopefully beyond. To be sure, the Delta variant of Covid is still negatively impacting economic activity, but consumers and businesses are shifting how they move forward rather than putting things on hold as they did during previous Covid surges. This can be seen in regional Federal Reserve bank manufacturing surveys, retail sales, consumer sentiment, and easing inflationary pressures.

**Retail sales jumped in August**
Retail sales moved higher by 0.7 percent for August, despite analysts' expectations of a decline. The retail sales control group (a partial proxy for broader consumer spending) rose by a solid 2.5 percent. The details of the report showed that consumers adjusted to the higher Covid case counts by not eating out as much, ordering more online, and switching back to more home improvement projects. Auto sales continue to detract from the headline figure, and this may continue for a while until the semiconductor shortage ends. Overall, fundamentals are sound for consumers to continue purchasing (strong demand for workers, increasing wages, and record high household net worth), but the mix of those purchases is likely to change as the economy continues to deal with Covid.

**Consumer inflation eased**
The consumer price index (CPI) rose by less than expected for August (climbing by 0.3 percent) and is now up by 5.3 percent on a year-over-year basis. The core CPI (stripping out the volatile food and energy components) also rose by less than forecasted (up by only 0.1 percent) and is now 4.0 percent higher than a year earlier. The debate over the transitory nature of inflationary pressures was a front and center topic as the categories that had been pushing up the CPI this year finally eased. Airfares, hotels, and used car prices all fell while owners' equivalent rent (OER) rose. This is important as the transitory debate continues. OER has been edging higher over the past several months, and given the rise in home prices, there is a good chance that it will continue to do so. This suggests that the transitory categories (airlines, hotels, vehicle prices, etc.) are giving way to some categories that are typically associated with more persistent inflation. It is likely that the downward impact from the falling transitory categories will have a bigger impact than the climbing impact from categories such as shelter — continuing to gradually lower the year-over-year CPI figures. As Fed Chair Jerome Powell said in his Jackson Hole speech, "While the underlying global disinflationary factors are likely to evolve over time, there is little reason to think that they have suddenly reversed or abated. It seems more likely that they will continue to weigh on inflation as the pandemic passes into history."

**Better business activity data**
The New York and Philadelphia Fed manufacturing surveys showed solid rebounds for September. New orders and employment moved higher in the former while prices paid move lower in both. Additionally, the NFIB small business optimism index increased with most businesses continuing to look to hire. Finally, consumer sentiment edged higher in the early reading of the University of Michigan survey, although the level of the index is still very low.

## You Need to Know

### Week in Review

▲ Retail sales jumped for August

*Retail sales now stand 17.7 percent higher than in February 2020. Consumer demand remains solid, but supply problems and Delta could hold back some activity.*

▼ Consumer prices rose by less than expected

*The CPI rose by less than expected and added fuel to the fiery debate over the transitory nature of recent price pressures.*

### Week Ahead (Forecasts)

▲ Modest increase expected for housing starts

*Although plagued by several factors limiting construction, we project a modest increase in housing starts.*

▼ New and existing home sales expected to see small declines

*Despite strong underlying demand, we expect that new and existing home sales both took small steps back in August.*

**Dan Hadden**
*Financial Markets Economist*

**Daniel Vielhaber**
*Economist*

# The Week Ahead

This week's economic data are heavy on housing-related items, including the NAHB housing market index, housing starts and building permits, existing home sales, and new home sales. Also released this week will be the Markit flash manufacturing and services survey indices and the Kansas City Fed manufacturing index.

## Small increase in housing starts expected

Despite a small rise for July, housing starts remained below the recent high from March. While housing demand is strong, starts are plagued by very high input costs, a low number of available lots on which to build, and a low supply of labor — all of which are making it difficult for builders to ramp up construction. After a modest bump in multifamily building permits for July, we expect a small rise in multifamily starts for August. Overall, we project a rise to an annualized pace of 1.60 million housing starts for August, roughly the average over the last few months.

## Existing home sales expected to fall as supply remains constrained

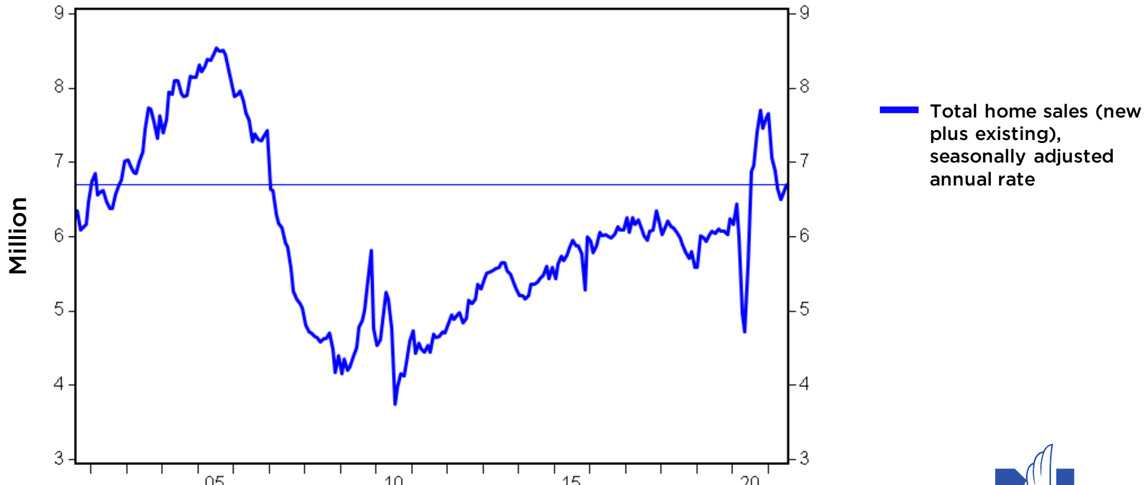
Existing home sales were stronger for July than at any point between 2007 and the onset of the pandemic, but well down from the peak of the recovery last fall. Sales have suffered from a lack of existing homes for sale, which at the end of July were only marginally above the record low from earlier in the year, and soaring house prices are likely playing a role in keeping some prospective homebuyers on the sidelines. Demand factors (e.g., low mortgage rates, solid job growth, a desire for "space," and rising wages) are strong, but after a drop in pending home sales for June and July we project a fall in existing home sales for August to an annualized pace of 5.83 million units. This would still be a strong pace compared with most of the past 15 years.

## New home sales should also fall as prospective homebuyer traffic slows

As with both housing starts and existing home sales, new home sales were strong in an absolute sense for July, but well down from their recent peak at the beginning of the year. In addition to the same strong demand factors for existing home sales, the market for new homes continues to benefit from the very low supply of existing homes on the market which pushes some portion of homebuyers toward looking at new homes. Despite the strong demand factors, traffic of prospective buyers in August fell to a 13-month low, making an increase in sales unlikely. Moreover, the MBA's builder application survey fell further for July. Consequently, we project a small decline in the annualized pace of sales to 700,000 units for August.

# Worth Watching

**Total home sales have been strong, but well down from their recent peak.**




*Sources: National Association of Realtors/ Census Bureau/Haver Analytics*

# Weekly Market Snapshot

| Equity | Last | Returns 1 Week | YTD* | 1 Year* |
|---|---|---|---|---|
| S&P 500 (Large) | 4,433 | -0.54% | 19.26% | 34.04% |
| S&P 400 (Mid) | 2,678 | -0.27% | 17.11% | 43.68% |
| S&P 600 (Small) | 1,331 | 0.37% | 19.94% | 53.92% |
| S&P 500 (High Quality) | 50 | -0.36% | 18.99% | 30.77% |
| Russell 1000 | 4,787 | -0.45% | 18.58% | 35.32% |
| Russell 2000 | 5,559 | 0.45% | 14.01% | 46.48% |
| Dow Jones | 34,585 | -0.05% | 14.58% | 26.32% |
| NASDAQ | 15,044 | -0.46% | 17.28% | 38.83% |
| MSCI EAFE | 2,348 | -1.38% | 11.71% | 26.20% |
| MSCI EM | 1,279 | -2.19% | 0.92% | 18.27% |

*represents total return*

| S&P Metrics | LTM P/E | NTM P/E | LTM EPS Growth | NTM EPS Growth |
|---|---|---|---|---|
| Current | 23.64 | 20.89 | 27.01 | 18.84 |
| Prior Month | 23.99 | 21.00 | 22.33 | 21.27 |
| Prior Year | 23.24 | 21.65 | -12.28 | 13.17 |

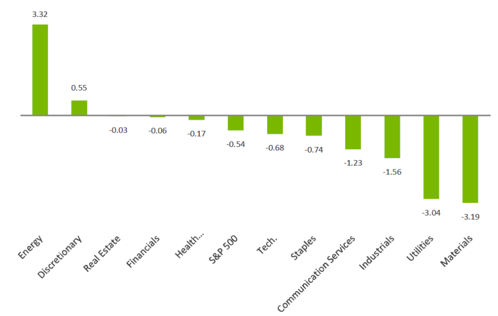
| Fixed Income | Last | Returns 1 Week | YTD | 1 Year |
|---|---|---|---|---|
| U.S. Aggregate | 1.48% | -0.03% | -0.77% | -0.32% |
| U.S. Inv Grade | 2.06% | 0.08% | -0.12% | 2.15% |
| U.S. High Yield | 4.57% | 0.14% | 5.01% | 10.78% |
| TIPS | 1.07% | -0.39% | 4.24% | 5.93% |

| Rates | Last | Change 1 Week | YTD | 1 Year |
|---|---|---|---|---|
| 6M T-Bill | 0.05% | -0.01 | -0.04 | -0.06 |
| 2 Yr Treasury | 0.23% | 0.00 | 0.10 | 0.1 |
| 5 Yr Treasury | 0.88% | 0.06 | 0.52 | 0.6 |
| 10 Yr Treasury | 1.37% | 0.02 | 0.44 | 0.68 |
| 30 Yr Treasury | 1.91% | -0.03 | 0.26 | 0.48 |

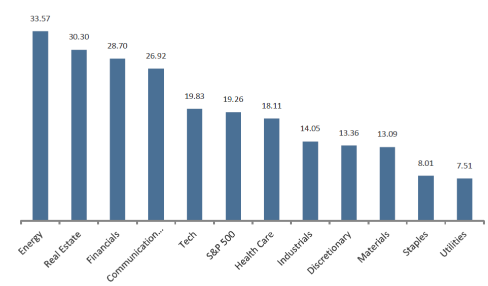
| Spreads | Last | Change (Abs %) 1 Week | YTD | 1 Year |
|---|---|---|---|---|
| AAA Rated | 0.48 | -0.01 | -0.07 | -0.24 |
| BBB Rated | 1.13 | -0.01 | -0.19 | -0.62 |
| High Yield | 3.04 | -0.07 | -0.82 | -2.10 |
| 10 to 2 yr Treasury | 1.14 | 0.00 | 0.34 | 0.58 |

| Commodities/FX | Last | Returns (Currencies in $ strength) 1 Week | YTD | 1 Year |
|---|---|---|---|---|
| Gold | 1749.40 | -2.25% | -7.59% | -9.82% |
| Bitcoin | 47292.85 | 5.50% | 62.95% | 332.98% |
| WTI Oil | 71.96 | 3.07% | 48.83% | 75.56% |
| EUR/USD | 1.1737 | 0.82% | 4.07% | 0.60% |
| USD/JPY | 109.97 | 0.12% | 6.51% | 5.02% |

## S&P Sector Returns — Week (%)

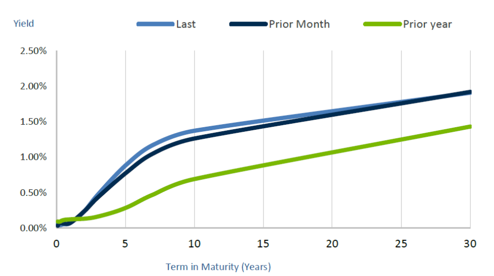



## S&P Sector Returns — YTD (%)*




*represents total return*

## U.S. Yield Curve




## Russell Style Returns — Week

| | Value | Core | Growth |
|---|---|---|---|
| Large | -0.3 | -0.4 | -0.6 |
| Mid | -0.5 | -0.4 | -0.1 |
| Small | 0.2 | 0.5 | 0.7 |

## Russell Style Returns — YTD

| | Value | Core | Growth |
|---|---|---|---|
| Large | 17.8 | 18.6 | 19.3 |
| Mid | 19.8 | 18.0 | 14.5 |
| Small | 22.6 | 14.0 | 6.0 |

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

Nationwide®

## Previous Week's Indicators

| | Period | Actual | Previous |
|---|---|---|---|
| NFIB small business optimism index | Aug. | 100.1 | 99.7 |
| Consumer price index (m/m) | Aug. | 0.3% | 0.5% |
| CPI (y/y) | Aug. | 5.3% | 5.4% |
| Core CPI (m/m) | Aug. | 0.1% | 0.3% |
| Core CPI (y/y) | Aug. | 4.0% | 4.3% |
| NY Fed Empire State manufacturing survey index | Sept. | 34.3 | 18.3 |
| Import prices | Aug. | -0.3% | 0.4% |
| Industrial production | Aug. | 0.4% | 0.8% |
| Capacity utilization | Aug. | 76.4% | 76.2% |
| Initial jobless claims | Week ending Sept. 11 | 332,000 | 312,000 |
| Retail sales | Aug. | 0.7% | -1.8% |
| Retail sales ex-autos | Aug. | 1.8% | -1.0% |
| Philadelphia Fed manufacturing survey index | Sept. | 30.7 | 19.4 |
| Consumer sentiment | Sept. | 71.0 | 70.3 |

## This Week's Indicators

| | Release Date | Period | Forecast* | Previous |
|---|---|---|---|---|
| NAHB housing market index | Mon. | Sept. | 77 | 75 |
| Housing starts | Tues. | Aug. | 1.60 M | 1.53 M |
| Building permits | Tues. | Aug. | 1.68 M | 1.63 M |
| Existing home sales | Wed. | Aug. | 5.84 M | 5.99 M |
| Initial jobless claims | Thurs. | Week ending Sept. 18 | 315,000 | 332,000 |
| Markit flash manufacturing index | Thurs. | Sept. | 61.9 | 61.1 |
| Markit flash services index | Thurs. | Sept. | 54.7 | 55.1 |
| Index of leading economic indicators | Thurs. | Aug. | 0.5% | 0.9% |
| Kansas City Fed manufacturing index | Thurs. | Sept. | 31 | 29 |
| New home sales | Fri. | Aug. | 700,000 | 708,000 |

* *Nationwide Economics Forecast*

Interested in learning more from Nationwide Economics? Find this and other content from Nationwide at blog.nationwidefinancial.com/markets-economy.



NFM-9898AO.7

Nationwide®