

## Fed tapering is coming soon; tightening later

Although monetary policy was left unchanged last week, the Federal Reserve set the table for changes before the end of the year. During his post-FOMC meeting comments, Fed Chair Jay Powell stated that "the substantial further progress test for employment is all but met." Economic data continued to show a mixed picture with home sales and flash PMIs showing a deceleration of activity but remaining at still robust levels.

### The Fed sees less need for accommodation

Interest rates and asset purchases were kept unchanged by the Federal Open Market Committee (FOMC) last week, but policymakers sent clear signals that policy would become less accommodative soon. In the Summary of Economic Projections (SEP), FOMC members were split on the need for a rate hike by the end of 2022 (with the leadership likely in the no-change group). But the expectations were for tighter policy thereafter, with the median now projecting that 175 basis points of increases could be necessary by the end of 2024. Forecasts for the real economy were revised downward, with real GDP growth expected to come in around 5.9 percent for 2021 and 3.8 percent for 2022. Core PCE inflation was revised upward for 2021 and 2022 at 3.7 and 2.3 percent, respectively.

In the press conference following the FOMC meeting, Powell made it clear that tapering is coming by the end of the year and should conclude by the middle of next year. This suggests that the pace of tapering will be around \$10 billion of Treasuries per month and \$5 billion of mortgage-backed securities with the Fed's purchases ending altogether in June or July 2022, although no specifics on that were given.

Note that the tapering of asset purchases by the Fed should not be viewed as a tightening of monetary policy. Instead, as the Fed will continue to add to liquidity into mid-year, it is less expansionary. It won't be until the Fed either raises the federal funds rate or starts to reduce its balance sheet (or both) that policy will begin to be contractionary — even if only modestly.

### Mixed housing data

The NAHB housing market index for September (a survey of homebuilders) and new home sales for August both moved modestly higher while existing home sales for August fell. Homebuilders were slightly more upbeat about the outlook with the current sales and traffic of prospective buyers both up (expectations for future sales were unchanged). Surprisingly, given that purchase mortgage applications in the MBA's survey fell for the month, new home sales rose by 1.5 percent to an annualized pace of 740,000 units. Purchase prices continue to be sky-high with the median price of a new home sold at an all-time high of \$390,900. Existing home sales moved in the opposite direction, however, falling by 2.0 percent to an annualized pace of 5.88 million units. Inventory continues to be an issue with only just over 1.3 million homes available for sale. There are certainly pressures that are weighing on home sales (especially the surge in the Delta variant and high prices), but the fundamentals remain strong (low mortgage rates, the continued ability to work remotely, and a growing job market). Home sales should continue at a solid pace in coming months, but they will remain constrained by lack of supply.

## You Need to Know

### Week in Review

#### ▲ Homebuilders' survey little changed

*The NAHB survey moved slightly higher for September despite lingering concerns about input prices/availability and labor shortages.*

#### ▼ Total home sales fell for August

*Existing home sales declined while new home sales rose modestly. Both remain at elevated levels.*

### Week Ahead (Forecasts)

#### ▲ Modest core inflation and another rise in personal income/consumer spending likely

*A smaller than expected increase in the CPI suggests modest core PCE inflation for August, while consumer spending likely saw another healthy gain with personal income up again.*

#### ▼ A small stepdown expected for manufacturing growth

*While still at levels signaling solid growth, the ISM manufacturing survey is projected to slip modestly as growth continues to be held back by supply chain and labor supply issues.*


**Nationwide**  
 is on your side

**Dan Hadden**  
 Financial Markets Economist  
**Daniel Vielhaber**  
 Economist

### The Week Ahead

This week's economic data include durable goods orders, the S&P/Case-Shiller house price index, consumer confidence and sentiment, pending home sales, the Chicago purchasing managers' index, personal income and spending, PCE inflation, and the ISM manufacturing index.

#### Rebound likely for durable goods orders

Durable goods orders fell for July, due mostly to a weak month for transportation equipment orders, but a modest rebound is likely for August. Boeing's net new orders for August were more than triple July's total, suggesting that transportation equipment could lead orders growth for the month. Also, the new orders component of the Institute for Supply Management (ISM) manufacturing index for August showed strong growth. On the downside, there could be a pullback in motor vehicle orders following the jump seen in July. Taken together, we project growth of 0.3 percent in durable goods orders for August.

#### Modest core inflation with another rise in consumer spending expected

Real personal income has risen in only three of the first seven months in 2021, but July was the first such instance that wasn't driven by stimulus checks (the biggest reason for the income surges in both January and March). Wage growth, which was already strong, accelerated for August with average weekly earnings up by nearly 0.6 percent — leading to our forecast of a 1.5 percent jump in personal income for August. This would be the largest increase in personal income not associated with stimulus checks since December 2012 (which had its own special circumstances). Additionally, signs point to solid consumer spending for August after retail sales grew strongly. We project growth in personal consumption expenditures (PCE) of 0.8 percent.

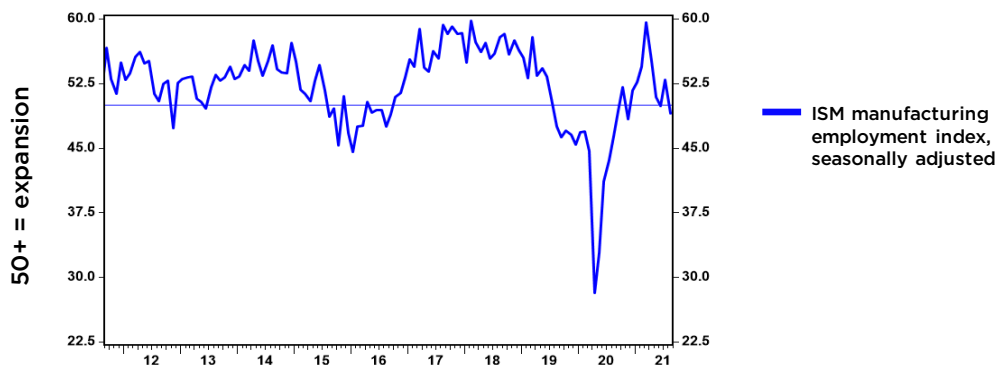
August's consumer price index data provided evidence that the largest impacts from transitory factors contributing to rapid price growth are fading. While growth in food and energy prices might have been a little faster in August, core PCE inflation — which leaves out these volatile components — was likely modest. We project growth in core PCE of 0.1 percent, which would drop the 12-month trend rate to 3.4 percent.

#### Small deceleration expected for manufacturing growth

Growth in manufacturing was strong through August despite intense supply chain issues and a limited ability to fill open positions (employment was in contraction territory in August according to the ISM manufacturing survey). Those issues were still prevalent in September and put a ceiling of sorts on the amount of growth likely for manufacturing. September data from regional Federal Reserve Bank surveys has been mixed between faster and slower (but still strong) growth, and we think that will be reflected in the ISM manufacturing index. We project a small decline to 59.2 in September's reading of the ISM manufacturing index. While still a strong reading, it would be the lowest since January.

### Worth Watching

**Employment, which fell to contraction levels for August, is holding back manufacturing growth.**



Sources: Institute for Supply Management/Haver Analytics; horizontal line represents separation between expansion and contraction

## Weekly Market Snapshot

Equity	Last	Returns		
		1 Week	YTD*	1 Year*
S&P 500 (Large)	4,455	0.52%	19.87%	39.28%
S&P 400 (Mid)	2,699	0.80%	18.05%	52.55%
S&P 600 (Small)	1,345	1.03%	21.17%	64.68%
S&P 500 (High Quality)	50	1.17%	20.37%	36.37%
Russell 1000	4,809	0.48%	19.15%	40.50%
Russell 2000	5,587	0.51%	14.59%	56.41%
Dow Jones	34,798	0.62%	15.28%	32.25%
NASDAQ	15,048	0.03%	17.32%	41.95%
MSCI EAFE	2,342	-0.26%	11.43%	31.39%
MSCI EM	1,265	-1.01%	-0.10%	22.45%

\*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	23.61	20.92	28.35	18.33
Prior Month	23.99	21.10	23.53	20.77
Prior Year	22.82	20.86	-12.76	14.13

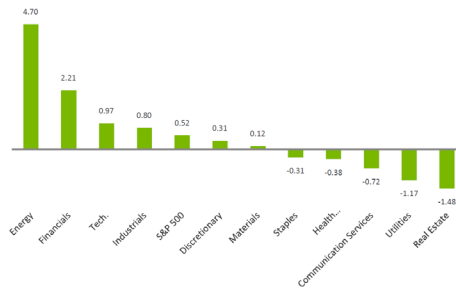
Fixed Income	Last	Returns		
		1 Week	YTD	1 Year
U.S. Aggregate	1.54%	-0.40%	-1.16%	-0.60%
U.S. Inv Grade	2.11%	-0.35%	-0.47%	2.25%
U.S. High Yield	4.61%	-0.13%	4.87%	12.31%
TIPS	1.16%	-0.64%	3.57%	5.53%

Rates	Last	Change		
		1 Week	YTD	1 Year
6M T-Bill	0.05%	0.00	-0.04	-0.06
2 Yr Treasury	0.29%	0.06	0.16	0.15
5 Yr Treasury	0.97%	0.09	0.61	0.7
10 Yr Treasury	1.47%	0.10	0.54	0.8
30 Yr Treasury	1.99%	0.08	0.34	0.59

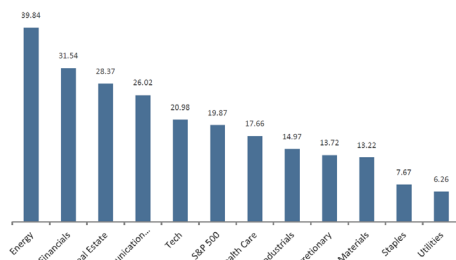
Spreads	Last	Change (Abs %)		
		1 Week	YTD	1 Year
AAA Rated	0.46	-0.02	-0.09	-0.32
BBB Rated	1.11	-0.02	-0.21	-0.73
High Yield	3.05	0.01	-0.81	-2.59
10 to 2 yr Treasury	1.18	0.00	0.38	0.65

Commodities/FX	Last	Returns (Currencies in \$ strength)		
		1 Week	YTD	1 Year
Gold	1749.70	0.02%	-7.57%	-6.35%
Bitcoin	42718.15	-9.67%	47.18%	298.19%
WTI Oil	73.98	2.62%	53.01%	84.44%
EUR/USD	1.17135	0.20%	4.27%	-0.63%
USD/JPY	110.70	0.67%	7.23%	4.96%

S&P Sector Returns — Week (%)

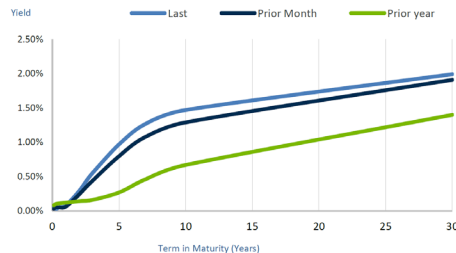


S&P Sector Returns — YTD (%)\*



\*represents total return

U.S. Yield Curve



Russell Style Returns — Week

	Value	Core	Growth
Large	0.7	0.5	0.3
Mid	0.7	0.7	0.7
Small	0.7	0.5	0.4

Russell Style Returns — YTD

	Value	Core	Growth
Large	18.6	19.2	19.6
Mid	20.7	18.9	15.3
Small	23.4	14.6	6.4

## Previous Week's Indicators

	Period	Actual	Previous
NAHB housing market index	Sept.	76	75
Housing starts	Aug.	1.62 M	1.55 M
Building permits	Aug.	1.73 M	1.63 M
Existing home sales	Aug.	5.88 M	6.00 M
Initial jobless claims	Week ending Sept. 18	351,000	335,000
Markit flash manufacturing index	Sept.	60.5	61.1
Markit flash services index	Sept.	54.4	55.1
Index of leading economic indicators	Aug.	0.9%	0.8%
Kansas City Fed manufacturing index	Sept.	22	29
New home sales	Aug.	740,000	729,000

## This Week's Indicators

	Release Date	Period	Forecast*	Previous
Durable goods orders	Mon.	Aug.	0.3%	-0.1%
Dallas Fed manufacturing index	Mon.	Sept.	7.5	9.0
S&P/Case-Shiller 20-city HPI (y/y)	Tues.	July	20.1%	18.6%
Consumer confidence	Tues.	Sept.	115.5	113.8
Richmond Fed manufacturing index	Tues.	Sept.	8	9
Pending home sales	Wed.	Aug.	-0.6%	-1.8%
Initial jobless claims	Thurs.	Week ending Sept. 24	329,000	351,000
Real GDP	Thurs.	Q2 (revision)	6.7%	6.6%
GDP price index	Thurs.	Q2	6.2%	6.1%
Chicago PMI	Thurs.	Sept.	63.3	66.8
Personal income	Fri.	Aug.	1.5%	0.7%
Personal consumption expenditures	Fri.	Aug.	0.8%	-0.1%
Core PCE price index (m/m)	Fri.	Aug.	0.1%	0.3%
Core PCE price index (y/y)	Fri.	Aug.	3.4%	4.2%
Markit manufacturing index	Fri.	Sept.	60.5	61.1
ISM manufacturing index	Fri.	Sept.	59.2	59.9
Construction spending	Fri.	Aug.	0.1%	0.3%
Consumer sentiment	Fri.	Sept.	71.4	71.0

\* Nationwide Economics Forecast



Interested in learning more from Nationwide Economics? Find this and other content from Nationwide at [blog.nationwidefinancial.com/markets-economy](http://blog.nationwidefinancial.com/markets-economy).

The information in this report is provided by Nationwide Economics and is general in nature and not intended as investment or economic advice, or a recommendation to buy or sell any security or adopt any investment strategy. Additionally, it does not take into account any specific investment objectives, tax and financial condition or particular needs of any specific person.

The economic and market forecasts reflect our opinion as of the date of this report and are subject to change without notice. These forecasts show a broad range of possible outcomes. Because they are subject to high levels of uncertainty, they will not reflect actual performance. We obtained certain information from sources deemed reliable, but we do not guarantee its accuracy, completeness or fairness.

Nationwide, the Nationwide N and Eagle and Nationwide is on your side are service marks of Nationwide Mutual Insurance Company.© 2021 Nationwide.

NFM-9898AO.7