Nationwide Economics

Weekly Economic Review & Outlook

October 11, 2021

Jobs report not as bad as the headline

Nonfarm payrolls increased by 194,000 for September following a sharply upwardly revised August gain of 366,000. The September increase was significantly less than expected and the surprise came mainly from a decline in government positions, particularly in education. This likely owes, at least somewhat, to seasonal adjustment issues. Other categories suggested a stronger report than the headline number. Trade and transportation, for example, added 120,000 jobs, which should help to relieve some supply chain issues. The leisure and hospitality sector did add 74,000 jobs, but this is less than what was expected. The composition of new hires, as well as fundamental excess demand for workers, helped to push average hourly earnings even higher, now up by 4.6 percent on a year-over-year basis.

The household employment survey showed that the headline unemployment rate (U3) as well as the underemployment rate (U6) both fell, reaching 4.8 percent and 8.5 percent, respectively. Moreover, employment rose by more than 500,000 again. The end of the extended federal unemployment benefits early in September resulted in a sharp drop in beneficiaries of that program, but it is probably too soon to see any impact in the jobs numbers. Less positively, the labor force participation rate ticked down to 61.6 percent, little changed over the past year, and remains well below the 63.4 percent from January 2020.

On balance, this was a modestly positive report with some issues likely to resolve to the upside in coming months. More importantly, despite the downside surprise in the headline reading, this employment report is unlikely to delay the Federal Reserve announcing and starting to implement the tapering of asset purchases. The Federal Open Market Committee (FOMC) is expected to set the course to reduce its purchases of Treasuries and mortgage-backed securities at the November 3-4 meeting with the end of that program coming sometime in the middle of 2022.

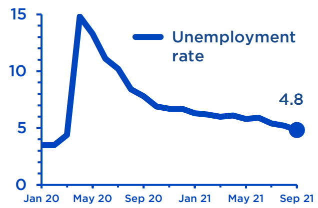
Political uncertainty impacting markets

The U.S. Congress has failed to come to a long-term agreement on a fiscal year 2022 budget and an expansion of the debt ceiling. In most years financial markets typically don't get too caught up in this process because there has been some resolution before disaster occurs. This year, however, there is a greater concern because Democrats and Republicans appear to be so far apart on agreements and the Treasury Department is already using extraordinary measures to meet spending obligations. Treasury Secretary Janet Yellen has estimated that this could continue until October 18. After that, the U.S. would be in technical default on debt payments it could not legally make. With more political divisiveness than usual in Congress, financial markets have become acutely aware of the problem and started to position more cautiously. While not a big drawdown, the S&P 500 index declined by a little more than five percent since its all-time high closing price on September 2nd — the largest so far in 2021. Near-dated Treasury bills also repriced given the uncertainty of when payment would be received. Fortunately, the Senate agreed to a short-term extension of the debt ceiling last week, giving members more time to negotiate and come to an agreement. This apparently eased market tensions and inspired a move higher by 2-3 percent in stocks. While we are not out of the woods yet (the extension expires on December 3), it does allow markets to focus on issues such as earnings season and the upcoming Federal Reserve meeting in early November.

Auto sales continue to disappoint

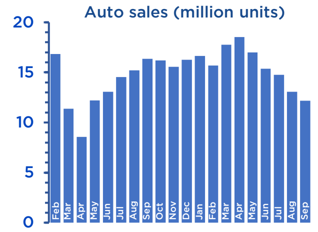
Auto sales declined to an annual pace of 12.18 million in September. This is the slowest pace of vehicle sales (excluding pandemic months) since June 2011. Supply chain issues (mostly semiconductor backlogs) continue to hold sales back, but with a decline in Covid cases in Asia, there is likely to be some relief in coming months.

Unemployment rate declines



The unemployment rate dipped below 5.0 percent for the first time since the pandemic began. Labor supply remains an issue, but the job market has regained much more ground than normal at this still-early stage of the cycle.

Semiconductor woes continue to restrain auto sales



Auto sales plummeted to an annualized pace of about 12.2 million units for September. Semiconductors continue to be the major headwind for sales. While this could be the trough, it will take months to get back to a "normal" level.

Source: Haver Analytics

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The Week Ahead

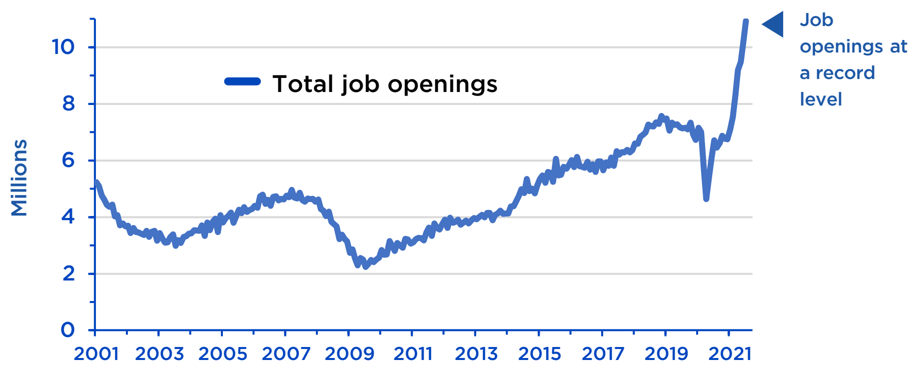
Here's what we are watching this week

Small business optimism and job openings

Oct 12

Another record likely for job openings

Advance figures for the NFIB small business optimism index continue to show stronger labor demand than supply. A record number of firms have open positions they are unable to fill, primarily because of a lack of qualified applicants. As a result, even though total job openings over the last few months far surpassed what has been seen in any other period (data back to 2000), we project a further rise in job openings to a record 11.1 million at the end of August. For small businesses, getting past the peak of the Delta surge with little impact on the consumer should contribute to a modest boost in optimism. We project a rise in the small business optimism index to 101.5



Source: Bureau of Labor Statistics/Haver Analytics

Consumer price index

Oct 13

A strong gain expected for consumer prices

Over the past year, consumer prices have grown at the fastest rate in over a decade due to a recovery in demand combined with supply chain disruptions impacting many industries. While underlying inflation pressures have eased a bit, energy price gains are accelerating (and soaring in many other parts of the world). As a result, we project overall consumer price index (CPI) inflation of 0.4 percent for September, which would bring the 12-month trend rate up to 5.4 percent, matching June and July for the highest since 2008. For the core rate, which eliminates the volatile food and energy components, we project slightly lower growth of 0.3 percent, which would raise the 12-month trend rate to 4.2 percent.

Retail sales

Oct 15

Strong growth should continue for retail sales

Consumers have largely kept up spending during the Delta variant surge (August's surprising growth in retail sales had a large online component), other than for motor vehicles which continue to be severely limited by low supply caused by the microchip shortage. September was another bad month for vehicle sales, dropping to their lowest level since May 2020; this is once again expected to lead to a drag on total retail sales. Vehicles aside, rising wages likely continued to drive strong consumer demand. We project growth in total retail sales of 0.3 percent for September, and 1.1 percent for retail sales excluding autos.

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Weekly Market Snapshot

Provided by IMG Business and Product Development – Data Analytics Team

Equity	Last	Returns 1 Week	YTD*	1 Year*
S&P 500 (Large)	4,391	0.83%	18.23%	29.29%
S&P 400 (Mid)	2,690	0.26%	17.72%	36.82%
S&P 600 (Small)	1,359	0.11%	22.51%	49.16%
S&P 500 (High Quality)	50	1.10%	19.00%	27.30%
Russell 1000	4,736	0.78%	17.41%	29.72%
Russell 2000	5,550	-0.37%	13.89%	38.49%
Dow Jones	34,746	1.27%	15.17%	24.57%
NASDAQ	14,580	0.10%	13.70%	28.52%
MSCI EAFE	2,270	0.30%	8.29%	22.93%
MSCI EM	1,257	0.86%	-0.66%	15.15%

**represents total return*

S&P Metrics	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	23.08	20.42	30.39	17.13
Prior Month	23.88	21.12	25.85	19.56
Prior Year	24.16	21.91	-13.25	15.57

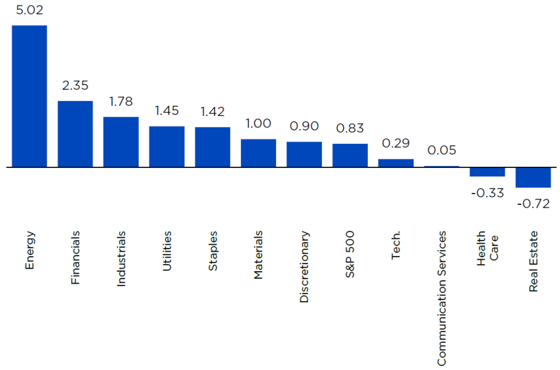
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	1.64%	-0.78%	-2.05%	-1.18%
U.S. Inv Grade	2.26%	-1.16%	-2.03%	0.86%
U.S. High Yield	4.76%	-0.33%	4.19%	9.56%
TIPS	1.25%	-0.03%	3.84%	5.61%

Rates	Last	Change 1 Week	YTD	1 Year
6M T-Bill	0.07%	0.02	-0.02	-0.05
2 Yr Treasury	0.32%	0.05	0.19	0.19
5 Yr Treasury	1.05%	0.12	0.69	0.72
10 Yr Treasury	1.61%	0.13	0.68	0.83
30 Yr Treasury	2.16%	0.12	0.51	0.59

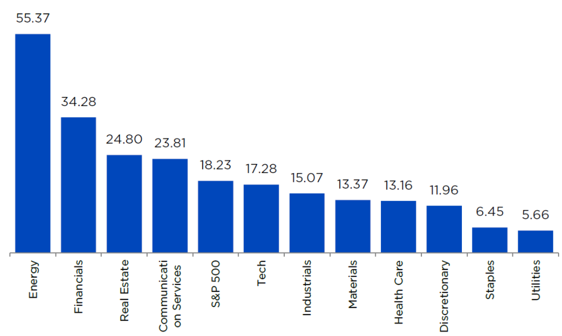
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.48	0.01	-0.07	-0.21
BBB Rated	1.14	0.00	-0.18	-0.61
High Yield	3.2	0.00	-0.66	-1.77
10 to 2 yr Treasury	1.29	0.00	0.49	0.64

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1756.30	-0.04%	-7.23%	-7.01%
Bitcoin	53884.06	11.96%	85.66%	395.06%
WTI Oil	79.35	4.39%	64.12%	93.35%
EUR/USD	1.1574	0.19%	5.41%	1.49%
USD/JPY	112.04	0.97%	8.52%	5.67%

S&P Sector Returns — Week (%)

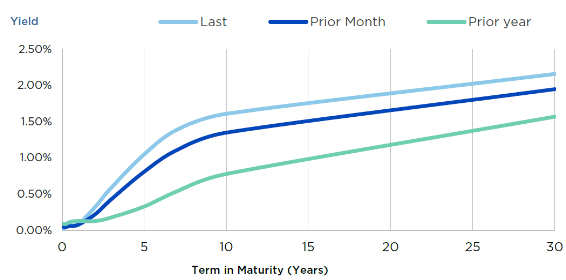


S&P Sector Returns — YTD (%)*



**represents total return*

U.S. Yield Curve



Russell Style Returns — Week

	Value	Core	Growth
Large	1.3	0.8	0.3
Mid	1.1	0.6	-0.3
Small	0.5	-0.4	-1.2

Russell Style Returns — YTD

	Value	Core	Growth
Large	19.1	17.4	15.9
Mid	21.3	17.3	10.3
Small	25.9	13.9	3.1

Source: FactSet

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Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
Factory orders	Aug.	1.2%	0.7%
U.S. trade balance	Aug.	-$73.3 B	-$70.3
Markit services index	Sept.	54.9	54.4
ISM services index	Sept.	61.9	61.7
ADP jobs	Sept.	568,000	340,000
Initial jobless claims	Week ending Oct. 2	326,000	364,000
Consumer credit outstanding	Aug.	$14 B	$17 B
Nonfarm payrolls	Sept.	194,000	366,000
Unemployment rate	Sept.	4.8%	5.2%
Average hourly earnings (m/m)	Sept.	0.6%	0.4%
Average hourly earnings (y/y)	Sept.	4.6%	4.0%

This Week's Indicators

	Release Date	Period	Forecast*	Previous
NFIB small business optimism index	Tues.	Sept.	101.5	100.1
JOLTS job openings	Tues.	Aug.	11.1 M	10.9 M
Consumer price index (m/m)	Wed.	Sept.	0.4%	0.3%
CPI (y/y)	Wed.	Sept.	5.4%	5.3%
Core CPI (m/m)	Wed.	Sept.	0.3%	0.1%
Core CPI (y/y)	Wed.	Sept.	4.2%	4.1%
Initial jobless claims	Thurs.	Week ending Oct. 9	319,000	326,000
Producer price index	Thurs.	Sept.	0.6%	0.7%
PPI ex food and energy	Thurs.	Sept.	0.4%	0.6%
Retail sales	Fri.	Sept.	0.3%	0.7%
Retail sales ex autos	Fri.	Sept.	1.1%	1.8%
Import prices	Fri.	Sept.	0.1%	-0.3%
NY Fed Empire State manufacturing index	Fri.	Oct.	32.1	34.4
Consumer sentiment	Fri.	Oct.	71.1	72.8

*** Nationwide Economics Forecast**

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