Nationwide Economics

Weekly Economic Review & Outlook

November 8, 2021

Robust job growth leads to Fed taper

As expected, the Fed announced that it will taper asset purchases starting this month and finishing in June. The taper announcement was followed later in the week by an employment report that continued to show progress in getting people back to work, particularly in the service sector where the most recent ISM survey showed robust growth, portending a solid fourth quarter for economic activity.

The Fed announced a start to the end of its record accommodation

The Federal Open Market Committee (FOMC) announced that it would start to taper its asset purchases later this month. This was in line with what the members had been telegraphing leading up to the November meeting. The FOMC also acknowledged that inflationary pressures are lasting longer than originally anticipated but kept to the idea that most of the price increases over the past year will subside over the medium and long term. The important part to this is that the pandemic, and especially resulting supply chain disruptions, have persisted longer than anticipated. The Fed's discussions surrounding inflation were not to nail down a forecast for what price increases will be a year from now, but rather how the path of inflation will ultimately impact the decisions made by the FOMC related to short-term interest rates. The FOMC kept the door open for more aggressive tightening policy if the economy and data progress in a way that suggest a longer-lived path of higher inflation than expected (and *vice versa*).

Fed Chair Powell emphasized this message when delivering the press conference following the FOMC meeting. He pointed out that while the criteria for tapering asset purchases has been met, the more stringent standards for increasing short-term interest rates have not.

Broad based job growth in October

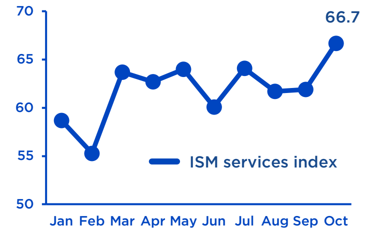
Nonfarm payroll employment levels grew by 531,000 for October along with a revision of 235,000 additional jobs for the previous two months. This was a very solid report will all private sector categories adding employees. Another positive trend from the data was that some of the leading categories where jobs were added matched where there were the most job openings. Moreover, the U-3 unemployment rate dropped to a pandemic low of 4.6 percent.

While this was a positive report in most aspects, the job market is still not back to where it was pre-Covid, giving the Fed room to say that it has not yet met its mandate of maximum employment. For example, the employment-to-population ratio is still more than two percentage points below its February 2020 level. In addition, the labor force, especially for women, remains nearly three million people below the pre-Covid levels. Significant progress on these fronts is happening, but there is still some way to go before the labor market can be deemed fully healed.

Average hourly earnings continued to grow, albeit at a slower pace, moving up by 0.4 percent for the month and by nearly 5.0 percent on a year-over-year basis. Some of the rapid growth is due to base effects from the lows that were hit last year, and so would not be expected to continue at this pace. Still, there is excess demand for labor today and this is the primary reason for rapid wage gains. This is not necessarily inflationary, however, if productivity gains are sufficient to offset compensation increases.

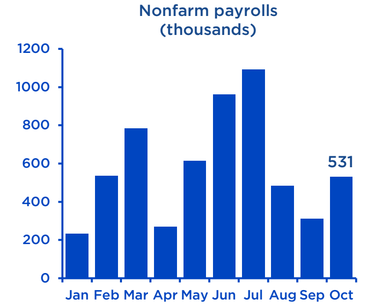
The ISM services index reached an all-time high thanks to a jump in new orders, solid production, but also a sharp increase in prices paid. The move from purchases of goods to those of services is happening jaggedly but is a good indicator that the economy is moving to a more "normal" post-crisis state.

The ISM services index reached an all-time high for October.



Service sector demand is picking up, a positive trend for a return to normalcy.

Payrolls grew by a very solid 531,000 last month.



Broad-based job gains for October show that people are finding employment even as payrolls remain well off pre-Covid levels.

Source: Haver Analytics

Contributors: Dan Hadden, Financial Markets Economist | Daniel Vielhaber, Economist

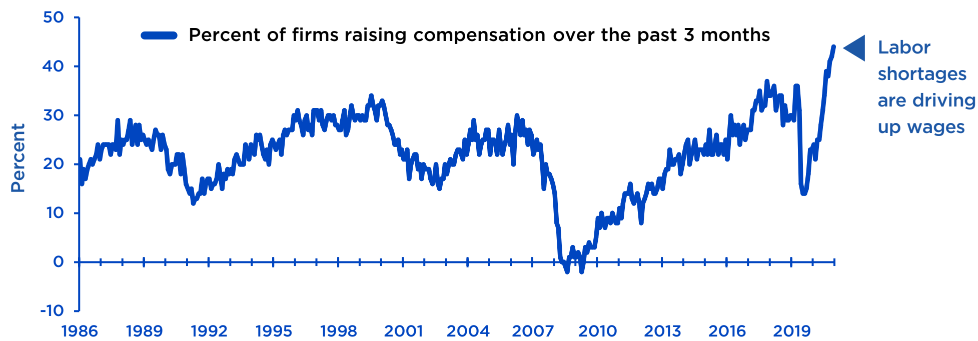
Here's what we are watching this week

Small business optimism

Nov 9

Small business optimism likely to fall

A high percentage of small businesses reported either cost of labor, inflation, or quality of labor as their most important problem in September, and it seems unlikely that these problems were significantly alleviated in October. Constraints for both materials and labor supply were still prevalent; a near-record percent of firms reported open positions they were not able to fill (although this percentage was down slightly from the previous two months) and the percent of firms both raising and planning to raise worker compensation each jumped two percentage points to new records. Moreover, the advance figures for the NFIB jobs survey slipped for the month. We project a fall in the small business optimism index to 98.5, the lowest reading since March.



Source: National Federation of Independent Business/Haver Analytics

Producer price index

Nov 9

Producer prices continue to face upward pressure

Producers have faced price growth of at least 0.5 percent every month this year (seven of nine months have been higher than that). While services have contributed their share to total input price growth, goods have been affected more by supply shortages caused by shipping bottlenecks (shipping rates are higher than the pre-pandemic average by more than a factor of 10). This, along with a persistent shortage of labor, likely resulted in continued increases for input prices over October. We project growth in the producer price index (PPI) of 0.6 percent, and growth in the core rate (excluding the volatile food and energy components) at 0.4 percent.

Consumer price index

Nov 10

...and so do consumer prices

Consumer prices have seen rapid increases this year due to economic recovery (i.e., strong consumer demand) and supply and labor shortages which have affected most industries. These factors remained in October and, in conjunction with a sharp rise in oil and motor fuel prices, likely led to an acceleration in consumer inflation. We project the overall consumer price index (CPI) rose by 0.5 percent for October, and by 0.3 percent for the core rate. This would bring the 12-month trend rates to 5.8 percent (the highest in 31 years) and 4.3 percent for total and core inflation, respectively.

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)	4,698	2.03%	26.56%	35.79%
S&P 400 (Mid)	2,905	4.00%	27.21%	44.42%
S&P 600 (Small)	1,466	6.50%	32.24%	58.68%
S&P 500 (High Quality)	52	1.69%	25.43%	33.05%
Russell 1000	5,063	1.95%	25.59%	36.08%
Russell 2000	6,057	6.11%	24.35%	48.27%
Dow Jones	36,328	1.43%	20.47%	30.40%
NASDAQ	15,972	3.08%	24.59%	35.23%
MSCI EAFE	2,373	1.64%	13.32%	27.26%
MSCI EM	1,264	-0.03%	-0.04%	10.96%

* represents total return

S&P Metrics	LTN P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	23.58	21.47	36.51	13.86
Prior Month	22.96	20.24	29.88	17.28
Prior Year	24.30	21.55	-11.94	16.39

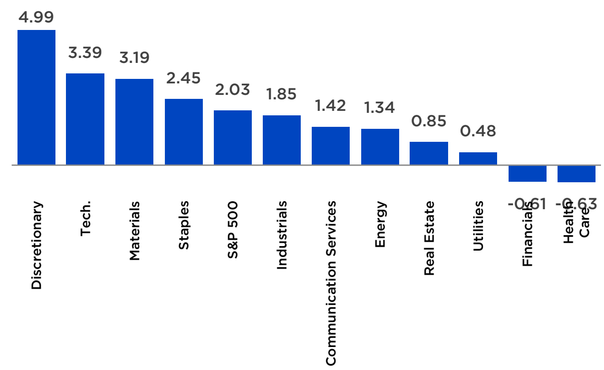
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	1.59%	0.64%	-0.95%	-0.52%
U.S. Inv Grade	2.17%	0.89%	-0.14%	1.42%
U.S. High Yield	4.71%	0.61%	5.00%	8.85%
TIPS	1.23%	0.81%	5.53%	7.53%

Rates	Last	Returns 1 Week	YTD	1 Year
6M T-Bill	0.07%	0.00	-0.02	-0.03
2 Yr Treasury	0.39%	-0.09	0.26	0.25
5 Yr Treasury	1.04%	-0.14	0.68	0.71
10 Yr Treasury	1.45%	-0.10	0.52	0.66
30 Yr Treasury	1.87%	-0.06	0.22	0.33

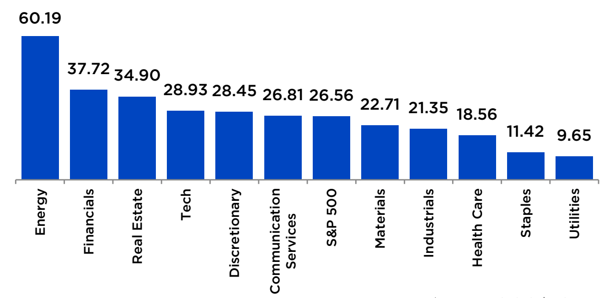
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.47	-0.01	-0.08	-0.20
BBB Rated	1.15	0.02	-0.17	-0.48
High Yield	3.12	0.04	-0.74	-1.47
10 to 2 yr Treasury	1.06	0.00	0.26	0.41

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1816.40	1.87%	-4.05%	-6.63%
Bitcoin	61048.40	-1.85%	110.34%	291.92%
WTI Oil	81.27	-2.67%	68.09%	110.76%
EUR/USD	1.15545	0.16%	5.57%	2.30%
USD/JPY	113.46	-0.50%	9.89%	9.46%

S&P Sector Returns — Week (%)

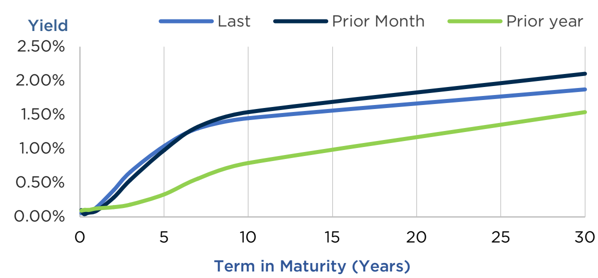


S&P Sector Returns — YTD (%)*



* represents total return

U.S. Yield Curve



Russell Style Returns - Week

	Value	Core	Growth
Large	1.4	2.0	2.4
Mid	2.4	2.0	1.3
Small	6.2	6.1	6.0

Russell Style Returns - YTD

	Value	Core	Growth
Large	23.7	25.6	27.2
Mid	27.5	24.4	18.9
Small	35.6	24.4	14.1

Source: FactSet

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Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
Markit manufacturing index	Oct.	58.4	59.2
ISM manufacturing index	Oct.	60.8	61.1
Construction spending	Sept.	-0.5%	0.1%
ADP jobs	Oct.	517,000	523,000
Markit services index	Oct.	58.7	58.2
ISM services index	Oct.	66.7	61.9
Factory orders	Sept.	0.2%	1.2%
Initial jobless claims	Week ending Oct. 10	269,000	283,000
U.S. trade balance	Sept.	-$80.9 B	-$72.8 B
Non-farm productivity	Q3	-5.0%	2.4%
Non-farm unit labor costs	Q3	8.3%	1.1%
Nonfarm payrolls	Oct.	531,000	312,000
Unemployment rate	Oct.	4.6%	4.8%
Average hourly earnings (m/m)	Oct.	0.4%	0.6%
Average hourly earnings (y/y)	Oct.	4.9%	4.5%

This Week's Indicators

	Release Date	Period	Forecast*	Previous
NFIB small business optimism index	Tues.	Oct.	98.5	99.1
Producer price index	Tues.	Oct.	0.6%	0.5%
PPI ex food and energy	Tues.	Oct.	0.4%	0.1%
Consumer price index (m/m)	Wed.	Oct.	0.5%	0.4%
CPI (y/y)	Wed.	Oct.	5.8%	5.4%
Core CPI (m/m)	Wed.	Oct.	0.3%	0.2%
Core CPI (y/y)	Wed.	Oct.	4.3%	4.0%
Initial jobless claims	Thurs.	Week ending Nov. 6	260,000	269,000
Consumer sentiment	Fri.	Nov.	72.5	71.7

*** Nationwide Economics Forecast**

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