Nationwide Economics
Weekly Economic Review & Outlook
December 13, 2021

Consumer price gains jump to a 39-year high

The consumer price index (CPI) continued its blistering pace of increase last month as gasoline, motor vehicle, and shelter costs all led the way. While there are some signs that price gains could slow moving forward, there remains plenty of concern as to how sticky prices will be at the current levels. Consumers have shown that they are willing to live with higher prices for now, but costs are weighing on sentiment which may impact spending down the road.

Inflation is hot but there are reasons to be optimistic

The headline CPI figure jumped by 0.8 percent for November with the core measure (removing the volatile food and energy components) increasing by 0.5 percent. That brought the 12-month trend growth rates to 6.8 and 4.9 percent, respectively. The impact of solid demand running into widespread supply shortages has kept consumer prices rising at an accelerated pace. The average monthly gain going back to 1990 for both the headline and core CPI figures has been roughly 0.2 percent.

The details of the report, however, give some reasons to be optimistic. Because the CPI survey occurs about in the middle of each month, price trends after that are not picked up in that month's figures. For example, motor fuel has been the contribution leader from a monthly and yearly perspective. But with crude oil prices (and with a lagged effect, gasoline prices) coming down significantly from mid-November, this will provide some relief starting with the December overall CPI.

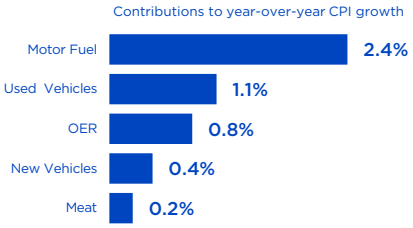
But one area that is likely to keep the CPI elevated in the coming year is the shelter component, which accounts for roughly 30 percent of the headline and 40 percent of core. Home prices have risen strongly over the past year, and historically there has been a significant correlation between movements in home prices and the CPI shelter components — suggesting faster and longer-lasting increases in that portion of the CPI.

The Federal Reserve has also taken notice of faster inflation with Chair Powell saying that it was time to retire the word "transitory." The FOMC meets this week, and discussions about speeding up the pace of QE tapering are sure to occur — likely now finishing in either March of April (rather than May). This moves the Fed back toward a neutral policy and provides it with the optionality to raise short-term rates sooner. Financial markets expect three to four 25 basis point hikes for next year. Tighter monetary policy will eventually cool demand, but economic activity is expected to slow on its own already next year. The balance of tightening policy without putting the economic expansion at risk will be even more difficult without clear sight as to which factors are pandemic-related and which are stickier. We expect the Fed to raise rates at least once next year, but the longer inflation remains rapid, the more likely it is that more rate hikes will occur sooner.

Consumer sentiment improved but remains depressed

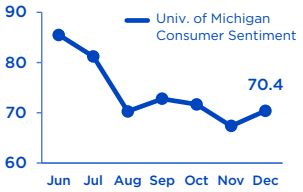
The University of Michigan consumer sentiment survey moved higher in early December, with both the current situation and expectations indexes increasing. Inflation expectations remained steady at 4.9 percent for the next year and 3.0 percent over the next five years. Inflation, however, continues to be the biggest concern for consumers. There was a slight improvement in those who believe it is a good time to purchase major household items. Overall, consumers are concerned with inflationary pressures, but not enough to limit purchases — at least not yet.

Gas, cars, and rents lead the CPI higher



Mostly idiosyncratic factors continue to keep inflation rising faster than historical averages.

Consumer sentiment up despite inflationary pressures



Consumer sentiment was up in early December despite rising prices, as those on the lower end of the pay scale expect higher wages in 2022.

Source: Haver Analytics

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

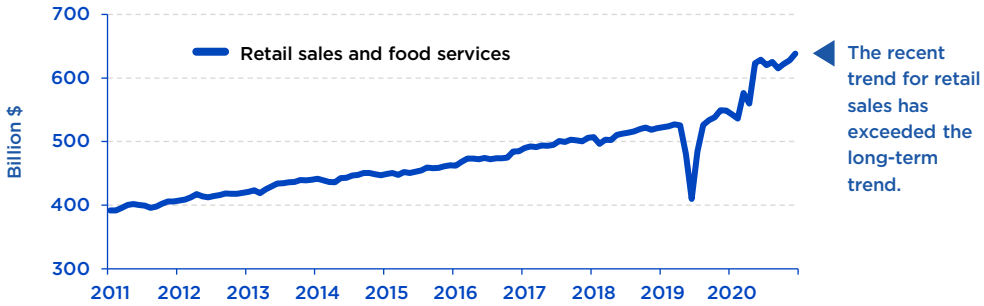
The Week Ahead

In addition to the FOMC meeting, here's what we are watching this week:

Retail sales

Another strong gain likely for retail sales

Consumer spending has been solid over the past three months, especially outside of autos (which have been in tight supply because of chip shortages), and this likely continued in November. With the unemployment rate falling to a new pandemic low, wages continuing to move higher, and household net worth surging, demand factors for spending remained strong. Furthermore, motor fuel prices surged again in November, so there was likely strong growth in dollar sales at the pump. Auto sales, however, slipped again because of the shortage of microchips. We project growth in total retail sales of 0.8 percent for November, with gains excluding autos of 1.0 percent.



Sources: Census Bureau/Haver Analytics

Housing starts

Small increase expected for housing starts

Housing starts have stayed within a relatively narrow band in recent months as builders attempt to build as many units as possible to take advantage of strong housing demand. At the same time, construction has been limited by shortages of inputs (including workers) and a lack of buildable lots — and these issues continued in November. Single-family starts fell below the recent trend for October, so a small rebound is expected there, with little change expected for multifamily starts. We project November's annualized pace of housing starts climbed to 1.59 million units, which seems to be close to maximum in the current environment.

Industrial production

Another rise likely for industrial production (IP) in November

Growth in IP was strong for October, driven by a surge in auto production. That surge in autos is likely not sustainable as the industry continues to struggle with access to microchips, but growth is still expected in total IP after the production component of the November ISM manufacturing index showed its highest reading since April. November was a relatively normal month for weather, so utilities shouldn't contribute significantly to IP growth, while continued high crude oil prices probably led to an increase in energy production (mining). In total, we project growth of 0.4 percent for IP for November.

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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)	4,712	3.85%	27.16%	30.31%
S&P 400 (Mid)	2,780	2.91%	21.92%	25.32%
S&P 600 (Small)	1,378	2.69%	24.48%	27.33%
S&P 500 (High Quality)	53	4.37%	27.05%	30.56%
Russell 1000	5,028	3.68%	24.91%	28.12%
Russell 2000	5,497	2.45%	13.00%	16.17%
Dow Jones	35,971	4.05%	19.71%	22.15%
NASDAQ	15,631	3.62%	22.03%	26.81%
MSCI EAFE	2,290	2.44%	9.49%	12.04%
MSCI EM	1,239	1.15%	-1.92%	1.12%

* represents total return

S&P Metrics	LTN P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	23.17	21.24	42.12	10.58
Prior Month	23.29	21.21	37.26	13.23
Prior Year	25.86	21.90	-12.63	19.69

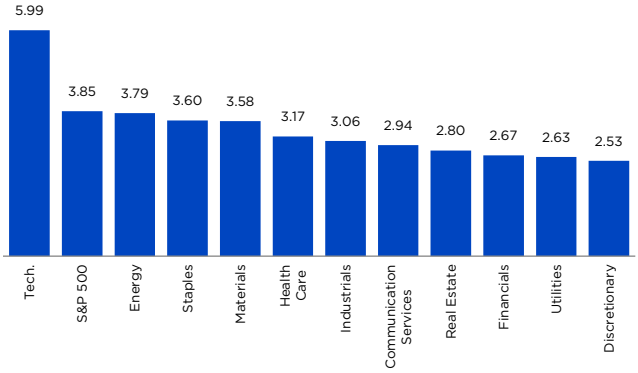
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	1.77%	-0.72%	-1.67%	-1.34%
U.S. Inv Grade	2.39%	-0.95%	-1.31%	-0.36%
U.S. High Yield	4.97%	0.65%	4.44%	5.35%
TIPS	1.37%	-0.85%	4.83%	5.56%

Rates	Last	Returns 1 Week	YTD	1 Year
6M T-Bill	0.13%	0.04	0.04	0.04
2 Yr Treasury	0.67%	0.07	0.54	0.53
5 Yr Treasury	1.25%	0.12	0.89	0.86
10 Yr Treasury	1.48%	0.13	0.55	0.56
30 Yr Treasury	1.88%	0.19	0.23	0.23

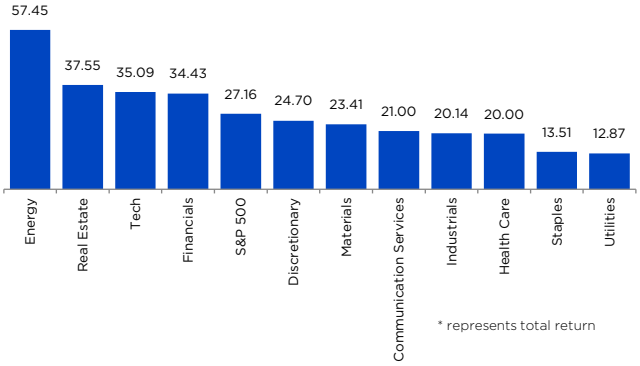
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.57	-0.01	0.02	-0.04
BBB Rated	1.25	-0.05	-0.07	-0.15
High Yield	3.29	-0.27	-0.57	-0.79
10 to 2 yr Treasury	0.81	0.00	0.01	0.03

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1782.90	0.05%	-5.82%	-2.77%
Bitcoin	47461.78	-11.77%	63.53%	159.67%
WTI Oil	71.67	7.95%	48.23%	53.27%
EUR/USD	1.13045	-0.22%	7.61%	6.80%
USD/JPY	113.42	0.18%	9.86%	8.64%

S&P Sector Returns — Week (%)

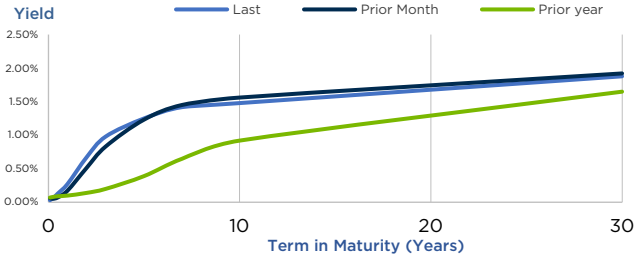


S&P Sector Returns — YTD (%)*



* represents total return

U.S. Yield Curve



Russell Style Returns - Week

	Value	Core	Growth
Large	2.9	3.7	4.4
Mid	3.1	2.9	2.6
Small	2.5	2.4	2.4

Russell Style Returns - YTD

	Value	Core	Growth
Large	22.2	24.9	27.3
Mid	25.5	20.3	11.2
Small	25.8	13.0	1.5

Source: FactSet

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Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
U.S. trade balance	Oct.	-$67.1 B	-$81.4 B
Productivity	Q3 (revision)	-5.2%	-5.0%
Unit labor costs	Q3 (revision)	9.6%	8.3%
JOLTS (job openings)	Oct.	11.0 M	10.6 M
Initial jobless claims	Week ending Dec. 4	184,000	227,000
Consumer price index (m/m)	Nov.	0.8%	0.9%
CPI (y/y)	Nov.	6.8%	6.2%
Core CPI (m/m)	Nov.	0.5%	0.6%
Core CPI (y/y)	Nov.	4.9%	4.6%
Consumer sentiment	Dec.	70.4	67.4

This Week's Indicators

	Release Date	Period	Forecast*	Previous
NFIB small business optimism index	Tues.	Nov.	99.5	98.2
Producer price index (PPI)	Tues.	Nov.	0.7%	0.6%
Core PPI	Tues.	Nov.	0.4%	0.4%
Retail sales	Wed.	Nov.	0.8%	1.7%
Retail sales ex autos	Wed.	Nov.	1.0%	1.7%
Import prices	Wed.	Nov.	-0.4%	1.2%
NY Fed Empire State manufacturing index	Wed.	Dec.	33.5	30.9
NAHB housing market index	Wed.	Dec.	84	83
Initial jobless claims	Thurs.	Week ending Dec. 11	190,000	184,000
Housing starts	Thurs.	Nov.	1.59 M	1.52 M
Building permits	Thurs.	Nov.	1.69 M	1.65 M
Philadelphia Fed manufacturing index	Thurs.	Dec.	41.1	39.0
Industrial production	Thurs.	Nov.	0.4%	1.6%
Capacity utilization	Thurs.	Nov.	76.6%	76.4%
Markit flash manufacturing index	Thurs.	Dec.	59.4	58.3
Markit flash services index	Thurs.	Dec.	58.8	58.0
KC Fed manufacturing index	Thurs.	Dec.	29	24

*** Nationwide Economics Forecast**

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