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NATIONWIDE ECONOMICS

Monthly Economic Dashboard

Delta variant and supply chain headwinds, but still solid forward momentum

- Strong growth during the second quarter pulled real GDP above its pre-COVID peak, ending the recovery and starting the next expansion. While the economy shows solid momentum heading into the second half of the year, the Delta variant may impact consumer behavior while shortages of labor and other inputs are slowing production. But the supply chain problems should heal, and governments show little interest in repeating last year's lock-downs.
- Consumer inflation continues to run hot, as the supply side of the U.S. economy has been unable to expand as quickly as the demand side because of COVID-caused supply chain disruptions. These imbalances will moderate over the next year, allowing inflation to slow — but to a pace still above the average in the pre-COVID period. But the risks of higher inflation for longer have increased as the Federal Reserve maintains its historically easy monetary policy even as the economy expands strongly.
- Long-term interest rates have been on a modest roller coaster ride in recent months — moving between a bit over 1.40 percent to below 1.20 percent. Most recently the yield on the 10-year Treasury note was about in the middle of that range. While remaining volatile, we expect that the trend in rates will be upward, especially as the Fed announces its intentions to taper QE purchases of Treasury securities and MBS.

Find more perspectives inside.

August 2021

Nationwide®

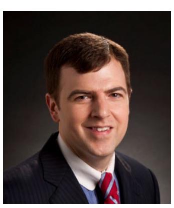
A clearer view of the economy

One of the challenges of planning a secure financial future comes in the understanding of market and economic forces and their impact on investment decisions and overall performance. To help illustrate the full economic picture to our clients, advisors trust the experienced economists of **Nationwide Economics** for their timely perspective and relevant viewpoint that's easy to use and understand.

DAVID BERSON, PhD

Senior Vice President, Chief Economist

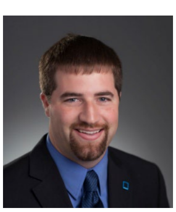
David holds a doctorate in Economics and a master's degree in Public Policy from the University of Michigan. Prior to Nationwide, David served as Chief Economist, Strategist and Head of Risk Analytics for The PMI Group, Inc., and Vice President and Chief Economist for Fannie Mae. David has also served as Chief Financial Economist at Wharton Econometrics and visiting scholar at the Federal Reserve Bank of Kansas City. His government experience has included roles with the President's Council of Economic Advisors, U.S. Treasury Department and the Office of the U.S. Special Trade Representative. He is a past President of the National Association for Business Economics and is a Certified Business Economist (CBE).



BRYAN JORDAN, CFA

Deputy Chief Economist

Bryan is a frequent author and knowledgeable source on economic topics and has been featured in The Wall Street Journal and New York Times. Bryan holds degrees in Economics and Political Science from Miami University and has earned the Chartered Financial Analyst designation. He currently serves as Chairman of the Ohio Council on Economic Education and is a member of the Ohio Governor's Council of Economic Advisors, the National Association for Business Economics, and the Bloomberg monthly economic forecasting panel.



BEN AYERS, MS

Senior Economist

Ben authors periodic economic analyses from the Nationwide Economics team, as well as commentary on key economic topics. Ben is also responsible for understanding and analyzing the enterprise business drivers to assist strategic planning. He holds a Master of Science in Economics from the Ohio State University, specializing in applied economic analysis, and a BSBA from the Fisher College of Business at the Ohio State University, with a focus on economics and international business.

MONTHLY ECONOMIC DASHBOARD

Review

Data through August 24, 2021

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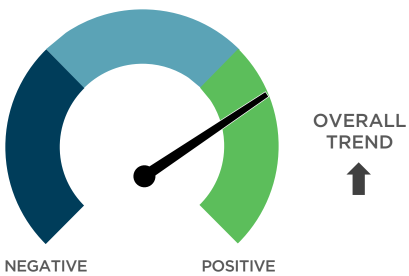
Current Overall Economic Scorecard



The economy grew at a rapid 6.5 percent annualized rate during the second quarter, a pace which would have been stronger without ongoing labor and other supply shortages. Job growth was strong again during July as service companies and school districts added workers in anticipation of more normal operations while the unemployment rate fell sharply. The business sector expanded solidly in July, with a record reading for services, but delayed and more expensive inputs are limiting manufacturing production. Retail sales growth has slowed sharply in recent months, primarily due to a large decline in auto purchases with vehicle production disrupted by microchip shortages. But July retail sales ex-autos were down, too, and consumer sentiment plummeted in early August — suggesting that the Delta variant may be having some negative impacts on consumer behavior. Inflation was faster than average again for July as energy and food prices rose, but there were some signs that COVID-induced price impacts are fading.

Employment

Nonfarm payroll growth was very strong again for July, up by more than 900,000 for a second consecutive month and by about 2.5 million jobs over the past three months. The unemployment rate also had its largest decline since October, falling to the lowest level since March 2020. Job openings climbed to a record level (and above the number of unemployed) while initial jobless claims declined further as many employers continue to have difficulty filling positions — likely preventing even faster job gains.

	Current	Previous	Year ago
Employment growth – July	943,000	938,000	1.7 M
Unemployment rate – July	5.4%	5.9%	10.2%

Financial

Long-term interest rates have fluctuated over the past few months and are currently at the lower end of the range for the past six months. The yield curve flattened further but is still at spreads that suggest growth ahead. Equity markets continued to move to repeated new highs in August on the back of strong second-quarter earnings reports and positive expectations for the third quarter. Recent commentary from Fed officials suggests that an announcement about the tapering of asset purchases will occur soon. We expect a September Fed announcement, but outright tapering of purchases is unlikely until toward the end of this year or early 2022.

	Current	Previous	Year ago
Yield curve – Aug	1.19 pp	1.28 pp	0.54 pp
BAA Credit spread – Aug	1.95 pp	1.93 pp	2.64 pp
CBOE market volatility – Aug	19.17	17.02	22.13
S&P 500 stock Index – Aug	4,435	4,363	3,386

Consumer

Retail sales were weaker than expected for July, mostly because of a lack of light vehicles for sale. But spending for the month was down even excluding autos while consumer sentiment cratered in the first half of August, suggesting that the Delta variant may be having an impact on consumer activity. Total home sales, although up in July, have trended downward in recent months owing to lack of supply, but strong demand from homebuyers continues to keep sales at an elevated level.

	Current	Previous	Year ago
Retail sales growth – July	-1.1%	0.7%	1.4%
Total home sales – July	6.70 M	6.57 M	6.87 M
Consumer sentiment – Aug	70.2	81.2	74.1

Business

The ISM services index climbed to a record high in July as new orders and business activity continued to accelerate. Rising prices and supply shortages cut into production for manufacturers, although the index still showed solid expansion. And industrial production jumped strongly, especially for manufacturing. The NFIB small business optimism index fell in July as persistent labor shortages are limiting the recovery, while wage increases and other rising input costs are pressuring earnings.

	Current	Previous	Year ago
ISM Manufacturing – July	59.5	60.6	53.7
ISM Services – July	64.1	60.1	56.6
NFIB small business optimism – July	99.7	102.5	98.8

Inflation

While consumer inflation slowed for July, it remained elevated and the 12-month trend rates for the overall CPI and core CPI were still rapid at 5.4 percent and 4.3 percent, respectively. Rising food and energy prices drove the increase this month, with a more modest pace of core inflation. The Fed's preferred inflation measures, the broader PCE price indices, have also accelerated but the Fed still sees these movements as mostly transitory with no near-term change in monetary policy likely.

	Current	Previous	Year ago
Consumer Price Index (CPI) – July	0.5%	0.9%	0.5%
Core CPI – July	0.3%	0.9%	0.5%

Outlook

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Future Overall
Economic Scorecard

Near-term risks have increased as the Delta variant could slow some in-person areas of consumer and business activity (i.e., restaurants and travel) in the second half of 2021. Still, this should be only a modest headwind for growth with few governmental restraints on activity. To the extent that the Delta variant and ongoing supply chain disruptions slow growth in the second half of this year, economic activity should be stronger in 2022 — with another year of above-trend growth. Beyond that, as the economy moves closer to full employment (along with likely higher tax rates, increased regulation, and eventually tighter monetary policy), growth should move back toward the pre-COVID trend, although these impacts could be partially offset by additional federal government spending. Against this backdrop, the Fed is expected to keep monetary policy highly expansionary — likely not starting the next tightening cycle until 2023, although starting to taper its QE programs later this year or early next year. Even then, interest rate hikes are expected to be slow and protracted in order to be minimally disruptive for the economy, helping to keep interest rates lower for longer (despite moving higher).

The Economy

While the strongest growth in the expansion is probably behind us, an above-trend pace should extend into at least the first half of 2022 — but the Delta variant is a risk for near-term activity. Potential tax hikes and increased business regulation could combine to bring growth back to its pre-COVID trend within a couple of years. In addition to COVID variants, a sustained jump in inflation is the biggest risk to the outlook, which could lead to earlier and sharper tightening by the Fed.

	2020	2021F	2022F	2023F
Real GDP growth	-3.5%	6.2%	4.7%	2.5%

Consumer

Demand for autos and housing should remain elevated for some time even as financing rates gradually move higher. But the near-record low supply of homes for sale (and rapidly rising prices) as well as production delays for new vehicles are slowing sales this year. Saving rates are still higher than usual, while household net worth is at record highs, adding to consumer spending power over the next year.

	2020	2021F	2022F	2023F
Total home sales	6.46 M	6.76 M	6.65 M	6.30 M
Light vehicle sales	14.5 M	16.5 M	17.0 M	16.6 M

Job Market

Hiring is expected to remain strong into next year, especially if more workers enter the labor force as extra unemployment benefits end and the return of in-person schooling opens work options for parents. Job gains should continue to be led by service industries which have the largest capacity to refill staffs. The U-3 unemployment rate is projected to fall to under 5.0 percent by the end of this year and below 4.0 percent by the end of 2022.

	2020	2021F	2022F	2023F
Average job growth	-785,000	550,000	300,000	200,000
Unemployment rate	8.1%	5.5%	4.3%	3.8%

Interest Rates

The Fed is expected to begin tapering its purchases of longer-term Treasury notes and MBS by early 2022, while keeping short-term interest rates near zero until 2023. This gradual path of cutting monetary policy accommodation reduces the odds of a "taper tantrum" that could cause a jump in longer-term rates. Still, long-term rates should move modestly higher as the economy grows at an above-trend pace, inflation remains above pre-COVID trends, tapering occurs, and the Fed eventually tightens.

	2020	2021F	2022F	2023F
Federal funds rate	0.00%	0.00%	0.00%	0.25%
10-year Treasury note	0.93%	1.75%	2.00%	2.15%

Inflation

Annual inflation readings should remain elevated for some time, but as COVID-caused supply chain disruptions heal in coming months, we expect inflation to decelerate over 2022. Moreover, the forces that have kept inflation lower for several decades are still in place even if less strong, and these should help to keep inflation in check. Even so, trend inflation in coming years is projected to be above pre-COVID trends as a portion of the recent price increases may persist.

	2020	2021F	2022F	2023F
Consumer Price Index (CPI)	1.2%	4.5%	2.5%	2.5%
Core CPI	1.6%	4.1%	2.3%	2.4%

Glossary

F – Forecast

CBOE – Chicago Board Options Exchange

BAA Credit Spread – Spread between 10-year treasury note and BAA-rated corporate bond rates

CPI – Consumer Price Index

FOMC – Federal Open Market Committee

GDP – Gross Domestic Product

ISM – Institute for Supply Management

Market Volatility Index (VIX) – Measure of implied volatility in the S&P 500 stock index

NFIB – National Federation of Independent Business

pp – Percentage points

Trend arrows – Predominant directional movement over the past 3-6 months

Yield Curve – Spread between the 1-year and 10-year Treasury note rates

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