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Economics

Economic Dashboard

NATIONWIDE ECONOMICS

Monthly Economic Dashboard

The recovery has ended and the expansion begun, but faster inflation is a concern

- We estimate that the level of real GDP exceeded its pre-COVID peak in the second quarter, bringing an end to the recovery and a start to the expansion. But while the pace of growth likely peaked in the second quarter, the economy still has plenty of momentum that is expected to carry into 2022. Real GDP growth for 2021 remains on pace to be the fastest since at least 1984. But CPI inflation has jumped to the highest trend pace since 2008. While we expect that much of this surge will be transitory, not all of it will be.

- Pandemic related shortages of materials and workers, which have limited the already strong pace of expansion and boosted inflation, should mend over the next year. Improved availability of inputs as supply chains heal should ease production delays while reducing price pressures. Rising wages, fading extra unemployment benefits, and a return to (mostly) full-time in-person schooling are expected to draw more workers into the labor force.

- The 10-year Treasury note yield has decreased significantly from its peak at the end of March, reflecting recent supply-demand imbalances in the Treasury market and fading expectations for growth and inflation. We expect long-term rates to reverse this decline over the second half of the year as the strong expansion continues and net Treasury issuance increases — while the Fed finally starts to discuss tapering of its QE purchases.

Find more perspectives inside.

July 2021

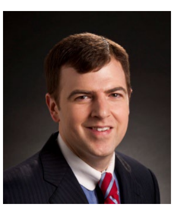
A clearer view of the economy

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

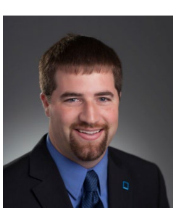
David holds a doctorate in Economics and a master's degree in Public Policy from the University of Michigan. Prior to Nationwide, David served as Chief Economist, Strategist and Head of Risk Analytics for The PMI Group, Inc., and Vice President and Chief Economist for Fannie Mae. David has also served 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 July 16, 2021

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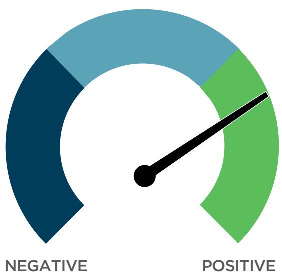
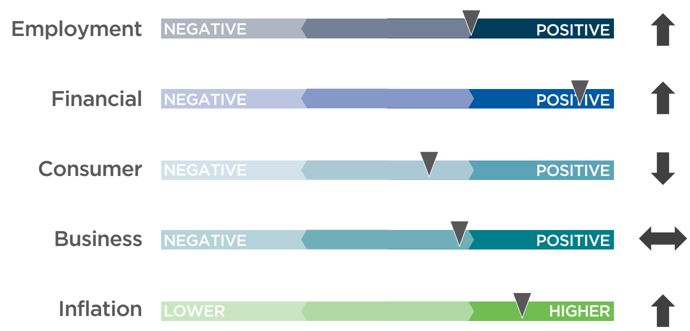
Current Overall Economic Scorecard



OVERALL TREND ⬆

TREND



Growth conditions remained strong into July even as limited supply of some materials and a lack of available workers continues to hold back the expansion in certain sectors. Job gains were robust for June, led by service businesses refilling staffs in response to the surge in demand for in-person activities. Service sector growth, which slowed for June according to ISM survey data, would likely be at record levels if not for hiring difficulties faced by many industries. Manufacturers also can't find enough workers in the current market, reducing production along with COVID-caused supply chain disruptions — increasing the costs of key inputs. Despite these limitations, demand from consumers remains strong and is driving the expansion this year. Long-term interest rates continued to trend down, reflecting near term supply-demand issues as well as a pull back in growth and inflation expectations. Equity markets marched higher in late June and the first half of July, again reaching record levels.

Employment

Nonfarm payroll growth accelerated for June with a service sector hiring surge, rounding out a strong second quarter with 1.7 million in total job gains. The unemployment rate ticked higher as employment within the household survey, which tends to be volatile from month-to-month, weakened. Job openings remained at a record high while initial jobless claims continued to decline, suggesting that strong demand from employers for workers should extend for some time.

	Current	Previous	Year ago
Employment growth – June	850,000	583,000	4.8 M
Unemployment rate – June	5.9%	5.8%	11.1%

Financial

Long-term interest rates dropped further into mid-July, extending the pull back from the peak in yields at the end of the first quarter. Net issuance of Treasuries has temporarily decreased, causing a supply crunch with the Fed still purchasing assets and lowering yields — along with a lowering of economic growth (Delta variant concerns?) and inflation expectations. The yield curve has flattened some but remains relatively steep and suggests further expansion ahead. Corporate earnings in the second quarter have been strong, helping to lift broad equity market indices to record highs as forward-looking optimism remains high.

	Current	Previous	Year ago
Yield curve – July	1.28 pp	1.43 pp	0.48 pp
BAA Credit spread – July	1.93 pp	1.96 pp	2.76 pp
CBOE market volatility – July	17.02	17.99	28.63
S&P 500 stock Index – July	4,363	4,223	3,204

Consumer

Retail sales rose solidly for June even though unit vehicle sales plunged owing to production issues rather than falling demand. Total home sales slipped again for May, mostly due to continued lack of supply, but demand conditions are supportive for further sales gains, especially with mortgage rates still low and the job market solid. Consumer sentiment declined in the first half of July on building inflation concerns and remains well below pre-COVID levels.

	Current	Previous	Year ago
Retail sales growth – June	0.6%	-1.7%	8.8%
Total home sales – May	6.57 M	6.67 M	4.71 M
Consumer sentiment – July	80.8	85.5	72.5

Business

Employment and supply shortages cut into the ISM business readings for June, although both still show solid expansion. Demand metrics remained strong and should continue to drive growth for manufacturing and services. The NFIB small business optimism index rose to its highest level since October, although owners continue to report few or no qualified applicants for job openings — with the share of firms raising compensation climbing to a record high.

	Current	Previous	Year ago
ISM Manufacturing – June	60.6	61.2	52.2
ISM Services – June	60.1	64.0	56.5
NFIB small business optimism – June	102.5	99.6	100.6

Inflation

Consumer inflation remained hot for June, pushing up the year-over-year readings for the overall CPI and core CPI to 5.4 percent and 4.5 percent, respectively. But much of increase continued to be caused by COVID-influenced outliers rather than a broad-based spike in prices. The Fed's preferred inflation measures, the broader PCE price indices, have also accelerated but the Fed still sees these movements as transitory — with a tightening of monetary policy unlikely to occur until 2023.

	Current	Previous	Year ago
Consumer Price Index (CPI) – June	0.9%	0.6%	0.5%
Core CPI – June	0.9%	0.7%	0.2%

Outlook

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Future Overall Economic Scorecard

In the near term, supply constraints of input materials (especially microchips), available workers, and homes for sale will continue to limit growth in some areas of the economy even as consumer demand has accelerated sharply. But these conditions are expected to improve over the second half of 2021 and into next year as supply chains heal and more workers rejoin the labor force. Real GDP growth is projected to slow going forward, but to remain above trend though next year. At that point, a combination of a tight economy, likely tax increases and regulatory policy changes, and (modest) Fed tightening should slow growth to around its long-term trend of 1.5-2.0 percent. The current rapid pace of inflation should moderate over the next year as supply conditions improve and base effects end, but not all of the recent rise in prices will prove to be transitory. Longer-term interest rates should move higher over the forecast period as the expansion continues, the Fed tapers (and eventually raises short-term rates), and inflation – while lower – remains above pre-COVID trends. But short-term rates should remain low for a while, with no Fed tightening until at least 2023.

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 likely tax hikes and increased business regulation should combine to bring growth back to its pre-COVID trend within a couple of years. The biggest risks to the outlook are COVID variants that could cause growth to slow or a sustained jump in inflation, which could lead to sooner and sharper tightening by the Fed.

	2020	2021F	2022F	2023F
Real GDP growth	-3.5%	6.7%	4.4%	2.4%

Consumer

Demand for autos and housing should remain elevated into next year 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 constraints for new vehicles could limit sales growth this year. Saving rates for consumers are far higher than usual, while household net worth is at record highs, adding to household spending power over the next year.

	2020	2021F	2022F	2023F
Total home sales	6.46 M	6.85 M	6.65 M	6.30 M
Light vehicle sales	14.5 M	16.9 M	16.8 M	16.5 M

Job Market

Continued strong job gains are expected for the second half of 2021, driven especially by further hiring in service industries. The economy could add over six million jobs this year, especially as extra unemployment insurance payments end and a return to full-time in-person schooling prompts some parents to return to the labor force. The U-3 unemployment rate should fall to under 5.0 percent by year-end and below 4.0 percent by the end of 2022.

	2020	2021F	2022F	2023F
Average job growth	-785,000	500,000	300,000	200,000
Unemployment rate	8.1%	5.6%	4.2%	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 above-trend rates, 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%	1.85%	2.10%	2.25%

Inflation

Consumer inflation should remain elevated through year-end, but with the end of base effects and as COVID-caused supply chain disruptions heal, we expect inflation readings 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 be above pre-COVID trends as not all the recent price increases will be transitory.

	2020	2021F	2022F	2023F
Consumer Price Index (CPI)	1.2%	3.9%	2.4%	2.5%
Core CPI	1.6%	3.3%	2.2%	2.3%

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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