Nationwide®
is on your side

Economics

Economic Dashboard

NATIONWIDE ECONOMICS

Monthly Economic Dashboard

Strong growth despite widespread supply chain problems, with higher inflation

- Economic activity continues to move ahead at a rapid pace, with the strongest growth since at least 1984 likely. Job and wage growth are solid and the unemployment rate should drop below 5.0 percent by year end. At the same time, however, quit rates have jumped and many firms can't find qualified workers. Real GDP growth should slow in coming years as recovery from the pandemic moves into the rear-view mirror, tax rates probably rise, regulatory policy intensifies, and the Fed eventually tightens.
- The recent spike in inflation has not been broad-based, as COVID-caused supply chain problems and the reopening of the economy have boosted prices sharply in a relatively few areas. As supply chains heal and base effects vanish, the outlook for 2022 and beyond is for a slower pace of inflation (albeit higher than the pre-COVID trend). But there are upside risks stemming from record money growth, record budget deficits, and higher inflation expectations that could drive a more sustained upward shift in price gains.
- The Fed remains committed to a highly accommodative policy environment for much longer than it usually would, keeping interest rates lower for longer. Outright Fed tightening still looks to be a few years away, although tapering of asset purchases could start by early next year.

Find more perspectives inside.

June 2021

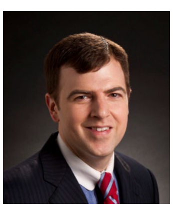
A clearer view of the economy

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

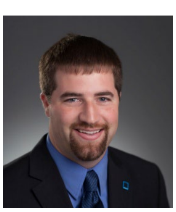
David holds a doctorate in Economics and a master's degree in Public Policy from the University of Michigan. Prior to Nationwide, David served as Chief Economist, Strategist and Head of Risk Analytics for The PMI Group, Inc., and Vice President and Chief Economist for Fannie Mae. David has also served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

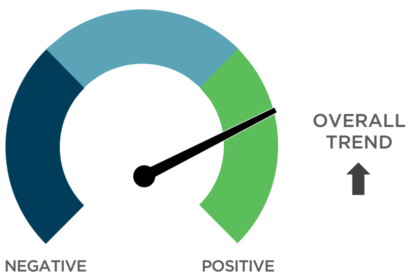
Ben authors periodic economic analyses from the Nationwide Economics team, as well as commentary on key economic topics. Ben is also responsible for understanding and analyzing the enterprise business drivers to assist strategic planning. He holds a Master of Science in Economics from the Ohio State 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 June 23, 2021

Current Overall Economic Scorecard



Recent data on the economy continue to show that growth accelerated sharply in the second quarter led by a surge in consumer demand upon fuller reopening of in-person activities. But there are supply constraints across the economy as workplaces and businesses adjust to the post-pandemic environment that are limiting the expansion in certain sectors. Payroll gains accelerated for May but were expected to be even stronger as many employers (especially among small businesses) reported difficulty finding workers. COVID-caused supply chain disruptions for multiple commodities and materials have slowed supplier deliveries while leading to a growing backlog of orders for producers. Lack of available homes for sale has also cooled the hot housing market even as demand from homebuyers remains strong. Prices of homes and some materials are rising sharply in response to the large discrepancy between supply and demand, helping to push up consumer inflation – at least temporarily – to among the fastest readings over the past 30 years.

Employment

Nonfarm payroll gains were strong for May but still short of expectations as labor supply shortages are limiting hiring within many industries. The unemployment rate fell to a recovery low of 5.8 percent, although labor market participation remains well below pre-pandemic levels as many previously employed workers are still out of the workforce. Record high job openings and falling initial jobless claims suggest that employers would like to hire more workers than they can find right now, which could translate into faster hiring ahead.

	Current	Previous	Year ago
Employment growth – May	559,000	278,000	2.8 M
Unemployment rate – May	5.8%	6.1%	13.3%

Financial

As expected, the Fed made no change in policy at the June FOMC meeting – but FOMC members now anticipate tightening policy in 2023 rather than later, and discussions of tapering its monthly asset purchases could begin within a few months. After a pause during May, equity markets renewed their march higher in June — with most indices climbing to record highs. Corporate credit spreads have tightened further with broad BAA yields at the closest point to Treasuries of similar duration since before the Great Recession. Long-term interest rates have pulled back a bit, while the yield curve remains relatively steep.

	Current	Previous	Year ago
Yield curve – June	1.43 pp	1.59 pp	0.54 pp
BAA Credit spread – June	1.96 pp	2.02 pp	2.89 pp
CBOE market volatility – June	17.99	20.81	33.92
S&P 500 stock Index – June	4,223	4,144	3,104

Consumer

Retail sales declined during May, helped by supply chain problems impacting light vehicle production – but sharp upward revisions to prior months' data suggest the upward trend in spending continued. Total home sales slipped again in 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 climbed in the first half of June but remains well below pre-COVID levels.

	Current	Previous	Year ago
Retail sales growth – May	-1.3%	0.9%	18.1%
Total home sales – May	6.57 M	6.67 M	4.71 M
Consumer sentiment – June	86.4	82.9	78.1

Business

Despite building supply concerns for firms, the ISM business surveys rose for May on the back of strong demand metrics and a fuller reopening of the economy. Rising input prices and materials shortages, however, have started to reduce manufacturing production. The NFIB small business optimism index was little changed as more owners continue to report hiring difficulties with few or no qualified applicants for job openings.

	Current	Previous	Year ago
ISM Manufacturing – May	61.2	60.7	43.1
ISM Services – May	64.0	62.7	45.4
NFIB small business optimism – May	99.6	99.8	94.4

Inflation

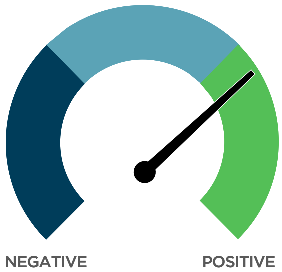
Consumer prices were hot again for May, pushing up the year-over-year readings for the overall CPI and core CPI to 5.0 percent and 3.8 percent, respectively. But much of the recent increases have been caused by COVID-influenced price outliers as the economy reopens. The Fed's preferred inflation measures, the broader PCE price indices, have also accelerated but the Fed still sees these factors as transitory — with a tightening of monetary policy unlikely to occur until 2023.

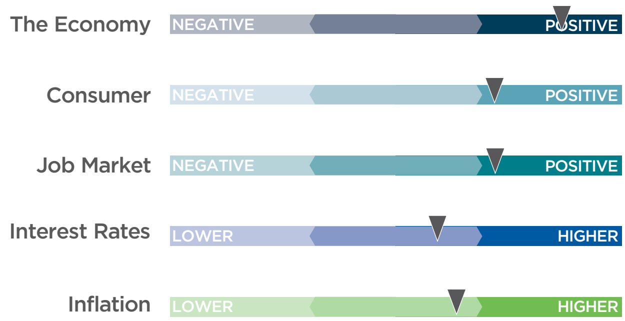
	Current	Previous	Year ago
Consumer Price Index (CPI) – May	0.6%	0.8%	-0.1%
Core CPI – May	0.7%	0.9%	-0.1%

MONTHLY ECONOMIC DASHBOARD

Outlook

Future Overall Economic Scorecard





Inflation readings have spiked this year due to COVID-related supply disruptions combined with a sudden surge in demand as the economy reopened fully. Still, the sharp price gains have not been broad-based according to the Cleveland Fed's trimmed-mean inflation gauge — suggesting that inflation readings have peaked and will decelerate over the next year as supply chains heal. Even with this slowing in inflation over the next year, we expect trend inflation to be a bit higher than in the pre-COVID period, as some of the increase will not be transitory. But the risks are decidedly to the upside. Record money growth and expanding federal budget deficits could add to inflationary pressures — although these factors have not been correlated with inflation over the past 40 years. Economic growth is projected to be exceptionally strong this year and remain above-trend in 2022 — but beyond that, potentially higher taxes and a stricter regulatory environment (plus eventual Fed tightening) should slow trend growth to a 1.5-2.0 percent range.

The Economy

The fastest real GDP growth since at least 1984 is expected for this year in response to the full reopening of the economy and stimulative policy. Above-trend growth should extend into at least the first half of 2022. But as the economy surpasses its pre-recession potential and with possible tax hikes and regulatory changes on the horizon, the expansion will slow over the forecast period. The biggest risk to the outlook is a sustained jump in inflation, which would lead to Fed rate hikes sufficient to eventually bring the expansion to an end.

	2020	2021F	2022F	2023F
Real GDP growth	-3.5%	6.8%	4.4%	2.4%

Consumer

Spending on autos and housing should remain strong into next year — spurred by continued low (albeit rising) interest rates, solid job/income growth, and further demand for "space" as remote working trends remain in place post-pandemic. Saving rates for consumers are far higher than usual and should add to household spending power over the next year as those rates fall back to more normal levels. Record high household net worth should help to boost spending, as well.

	2020	2021F	2022F	2023F
Total home sales	6.46 M	6.95 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 in the second half of 2021, driven by further hiring by service industries. The economy could add over six million jobs this year, especially as augmented 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 below 5.0 percent before year-end and could approach pre-COVID levels by the end of 2022.

	2020	2021F	2022F	2023F
Average job growth	-785,000	500,000	300,000	200,000
Unemployment rate	8.1%	5.5%	4.2%	3.8%

Interest Rates

The Fed is expected to begin tapering its purchases of longer-term Treasury notes and MBS early next year, while keeping short-term interest rates near zero until 2023. This near-term unlinking of tapering from raising rates reduces the odds of a "taper tantrum" that would cause longer-term rates jump. Still, long-term rates should move gradually higher as the economy continues to grow at above-trend rates, inflation remains elevated, 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 has jumped in recent months, bur we expect it to slow going forward as base effects disappear and COVID-caused supply chain disruptions ebb. Moreover, longer-term price depressants including expanded IT usage that lowers costs and raises productivity – as well as production movements to low-cost areas and the "Amazon effect" – should also keep inflation in check. Even so, trend growth in prices beyond this year should be a bit higher than in the pre-COVID period.

	2020	2021F	2022F	2023F
Consumer Price Index (CPI)	1.2%	3.4%	2.3%	2.4%
Core CPI	1.6%	3.0%	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

NFM-11859M1.3