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Economics

Economic Dashboard

NATIONWIDE ECONOMICS

Monthly Economic Dashboard

Strong economic growth to continue with a (likely temporary) bump in inflation

- Following a strong opener during the first quarter, the second quarter's annualized pace of growth could be in double-digits as the U.S. economy moves toward a full reopening. While hiring and consumer spending slowed during April, expectations remain high for a surge in activity in coming months in response to pent-up demand from the pandemic and the return of in-person events. Real GDP over 2021 is projected to expand at the second fastest pace in the past 50 years – and perhaps the fastest since 1951.
- The surge in consumer activity should also be a boon for the business sector recovery. Service industries are expected to drive strong job gains over the rest of the year as established firms and recent startups build their staffs in response to accelerated consumer spending. Low interest rates should boost capital expenditures as businesses adjust workplaces and operations to post-pandemic online trends.
- Corporate earnings expectations through year-end remain strong, keeping equity markets within sight of record highs despite an uptick in volatility over the past month. Long-term interest rates extended their pause as yields have oscillated within a narrow range since mid-March.

Find more perspectives inside.

May 2021

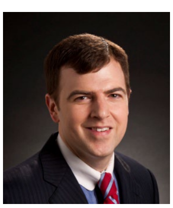
A clearer view of the economy

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

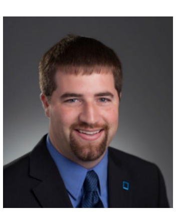
David holds a doctorate in Economics and a master's degree in Public Policy from the University of Michigan. Prior to Nationwide, David served as Chief Economist, Strategist and Head of Risk Analytics for The PMI Group, Inc., and Vice President and Chief Economist for Fannie Mae. David has also served 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 May 25, 2021

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Current Overall Economic Scorecard

OVERALL TREND ↑

After real GDP posted a strong 6.4 percent annualized rate of growth during the first quarter, some economic readings slowed for April and are indicative that the recovery continues to be uneven from month to month. Retail sales flatlined, in a hangover from March's stimulus check fueled spending spree (although March data were revised higher). Job gains saw a sharp slowdown during April as employers increasingly have difficulty filling open positions. Business surveys also pulled back slightly from March's highs, although still point to strong expansion. But with the economy moving closer to a full reopening and in-person activities primed for a surge, job gains and total spending should accelerate sharply in coming months. While inflation has spiked during the transition out of the pandemic, the Fed views these price movements as transitory and they are not expected to prompt a shift in monetary policy anytime soon. Equity markets fell back from their recent highs in May, but earnings expectations for the rest of the year remain strong.

Employment

Nonfarm payroll gains slowed sharply for April and were far short of expectations as labor supply concerns grow for many businesses (although the job rise was still solid in an absolute sense). The unemployment rate disappointed, too, edging up to 6.1 percent, but a significant increase in the size of the labor force was a positive sign. More positively, job openings climbed further while weekly jobless claims continue to trend downward, indicating that hiring needs by employers are expanding as the economy accelerates with fewer layoffs.

	Current	Previous	Year ago
Employment growth – Apr	266,000	770,000	-20.7 M
Unemployment rate – Apr	6.1%	6.0%	14.8%

Financial

Broad equity market indices posted strong returns during April before stumbling in mid-May. Still, most indices are only a bit shy of all-time highs while earnings estimates are strong and climbing. The Fed maintained its highly accommodative forward guidance in April, emphasizing that the jump in inflation this year is expected to be transitory and should not alter the path for monetary policy. Long-term Treasury yields were relatively steady again, keeping the spread between short and long-term rates near its widest point in four years.

	Current	Previous	Year ago
Yield curve – May	1.59 pp	1.56 pp	0.53 pp
BAA Credit spread – May	2.01 pp	1.97 pp	3.26 pp
CBOE market volatility – May	20.81	16.67	29.10
S&P 500 stock Index – May	4,144	4,150	2,950

Consumer

Retail sales slowed for April from March's stimulus-induced surge, but the drivers of consumer spending remain overwhelmingly positive. Total home sales slipped for April, mostly due to continued supply constraints, but demand conditions are very supportive for further sales gains, especially with mortgage rates still low and the job market solid – but the fast pace of price gains is a concern. Consumer sentiment fell sharply in the first half of May on inflation fears and remains below pre-COVID levels.

	Current	Previous	Year ago
Retail sales growth – Apr	0.0%	10.7%	-14.7%
Total home sales – Apr	6.71 M	6.93 M	4.95 M
Consumer sentiment – May	82.8	88.3	72.3

Business

The ISM business surveys pulled back modestly for April but still showed solid expansion. Their Markit counterparts, however, moved higher again. Supply shortages continue to plague many industries, driving up input costs and adding to an orders backlog. The NFIB small business optimism index rose again for April, although an increasing share of owners reported that there are few or no qualified applicants for job openings.

	Current	Previous	Year ago
ISM Manufacturing – Apr	60.7	64.7	41.7
ISM Services – Apr	62.7	63.7	41.6
NFIB small business optimism – Apr	99.8	98.2	90.9

Inflation

The core CPI spiked for April, although this was driven by outsized gains in only a few areas. The 12-month trend rate for the overall CPI jumped to 4.2 percent due to April's increase and base effects from the prior year. The Fed's preferred inflation measures, the broader PCE price indices, should also see an acceleration for April. Still, the Fed believes that the rise in inflation readings will be short-lived with a tightening of monetary policy unlikely to occur for some time.

	Current	Previous	Year ago
Consumer Price Index (CPI) – Apr	0.8%	0.6%	-0.7%
Core CPI – Apr	0.9%	0.3%	-0.4%

MONTHLY ECONOMIC DASHBOARD

Outlook

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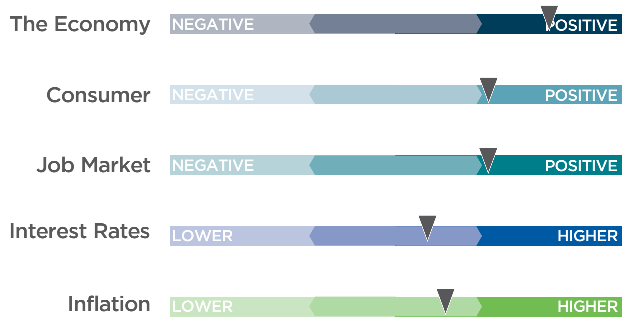

The surge in consumer spending expected this year in response to pent-up demand from during the pandemic and faster income gains should accelerate the business sector recovery, too. Many of the areas hardest hit by pandemic's impacts (i.e. – travel, retail, restaurants) should see the fastest growth this year and into 2022 as consumers are fully allowed to resume in-person activities. Hiring this year has been led by services industries while startups have increased to fill the gaps created by companies that closed due to COVID. There will still be challenges for businesses, however, as COVID has changed the way consumers interact and spend, with an increasing shift to digital platforms. In the near term, supply chain disruptions in many sectors could limit production capacity (and push up prices), especially for the manufacturing sector, while a rising number of businesses (focused on small business services) report difficulty finding qualified workers. These issues should dissipate as the pandemic fades in the rearview mirror while the positive feedback loops of the maturing economic expansion should drive ongoing solid growth for businesses.

The Economy

After a strong start to the year, real GDP growth is expected to be even faster during the second quarter in response to the full reopening of the economy and stimulative policy. A strong pace of growth should extend into at least the first half of 2022. But as the economy moves closer to potential and with possible tax hikes and regulatory changes on the horizon, the expansion will slow over the forecast period. Risks to the outlook are muted but center on virus mutations or policy errors — especially those that would boost inflation meaningfully on a sustained basis.

	2020	2021F	2022F	2023F
Real GDP growth	-3.5%	6.5%	4.5%	2.4%

Consumer

Spending on autos and housing should remain strong into next year — spurred by continued low (albeit rising) interest rates, faster job/income growth, and further demand for "space" as remote working trends remain important. Saving rates for consumers are far higher than usual and should contribute to a post-pandemic consumption surge as those rates move lower to more normal levels. Record high household net worth should help 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	17.0 M	16.8 M	16.4 M

Job Market

Exceptionally strong job gains are expected in coming months, driven by a surge in hiring by service industries as consumers return to in-person activities. The economy could add over six million jobs this year and should close in on the previous employment peak later next year. 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	525,000	300,000	200,000
Unemployment rate	8.1%	5.4%	4.1%	3.8%

Interest Rates

The Fed is expected to keep short-term interest rates near zero until at least the end of 2023 in an attempt to lower the unemployment rate sharply and to boost inflation for a period above its long-term 2.0 percent goal. Long-term rates should climb modestly, pushed up by faster (but perhaps temporary) inflation, strong economic growth, and record government borrowing. Periods of higher long-term interest rates could occur during the outlook for modestly rising yields, probably stemming from a potential "taper tantrum" as the Fed prepares to slow its Treasury/MBS purchases in the future.

	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%	2.25%

Inflation

Core consumer inflation is expected to increase as the recovery accelerates — while overall inflation should show a temporary jump due to rising energy and commodity prices as well as base effects. Inflation is projected to be modestly above its pre-COVID trend in the following years. Still, long-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 keep inflation in check despite record money growth and government borrowing.

	2020	2021F	2022F	2023F
Consumer Price Index (CPI)	1.2%	2.8%	2.3%	2.4%
Core CPI	1.6%	2.1%	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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