Nationwide Economics

Monthly Economic Dashboard

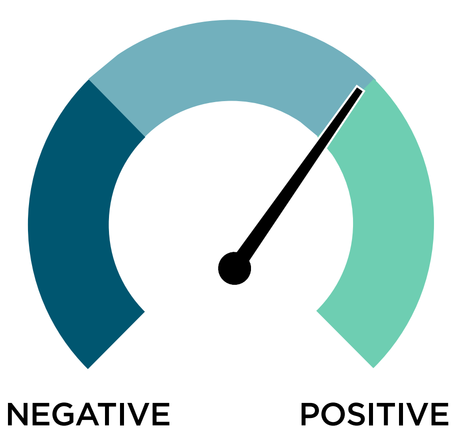
OCTOBER 2021

Supply chain constraints crimping the expansion, but they should fade over the next year

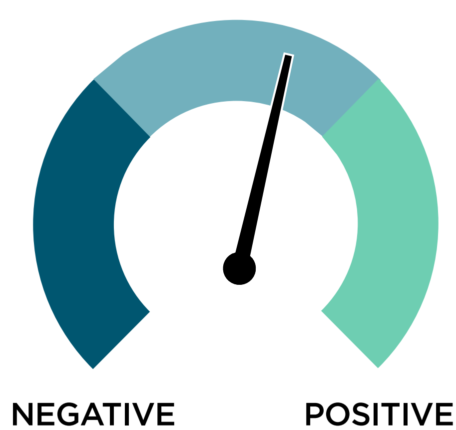
Supply chain disruptions and a lack of workers have noticeably slowed business activity while helping to drive up inflation. As a result, economic growth decelerated sharply in the third quarter. These constraints, which will likely take time to unwind, will eventually ebb allowing the economy to resume above-trend growth in 2022.

- Job gains slowed for September after several consecutive months of strong gains. Business surveys continue to show many firms reporting few or no qualified applicants for job openings.
- Consumer spending has been solid over the past two months as Delta variant concerns and supply chain problems have had little impact on demand.
- Long-term interest rates have moved higher as the Fed suggested it is close to announcing a tapering of asset purchases and perhaps rate hikes sooner than previously expected.
- Volatility in financial markets has ticked up on near-term growth concerns but most domestic equity indices are at-or-near record highs.

Current Scorecard



Future Scorecard



Full scorecards ▶

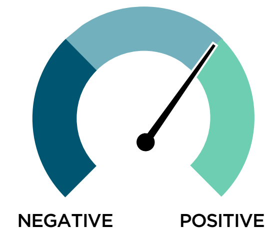
Current Scorecard – October 2021

Data through October 26, 2021

OVERALL

3-MONTH TREND

Economic activity continues to expand, albeit at a slower pace than over the past year. Job gains, while constrained by a workforce still well below its pre-Covid level, continue to be solid and faster wage growth is supporting consumer spending despite lingering virus concerns. The business sector is expanding, too, although widespread supply issues and lack of workers are holding back growth across many sectors. The Fed is inching closer to tapering their asset purchases (and perhaps tightening policy) which has helped to push up long-term interest rates.



EMPLOYMENT

3-MONTH TREND

Nonfarm payroll growth slowed again for September, but private payrolls were higher and there were upward revisions to July and August. Lack of workers remains the primary concern as demand from employers continues to run high with job openings near record levels. The unemployment rate dropped below 5.0 percent for the first time during the pandemic, although the participation rate was flat.

	Current	Previous	Year ago
Employment growth – Sept	194,000	366,000	716,000
Unemployment rate – Sept	4.8%	5.2%	7.8%

FINANCIAL

3-MONTH TREND

The FOMC signaled that it could start to taper its asset purchases later this year, ending it by around mid-2022. It also suggested that rate hikes could occur sooner-than-expected. Markets are now looking for a 2022 tightening and this helped to send long-term interest rates higher. Despite this, broad equity market indices again climbed to record highs in late October on strong earnings data.

	Current	Previous	Year ago
Yield curve – Oct	1.54 pp	1.26 pp	0.61 pp
BAA Credit spread – Oct	1.83 pp	1.85 pp	2.72 pp
CBOE market volatility – Oct	15.59	19.30	26.38
S&P 500 stock Index – Oct	4,527	4,460	3,500

CONSUMER

3-MONTH TREND

Retail sales rose again for September as consumer spending has been resilient despite concerns about Delta and supply chain issues that are driving up prices. Consumer sentiment ticked lower again in the first half of October and is near a pandemic low (but confidence moved higher). Total home sales, although down from recent highs, have been elevated despite a continued lack of homes for sale.

	Current	Previous	Year ago
Retail sales growth – Sept	0.7%	0.9%	2.0%
Total home sales – Sept	7.09 M	6.58 M	7.70 M
Consumer sentiment – Oct	71.4	72.8	81.8

BUSINESS

3-MONTH TREND

The ISM business surveys showed continued solid expansion for manufacturing and services despite ongoing supplier delays and lack of workers. The NFIB small business optimism index edged down in September to its lowest reading since March; finding qualified workers remains a key concern for owners while optimism in the economic outlook has fallen sharply.

	Current	Previous	Year ago
ISM Manufacturing – Sept	61.1	59.9	55.7
ISM Services – Sept	61.9	61.7	57.2
NFIB small business optimism – Sept	99.1	100.1	104.0

INFLATION

3-MONTH TREND

Higher energy costs helped to push up the overall CPI for September, keeping the 12-month trend rate at 5.4 percent. The trend in the core CPI also remained hot, up by 4.3 percent over the past year, although the monthly increases have cooled. The Fed continues to view these higher price signals as mostly transitory with little policy impact if trend inflation slows over the next year.

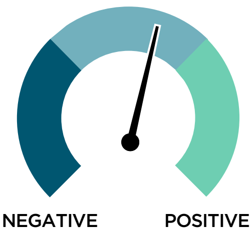
	Current	Previous	Year ago
Consumer price index (CPI) – Sept	0.4%	0.3%	0.2%
Core CPI – Sept	0.2%	0.1%	0.2%

Future Scorecard – October 2021

Nationwide

OVERALL

Global supply chain disruptions and transportation delays could linger into 2022, keeping costs elevated while slowing growth. But these supply chain disruptions should mostly heal next year, allowing for a resumption of above-trend growth and lowering the pace of inflation. Growth should slow after that, as the economy moves toward full resource utilization along with the potential for tax hikes and regulatory policy changes. We continue to expect that the Fed will delay tightening until 2023, but that will depend crucially on inflation cooling in 2022.



THE ECONOMY

Economic growth slowed sharply in the third quarter, but it should accelerate again in the fourth quarter and into 2022 as Covid cases diminish and as supply chains start to heal. But still high odds of tax hikes and regulatory policy changes could reduce growth back to near its pre-Covid trend as the economy closes the gaps caused by last year's downturn.

	2020	2021F	2022F	2023F
Real GDP growth	-3.4%	5.6%	4.5%	2.5%

CONSUMER

Severe constraints in the supply of homes and the production of vehicles have constricted sales this year. But consumer demand for autos and housing should remain strong with sales picking up in the next couple of years as supply chains heal. Solid job gains, increasing wage growth, lots of excess savings, and record household net worth should combine to keep consumer spending solid.

	2020	2021F	2022F	2023F
Total home sales	6.47 M	6.75 M	6.70 M	6.40 M
Light vehicle sales	14.5 M	15.1 M	16.8 M	17.1 M

JOB MARKET

Job gains are expected to be strong into next year (especially within the service sector), as more workers should reenter the labor force to take advantage of plentiful job openings and rising compensation. The unemployment rate is projected to fall below 4.0 percent by the end of 2022 and drop lower beyond that, signaling that the labor market could remain tight throughout this expansion.

	2020	2021F	2022F	2023F
Average job growth	-785,000	500,000	300,000	200,000
Unemployment rate	8.1%	5.5%	4.3%	3.8%

INTEREST RATES

The Fed is expected to finish its tapering of Treasury and MBS purchases over the next year, while keeping short-term interest rates near zero into 2023. While the reduction of monetary policy accommodation is expected to be gradual, there remains a risk of faster tightening if inflation trends don't moderate. Long-term rates should move modestly higher, gathering steam once the Fed tightens.

	2020	2021F	2022F	2023F
Federal funds rate	0.00%	0.00%	0.00%	0.50%
10-year Treasury note	0.93%	1.65%	2.00%	2.30%

INFLATION

As Covid-caused supply chain disruptions heal, inflation should decelerate over 2022. Still, annual inflation readings will remain elevated for some time, while a portion of the recent price gains may persist for some time (especially in shelter-related categories). This suggests that inflation is likely to run modestly above pre-Covid levels over the outlook period.

	2020	2021F	2022F	2023F
Consumer Price Index (CPI)	1.2%	5.6%	2.9%	2.4%
Core CPI	1.6%	4.3%	2.4%	2.3%

Glossary

F	Forecast
BAA Credit Spread	Spread between 10-year treasury note and BAA-rated corporate bond rates
CBOE	Chicago Board Options Exchange
CPI	Consumer Price Index
FOMC	Federal Open Market Committee.
ISM	Institute for Supply Management
NFIB	National Federation of Independent Business
Yield Curve	Spread between the 1-year and 10-year Treasury note rates

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