

NATIONWIDE ECONOMICS

Monthly Economic Dashboard

Economic growth decelerates in the face of Delta and supply headwinds

- After a strong first half of 2021, the winds have shifted a bit for the economy as the Delta variant and supply constraints have slowed activity. In-person activities have again taken the brunt of virus concerns with modestly reduced spending and hiring across the service sector. Input delays and higher costs continue to hamper manufacturing production and sales, too. This suggests a slowdown for the third quarter, but probably not a significant cooling, with real GDP still projected to expand at a solid 3.5-4.0 percent annualized rate.
- As Covid-induced supply disruptions continue to heal in coming months, cheaper and more available inputs should help businesses boost hiring, production, and inventories — boosting growth next year. Covid remains a risk, but the outlook post-Delta for consumer activity is strong, led by rising incomes, elevated savings, and record household net worth.
- The Fed is moving closer to tapering its monthly asset purchases, a trigger which – when combined with possible additional fiscal stimulus – should lift long-term interest rates from their recent lower levels through year-end. Still, the outlook for interest rates remains ‘lower for longer’ as the Fed is unlikely to hike short-term rates for at least another year.

Find more perspectives inside.

A clearer view of the economy

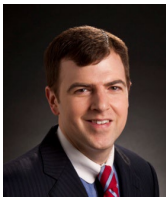
One of the challenges of planning a secure financial future comes in the understanding of market and economic forces and their impact on investment decisions and overall performance. To help illustrate the full economic picture to our clients, advisors trust the experienced economists of **Nationwide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



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Senior Vice President, Chief Economist

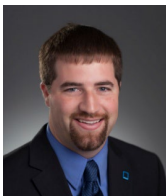
David holds a doctorate in Economics and a master's degree in Public Policy from the University of Michigan. Prior to Nationwide, David served as Chief Economist, Strategist and Head of Risk Analytics for The PMI Group, Inc., and Vice President and Chief Economist for Fannie Mae. David has also served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



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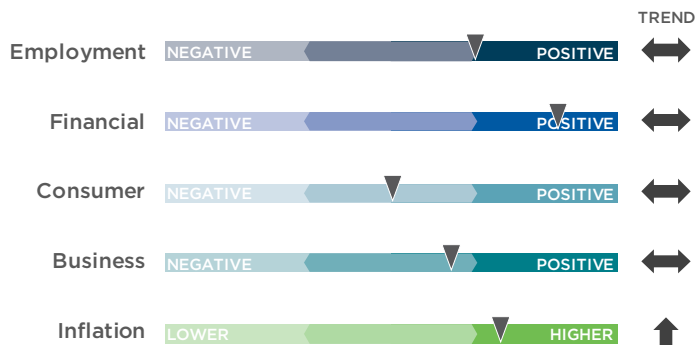
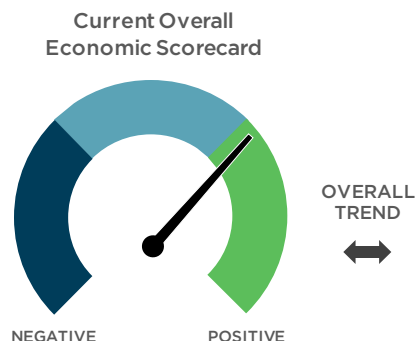
Bryan is a frequent author and knowledgeable source on economic topics and has been featured in The Wall Street Journal and New York Times. Bryan holds degrees in Economics and Political Science from Miami University and has earned the Chartered Financial Analyst designation. He currently serves as Chairman 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.



Economic growth is decelerating in the second half of 2021 as the Delta variant weighs a bit on consumer activity while continued supply chain issues and lack of available workers limit business expansion. Job growth slowed sharply for August, especially within in-person industries, but we think this was mostly from potential workers not stepping forward (renewed virus concerns?) as firms continue to have record numbers of unfilled job openings. Consumer spending has faded modestly over the past few months, too, probably from Delta impact, shortages of things to buy (autos and houses most notably), and rising prices. Still, business surveys show that demand for goods and services remains solid while job and income gains have been above-average over the past six months — which should help to keep real GDP growth above trend. The Fed is moving closer to tapering its asset purchases, but this should not affect the economy much aside from a modest increase in long-term interest rates over the next few months.

Employment

Nonfarm payroll growth slowed sharply for August, although following upwardly revised gains of more than 2.0 million over the previous two months. Demand from employers remains strong with job openings at record levels, suggesting that most of August's slowdown was due to low supply and Delta variant concerns. The unemployment rate dropped to a pandemic-low of 5.2 percent, but the participation rate continues to show little improvement, as many workers have yet to return to the workforce.

	Current	Previous	Year ago
Employment growth – Aug	235,000	1.1 M	1.6 M
Unemployment rate – Aug	5.2%	5.4%	8.4%

Financial

Long-term interest rates remained low as the Delta variant has slowed near-term economic activity while inflation shows signs of declining from recent peaks. The S&P 500 index rose for a seventh consecutive month in August but pulled back modestly in September. An announcement on Fed tapering is expected to occur soon which would be the first step in removing monetary policy accommodation. But the policy stance from the Fed should remain highly expansionary for some time, with no rate hikes expected until 2023.

	Current	Previous	Year ago
Yield curve – Sept	1.26 pp	1.19 pp	0.56 pp
BAA Credit spread – Sept	1.93 pp	1.95 pp	2.63 pp
CBOE market volatility – Sept	19.30	19.17	25.95
S&P 500 stock Index – Sept	4,460	4,435	3,369

Consumer

Retail sales rose unexpectedly for August despite light vehicle sales falling to the lowest level since May 2020. Delta concerns have slowed some in-person activity modestly, but retail demand by consumers remains solid. Total home sales, although up a bit for July, have trended downward in recent months as supply remains near record lows. Still, strong demand from homebuyers continues to keep sales at an elevated level and prices high.

	Current	Previous	Year ago
Retail sales growth – Aug	0.7%	-1.8%	0.8%
Total home sales – July	6.70 M	6.57 M	6.87 M
Consumer sentiment – Sept	71.0	70.3	80.4

Business

Demand for both services and manufactured goods remained strong and kept the ISM business surveys in solid expansion territory during August despite continued supply shortages and rising prices. The NFIB small business optimism index edged up in August, but a record number of businesses reported few or no qualified applicants for job openings. The inability to fill positions is limiting potential sales and growth for many sectors, especially within services.

	Current	Previous	Year ago
ISM Manufacturing – Aug	59.9	59.5	55.6
ISM Services – Aug	61.7	64.1	57.2
NFIB small business optimism – Aug	100.1	99.7	100.2

Inflation

Core inflation decelerated as several categories which had seen sharp increases this year pulled back in August. Still, the 12-month trend rates for the overall and core CPI remained high at 5.3 percent and 4.0 percent, respectively. The Fed's preferred inflation measures, the broader PCE price indices, were also at several decade peaks, but the Fed sees these movements as mostly transitory with little policy impact if trends slow as expected over the next year.

	Current	Previous	Year ago
Consumer Price Index (CPI) – Aug	0.3%	0.5%	0.4%
Core CPI – Aug	0.1%	0.3%	0.3%

Future Overall Economic Scorecard



While the peak growth rates for this expansion likely occurred over the past year, the economy is expected to maintain an above-trend pace for some time. In the near term, the Delta variant and lingering supply chain issues will weaken consumer and business activity modestly, with real GDP growth during the third quarter expected to slow to around 3.5-4.0 percent. But if these supply headwinds fade in coming months (and if new Covid infection rates drop), economic activity should accelerate again during the first half of 2022 — with a further strong 4.7 percent increase projected for next year. Monetary policy is expected to remain extremely expansionary even as the Fed is likely to start tapering asset purchases by early 2022. An outright hike of interest rates should not occur until 2023 if inflation moderates as expected over the next year. An extended period of supply chain disruptions is a risk for slower economic growth and higher inflation in 2022 (and maybe earlier Fed tightening) but there are already signs of supply-chain healing across the global economy.

The Economy

The Delta variant is likely to slow consumer and business activity modestly over the rest of 2021, but the pace of growth should remain above trend through at least the first half of 2022. Beyond that, potential tax hikes and increased business regulation could bring growth back to its pre-Covid trend as the economy closes the gaps caused by last year's downturn. Aside from variants, a sustained jump in inflation is the biggest risk to the outlook, which could lead to earlier and sharper tightening of monetary policy by the Fed.

	2020	2021F	2022F	2023F
Real GDP growth	-3.5%	5.8%	4.7%	2.5%

Consumer

Severe constraints in the supply of homes and the production of vehicles have dampened sales this year. But consumer demand for autos and housing should remain strong for some time with still elevated sales expected in 2022 as supply chains slowly heal (allowing for more auto production) and more homes are built and listed for sale. Saving rates remain 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	6.73 M	6.65 M	6.30 M
Light vehicle sales	14.5 M	15.9 M	16.6 M	17.0 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 record levels of open positions. 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	525,000	300,000	200,000
Unemployment rate	8.1%	5.5%	4.3%	3.8%

Interest Rates

The Fed is expected to taper its purchases of Treasury and MBS assets over the next year, while keeping short-term interest rates near zero into 2023. This gradual path of pulling back on monetary policy accommodation reduces the odds of a "taper tantrum" that could cause a significant jump in bond yields. Still, long-term rates should move modestly higher as the economy grows at an above-trend pace, inflation remains faster than 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%	1.60%	1.95%	2.15%

Inflation

Annual inflation readings should remain elevated for some time, but as Covid-caused supply chain disruptions heal and input prices fall, 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, inflation is projected to fall to rates still above the pre-Covid trend as a portion of the recent price pressure may persist (especially shelter-related).

	2020	2021F	2022F	2023F
Consumer Price Index (CPI)	1.2%	4.8%	2.7%	2.5%
Core CPI	1.6%	4.2%	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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