Economic highlights from the week ending on September 17, 2021

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Retail sales were stronger than expected in August, up 0.7% month-over-month versus expectations for a 0.7% decline. This follows a downwardly revised decline of 1.8% in July. The month-over-month gain in August was driven largely by increases in online shopping, furniture and home furnishings, and general merchandise stores. These gains were partially offset by declines in vehicles, electronics and appliances, sporting goods, hobby, musical instruments, and bookstores, on a seasonally adjusted basis. Excluding vehicles and gas, retail sales were up 2.0% month-over-month, following a 1.4% decline in July. In our view, the August retail sales report indicates that consumers have the propensity to spend but their spending patterns continue to be influenced by the pandemic, with the delta virus outbreak driving more people back to online shopping in the month. Furthermore, we believe high prices fueled by supply chain constraints on bigger ticket items like vehicles and appliances may now be pressuring sales of those items. Overall, we believe consumer spending on goods and services combined, will be highly correlated with US labor market conditions. However, the Covid situation is likely to continue to influence wallet share, as well as supply chains and prices, through the holiday season. Retail inventories are running well below their 5-year average level, and US ports remain congested. We believe retailers with scale and superior supply chain infrastructure will outperform smaller retailers this holiday, given the challenging dynamics.

The Consumer Price Index (CPI) was up 5.3% year-over-year in August, versus up 5.4% year-over-year in July. Core CPI (CPI less food and energy) was up 4.0% year-over-year in August (below expectations), versus up 4.3% in July. On a month-over-month basis, Core CPI increased just 0.1% (well below the 0.9% month-over-month jump we saw in April and June of this year) suggesting that pricing pressures may be easing slightly. While we believe the year-over-year print on Core CPI may have peaked in June at 4.5%, supply chain bottlenecks and labor market constraints may very well continue to fuel pricing pressures over the near-term.

The Federal Open Market Committee (FOMC) is scheduled to meet next week. While we are not expecting a formal announcement about tapering at next week's meeting, we do believe the FOMC is inching toward an announcement that could come in November, depending on the virus and employment situation. The FOMC will, however, provide an updated dot plot and summary of economic projections next week. We anticipate that the Fed is likely to lower its Gross Domestic Product (GDP) outlook for the year and will be watching to see if they revise up their 2021 unemployment rate forecast of 4.5% or make any significant changes to their outlook for rate hikes. We expect the fed funds rate to remain near the zero lower bound through 2022.

Next Week

Housing Market Index, Housing Starts & Permits, Existing Home Sales, FOMC Meeting, Chicago Fed National Activity Index, Leading Indicators, New Home Sales

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