Economic highlights from the week ending on October 1, 2021

Shelly Henbest, CFA
Senior Credit Analyst

Economic data remain somewhat mixed and we believe the ongoing health crisis and related supply chain bottlenecks continue to have a meaningful impact. Nevertheless, we believe the underlying momentum of the economy remains strong. Meanwhile, Covid infection rates in the US and on a global basis are declining, which gives us optimism. Notably, the ISM Manufacturing Index rose to 61.1 in September, stronger than expectations. New orders were particularly strong and the report suggests that manufacturing activity continues to expand. Meanwhile, housing prices remain quite firm, up 20% year-over-year in July, according to the Case-Shiller 20-City Composite Home Price Index.

The Personal Consumption Expenditures (PCE) index was up 4.3% year-over-year in August, versus up 4.2% in July. Core PCE was up 3.6% year-over-year in August, unchanged from July. Inflation readings continue to run well above the Fed's longer-run target of around 2.0%. We expect upward pressure on inflation from supply chain bottlenecks and pandemic-related disruptions is likely to remain elevated over the near-term. Resolving some of the supply chain issues will be supportive of the Federal Reserve's transitory narrative on inflation.

President Biden signed a bill yesterday to extend government funding through December 3rd, averting a partial shutdown just before the September month-end deadline. However, Treasury Secretary Janet Yellen has cautioned that Congress must also suspend or raise the debt ceiling by October 18th to avoid a Treasury default. While extending the debt ceiling does not authorize any new spending, the issue has been tied up in a political debate over infrastructure spending, which we believe has fueled uncertainty and an uptick in financial market volatility. The Cboe Volatility Index (VIX) and MOVE index (MOVE), measures of equity market and Treasury market volatility respectively, are both elevated relative to their 5-year averages. We believe a near-term resolution of the debt ceiling debate would be a positive catalyst for the financial markets.

The September employment report will be released next Friday. The current Bloomberg consensus estimate for September nonfarm payrolls is 488,000, a bit softer than the 6-month average but up from 235,000 in August. It will be the only employment report prior to the next Federal Open Market Committee (FOMC) meeting on November 3rd. Unless the September employment report is much worse than expected, the Fed is widely expected to start tapering asset purchases before year-end and we believe the hurdle rate for policymakers not to announce their intent to taper at the November meeting is high. If or when the Fed does make an announcement about tapering, we will be closely scrutinizing the timeline and pace for a signal on the Federal Reserve's concerns specific to inflation.

Next Week

Factory Orders, ISM Services, International Trade, Consumer Credit, Employment

Chandler Asset Management | info@chandlerasset.com | 800.317.4747 | chandlerasset.com