CHANDLER ASSET MANAGEMENT

Economic highlights from the week ending on November 5, 2021

William Dennehy II, CFA
Deputy Chief Investment Officer

The monthly nonfarm payrolls report was released this morning and the results were solid as the impact of the coronavirus delta variant to the economy continues to dissipate. Payrolls increased by 531k in October, moderately above consensus market expectations of 450k, with upward revisions in the prior periods. Trend growth in payrolls remains robust with a three-month moving average of 442k, although the trend is slowing with the prior months three month moving average at 629k. The unemployment rate ticked lower by two tenths of a percent, to 4.6%, however the participation rate remained unchanged at 61.6% on a month over month basis. Market participants are closely following the participation rate; an increase in the participation rate would be viewed as consistent with a "transitory" narrative on the longer-term inflation outlook and more of the population entered the labor force; today's data did not provide the market with any additional visibility on the topic. Wage pressures remain evident in the data, with average hourly earnings dropping two tenths of a percent on a month over month basis, but increased three tenths of a percent, to 4.9%, on a year over year basis. Economic releases earlier in the week were also consistent with a recovering economy narrative, as the ISM Manufacturing Index came in at 60.8 and the ISM Services Index materially surprised to the upside at 66.7, both very comfortably in expansion territory.

The Federal Open Market Committee met this week and in a well telegraphed policy shift formally announced a reduction in the pace of monthly purchases (i.e., taper). Beginning in November, the pace of monthly purchases will be reduced by $15 billion, to $105 billion per month from the prior $120 billion per month and continue to decrease at a pace of $15 billion per month, completing the process in mid-2022. In the Federal Reserve's view, the economy has made enough "substantial further progress" to reduce the securities it purchases on a monthly basis; however, the conditions required to adjust "traditional" monetary policy and increase the Fed Funds rate have not been met in the Federal Reserve's judgement. The Chandler team believes markets will become more volatile going forward as the supply side constraints to the economy, both material and labor, are impeding the ability of inflation to migrate lower consistent with the Federal Reserve's forecast. Ultimately, we believe more workers will enter the labor force and supply side constraints will moderate in the first half of 2022, but if they do not the Federal Reserve will be in a difficult position and likely forced to turn more hawkish with their monetary policy settings. Next week additional top tier economic data will be released to provide more clarity on the outlook, notably the Consumer Price Index will be released on Wednesday and University of Michigan sentiment indictors on Friday, both poised to provide more information on current inflation readings as wells as sentiment on inflation over longer time horizons.

Next Week

PPI, CPI, Consumer Sentiment

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

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