

Economic Update, October 22, 2021
Submitted by Kevin Vanzant

Summary: The Federal Reserve released the Beige Book this week and observed “modest to moderate” growth in the U.S. economy, while at the same time, noting the pace of growth is slowing in some economic areas because of “supply chain disruptions, labor shortages, and uncertainty around the Delta variant of COVID-19.” The economic data for this week largely reflected this divide as economic observers grapple with the full effects of these economic headwinds going forward. IHS Markit’s Composite Purchasing Managers’ Index, for example, posted a strong number for October, but survey respondents also registered rising backlogs, increasing inflationary pressures, and declining sentiment for the year ahead. Similarly, the National Association of Home Builders’ Housing Market Index improved in October, but homebuilders still raised concerns about the rising price of materials and its effects on future housing prices. The *Tennessean* published an [article](#) this week as well that looked at evidence of rising inflation here in Tennessee and evidence of declining consumer sentiment in the state. The national unemployment data for the week did continue to show improvement, however, with initial claims at 290,000, the lowest they’ve been since March 2020.

Federal Government Indicators and Reports:

Federal Reserve

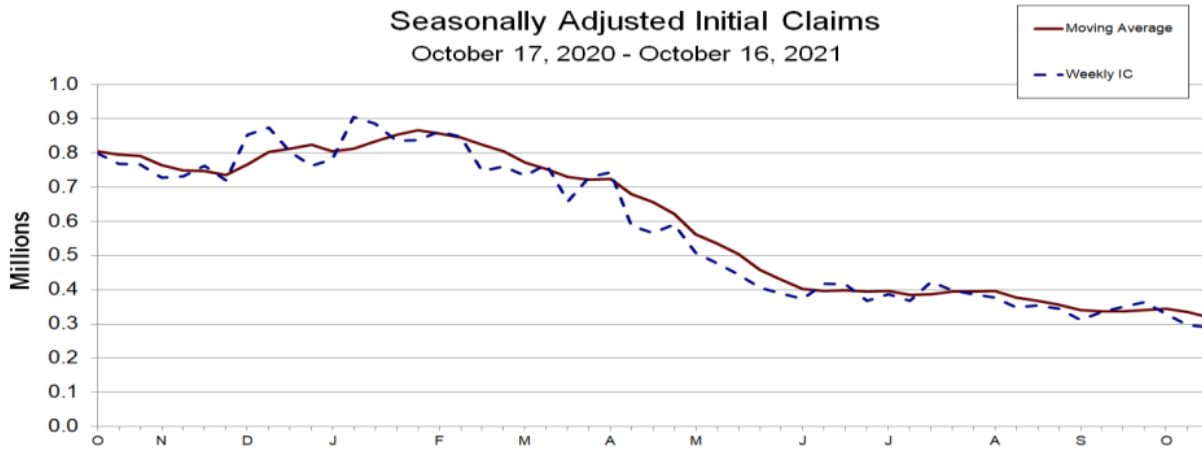
Monday, [Industrial Production and Capacity Utilization](#): “Industrial production fell 1.3 percent in September after moving down 0.1 percent in August. . . . Despite the decrease in September, total industrial production rose 4.3 percent at an annual rate for the third quarter as a whole, its fifth consecutive quarter with a gain of at least 4 percent. . . . Capacity utilization for the industrial sector fell 1.0 percentage point in September to 75.2 percent, a rate that is 4.4 percentage points below its long-run (1972–2020) average.”

Wednesday, [Beige Book](#): “Economic activity grew at a modest to moderate rate, according to the majority of Federal Reserve Districts. Several Districts noted, however, that the pace of growth slowed this period, constrained by supply chain disruptions, labor shortages, and uncertainty around the Delta variant of COVID-19. . . . Outlooks for near-term economic activity remained positive, overall, but some Districts noted increased uncertainty and more cautious optimism than in previous months. Employment increased at a modest to moderate rate in recent weeks, as demand for workers was high, but labor growth was dampened by a low supply of workers. . . . The majority of Districts reported robust wage growth. Firms reported increasing starting wages to attract talent and increasing wages for existing workers to retain them. Many also offered signing and retention bonuses, flexible work schedules, or increased vacation time to incentivize workers to remain in their positions. Most Districts reported significantly elevated prices, fueled by rising demand for goods and raw materials. . . . Expectations for future price growth varied with some expecting prices to remain high or increase further while others expected prices to moderate over the next 12 months.”

Department of Labor

Thursday, [Unemployment Insurance Weekly Claims](#): “In the week ending October 16, the advance figure for seasonally adjusted initial claims was 290,000, a decrease of 6,000 from the previous week’s revised level. This is the lowest level for initial claims since March 14, 2020.” In Tennessee,

there were 4,941 initial claims for the week ending October 16, an increase of 1,049 from the week prior.



Economic Indicators and Confidence:

IHS Markit

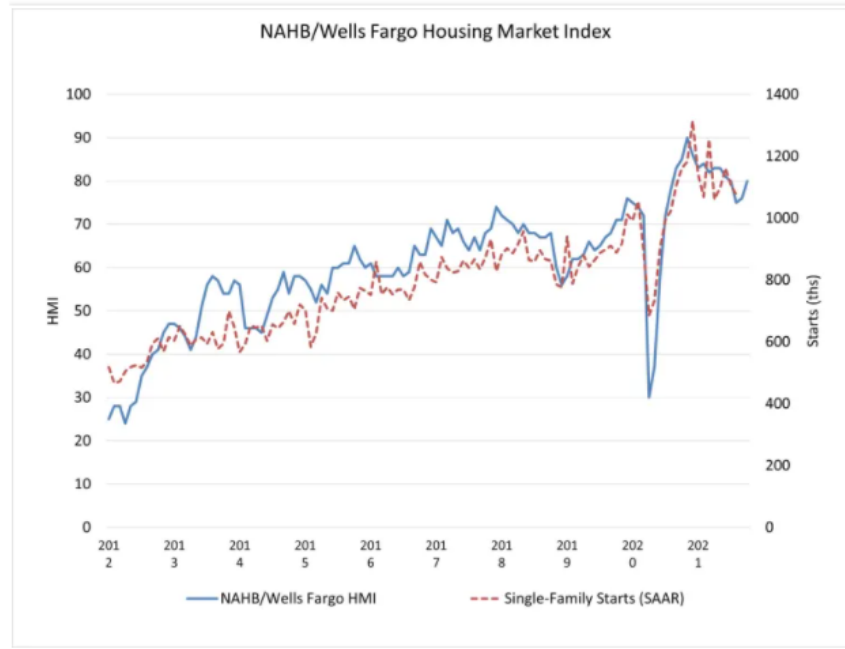
Friday, [Composite PMI](#): The index increased to 57.3 in October, from 55.0 in September. “U.S. private sector businesses recorded a sharp and accelerated upturn in output led by the service sector during October, with growth the strongest for three months, albeit still much weaker than seen earlier in the year. However, October also saw a survey-record rise in backlogs of work as firms struggled to meet demand due to supply chain bottlenecks and labor shortages, in turn driving the steepest rise in prices yet recorded by the survey. . . . October data also highlighted stronger inflationary pressures across the U.S. economy. Average input prices rose at a survey record pace, with firms attributing higher costs to supply issues, material shortages, greater transport fees and increased wage bills. . . . Finally, the level of sentiment regarding output in the year ahead dipped to the joint-lowest in eight months (on a par with July), with many companies noting concerns surrounding ongoing supply issues, labor shortages and price pressures.”



Mortgages and Housing Markets:

National Association of Home Builders/Wells Fargo

Monday, [Housing Market Index](#): “Builder sentiment in the market for newly built single-family homes moved four points higher to 80 in October. . . . Despite the increase, builders are getting increasingly concerned about affordability hurdles ahead for most buyers. Building material price increases and bottlenecks persist and interest rates are expected to rise in coming months as the Fed begins to taper its purchase of U.S. Treasuries and mortgage-backed debt.”



Census Bureau

Tuesday, [New Residential Construction](#): “Privately-owned housing units authorized by building permits in September were at a seasonally adjusted annual rate of 1,589,000. This is 7.7 percent below the revised August rate of 1,721,000, but is virtually unchanged from the September 2020 rate of 1,589,000. . . . Privately-owned housing starts in September were at a seasonally adjusted annual rate of 1,555,000. This is 1.6 percent below the revised August estimate of 1,580,000, but is 7.4 percent above the September 2020 rate of 1,448,000. . . . Privately-owned housing completions in September were at a seasonally adjusted annual rate of 1,240,000. This is 4.6 percent below the revised August estimate of 1,300,000 and is 13.0 percent below the September 2020 rate of 1,426,000.”



**NEW RESIDENTIAL
CONSTRUCTION
SEPTEMBER 2021**

Building Permits: 1,589,000
Housing Starts: 1,555,000
Housing Completions: 1,240,000

Next Release: November 17, 2021

Seasonally Adjusted Annual Rate (SAAR)
 Source: U.S. Census Bureau, HUD, October 19, 2021

