WEEK IN REVIEW | REINHART FIXED INCOME BY MADISON INVESTMENTS

October 29, 2021

Q3 GDP

Third quarter GDP grew at a 2.0% annualized real rate according to the report issued by the Bureau of Economic Analysis (BEA). Final sales (GDP less inventory changes) fell 0.1%. Slowing inventory drawdowns added over two percentage points to growth while net exports subtracted 1.1. Government consumption increased 0.8%.

Our Take: GDP growth was disappointing relative to expectations. Bottlenecks and shortages were a big reason why. For example, the automotive sector alone accounted for a reduction of 2.39 percentage points from growth according to the BEA. The data makes it clear that 3Q GDP growth would have been higher if there had been more goods available to buy. Growth is likely to pick up in the fourth quarter as supply chains are mended but still faces the headwind of consumers' reduced purchasing power as a result of falling income and savings.

INCOME AND CONSUMPTION

Personal income fell 1.0% in September while spending increased 0.6%. The savings rate fell from 9.2% to 7.5%.

Our Take: Incomes fell dramatically as pandemic-related benefits ended. Spending rose despite lower incomes as consumers dipped into their savings. Unfortunately, the savings rate, which reached unprecedented heights due to massive stimulus, is now at lows not seen since December 2019. Basically, pandemic aid has run its course and, barring any additional stimulus, earned incomes will have to rise to support continued spending.

DURABLE GOODS

Durable goods orders fell 0.4% in September.

Our Take: The transportation sector led the decline, due primarily to the much-publicized supply chain issues. Motor vehicle orders fell 2.9% while commercial aircraft orders dropped 28%. Orders for non-defense capital goods excluding aircraft rose 0.8%, signaling that demand for goods remains strong despite the pandemic.

MUNICIPALS

During a meeting with reporters, New Jersey Governor Phil Murphy indicated that his administration is making plans for debt repayment. Additional details will likely be released after a meeting with state Treasury officials on October 29.

Our Take: New Jersey borrowed $4.2 billion during the pandemic as uncertainty and projected revenue losses loomed. However, the state has experienced higher than expected tax revenue which has led to a $10 billion budget surplus. With the additional tax revenue, the state finds itself in a more stable financial position and should be able to decrease its borrowing costs, potentially retiring higher-cost debt.

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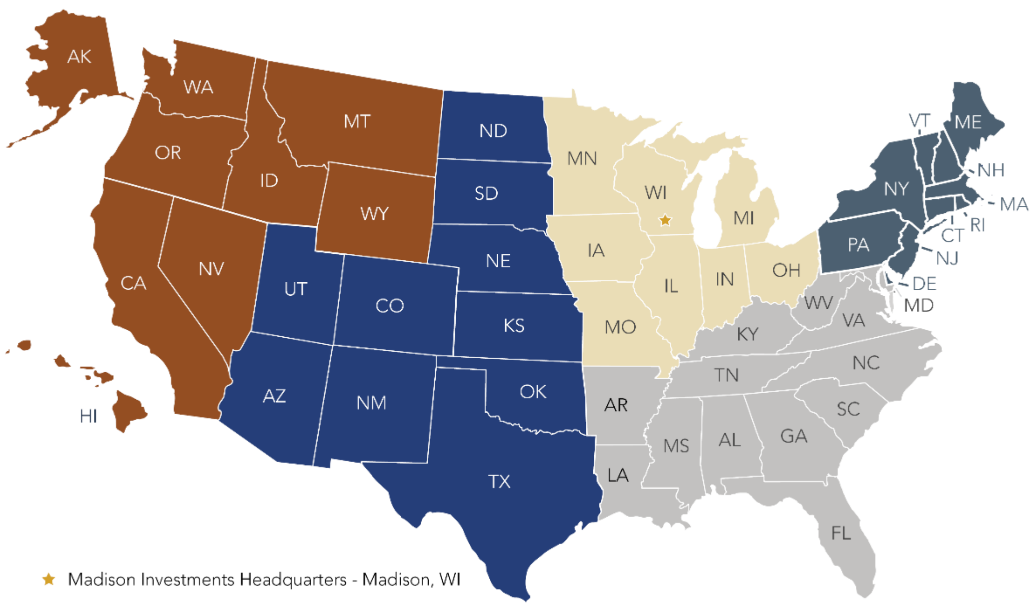

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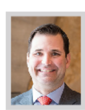

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