

March 6, 2023

Flow of positive data continues

Much of the data in the new year has been stronger than expected, feeding concerns that the Fed will need to ratchet interest rates higher to slow rapid inflation. That beat continued last week with a further expansion reading for the service sector and signs that disinflation trend for goods might be slowing. Other economic data showed a surprising jump in housing market activity and jobless claims remained very low, while core durable goods orders and shipments when adjusted for inflation were softish.

Manufacturing and service sectors remain divergent

The ISM manufacturing index climbed modestly in February but remained in moderate contraction for a fourth consecutive month. Of the five contributing components, the lone riser was the new orders index, which could be a leading indicator of a stronger reading in the overall index next month. The employment index suggested weaker hiring within the sector, while production showed its deepest contractionary readings since May 2020.

The biggest surprise in the report was the rebound in the prices paid index, which jumped by 6.8 points to move back into expansion territory at 51.3. This corroborates the turnarounds in the price indices within several of the regional factory surveys and aligns with the broader signs of a pause in the disinflation trend for goods costs, likely in response to the reopening of the Chinese economy. The downtrend in goods inflation should reassert itself as supply chains continue to heal, the lagged impacts of Fed tightening increasingly temper demand, and consumers have shifted away from goods consumption towards more service consumption. but the cooling process is expected to remain jagged and uneven.

The ISM services index was virtually unchanged and remained well in expansion territory, suggesting continued solid services activity. The new orders and employment components each climbed with both indices reaching their highest levels since late 2021. The prices paid index fell to a two-year low, but input prices are still rising rapidly in the service sector. Overall, demand for services remained sturdy in February, supported by low unemployment and rising wages — counter to the disinflationary trends desired by the Fed.

Economic data remains positive

Other economic indicators also pointed to continued growth. Total durable goods orders declined in January, but the drop was entirely due to a cutback in commercial aircraft orders. Orders for durables excluding transportation climbed by a solid 0.7 percent — the fastest monthly gain in a year, however adjusted for elevated wholesale price inflation orders remain weak.

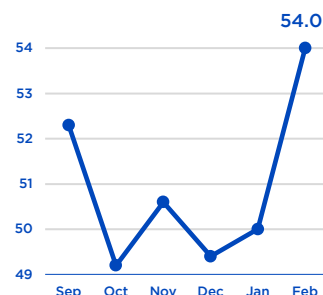
There was positive data from the housing market as pending home sales posted the largest increase since mid-2020, as mortgage rates fell to a four-month low in January. This suggests a temporary pop in existing sales during February, although total activity should remain low. While the underlying fundamentals for housing demand remain supportive, shifts in mortgage rates will continue to swing sales. As such, with rates jumping again in February, the outlook still points downward housing activity over the coming months.

Finally, initial jobless claims for the week ending February 25 totaled 190,000, a seventh straight week where claims were under 200,000. This signals either that layoffs remain very low, or that workers who are laid off (there have been several well-publicized layoffs in recent weeks) have been able to quickly find new employment due to overall labor demand remaining very high.

Signs of cracks in overall growth are slowly forming but are not developing as quickly as expected given the sharp rate increases seen over the past year. A slowdown from here (which should eventually turn into an economic downturn) is still expected, but the recent period of resilience from consumers and businesses may continue to push off recessionary conditions until later in the year.

Services employment picks up

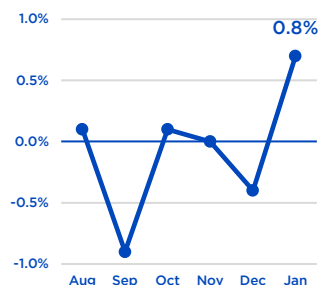
— ISM services employment index (50+ = Expansion)



The employment component of February's ISM services index climbed to its highest level since December 2021.

Core durable goods orders climbed in January

— Durable goods orders excl. transportation, month-over-month percent change



Growth in durable goods orders excluding transportation was the fastest since May 2022 despite high borrowing rates.

Sources:
Institute for Supply Management; Census Bureau

The Week Ahead

Here's our outlook for the days ahead. Subscribe to [Daily Insight](#) for updates throughout the week.

Consumer
Credit



Consumer credit expected to increase

Consumer credit likely advanced \$30 billion in January after rising just \$11.6 billion in December, which was the smallest amount in nearly two years. We expect that with inflation remaining elevated and consumers going on a strong spending spree in January the reliance on credit cards (revolving credit) likely picked up in January. Nonrevolving credit that includes autos and student loans should also resume a strong upward trend after rising just \$4.4 billion in December following a \$17.4 billion advance in November.

JOLTS Job
Openings



JOLTS report should show still-strong demand for labor

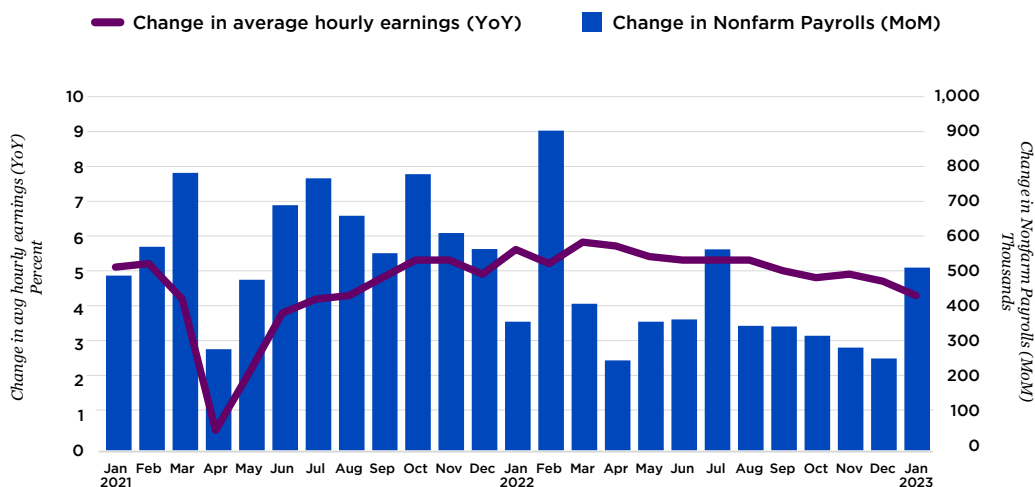
JOLTS survey for January should show that labor demand remained strong as evidenced by the outsized 517,000 gain in nonfarm payrolls on the month. The highly-watched job openings to unemployed persons ratio probably stays elevated indicative of the extremely taut labor market.

Change in
Nonfarm
Payrolls



Strong payroll data in January likely moderated in February

The gain in nonfarm payrolls in February should moderate to 273,000 after the stunningly strong 517,000 increase in January. However, our forecast still represents a solid increase as labor demand remains vibrant, especially in the services side of the economy. The unemployment rate likely remains at 3.4 percent, which is near a 60-year low as labor supply continues to lag the resilient demand. Reflecting the tight labor market, average hourly earnings are probably going to advance another 0.3 percent on the month, which lifts the year-on-year pace up to a fast 4.8 percent after it cooled to 4.4 percent in January.



Sources: Bureau of Labor Statistics/Bloomberg/Haver Analytics

Additional Economic Indicators

Previous Week's Indicators	Period	Actual	Previous
Pending Home Sales MoM	January	8.1%	2.50%
Durable Goods Orders	January	-4.5%	-5.7%
Durable Goods Orders (excl. transportation)	January	0.7%	-0.2%
Advance Goods Trade Balance	January	-\$91.5b	-\$90.3b
Conf. Board Consumer Confidence	February	102.9	107.1
Construction Spending MoM	January	-0.1%	-0.4%
ISM Manufacturing	February	47.7	47.4
Wards Total Vehicle Sales	February	14.89m	15.74m
Initial Jobless Claims	Week ending Feb 24	190,000	192,000
ISM Services Index	February	55.1	55.2

This Week's Indicators	Release Date	Period	Forecast*	Previous
Factory Orders	Monday	January	-2.0%	1.8%
Consumer Credit	Tuesday	January	\$30.0b	\$11.565b
Trade Balance	Wednesday	January	-\$68.0b	-\$67.4b
JOLTS Job Openings	Wednesday	January	10,600k	11,012k
Initial Jobless Claims	Thursday	Week ending March 3	194,000	190,000
Change in Nonfarm Payrolls	Friday	February	273k	517k
Unemployment Rate	Friday	February	3.4%	3.4%
Average Hourly Earnings MoM	Friday	February	0.3%	0.3%
Average Weekly Hours All Employees	Friday	February	34.6	34.7
Labor Force Participation Rate	Friday	February	62.4%	62.4%
Underemployment Rate	Friday	February	6.7%	6.6%



Interested in learning more from Nationwide Economics? Find this and other content from Nationwide at blog.nationwidefinancial.com/markets-economy.

The information in this report is provided by Nationwide Economics and is general in nature and not intended as investment or economic advice, or a recommendation to buy or sell any security or adopt any investment strategy. Additionally, it does not take into account any specific investment objectives, tax and financial condition or particular needs of any specific person.

The economic and market forecasts reflect our opinion as of the date of this report and are subject to change without notice. These forecasts show a broad range of possible outcomes. Because they are subject to high levels of uncertainty, they will not reflect actual performance. We obtained certain information from sources deemed reliable, but we do not guarantee its accuracy, completeness or fairness.

Nationwide, the Nationwide N and Eagle and Nationwide is on your side are service marks of Nationwide Mutual Insurance Company. © 2023 Nationwide.

NFM-9898AO.7

