

April 18, 2022

Economic data were mixed

The consumer price index (CPI) sent mixed signals last week while the retail sales release left more to be desired. There are positive aspects to most of the data, but that is coming against the backdrop of heightened geopolitical uncertainty and the beginning of the removal of Fed policy accommodation.

The CPI report had something for everyone

The headline CPI jumped by 1.2 percent for March, the fastest rate since a one-month blip for September 2005. To find a more sustained period of faster inflation you would have to go back to early 1980. March's monthly rise brought the 12-month trend rate up to 8.5 percent, the strongest gain since the end of 1981. Energy prices were by far the biggest contributor, particularly gasoline prices. This is of little surprise to most consumers with WTI oil prices jumping by roughly \$17/barrel in March to average over \$108 for the month. Regular grade gasoline prices averaged over \$4.00/gallon for the month for only the second time in history — and the monthly jump was the largest in history. Food prices also continued to soar, adding to the pressure on consumers' wallets.

But the core CPI (stripping out the volatile food and energy components) surprised to the downside, rising by just 0.3 percent on the month and moving the year-over-year print up to 6.5 percent. The slower gain in the core rate was driven mostly by a 3.8 percent monthly drop in used car/truck prices. As supply chains slowly heal (a process that may be delayed by Covid lockdowns in China), production of goods should increase — helping price gains to slow (and perhaps to reverse). At the very least, core prices are unlikely to go up at the same pace that they did last year which should temper the CPI numbers in the months ahead. But there are still concerns about services inflation, especially for shelter. This component of the CPI rose for a second consecutive month at a 0.5 percent rate, with little sign of acceleration over the past six months. But both house prices and rental costs continue to grow rapidly — with house prices accelerating to over 19 percent year/year for January and observed rents remaining at nearly a 17 percent gain over the year for March. While these figures don't go directly into the shelter component of the CPI, they do influence it and suggest that there will be some upward pressure on inflation in coming months from this component.

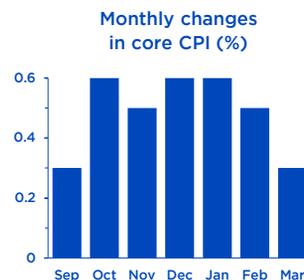
Retail sales up, helped by price gains

Retail sales grew by 0.5 percent for March, although there were solid upward revisions to prior months, but this is based on nominal spending and much of the March gain came from higher prices (with the CPI up by 1.2 percent). Sales at gasoline stations soared by 8.9 percent for the month, as retail gasoline prices jumped by nearly 20 percent for the month. Removing spending on autos, building supplies, and gasoline, the retail control group slipped modestly — indicating some weakness in inflation adjusted consumer spending. Faster inflation will certainly impact how consumers spend in coming months and have the potential to weigh on consumer activity.

Sentiment also mixed

The NFIB small business optimism index fell for a third straight month. The outlook for the economy, particularly inflation and higher selling prices, led the decline. This contrasted with an early April increase in the consumer sentiment index from the University of Michigan. The rise in consumer sentiment came largely from improvement in consumer expectations with that component jumping by 10 points. Inflation expectations were unchanged for early April, with consumers looking for inflation over the next year to be 5.4 percent and over the next five years to average 3.0 percent. While expected inflation didn't rise, it remains well over the Fed's long-term goal of 2.0 percent.

The core CPI rose by less than expected for March



The core CPI has been rising rapidly over the past six months, but there was a sharp slowdown for March.

Consumer expectations remain low but improved in early April



Consumer expectations improved in early April as gasoline price increases leveled off. A strong labor market may help this move further to the upside in coming months.

Source: Haver Analytics

The Week Ahead

Here's what we are watching this week:

Housing starts



↶ Little change expected for housing starts

Housing starts jumped to their fastest pace in over 15 years for February and they likely kept a similar pace through March. Input costs for builders are high and continue to increase, worker shortages persist, and there remains a shortage of buildable lots — all making it difficult for starts to expand further. But there continues to be excess demand for housing units and builders are trying to close that gap. Building permits fell only slightly for February from January's blistering pace, and weather was generally good for construction in March. We project an annualized pace of housing starts of 1.77 million units for March, little changed from February's rapid pace.

Existing home sales



↷ Existing home sales likely slowed further

Existing home sales fell for February to their slowest pace since July 2020, when they were still on their way up after the collapse in the market caused by Covid. Sales likely dipped again for March, as pending home sales (which are measured when contracts to purchase a home are signed) fell in both January and February — from a combination of falling affordability and lack of homes for sale. As a result, we project a drop in existing home sales to an annualized rate of 5.75 million units for March — which would be the slowest since June 2020.

Index of leading economic indicators



↶ Leading economic indicator gains are slowing, but still moving higher

The index of leading economic indicators (LEI) has traditionally been a solid signal for recessions as the year-over-year growth of the index tends to go negative several months before the onset of a recession. While there have been a few false positive readings from LEI growth (i.e., the LEI growth rate falling below zero with no ensuing economic downturn), there has been only once instance of a false negative (the LEI growth rate didn't quite go negative before the 1960-61 recession). LEI growth for February (up by 7.6 percent from a year earlier) suggests that a recession is not imminent. Components of the LEI for March were mixed, but still mostly higher. We project modest monthly growth of 0.2 percent for the LEI, which would lower the annual growth to 6.7 percent — far from a recession indicator.



Sources: The Conference Board/Haver Analytics
Shaded areas depict recessionary periods.

Weekly Market Snapshot

Provided by IMG Business and Product Development – Data Analytics Team

Equity

	Last	1 Week	Returns YTD*	1 Year *
S&P 500 (Large)	4,393	-2.11%	-7.45%	8.00%
S&P 400 (Mid)	2,629	0.46%	-7.13%	-0.64%
S&P 600 (Small)	1,284	0.92%	-8.03%	-2.86%
S&P 500 (High Quality)	48	-2.10%	-8.56%	7.18%
Russell 1000	4,661	-1.90%	-7.99%	5.64%
Russell 2000	4,983	0.53%	-10.41%	-9.84%
Dow Jones	34,451	-0.78%	-4.68%	4.05%
NASDAQ	13,351	-2.62%	-14.50%	-3.02%
MSCI EAFE	2,119	-0.90%	-8.35%	-4.02%
MSCI EM	1,117	-0.83%	-8.78%	-14.21%

* represents total return

S&P Metrics

	LTN P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	20.47	18.72	36.84	9.81
Prior Month	20.46	18.04	39.86	9.07
Prior Year	25.98	22.28	-0.05	23.75

Fixed Income

	Last	1 Week	Returns YTD	1 Year
U.S. Aggregate	3.28%	-0.70%	-8.54%	-7.75%
U.S. Inv Grade	4.02%	-1.27%	-11.11%	-9.04%
U.S. High Yield	6.61%	-0.32%	-6.55%	-3.26%
TIPS	2.95%	-0.41%	-5.08%	1.04%

Rates

	Last	1 Week	Returns YTD	1 Year
6M T-Bill	1.25%	0.06	1.06	1.21
2 Yr Treasury	2.47%	-0.06	1.74	2.31
5 Yr Treasury	2.79%	0.03	1.53	1.92
10 Yr Treasury	2.83%	0.11	1.31	1.19
30 Yr Treasury	2.92%	0.16	1.02	0.60

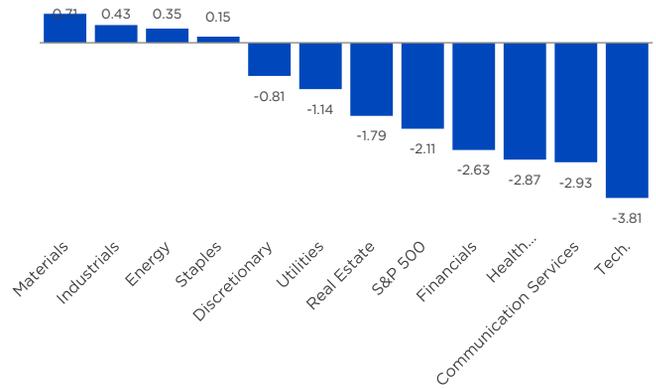
Spreads

	Last	1 Week	Change (Abs %)	YTD	1 Year
AAA Rated	0.63	0.06	0.12	0.16	0.16
BBB Rated	1.54	0.07	0.31	0.36	0.36
High Yield	3.68	0.11	0.58	0.43	0.43
10 to 2yr Treasury	0.36	0.00	-0.43	-1.12	-1.12

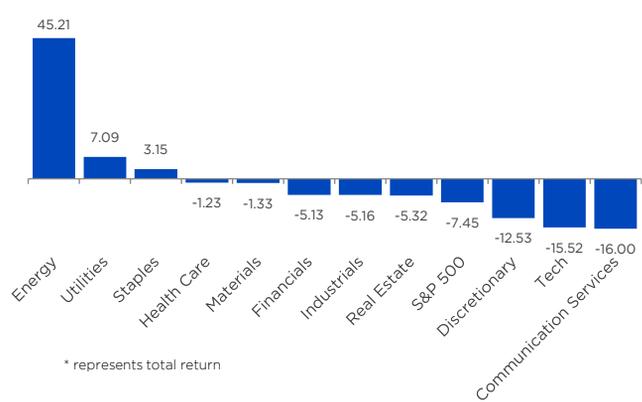
Commodities/FX

	Last	Returns (Currencies in \$ strength)	YTD	1 Year
Gold	1970.90	1.51%	7.85%	13.60%
Bitcoin	39930.88	-5.50%	-13.92%	-36.41%
WTI Oil	106.95	8.74%	41.98%	69.36%
EUR/USD	1.0776061	0.90%	5.24%	9.97%
USD/JPY	125.90	1.21%	9.34%	15.80%

S&P Sector Returns – Week (%)



S&P Sector Returns – YTD (%)*



* represents total return

U.S. Yield Curve



Russell Style Returns - Week

	Value	Core	Growth
Large	-1.0	-1.9	-2.8
Mid	-0.2	-0.5	-1.2
Small	1.2	0.5	-0.2

Russell Style Returns - YTD

	Value	Core	Growth
Large	-1.1	-8.0	-14.1
Mid	-2.5	-7.3	-16.0
Small	-4.5	-10.4	-16.3

Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
Small business optimism index	Mar.	93.2	95.7
Consumer price index (m/m)	Mar.	1.2%	0.8%
CPI (y/y)	Mar.	8.5%	7.9%
Core CPI (m/m)	Mar.	0.3%	0.5%
Core CPI (y/y)	Mar.	6.5%	6.4%
Producer price index	Mar.	1.4%	0.9%
Core PPI	Mar.	1.0%	0.4%
Initial jobless claims	Week ending Apr. 9	185,000	167,000
Retail sales	Mar.	0.5%	0.8%
Retail sales ex autos	Mar.	1.1%	0.6%
Import prices	Mar.	2.6%	1.6%
Consumer sentiment (preliminary)	Apr.	65.7	59.4
Empire St New York Fed manufacturing survey	Apr.	24.6	-11.8
Industrial production	Mar.	0.9%	0.9%
Capacity utilization	Mar.	78.3%	77.7%

This Week's Indicators

	Release Date	Period	Forecast*	Previous
Housing market index	Mon.	Apr.	76	79
Housing starts	Tues.	Mar.	1.77 M	1.77 M
Building permits	Tues.	Mar.	1.83 M	1.86 M
Existing home sales	Wed.	Mar.	5.75 M	6.02 M
Initial jobless claims	Thurs.	Week ending Apr. 16	170,000	185,000
Philadelphia Fed manufacturing survey	Thurs.	Apr.	29.5	29.5
Index of leading economic indicators	Thurs.	Mar.	0.2%	0.3%
S&P Global flash manufacturing PMI	Fri.	Apr.	59.2	59.2
S&P Global flash services PMI	Fri.	Apr.	59.9	59.9

* Nationwide Economics Forecast



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