Nationwide Economics

Weekly Economic Review & Outlook

May 9, 2022

Fed pushes harder on the brakes

The Fed tightened monetary policy again last week and made it clear that there was more to come. The labor market remained hot with nonfarm payrolls continuing to climb solidly for April. But there are a few signs of ebbing activity in the economy. The ISM manufacturing and services surveys slowed while the household survey measure of employment declined for the first time since 2020.

Even more Fed tightening in coming months

The Federal Open Market Committee (FOMC), the policymaking arm of the Fed, met last week and raised short-term interest rates by 50 basis points, the largest increase since 2000. The FOMC also laid out the path for reducing its bloated balance sheet, indicating that it would accomplish quantitative tightening (QT) by using a ramp-up period of three months, with QT totaling $47.5 billion per month ($30 billion in Treasuries, $17.5 billion in mortgage-backed securities), before moving to as much as $95.5 billion per month thereafter.

In the press conference that followed, Fed Chair Jay Powell strongly emphasized that the policymakers intend to move "expeditiously" to raise rates and bring down inflation. He did, however, say that the FOMC is not actively considering an increase of 75 basis points, a move made only twice since the Fed started its interest rate targeting in late 1982 (in 1984 and 1994). Instead, he clearly signaled that 50 basis point moves are likely at each of the next two FOMC meetings (in June and July). The Fed hopes to slow economic growth by enough to bring inflation back to its long-term goal of 2.0 percent without causing a recession (or even a jump in the unemployment rate). Such soft landings are rare — having occurred roughly three (perhaps four) times since 1955, while recessions occurred ten times. Moreover, none of the three soft landings occurred in the wake of a supply shock — something that has hit the economy since the Covid shock first hit. If the negative supply shocks helping to push inflation higher diminish over the year, then the Fed may not have to tighten by as much as financial markets fear — and a soft landing may be achieved. But if supply shocks don't diminish significantly, then the Fed will likely tighten aggressively this year (and perhaps next), raising the chances of a downturn.

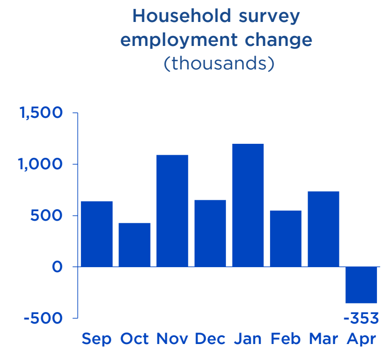
Firms continue to hire at a strong pace

Nonfarm payrolls climbed by 428,000 for a second straight month in April. The job additions were broad-based, but of note was the increase in the trade and transport sector which grew by more than 100,000. This is important because this is a key area that has been a bottleneck and worsened supply chain issues, but there are signs that this is beginning to ease. The U-3 unemployment rate was unchanged at 3.6 percent while the broader U-6 rate edged higher to 7.0 percent. The labor force participation rate slipped to 62.2 percent, driven by a drop in employment from the household survey — the first such decline since 2020. All told, the labor market remains solid, and the likely one-off surprises for labor force participation and household employment are unlikely to continue in that direction. We continue to expect that the headline payroll numbers will continue to modestly slow with the job market effectively at full employment.

The ISM surveys softened but remain healthy

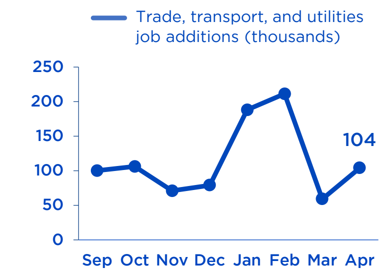
The ISM manufacturing and services indexes took a step back for May. The manufacturing index came in at 55.4 while the services index was 57.1 — both still well above the break-even level of 50. Industry commentary has been consistent for some time indicating that supply chains remain the most significant headwind, even if there is some easing of pressures at the margin. Labor market dynamics are also causing problems with some sectors unable to find workers, resulting in the employment component of the index slipping below 50 for services.

Household employment fell for April



Household survey employment dropped for the first time since 2020 in April. While likely a one-off, this is something to keep an eye on.

Trade and transport sectors continue to hire



The trade and transport sectors are important for the supply chains in the U.S. Hiring has been solid recently which may help to relieve supply chain issues in coming months.

Source: Haver Analytics

Contributors: Dan Hadden, Financial Markets Economist | Daniel Vielhaber, Economist

The Week Ahead

Here's what we are watching this week:

NFIB small business optimism index

May 10

Tight labor markets and high costs expected to reduce small business optimism

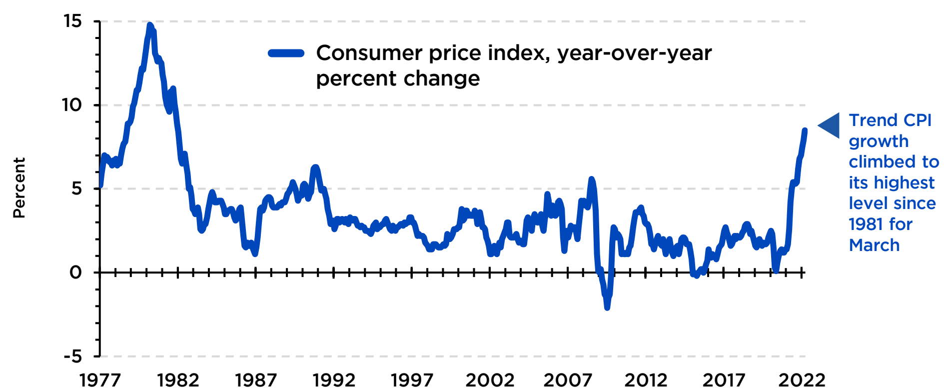
The March reading of the NFIB small business optimism index was the lowest since the first full month of the Covid shutdown (April 2020) and since March 2016 before that. Businesses continue to face difficulties finding qualified workers — resulting in rising labor costs with lower-than-normal quality of labor. In addition, April's ISM surveys suggest that input prices continued to grow rapidly (the prices component of the services survey was at a record high). We project another decline in the small business optimism index, falling to 91.9 for April.

Consumer price index

May 11

Overall consumer prices lower, but the core higher

Consumer price gains are expected to have slowed for April, mostly due to falling energy prices as motor fuel prices fell for the first time in five months. Still, food prices are expected to have grown sharply and natural gas prices also rose — mitigating some of the slowing in the overall CPI. The core CPI (the CPI less the volatile food and energy components) is still expected to see a relatively strong gain due to supply chain impacts of the latest Covid-related shutdowns in China as well as rising shelter costs in response to the surge in rental and owner housing prices. We project a gain of 0.3 percent for the overall CPI, and 0.5 percent for the core rate. These would bring the 12-month trend rates down to 8.1 percent and 6.1 percent, respectively.



Sources: Bureau of Labor Statistics

Producer price index

May 12

Rapid gains in input prices likely continued for April

Following a record gain in the one-month change in the producer price index (PPI) for March, April's growth is expected to be slower (although still rapid). As with the factors affecting consumer prices, growth in input prices of energy were likely lower for April than in the first quarter, while the war in Ukraine and shutdowns in China have dragged out supply chain problems and decreased availability of various inputs. We project an increase of 0.6 percent for the overall PPI and 0.8 percent for the core PPI (total PPI less food and energy).

Weekly Market Snapshot

Provided by IMG Business and Product Development – Data Analytics Team

Equity	Last	Returns 1 Week	YTD*	1 Year *
S&P 500 (Large)	4,123	-0.18%	-13.07%	-0.47%
S&P 400 (Mid)	2,481	-0.76%	-12.31%	-8.23%
S&P 600 (Small)	1,209	-0.47%	-13.40%	-10.06%
S&P 500 (High Quality)	46	-0.09%	-12.62%	2.09%
Russell 1000	4,354	-0.47%	-13.99%	-2.64%
Russell 2000	4,572	-1.29%	-17.77%	-17.04%
Dow Jones	32,899	-0.21%	-8.92%	-2.98%
NASDAQ	12,145	-1.50%	-22.19%	-10.31%
MSCI EAFE	1,973	-2.78%	-14.25%	-11.43%
MSCI EM	1,032	-4.12%	-15.71%	-21.05%

* represents total return

S&P Metrics	LTN P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	19.95	17.46	34.56	9.75
Prior Month	20.62	19.16	37.60	9.69
Prior Year	25.50	21.60	4.18	25.81

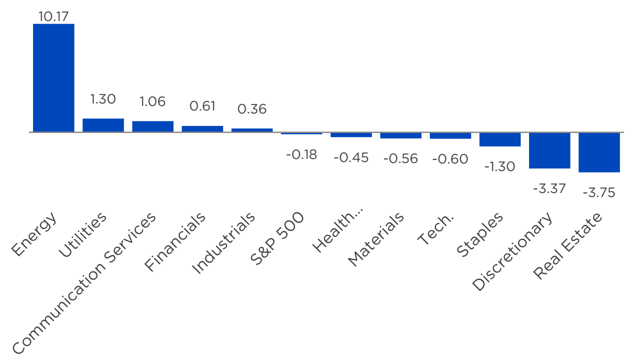
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	3.62%	-1.11%	-10.51%	-9.75%
U.S. Inv Grade	4.46%	-1.32%	-13.89%	-11.74%
U.S. High Yield	7.34%	-1.19%	-9.31%	-6.51%
TIPS	3.25%	-1.73%	-6.64%	-1.80%

Rates	Last	Returns 1 Week	YTD	1 Year
6M T-Bill	1.41%	0.00	1.22	1.37
2 Yr Treasury	2.72%	0.02	1.99	2.56
5 Yr Treasury	3.06%	0.14	1.80	2.25
10 Yr Treasury	3.12%	0.23	1.6	1.54
30 Yr Treasury	3.23%	0.27	1.33	0.99

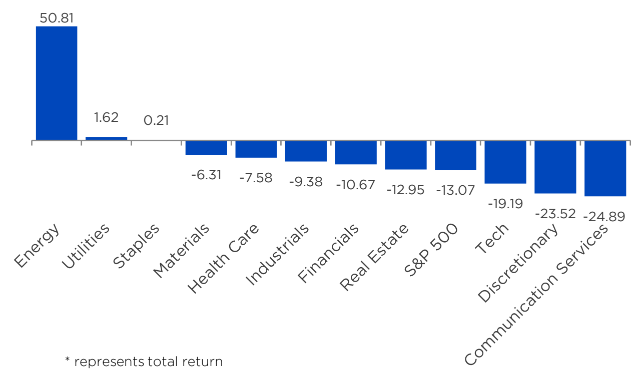
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.68	-0.02	0.17	0.20
BBB Rated	1.72	0.02	0.49	0.54
High Yield	4.18	0.25	1.08	0.88
10 to 2 yr Treasury	0.4	0.00	-0.39	-1.02

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1881.20	-1.47%	2.94%	3.62%
Bitcoin	36036.26	-6.65%	-22.32%	-36.39%
WTI Oil	109.77	4.95%	45.72%	69.58%
EUR/USD	1.0583	-0.32%	6.94%	12.24%
USD/JPY	130.41	0.65%	13.24%	19.56%

S&P Sector Returns — Week (%)

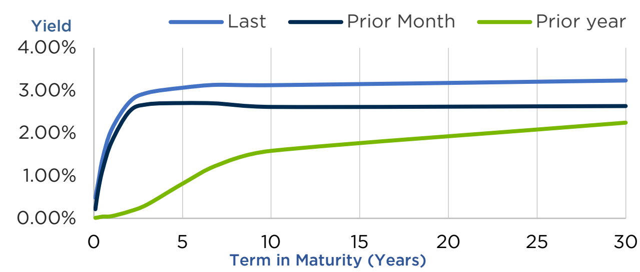


S&P Sector Returns — YTD (%)*



* represents total return

U.S. Yield Curve



Russell Style Returns - Week

	Value	Core	Growth
Large	0.6	-0.5	-1.6
Mid	0.2	-1.0	-3.7
Small	-0.1	-1.3	-2.7

Russell Style Returns - YTD

	Value	Core	Growth
Large	-5.7	-14.0	-21.3
Mid	-7.4	-13.8	-25.3
Small	-10.1	-17.8	-25.4

Source: FactSet

Nationwide®

Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
S&P Global manufacturing survey	Apr.	59.2	59.7
ISM manufacturing survey	Apr.	55.4	57.1
Construction spending	Mar.	01.%	0.5%
JOLTS (job openings)	Mar.	11.5 M	11.3 M
Factory orders	Mar.	2.2%	0.1%
Motor vehicle sales	Apr.	14.6 M	13.6 M
ADP private payrolls	Apr.	247,000	479,000
U.S. trade balance	Mar.	-$109.8 B	-$89.8 B
S&P Global services survey	Apr.	55.6	54.7
ISM services survey	Apr.	57.1	58.3
Initial jobless claims	Week ending Apr. 30	200,000	181,000
Productivity	Q1	-7.5%	6.3%
Unit labor costs	Q1	11.6%	1.0%
Nonfarm payrolls	Apr.	428,000	428,000
Unemployment rate	Apr.	3.6%	3.6%
Average hourly earnings (m/m)	Apr.	0.3%	0.5%
Average hourly earnings (y/y)	Apr.	5.5%	5.6%
Consumer credit	Mar.		$42 B

This Week's Indicators

	Release Date	Period	Forecast*	Previous
NFIB small business optimism index	Tues.	Apr.	91.9	93.2
Consumer price index (m/m)	Wed.	Apr.	0.3%	1.2%
CPI (y/y)	Wed.	Apr.	8.1%	8.6%
Core CPI (m/m)	Wed.	Apr.	0.5%	0.3%
Core CPI (y/y)	Wed.	Apr.	6.1%	6.4%
Initial jobless claims	Thurs.	Week ending May 7	192,000	200,000
Producer price index (m/m)	Thurs.	Apr.	0.6%	1.4%
Core PPI (m/m)	Thurs.	Apr.	0.8%	1.0%
Import prices	Fri.	Apr.	0.8%	2.6%
Consumer sentiment	Fri.	May	62.2	65.2

*** Nationwide Economics Forecast**

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

Nationwide®