

May 16, 2022

## Overall CPI down, but core inflation is up

Growth in the overall consumer price index (CPI) slowed for April, mostly because of a (temporary?) decline in gasoline prices. But the core CPI, removing the volatile food and energy components and often viewed as a better measure of underlying inflation than the total, grew more rapidly for April. Meanwhile, April small businesses optimism remained subdued while consumer sentiment fell to the lowest level since 2011 for early May.

### Consumer prices continue to rise

The CPI rose by 0.3 percent for April, a slowdown that brought the year-over-year growth rate down to a still very rapid 8.3 percent. The core CPI rose by a bit more than expected at 0.6 percent for the month, twice the March rise. The 12-month trend rate still fell due to base effects, slipping to 6.2 percent, but the upside surprise to the monthly gain likely was an important contributor to the ongoing decline in equity prices last week. There were some special factors in the April CPI report which helped to boost the core rate. This was especially seen in the new auto prices series, which was revised based on a new calculation — helping to boost that component of the CPI by 1.1 percent (contributing roughly 70 basis points to the core calculation). This was one of the fastest increases since the shortage of new vehicles began more than a year ago.

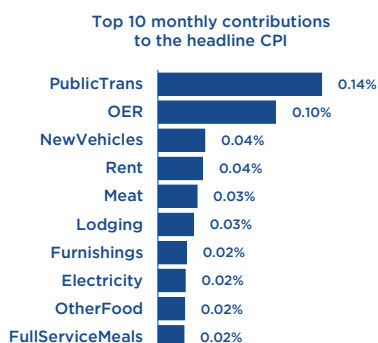
We have been concerned for some time that the rapid gains in house prices and rents would eventually feed into the CPI. In the April report the owners' equivalent rent (OER) component rose by 0.5 percent for the month, the fastest pace since 2006. Additionally, the rent of primary residence component increased by 0.6 percent for the month, tied with February as the fastest gain since 1987. These helped to push the shelter component up by 0.5 percent. While there are some signs of slower housing demand in response to higher prices and rising mortgage rates, there is still such an imbalance between housing demand and supply that house price and rent price appreciation are likely to keep rising at an elevated rate for a while. This suggests that the OER and rent of primary residence components are likely to continue to advance at an elevated pace in the months ahead — making declines in inflation more grudging than not even as supply chains heal.

Still, inflationary pressures have likely peaked barring additional exogenous shocks. Used car prices turned in another month of declines, and while there are some lingering impacts from reopening (airfares rose sharply along with hotels), the trend is likely to the downside from here. More fundamentally, money growth has slowed sharply. While it remains still elevated at 8.6 percent from a year before in early May, that is down from more than 27 percent as recently as February. While it will take time for slower money growth to bring underlying inflation down, trend money growth is one of the key determinants of long-term inflation. Fed Chair Jay Powell reiterated in an interview last week that the FOMC is likely to continue to raise short-term interest rates by 50 basis points at both the June and July meetings, keeping downward pressure on money growth.

### No pickup in consumer or business sentiment

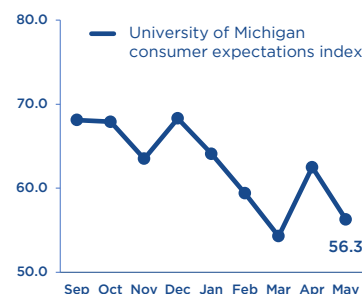
Small business optimism held steady for April but remained at the lowest level since the depths of the Covid recession. Fifty percent of small businesses surveyed now expect the economy to worsen over the next year. This feeling is similar that of consumers as measured by the University of Michigan consumer sentiment survey. The expectations component of the index is now at levels that are often associated with recessions. Consumers expect household finances to worsen over the next year, mostly as more people take on increasing amounts of debt. While consumer balance sheets are in the best place in decades today, rising interest rates may make the path ahead a bumpy one.

## Consumer prices remain impacted by supply chain problems



The impact of Covid on supply chains continues to lead to monthly price increases that are atypical. This is likely to lessen in the year ahead.

## The expectations component of consumer sentiment continues to decline



Inflation and rising interest rates are weighing on the outlook for the consumer.

Source: Haver Analytics

# The Week Ahead

Here's what we are watching this week:

Retail  
sales



## ↑ More strong growth expected for retail sales

After a very strong first quarter, retail sales likely grew rapidly again for April – once again boosted by fast price gains. Growth was likely biased toward services as consumers rebalance their economic activity following a mostly goods-dominated two years. Travel was likely strong in April, but fuel prices were down which limits the expected growth in retail gas consumption. We project an increase of 0.9 percent in total retail sales for April; excluding auto sales, which were up solidly, we expect growth of 0.8 percent.

Housing  
starts



## ↓ Housing starts expected to edge lower

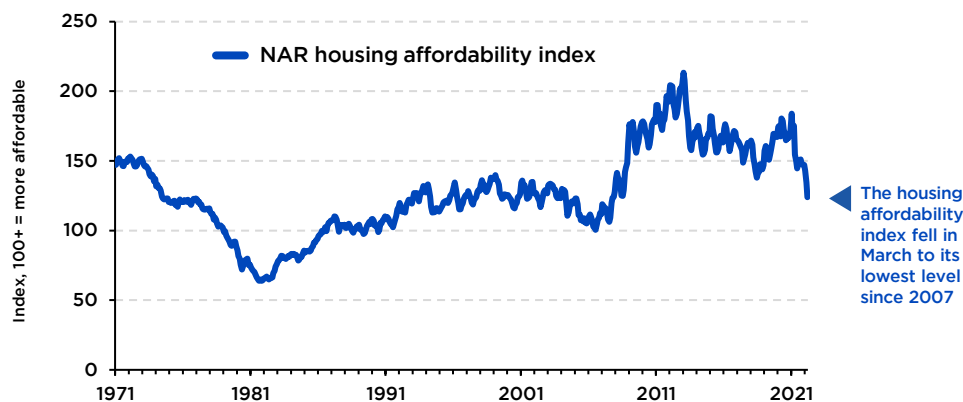
Construction costs remain sky-high, but that has not deterred builders recently as each of the last five readings of housing starts have been among the fastest since 2006 (including the fastest in that timespan for March). The most recent house price data show near-record growth, offering plenty of incentive for builders to build as much as possible and likely limiting any fall in starts even as housing demand begins to wane; this is reflected in the very-strong number of building permits for March. We project an annualized pace of 1.75 million housing starts for April, a small step down from March's reading.

Existing  
home sales



## ↓ Existing home sales likely to fall amid decreasing affordability

The steep climb in mortgage rates continued in March, when most existing home sales for April would have gone into contract. With rapid house price gains combining with the rise in mortgage rates, the NAR housing affordability index fell in March to its lowest level since 2007 – surely contributing to the decline in pending home sales in March to their lowest level since May 2020. With pending sales down for both February and March, we project that the annualized pace of existing home sales dropped to 5.61 million units for April.



Sources: National Association of Realtors

# 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)	4,024	-2.35%	-15.12%	-0.76%
S&P 400 (Mid)	2,431	-1.97%	-14.03%	-7.94%
S&P 600 (Small)	1,189	-1.56%	-14.75%	-9.09%
S&P 500 (High Quality)	45	-2.55%	-14.84%	1.04%
Russell 1000	4,249	-2.35%	-16.02%	-2.83%
Russell 2000	4,455	-2.50%	-19.83%	-16.52%
Dow Jones	32,197	-2.08%	-10.81%	-3.58%
NASDAQ	11,805	-2.77%	-24.35%	-9.45%
MSCI EAFE	1,942	-1.37%	-15.43%	-11.17%
MSCI EM	1,005	-2.60%	-17.90%	-20.29%

\* represents total return

## S&P Metrics

	LTN P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	19.73	17.00	33.78	9.70
Prior Month	20.55	18.97	36.88	9.72
Prior Year	25.21	21.02	5.20	25.68

## Fixed Income

	Last	1 Week	Returns YTD	1 Year
U.S. Aggregate	3.48%	0.89%	-9.71%	-8.42%
U.S. Inv Grade	4.39%	0.60%	-13.37%	-10.65%
U.S. High Yield	7.64%	-1.21%	-10.41%	-7.40%
TIPS	3.17%	0.36%	-6.31%	-1.33%

## Rates

	Last	1 Week	Returns YTD	1 Year
6M T-Bill	1.47%	0.06	1.28	1.44
2 Yr Treasury	2.61%	-0.11	1.88	2.45
5 Yr Treasury	2.89%	-0.17	1.63	2.05
10 Yr Treasury	2.93%	-0.19	1.41	1.27
30 Yr Treasury	3.10%	-0.13	1.2	0.71

## Spreads

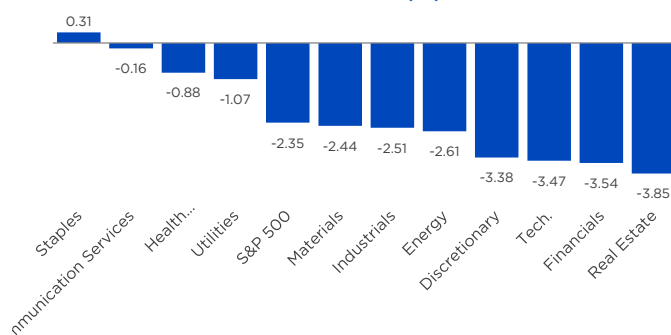
Spreads

	Last	Change (Abs %)		
		1 Week	YTD	1 Year
AAA Rated	0.71	0.03	0.20	0.23
BBB Rated	1.81	0.09	0.58	0.64
High Yield	4.63	0.45	1.53	1.26
10 to 2 yr Treasury	0.32	0.00	-0.47	-1.18

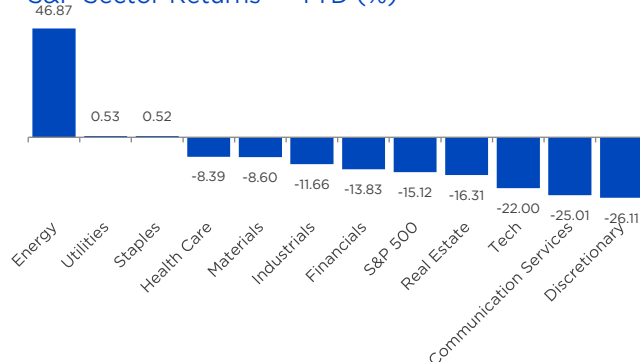
## Commodities/FX

Commodities/FX	Last	Returns (Currencies in \$ strength)		
		1 Week	YTD	1 Year
Gold	1807.40	-3.92%	-1.10%	-0.90%
Bitcoin	29244.11	-18.85%	-36.96%	-40.91%
WTI Oil	110.49	0.70%	46.67%	73.13%
EUR/USD	1.03945	1.78%	8.60%	13.91%
USD/JPY	129.38	-0.79%	12.35%	18.06%

## S&P Sector Returns – Week (%)

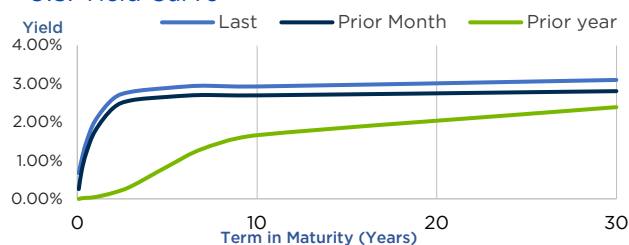


## S&P Sector Returns – YTD (%)\*



\* represents total return

## U.S. Yield Curve



## Russell Style Returns - Week

	Value	Core	Growth
Large	-1.8	-2.4	-2.9
Mid	-1.9	-2.0	-2.1
Small	-2.8	-2.5	-2.1

## Russell Style Returns - YTD

	Value	Core	Growth
Large	-7.5	-16.0	-23.6
Mid	-9.2	-15.5	-26.9
Small	-12.6	-19.8	-27.0

# Additional Economic Indicators

## Previous Week's Indicators

	Period	Actual	Previous
NFIB small business optimism index	Apr.	93.2	93.2
Consumer price index (m/m)	Apr.	0.3%	1.2%
CPI (y/y)	Apr.	8.3%	8.6%
Core CPI (m/m)	Apr.	0.6%	0.3%
Core CPI (y/y)	Apr.	6.2%	6.4%
Initial jobless claims	Week ending May 7	203,000	202,000
Producer price index (m/m)	Apr.	0.5%	1.6%
Core PPI (m/m)	Apr.	0.4%	1.2%
Import prices	Apr.	0.0%	2.9%
Consumer sentiment	May		

## This Week's Indicators

	Release Date	Period	Forecast*	Previous
NY Fed Empire State manufacturing survey	Mon.	May	29.5	24.6
Retail sales	Tues.	Apr.	0.9%	0.8%
Retail sales ex autos	Tues.	Apr.	0.8%	1.5%
Industrial production	Tues.	Apr.	0.7%	0.9%
Capacity utilization	Tues.	Apr.	78.6%	78.3%
NAHB housing market index	Tues.	May	75	77
Housing starts	Wed.	Apr.	1.75 M	1.79 M
Building permits	Wed.	Apr.	1.86 M	1.87 M
Philadelphia Fed manufacturing survey	Wed.	May	195,000	203,000
Initial jobless claims	Thurs.	Week ending May 14	22.2	17.6
Existing home sales	Thurs.	Apr.	5.61 M	5.77 M
Index of leading economic indicators	Fri.	Apr.	0.5%	

\* Nationwide Economics Forecast



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