Nationwide Economics
Weekly Economic Review & Outlook
May 23, 2022

Near-term recession concerns are overdone

The financial markets have been showing significant concern about a growth slowdown, and possible recession, with equities selling off and prices of Treasury notes climbing (pushing rates down) last week. The underlying data, however, tell a somewhat different story. Retail sales continued to grow solidly, housing data weakened but remain strong overall, and regional Fed manufacturing surveys slid but don't suggest a broad slowdown.

Retail sales advanced
Retail sales jumped by 0.9 percent last month with the control group (stripping out autos, building materials, food services, and gasoline stations) moving higher by 1.0 percent. These numbers were better than analysts' expectations and show that despite inflation concerns, consumers continue to spend. Moreover, previous months were revised upward indicating that the consumer ended the first quarter and started the second quarter on solid footing. The Atlanta Fed's GDPNow estimate rose to 2.4 percent for the second quarter mostly based on this report.

Workers have seen steady wage increases so far this year. The Atlanta Fed's wage growth tracker climbed to an all-time high of 6.3 percent for April, just a tad below the 12-month change in the broad price index for personal consumption expenditures. As long as the job market remains hot, consumer spending should stay solid with wages rising.

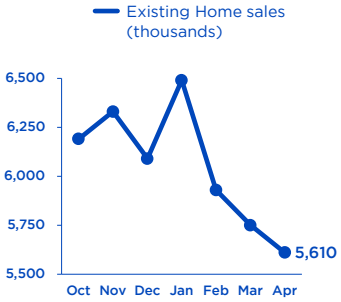
Housing data and regional Fed surveys point to uncertainty
Existing home sales fell for a third consecutive month to an annualized pace of 5.61 million units. This pace is in line with the average since 2015. The rise in mortgage rates, along with a lack of inventory, has helped to lower sales this year. Rates for a 30-year fixed-rate mortgage are now around 5.25 percent, up by about 225 basis points from this time last year. The median home price of an existing home sold climbed to over $391,000, a jump of 14.8 percent from a year earlier — indicating that despite the drop in sales, there is still excess demand. Homebuilders are also feeling the pinch of higher mortgage rates, as the NAHB homebuilder survey weakened. It remains at an elevated level but given that all the components in the survey fell, the outlook is starting to dim. Housing starts and building permits both edged lower, but with solid household formations, we may simply see a shift from single-family construction to multifamily as rates rise.

The New York Fed's Empire State manufacturing index dropped sharply, but this survey does not tend to correlate well with the broader ISM manufacturing report. The Philadelphia Fed manufacturing outlook survey also weakened, but the new orders and shipments indices both rose. When stated on an ISM basis, the Philly Fed index increased. This survey tends to corollate well with the ISM manufacturing survey.

Financial markets hit
Financial markets were whipsawed last week as investors digested economic data and commentary from Fed officials. The S&P 500 index fell for a seventh straight week, the longest losing streak since 2001 — but it barely avoided closing at bear market levels (a drop of 20 percent or more from its previous high). The 10-year Treasury note yield swung sharply over the course of the week. It finished Tuesday at nearly 3.00 percent following the strong retail sales report. But it ended the week at 2.78 percent, the lowest level in more than three weeks, likely as concerns about a recession intensified.

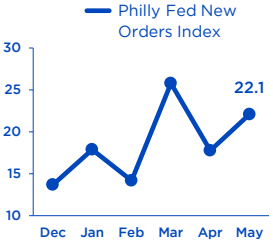
There is little evidence that core economic activity (consumer and business fixed investment spending) is slowing dangerously, suggesting that fears of a near-term downturn for the economy are probably exaggerated.

Existing home sales continue to slip



Existing home sales were weaker again last month and are unlikely to move higher in the near term.

Philly Fed new orders index still shows solid growth



New orders and shipments both advanced and portend solid manufacturing growth as part of the Philly Fed business outlook survey.

Source: Haver Analytics

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

The Week Ahead

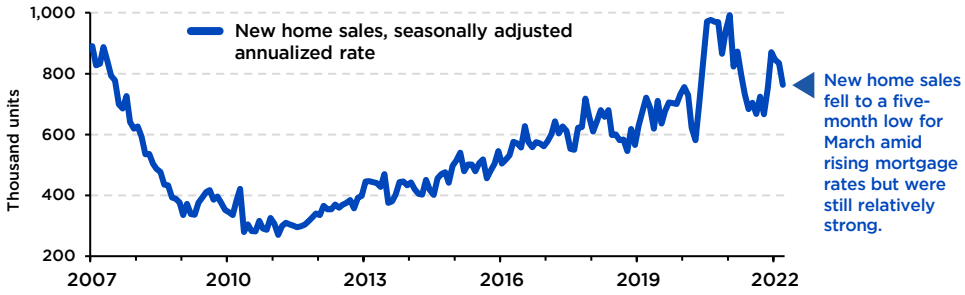
Here's what we are watching this week:

New home sales

May 24

Another decline expected for new home sales

New home sales declined in each of the first three months of the year and April's pace was likely lower again. Mortgage rates, already on the rise since the beginning of the year, saw their largest increase by monthly average in 35 years in April, climbing to their highest level since 2010 by month's end. Additionally, while neither measure was weak, the NAHB housing market index's components for present sales and traffic of prospective buyers were at six- and seven-month lows, respectively. We project a decline in the annualized pace of new home sales to 750,000 units — but note that this is often a significantly revised series.



Sources: Census Bureau

Durable goods orders

May 25

Durable goods orders likely to continue upward trend

In step with high consumer demand, growth in durable goods orders has been far above median for much of the last year. As growth continued in April, we expect that durable goods orders continued to climb, too. Commercial aircraft orders were a bit lower, however, which should hold overall durable goods orders back modestly. We project growth in durable goods orders of 0.6 percent for April, which would mean strong growth for six of the last seven months.

Consumer spending, personal income, and core PCE inflation

May 27

Consumer spending expected to be robust as consumer activity remains solid

Wage and salary growth has been rising strongly in recent months in response to the very tight labor market, and that likely continued for April with personal income projected to climb by 0.7 percent for the month. Additionally, retail sales were up solidly for the month, and this should translate into a 0.9 percent gain in personal consumption expenditures (PCE), continuing the trend of robust consumer activity from the first quarter. Lastly, according to the CPI report, consumer price growth slowed in April, but mostly due to a decline in energy prices. We project the core PCE price index (which strips out the food and energy components) still saw a relatively fast gain of 0.5 percent last month.

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)	3,901	-0.03	-0.18	-0.05
S&P 400 (Mid)	2,385	-0.02	-0.16	-0.10
S&P 600 (Small)	1,172	-0.01	-0.16	-0.11
S&P 500 (High Quality)	44	-0.02	-0.17	-0.03
Russell 1000	4,123	-0.03	-0.18	-0.07
Russell 2000	4,407	-0.01	-0.21	-0.19
Dow Jones	31,262	-0.03	-0.13	-0.07
NASDAQ	11,355	-0.04	-0.27	-0.16
MSCI EAFE	1,969	0.02	-0.14	-0.12
MSCI EM	1,035	0.03	-0.15	-0.20

*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	19.46	16.45	33.06	9.69
Prior Month	20.51	18.92	36.29	9.95
Prior Year	25.18	21.16	6.21	25.46

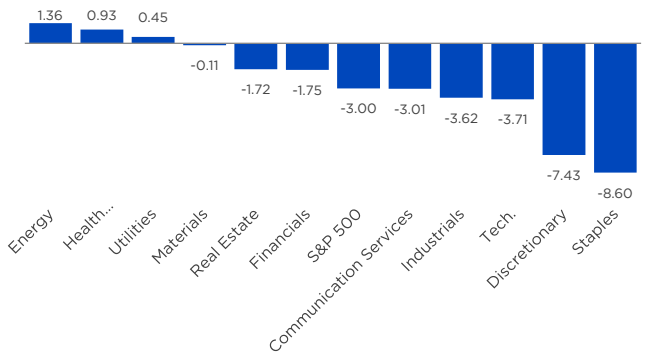
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	3.42%	0.59%	-9.18%	-8.08%
U.S. Inv Grade	4.36%	0.44%	-12.99%	-10.61%
U.S. High Yield	7.83%	-0.69%	-11.03%	-7.98%
TIPS	3.05%	-0.09%	-6.39%	-1.23%

Rates	Last	Change 1 Week	YTD	1 Year
6M T-Bill	1.51%	0.04	1.32	1.48
2 Yr Treasury	2.60%	-0.01	1.87	2.45
5 Yr Treasury	2.80%	-0.09	1.54	1.97
10 Yr Treasury	2.78%	-0.15	1.26	1.15
30 Yr Treasury	2.99%	-0.11	1.09	0.65

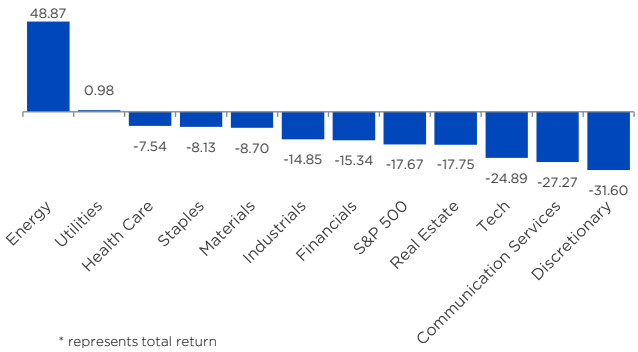
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.75	0.04	0.24	0.28
BBB Rated	1.90	0.09	0.67	0.74
High Yield	4.91	0.28	1.81	1.49
10 to 2 yr Treasury	0.18	0.00	-0.61	-1.30

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1841.80	1.90%	0.78%	-2.13%
Bitcoin	29208.51	-0.12%	-37.04%	-27.76%
WTI Oil	113.23	2.45%	50.31%	82.78%
EUR/USD	1.06	-1.57%	7.16%	13.57%
USD/JPY	128.02	-1.05%	11.17%	17.61%

S&P Sector Returns — Week (%)

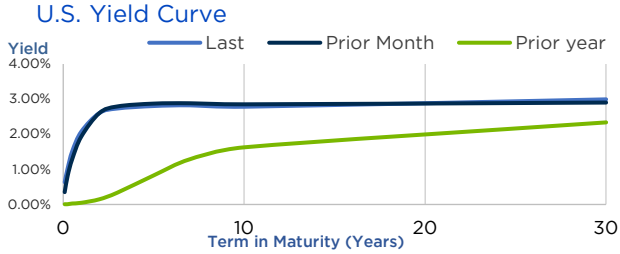


S&P Sector Returns — YTD (%)*



* represents total return

U.S. Yield Curve



Russell Style Returns - Week

	Value	Core	Growth
Large	-1.8	-2.9	-4.1
Mid	-1.8	-2.0	-2.6
Small	-0.7	-1.0	-1.4

Russell Style Returns - YTD

	Value	Core	Growth
Large	-9.1	-18.5	-26.8
Mid	-10.8	-17.2	-28.8
Small	-13.2	-20.7	-28.0

Source: FactSet

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Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
NY Fed Empire State manufacturing survey	May	-11.6	24.6
Retail sales	Apr.	0.9%	1.4%
Retail sales ex autos	Apr.	0.6%	2.1%
Industrial production	Apr.	1.1%	0.9%
Capacity utilization	Apr.	79.0%	78.2%
NAHB housing market index	May	69	77
Housing starts	Apr.	1.72 M	1.73 M
Building permits	Apr.	1.82 M	1.88 M
Philadelphia Fed manufacturing survey	May	2.6	17.6
Initial jobless claims	Week ending May 14	218,000	197,000
Existing home sales	Apr.	5.61 M	5.75 M
Index of leading economic indicators	Apr.	-0.3%	0.1%

This Week's Indicators

	Release Date	Period	Forecast*	Previous
S&P Global flash manufacturing PMI	Tues.	May	58.1	59.2
S&P Global flash services PMI	Tues.	May	54.9	55.6
New home sales	Tues.	Apr.	750,000	763,000
Richmond Fed manufacturing survey	Tues.	May	8	14
Durable goods orders	Wed.	Apr.	0.6%	0.8%
Initial jobless claims	Thurs.	Week ending May 21	212,000	218,000
Real GDP (revision)	Thurs.	Q1	-1.5%	-1.4%
GDP price index (revision)	Thurs.	Q1	8.2%	8.0%
Pending home sales	Thurs.	Apr.	-1.6%	-1.2%
Kansas City Fed manufacturing survey	Thurs.	May	22	25
Personal income	Fri.	Apr.	0.7%	0.5%
Personal consumption expenditures	Fri.	Apr.	0.9%	1.1%
PCE price index (m/m)	Fri.	Apr.	0.4%	0.9%
PCE price index (y/y)	Fri.	Apr.	6.3%	6.6%
Core PCE price index (m/m)	Fri.	Apr.	0.5%	0.3%
Core PCE price index (y/y)	Fri.	Apr.	5.0%	5.2%
Consumer sentiment	Fri.	Apr.	58.8	59.1

*** Nationwide Economics Forecast**

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