Nationwide Economics
Weekly Economic Review & Outlook
May 31, 2022

A resilient consumer, but housing weakens further

The economic data last week were mixed but the underlying idea of a resilient consumer remains. Personal consumption expenditures (PCE), the broad measure of consumer spending, was strong despite higher costs and ongoing supply-chain difficulties while the price indexes showed some moderation in inflationary pressures. First-quarter GDP was revised a tad lower, while housing activity (new and pending existing sales) slipped further.

Solid consumer spending

Despite higher prices and rising interest rates, the broadest measure of consumer spending (personal consumption expenditures, PCE) rose solidly for April. Nominal PCE grew by 0.9 percent, while inflation-adjusted PCE rose nearly as quickly — up by almost 0.7 percent, the fastest pace since January. The mix of spending has been shifting more toward services and away from goods as people become more comfortable going out. Personal income gains remained strong at 0.4 percent for the month, as increases in employment drove wages and salaries higher. But the slower increase in personal income compared with PCE for the month drove the personal saving rate down — and at 4.4 percent, it is the lowest level since 2008. At that low level, further job and wage gains will be necessary to keep PCE growth up (unless consumer borrowing rises).

Importantly, the inflation measures in the personal income and outlays report slowed some for April. The headline PCE price index moved higher by a bit more than 0.2 percent while the core measure (stripping out the volatile food and energy components) increased by slightly over 0.3 percent. This core price index is the one which is most important to the Federal Reserve, and on a 12-month trend basis it is up by 4.9 percent, clearly showing some deceleration from the peak of 5.3 percent a couple of months earlier. With spending shifting to services, showing a trend increase of 4.5 percent, and away from goods, up by 9.5 percent on a year-over-year basis, the mix of spending is helping to slow the overall inflation rate. Should this shift in spending patterns toward services and away from goods continue, as we expect, the core inflation rate should continue to recede (unless services inflation accelerates, which is a risk given rapid increases in rents and house prices). But the slower pace of trend core PCE inflation may give the Fed some leeway regarding tightening monetary policy later this year. Ongoing monetary policy tightening, and healing supply chains, should help to keep downward pressure on trend core inflation as the year progresses. Will inflation slow by enough to keep the Fed from tightening too aggressively and perhaps pushing the economy into a downturn? That's still not clear, but financial markets are starting to hope that will be the case, with the yield on the 10-year Treasury note down by about 35 basis points over the past three weeks (and the S&P 500 index up for the first time in seven weeks).

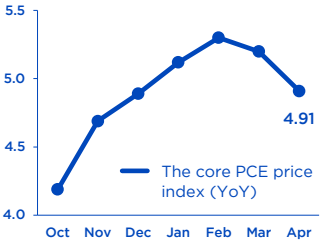
Home sales slip again

New home sales, among the economic series with the largest revisions as new data are received, dropped by a sharp 16.6 percent for April to an annualized pace of 591,000 units, the slowest pace in two years. While many housing demand fundamentals remain positive (strong labor market, increasing wages, etc.), the rapid rise in mortgage rates along with supply pressures still impacting homebuilders has led to the decline in the number of homes sold. Additionally, pending existing home sales (measured at purchase contract signing, rather than at closing as existing home sales are counted) dipped by 3.9 percent to the lowest level in two years — suggesting another drop in existing sales when the data for May are released.

First-quarter GDP revised lower

First-quarter annualized real GDP growth was revised lower by a tenth of a percent to -1.5 percent. Despite this, consumer spending was revised higher to 3.1 percent with the drag on overall growth coming from a smaller inventory build by businesses and a revision to net exports. Underlying growth remains solid, with our preferred measure of core spending (final sales to private domestic purchasers) rising by 3.9 percent (annualized) for the quarter and by 4.4 percent over the past year.

Core consumer inflation eases a bit more



The core PCE price index rose by 4.9 percent from a year earlier for April, down from its recent peak of 5.3 percent.

New home sales continue to fall

New home sales fell to the lowest level in two years for April. Sales are under pressure from higher mortgage rates, although rates have edged down a bit recently.

Source: Haver Analytics

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The Week Ahead

Here's what we are watching this week:

ISM manufacturing and services PMIs

June 1 & 3

ISMs expected to fall, but should remain in expansion territory

Manufacturing growth is expected to have slowed for May given generally softer regional Federal Reserve surveys. These surveys mostly indicate continued growth in manufacturing but at a slower pace. We project the Institute for Supply Management (ISM) manufacturing index fell to 54.8 for May. This is still well above the break-even level of 50, but it would be the lowest reading since July 2020.

Demand remains strong for services, but rising input costs (including a large jump in diesel fuel prices) which are being passed on to consumers are likely affecting sales. On the other hand, survey employment, which fell into contraction for the second time in three months for April, likely climbed back into expansion in May. Taken together, we project a decline in the ISM services index to 56.2 for May.

Job Openings and Labor Turnover Survey (JOLTS)

June 1

Job openings projected to be lower, but still historically high

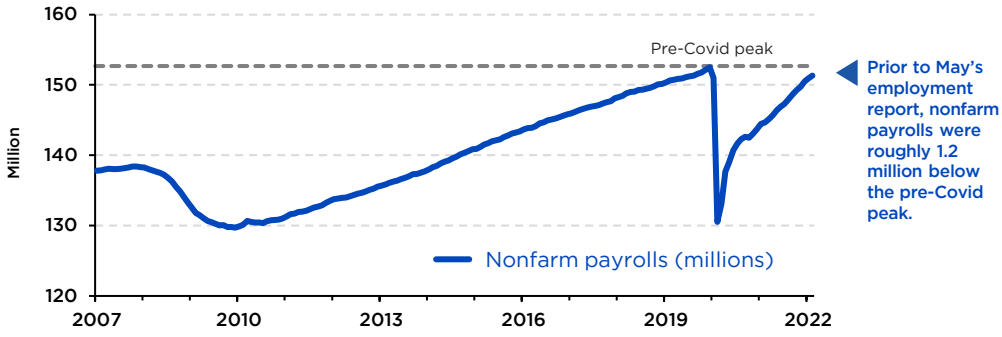
Job openings as measured in the Job Openings and Labor Turnover Survey (JOLTS) climbed to an all-time high at the end of March (data back to 2000); in fact, several records have been set in the past year as firms have tried feverishly to add workers and meet consumer demand. High-frequency data suggest that job postings were down a bit at the end of April from a month prior but remained far above pre-Covid levels. Consequently, we project 11.3 million total job openings at the end of April, down a bit from a month prior and lower than only two months on record (each occurring within the last five readings).

Nonfarm payrolls, unemployment rate, and average hourly earnings

June 3

Strong job growth likely continued for May

Although it has slowed some from the historic pace at the end of 2021 and beginning of this year, job growth was still strong for March and April and there is little reason to expect a significant slowing for May. We project growth of 365,000 nonfarm payrolls, which would bring the gap between current payrolls and the pre-Covid peak below one million for the first time in this expansion. Additionally, the increasingly tight labor market likely continued to drive gains in average hourly earnings which we project grew by 0.4 percent (5.3 percent year-over-year). Finally, the unemployment rate is unlikely to have fallen further assuming a small rise in labor force participation; we project an unemployment rate of 3.6 percent for May, unchanged from April and close to the lowest rate since the late-60s.



Sources: Bureau of Labor Statistics

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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)	4,158	6.62%	-12.21%	0.41%
S&P 400 (Mid)	2,540	6.53%	-10.10%	-5.54%
S&P 600 (Small)	1,249	6.59%	-10.44%	-8.04%
S&P 500 (High Quality)	47	7.65%	-10.56%	3.62%
Russell 1000	4,393	6.60%	-13.10%	-1.91%
Russell 2000	4,692	6.49%	-15.51%	-16.01%
Dow Jones	33,213	6.28%	-7.85%	-1.79%
NASDAQ	12,131	6.85%	-22.21%	-11.08%
MSCI EAFE	2,036	3.51%	-11.13%	-9.66%
MSCI EM	1,043	0.92%	-14.55%	-20.89%

*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	19.83	17.48	32.39	9.77
Prior Month	20.08	17.68	35.63	10.05
Prior Year	25.14	21.26	7.24	25.25

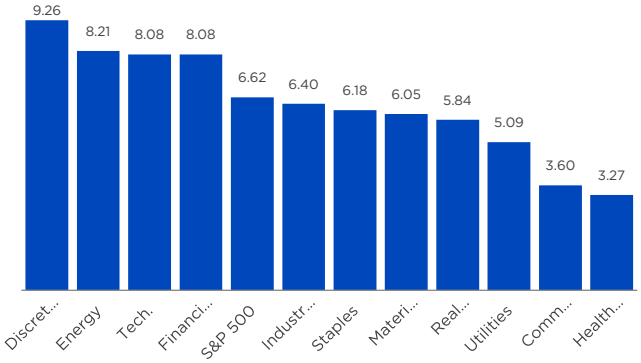
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	3.31%	0.78%	-8.47%	-7.62%
U.S. Inv Grade	4.16%	1.66%	-11.54%	-9.74%
U.S. High Yield	7.17%	3.34%	-8.05%	-5.24%
TIPS	3.01%	0.90%	-5.55%	-0.81%

Rates	Last	Change 1 Week	YTD	1 Year
6M T-Bill	1.54%	0.03	1.35	1.50
2 Yr Treasury	2.47%	-0.13	1.74	2.33
5 Yr Treasury	2.71%	-0.09	1.45	1.90
10 Yr Treasury	2.74%	-0.04	1.22	1.13
30 Yr Treasury	2.97%	-0.02	1.07	0.68

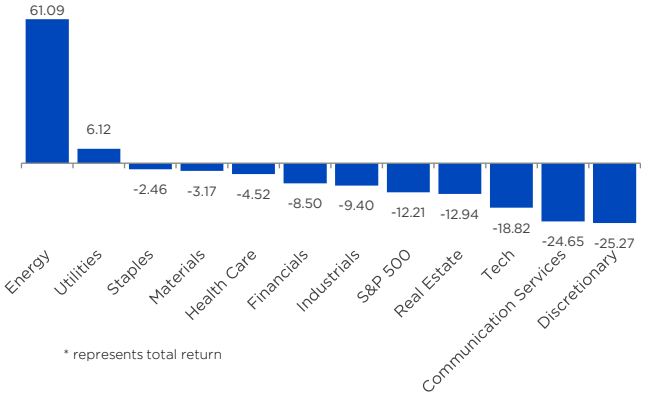
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.63	-0.12	0.12	0.17
BBB Rated	1.76	-0.14	0.53	0.62
High Yield	4.19	-0.72	1.09	0.89
10 to 2 yr Treasury	0.27	0.00	-0.52	-1.20

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1851.30	0.52%	1.30%	-2.34%
Bitcoin	28587.43	-2.13%	-38.38%	-26.03%
WTI Oil	115.07	2.17%	52.75%	72.08%
EUR/USD	1.07	-1.44%	5.82%	12.22%
USD/JPY	127.12	-0.70%	10.39%	15.85%

S&P Sector Returns — Week (%)

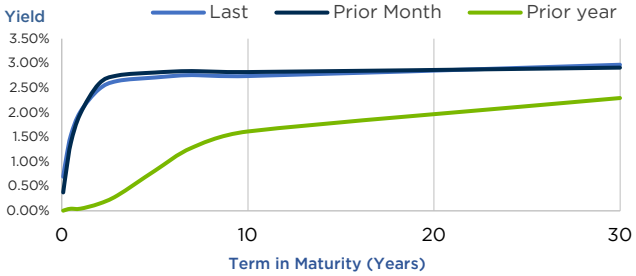


S&P Sector Returns — YTD (%)*



* represents total return

U.S. Yield Curve



Russell Style Returns - Week

	Value	Core	Growth
Large	6.0	6.6	7.3
Mid	6.5	6.5	6.5
Small	6.9	6.5	6.0

Russell Style Returns - YTD

	Value	Core	Growth
Large	-3.7	-13.1	-21.4
Mid	-5.0	-11.8	-24.2
Small	-7.3	-15.5	-23.7

Source: FactSet

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Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
S&P Global flash manufacturing PMI	May	57.5	59.2
S&P Global flash services PMI	May	53.5	55.6
New home sales	Apr.	591,000	709,000
Richmond Fed manufacturing survey	May	-9	14
Durable goods orders	Apr.	0.4%	0.6%
Initial jobless claims	Week ending May 21	210,000	218,000
Real GDP (revision)	Q1	-1.5%	-1.4%
GDP price index (revision)	Q1	8.0%	8.1%
Pending home sales	Apr.	-3.9%	-1.6%
Kansas City Fed manufacturing survey	May	25	37
Personal income	Apr.	0.4%	0.5%
Personal consumption expenditures	Apr.	0.9%	1.4%
PCE price index (m/m)	Apr.	0.2%	0.9%
PCE price index (y/y)	Apr.	6.3%	6.6%
Core PCE price index (m/m)	Apr.	0.3%	0.3%
Core PCE price index (y/y)	Apr.	4.9%	5.2%
Consumer sentiment	Apr.	58.4	59.1

This Week's Indicators

	Release Date	Period	Forecast*	Previous
Case-Shiller 20-city HPI (y/y)	Tues.	Mar.	20.0%	20.2%
Chicago PMI	Tues.	May	55.9	56.4
Consumer confidence	Tues.	May	106.1	107.3
Dallas Fed manufacturing survey	Tues.	May	-0.5	1.1
S&P Global manufacturing PMI	Wed.	May	57.3	57.5
ISM manufacturing PMI	Wed.	May	54.8	55.4
Construction spending	Wed.	Apr.	-0.5%	0.1%
JOLTS (job openings)	Wed.	Apr.	11.3 M	11.5 M
ADP private payrolls	Thurs.	May	307,000	247,000
Initial jobless claims	Thurs.	Week ending May 28	203,000	210,000
Productivity (revision)	Thurs	Q1	-7.7%	-7.5&
Unit labor costs (revision)	Thurs.	Q1	11.7%	11.6%
Factory orders	Thurs.	Apr.	1.0%	1.8%
Nonfarm payrolls	Fri.	May	365,000	428,000
U-3 unemployment rate	Fri.	May	3.6%	3.6%
Average hourly earnings (m/m)	Fri.	May	0.4%	0.3%
Average hourly earnings (y/y)	Fri.	May	5.3%	5.5%
S&P Global services PMI	Fri.	May	54.3	53.5
ISM services PMI	Fri.	May	56.2	57.1

*** Nationwide Economics Forecast**

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