Nationwide Economics

Weekly Economic Review & Outlook

June 6, 2022

The job market remains strong

Hiring continued at a strong pace for May, the unemployment rate remained near 50-year lows, and wage growth remained solid. The ISM reports showed still healthy activity for both manufacturing and services, but supply chains remain the biggest headwind. The recent data suggest that economic growth may be moderating from its previous unsustainable pace, but a near-term downturn is unlikely.

The labor market is extremely tight

By almost any measure, the labor market is extremely tight. The U-3 unemployment rate for May held steady at 3.6 percent – near a 50-year low – while the broader U-6 rate ticked up to a still low level of 7.1 percent. The number of jobs added last month slowed, but only to a still strong 390,000, while the labor force participation rate picked up to 62.3 percent (close to the high for this expansion, but still below pre-Covid levels). The ratio of job openings from the JOLTS report to the number of unemployed workers from the employment report remained near an all-time high at 1.9.

Hiring has been solid across most industries, as well. Job gains were led by the leisure and hospitality and professional business services sectors. The weakest job readings came from retail trade, with a drop for the second time in three months, but the level of retail jobs is above that seen in the two years before Covid. Average hourly earnings rose by a solid 0.3 percent for the month (up by 5.2 percent over the year), but other measures that adjust for the mix of jobs created (such as the Atlanta Fed's wage tracker) show yearly gains of around 6.0 percent.

But just as the overall economy is slowing, job growth has edged lower as well. The three-month average change in payrolls has slipped to 408,000 – the slowest pace in 15 months. Moreover, some large firms have announced that they plan to cut back their labor force. Still, the pace of job growth, the low level of the unemployment rate, and small businesses continuing to note that lack of workers is their biggest problem seem to indicate that the job market has room to slow without causing concern.

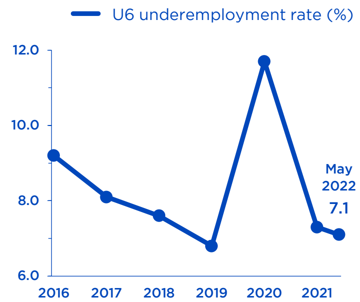
The ISM surveys portend solid growth

The ISM manufacturing index advanced at a faster pace for May while the ISM services index slowed some but has remained well into expansion territory. Importantly, the new orders component of both surveys – often viewed as a leading indicator of the overall index – climbed for May, although the trend remains positive but lower. Supply chain pressures and pricing concerns continue to be the biggest issues from the purchasing managers comments. In the near-term, the easing of lockdowns in China will help with some supply chain issues. But the war in Ukraine continues to elevate some key commodity prices and pressure certain parts of the supply chain.

Market volatility continues

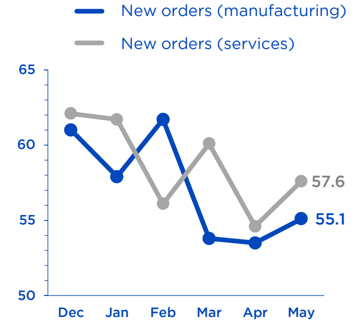
Risk asset values have been volatile in recent weeks and that is likely to continue. The S&P 500 index finished last week down for the eighth time in the last nine weeks. Crude oil prices have continued to climb, pushing gasoline prices to the highest in history as the busy summer driving season kicked off last week. And unlike a week ago when some regional Federal Reserve Bank presidents suggested that a pause in Fed tightening could be in the cards for the fall, Fed Vice Chair Brainard said that it would be difficult to make a case for a tightening pause in September. We continue to expect that the year-end federal funds rate will climb to a range of 2.50-2.75 percent.

The U-6 rate is still very low despite a tick up last month



Underemployment has moved to very low levels and is unlikely to move materially higher in the near term.

Despite headwinds, new orders continue to grow in the ISM surveys



Demand hasn't been waning much despite supply chain issues and higher costs. There is little reason to suspect a big reversal anytime soon.

Source: Haver Analytics

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

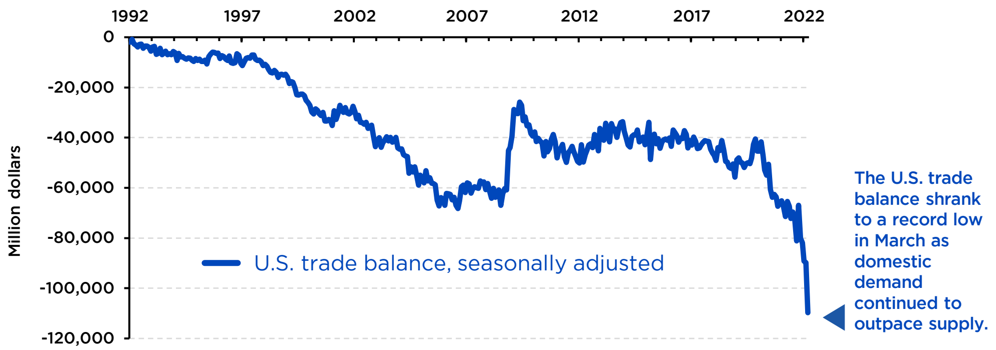
The Week Ahead

Here's what we are watching this week:

U.S. trade balance
June 7

Trade balance likely to moderate from a record deficit

March saw a large increase in U.S. exports, but it didn't come close to matching the record increase in imports. The combination netted a record decline in the trade balance, which fell below -$100 billion for the first time (data back to 1992). Advance estimates for April suggest a significant increase in the balance of trade in goods, and we expect this to be reflected in the final trade numbers for goods and services for the month. We project a U.S. trade balance of -$97.8 billion for April. While a significant improvement from March's number, it would still be the second largest deficit on record.



Sources: Census Bureau

Initial jobless claims
June 9

Little movement projected for jobless claims

Initial jobless claims have trended higher over the past two months as job growth has slowed. Still, despite the four-week average climbing by roughly 30 percent since hitting an all-time low at the beginning of April, claims remain very low from a historical perspective. Labor demand is still extremely strong with job openings near a record high; firms losing workers is more likely to come from quits rather than layoffs. Consequently, we project only minor movement in initial jobless claims, up to 206,000 for the week ending June 4.

Consumer price index
June 10

More fast growth expected for consumer prices, but 12-month change should slow

Inventories are still low and input prices continue to climb, and if business surveys are any indication, these costs continued to be passed on to consumers in May (although this upward pressure on prices appears to be easing mildly). Additionally, oil and natural gas prices climbed higher, and drivers were paying record prices at the pump. In total, we project an increase of 0.7 percent in the consumer price index (CPI) for May, and 0.5 percent in the core rate (the overall index less food and energy). This would move the 12-month trend rates down to 8.2 percent and 5.9 percent, respectively.

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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)	4,109	-1.15%	-13.23%	-0.60%
S&P 400 (Mid)	2,521	-0.71%	-10.74%	-5.85%
S&P 600 (Small)	1,244	-0.40%	-10.79%	-8.76%
S&P 500 (High Quality)	47	-1.43%	-11.83%	1.94%
Russell 1000	4,342	-1.14%	-14.09%	-2.80%
Russell 2000	4,680	-0.22%	-15.70%	-16.44%
Dow Jones	32,900	-0.83%	-8.62%	-3.01%
NASDAQ	12,013	-0.96%	-22.96%	-11.16%
MSCI EAFE	2,029	-0.28%	-11.38%	-10.65%
MSCI EM	1,061	1.78%	-13.03%	-21.24%

*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	19.68	17.24	31.66	9.72
Prior Month	20.05	17.70	34.80	9.69
Prior Year	25.01	21.13	8.16	24.84

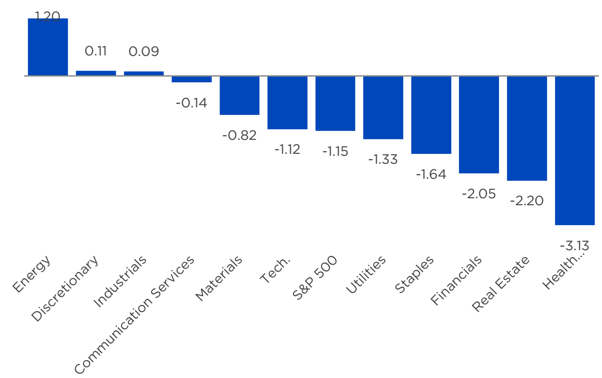
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	3.47%	-0.88%	-9.28%	-8.32%
U.S. Inv Grade	4.31%	-0.85%	-12.30%	-10.32%
U.S. High Yield	7.27%	-0.35%	-8.37%	-5.82%
TIPS	3.20%	0.11%	-5.45%	-0.63%

Rates	Last	Change 1 Week	YTD	1 Year
6M T-Bill	1.68%	0.14	1.49	1.64
2 Yr Treasury	2.66%	0.19	1.93	2.50
5 Yr Treasury	2.95%	0.24	1.69	2.11
10 Yr Treasury	2.96%	0.22	1.44	1.33
30 Yr Treasury	3.11%	0.14	1.21	0.81

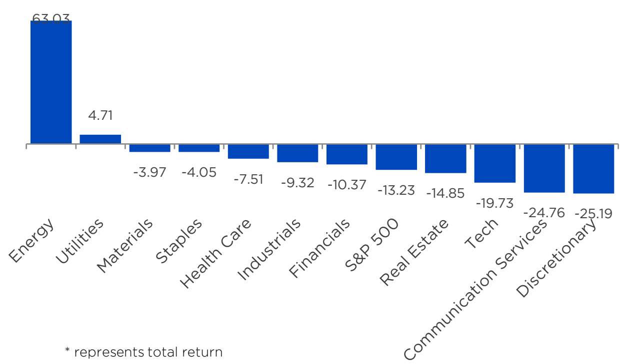
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.63	0.00	0.12	0.16
BBB Rated	1.71	-0.05	0.48	0.57
High Yield	4.21	0.02	1.11	0.93
10 to 2 yr Treasury	0.30	0.00	-0.49	-1.17

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1845.40	-0.32%	0.98%	-1.38%
Bitcoin	29674.01	3.80%	-36.03%	-24.23%
WTI Oil	118.87	3.40%	57.80%	72.75%
EUR/USD	1.07	-0.11%	5.72%	11.66%
USD/JPY	130.73	2.83%	13.52%	18.65%

S&P Sector Returns — Week (%)

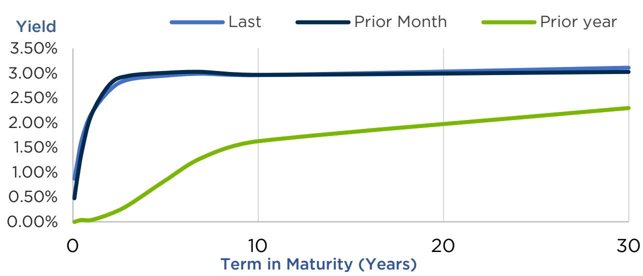


S&P Sector Returns — YTD (%)*



* represents total return

U.S. Yield Curve



Russell Style Returns - Week

	Value	Core	Growth
Large	-1.4	-1.1	-0.9
Mid	-1.3	-1.2	-0.8
Small	-0.1	-0.2	-0.3

Russell Style Returns - YTD

	Value	Core	Growth
Large	-5.0	-14.1	-22.1
Mid	-6.2	-12.9	-24.8
Small	-7.4	-15.7	-23.9

Source: FactSet

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Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
Case-Shiller 20-city HPI (y/y)	Mar.	21.2%	20.3%
Chicago PMI	May	60.3	56.4
Consumer confidence	May	106.4	108.6
Dallas Fed manufacturing survey	May	-7.3	1.1
S&P Global manufacturing PMI	May	57.0	57.5
ISM manufacturing PMI	May	56.1	55.4
Construction spending	Apr.	0.2%	0.3%
JOLTS (job openings)	Apr.	11.4 M	11.5 M
ADP private payrolls	May	128,000	202,000
Initial jobless claims	Week ending May 28	200,000	211,000
Productivity (revision)	Q1	-7.3%	-7.5%
Unit labor costs (revision)	Q1	12.6%	11.6%
Factory orders	Apr.	0.3%	1.8%
Nonfarm payrolls	May	390,000	436,000
U-3 unemployment rate	May	3.6%	3.6%
Average hourly earnings (m/m)	May	0.3%	0.3%
Average hourly earnings (y/y)	May	5.2%	5.5%
S&P Global services PMI	May	53.4	55.6
ISM services PMI	May	55.9	57.1

This Week's Indicators

	Release Date	Period	Forecast*	Previous
U.S. trade balance	Tues.	Apr.	-$97.8 B	-$109.8 B
Wholesale inventories	Wed.	Apr.	1.9%	2.3%
Initial jobless claims	Thurs.	Week ending June 4	206,000	200,000
Consumer price index (m/m)	Fri.	May	0.7%	0.3%
CPI (y/y)	Fri.	May	8.2%	8.3%
Core CPI (m/m)	Fri.	May	0.5%	0.6%
Core CPI (y/y)	Fri.	May	5.9%	6.2%

*** Nationwide Economics Forecast**

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