

June 13, 2022

Consumers are getting scorched by hot inflation

The 12-month changes in the consumer price index (CPI) climbed further in May to a 40+ year high. The lagged impacts of rapid money growth plus global supply shocks from the war in Ukraine and the rolling shutdowns of production in China continue to drive up food, energy, and commodity prices. Rapid inflation has also led to more hawkish pronouncements from central banks with the European Central Bank (ECB) setting the stage for reducing accommodation while the Fed is set to continue hiking rates this week.

Another jump in consumer prices for May

The CPI jumped by 1.0 percent for May with the year-over-year figure rising to a new 40-year high of 8.6 percent. A spike in gasoline costs led the way, but higher prices were everywhere last month. Food costs rose by 1.2 percent while the core CPI (removing the volatile food and energy components) increased by a further 0.6 percent for the month, reflecting widespread pressure on prices across the economy. Several categories that had slowed in recent months saw sharp increases for May, including used cars and apparel — reflecting the continued strains on global supply chains from supply side shocks. Service costs accelerated, too, led by the sharp runup in housing costs, rising wage costs for businesses, and the normalization of service activities post-Covid (e.g., airline fares). Shelter costs were up by 5.5 percent over the past year for May, the fastest reading in more than 30 years and reflecting record gains in house prices and rents over the past year.

Consumer sentiment continued to plummet in response to high and rising inflation with the University of Michigan reading falling to an all-time low of 50.2 over the first half of June. While spending activity has remained solid despite the poor survey readings to date, the risk that the worsening sentiment slows activity is increasing — a downside risk for economic growth this year.

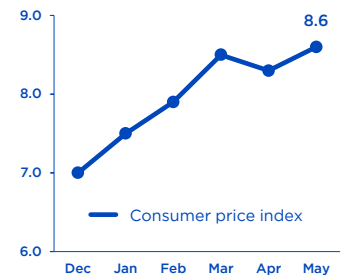
Central banks step up the aggressive policy action

Last week, the ECB turned more hawkish as it laid out its path forward. To date, the European Central Bank was still conducting asset purchases and has had a negative deposit rate since the Great Financial Crisis. With the guidance from the press release and news conference following the policy meeting last week, these extraordinary measures are set to cease in the coming months. The asset purchase program (APP) will conclude at the end of June and the ECB expects to raise rates by 25 basis points at its next meeting with further hikes likely in subsequent meetings. The ECB will have a very narrow path with soaring inflation (mostly due to food and energy costs) while growth is slowing significantly. There is a building risk of growth stalling while inflation remains elevated from the Russia/Ukraine war.

The Fed is facing a similar backdrop as its initial interest rate hikes this spring have done little to slow inflation. Growth in the U.S. is expected to slow through the rest of this year and into next, while inflation has remained stubbornly elevated and has even broadened over the past several months. The path for the Fed is likely preset with 50 basis point interest rate increases expected at the next two FOMC meetings (with the first this week). Moreover, the reduction of the Fed's balance sheet has commenced, removing more accommodation from the financial system.

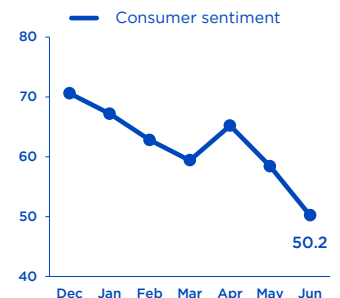
While these moves are unlikely to impact inflation readings immediately, this should help to slow price gains later this year and into 2023. Still, inflation is unlikely to moderate quickly, suggesting additional rate hikes with the federal funds rate climbing to at least 2.50 percent by the end of the year.

↑ Trend inflation keeps climbing



The CPI was up by 8.6 percent over the past year as of May, the fastest pace since the end of 1981.

↓ Consumer sentiment falls to a record low on inflation concerns



Consumers are feeling the heat from rapid inflation with dour views on both current conditions and the outlook.

Source: Haver Analytics

The Week Ahead

In addition to the FOMC meeting, here's what we are watching this week:

Retail
sales



Strong growth in retail sales expected with a boost from inflation

A combination of strong job and wage gains plus inflation drove outsized growth in retail sales in the first four months of the year, and these factors remained present for May. While consumer sentiment has been negatively affected by inflation, there is little evidence so far of a diminished propensity to spend. Light vehicle sales were down in May, however, as inventories remain too low to meet underlying demand; this should hold down growth in overall retail sales. We project retail sales growth of 1.2 percent for May, and growth in retail sales (ex autos) of 1.8 percent — certainly aided by surging prices.

Housing
starts



Decline in housing starts expected, but pace should remain strong

Housing data suggest demand for homes is edging lower as mortgage rates rise, so we expect the pace of housing construction to come off the blistering pace of the last six months. Still, home price gains are evidence that more supply is still needed, and building permits remained elevated for April. Taken together, we project an annualized pace of 1.61 million housing starts for May. While a strong number in an absolute sense, it would be the slowest pace since October.



Sources: Census Bureau

Industrial
production



Industrial production growth likely continued in May

Consistent with the last two-plus years, supplier delivery delays continue to hold back industrial production, but both the ISM and Markit manufacturing production indices point to continued growth for May. Mining activity and utilities usage were likely both positives for the overall index due to increased oil prices and the relatively warm month of May, respectively. We project growth of 0.4 percent in IP for May, which would be slightly below the monthly average of the last year.

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)	3,901	-5.04%	-17.60%	-6.65%
S&P 400 (Mid)	2,403	-4.65%	-14.89%	-10.76%
S&P 600 (Small)	1,190	-4.31%	-14.64%	-12.80%
S&P 500 (High Quality)	44	-6.01%	-17.12%	-6.15%
Russell 1000	4,121	-5.05%	-18.43%	-8.88%
Russell 2000	4,474	-4.37%	-19.39%	-21.22%
Dow Jones	31,393	-4.56%	-12.78%	-7.15%
NASDAQ	11,340	-5.59%	-27.26%	-18.56%
MSCI EAFE	1,934	-4.64%	-15.49%	-15.59%
MSCI EM	1,055	-0.52%	-13.48%	-21.42%

*represents total return

S&P Metrics

	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	19.20	16.31	31.05	9.75
Prior Month	19.72	16.91	34.08	9.68
Prior Year	25.00	21.29	9.13	24.51

Fixed Income

	Last	1 Week	Returns YTD	1 Year
U.S. Aggregate	3.77%	-1.52%	-10.65%	-10.52%
U.S. Inv Grade	4.61%	-1.79%	-13.86%	-12.84%
U.S. High Yield	7.82%	-2.33%	-10.50%	-8.47%
TIPS	3.49%	-1.09%	-6.48%	-2.57%

Rates

	Last	1 Week	Change YTD	1 Year
6M T-Bill	1.98%	0.30	1.79	1.94
2 Yr Treasury	3.06%	0.40	2.33	2.92
5 Yr Treasury	3.25%	0.30	1.99	2.52
10 Yr Treasury	3.15%	0.19	1.63	1.70
30 Yr Treasury	3.20%	0.09	1.30	1.05

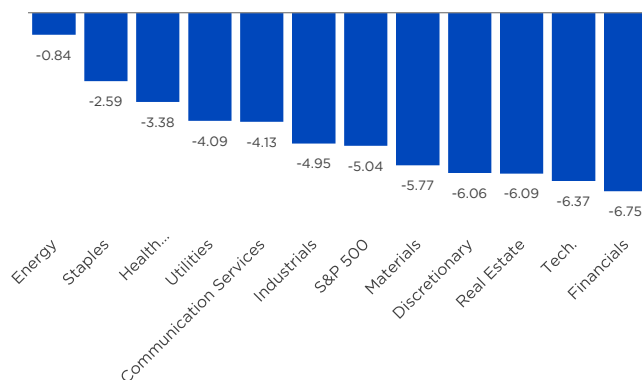
Spreads

Spreads		Change (Abs %)			
	Last	1 Week	YTD	1 Year	
	AAA Rated	0.66	0.03	0.15	0.19
	BBB Rated	1.75	0.04	0.52	0.61
	High Yield	4.51	0.30	1.41	1.28
	10 to 2 yr Treasury	0.09	0.00	-0.70	-1.22

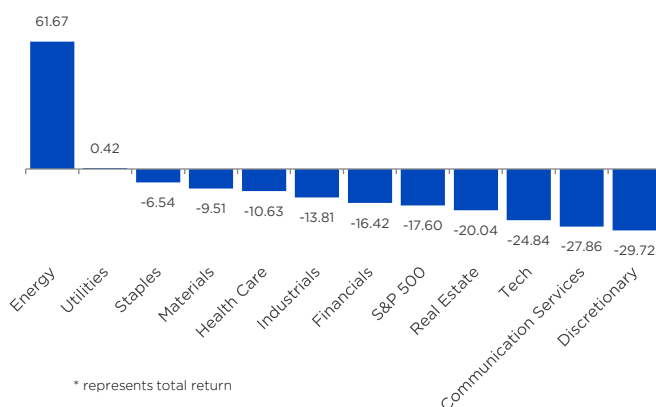
Commodities/FX

	Last	1 Week	Returns (Currencies in \$ strength) YTD	1 Year
Gold	1871.50	1.41%	2.41%	-1.20%
Bitcoin	29046.37	-2.12%	-37.39%	-21.23%
WTI Oil	120.67	1.43%	60.19%	71.55%
EUR/USD	1.05	1.79%	7.40%	13.49%
USD/JPY	134.24	2.69%	16.57%	22.47%

S&P Sector Returns – Week (%)

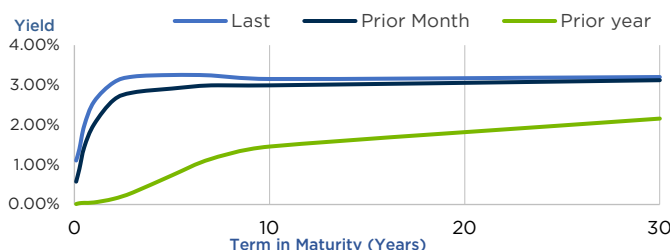


S&P Sector Returns – YTD (%)*



* represents total return

U.S. Yield Curve



Russell Style Returns - Week

	Value	Core	Growth
Large	-4.4	-5.1	-5.7
Mid	-5.0	-5.1	-5.4
Small	-4.0	-4.4	-4.8

Russell Style Returns - YTD

	Value	Core	Growth
Large	-9.2	-18.4	-26.6
Mid	-10.9	-17.3	-28.9
Small	-11.1	-19.4	-27.6

Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
U.S. trade balance	Apr.	-\$87.1 B	-\$107.7 B
Wholesale inventories	Apr.	2.2%	2.1%
Initial jobless claims	Week ending June 4	229,000	202,000
Consumer price index (m/m)	May	1.0%	0.3%
CPI (y/y)	May	8.6%	8.3%
Core CPI (m/m)	May	0.6%	0.6%
Core CPI (y/y)	May	6.2%	6.0%

This Week's Indicators

	Release Date	Period	Forecast*	Previous
NFIB small business optimism index	Tues.	May	92.5	93.2
Producer price index	Tues.	May	0.8%	0.5%
Core PPI	Tues.	May	0.4%	0.4%
Retail sales	Wed.	May	1.2%	0.9%
Retail sales ex autos	Wed.	May	1.8%	0.6%
Import prices	Wed.	May	2.2%	0.0%
NY Fed Empire St. manufacturing survey	Wed.	June	-5.1	-11.6
NAHB housing market index	Wed.	June	62	69
Initial jobless claims	Thurs.	Week ending June 11	222,000	229,000
Housing starts	Thurs.	May	1.61 M	1.72 M
Building permits	Thurs.	May	1.71 M	1.82 M
Philadelphia Fed manufacturing survey	Thurs.	June	9.8	2.6
Industrial production	Fri.	May	0.4%	1.1%
Capacity utilization	Fri.	May	79.2%	79.0%
Conference Board index of Leading economic indicators	Fri.	May	-0.4%	-0.3%

* Nationwide Economics Forecast



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