Nationwide Economics

Weekly Economic Review & Outlook

July 5, 2022

Weaker data add to recession fears

The economic data last week showed slower growth in manufacturing, including contracting growth in new orders for manufacturing, and slowing consumer activity. The combination of these and persistently high inflation seemed to trigger increased recession fears as the 10-year Treasury yield fell by more than 20 basis points from last week.

Manufacturing growth slowed in June
Growth in manufacturing remained in expansion in June but fell to its slowest pace in two years, according to the ISM manufacturing survey. Possibly the biggest news in the report was new orders falling into contraction, consistent with written commentary from survey respondents and possibly a precursor to weaker growth for the sector in coming months. On the positive side, there was also a significant slowdown in the growth of supplier delays — which suggests further easing of supply chain disruptions — and this coincided with a small uptick in production, likely due to improved availability of materials.

Even though most companies indicated that they are hiring, employment fell further into contraction. Both this survey and high-frequency data indicate that labor demand remains very elevated, but high turnover rates and increased difficulty finding qualified workers are suppressing employment levels in manufacturing. According to Timothy R. Fiore, chair of the Institute for Supply Management, “Employment levels, driven primarily by turnover, remain the top issue affecting further output growth.” It’s worth noting that this component was in contraction in May when the manufacturing sector added 18,000 to payrolls (according to the Bureau of Labor Statistics).

June marked the 18th time in 19 months that the prices component exceeded 70, matching the number of months at that level for the 10-year period preceding the pandemic. Still, the reading was lower than a month prior, so while input prices remain elevated from an absolute standpoint, they slowed some in June.

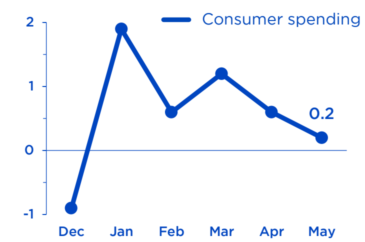
Consumers pull back as price growth remains high
The PCE price index grew by 0.6 percent in May, while the core rate (the overall index less food and energy) grew by 0.3 percent. The 12-month growth in the core rate — the Fed’s preferred measure of inflation — fell to 4.7 percent, marking the third straight month with a decline. Still, it remains far above the Fed’s long-run goal of two percent inflation and, when combined with the 6.3 percent reading in the overall index, shows that prices are still climbing rapidly.

The solid growth in personal income (0.5 percent) was not evident in the consumer spending data, which showed the smallest increase (0.2 percent) since December. Spending on services continued to climb, while durable goods purchases plummeted — showing the continued reversal of pandemic spending trends. Slowing consumer activity increased recession fears further, which was reflected in Treasury yields with the 10-year yield falling below three percent late last week. Additionally, consumer pessimism seemed to increase in June as the University of Michigan’s consumer sentiment survey fell to its lowest level on record (data back to 1952). The Conference Board’s consumer confidence index also fell but remains much higher from a relative standpoint; the June reading was the lowest since February 2021. In both cases, inflation fatigue and recession fears are the primary drivers behind the declines.

Manufacturing new orders fall into contraction

After over two years of expansion, new orders for manufacturing fell into contraction in June. Sometimes seen as a leading indicator for the overall index, this could suggest weaker sector growth in coming months.

Growth in consumer spending fell in May, but remained positive



May’s growth in consumer spending was the slowest since December, suggesting that consumer behavior could be reflecting the decline in sentiment.

Source: Haver Analytics

Contributors: Daniel Vielhaber, Economist | Scott Murray, Financial Markets Economist

The Week Ahead

Here's what we are watching this week:

ISM services — July 6

Slower growth in the service sector echoes manufacturing

In June, service sector activity is expected to decelerate with the ISM reading falling to 55. Slower growth in purchases should echo the global flash service PMIs already released for June. In the U.S. reading, backorders should slow further, showing that the service industry is starting to keep pace with demand. The price increases for June are expected to remain high for another month with another step forward in employment.

JOLTS (Job Openings and Labor Turnover survey) — July 6

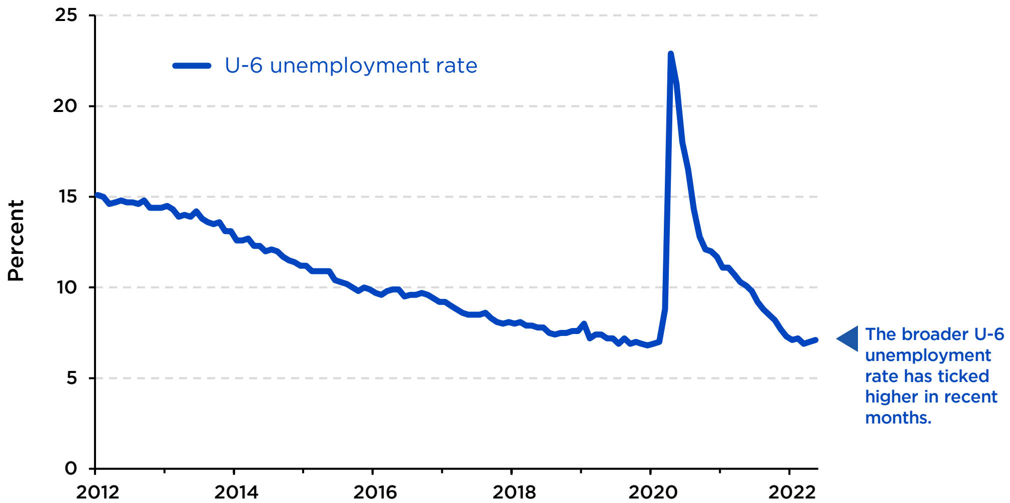
Hiring struggles to keep pace with quits leaving openings little

Job openings are forecasted to remain at over 11 million in May as firms continue to face a lack of qualified workers. The sixth straight plus-11 million reading should underscore the continued strength in the job market. Another good sign should be little change in separations, showing only slight impacts from the Fed's interest rate increases so far — while the quits rate should remain elevated again.

Employment Report — July 8

Lower but solid employment gains show resilience to Fed's tightening

Job growth is expected to be solid in June, albeit much slower than the recent trend. Despite the Fed's recent hikes and continued inflation concerns, nearly 300,000 new positions are forecasted for June. In addition, annual wage growth should exceed five percent for the sixth consecutive month. A steady unemployment rate should reflect the modest return of workers to the labor force. Still, job gains should be fewer than earlier this year as higher interest rates and prices slow economic growth.



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)	3,825	-2.18%	-19.11%	-10.15%
S&P 400 (Mid)	2,296	-1.60%	-18.58%	-14.29%
S&P 600 (Small)	1,139	-1.13%	-18.18%	-16.57%
S&P 500 (High Quality)	42	-1.95%	-19.82%	-11.96%
Russell 1000	4,036	-2.30%	-20.05%	-12.46%
Russell 2000	4,294	-2.09%	-22.54%	-24.94%
Dow Jones	31,097	-1.27%	-13.54%	-8.46%
NASDAQ	11,128	-4.12%	-28.60%	-22.84%
MSCI EAFE	1,832	-2.18%	-19.86%	-18.11%
MSCI EM	993	-1.53%	-18.11%	-25.24%

*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	18.84	15.99	28.79	9.48
Prior Month	19.68	17.22	31.83	9.69
Prior Year	24.87	21.44	12.12	23.47

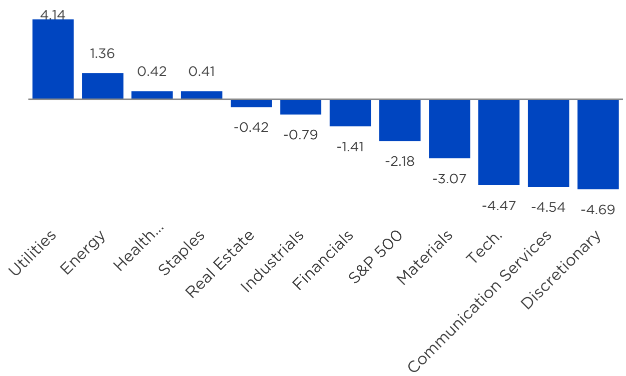
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	3.62%	1.27%	-9.81%	-9.67%
U.S. Inv Grade	4.62%	0.80%	-13.91%	-13.20%
U.S. High Yield	8.86%	-1.63%	-14.03%	-12.72%
TIPS	3.27%	-0.29%	-8.06%	-4.28%

Rates	Last	Change 1 Week	YTD	1 Year
6M T-Bill	2.52%	0.01	2.33	2.47
2 Yr Treasury	2.84%	-0.20	2.11	2.59
5 Yr Treasury	2.88%	-0.30	1.62	1.99
10 Yr Treasury	2.88%	-0.25	1.36	1.40
30 Yr Treasury	3.11%	-0.15	1.21	1.04

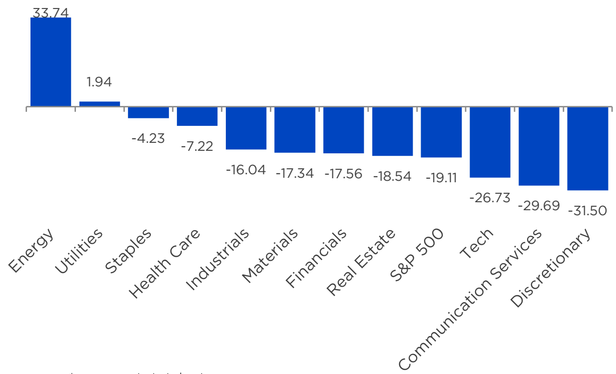
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.71	0.04	0.20	0.27
BBB Rated	2.07	0.14	0.84	0.97
High Yield	5.92	0.74	2.82	2.90
10 to 2 yr Treasury	0.04	0.00	-0.75	-1.19

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1798.90	-1.51%	-1.56%	1.30%
Bitcoin	19401.35	-9.22%	-58.18%	-42.22%
WTI Oil	108.43	-0.59%	43.94%	43.94%
EUR/USD	1.04	1.45%	8.62%	12.44%
USD/JPY	135.12	-0.08%	17.33%	21.14%

S&P Sector Returns — Week (%)

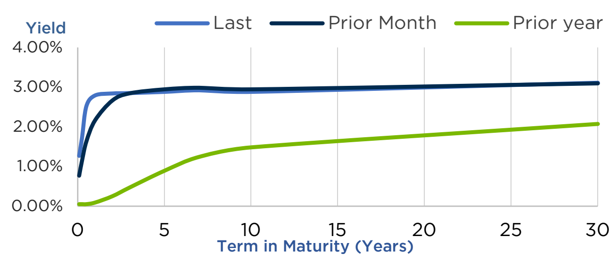


S&P Sector Returns — YTD (%)*



* represents total return

U.S. Yield Curve



Russell Style Returns - Week

	Value	Core	Growth
Large	-1.2	-2.3	-3.4
Mid	-1.3	-2.0	-3.2
Small	-1.4	-2.1	-2.7

Russell Style Returns - YTD

	Value	Core	Growth
Large	-11.7	-20.0	-27.4
Mid	-15.0	-20.5	-30.0
Small	-16.1	-22.5	-28.9

Source: FactSet

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Additional Economic Indicators

Previous Week's Indicators

Previous Week's Indicators	Period	Actual	Previous
Durable goods orders	May	0.7%	0.4%
Pending home sales	May	0.7%	-4.0%
Dallas Fed manufacturing survey	June	-17.7	-7.3
S&P/Case-Shiller 20-city house price index (y/y)	Apr.	21.2%	21.2%
Richmond Fed manufacturing survey	June	-11	-9
Consumer confidence	June	98.7	103.2
Real GDP (revision)	Q1	-1.6%	-1.5%
GDP price index (revision)	Q1	8.1%	8.1%
Personal income	May	0.5%	0.5%
Personal consumption expenditures	May	1.8%	3.1%
Core PCE price index (m/m)	May	0.3%	0.3%
Core PCE price index (y/y)	May	4.7%	4.9%
Initial jobless claims	Week ending June 25	231,000	233,000
Chicago purchasing manager's index	June	56.0	60.3
S&P Global manufacturing survey	June	52.7	52.4
ISM manufacturing PMI	June	53.0	56.1
Construction spending	June	-0.1%	0.2%

This Week's Indicators

This Week's Indicators	Release Date	Period	Forecast*	Previous
Factory Orders	Tues,	May	0.9%	0.3%
S&P Global U.S. services PMI	Wed.	June	51.4	51.6
ISM non-manufacturing PMI	Wed.	June	55.0	55.9
JOLTS Job Openings	Wed.	May	11.1 M	11.4 M
Initial jobless claims	Thurs.	Week ending June 25	228,000	231,000
U.S. Trade balance	Thurs.	June	-$86.4 B	-$87.1 B
Change in Nonfarm payrolls	Fri.	June	295,000	390,000
Unemployment rate	Fri.	June	3.6%	3.6%
Average hourly earnings (m/m)	Fri.	June	0.3%	0.3%
Average hourly earnings (y/y)	Fri.	June	5.0%	5.2%
Consumer credit outstanding	Fri.	May	$32.1 B	38.1 B

*** Nationwide Economics Forecast**

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