

August 1, 2022

## A second consecutive drop in real GDP — recession or not?

The contraction in real GDP in the second quarter was an ominous follow-up to a somewhat larger decline in the first quarter. But while those GDP downturns fit the rule of thumb for defining a recession, the underlying data do not. Still, recession risks continue to rise as core growth slows and the Fed continues to tighten monetary policy. Other important economic news included the Fed raising the fed funds rate another 75 basis points as it aims to regain price stability along with new and pending existing home sales falling to their lowest levels since April 2020.

### Economic growth was negative again in the second quarter

Real GDP contracted at an annualized rate of 0.9 percent in the second quarter, the second straight quarter with negative growth. Two consecutive quarters of negative GDP growth is the rule-of-thumb definition for the start of a recession, but the National Bureau of Economic Research (NBER, the official arbiter of recession dates) takes a more broad-based approach in the official designation of a recession. In this case, growth in consumer spending, industrial production, and especially jobs suggest that the economy was not in a downturn in the first half of the year; the more volatile aspects of GDP (e.g., trade and inventories) provided a significant drag on growth. Isolating the data to what we consider “core” GDP (consumer spending plus business fixed investment, also known as final sales to private domestic purchasers) the economy grew at an annualized rate of 3.0 percent in the first quarter, while growth was virtually flat in the second quarter. For reference, 1947 was the last time two straight quarters of negative GDP growth did not indicate the start of a recession. Note also that the 2001 recession did not have two consecutive quarters of GDP declines, but it did have two out of three. And the Covid recession lasted two months, so there was only one quarter of decline.

To be clear, there is now strong evidence of slowing and below-trend growth, and while a possible recovery in trade and inventories could result in “better” growth readings in the second half of this year, job and consumer spending growth are likely to continue to slow, particularly if the Fed tightens monetary policy further, as expected. Still, although the odds of a recession have been consistently rising, it is not clear that a recession is imminent. Long-term interest rates have fallen over the past month due to recession fears in financial markets, resulting in an inversion of almost the entire yield curve. If expectations of another interest rate hike at the Fed’s September meeting are accurate it is likely that the entire yield curve will then be inverted. It is this full yield curve inversion that has historically been a near-perfect predictor of a recession, typically leading the official recession designation by six-to-eighteen months.

### The Fed continued to raise interest rates to fight inflation

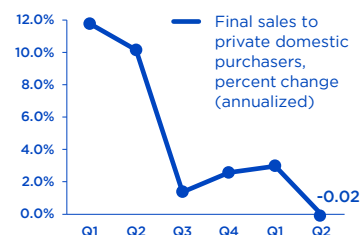
As expected, the Federal Open Market Committee (FOMC) — the policy-making arm of the Fed — raised the federal funds rate by 75 basis points last week, which brings the target rate range to 2.25-2.50 percent. There were no dissenting opinions, as Kansas City Fed President Esther George joined the rest of the committee after dissenting on an identical rate hike in June. In the statement released at the conclusion of its two-day meeting, the FOMC maintained that it is “strongly committed” to bringing inflation down to two percent and it anticipates that further increases to the target fed funds range will be needed in the pursuit of that goal.

In the press conference following the FOMC meeting, Fed Chair Jerome Powell said that further rate hikes will be determined on a meeting-by-meeting basis, suggesting that a pivot on the previously projected rate path could happen if deemed appropriate based on the data (in other words, if inflation slows by more than expected). He added, however, that another “unusually large” increase is possible in September. It is worth noting that the fed funds rate remains 100 basis points below what the most recent summary of economic projections (from the June meeting) projected for the end of 2022, and the market currently expects a rate path roughly in line with that.

### New and pending home sales fell to the lowest levels in more than two years

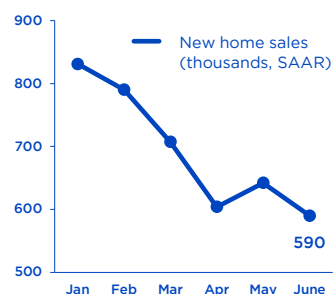
New home sales fell sharply for June, while May’s sales figure was revised lower. June’s sales pace was marginally higher than April 2020 (the low from the Covid recession). This aligns with declining housing market indicators such as the NAHB housing market index and the MBA builder application survey, both of which dropped to their lowest points since the Covid lockdowns. New home sales are now down by 17 percent from a year ago, and by 29 percent from the beginning of the year. Moreover, pending home sales (based on new purchase contracts for existing homes) fell for the seventh time in eight months. Pending sales for June were at the lowest level since April 2020.

“Core” real GDP was about unchanged in the second quarter



While overall real GDP declined over the first half of 2022, core GDP slowed to an essentially flat pace.

Downward slide resumes for new home sales



New home sales have slowed sharply in the face of rising mortgage rates and home prices.

Sources: Bureau of Economic Analysis; Census Bureau

# The Week Ahead

Here's what we are watching this week:

ISM  
Manufacturing



## ↓ Manufacturing activity decelerates further while new orders fall

The ISM manufacturing survey index is expected to slide further for July — although to a level that still suggests growth in the sector — as inflation concerns and worries about a potential recession make businesses cautious. A second straight monthly drop in new orders shows the anxiety faced by firms that hope to avoid receiving goods before a possible recession hits. A positive, however, is the projection for a decline in price gains, with July's reading being the lowest this year.

JOLTS Job  
Openings



## ↓ Job openings remain plentiful, but edging lower

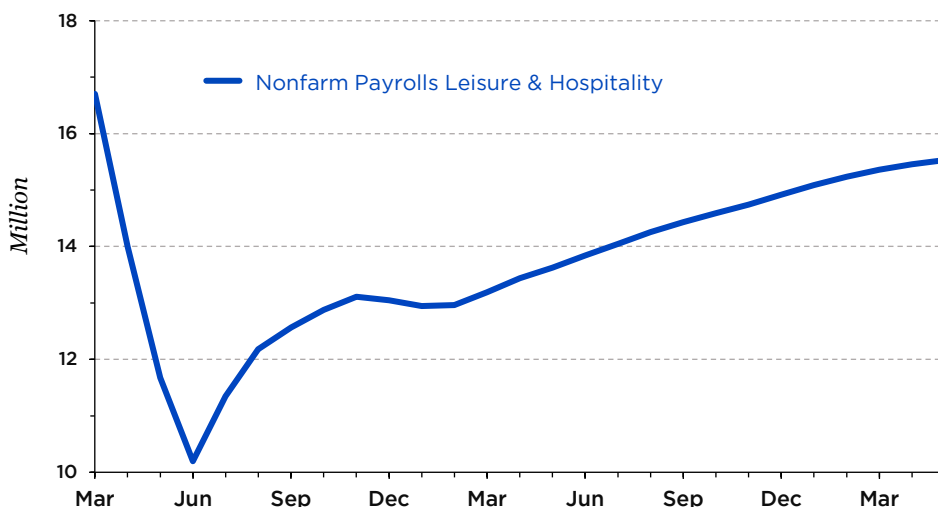
June job openings are expected to slip to nearly 11 million, showing that hiring is still struggling to fill available positions. The details are projected to show little change from May as roughly six million Americans found new jobs while four million resigned and another two million were separated. The layoff rate is worth watching to see if it confirms the recent uptick in initial jobless claims.

Nonfarm  
Payrolls



## ↑ Solid, but slower, employment gains continue

July payrolls are projected to slow to around 300,000 (a fifth straight month of gains in the range of 300,000-400,000) as total employment creeps back to the previous peak seen in February 2020. Missing are still about a million leisure and hospitality workers, with the industry struggling to staff busy facilities. The unemployment rate is forecasted to hold steady while the year-over-year change in average hourly earnings should remain elevated at near five percent.



Sources: BLS

# 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)	4,130	4.28%	-12.58%	-5.15%
S&P 400 (Mid)	2,513	4.87%	-10.81%	-5.79%
S&P 600 (Small)	1,240	4.64%	-10.83%	-6.47%
S&P 500 (High Quality)	45	3.93%	-13.81%	-7.58%
Russell 1000	4,358	4.20%	-13.58%	-7.39%
Russell 2000	4,685	4.35%	-15.43%	-14.82%
Dow Jones	32,845	2.97%	-8.60%	-4.54%
NASDAQ	12,391	4.72%	-20.47%	-15.56%
MSCI EAFE	1,937	2.11%	-15.22%	-14.62%
MSCI EM	994	0.42%	-17.61%	-20.85%

\*represents total return

## S&P Metrics

	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	19.39	17.44	25.34	8.38
Prior Month	18.83	15.95	29.06	9.55
Prior Year	24.29	21.12	18.97	22.74

## Fixed Income

	Last	1 Week	Returns YTD	1 Year
U.S. Aggregate	3.42%	0.64%	-8.16%	-9.12%
U.S. Inv Grade	4.33%	0.50%	-11.61%	-12.42%
U.S. High Yield	7.77%	1.53%	-9.12%	-8.02%
TIPS	3.04%	2.08%	-4.96%	-3.58%

## Rates

	Last	1 Week	Change YTD	1 Year
6M T-Bill	2.91%	-0.06	2.72	2.86
2 Yr Treasury	2.89%	-0.09	2.16	2.69
5 Yr Treasury	2.70%	-0.17	1.44	1.97
10 Yr Treasury	2.67%	-0.10	1.15	1.39
30 Yr Treasury	3.00%	0.00	1.10	1.09

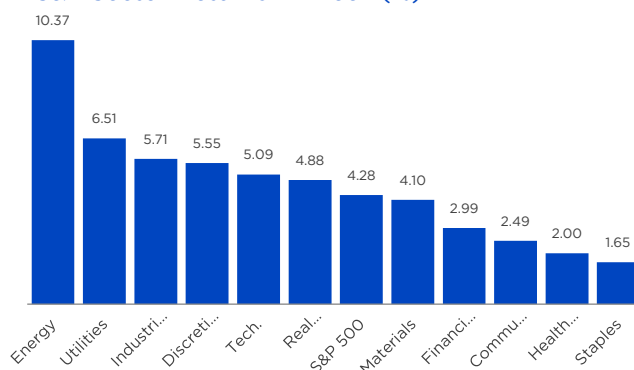
## Spreads

	Last	1 Week	Change (Abs %) YTD	1 Year
AAA Rated	0.59	-0.01	0.08	0.11
BBB Rated	1.92	-0.02	0.69	0.77
High Yield	4.77	-0.19	1.67	1.54
10 to 2 yr Treasury	-0.22	0.00	-1.01	-1.30

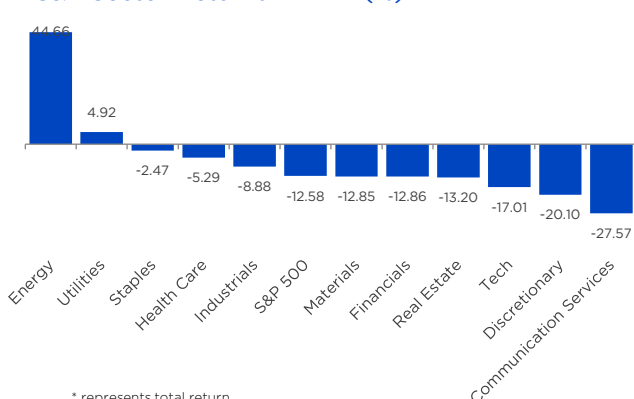
## Commodities/FX

	Last	1 Week	Returns (Currencies in \$ strength) YTD	1 Year
Gold	1762.90	2.07%	-3.53%	-3.73%
Bitcoin	23920.04	5.39%	-48.44%	-40.12%
WTI Oil	98.62	0.93%	30.92%	33.96%
EUR/USD	1.02	0.33%	10.34%	14.20%
USD/JPY	133.65	-1.76%	16.06%	21.92%

## S&P Sector Returns – Week (%)

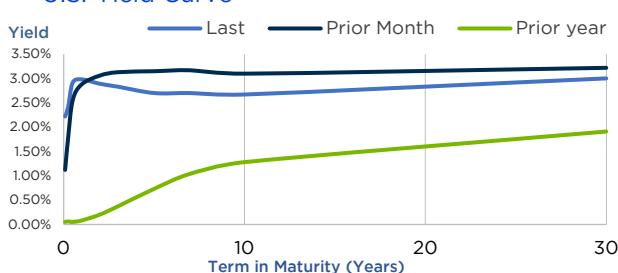


## S&P Sector Returns – YTD (%)\*



\* represents total return

## U.S. Yield Curve



## Russell Style Returns - Week

	Value	Core	Growth
Large	3.4	4.2	5.0
Mid	4.1	4.4	4.7
Small	4.4	4.3	4.3

## Russell Style Returns - YTD

	Value	Core	Growth
Large	-7.1	-13.6	-19.4
Mid	-9.0	-13.8	-22.6
Small	-9.3	-15.4	-21.6

# Additional Economic Indicators

## Previous Week's Indicators

	Period	Actual	Previous
S&P/Case-Shiller 20-City HPI (y/y)	May	20.5	21.2
New home sales	June	0	-9
Consumer confidence index	July	95.7	98.4
Richmond Fed manufacturing survey	July	590 k	642 k
Durable goods orders	June	1.9	0.8
Pending home sales	June	-8.6	0.4
Initial jobless claims	Week ending July 23	2.25	1.5
Real GDP	Q2	2.5	1.75
GDP price index	Q2	-0.9	-1.6
Kansas City Fed manufacturing survey	July	8.7	8.2
Employment cost index	Q2	256,000	261,000
Personal income	June	13	12
Personal consumption expenditures	June	1.3	1.4
Core PCE price index (m/m)	June	0.6	0.6
Core PCE price index (y/y)	June	1.1	0.3
Chicago PMI	July	1.0	0.6
Consumer sentiment	July	6.8	6.3

## This Week's Indicators

	Release Date	Period	Forecast*	Previous
S&P Global US Manufacturing PMI	Monday	July	52.2	52.3
Construction Spending MoM	Monday	June	0.5	-0.1
ISM Manufacturing	Monday	July	52.3	53.0
JOLTS Job Openings	Tuesday	June	11.0 m	11.3 m
Wards Total Vehicle Sales	Tuesday	July	13.4 m	13.0 m
S&P Global US Services PMI	Wednesday	July	48.1	47.0
Factory Orders	Wednesday	June	1.3	1.7
ISM Services Index	Wednesday	June	53.9	55.3
Trade Balance	Thursday	June	-78.5 b	-\$85.5 b
Initial Jobless Claims	Thursday	Week ending July 30	252,000	256,000
Continuing Claims	Thursday	Week ending July 23	1,355,000	1,359,000
Change in Nonfarm Payrolls	Friday	July	310 k	372 k
Unemployment Rate	Friday	July	3.6	3.6
Average Hourly Earnings MoM	Friday	July	0.4	0.3
Average Hourly Earnings YoY	Friday	July	5.0	5.1
Average Weekly Hours All Employees	Friday	July	34.5	34.5
Consumer Credit	Friday	June	\$32.1 b	\$22.3 b



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