

August 8, 2022

## Booming jobs report caps a positive week of economic data

Last week's economic data were mostly positive. Jobs grew by far more than expected for July — finally pushing payrolls past the pre-Covid peak — and the unemployment rate fell to 3.5 percent, matching the pre-Covid trough. Additionally, the ISM surveys signaled growth in manufacturing and services (with growth in services surprisingly accelerating) and provided evidence of both healing supply chains and slowing input price growth. In total, the data show little evidence that the economy is in recession today and increase the odds of the Fed moving forward with plans to institute another large interest rate hike next month.

### Blowout jobs report for July

The employment situation for July was far better than expected as nonfarm payrolls grew by 528,000, more than double consensus expectations and the largest gain since February (along with modest upward revisions to the prior two months). Growth was broad-based and was especially strong in education and health services, which had its largest gain in nearly two years. With July's increase, payrolls have now exceeded the pre-Covid peak by a small margin.

The strong job gains coupled with another decline in the labor force participation rate dropped the U-3 unemployment rate to 3.5 percent, equal to what it was before the pandemic and matching the lowest rate since 1969. The broader U-6 unemployment rate, which accounts for discouraged and underemployed workers, was steady at an all-time low 6.7 percent. The tight labor market also led to stronger wage gains; average hourly earnings climbed by 0.5 percent for the month and by 5.2 percent for the last 12 months. Still, wage gains haven't come close to keeping pace with inflation.

The unexpectedly and broadly positive employment report should put to rest discussion of whether we are currently in a recession, but it raises the odds that the Fed continues with an aggressive rate path to bring about price stability, increasing recession risks for 2023. Another federal funds rate hike of 75 basis points in September would likely invert the entire yield curve and, as we've noted recently in this space, the recession watch would then be on. That said, there are still nearly two months of data to be released between now and the next FOMC meeting. Depending on the data (e.g., substantially slower inflation and/or job growth), the Fed could decide to take a less hawkish path.

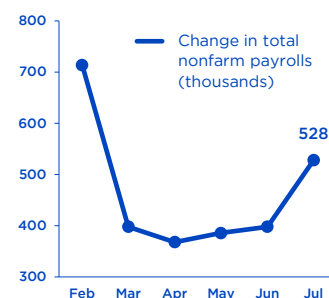
### ISM surveys continue to signal growth

The ISM manufacturing index declined only slightly, but the details were mixed. Growth in new orders and production fell to their lowest levels since May 2020, with new orders sinking further into contraction — a second straight month of contracting orders. Similarly, although it did climb closer to expansion, the employment component of the index fell for a third straight month. Negative growth in this component currently has more to do with turnover than with a slowdown in hiring; firms still indicated that they are having trouble filling open positions. Perhaps the most encouraging aspects of the survey, supplier delays fell to their lowest level since before the pandemic, while the prices paid index experienced its largest one-month drop in over 12 years.

The ISM services index surprised by rising to a three-month high (a small drop was expected). Business activity and new orders both increased their rate of growth, with business activity matching its high since December. The employment index climbed but was in contraction for the fourth time in six months, while growth in supplier delays and input prices both continued their downward trends (although input price growth remains very high).

In concert, the ISM surveys show clear evidence of healing supply chains and easing inflationary pressures on businesses. Declining price growth is likely to be choppy and there are still downside risks to supply chains (e.g., China's zero-Covid policy and the war in Ukraine) but the downward trend is expected to continue. At the same time, growth in the services sector should resume its slowdown soon if consumers pull back on spending as expected.

## Nonfarm payrolls jump for July



After July's number smashed expectations, growth in nonfarm payrolls has climbed in each of the last three months.

## ISMs suggest (slower) growth for manufacturing and services



The ISM surveys both continued to signal growth in July, and the manufacturing supplier deliveries index was the lowest since January 2020.

Sources:  
Bureau of Economic Analysis; Census Bureau

# The Week Ahead

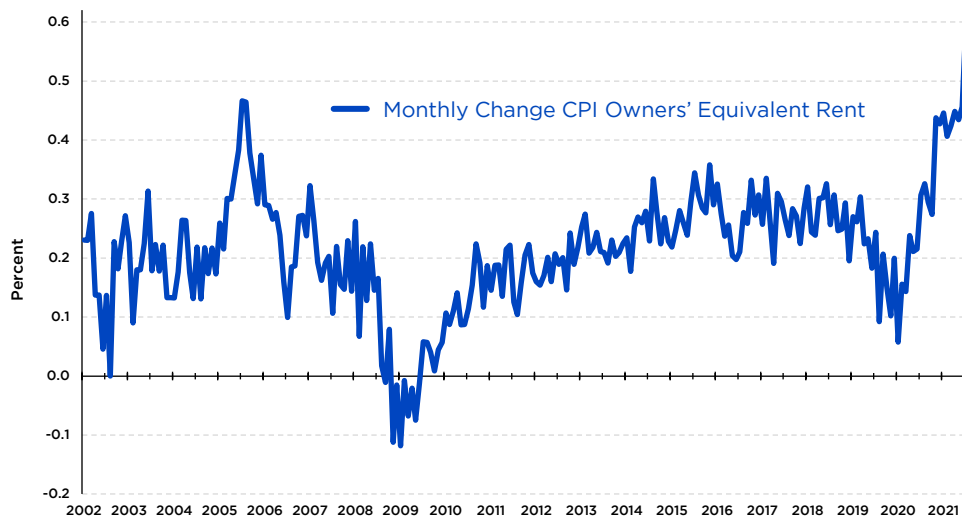
Here's what we are watching this week:

Consumer  
Price Index



## ↓ Top-line inflation rate moderates

More modest price gains are expected for July as gasoline prices fell. A lower monthly inflation rate is positive for real income for consumers. Still, housing costs continued to rise in July, with monthly rents expected to increase at a near historic level. This disappointing news means that core inflation will remain elevated at least in the short term.



Sources: BLS

Producer  
Price Index



## ↓ Input price gains fall significantly

Manufacturers should see smaller price increases, as the PPI (producer price index) is forecasted to barely rise in July. Monthly cost gains of over one percent have been common thus far in 2022. Lower energy costs, however, are forecast to provide manufacturers with some relief. No victory can be claimed yet as profit margins continue to feel the pressure from the moderate pace of ex-energy cost increases.

Consumer  
Sentiment



## ↑ An uptick in sentiment

Lower gasoline prices and a healthy job market should push consumer sentiment up for August. Better prices at the pump should lower inflation forecasts, providing some light at the end of the tunnel for nervous shoppers. Still, consumer expectations remain well below consumers' attitudes about their current situation and should limit purchases as the job prospects moderate.

# 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)	4,145	0.39%	-12.24%	-5.01%
S&P 400 (Mid)	2,504	-0.31%	-11.09%	-6.10%
S&P 600 (Small)	1,239	-0.02%	-10.85%	-6.22%
S&P 500 (High Quality)	45	-0.02%	-13.83%	-8.04%
Russell 1000	4,386	0.67%	-13.01%	-7.02%
Russell 2000	4,776	1.96%	-13.77%	-13.00%
Dow Jones	32,803	-0.11%	-8.71%	-4.60%
NASDAQ	12,658	2.18%	-18.73%	-14.40%
MSCI EAFE	1,924	-0.65%	-15.77%	-15.80%
MSCI EM	1,003	0.97%	-16.81%	-20.40%

\*represents total return

## S&P Metrics

	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	19.36	17.48	24.60	8.24
Prior Month	18.79	15.99	28.47	9.44
Prior Year	24.14	21.03	20.40	22.25

## Fixed Income

	Last	1 Week	Returns YTD	1 Year
U.S. Aggregate	3.64%	-1.04%	-9.11%	-10.04%
U.S. Inv Grade	4.51%	-0.89%	-12.40%	-13.08%
U.S. High Yield	7.65%	0.66%	-8.53%	-7.21%
TIPS	3.32%	-1.67%	-6.55%	-4.74%

## Rates

	Last	1 Week	Change YTD	1 Year
6M T-Bill	3.10%	0.19	2.91	3.04
2 Yr Treasury	3.24%	0.35	2.51	3.03
5 Yr Treasury	2.97%	0.27	1.71	2.25
10 Yr Treasury	2.83%	0.16	1.31	1.60
30 Yr Treasury	3.06%	0.06	1.16	1.20

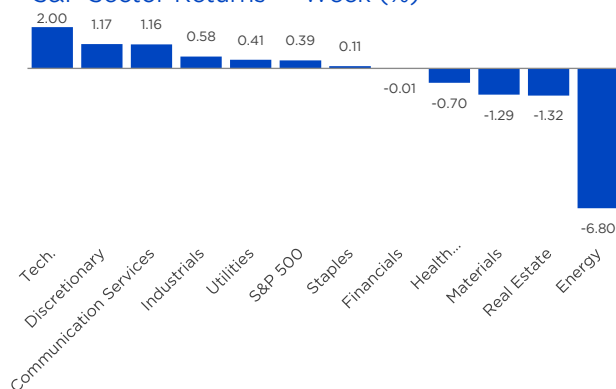
## Spreads

	Last	1 Week	Change (Abs %) YTD	1 Year
AAA Rated	0.62	0.03	0.11	0.11
BBB Rated	1.86	-0.06	0.63	0.68
High Yield	4.44	-0.33	1.34	1.07
10 to 2 yr Treasury	-0.41	0.00	-1.20	-1.43

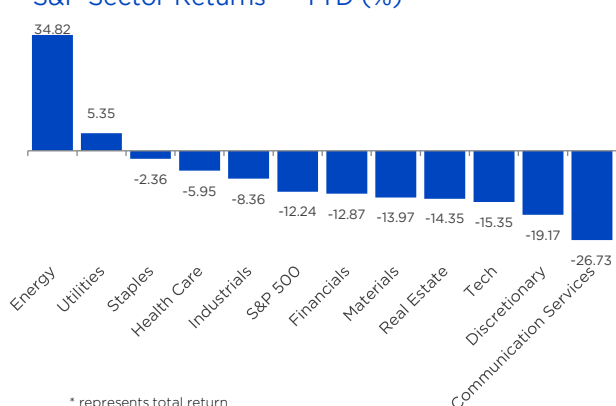
## Commodities/FX

	Last	1 Week	Returns (Currencies in \$ strength) YTD	1 Year
Gold	1772.90	0.57%	-2.99%	-1.78%
Bitcoin	23201.36	-3.00%	-49.99%	-43.26%
WTI Oil	89.01	-12.14%	18.16%	28.81%
EUR/USD	1.02	0.30%	10.61%	14.13%
USD/JPY	135.35	1.27%	17.53%	23.38%

## S&P Sector Returns – Week (%)

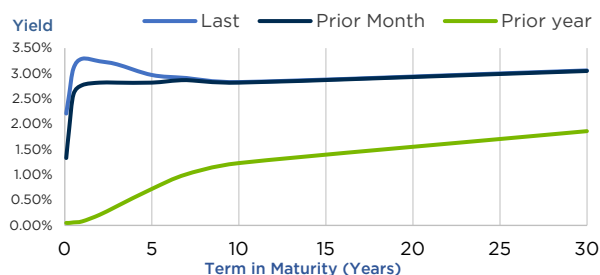


## S&P Sector Returns – YTD (%)\*



\* represents total return

## U.S. Yield Curve



## Russell Style Returns - Week

	Value	Core	Growth
Large	-0.2	0.7	1.5
Mid	-0.2	0.7	2.4
Small	0.9	2.0	3.0

## Russell Style Returns - YTD

	Value	Core	Growth
Large	-7.3	-13.0	-18.2
Mid	-9.2	-13.2	-20.7
Small	-8.4	-13.8	-19.2

# Additional Economic Indicators

## Previous Week's Indicators

	Period	Actual	Previous
S&P Global US Manufacturing PMI	July	52.2	52.3
Construction Spending MoM	June	-1.1	0.1
ISM Manufacturing	July	52.8	53.0
JOLTS Job Openings	June	10,698 k	11,303 k
Wards Total Vehicle Sales	July	13.4 m	13.0 m
S&P Global US Services PMI	July	47.3	47.0
Factory Orders	June	2.0	1.8
ISM Services Index	June	56.7	55.3
Trade Balance	June	-79.6 b	-\$85.0 b
Initial Jobless Claims	Week ending July 30	260,000	254,000
Continuing Claims	Week ending July 23	1,416,000	1,368,000
Change in Nonfarm Payrolls	July	528 k	404 k
Unemployment Rate	July	3.5	3.6
Average Hourly Earnings MoM	July	0.5	0.3
Average Hourly Earnings YoY	July	5.2	5.2
Average Weekly Hours All Employees	July	34.6	34.5
Consumer Credit	June	\$40.2 b	\$23.8 b

## This Week's Indicators

	Release Date	Period	Forecast*	Previous
NFIB Small Business Optimism	Tuesday	July	88.0	89.5
Nonfarm Productivity	Tuesday	2nd Quarter	-1.5	-7.3
Unit Labor Cost	Tuesday	2nd Quarter	7.5	12.6
CPI (m/m)	Wednesday	July	0.3	1.3
CPI (y/y)	Wednesday	July	8.8	9.1
Core CPI (m/m)	Wednesday	July	0.5	0.7
Core CPI (y/y)	Wednesday	July	6.1	5.9
Initial Jobless Claims	Thursday	Week ending August 6	263,000	260,000
Continuing Jobless Claims	Thursday	Week ending July 30	1,390,000	1,416,000
PPI	Thursday	July	0.2	1.1
Core PPI	Thursday	July	0.3	0.3
Import prices	Friday	July	0.0	-0.4
Consumer sentiment	Friday	August	53.4	51.5



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