

August 15, 2022

Broadly encouraging price data

Last week's economic data were encouraging with regard to inflation. All three measures of prices reported last week (CPI, PPI, and import prices) were either unchanged or experienced negative growth, primarily due to a large decline in energy prices. Even excluding food and energy, however, price growth was slower than the recent norm. Elsewhere, small business optimism is hovering just above a 10-year low, attributable in large part to inflation challenges and recession fears.

Price growth slows across economy

The consumer price index (CPI) was unchanged in July, dropping the 12-month trend rate to 8.5 percent. A sharp decline in energy prices offset increases elsewhere as gasoline fell by 7.7 percent for the month — the largest decrease in gasoline prices since April 2020. The core rate, which excludes food and energy, grew by 0.3 percent and the 12-month change was steady at 5.9 percent, which is down from a recent peak of 6.5 percent in March. Big price gains were seen in new vehicles, medical care commodities, and shelter, while prices for used cars and transportation services (particularly car rentals and airline fares) fell.

Consumers are still struggling with prices at the grocery store. Growth in the food at home index, which was 1.3 percent in July, has been above one percent every month this year. Its current 12-month growth is the largest since 1979. The good news is much of the current growth in food prices is due to grain prices, which are starting to recede some as demand slows and Ukraine's exports come back online for the first time since Russia invaded in February.

The producer price index echoed the good news on the price front. Producer prices declined by 0.5 percent in July, and only grew by 0.2 percent when excluding food and energy. This jibes with July's ISM surveys which showed a large decline in supplier delays and slower growth in input prices. The 12-month change in producer prices has fallen below 10 percent for the first time since November but is still a far cry from the long-term average of about two percent. The trifecta for negative price growth was completed when July's import price growth came in at -1.4 percent, the first sizable decline in import prices since the onset of the pandemic.

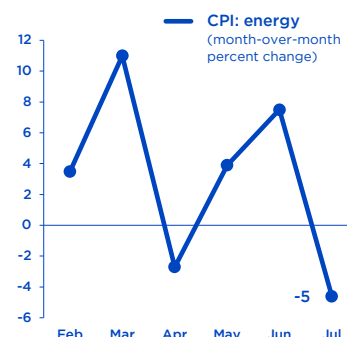
Inflation is expected to continue to slow going forward, particularly if supply chain healing continues apace. It's unlikely, however, that an additional CPI report like July's will deter the Fed from another large interest rate hike at their meeting next month unless job growth also slows dramatically.

Small business optimism remains very low

The NFIB small business optimism index remained subdued in July, rising modestly from June's reading which was the lowest in nearly 10 years. The low level of optimism revolves around inflation and recession concerns. A large percentage of firms expect a weaker economy and lower real sales going forward, and the number of firms reporting inflation as their most important problem rose to a record high. Additionally, while down from May's all-time high, the percentage of firms unable to fill open positions right now is still very elevated, and the majority of firms have reported no increase in employment in the last three months. In other words, firms would like to increase employment, but they are struggling with employee turnover and a lack of qualified applicants for open positions.

Recession fears are also affecting expansion plans. Only four percent of small businesses believe now is a good time to expand, which is near the all-time low and well down from the 15 percent seen last summer. The lack of expansion plans could have a downstream effect on job openings, which the Fed is watching closely, as the economy slows.

No change in consumer prices



Consumer price growth was flat in July. It was held back by a sharp decline in energy prices, which had grown rapidly in four of the previous five months.

Modest upward movement in small business optimism



The small business optimism index moved up modestly in July but remains low from an absolute standpoint. The most important problem facing small businesses is inflation.

Sources: Bureau of Labor Statistics; NFIB

The Week Ahead

Here's what we are watching this week:

Housing
Starts



⬇️ Weak permit activity weighs on housing starts

Higher interest rates and prices are causing housing starts to fall as builders take note of a decline in new housing demand. Permits have been weak lately, and activity at new developments has retreated. However, reducing the backlog and lowering material costs should ease prices and reset expectations, suggesting housing starts may rise in the months ahead. We expect housing starts to be 1.48 million in July.

Retail
Sales



⬆️ Retail sales likely to rise again

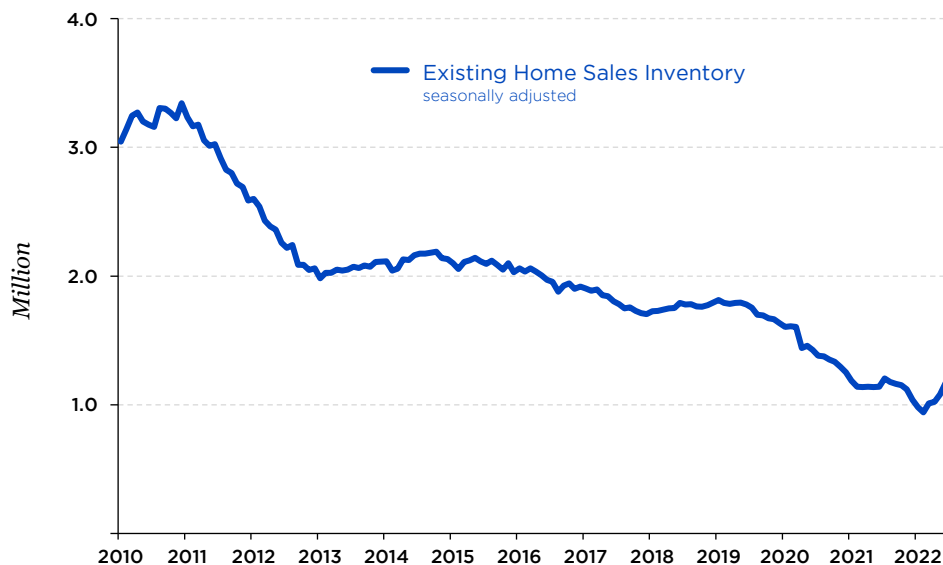
Another positive retail sales print is expected for July with an expected 0.6 percent increase as the lower gasoline prices brighten the consumer's outlook. May's decrease seems more like an outlier, and the third quarter should get off to a good start. Still, supply chains continue to be challenged, and the full impact of the consumer's desire to purchase goods may be muted by sluggish auto sales — as many dealerships lack inventory and used car prices remain elevated.

Existing
Home Sales



⬇️ Existing home sales to cool further

Existing home sales are forecasted to drop for the sixth straight month in July, falling to 5.0 million units. This would be a decline of nearly 1.5 million units, annualized, from January's peak. The wave of bidding wars to purchase an existing home seems to be ending, allowing buyers to wait out aggressive sellers. The lower level of sales does have a silver lining with inventory rising, helping the housing market to normalize.



Sources: National Association of Realtors

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)	4,280	3.31%	-9.34%	-2.61%
S&P 400 (Mid)	2,615	4.46%	-7.12%	-3.06%
S&P 600 (Small)	1,288	3.94%	-7.33%	-3.91%
S&P 500 (High Quality)	47	3.14%	-11.14%	-6.35%
Russell 1000	4,533	3.39%	-10.05%	-4.45%
Russell 2000	5,012	4.97%	-9.48%	-9.03%
Dow Jones	33,761	2.99%	-5.98%	-3.02%
NASDAQ	13,047	3.10%	-16.21%	-11.31%
MSCI EAFE	1,964	2.17%	-13.95%	-14.20%
MSCI EM	1,017	1.66%	-15.42%	-18.55%

*represents total return

S&P Metrics

	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	19.70	18.06	23.55	8.03
Prior Month	18.68	15.94	27.70	9.21
Prior Year	24.12	21.11	21.52	21.71

Fixed Income

	Last	1 Week	Returns YTD	1 Year
U.S. Aggregate	3.62%	0.24%	-8.89%	-9.19%
U.S. Inv Grade	4.43%	0.60%	-11.87%	-11.84%
U.S. High Yield	7.48%	0.94%	-7.67%	-6.15%
TIPS	3.31%	0.21%	-6.35%	-4.34%

Rates

	Last	1 Week	Change YTD	1 Year
6M T-Bill	3.13%	0.03	2.94	3.07
2 Yr Treasury	3.25%	0.01	2.52	3.02
5 Yr Treasury	2.97%	0.00	1.71	2.14
10 Yr Treasury	2.84%	0.01	1.32	1.48
30 Yr Treasury	3.12%	0.06	1.22	1.09

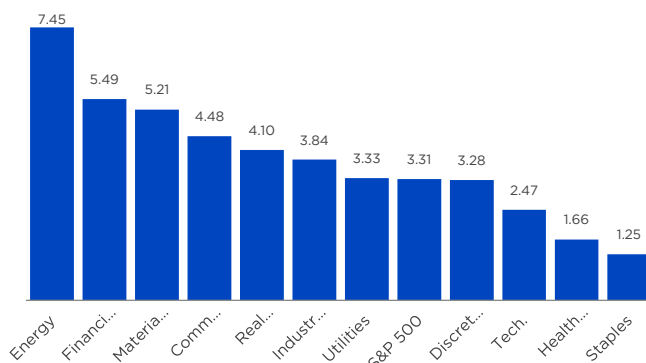
Spreads

	Last	1 Week	Change (Abs %) YTD	1 Year
AAA Rated	0.57	-0.05	0.06	0.06
BBB Rated	1.77	-0.09	0.54	0.60
High Yield	4.25	-0.19	1.15	0.91
10 to 2 yr Treasury	-0.41	0.00	-1.20	-1.54

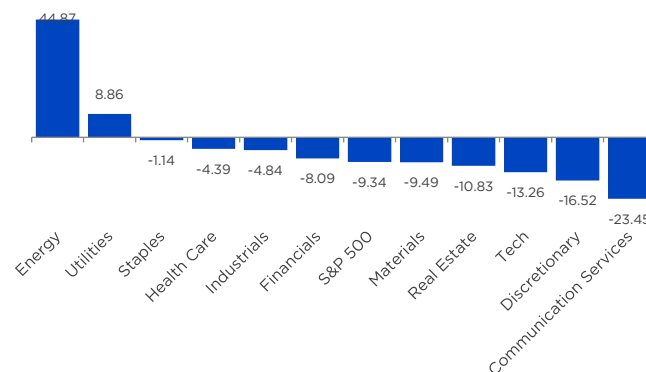
Commodities/FX

	Last	1 Week	Returns (Currencies in \$ strength) YTD	1 Year
Gold	1798.60	1.45%	-1.58%	2.84%
Bitcoin	24384.00	5.10%	-47.44%	-45.16%
WTI Oil	92.09	0.35%	22.25%	33.23%
EUR/USD	1.02	-0.78%	9.91%	12.66%
USD/JPY	133.71	-1.21%	16.11%	21.16%

S&P Sector Returns – Week (%)

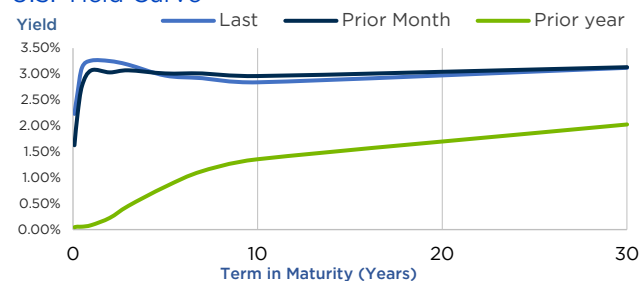


S&P Sector Returns – YTD (%)*



* represents total return

U.S. Yield Curve



Russell Style Returns - Week

	Value	Core	Growth
Large	3.9	3.4	2.9
Mid	4.6	4.2	3.4
Small	5.2	5.0	4.8

Russell Style Returns - YTD

	Value	Core	Growth
Large	-3.6	-10.1	-15.9
Mid	-5.0	-9.6	-18.0
Small	-3.7	-9.5	-15.4

Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
NFIB Small Business Optimism	July	89.9	89.5
Nonfarm Productivity	2nd Quarter	-4.6	-7.4
Unit Labor Cost	2nd Quarter	10.8	12.7
CPI (m/m)	July	0.0	1.3
CPI (y/y)	July	8.5	9.1
Core CPI (m/m)	July	0.3	0.7
Core CPI (y/y)	July	5.9	5.9
Initial Jobless Claims	Week ending August 6	262,000	248,000
Continuing Jobless Claims	Week ending July 30	1,428,000	1,420,000
PPI	July	-0.5	1.0
Core PPI	July	0.2	0.3
Import prices	July	-1.4	0.3
Consumer sentiment	August	55.1	51.5

This Week's Indicators

	Release Date	Period	Forecast*	Previous
Empire Manufacturing	Monday	August	9.0	11.1
NAHB Housing Market Index	Monday	August	51	55
Housing Starts	Tuesday	July	1475 k	1559 k
Building Permits	Tuesday	July	1675 k	1685 k
Housing Starts MoM	Tuesday	July	-5.5	-2.0
Building Permits MoM	Tuesday	July	-0.6	-0.6
Industrial Production MoM	Wednesday	July	0.3	-0.2
Capacity Utilization	Wednesday	July	80.3	80.0
Retail Sales Advance MoM	Thursday	July	0.6	1.0
Retail Sales Ex Auto MoM	Thursday	July	0.4	1.0
Initial Jobless Claims	Thursday	Week ending August 13	260,000	262,000
Continuing Claims	Thursday	Week ending August 6	1.475 m	1.428 m
Philadelphia Fed Business Outlook	Friday	August	-5.4	-12.3
Existing Home Sales	Friday	August	5.00 m	5.12 m
Existing Home Sales MoM	Friday	August	-8.3	-5.4
Leading Index	Friday	August	-0.5	-0.8



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