Nationwide Economics
Weekly Economic Review & Outlook
August 22, 2022

Core retail sales up solidly, but housing market slows further

Last week's economic data were mixed. Retail sales growth was flat due in large part to falling gasoline and car prices; the retail sales control group suggests that consumers are not yet pulling back on spending. On the other hand, the housing market continued to cool — both existing home sales and housing starts fell — and recession indicators are drawing ever closer to signaling that a recession is likely in 2023.

Price growth slows across economy
Growth in overall retail sales was flat in July, while sales excluding autos climbed by 0.4 percent. Total sales were held back by a drop in sales at gasoline stations which was more than accounted for by the sharp decline in gasoline prices. Curiously, spending on autos was down for the month despite a rise in unit sales. Did auto prices drop for the month? The retail sales control group — which excludes automobile, gasoline station, and building supplies sales — grew by a healthy 0.6 percent. That growth was led by large gains in sales at miscellaneous store retailers and non-store retailers (i.e., online shopping), while large declines were seen in sales at clothing and accessory stores and general merchandise stores.

While the headline number showed no gain in sales, it tracks perfectly with July's CPI growth. Given the growth in the control group (with a big upward revision for May) it's difficult to argue that consumers have cut back on spending. Indeed, the rise in the control measure suggests that real personal consumption expenditures started the third quarter with a bang — and with upward revisions on PCE for the second quarter perhaps enough to bring real GDP growth above zero.

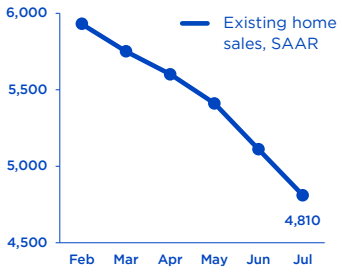
Existing home sales and housing starts fall again
The housing market continued to cool in July as existing home sales fell by 5.9 percent to an annualized pace of 4.81 million units. This is well below the long-run average and coincides with NAR's housing affordability index falling to its lowest level since 1989 in June (the month when many of July's sales would have gone into contract).

On the positive side of the existing home sales report, inventories continued to build and the number of existing homes for sale is roughly 25 percent higher than the record low from February on a seasonally-adjusted basis. Still, they remain very low from a historical perspective; July's inventory would have been a record low as recently as February 2021. Prices for existing single-family homes sold had their largest month-over-month decline since January 2020 and are now up 10.6 percent from a year ago, well down from the all-time high of 26.1 percent last May. But much of this drop came from sharper sales declines in the higher-cost Northeast and West regions.

July's housing starts data corroborated the idea of a quickly-cooling housing market, at least for single-family homes (multifamily starts continue to be elevated). With home price appreciation slowing and builder costs still high and labor at a premium, builders are slowing the pace of construction (seen in the elevated level of homes under construction) which is having the downstream effect of fewer single-family starts.

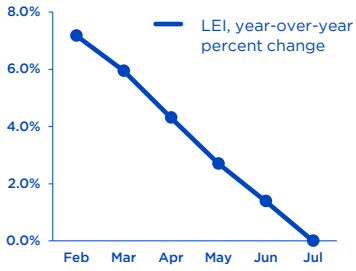
LEI continues streak of declines
The index of leading economic indicators (LEI) fell for a fifth straight month in July. As we pointed out in Friday's Daily Insight, all historical negative streaks of this length have been either in pre-recessionary or recessionary periods, but the positive contribution to the index by the yield curve continues to be a signal against the possibility of a recession. Still, a negative 12-month change in the LEI has by itself been an excellent predictor of recessions historically and, while we aren't there yet, July's downward movement in the index brought the 12-month change to flat. If August's data results in another decline in the index, the 12-month change will officially be negative, and there is a good possibility this will coincide with a fully inverted yield curve if the Fed raises the fed funds rate another 75 basis points in September (which is more likely than not). These two things happening concurrently would signal a heightened likelihood of a recession within the next year.

Existing home sales have fallen dramatically this year



July's pace of existing home sales was the lowest since May 2020.

12-month growth in the LEI has fallen to zero



Year-over-year growth in the LEI is now flat, a yellow signal of an impending economic downturn.

Sources:
National Association of Realtors;
The Conference Board

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

The Week Ahead

In addition to the Fed's Jackson Hole meeting, here is what we are looking at this week:

Durable Goods Orders

Durable goods orders moderate

Another strong monthly gain in durable goods orders is unlikely in July as manufacturers worry about the possibility of a recession. Still, the standout in the reading should be the transportation sector, as auto manufacturers try to rush products to the showrooms. Even if the monthly gain is more modest, orders should achieve double-digit annual growth, responding to solid consumer demand and providing the expansion with significant momentum.

PCE Deflator

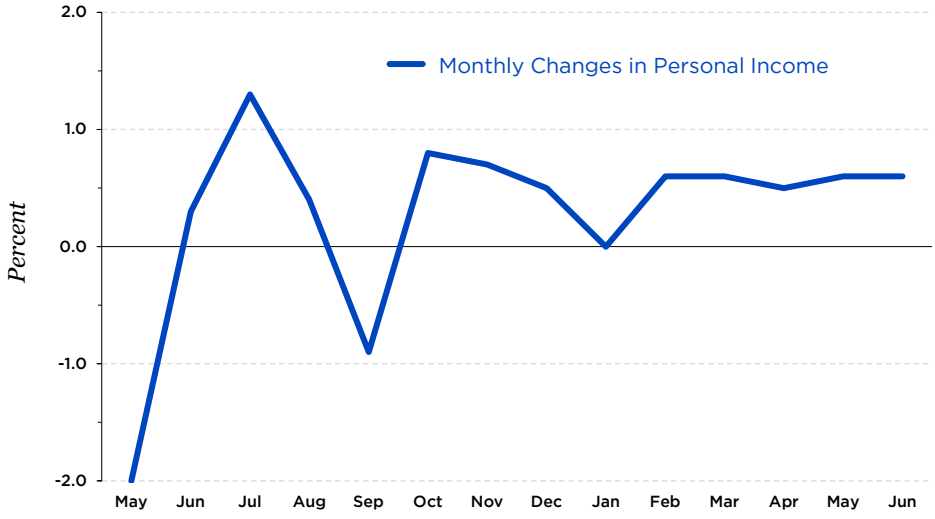
Another better inflation reading

Price changes from the broad personal consumption price index (PCE) are projected to have moderated in July. As with the CPI reading, the sharp drop in energy prices (plus a deceleration in housing costs and low medical care cost increases) should keep gains on the lower end. Our forecast of a gain of 0.05 percent would be the smallest monthly increase since the Covid recession.

Personal Income

Solid personal income gains

Healthy compensation gains are expected to fuel July's steady gain in personal income. Solid employment gains and high wage growth have produced almost constant one-half of one percent monthly increases since February, a significant improvement from volatile 2021. Even better, the year-over-year uptick is nearly five percent, giving consumers resources to spend even if inflation takes a bigger bite out of their paychecks.



Sources: Bureau of Economic Analysis

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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)	4,228	-1.16%	-10.39%	-2.58%
S&P 400 (Mid)	2,578	-1.38%	-8.40%	-1.08%
S&P 600 (Small)	1,268	-1.49%	-8.71%	-1.09%
S&P 500 (High Quality)	46	-0.94%	-11.97%	-6.06%
Russell 1000	4,467	-1.42%	-11.33%	-4.40%
Russell 2000	4,864	-2.90%	-12.11%	-7.08%
Dow Jones	33,707	-0.05%	-6.02%	-1.46%
NASDAQ	12,705	-2.58%	-18.37%	-11.99%
MSCI EAFE	1,920	-2.19%	-15.83%	-14.20%
MSCI EM	1,001	-1.47%	-16.67%	-16.01%

*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	19.51	17.81	22.79	7.99
Prior Month	18.90	16.46	26.97	9.02
Prior Year	23.82	20.77	22.71	21.18

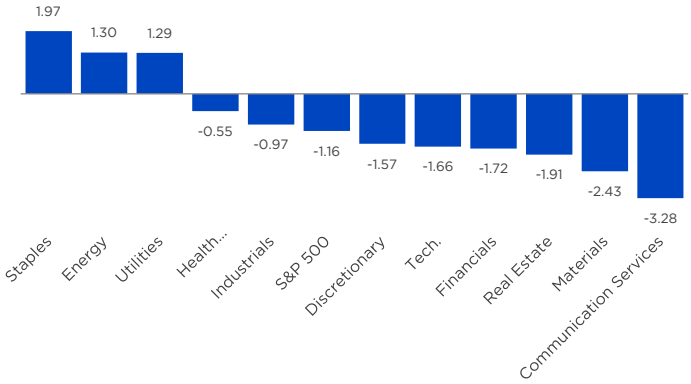
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	3.74%	-0.89%	-9.70%	-10.49%
U.S. Inv Grade	4.59%	-1.23%	-12.96%	-13.37%
U.S. High Yield	7.76%	-1.21%	-8.78%	-7.21%
TIPS	3.38%	-0.02%	-6.37%	-4.51%

Rates	Last	Change 1 Week	YTD	1 Year
6M T-Bill	3.16%	0.03	2.97	3.11
2 Yr Treasury	3.25%	0.00	2.52	3.03
5 Yr Treasury	3.11%	0.14	1.85	2.33
10 Yr Treasury	2.98%	0.14	1.46	1.74
30 Yr Treasury	3.22%	0.10	1.32	1.34

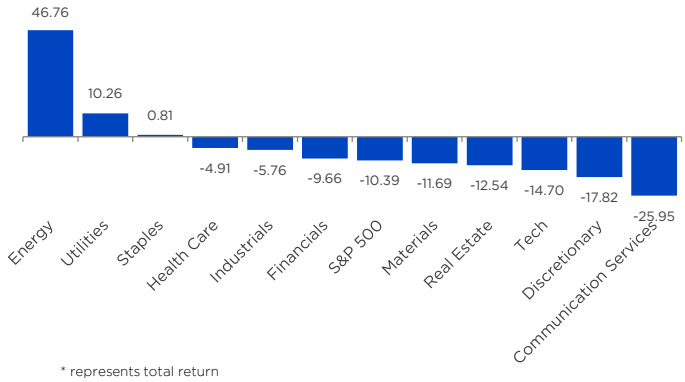
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.60	0.03	0.09	0.06
BBB Rated	1.78	0.01	0.55	0.58
High Yield	4.45	0.20	1.35	1.03
10 to 2 yr Treasury	-0.27	0.00	-1.06	-1.29

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1747.60	-2.84%	-4.37%	-1.83%
Bitcoin	20862.00	-14.44%	-55.03%	-55.26%
WTI Oil	90.77	-4.31%	20.50%	42.52%
EUR/USD	1.00	1.98%	11.70%	14.05%
USD/JPY	137.12	2.55%	19.07%	24.96%

S&P Sector Returns — Week (%)

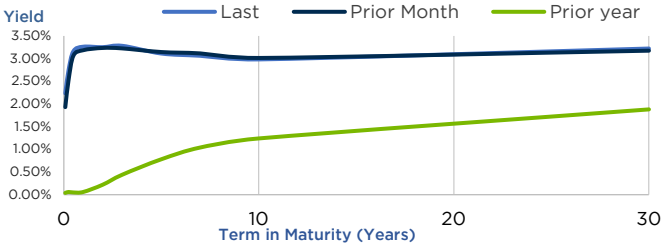


S&P Sector Returns — YTD (%)*



* represents total return

U.S. Yield Curve



Russell Style Returns - Week

	Value	Core	Growth
Large	-1.2	-1.4	-1.6
Mid	-1.7	-2.1	-2.8
Small	-2.7	-2.9	-3.1

Russell Style Returns - YTD

	Value	Core	Growth
Large	-4.8	-11.3	-17.2
Mid	-6.7	-11.5	-20.3
Small	-6.3	-12.1	-18.0

Source: FactSet

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Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
Empire Manufacturing	August	-31.1	11.1
NAHB Housing Market Index	August	49	55
Housing Starts	July	1446 k	1599 k
Building Permits	July	1674 k	1696 k
Housing Starts MoM	July	-9.6	2.4
Building Permits MoM	July	-1.3	0.1
Industrial Production MoM	July	0.6	0.0
Capacity Utilization	July	80.3	79.9
Retail Sales Advance MoM	July	0.0	0.8
Retail Sales Ex Auto MoM	July	0.4	0.9
Initial Jobless Claims	Week ending August 13	250,000	252,000
Continuing Claims	Week ending August 6	1.437 m	1.430 m
Philadelphia Fed Business Outlook	August	6.2	-12.3
Existing Home Sales	August	4.81 m	5.11 m
Existing Home Sales MoM	August	-5.9	-5.5
Leading Index	August	-0.4	-0.7

This Week's Indicators

	Release Date	Period	Forecast*	Previous
Chicago Fed Nat Activity Index	Monday	July	0.1	(0.2)
S&P Global US Manufacturing PMI	Tuesday	August	52.7	52.2
S&P Global US Services PMI	Tuesday	August	49.2	47.3
Richmond Fed Manufacturing Index	Tuesday	August	5	0
New Home Sales	Tuesday	July	575 k	590 k
Durable Goods Orders	Wednesday	July	1.8	2.0
Pending Home Sales	Wednesday	July	(2.2)	(8.6)
GDP Annualized QoQ	Thursday	2Q A	(0.6)	(0.9)
GDP Price Index	Thursday	2Q A	8.6	8.7
Initial Jobless Claims	Thursday	Week ending August 20	245,000	250,000
Continuing Jobless Claims	Thursday	Week ending August 13	1,400 k	1,437 k
Personal Income	Friday	July	0.7	0.6
Personal Spending	Friday	July	0.3	1.1
PCE Core Deflator MoM	Friday	July	0.0	0.6
PCE Core Deflator YoY	Friday	July	4.4	4.8
U. of Mich. Sentiment	Friday	August Final	54.7	55.1

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