

August 29, 2022

The housing market continues to cool

Last week's economic data indicated further slowing in the housing market and overall economic growth. New home sales are now well below the long-run average and pending home sales suggest the trend will continue going forward, while consumer spending slowed in large part due to falling energy prices. Additionally, the S&P flash PMIs both fell, with services now well into contraction territory.

Sharp drop in new home sales

New home sales fell sharply for July. The month's pace of sales was nearly 40 percent lower than the recent peak from December and well below the long-run average. The median sales price of a new home sold climbed substantially after falling in each of the previous two months due to a higher percentage of more expensive homes sold. Mortgage rates slipped a tad for July, but it's clear that declining affordability is deterring prospective buyers. The downward trend in sales is helping inventories, as well; the months' supply of single-family homes at the current sales pace in July was the highest since the housing crisis in 2008 (and higher than all but a handful of months on record). Even the actual number of new homes for sale has climbed to relatively high levels.

Pending home sales also fell for July. It was the eighth decline in the last nine months and suggests further slowing in existing home sales should be expected. As it is, total home sales for July were the lowest since May 2020, and since 2015 excluding the Covid shutdown period.

Modest growth in consumer spending as inflation slows

Personal consumption expenditures (PCE) rose by 0.1 percent for July — lower than expectations — while personal income climbed by 0.2 percent. The shift away from goods continued as spending on goods declined while spending on services rose. A significant decline in energy prices explains a significant portion of the slowdown in spending; in fact, energy prices were the biggest reason for the decline in the overall PCE price index — the first decline in the index since May 2020. The 12-month trend rate of the index fell to 6.3 percent, while the core rate fell to a four-month-low 4.6 percent. But “core” retail sales — excluding autos, building supplies, and gasoline stations — rose by 0.8 percent for the month, showing that consumers are still active.

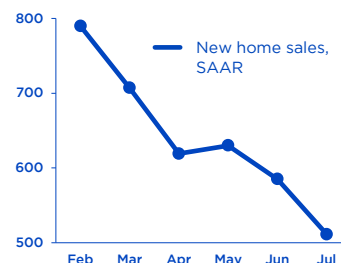
While the slowdown in July's inflation data is encouraging, the fact the much of it came from energy prices and the core rate remains more than double the Fed's goal of two percent makes it unlikely that these data will be the cause of the Fed slowing the pace of rate hikes. To this point, at his presentation at the Fed's annual Jackson Hole policy conference last week Fed Chair Jerome Powell continued to take a hard stance on fighting inflation, saying that the “pain” experienced by the public due to higher interest rates, slower growth, and a softer labor market are “the unfortunate costs of reducing inflation.” His remarks made it clear that, for the time being, the primary goal of the Fed is to reduce inflation closer to the two percent goal and that the goal of economic growth is taking a back seat. There is, however, roughly a month's worth of data to come out before the next FOMC meeting — and data that shows significantly worse economic activity could cause the Fed to soften its stance, increasing the federal funds rate by 50 basis points rather than the expected 75.

Business surveys suggest slower growth

The S&P flash manufacturing PMI slipped to 51.3 for August, a 25-month low, while the flash services PMI dropped to a recessionary 44.1, a 27-month low. Survey respondents noted that customer demand is noticeably falling in response to rising interest rates and inflation, and businesses continue to be negatively impacted by material shortages and delivery delays. On the positive side, the rate of increase for input costs and selling prices were both at an 18-month low.

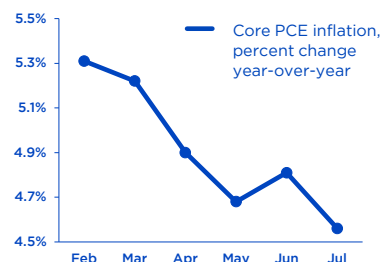
The flash readings are preliminary but are typically close to the final readings. It will be interesting to compare these with the ISM readings when they come out later this week (manufacturing — forecast discussed on page two) and next week (services). While the ISM manufacturing index has recently trended in the same direction as the S&P and remained modestly in expansion for July, the ISM services index has diverged from S&P services. In contrast to the S&P's services measure, which has fallen for five straight months (including August's flash reading) and is now firmly in contraction, ISM's services index climbed last month and showed solid growth.

New home sales tumble



New home sales had a substantial decline for July and are now far below the paces seen at the end of last year and beginning of this year.

Core inflation slowly retreating



Core PCE inflation appears to be past the peak but is still well above the Fed's two percent target.

Sources:
Census Bureau; Bureau of Economic Analysis

The Week Ahead

Here's what we are watching this week:

ISM
Manufacturing



ISM manufacturing activity slows modestly

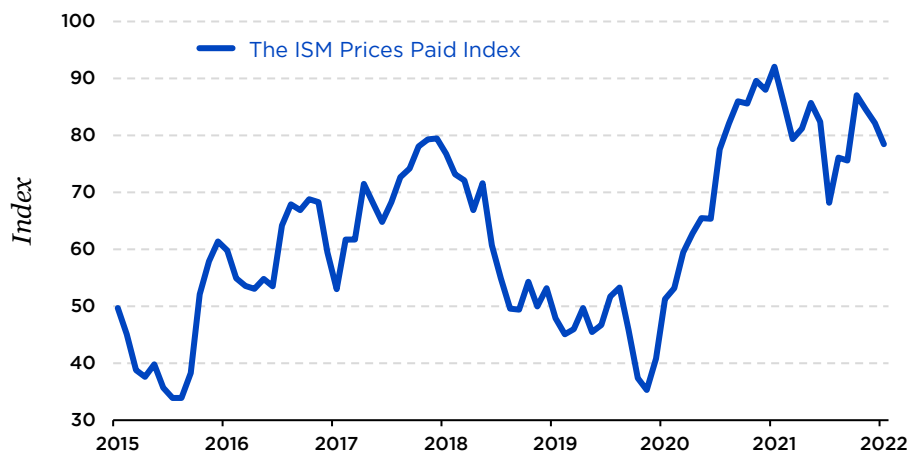
A modest expansion in manufacturing activity is expected for August, although continued gains in nondefense capital goods orders (both with and without aircraft) suggest that any declines in the ISM survey should be small. Still, a third sequential drop in the ISM survey should show the uncertainty businesses face. A positive is more price stability, with the prices paid measure forecasted to fall further, a far cry from rampant raw material cost increases earlier this year.

Consumer
Confidence



Consumer confidence edges higher

The solid employment market plus lower gasoline prices should push the Conference Board's consumer confidence index modestly higher. This combination already pushed the University of Michigan's consumer sentiment index up for August and we think these same factors will positively impact consumer confidence, as well. Important to watch are buying intentions for autos and houses, as dealerships' inventories remain low for the former and costs and financing are elevated for the latter.



Sources: Institute for Supply Management

Nonfarm
Employment



Solid employment gains continue

Job gains are expected to exceed 300,000 for a sixth consecutive month in August, as total employment further passes the previous all-time high seen in February 2020. Ambulatory care and food service facilities should repeat July's gains, with outpatient procedures increasing and dining-out demand strong. Finding workers continues to challenge firms, pushing wage gains higher.

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)	4,058	-4.02%	-14.00%	-7.86%
S&P 400 (Mid)	2,500	-3.01%	-11.16%	-6.61%
S&P 600 (Small)	1,226	-3.35%	-11.77%	-6.94%
S&P 500 (High Quality)	45	-3.40%	-14.93%	-10.27%
Russell 1000	4,293	-3.87%	-14.76%	-9.68%
Russell 2000	4,722	-2.93%	-14.69%	-13.13%
Dow Jones	32,283	-4.20%	-9.97%	-6.50%
NASDAQ	12,142	-4.43%	-21.99%	-18.17%
MSCI EAFE	1,882	-1.91%	-17.43%	-16.95%
MSCI EM	1,007	0.55%	-16.21%	-17.83%

*represents total return

S&P Metrics

	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	19.41	17.70	22.01	7.91
Prior Month	18.81	16.43	26.05	8.71
Prior Year	23.91	21.01	23.89	20.62

Fixed Income

	Last	1 Week	Returns YTD	1 Year
U.S. Aggregate	3.84%	-0.36%	-10.02%	-10.55%
U.S. Inv Grade	4.66%	-0.23%	-13.16%	-13.32%
U.S. High Yield	8.04%	-1.05%	-9.74%	-8.70%
TIPS	3.45%	0.20%	-6.19%	-4.26%

Rates

	Last	1 Week	Change YTD	1 Year
6M T-Bill	3.26%	0.10	3.07	3.20
2 Yr Treasury	3.37%	0.12	2.64	3.12
5 Yr Treasury	3.20%	0.09	1.94	2.36
10 Yr Treasury	3.04%	0.06	1.52	1.70
30 Yr Treasury	3.21%	-0.01	1.31	1.27

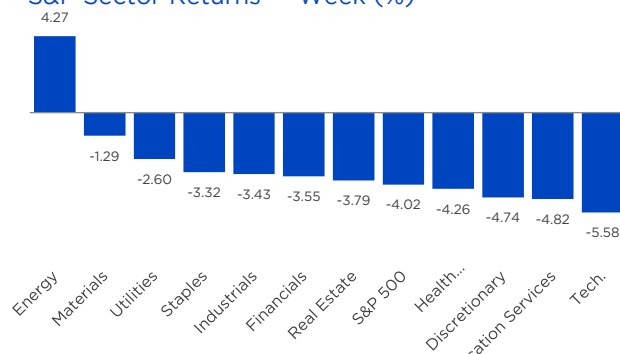
Spreads

	Last	1 Week	Change (Abs %) YTD	1 Year
AAA Rated	0.61	0.01	0.10	0.12
BBB Rated	1.78	0.00	0.55	0.61
High Yield	4.65	0.20	1.55	1.45
10 to 2 yr Treasury	-0.33	0.00	-1.12	-1.42

Commodities/FX

	Last	1 Week	Returns (Currencies in \$ strength) YTD	1 Year
Gold	1736.10	-0.66%	-5.00%	-3.13%
Bitcoin	20157.00	-3.38%	-56.55%	-57.40%
WTI Oil	93.06	-0.52%	23.54%	38.03%
EUR/USD	1.00	0.25%	11.92%	14.79%
USD/JPY	137.27	0.11%	19.20%	24.73%

S&P Sector Returns — Week (%)

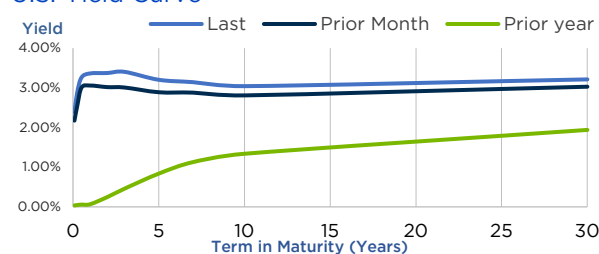


S&P Sector Returns — YTD (%)*



* represents total return

U.S. Yield Curve



Russell Style Returns - Week

	Value	Core	Growth
Large	-3.2	-3.9	-4.6
Mid	-3.1	-3.3	-3.6
Small	-3.3	-2.9	-2.6

Russell Style Returns - YTD

	Value	Core	Growth
Large	-7.8	-14.8	-21.0
Mid	-9.6	-14.4	-23.2
Small	-9.4	-14.7	-20.1

Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
Chicago Fed Nat Activity Index	July	0.2	(0.3)
S&P Global US Manufacturing PMI	August	51.3	52.2
S&P Global US Services PMI	August	44.1	47.3
Richmond Fed Manufacturing Index	August	-8	0
New Home Sales	July	511 k	585 k
Durable Goods Orders	July	0.0	2.2
Pending Home Sales	July	(1.0)	(8.6)
GDP Annualized Q/Q	2Q A	(0.6)	(0.9)
GDP Price Index	2Q A	8.9	8.7
Initial Jobless Claims	Week ending August 20	243,000	245,000
Continuing Jobless Claims	Week ending August 13	1,415 k	1,434 k
Personal Income	July	0.2	0.6
Personal Spending	July	0.1	1.1
PCE Core Deflator MoM	July	0.1	0.6
PCE Core Deflator YoY	July	4.6	4.8
U. of Mich. Sentiment	August Final	58.2	55.1

This Week's Indicators

	Release Date	Period	Forecast*	Previous
Dallas Manufacturing Activity	Monday	August	-10.5	-22.6
S&P CoreLogic CS 20-City YoY	Tuesday	June	19.8	20.5
Consumer Confidence	Tuesday	August	96.9	95.7
JOLTS Job Openings	Tuesday	July	101.00 m	106.98 m
ADP Employment Change	Wednesday	August	250,000	128,000
MNI Chicago PMI	Wednesday	August	51.2	52.1
Challenger Job Cuts YoY	Thursday	August	40.1	36.3
Initial Jobless Claims	Thursday	Week ending August 27	247,000	243,000
Continuing Claims	Thursday	Week ending August 20	1,420 k	1,415 k
S&P Global US Manufacturing PMI	Thursday	August	51.5	51.3
Construction Spending MoM	Thursday	July	-0.3	-1.1
ISM Manufacturing	Thursday	August	51.9	52.8
Wards Total Vehicle Sales	Thursday	August	13.2	13.4
Change in Nonfarm Payrolls	Friday	August	340,000	528,000
Unemployment Rate	Friday	August	3.5	3.5
Average Hourly Earnings MoM	Friday	August	0.6	0.5
Average Hourly Earnings YoY	Friday	August	5.5	5.2
Average Weekly Hours All Employees	Friday	August	34.7	34.6



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