Nationwide Economics
Weekly Economic Review & Outlook
September 6, 2022

# Solid, but slower, hiring in August

Last week's economic data featured evidence of continued strength in the labor market. Nonfarm payrolls were still solid although slowing from July's surge, while the unemployment rate climbed because of an increase in labor force participation. Also, the ISM manufacturing index remained in expansion and showed the slowest increase in input prices since before the pandemic.

**Another solid jobs report**
Nonfarm payrolls grew by 315,000 in August, close to trend growth from recent months outside of July's surge. There were sizable job gains for retail, professional and business services, and health care. Additionally, downward revisions to prior months totaled more than 100,000, making the level of total payroll employment somewhat lower than expected through August. Still, the three-month average for nonfarm payroll growth was 378,000, a strong pace that counteracts fears of a recession happening right now.

The unemployment rate climbed to a still-low 3.7 percent with the labor force participation rate climbing to a post-Covid high of 62.4 percent (although still much lower than before the pandemic). The size of the labor force rose to a record high as more workers attempt to take advantage of rising wages amid continued high labor demand from employers.

It is unlikely August's employment data will do much to dissuade the Fed from instituting another large fed funds rate hike at its September meeting — with financial markets expecting a third consecutive 75 basis point rise. Bringing down inflation remains the primary focus of the Fed, especially with the labor market clearly still showing signs of strength.

**The labor market is still extremely tight**
While there has been some evidence of a softer labor market, recent data in addition to payrolls suggest that the slowdown has been very modest so far. The job openings and labor turnover survey (JOLTS) data showed that job openings climbed to 11.2 million at the end of July, which is only five percent lower than the all-time high from March. Furthermore, there are still roughly two job openings for every job seeker and the quits rate is only a small step below November's record high (the quits rate is tracked because job quitters typically already have another job lined up).

Initial unemployment claims tell a similar story. After falling to a record low 166,000 in March, claims trended higher through mid-July to over 260,000 as layoffs hit some sectors. Since then, they have retreated to figures seen throughout June; a level which, though certainly higher than in early spring, is far below the long-run average.

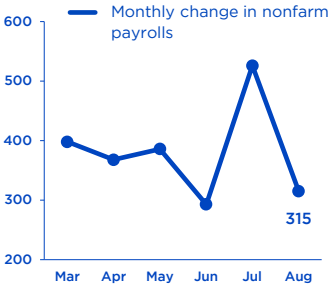
It does appear that the labor market has softened from its record-level tightness earlier this year, but by any measure it is still extremely tight. As the Fed continues to raise interest rates to slow demand, hiring should decelerate over the next year, driving a modest rise in the unemployment rate, but by historical standards the labor market will likely continue to be tight for some time.

**Manufacturing continues to expand**
The Institute for Supply Management (ISM) manufacturing index was unchanged in August at 52.8, beating expectations of a small decline in a broadly positive report. New orders and employment, in contraction the previous two and three months, respectively, both climbed back into expansion. Also, importantly, the survey continued to show signs of supply chain healing as readings on input prices and supplier delays both fell to their lowest levels since January 2020.

Businesses experienced fewer hardships related to the labor market in August, with fewer firms having difficulty filling open positions and a decrease in reported labor turnover. After production fell to near-contraction territory, the positive survey responses related to the labor market in conjunction with improving supplier deliveries should help to boost production in coming months.

In stark contrast to the last two years, some survey responses noted improving availability of raw materials and replenishing inventories (even some comments about "bloated" inventories), while demand remains solid if softening. Only eight commodities were reported to be in short supply, matching the low over the past two years. Far from pointing to a downturn, the manufacturing survey has now been in expansion for 25 straight months.

## Job growth is slower but still strong




Job growth was slower in July, but close to the four months prior and still strong in an absolute sense.

## Manufacturing input price growth has slowed dramatically


Input price growth for the manufacturing sector has fallen significantly since March and in the last two months, especially.

Sources:
Bureau of Labor Statistics; Institute for Supply Management

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

# The Week Ahead

Here's what we are watching during a lighter week for economic data:

ISM Services Index

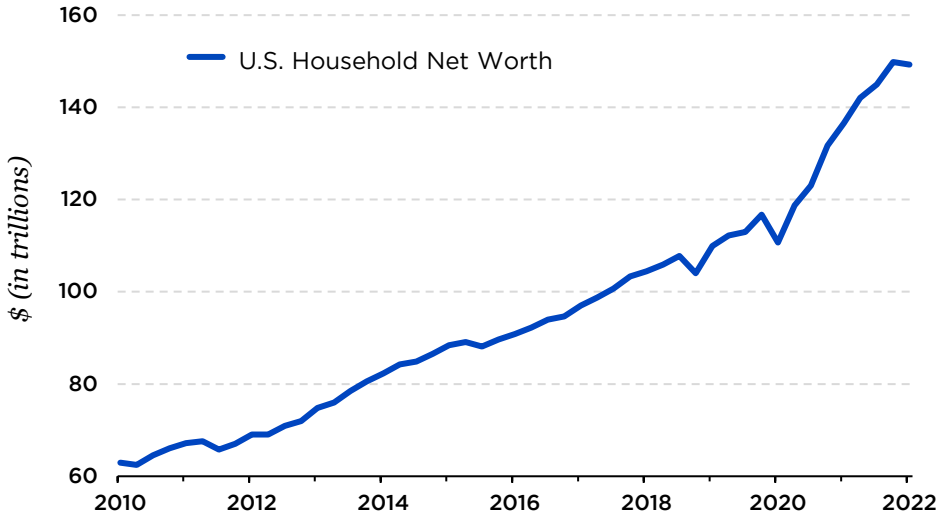

## Service activity should show continued expansion

Despite concerns about discretionary consumer spending, service sector growth has maintained solid readings in recent months, albeit slowing from earlier this year. For August, the ISM services PMI is expected to moderate further to a reading of 54.5 — still solid expansion for the sector. The nearly consistent expansion in activity has allowed the supply chain to heal, helping firms to remain profitable while passing along cost increases.

Consumer Credit


## Growth in consumer credit expected to slow

Employment growth and elevated prices for durable goods have encouraged consumers to take on credit to pay for current expenses. Still, concerns about a recession and even higher prices have slowed the willingness to buy excessively while higher mortgage rates have weakened demand for real estate loans. Total consumer credit should slow modestly in July from June.




Sources: Federal Reserve Board

Change in Net Worth


## Household net worth likely to fall again

After peaking at the end of 2021, household net worth dropped modestly in the first quarter. This downward trend likely continued in the second quarter in light of the sharp equity market declines through June. Still, higher home values are holding up household net worth and should help to support spending trends over the second half of the year.

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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) | 3,924 | -3.23% | -16.78% | -12.19% |
| S&P 400 (Mid) | 2,393 | -4.23% | -14.91% | -12.42% |
| S&P 600 (Small) | 1,162 | -5.16% | -16.32% | -14.47% |
| S&P 500 (High Quality) | 43 | -3.30% | -17.72% | -13.22% |
| Russell 1000 | 4,147 | -3.34% | -17.61% | -14.08% |
| Russell 2000 | 4,498 | -4.70% | -18.70% | -20.47% |
| Dow Jones | 31,318 | -2.85% | -12.54% | -9.85% |
| NASDAQ | 11,631 | -4.18% | -25.25% | -23.58% |
| MSCI EAFE | 1,823 | -3.00% | -19.91% | -21.06% |
| MSCI EM | 972 | -3.41% | -19.06% | -23.41% |

*represents total return

| S&P Metrics | LTM P/E | NTM P/E | LTM EPS Growth | NTM EPS Growth |
|---|---|---|---|---|
| Current | 18.54 | 16.51 | 21.11 | 7.93 |
| Prior Month | 19.23 | 17.25 | 24.84 | 8.16 |
| Prior Year | 24.04 | 21.28 | 24.94 | 20.02 |

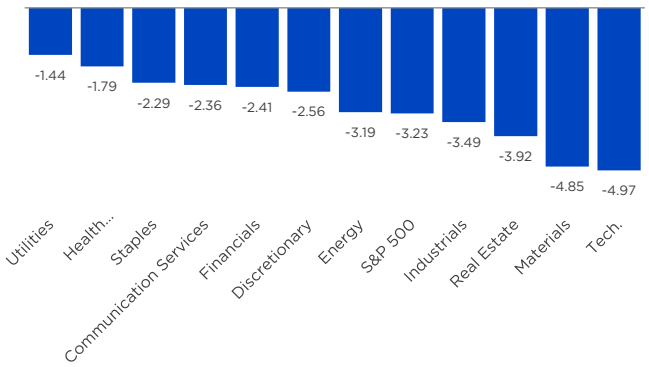
| Fixed Income | Last | Returns 1 Week | YTD | 1 Year |
|---|---|---|---|---|
| U.S. Aggregate | 3.97% | -1.02% | -10.94% | -11.75% |
| U.S. Inv Grade | 4.87% | -1.65% | -14.59% | -14.96% |
| U.S. High Yield | 8.50% | -1.80% | -11.37% | -10.85% |
| TIPS | 3.57% | -1.63% | -7.72% | -6.28% |

| Rates | Last | Change 1 Week | YTD | 1 Year |
|---|---|---|---|---|
| 6M T-Bill | 3.33% | 0.07 | 3.14 | 3.27 |
| 2 Yr Treasury | 3.40% | 0.03 | 2.67 | 3.20 |
| 5 Yr Treasury | 3.30% | 0.10 | 2.04 | 2.52 |
| 10 Yr Treasury | 3.20% | 0.16 | 1.68 | 1.91 |
| 30 Yr Treasury | 3.35% | 0.14 | 1.45 | 1.45 |

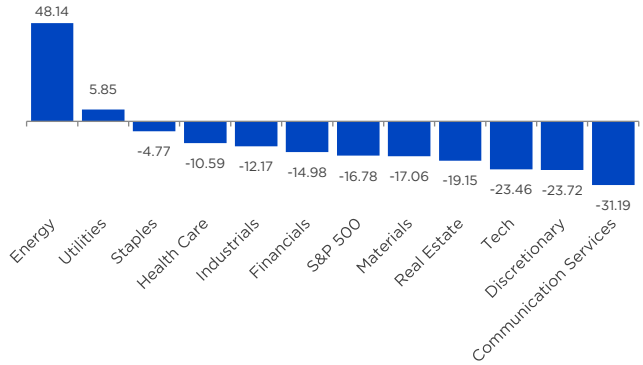
| Spreads | Last | Change (Abs %) 1 Week | YTD | 1 Year |
|---|---|---|---|---|
| AAA Rated | 0.66 | 0.05 | 0.15 | 0.17 |
| BBB Rated | 1.88 | 0.10 | 0.65 | 0.72 |
| High Yield | 5.06 | 0.41 | 1.96 | 1.90 |
| 10 to 2 yr Treasury | -0.20 | 0.00 | -0.99 | -1.29 |

| Commodities/FX | Last | Returns (Currencies in $ strength) 1 Week | YTD | 1 Year |
|---|---|---|---|---|
| Gold | 1709.80 | -1.51% | -6.44% | -5.47% |
| Bitcoin | 19949.00 | -1.03% | -57.00% | -59.59% |
| WTI Oil | 86.87 | -7.22% | 15.32% | 23.98% |
| EUR/USD | 1.00 | -0.11% | 11.82% | 15.50% |
| USD/JPY | 140.04 | 2.01% | 21.61% | 27.33% |

## S&P Sector Returns — Week (%)

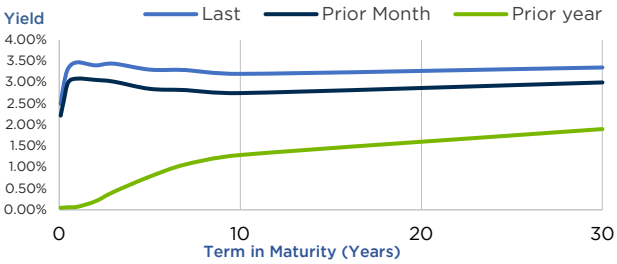



## S&P Sector Returns — YTD (%)*




* represents total return

## U.S. Yield Curve




## Russell Style Returns - Week

| | Value | Core | Growth |
|---|---|---|---|
| Large | -2.8 | -3.3 | -3.9 |
| Mid | -3.2 | -3.5 | -3.9 |
| Small | -4.6 | -4.7 | -4.8 |

## Russell Style Returns - YTD

| | Value | Core | Growth |
|---|---|---|---|
| Large | -10.4 | -17.6 | -24.1 |
| Mid | -12.5 | -17.4 | -26.2 |
| Small | -13.5 | -18.7 | -23.9 |

Source: FactSet

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# Additional Economic Indicators

## Previous Week's Indicators

| | Period | Actual | Previous |
|---|---|---|---|
| Dallas Manufacturing Activity | August | -12.9 | -22.6 |
| S&P CoreLogic CS 20-City YoY | June | 18.7 | 20.5 |
| Consumer Confidence | August | 103.2 | 95.3 |
| JOLTS Job Openings | July | 11,239 k | 11,040 k |
| ADP Employment Change | August | 132,000 | 128,000 |
| MNI Chicago PMI | August | 52.2 | 52.1 |
| Challenger Job Cuts YoY | August | 30.3 | 36.3 |
| Initial Jobless Claims | Week ending August 27 | 232,000 | 237000 |
| Continuing Claims | Week ending August 20 | 1,438 k | 1,412 k |
| S&P Global US Manufacturing PMI | August | 51.5 | 51.3 |
| Construction Spending MoM | July | -0.4 | -0.5 |
| ISM Manufacturing | August | 52.8 | 52.8 |
| Wards Total Vehicle Sales | August | 13.2 | 13.4 |
| Change in Nonfarm Payrolls | August | 315,000 | 526,000 |
| Unemployment Rate | August | 3.7 | 3.5 |
| Average Hourly Earnings MoM | August | 0.3 | 0.5 |
| Average Hourly Earnings YoY | August | 5.2 | 5.2 |
| Average Weekly Hours All Employees | August | 34.5 | 34.6 |

## This Week's Indicators

| | Release Date | Period | Forecast* | Previous |
|---|---|---|---|---|
| S&P Global US Services PMI | Tuesday | August | 45.0 | 44.1 |
| S&P Global US Composite PMI | Tuesday | August | 46.5 | 45.0 |
| ISM Services Index | Tuesday | August | 54.5 | 56.7 |
| Trade Balance | Wednesday | July | 76.0 b | 79.6 b |
| Initial Jobless Claims | Thursday | Week ending August 27 | 227,000 | 232,000 |
| Continuing Claims | Thursday | Week ending August 20 | 1,450 k | 1,438 k |
| Consumer Credit | Thursday | July | 38.0 b | 40.2 b |
| Wholesale Trade Sales MoM | Friday | July | 2.2 | 1.8 |
| Wholesale Inventories MoM | Friday | July | 1.2 | 0.8 |
| Change in Household Net Worth | Friday | 2Q | -650 b | -544 b |

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