Nationwide Economics

Weekly Economic Review & Outlook

September 12, 2022

Mixed signals on service sector growth

Last week's economic data featured mixed data for service industries, with one survey firmly in expansion and the other firmly in contraction. Additionally, the labor market continues to be tight by any measure and Fed Chair Jerome Powell reiterated the Fed's commitment to bringing about price stability even at the expense of a weaker economy.

Is the service sector in expansion or contraction?
The Institute for Supply Management (ISM) services index climbed to 56.9 in August, beating expectations of a decline. Business activity (which rose for a fourth straight month) and new orders both reached their highest level since December. Employment also rose above the expansion/contraction line for the first time in three months, but survey responses still noted difficulty finding qualified applicants for job openings or keeping employees from leaving for other opportunities. Supply-side indicators also showed further improvement with fewer supplier delays and lower input prices. The index for supplier deliveries is now only slightly worse than the long-run average, but prices paid for inputs, although far lower than earlier this year, remain elevated. In aggregate, this report was broadly positive, showing the service sector to be expanding solidly.

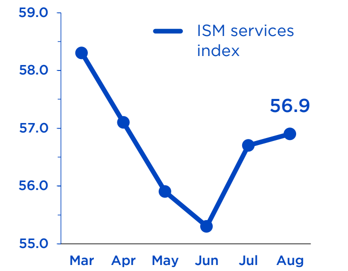
In contrast to the ISM survey, the S&P Global Services PMI fell further into contraction in August, hitting its lowest level since May 2020. Declining new orders and business activity readings dragged down the index, the latter of which contracted at its fastest rate since May 2020. S&P Global noted that demand for services has weakened sharply in response to high inflation and rising interest rates. Survey findings also suggested that the hiring slowdown is increasingly due to reluctance by firms to expand rather than difficulty finding workers.

There are different methodological approaches to these two surveys — the ISM survey is broader, and its sample population covers larger firms. Still, the goal of both surveys is the same: to measure growth among service industries. While it is encouraging that the more comprehensive of the two surveys continues to show solid growth, there are clearly pockets within the service sector that are struggling in the current environment. A more complete perspective would suggest that growth is not as strong as indicated by the ISM index, but not as weak as shown in the findings from S&P Global.

The Fed remains committed to slowing inflation
In Fed Chair Jerome Powell's last scheduled public appearance before the September FOMC meeting, he reiterated the Fed's commitment to using monetary policy to fight inflation. He emphasized the importance of reducing inflation before expectations of high price growth become baked into consumer behavior, noting that expectations played a key role in the persistent inflation of the 1970s and early 1980s. Focusing on inflation is logical when economic indicators are still strong, and the Fed could shift back to prioritizing growth over prices if the economic data weakens sharply. As Chair Powell noted, "I can assure you that my colleagues and I are strongly committed to this project, and we will keep at it until the job is done."

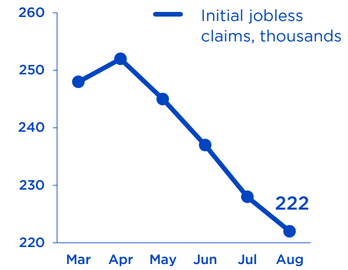
To date, the economic data (albeit weakening) has held up, so the Fed's commitment to achieving price stability has not yet been put to the test. To that end, initial jobless claims fell to their lowest level since May last week. And while trending up in recent weeks, continuing claims (the total number of workers receiving unemployment benefits) are still well below the pre-Covid average. With the labor market and overall consumer activity still on solid footing, financial markets expect another 75 basis point rate hike at next week's FOMC meeting as the Fed continues to fight inflationary pressures.

Expansion continues in services, according to ISM



The ISM services index surprised by climbing modestly. Demand continues to be the primary driver behind growth, while supply factors are improving.

Initial jobless claims fall, remain very low



Initial jobless claims fell in the week ending September 3 to their lowest level since May and have trended down for over a month.

Sources:
Institute for Supply Management;
Department of Labor

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

The Week Ahead

Here's what we are watching this week:

Consumer Price Index — Sept 13

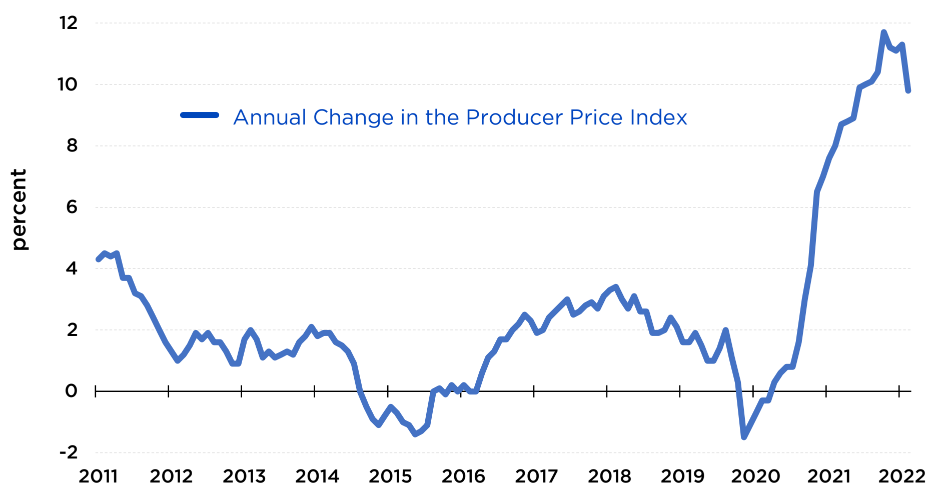
Further soft inflation for August

Lower energy prices and the unwillingness to pay more for goods should drive another flat inflation reading for August. Consumers are trading down — shifting spending from discretionary goods to food and other essentials — forcing firms to cut prices. Still, housing costs should be pushed higher by the recent rise in interest rates. Even after two consecutive months of weaker inflation, policymakers will have to wait for the fourth quarter to see a meaningful decline in the annual rate.

Producer Price Index — Sept 14

Costs for producers likely to fall again

Costs are expected to fall in August as purchases wane and fuel costs fall. In a sign of good news to come for the consumer, August's year-over-year producer price index reading should be down sharply from March's high. Even better, the annual growth in core costs should decelerate as supply chains heal, with new raw material providers offering welcomed relief.



Sources: BLS

Retail Sales — Sept 15

Back to school lifts retail sales

Retail sales are forecasted to grow again in August as America returns to school. Consumer expenditures continue to be boosted by plentiful job opportunities and rising wages. The ability of the economy to register monthly retail sales near $700 billion, a far cry from the pre-pandemic level of about $520 billion, is impressive. Many shelves are bare, hurting sales, but inventories are growing, and firms are hiring to meet demand.

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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)	4,067	3.68%	-13.72%	-8.10%
S&P 400 (Mid)	2,498	4.42%	-11.16%	-6.49%
S&P 600 (Small)	1,194	2.76%	-14.01%	-9.67%
S&P 500 (High Quality)	45	3.48%	-14.88%	-9.23%
Russell 1000	4,307	3.88%	-14.41%	-9.84%
Russell 2000	4,679	4.07%	-15.39%	-15.23%
Dow Jones	32,152	2.72%	-10.16%	-5.92%
NASDAQ	12,112	4.15%	-22.15%	-19.98%
MSCI EAFE	1,839	0.89%	-19.19%	-20.03%
MSCI EM	970	-0.13%	-19.17%	-22.86%

*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	18.91	17.09	20.33	7.89
Prior Month	19.30	17.40	23.86	8.06
Prior Year	23.80	21.02	25.95	19.49

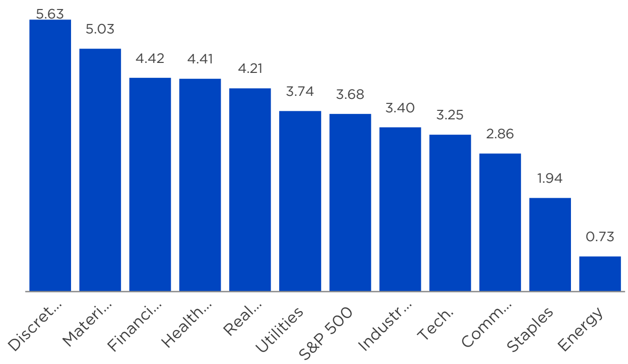
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	4.11%	-0.70%	-11.56%	-12.39%
U.S. Inv Grade	4.95%	-0.42%	-14.95%	-15.35%
U.S. High Yield	8.24%	1.31%	-10.21%	-9.78%
TIPS	3.68%	-1.04%	-8.68%	-7.78%

Rates	Last	Change 1 Week	YTD	1 Year
6M T-Bill	3.52%	0.19	3.33	3.47
2 Yr Treasury	3.56%	0.16	2.83	3.33
5 Yr Treasury	3.45%	0.15	2.19	2.66
10 Yr Treasury	3.33%	0.13	1.81	2.03
30 Yr Treasury	3.47%	0.12	1.57	1.57

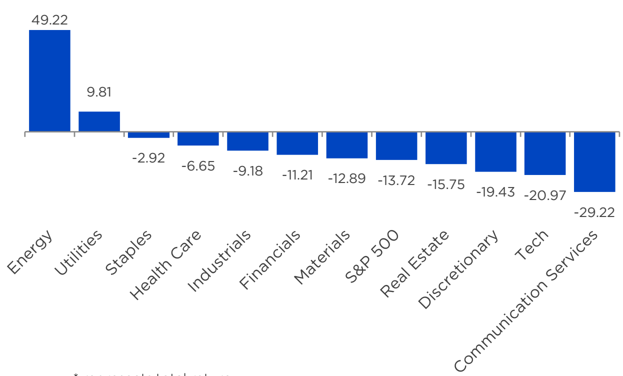
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.63	-0.03	0.12	0.14
BBB Rated	1.83	-0.05	0.60	0.67
High Yield	4.57	-0.49	1.47	1.42
10 to 2 yr Treasury	-0.23	0.00	-1.02	-1.30

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1716.20	0.37%	-6.09%	-4.52%
Bitcoin	21338.00	6.96%	-54.00%	-53.98%
WTI Oil	86.79	-0.57%	15.21%	27.15%
EUR/USD	1.00	-0.15%	11.69%	15.02%
USD/JPY	142.45	1.72%	23.70%	29.71%

S&P Sector Returns — Week (%)

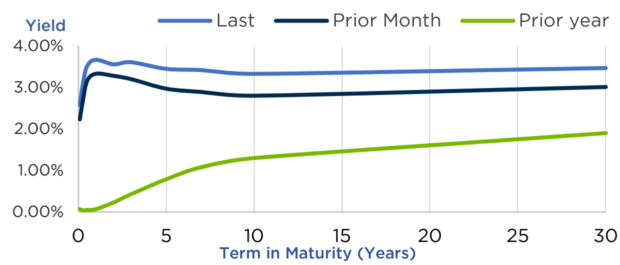


S&P Sector Returns — YTD (%)*



* represents total return

U.S. Yield Curve



Russell Style Returns - Week

	Value	Core	Growth
Large	3.7	3.9	4.1
Mid	4.3	4.8	5.7
Small	3.4	4.1	4.7

Russell Style Returns - YTD

	Value	Core	Growth
Large	-7.0	-14.4	-21.0
Mid	-8.8	-13.5	-22.0
Small	-10.6	-15.4	-20.4

Source: FactSet

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Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
S&P Global US Services PMI	August	43.7	44.1
S&P Global US Composite PMI	August	44.6	45.0
ISM Services Index	August	56.9	56.7
Trade Balance	July	70.6 b	79.6 b
Initial Jobless Claims	Week ending August 27	222,000	228,000
Continuing Claims	Week ending August 20	1,473 k	1,437 k
Consumer Credit	July	23.8 b	40.2 b
Wholesale Trade Sales MoM	July	-1.4%	1.8%
Wholesale Inventories MoM	July	0.6%	0.8%
Household Change in Net Worth	2Q	-6,100 b	-544 b

This Week's Indicators

	Release Date	Period	Forecast*	Previous
NFIB Small Business Optimism	Tuesday	August	91.0	89.9
CPI (m/m)	Tuesday	August	0.0%	0.0%
CPI (y/y)	Tuesday	August	8.1%	8.5%
Core CPI (m/m)	Tuesday	August	0.3%	0.3%
Core CPI (y/y)	Tuesday	August	6.1%	5.9%
PPI	Wednesday	August	-0.7%	-0.5%
Core PPI	Wednesday	August	0.1%	0.2%
Jobless Claims	Thursday	Week ending Sept 10	230 k	239 k
Continuing Claims	Thursday	Week ending Sept 3	1,500 m	1,473 m
Retail Sales	Thursday	August	0.3%	0.0%
Retail Sales excluding autos	Thursday	August	0.5%	0.4%
NY Fed Empire State Manufacturing	Thursday	August	-10.0	-31.3
Import prices	Thursday	August	-1.0%	-1.4%
Industrial production	Thursday	August	0.4%	0.6%
Capacity utilization	Thursday	August	80.4	80.3
Consumer sentiment	Friday	September	59.8	58.2

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