Nationwide Economics

Weekly Economic Review & Outlook

September 26, 2022

Fed continues its aggressive inflation fight

The FOMC raised the fed funds rate by 75 basis points for a third consecutive meeting in September and projected even more tightening ahead than previously expected. Housing data showed a further surge in multifamily housing starts and the slowest pace for existing home sales since the Covid lockdowns.

Increasingly hawkish stance from the Fed

The fed funds rate was raised 75 basis points to a range of 3.00-3.25 percent following the Federal Open Market Committee's (FOMC) September meeting, the third such increase in a row. Moreover, the updated Summary of Economic Projections (SEP) was strongly hawkish, with the median fed funds projection showing further rate increases of 125 basis points over the next two meetings and another smaller rate hike next year. The Fed now expects economic growth to be below trend for several years with the unemployment rate moving higher as growth falters. Core PCE inflation is projected to be above three percent through the end of 2023 — reflecting the sticky nature of the current inflation surge.

In his comments after the meeting, Fed Chair Jerome Powell reiterated the commitment of the FOMC to lowering inflation by pushing monetary policy to restrictive levels, if necessary. Chair Powell noted that high inflation becoming entrenched in consumer expectations would be worse than a recession. In fact, the SEP projections implied that the Fed would not ease rates until 2024 even with a weaker economy and higher unemployment.

But the Fed's resolve to keeping rates higher may be tested next year as recession odds are climbing with each sharp rate increase. The year-over-year change in the index of leading economic indicators (LEI) fell below zero in August, which has historically been an excellent predictor of a downturn within the next 12 months. If the Fed sticks to its tightening projection, the yield curve should fully invert by the end of year — another strong signal of escalating (but not imminent) recession conditions. Inflation will likely remain the swing factor for Fed actions depending upon how quickly (or slowly) prices cool across the economy.

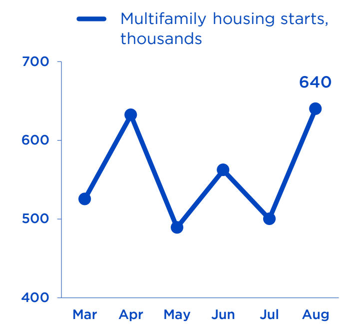
Further signs of weakness for single-family housing

Housing starts climbed in August, matching a four-month high as multifamily starts surged to their fastest pace since 1986. But single-family home construction continued to slump as demand for new homes slows sharply in response to higher mortgage rates. This provides further evidence of the shift back to multifamily housing as an increasing number of would-be homebuyers search for apartments.

In contrast to starts, building permits plummeted in August, driven primarily by a nine-month low in multifamily permits. This suggests that starts should drop further over the next few months. Although it's important to note that units under construction was at a record high in August as homebuilders struggle to complete projects in a timely fashion due to a lack of labor and materials — which should support housing completions despite the plunge in starts.

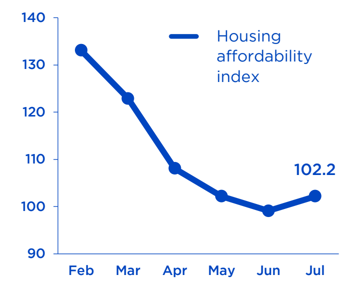
Also reflecting the sharp drop in demand for single-family housing, existing home sales fell for a seventh straight month in August to the slowest pace since May 2020 (the low point for the Covid lockdowns). Despite a small decline in mortgage rates in July (when most August sales would have gone into contract), sharply lower affordability is continuing to drive down sales activity — note that May, June, and July represent the largest year-over-year declines in the housing affordability index's history. Home sales have likely not bottomed out yet and could fall further before the end of the year. The average 30-year fixed mortgage rate surged above six percent in September for the first time since 2008, adding to affordability issues for potential homebuyers.

Multifamily housing starts surge



Multifamily housing starts have been well above the long-run average for some time as declining affordability hurts demand for single-family homes.

Lower housing affordability driving lower home sales



The housing affordability index was up modestly in July, but down over 30 percent year-over-year for a third straight month.

Sources:
Census Bureau; National Association Realtors

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

The Week Ahead

Here's what we are watching this week:

S&P CoreLogic 20-City Home Price Index

Sept 27

Annual housing price gains are expected to slow

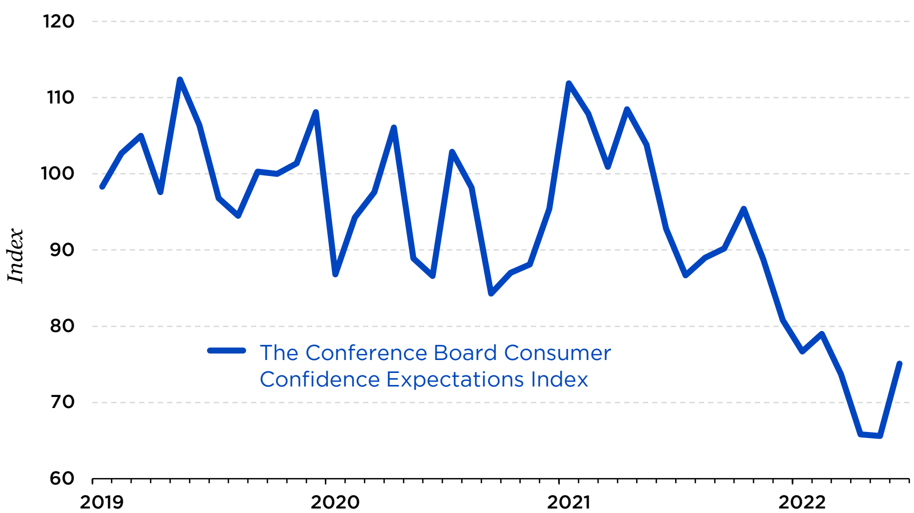
July's home prices are forecasted to be little changed from June, a reprieve from March's month-over-month gain of over two percent. The encouraging sign for prospective home buyers should show that housing inflation is moderating with the year-over-year reading for the S&P CoreLogic HPI dropping from recent peaks. Still, a collapse in home prices over the next year is unlikely as the job market and demographics remain supportive for demand.

Conference Board Consumer Confidence

Sept 27

Consumer confidence should rise again

Consumer confidence is expected to rise further in September as inflation concerns ease a bit. Numerous job openings and rising wages have made consumers more confident about their financial position. At the same time, lower gas prices have relieved some inflation fears, encouraging more optimism about the future.



Sources: Conference Board

Personal Consumption Expenditure Deflator

Sept 30

Core inflation likely to remain hot in August

The Fed's preferred inflation measure personal consumption expenditures prices excluding food and energy (core PCE) should climb sharply in August — reflecting continued strong inflationary pressure. The year-over-year core reading is expected to be slightly below five percent, although still an improvement from the 20-year high in the first quarter.

Nationwide®

Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
NAHB Housing Market Index	September	46	49
Housing Starts	August	1,575 k	1,404 k
Building Permits	August	1,517 k	1,685 k
Housing Starts MoM	August	12.2%	-10.9%
Building Permits MoM	August	-10.0%	-0.6%
Existing Home Sales	August	4.80 m	4.82 m
Existing Home Sales MoM	August	-5.9%	-5.7%
FOMC Rate Decision (Lower Bound)	9/21/22	3.00%	2.25%
Initial Jobless Claims	Week ending September 17	213,000	208,000
Continuing Jobless Claims	Week ending September 10	1,403 k	1,401 k
Leading Index	August	-0.4%	-0.5%
Kansas City Fed Manufacturing Activity	September	3	3
S&P Global US Manufacturing PMI	September	51.8	51.5
S&P Global US Services PMI	September	49.2	43.7

This Week's Indicators

	Release Date	Period	Forecast*	Previous
Chicago Fed Nat Activity Index	Monday	August	0.2	0.3
Dallas Fed Manufacturing Activity	Monday	September	2.5	-12.9
Durable Goods Orders	Tuesday	August	0.1%	-0.1%
S&P CoreLogic CS 20-City YoY	Tuesday	May	17.1%	18.6%
Conf. Board Consumer Confidence	Tuesday	Jul	105.0	103.2
Richmond Fed Manufact. Index	Tuesday	Jul	-5	-8
New Home Sales	Tuesday	Jun	480 k	511 k
Advance Goods Trade Balance	Wednesday	August	-85.0 b	-90.2 b
Wholesale Inventories	Wednesday	August	0.3%	0.6%
Retail Inventories	Wednesday	August	1.5%	1.1%
Pending Home Sales	Wednesday	August	0.0%	-1.0%
GDP Annualized	Thursday	2Q	-0.7%	-0.6%
GDP Price Index	Thursday	2Q	8.7%	8.9%
Initial Jobless Claims	Thursday	Week ending September 24	208,000	213,000
Continuing Jobless Claims	Thursday	Week ending September 17	1,360 k	1,379 k
Personal Income	Friday	August	0.2%	0.2%
Personal Spending	Friday	August	0.5%	0.1%
PCE Core Deflator MoM	Friday	August	0.4%	0.1%
PCE Core Deflator YoY	Friday	August	4.7%	4.6%

Interested in learning more from Nationwide Economics? Find this and other content from Nationwide at blog.nationwidefinancial.com/markets-economy.

The information in this report is provided by Nationwide Economics and is general in nature and not intended as investment or economic advice, or a recommendation to buy or sell any security or adopt any investment strategy. Additionally, it does not take into account any specific investment objectives, tax and financial condition or particular needs of any specific person.

The economic and market forecasts reflect our opinion as of the date of this report and are subject to change without notice. These forecasts show a broad range of possible outcomes. Because they are subject to high levels of uncertainty, they will not reflect actual performance. We obtained certain information from sources deemed reliable, but we do not guarantee its accuracy, completeness or fairness.

NFM-9898AO.7

Nationwide®