

October 3, 2022

High inflation weighing on consumer activity

Last week's economic data confirmed that inflation pressures are still strong and continue to erode consumer purchasing power. The latest housing data featured an explosion in new home sales (coinciding with a fall in mortgage rates), while initial jobless claims fell below 200,000 to suggest that the labor market remains extremely tight.

Core inflation speeds up and real consumer spending stagnates

The PCE price index — the Fed's preferred measure of inflation — increased by 0.3 percent in August, although the 12-month trend rate dropped to its lowest level since January at 6.2 percent. The shift in price growth from goods to services was evident in August as goods prices declined for a second straight month while services prices surged by a strong 0.6 percent from July. The core PCE price index, which excludes the volatile food and energy components, climbed by 0.6 percent for the month, raising the year-over-year change to 4.9 percent. In total, these data align with the August's CPI data and show that while overall price growth was held back by falling energy prices, underlying consumer price pressures remain strong. PCE inflation is still over three times the Fed's inflation target of two percent, although down from June's peak.

Personal income grew by 0.3 percent in August, but real income growth (after adjusting for inflation) was nearly flat. In fact, inflation has swallowed up most income gains since April, driving the recent stagnation in consumer activity. Personal consumer expenditure rose by 0.4 percent for August, but this was almost entirely due to price gains as real consumer spending has leveled off since June.

One-month surge in new home sales

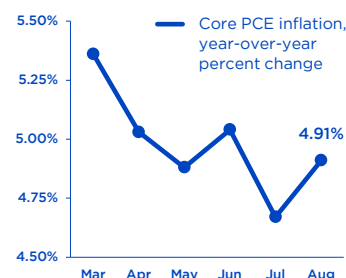
New home sales climbed by 28.8 percent in August, reaching the highest annualized pace since March. This was the largest month-over-month increase since June 2020 and the third largest on record (data back to 1963). The surge in sales coincided with mortgage rates falling to a four-month low in the first week of the month. Homebuyers were eager to lock in rates before they rose again with a jump in sales for builds not yet started.

It should be noted that new home sales are volatile and subject to large revisions — note the downward revision of 60,000 units from May's originally reported sales number. As such, August's number should be taken with a grain of salt and could be a one-month blip. Mortgage rates rose sharply in September, suggesting that a reversal is likely in coming months. Still, the jump in sales is a reprieve for homebuilders who have seen activity collapse in recent months. It also implies that underlying demand for homes remains high, which should keep sales from plummeting too far over this cycle.

Few layoffs in a tight labor market

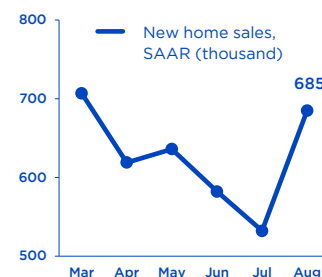
Initial jobless claims fell in the week ending September 24 to their lowest level since April. At 193,000, the number of initial claims was about half the long-run average and significantly lower than this year's peak of 261,000 from July. The four-week moving average similarly fell to a four-month low. This is another sign that the labor market remains extremely tight despite building growth concerns for the economy. As firms continue in their efforts to attract job applicants via higher wages and greater benefits, they also remain very reluctant to lay off the workers they have.

Core inflation accelerates



Core PCE inflation climbed to 4.9 percent in August, only half a percentage point lower than the 40-year high seen in February.

New home sales climb by nearly 30 percent



New home sales surged to the fastest pace since March, and the nearly 30 percent month-over-month growth was the third-largest on record.

Sources:
Bureau of Economic Analysis; Census Bureau

The Week Ahead

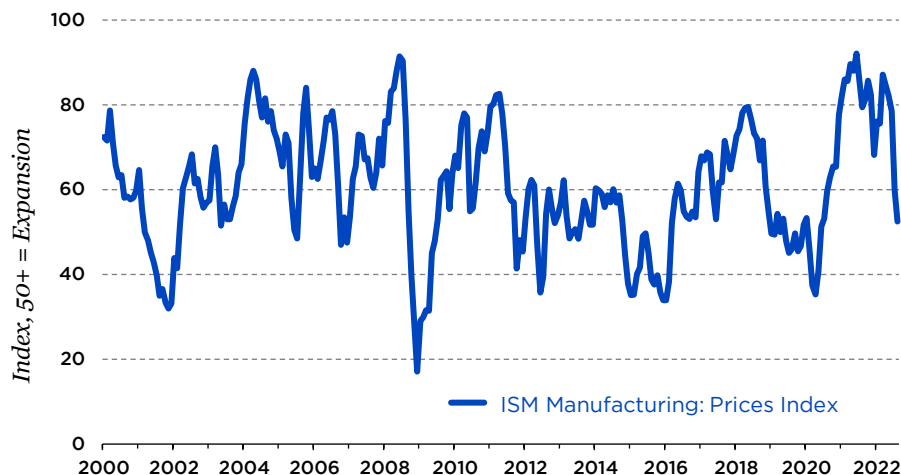
Here's what we are watching this week:

ISM
Manufacturing
Index



Modest manufacturing gains likely to continue

As the recent rise in new orders continues, a healthy increase in manufacturing activity is expected in September. Firms have stepped up production as costs have dropped while demand remains solid. Further, the rapid deceleration in input prices and faster supplier deliveries suggest that supply chains are healing. Still, weak export demand should persist as European economies struggle to expand.



Sources: Institute for Supply Management

ISM
Service
Index



Service sector still expanding but at a slower pace

The service sector should show continued expansion in September, although the ISM survey should decrease from August. New orders are likely to drop as households increasingly look to cut back on discretionary spending with costs rising rapidly for essential items. Still, supply conditions should show further improvement, lowering costs for producers while enabling solid business activity.

Change in
Nonfarm
Payrolls



Further solid job growth expected

September job gains are expected to remain upbeat at 265,000 — albeit slowing from the recent robust pace of hiring. Service sector growth should again lead the way as firms continue to right-size from pandemic staffing losses in many industries. The unemployment rate should be unchanged at 3.7 percent while an increase in the labor force participation rate is expected — a positive sign as more individuals re-engage with the job market.

Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
Chicago Fed Nat Activity Index	August	0.0	0.3
Dallas Fed Manufacturing Activity	September	-17.2	-12.9
Durable Goods Orders	August	-0.2%	-0.1%
S&P CoreLogic CS 20-City YoY	May	16.1%	18.6%
Conference Board Consumer Confidence	Jul	108.0	103.6
Richmond Fed Manufact. Index	Jul	-5	-8
New Home Sales	Jun	685 k	532 k
Advance Goods Trade Balance	August	-87.3 b	-90.2 b
Wholesale Inventories	August	1.3%	0.6%
Retail Inventories	August	1.4%	1.1%
Pending Home Sales	August	-2.0%	-1.0%
GDP Annualized	2Q	-0.6%	-0.6%
GDP Price Index	2Q	9.0%	8.9%
Initial Jobless Claims	Week ending September 24	193,000	209,000
Continuing Jobless Claims	Week ending September 17	1,347 k	1,376 k
Personal Income	August	0.2%	0.3%
Personal Spending	August	0.5%	-0.2%
PCE Core Deflator MoM	August	0.6%	0.0%
PCE Core Deflator YoY	August	4.9%	4.7%

This Week's Indicators

	Release Date	Period	Forecast*	Previous
S&P Global US Manufacturing PMI	Monday	September	52.5	51.8
Construction Spending MoM	Monday	August	0.5%	-0.4%
ISM Manufacturing	Monday	September	53.1	52.8
Wards Total Vehicle Sales	Monday	September	13.5	13.2
Factory Orders	Tuesday	August	1.5%	-1.0%
JOLTS Job Openings	Tuesday	August	11,100 k	11,239 k
ADP Employment Change	Wednesday	September	250,000	132,000
Trade Balance	Wednesday	August	-65.5 b	-70.7 b
S&P Global US Services PMI	Wednesday	September	50.5	49.2
ISM Services Index	Wednesday	September	55.2	56.9
Initial Jobless Claims	Thursday	Week ending October 1	205,000	193,000
Continuing Claims	Thursday	Week ending September 24	1,375 k	1,347 k
Change in Nonfarm Payrolls	Friday	September	265,000	315,000
Unemployment Rate	Friday	September	3.7%	3.7%
Average Hourly Earnings MoM	Friday	September	0.4%	0.3%
Average Hourly Earnings YoY	Friday	September	5.2%	5.2%
Average Weekly Hours All Employees	Friday	September	34.6	34.5
Consumer Credit	Friday	August	\$35.0 b	\$23.8 b



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