

October 17, 2022

## Underlying inflation trend remains too hot

Cost pressures remained strong in September, offsetting optimism that inflation would begin to decelerate in response to supply chain healing and sharp Fed tightening. Retail sales were flat in September, extending the weaker trend in consumer activity seen in recent months as higher prices and rising interest rates force cuts by many households.

### Another worse-than-expected inflation print

The consumer price index (CPI) rose at the fastest pace since June, up by 0.4 percent in September. While the 12-month trend rate for the CPI slowed to 8.2 percent, inflationary pressures remained widespread, led by sharp gains in costs for food, housing, and services. Cooler gasoline prices were a lone bright spot during September, but oil prices have jumped again in October following the announced production cut from OPEC+.

But more concerning was another sharp rise in the core CPI (excluding food and energy components), up by 0.6 percent for a second consecutive month. This lifted the 12-month pace of core inflation to a 40-year high of 6.6 percent. Shelter costs (which comprise more than 40 percent of the core CPI) continue to accelerate as high rents and record house price gains flow into inflation readings. Strong wage gains are driving up services inflation, too, as companies pass along labor costs to consumers.

For future inflation trends, the focus has shifted from good costs to services. Non-food and energy goods inflation was flat in September as supply and transportation systems broadly heal to ease prices. But since service costs usually lag, there is considerable upside risk going forward. Housing and service factors tend to be stickier too, meaning that core inflation could remain elevated throughout 2023 (albeit still declining from current high rates).

This places additional pressure on the Fed to remain aggressive with rate hikes as the primary method to reduce demand and prices. We expect a fourth consecutive 75 basis point increase in early November with a further substantial move in December now more likely. This also comes at the cost of risking a recession as a necessary means to slow inflation, a scenario that looks increasingly likely to occur over 2023.

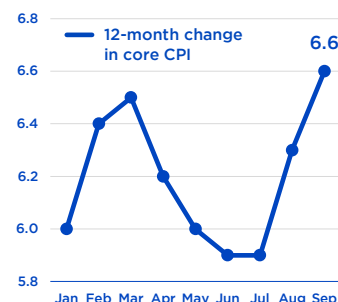
### Spending stagnates as costs climb

Retail sales rounded out a weaker third quarter with a flat reading for September. Households are notably cutting back on discretionary spending in order to make ends meet. Sales dropped at furniture, electronic, and sporting goods retailers in September as consumers pivot away from non-essential items. Spending in dollar terms rose again at grocery stores and health stores but this was primarily due to higher prices.

Given the reduction in consumer spending power from inflation, it is expected to be an underwhelming holiday shopping season ahead for retailers. Many households won't have the monetary resources to spend as much on gifts with costs soaring for many necessary expenses. Deals at lower cost retailers and through online shopping are likely to be very popular this year.

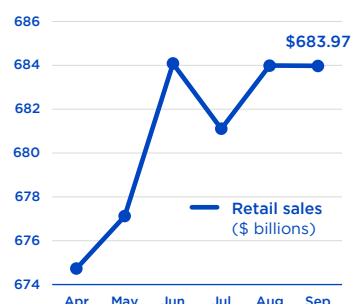
Despite the sluggishness of retail sales, real personal consumption expenditures within GDP are still projected to be modestly positive during the third quarter. Trade factors should also provide a boost to growth over the period after being a significant drag in the first half of the year. We expect annualized real GDP growth around 2.0 percent, not strong in an absolute sense but much improved from the recent trend.

### Core inflation rises to new peak



Prices excluding food and energy reaccelerated over August and September with annual core inflation climbing to the fastest pace since 1982.

### Retail sales have flatlined



Total retail spending was flat from June to September as households broadly cut back on expenses in response to high inflation.

Sources:  
Bureau of Labor Statistics; Census Bureau

# The Week Ahead

Here's what we are watching this week:

Industrial  
Production



## Industrial production should grind higher

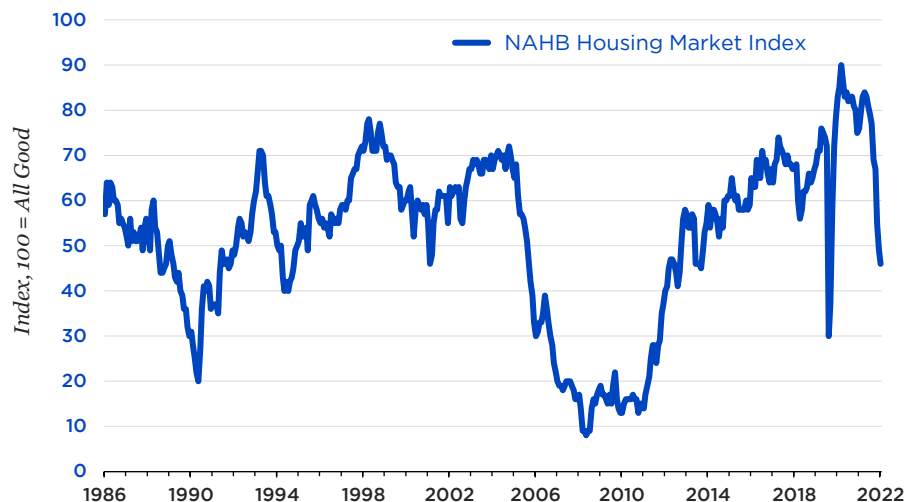
Industrial output for September should continue to receive a boost from faster automobile and natural gas production. Low vehicle inventory continues to hinder sales and keep prices elevated. Additional production will lighten the burden on the household wallets and add to manufacturing growth. Higher natural gas activity should boost total utility output as producers aim for higher production with prices elevated.

Housing  
Starts



## Housing starts likely to cool after strong August

Housing starts surged in August, led by multifamily units, but should fall back in September. Building permits have dropped off sharply, especially for single-family builds. Homebuilder sentiment (see below) remains low as higher interest rates have reduced purchasers' enthusiasm for new construction, dampening estimates for total construction activity over the rest of the year. Still, the healthy jobs market and lower raw material prices should aid homebuilders despite the plunge in demand.



Sources: National Association of Home Builders

Existing  
Home Sales



## Sellers' market for housing erodes

Existing home sales are forecasted to drop for the eighth consecutive month in September. Last month's reading is expected to be down 30 percent from January's peak. Mortgage rates continue to climb with the 30-year fixed rate at nearly 7.00 percent, considerably hurting affordability. Still, lower sales have a silver lining with inventory growing — the number of existing homes for sale in September should climb to the highest level in two years.

# Additional Economic Indicators

## Previous Week's Indicators

	Period	Actual	Previous
NFIB Small Business Optimism	September	92.1	91.8
PPI	September	0.4%	-0.2%
Core PPI	September	0.3%	0.3%
CPI (m/m)	September	0.4%	0.1%
CPI (y/y)	September	8.2%	8.3%
Core CPI (m/m)	September	0.6%	0.6%
Core CPI (y/y)	September	6.6%	6.3%
Initial Jobless Claims	Week ending October 1	228 k	219 k
Continuing Jobless Claims	Week ending October 8	1,368 k	1,365 k
Retail Sales	September	0.0%	0.4%
Retail Sales excluding autos	September	0.1%	-0.1%
Import prices	September	-1.2%	-1.1%
Consumer sentiment	October	59.8	58.6

## This Week's Indicators

	Release Date	Period	Forecast*	Previous
Empire Manufacturing	Monday	October	2.0	-1.5
Industrial Production MoM	Tuesday	September	0.3%	-0.2%
Capacity Utilization	Tuesday	September	80.1	80.0
NAHB Housing Market Index	Tuesday	October	44	46
Housing Starts	Wednesday	September	1,510 k	1,575 k
Building Permits	Wednesday	September	1,505 k	1,517 k
Housing Starts MoM	Wednesday	September	-4.1%	12.2%
Building Permits MoM	Wednesday	September	-0.8%	-8.5%
Philadelphia Fed Business Outlook	Thursday	October	-2.0	-9.9
Initial Jobless Claims	Thursday	Week ending October 15	222,000	228,000
Continuing Jobless Claims	Thursday	Week ending October 8	1,390 k	1,368 k
Existing Home Sales	Thursday	September	4.60 m	4.80 m
Existing Home Sales MoM	Thursday	September	-4.2%	-0.4%
Index of Leading Economic Indicators	Thursday	September	-0.5%	-0.3%



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

Nationwide, the Nationwide N and Eagle and Nationwide is on your side are service marks of Nationwide Mutual Insurance Company.© 2022 Nationwide.

NFM-9898AO.7

