Nationwide Economics

Monthly Economic Dashboard

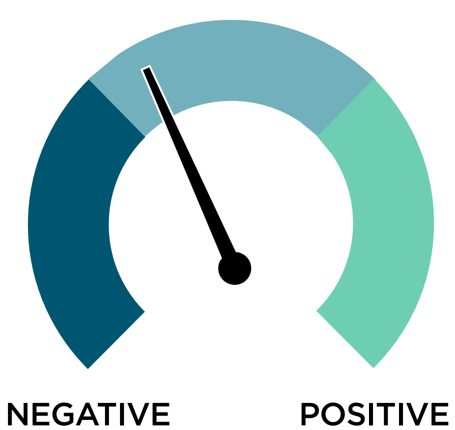
APRIL 2022

A flatter yield curve flashes a warning but the path to the expansion's end has only just begun

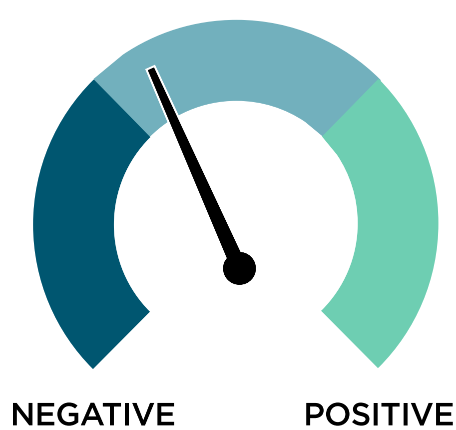
Shorter-term interest rates spiked further over March and into April as the Federal Reserve signaled that it will be aggressive with rate hikes in coming months in order to slow inflation — resulting in a fleeting inversion of the 2- and 10-year Treasury note yields. But better recession indicators aren't as ominous and tightening cycles take time to slow economic momentum, suggesting that the expansion still has room to run before the next downturn.

- The labor market rounded out a strong first quarter with another solid gain in March as hiring demand remains robust and unemployment rates are nearly back to their pre-Covid lows.
- Food and energy costs spiked again in March, due most recently to impacts from the Russian invasion, sending inflation readings to new 40-year highs.
- Fed commentary and market expectations point to a 50 basis point rate hike at the upcoming May FOMC meeting — the first move of that magnitude in more than 20 years. Interest rates continue to climb, with the yield curve positively sloped across almost all of its entirety.
- Equity markets continue to have difficulty finding traction in 2022 amid the crosscurrents from prospective rate tightening, rising inflation, and geopolitics — with most broad domestic indices only modestly above recent lows.

Current Scorecard



Future Scorecard



Full scorecards ▶

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Current Scorecard – April 2022

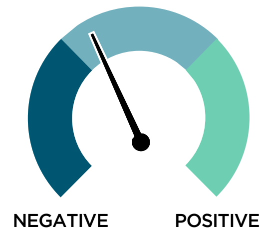
Nationwide

Data through April 14, 2022

OVERALL

3-MONTH TREND

Labor market readings remained strong into March, as hiring demand and worker shortages drives rapid wage growth. But inflation spiked again in response to the price impacts from the Russian invasion of Ukraine, weakening household spending power even with above-trend income gains. Business sentiment is also faltering as firms confront rising costs for inputs, lack of labor, and squeezed margins. Interest rates climbed sharply as financial markets expect the Fed to front-load its rate hikes over coming meetings to try to reduce inflationary pressures.



EMPLOYMENT

3-MONTH TREND

Nonfarm payroll growth was slower (but still solid) for March, but the economy added nearly 1.7 million jobs in the first quarter. The unemployment rate dropped further (nearly matching the pre-Covid low) even as the labor force grew again. The labor force participation rate increased for a third consecutive month for March but remains below levels from before the pandemic.

	Current	Previous	Year ago
Employment growth – Mar	431,000	750,000	704,000
Unemployment rate – Mar	3.6%	3.8%	6.0%

FINANCIAL

3-MONTH TREND

Interest rates have climbed sharply as markets price in aggressive rate hikes by the Fed over 2022-23. The 2- and 10-year note spread inverted very briefly, but it had widened again by mid-April and should not be considered a recession signal, yet. Other yield curve measures and the Index of Leading Economic Indicators are not flashing red. Equity markets rebounded from recent lows but are still down for the year as growth crosscurrents weigh on investors.

	Current	Previous	Year ago
Yield spread – Apr	0.96 pp	0.86 pp	1.56 pp
BAA Credit spread – Apr	1.78 pp	2.25 pp	1.97 pp
CBOE market volatility – Apr	23.29	27.56	16.67
S&P 500 stock index – Apr	4,412	4,334	4,150

CONSUMER

3-MONTH TREND

Retail sales rose modestly again for March, despite a decline in motor vehicle spending, aided by rising prices (especially for gasoline). Total home sales fell for February as higher prices and rising mortgage rates have caused demand to ease while supply remains heavily constrained. Consumer sentiment rebounded in first half of April but remains among the lower readings over the past decade.

	Current	Previous	Year ago
Retail sales – Mar	0.5%	0.8%	11.1%
Light vehicles sales – Mar	13.3 M	14.0 M	17.6 M
Total home sales – Feb	6.79 M	7.28 M	6.99 M
Consumer sentiment – Apr	65.7	59.4	88.3

BUSINESS

3-MONTH TREND

The ISM business surveys were mixed again for April, but still pointed to solid expansion for both manufacturing and services despite signs of worsening supply conditions due to the war in Ukraine and Covid lockdowns in China. The NFIB small business optimism index fell for a third consecutive month as continued hiring difficulties and sharply rising costs weigh on growth expectations for many owners.

	Current	Previous	Year ago
ISM Manufacturing – Mar	57.1	58.6	63.7
ISM Services – Mar	58.3	56.5	62.2
NFIB small business optimism – Mar	93.2	95.7	98.2

INFLATION

3-MONTH TREND

Food and energy prices jumped again in March as the full impact of the Russian invasion hit consumers — pushing up the 12-month CPI trend rate to 8.5 percent. The core CPI saw a more modest increase, but shelter (and other service) costs continued to accelerate and threaten to keep inflation readings elevated for some time even if goods prices fade over the next year.

	Current	Previous	Year ago
Consumer price index (CPI) – Mar	1.2%	0.8%	0.6%
Core CPI – Mar	0.3%	0.5%	0.3%

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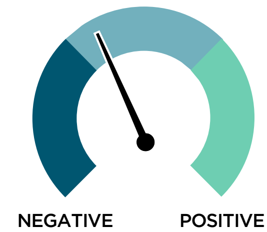
Future Scorecard – April 2022

OVERALL

Interest rates are headed higher and fiscal policy has become contractionary (for now), while the Russian invasion of Ukraine is a negative supply shock — slowing growth and boosting inflation. Financial markets are projecting the federal funds rate to climb above 2.25 percent by year-end, a significant tightening of financial conditions. Still, the odds of a recession over the next year remain low. Higher interest rates should act to cool demand over 2022, but most of the impact will be felt in 2023 and beyond. Recession risks are likely to rise over 2023 and especially into 2024, should the Fed follow its expected tightening path.



THE ECONOMY

NEGATIVE — POSITIVE

Faster inflation and delayed supply chain healing from the war in Ukraine (plus new Covid lockdowns in China) are downside risks for near-term growth despite the boost from fading Covid in the U.S. Beyond 2022, growth should slow in response to tighter monetary and fiscal policy, along with the economy nearing full resource utilization. Recession risks are increasing as the Fed looks to tighten aggressively in order to slow inflationary pressure.

	2021	2022F	2023F	2024F
Real GDP growth	5.7%	3.3%	2.0%	1.8%

CONSUMER

NEGATIVE — POSITIVE

Extended supply constraints in the production of light vehicles could hold back some sales this year before easing in 2023. Higher mortgage rates and lack of housing supply are expected to slow the pace of home sales in coming years. Strong job gains and rapid wage growth will help to counteract the impact of higher prices and interest rates and should enable consumer spending to remain solid.

	2021	2022F	2023F	2024F
Total home sales	6.89 M	6.71 M	6.55 M	6.25 M
Light vehicle sales	14.9 M	15.8 M	17.1 M	16.9 M

JOB MARKET

NEGATIVE — POSITIVE

Job gains should remain solid this year, albeit slowing, boosted by more workers reentering the labor force in response to plentiful job openings, rising compensation, less impact from Covid, and reduced government support. The unemployment rate is expected to drop below 3.5 percent in coming months, potentially reaching the lowest levels since the 1950s.

	2021	2022F	2023F	2024F
Average job growth	562,000	400,000	250,000	190,000
Unemployment rate	5.4%	3.6%	3.4%	3.4%

INTEREST RATES

LOWER — HIGHER

In response to the surge in inflation, the Fed now expects to raise the federal funds rate by 175 basis points over 2022, with further increases next year — and financial markets expect even more tightening. Long-term rates should climb over 2022-23, although the yield curve is expected to flatten further due to the faster Fed tightening, with financial markets on alert for an inverted yield curve.

	2021	2022F	2023F	2024F
Federal funds rate	0.00%	1.75%	2.75%	2.75%
10-year Treasury note	1.52%	2.40%	2.85%	2.90%

INFLATION

LOWER — HIGHER

Inflation should slowly decelerate over 2022 but the Russian invasion has increased energy/commodity costs and could extend supply chain inflation impacts — with highly elevated inflation expected into 2023. Moreover, price gains for shelter and other service categories have only recently started to accelerate, suggesting that inflation could run above the Fed's long-term goal for several years.

	2021	2022F	2023F	2024F
Consumer Price Index (CPI)	6.7%	5.1%	2.2%	2.5%
Core CPI	5.0%	4.0%	2.7%	2.5%

Glossary

F	Forecast
BAA Credit Spread	Spread between 10-year treasury note and BAA-rated corporate bond rates
CBOE	Chicago Board Options Exchange
CPI	Consumer Price Index
FOMC	Federal Open Market Committee.
ISM	Institute for Supply Management
NFIB	National Federation of Independent Business
Yield Spread	Spread between the 1-year and 10-year Treasury note rates

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