Nationwide Economics

Monthly Economic Dashboard

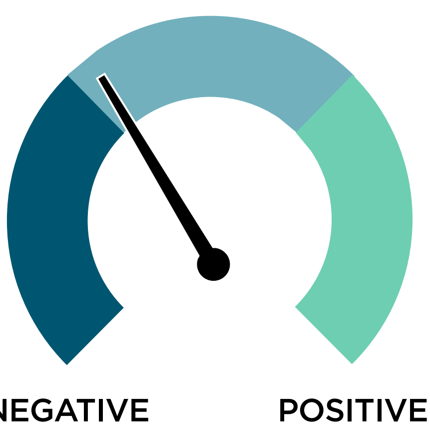
April 2023

Growth trends lower but little imminent sign of a downturn

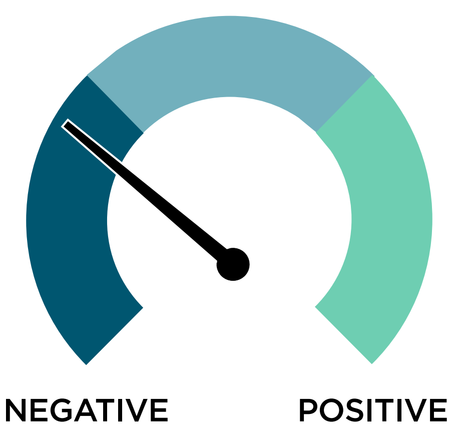
Hiring and spending activity slowed further in March as consumers and businesses look for ways to cut expenses with borrowing costs climbing and the economic outlook dimming. But the strong momentum from the job market should deter an outright recession for some time with solid income growth supporting purchasing power. While the banking crisis has settled for now, banks are poised to further tighten lending standards and another rate hike from the Fed looks likely in early May. Most leading indicators suggest that a downturn is on the way, but pre-recession periods can linger, especially with the tight labor market unlikely to ease quickly.

- Job gains slowed further in March, but the economy still added more than one million jobs over the first quarter. Another rise in the labor force participation rate is a positive sign of improved labor supply.
- Consumer are cutting back spending, especially on discretionary items, as the extended period of high inflation squeezes household budgets.
- Services inflation has shown no sign of cooling in recent months, adding pressure on the Fed to maintain restrictive monetary policy for some time.
- Financial markets are pricing in rate cuts by the Fed over the second half of 2023, helping to boost investor sentiment and lower Treasury yields. However, we do not see the Fed cutting rates until 2024 due to still hot core inflation trends.

Current Scorecard



Future Scorecard



Full scorecards ▶

Nationwide Economics — Monthly Economic Dashboard

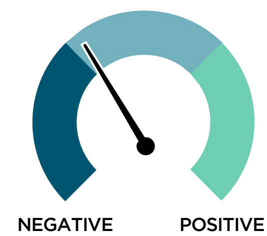
Current Scorecard April 2023

Data through April 21, 2023

OVERALL

3-MONTH TREND

The economy ended the first quarter on a weaker growth trajectory with slower job gains and another decline in retail spending for March. Businesses reported softer demand conditions too, resulting in reduced plans to hire new workers or to expand operations. But inflation for services remained stubbornly elevated, complicating the Fed's ability to pull the reins on its tightening cycle despite building signs of stress across the economy and financial markets in response to higher interest rates. While the deeply inverted yield curve points to high recession risks, most broad equity indices were near year highs in mid-April.



EMPLOYMENT

3-MONTH TREND

March's nonfarm payroll gain was the slowest since December 2020 as demand for workers has eased a bit as indicated by the recent decline in job openings. The unemployment rate edged down to 3.5 percent indicating that hiring conditions remain tight. But more workers have reentered the labor force so far in 2023 while the 12-month change in average hourly earnings dropped to a 20-month low of 4.2 percent.

	Current	Previous	Year ago
Employment growth – Mar	236,000	326,000	414,000
Unemployment rate – Mar	3.5%	3.6%	3.6%

FINANCIAL

3-MONTH TREND

Long-term interest rates extended their downtrend into early April, but yields had bounced back by mid-month. Still, the yield curve inversion remains entrenched with the Fed continuing to increase short-term rates. Despite warnings of anemic corporate earnings for the first quarter, equity markets have moved higher and were near 2023 peaks in mid-April and up solidly year-to-date.

	Current	Previous	Year ago
Yield spread – Apr	-1.23 pp	-1.21 pp	0.93 pp
BAA Credit spread – Apr	2.04 pp	1.84 pp	1.93 pp
CBOE market volatility – Apr	16.84	20.94	22.95
S&P 500 stock index – Apr	4,145	3,961	4,396

CONSUMER

3-MONTH TREND

Retail sales dropped again in March as consumers broadly pull back on expenditures in the face of high inflation and rising interest rates. Total home sales increased in February in response to a dip in mortgage rates. Sentiment improved in the first half of April, but consumers remain very concerned about inflation and future economic growth.

	Current	Previous	Year ago
Retail sales – Mar	-1.0%	-0.2%	1.8%
Light vehicles sales – Mar	14.8 M	15.0 M	13.5 M
Total home sales – Feb	5.22 M	4.63 M	7.17 M
Consumer sentiment – Apr	63.5	62.0	65.2

BUSINESS

3-MONTH TREND

The ISM services index declined sharply in March and is just above the expansion/contraction 50 line. The manufacturing index registered its fifth consecutive contraction reading as new orders for goods continue to recede. Small business optimism is back near recent lows as business owners expect weaker sales ahead and are responding by reducing hiring and investment plans.

	Current	Previous	Year ago
ISM Manufacturing – Mar	46.3	47.7	57.0
ISM Services – Mar	51.2	55.1	58.4
NFIB small business optimism – Mar	90.1	90.9	93.2

INFLATION

3-MONTH TREND

Consumer inflation was weaker in March, aided by falling prices for gasoline and groceries. The 12-month trend rate for the overall CPI declined to 5.0 percent, but the core rate edged higher to 5.6 percent as inflation for services and housing showed no sign of cooling. This likely places further pressure on the Fed to remain steadfast in its inflation fight despite signs of banking stress.

	Current	Previous	Year ago
Consumer price index (CPI) – Mar	0.1%	0.4%	1.0%
Core CPI – Mar	0.4%	0.5%	0.3%

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Future ScorecardApril 2023

OVERALL

Most leading indicators suggest that the economy is in a pre-recessionary period with consumer and business activity slowing but not yet contracting. The labor market is the last area of strength, but there are signs that hiring demand is waning as sales slip and borrowing costs for businesses climb. The Fed is expected to stop tightening rates soon but may keep policy restrictive for an extended period with services inflation still stubbornly high. This sets the stage for even weaker growth later this year, with a moderate recession projected over the second half of 2023 and likely into early 2024.

THE ECONOMY

A moderate recession is projected to start in the second half of 2023 as the cumulative impact of Fed tightening, a further drawdown of excess savings, and weaker corporate earnings slow spending and investment activity. There is also the additional drag from the banking crisis, which threatens the confidence of businesses and consumers alike and could result in a significant tightening in credit availability.

	2022	2023F	2024F	2025F
Real GDP growth	2.1%	1.2%	-0.2%	2.2%

CONSUMER

Home sales are expected to remain sluggish in 2023 with negative price growth likely as rising unemployment depresses buyer demand. However, improved economic activity and falling mortgage rates should boost activity in 2024-25. Auto sales are expected to climb in 2023 with increased supply of new vehicles, but purchases should be dampened by expected job losses and high financing rates.

	2022	2023F	2024F	2025F
Total home sales	5.67 M	4.61 M	5.05 M	5.50 M
Light vehicle sales	13.8 M	14.8 M	15.5 M	16.2 M

JOB MARKET

The unemployment rate should remain low over the first half of 2023, but the labor market is expected to take a turn for the worse later this year as businesses respond to recessionary pressures. We expect layoffs to pick up in the second half of 2023 with the economy and corporate earnings contracting — but job losses are expected to be much more modest than the past two downturns.

	2022	2023F	2024F	2025F
Average job growth	375,000	40,000	60,000	150,000
Unemployment rate	3.6%	4.1%	5.3%	4.7%

INTEREST RATES

The Fed's tightening cycle should end by mid-year with the federal funds rate topping out in the 5.00-5.25 percent range. While financial markets are pricing in rate cuts over the second half of 2023, we don't expect any easing to occur until early 2024 with inflation still too high for the Fed's comfort. But a deeper economic contraction and/or further banking stress could move forward the Fed's easing timeline.

	2022	2023F	2024F	2025F
Federal funds rate	4.25%	5.00%	3.00%	2.00%
10-year Treasury note	3.88%	3.70%	3.15%	2.90%

INFLATION

Further declines in trend inflation should be more difficult from here with services and housing inflation likely to be elevated into 2024, and energy prices still a swing factor for consumer costs. Overall and core CPI inflation (albeit trending downward) should be well above the Fed's 2.0 percent target at year-end — possibly driving an extended period of restrictive monetary policy.

	2022	2023F	2024F	2025F
Consumer Price Index (CPI)	7.1%	4.1%	3.0%	2.4%
Core CPI	6.0%	4.2%	3.0%	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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