

Monthly Economic Dashboard

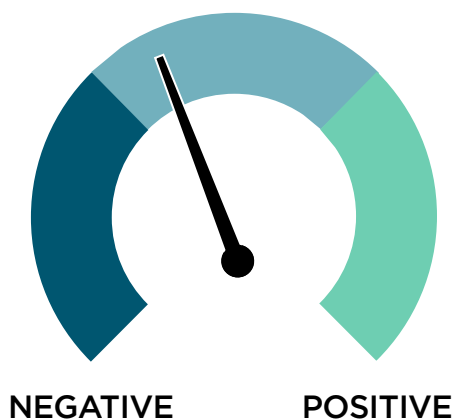
AUGUST 2022

Strong job growth and slower inflation boost the near-term outlook, but clouds remain for 2023

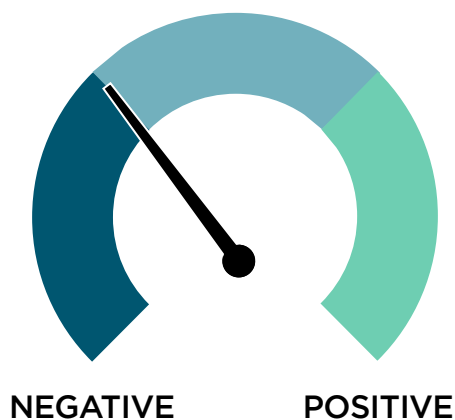
Employers kept hiring at a rapid pace for July while inflation cooled as falling energy prices and healing supply chains eased consumer costs. Combined with signals of continued growth from across the business sector, the recent data imply positive real GDP growth in the third quarter after two consecutive quarters of decline. While we expect that expansion will continue to run at a below-trend pace, much of the yield curve remains inverted — suggesting that the outlook for 2023 remains highly unsettled.

- Job gains accelerated for July as the labor market set a new all-time high for payroll employment only two and a half years after the record Covid lockdown layoffs.
- Consumer spending is slowing with very weak sentiment surveys, while the owner-occupied housing market has cooled off sharply in response to higher mortgage rates.
- The federal funds rate remains below the yields for longer-term interest rates, preventing a full inversion of the yield curve. But this could change in September if the Fed raises rates by another 50 or 75 basis points then (as is expected by financial markets).
- The equity market rally extended into August with the S&P 500 index recovering about half of its bear market decline. Moreover, credit spreads remain relatively tight, suggesting that financial market participants don't expect an uptick in delinquencies or defaults for riskier assets.

Current Scorecard



Future Scorecard



Nationwide Economics — Monthly Economic Dashboard

Current Scorecard – August 2022



Data through August 23, 2022

OVERALL

3-MONTH TREND



Inflation finally turned downward in July as the sharp drop in gasoline prices and steady improvement in supply chains eased price pressures — but prices were still broadly higher. Job growth was robust again for July while the unemployment rate matched its 50-year low as strong hiring trends continue within many industries. The stock market has rebounded too, pushed higher by expectations that the Fed won't have to tighten as much as previously feared. But survey data from consumers and small businesses remain dreary and the yield curve is closing in on a full inversion — historically, a strong signal of recession conditions about a year later.



EMPLOYMENT

3-MONTH TREND



Nonfarm payroll growth accelerated again for July, propelling employment to a new all-time high and completing the jobs recovery from the pandemic. The unemployment rate matched its pre-Covid 50-year low for the month, although lack of labor supply remains a key issue for employers. Jobless claims edged higher, but it is likely that many laid off workers are finding new jobs quickly in the current tight labor market — which is continuing to put upward pressure on wages.

NEGATIVE

POSITIVE

	Current	Previous	Year ago
Employment growth – July	528,000	398,000	689,000
Unemployment rate – July	3.5%	3.6%	5.4%

FINANCIAL

3-MONTH TREND



The rally in domestic equity markets extended through mid-August, erasing roughly half of the bear market decline from the first half of the year amid improved economic and earnings data — especially the signs of cooling inflation which could lead to less Fed tightening ahead. The inversion of the 10-year and 1-year Treasury notes deepened over the past month. But the yield curve is not fully inverted yet with the federal funds rate still lower than long-term interest rates for now.

NEGATIVE

POSITIVE

	Current	Previous	Year ago
Yield spread – Aug	-0.38 pp	-0.18 pp	1.19 pp
BAA Credit spread – Aug	2.28 pp	2.25 pp	1.97 pp
CBOE market volatility – Aug	19.94	23.96	19.17
S&P 500 stock index – Aug	4,278	3,938	4,435

CONSUMER

3-MONTH TREND



Overall retail sales stalled for July, held back by lower gasoline prices and weaker spending on autos, but core sales were up solidly. The owner-occupied housing market slumped further with demand dropping sharply in response to rising mortgage rates — but the market for multifamily units remains solid. Consumer sentiment, although still low historically, moved higher in the first half of August, likely in response to the strong job market and lower gasoline prices.

NEGATIVE

POSITIVE

	Current	Previous	Year ago
Retail sales – July	0.0%	0.8%	-1.5%
Light vehicles sales – July	13.3 M	13.0 M	14.7 M
Total home sales – July	5.32 M	5.70 M	6.76 M
Consumer sentiment – Aug	55.1	51.5	70.3

BUSINESS

3-MONTH TREND



The ISM business surveys surprised to the upside for July with both manufacturing and services showing solid expansion. Moreover, supply conditions are improving and driving down costs for many inputs. The outlook for small businesses remained dour in July, however, as respondents to the NFIB survey expect weaker economic growth and reduced sales in coming months.

NEGATIVE

POSITIVE

	Current	Previous	Year ago
ISM Manufacturing – July	52.8	53.0	59.9
ISM Services – July	56.7	55.3	64.1
NFIB small business optimism – July	89.9	89.5	99.7

INFLATION

3-MONTH TREND



Monthly consumer inflation was the slowest in more than two years for July with energy prices down sharply, easing the 12-month change to a still astronomical 8.5 percent. The core CPI also slowed for July as the 12-month trend rate (at 5.9 percent) is down modestly from its peak in March. But the Fed's preferred inflation measure, the price index for personal consumption expenditures, rose sharply — although those data are only through June.

LOWER

HIGHER

	Current	Previous	Year ago
Consumer price index (CPI) – July	0.0%	1.3%	0.5%
Core CPI – July	0.3%	0.7%	0.3%

OVERALL

Storm clouds continue to build over the outlook. Recession odds for 2023 (although far from certain) climb with each rate tightening by the Fed, while economic growth is likely to be below-trend in coming years even if a soft landing can be achieved. But the chances of a severe downturn at the end of this cycle are relatively small. Balances sheets for consumers and businesses are in solid shape with few signs of at-risk debt burdens, while household wealth has risen sharply. This suggests fewer cutbacks in spending and investment if conditions worsen over the next year, and a more modest overall recession — should one occur.



THE ECONOMY

Real GDP growth is projected to be positive, but modest, over the next few years — an extended period of below-trend growth. The key will be how quickly inflation slows and the Fed's reaction. While the economy could still see a soft landing, the odds of this outcome are dropping as inflation remains high and Fed has promised to bring it back to trend. If a recession does hit next year, we would not expect it to be severe, as imbalances aren't widespread.

NEGATIVE

POSITIVE

	2021	2022F	2023F	2024F
Real GDP growth	5.7%	1.8%	1.0%	1.2%

CONSUMER

Home sales should slow further over the next year in response to higher mortgage rates and lack of housing supply — but positive demographics and solid job gains should keep sales from falling too sharply. Auto sales should get a boost in 2023 as supply constraints in the production of light vehicles are finally easing, while also cooling prices for new and used cars. But slower job and income growth in coming years should cap total light vehicle sales.

NEGATIVE

POSITIVE

	2021	2022F	2023F	2024F
Total home sales	6.89 M	5.93 M	5.15 M	5.55 M
Light vehicle sales	14.9 M	14.2 M	16.3 M	16.0 M

JOB MARKET

Job gains are expected to be slower over the rest of 2022 and into 2023, depending upon how much supply is boosted by workers reentering the labor force. The unemployment rate is likely near its low for this cycle as weaker economic growth in coming years suggests that the number of unemployed workers will start to drift up. If a modest recession occurs next year, unemployment is likely to move higher — but not close to the double-digit rates of the past two downturns.

NEGATIVE

POSITIVE

	2021	2022F	2023F	2024F
Average job growth	562,000	400,000	210,000	150,000
Unemployment rate	5.4%	3.7%	4.4%	4.9%

INTEREST RATES

The Fed has signaled that it is determined to bring inflation within bounds, with the federal funds rate likely rising to 3.50-3.75 percent this year. While another rate hike (or two) may occur in early 2023, we expect the Fed will be cutting rates later next year as inflation cools and the economy stagnates. Long-term rates should climb, although by less than short-term rates — with a very flat, and perhaps inverted, yield curve next year (a leading indicator of recession).

LOWER

HIGHER

	2021	2022F	2023F	2024F
Federal funds rate	0.00%	3.50%	3.00%	2.75%
10-year Treasury note	1.52%	3.05%	3.00%	2.95%

INFLATION

Prices for energy, food, and commodities should continue to fade over the next year, allowing overall inflation to moderate slowly from current peaks. But core inflation could run above the Fed's long-term goal for a while with housing and service costs climbing, suggesting that the trend inflation rate could be near 2.5 percent in coming years, up from around 2.0 percent over the prior decade.

LOWER

HIGHER

	2021	2022F	2023F	2024F
Consumer Price Index (CPI)	6.7%	7.3%	3.0%	2.3%
Core CPI	5.0%	5.3%	3.2%	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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