Nationwide Economics

Monthly Economic Dashboard

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JANUARY 2022

A weaker start to 2022 but the soft patch should be temporary as Omicron wanes

The surge in new Omicron case counts as well as continued supply chain issues are expected to slow growth and keep inflation high in the first quarter. But the soft patch should be temporary as reduced Covid concerns and healing supply chains drive a faster pace of growth and slower inflation by mid-year.

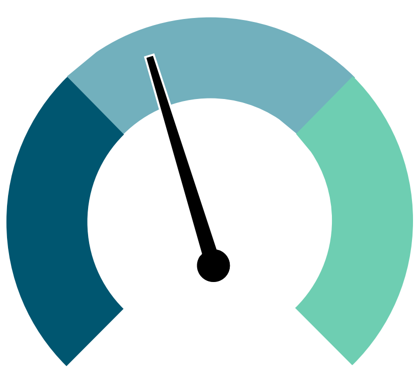
- Job gains have slowed due to a shortage of available workers, helping to push wages higher with demand from employers still very strong.

- Business surveys pointed to further, albeit slower, expansion at the end of 2021 despite continued headwinds from worker and input shortages.

- Rising expectations for rate hikes as well as quantitative tightening from the Fed sent interest rates higher in January with the 10-year Treasury note yield rising to the highest levels since before the pandemic. Near-term growth concerns, geopolitics, and the prospect of much tighter fiscal/monetary policy combined to hit equity markets.

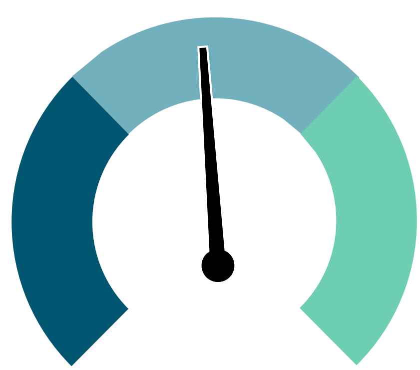
- But new Covid case counts are already staring to drop nationally and are expected to fall sharply over the next month — removing much of the near-term cause for the pause in rapid economic growth.

Current Scorecard



NEGATIVE POSITIVE

Future Scorecard



NEGATIVE POSITIVE

Full scorecards ▶

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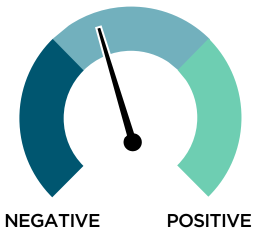
Current Scorecard – January 2022

Data through January 26, 2022

OVERALL

3-MONTH TREND

While the economy rebounded overall in the fourth quarter of 2021, data from December and January suggest softer conditions to start the new year. Consumer spending declined in December while the surge in Omicron cases has led to reduced in-person activity. Supply chain disruptions (while starting to ease a bit) continue to constrain manufacturing output (especially for autos) while leading to shortages of goods and pushing prices higher. Rising inflation is also weighing on consumer sentiment, especially as policy support from the government and the Fed fades.



EMPLOYMENT

3-MONTH TREND

Nonfarm payroll growth was slower for December, but constraints in labor supply have been a bigger factor than a drop in the demand for workers. The economy added a record 6.4 million jobs last year. The unemployment rate dropped below 4.0 percent as labor conditions continue to be tight. Weekly unemployment claims have jumped recently in response to the sharp rise in new Covid infections.

NEGATIVE — POSITIVE

	Current	Previous	Year ago
Employment growth – Dec	199,000	249,000	-306,000
Unemployment rate – Dec	3.9%	4.2%	6.7%

FINANCIAL

3-MONTH TREND

With the Fed winding down asset purchases while signaling that it will tighten monetary policy sooner and more forcefully this year, interest rates climbed sharply in January. The hawkish turn by the Fed (plus growth concerns from Omicron as well as geopolitics) have weighed on equity markets thus far 2022, especially for interest rate sensitive growth stocks, falling off year-end (and all-time) highs.

NEGATIVE — POSITIVE

	Current	Previous	Year ago
Yield spread – Jan	1.25 pp	1.17 pp	1.01 pp
BAA Credit spread – Jan	1.80 pp	1.84 pp	2.12 pp
CBOE market volatility – Jan	25.27	20.73	22.01
S&P 500 stock Index – Jan	4,498	4,660	3,836

CONSUMER

3-MONTH TREND

Retail sales dropped sharply for December as consumers likely pulled forward some holiday purchases in reaction to well-publicized fears of shortages. Light vehicle sales dropped again and remain hampered by the shortage of computer chips. But total home sales, although below recent peaks, were higher in the fourth quarter despite a continued lack of homes for sale. Consumer sentiment continues to edge lower.

NEGATIVE — POSITIVE

	Current	Previous	Year ago
Retail sales – Dec	-1.9%	0.2%	-0.8%
Light vehicles sales – Dec	12.4 M	12.9 M	16.3 M
Total home sales – Dec	6.99 M	7.20 M	7.59 M
Consumer sentiment – Jan	68.8	70.6	79.0

BUSINESS

3-MONTH TREND

The ISM business surveys pulled back for December but still showed solid expansion for manufacturing and services — plus some signs that supply chain woes are starting to ease. The NFIB small business optimism index edged higher again but owners remain highly concerned about forward growth prospects and the availability of workers.

NEGATIVE — POSITIVE

	Current	Previous	Year ago
ISM Manufacturing – Dec	58.8	60.6	60.5
ISM Services – Dec	62.3	68.4	57.8
NFIB small business optimism – Dec	98.9	98.4	95.9

INFLATION

3-MONTH TREND

The 12-month trend rate for the CPI hit 7.0 percent for December for the first time since 1982. Core inflation rose strongly, too, with supply chain problems continuing to constrain the availability of goods and shelter costs climbing, too. The Fed has signaled that higher inflation may last longer than anticipated — forcing a stronger policy response over the next few years.

LOWER — HIGHER

	Current	Previous	Year ago
Consumer price index (CPI) – Dec	0.5%	0.8%	0.2%
Core CPI – Dec	0.6%	0.5%	0.0%

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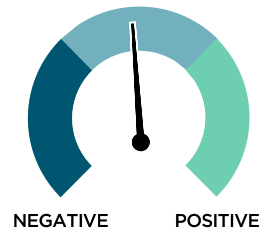
Future Scorecard – January 2022

OVERALL

The soft patch for the U.S. economy in early 2022 is expected to be short-lived as new Covid cases are already fading quickly, reducing the drag on economic activity. Improving supply conditions should combine with solid job and income gains to propel growth forward at a strong pace over the middle of the year. As supply chains heal, Inflation should decelerate, but is likely to remain above-trend into 2023 as prior expansionary monetary policy continues to push services prices upward. Fed tightening will eventually slow growth, but not until next year and beyond.



THE ECONOMY

The Omicron variant and extended supply chain disruptions are slowing growth early in 2022, but the economy is expected to accelerate again within a couple of months — driving another year of above-trend expansion. Growth should slow to near its pre-Covid trend by the end of 2023 in response to tighter fiscal and monetary policy, along with the economy nearing full resource utilization.

	2020	2021F	2022F	2023F
Real GDP growth	-3.4%	5.7%	4.2%	2.7%

CONSUMER

Severe constraints in the supply of homes and the production of light vehicles should ease over 2022, with elevated sales as demand for autos and housing is expected to remain strong. Solid job gains, rapid wage growth, and record household net worth should help to keep consumer spending solid for a few years, if Covid allows.

	2020	2021	2022F	2023F
Total home sales	6.47 M	6.90 M	6.85 M	6.60 M
Light vehicle sales	14.5 M	14.9 M	16.2 M	17.2 M

JOB MARKET

Job gains are expected to be above-trend (albeit slowing) in 2022 (especially within the service sector), as more workers should reenter the labor force in response to plentiful job openings, rising compensation, less impact from Covid, and reduced government support. The unemployment rate could drop to the lowest levels since the 1960s later this year — and perhaps since the early 1950s by 2023.

	2020	2021	2022F	2023F
Average job growth	-785,000	537,000	300,000	200,000
Unemployment rate	8.1%	5.4%	3.7%	3.5%

INTEREST RATES

In response to rapid inflation and tight labor market conditions, the Fed expects to hike interest rates multiple times in 2022, followed by even more moves over 2023 — although this could change based on incoming economic/inflation figures. Long-term rates should move higher over 2022-23 (with an added boost from potential quantitative tightening), although the yield curve should still flatten over time.

	2020	2021	2022F	2023F
Federal funds rate	0.00%	0.00%	0.75%	1.50%
10-year Treasury note	0.93%	1.52%	2.10%	2.50%

INFLATION

As Covid-caused supply chain disruptions heal in coming months, inflation should decelerate over 2022, although remaining above the pre-COVID trend. But some price gains may persist (especially in shelter-related categories) — suggesting that inflation, while lower than current hot rates, could be higher than usual for several years.

	2020	2021	2022F	2023F
Consumer Price Index (CPI)	1.2%	6.7%	3.5%	2.4%
Core CPI	1.6%	5.0%	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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