

# Monthly Economic Dashboard

JULY 2022

## Not a real recession yet but Fed tightening may get us there

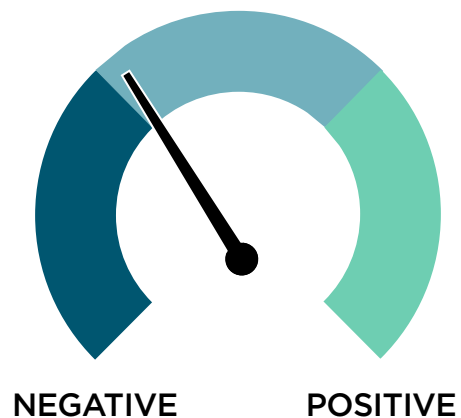
Despite two consecutive quarters of modest declines in real GDP over the first half of 2022, underlying growth coming from consumers and businesses (along with the labor market) was not consistent with a recession. But spending and investment activity is slowing in response to further acceleration of inflation and higher interest rates. The Fed remains steadfast (if late) in tackling inflation with significant monetary policy tightening. Concurrent economic data do not point to a recession now but, if inflation remains rapid, further Fed tightening could easily tip the economy into a downturn next year.

- Job gains remained strong through June in response to near record levels of job openings, even as employers struggle with lack of available workers and rising wage costs.
- Despite very poor consumer survey findings, spending activity has remained solid — albeit boosted, in part, by much higher prices for many essential items.
- Long-term interest rates have decreased as recession fears build with the spread between the 10- and 1-year Treasury yields inverting in mid-July. The inversion has been too shallow and too short to be a clear recession signal, yet.
- The S&P 500 index has recovered modestly from its lows for the year, when it was about 23 percent below its level at the end of 2021, but it is still down by more than 15 percent. This fits the historical pattern of bear markets in non-recession periods, but bear markets that accompany recessions typically see much larger equity market declines.

**Current Scorecard**



**Future Scorecard**



# Nationwide Economics — Monthly Economic Dashboard

## Current Scorecard – July 2022



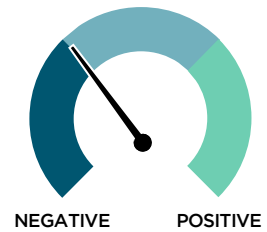
Data through July 26, 2022

### OVERALL

3-MONTH TREND



The strong labor market remains an engine of growth for the economy, keeping retail spending solid and supporting household incomes. But inflation accelerated further in June and rising costs — along with the Fed tightening to bring inflation down — are starting to negatively impact consumer and business behavior. Consumer and small business survey data suggest much weaker activity ahead, trends which should help to slow inflation but also put the economy at risk of slipping into a recession if the Fed sticks to its projected path for rate tightening over the next year.



### EMPLOYMENT

3-MONTH TREND



Nonfarm payroll gains remained strong in June, although the trend has faded a bit from earlier this year. The unemployment rate was steady again at nearly a 50-year low, although labor force growth has stagnated over recent months — a poor sign for improved labor supply. Job openings have dipped a bit while jobless claims are edging higher, suggesting that the job market is cooling modestly.

NEGATIVE

POSITIVE

	Current	Previous	Year ago
Employment growth – June	372,000	384,000	557,000
Unemployment rate – June	3.6%	3.6%	5.9%

### FINANCIAL

3-MONTH TREND



The spread between the 10-year and 1-year Treasury notes inverted in mid-July but the inversion has not yet been long enough or deep enough to be a clear recession signal. Domestic equity markets bounced off their lows as second quarter earnings have broadly come in better than expected. Still, market volatility remains elevated, and the S&P 500 index remains down by more than 15 percent from its level at the end of last year.

NEGATIVE

POSITIVE

	Current	Previous	Year ago
Yield spread – July	-0.18 pp	0.34 pp	1.19 pp
BAA Credit spread – July	2.31 pp	2.18 pp	1.96 pp
CBOE market volatility – July	23.96	28.86	19.01
S&P 500 stock index – July	3,938	3,808	4,344

### CONSUMER

3-MONTH TREND



Retail sales surged for June as spending remained solid, aided by higher prices for autos and gasoline. Total home sales fell for a fifth consecutive month as demand has dropped sharply in response to higher home prices and rising mortgage rates. Consumer sentiment remained near an all-time low in early July (albeit edging higher) as rising inflation continues to stoke fears of a recession.

NEGATIVE

POSITIVE

	Current	Previous	Year ago
Retail sales – June	1.0%	-0.1%	0.8%
Light vehicles sales – June	13.0 M	12.7 M	15.5 M
Total home sales – June	5.71 M	6.05 M	6.68 M
Consumer sentiment – July	51.1	50.0	81.2

### BUSINESS

3-MONTH TREND



The ISM business surveys moderated further in June (although still showing expansion) amid lingering supply constraints and early signs of waning demand and slowing production. The S&P Global PMIs both fell for July, with the services business activity index moving into contraction territory. Small businesses continue to struggle with rising costs for inputs and labor, reducing the NFIB's Optimism Index to its lowest level in nearly a decade.

NEGATIVE

POSITIVE

	Current	Previous	Year ago
ISM Manufacturing – June	53.0	56.1	60.9
ISM Services – June	55.3	55.9	60.7
NFIB small business optimism – June	89.5	93.1	102.5

### INFLATION

3-MONTH TREND



The 12-month inflation rate accelerated to 9.1 percent for June as the CPI saw its largest monthly increase since 2005 — pushed up by sharply higher costs for food and gasoline. But core inflation was also rapid as inflationary pressure continues to broaden across the economy despite the beginning of Fed tightening and small signs of supply chain improvements.

LOWER

HIGHER

	Current	Previous	Year ago
Consumer price index (CPI) – June	1.3%	1.0%	0.9%
Core CPI – June	0.7%	0.6%	0.8%

## OVERALL

Strong momentum within the labor market continues to drive solid consumer spending and makes the odds of a recession still relatively remote in the near term. But inflation should remain elevated into 2023, prompting further sharp rate increases by the Fed as well as reductions in household and business activity. The yield curve could see a sustained inversion as soon as this fall — historically, a clear signal of an economic downturn within about 12 months. A soft landing remains possible if supply chain problems heal sufficiently, allowing the Fed to stop tightening (or even ease) sooner than expected, but the window is closing rapidly.



## THE ECONOMY

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

### NEGATIVE

### POSITIVE

	2021	2022F	2023F	2024F
Real GDP growth	5.7%	1.9%	1.5%	1.8%

## CONSUMER

Home sales should continue to slow in response to higher mortgage rates and lack of housing supply — but positive demand fundamentals should keep sales (and prices) from falling off too sharply. Extended supply constraints in the production of light vehicles should ease later this year, helping to boost sales over 2023 while also cooling prices for new and used cars. But slower job and income growth in coming years should cap potential sales gains.

### NEGATIVE

### POSITIVE

	2021	2022F	2023F	2024F
Total home sales	6.89 M	6.15 M	5.95 M	5.90 M
Light vehicle sales	14.9 M	14.5 M	16.5 M	16.3 M

## JOB MARKET

Job gains are expected to be slower (albeit still solid) in the second half 2022 and into 2023, depending upon how much supply is boosted by workers reentering the labor force. The unemployment rate is likely at-or-near its low for this cycle as weaker economic growth in coming years suggests that the number of unemployed workers will start to drift higher later next year.

### NEGATIVE

### POSITIVE

	2021	2022F	2023F	2024F
Average job growth	562,000	353,000	210,000	150,000
Unemployment rate	5.4%	3.6%	3.8%	4.1%

## INTEREST RATES

The Fed has signaled that it is determined to bring inflation within bounds. This suggests further significant rate increases, with latest projections showing the federal funds rate at 3.25-3.50 percent by year-end and more tightening moves expected in 2023. Long-term rates should climb further, although the yield curve is expected to flatten sharply due to the rapid Fed tightening, with financial markets on alert for an inversion (a good leading indicator of recession).

### LOWER

### HIGHER

	2021	2022F	2023F	2024F
Federal funds rate	0.00%	3.25%	3.25%	2.75%
10-year Treasury note	1.52%	3.45%	3.35%	3.10%

## INFLATION

Supply shocks for energy, food, and commodities could fade in the second half of 2022, with inflation expected 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%	7.0%	3.0%	2.5%
Core CPI	5.0%	5.2%	3.3%	2.6%

# Glossary

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



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