

Monthly Economic Dashboard

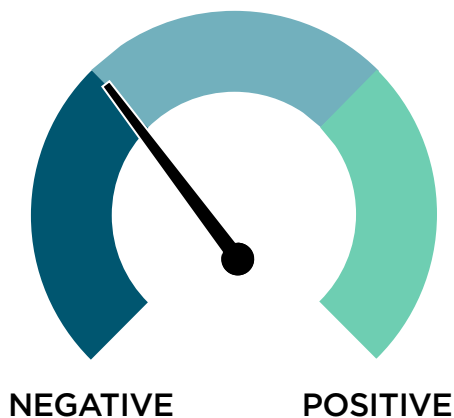
JUNE 2022

Rapid inflation threatens to derail the expansion as the Fed hikes sharply again, and promises more

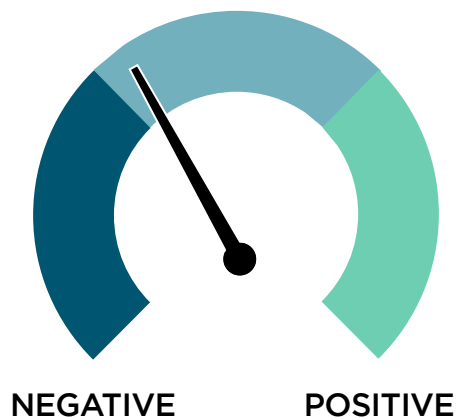
Inflation spiked again for May and measures of inflation expectations rose as prices continued to rise sharply across a broadening portion of the economy. The Fed is committed to getting inflation under control, announcing a sharp 75 basis point rate hike at the June FOMC meeting with a similar increase likely in July, too. Can the Fed successfully bring inflation back within bounds without sending the economy into a recession in coming years? That is the big question driving the volatility in interest rates and equity markets.

- Hiring demand by employers remains strong, driving continued above-trend job gains and fast wage increases for workers.
- Spending has begun to slow while consumer sentiment dropped to an all-time low for late June — historically, a harbinger of weaker activity ahead.
- Long-term interest rates briefly jumped to the highest levels in more than a decade as bond markets price in higher inflation expectations and more aggressive rate actions by the Fed.
- The S&P 500 index fell into a bear market (down by 20 percent or more from its prior peak) in mid-June after the hot inflation print stoked fears of even tighter Fed policy perhaps leading to a recession. Bear markets outside of recessions have been rare.

Current Scorecard



Future Scorecard



Nationwide Economics — Monthly Economic Dashboard

Current Scorecard – June 2022



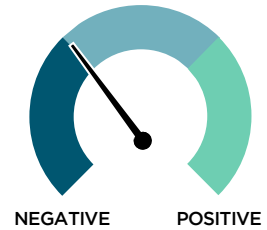
Data through June 24, 2022

OVERALL

3-MONTH TREND



Labor market conditions remain positive with further strong job gains for May and fast wage growth driving up incomes. But inflation accelerated again as the lagged impacts of excess money growth along with supply shocks for commodities and goods continue to drive up costs for businesses and consumers. Retail spending slowed for May while record-low consumer sentiment could translate into more downside ahead. Moreover, higher interest rates (with the Fed announcing a sharp 75 basis point rate hike at the June FOMC meeting) have weakened housing demand while reducing liquidity for financial markets.



EMPLOYMENT

3-MONTH TREND



Nonfarm payroll growth is slowly decelerating but remained strong for May, while the unemployment rate was steady at a very low level. Labor force participation edged higher, but lack of workers continues to constrain hiring in many sectors. These tight job market conditions are fueling faster wage gains, as shown by the 6.6 percent annual increase in the Atlanta Fed wage growth tracker for May.

NEGATIVE

POSITIVE

	Current	Previous	Year ago
Employment growth – May	390,000	436,000	447,000
Unemployment rate – May	3.6%	3.6%	5.8%

FINANCIAL

3-MONTH TREND



The FOMC announced a further 75 basis point rate hike at the June FOMC meeting and signaled that more tightening will be needed to reduce inflationary pressures. Equity markets sold off sharply again in June with the S&P 500 index dipping into bear market territory as recessions fears continue to increase. Long-term interest rates spiked again in mid-June, with the 10-year note yield briefly climbing above 3.40 percent for the first time since early 2011.

NEGATIVE

POSITIVE

	Current	Previous	Year ago
Yield spread – June	0.34 pp	0.76 pp	1.43 pp
BAA Credit spread – June	2.29 pp	2.23 pp	1.91 pp
CBOE market volatility – June	28.86	28.66	18.01
S&P 500 stock index – June	3,808	3,965	4,223

CONSUMER

3-MONTH TREND



Retail sales fell modestly for May as higher prices for gasoline appear to have reduced consumer liquidity for other purchases. Total home sales fell further over May as demand has eased in the face of much higher home prices and rising mortgage rates. Consumer sentiment plummeted to an all-time low in late June as rapid inflation increased fears of stringent Fed tightening and a following downturn.

NEGATIVE

POSITIVE

	Current	Previous	Year ago
Retail sales – May	-0.3%	0.7%	-0.5%
Light vehicles sales – May	12.7 M	14.5 M	16.9 M
Total home sales – May	6.11 M	6.23 M	6.66 M
Consumer sentiment – June	50.0	58.4	85.5

BUSINESS

3-MONTH TREND



The ISM business surveys, which remained solidly in expansion for May, showed only modest improvement in supply conditions as input and labor shortages persist. High inflation and rising labor costs continue to be the top concerns for business owners as the NFIB small business optimism index remained close to its lowest level of the current expansion for May.

NEGATIVE

POSITIVE

	Current	Previous	Year ago
ISM Manufacturing – May	56.1	55.4	61.6
ISM Services – May	55.9	57.1	63.2
NFIB small business optimism – May	93.1	93.2	99.6

INFLATION

3-MONTH TREND



Consumer inflation spiked again for May as food, gasoline, and commodity prices climbed further in response to lingering supply shocks — pushing up the 12-month CPI rate to another 40-year high at 8.6 percent. Core inflation was also rapid with further increases in housing costs and signs that faster wages are flowing into service costs across the economy.

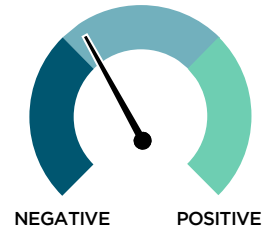
LOWER

HIGHER

	Current	Previous	Year ago
Consumer price index (CPI) – May	1.0%	0.3%	0.7%
Core CPI – May	0.6%	0.6%	0.7%

OVERALL

We are projecting a rare soft landing with Fed tightening and improvements on the supply side bringing inflation down while slowing – but not stopping – the economy. Despite a negative first quarter, real GDP growth for 2022 should remain a bit above trend. But further slowing should occur in 2023 as still rapid (if slowing) inflation and higher interest rates cut into consumer and business activity. The odds of a downturn in late-2023 or 2024 have risen as the Fed tightens further this year and next. A successful soft landing will require lower energy prices and significant supply chain healing, allowing the Fed to stop raising rates before the yield curve inverts.



THE ECONOMY

Real GDP growth should return to positive territory in the second quarter but high inflation, rising interest rates, and continued supply chain disruptions have weakened expectations for this year. Beyond 2022, growth should slow further as businesses cut back on hiring and investment with increasing risks of a recession if the Fed tightens as aggressively as currently projected.

NEGATIVE

POSITIVE

	2021	2022F	2023F	2024F
Real GDP growth	5.7%	2.3%	1.9%	1.8%

CONSUMER

Extended supply constraints in the production of light vehicles are expected to ease over the remainder of 2022, boosting sales later this year and over 2023. Home sales should slow more sharply over the next couple of years in response to higher mortgage rates and lack of housing supply. Solid job gains and rapid wage growth will help to counteract the impact of higher prices and interest rates, enabling consumer spending to keep the economy out of recession.

NEGATIVE

POSITIVE

	2021	2022F	2023F	2024F
Total home sales	6.89 M	6.15 M	6.05 M	5.95 M
Light vehicle sales	14.9 M	15.0 M	16.9 M	16.0 M

JOB MARKET

Job gains are expected to be slower (albeit still solid) in the near term, depending upon how much supply is boosted by workers reentering the labor force. The unemployment rate could drop below 3.5 percent in coming months, potentially reaching the lowest levels since the 1950s. But weaker economic growth in coming years suggests that unemployment will start to drift higher next 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 aggressive rate increases, with latest projections showing the federal funds rate at 3.25-3.50 percent by year-end and more tightening moves expected over 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%	3.75%	3.25%
10-year Treasury note	1.52%	3.65%	3.95%	3.65%

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. Price gains for shelter and other service categories are also accelerating, suggesting that core inflation could run above the Fed's long-term goal for a while. We project that the long-term trend in inflation has moved higher to around 2.5 percent per year, up from around 2.0 percent over the prior decade.

LOWER

HIGHER

	2021	2022F	2023F	2024F
Consumer Price Index (CPI)	6.7%	6.1%	2.6%	2.5%
Core CPI	5.0%	4.4%	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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