Nationwide Economics

Monthly Economic Dashboard

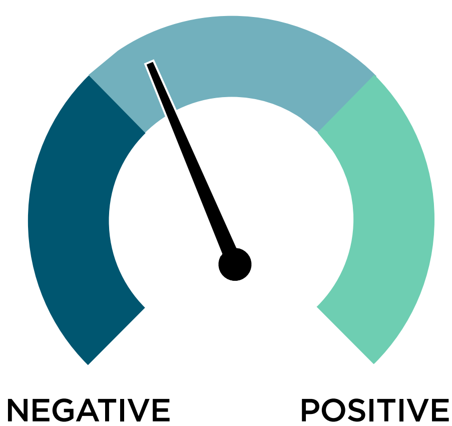
NOVEMBER 2022

Continued growth even as clouds build over the outlook for 2023

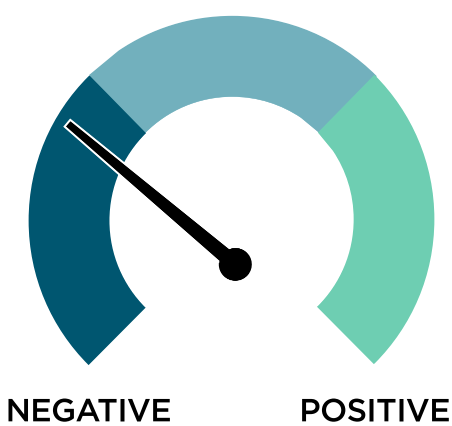
Consumer trends remained solid into the fourth quarter, supported by strong job and wage growth. But many businesses are anticipating lower sales and production ahead, which should reduce hiring over the next year — weakening the tailwinds for consumer activity. Interest rates should also move higher with the Fed warning that it might implement more tightening than previously estimated in 2023 to bring inflation back to trend, adding to worries that restrictive monetary policy will soon push the economy into a recession.

- Job gains continue to decelerate over 2022, but demand for workers remains strong and the labor market should maintain positive momentum for some time.
- Consumers have shown resiliency to higher prices, continuing to spend on services even as demand for goods has finally receded from pandemic highs.
- Interest rates remain volatile, while moving steadily higher, swung by shifts in expectations for Fed rate actions and incoming inflation data. While Fed rate hikes should downshift in coming meetings, the terminal policy rate over 2023 could be higher and more restrictive for growth.
- Equity markets have rebounded off year-lows in response to better-than-expected earnings and signs that inflation may have peaked, but most investors remain wary with many leading indicators pointing to higher recession risks for 2023.

Current Scorecard



Future Scorecard



Full scorecards ▶

Nationwide Economics — Monthly Economic Dashboard

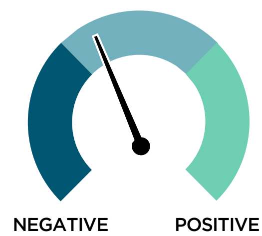
Current Scorecard – November 2022

Data through November 25, 2022

OVERALL

3-MONTH TREND

After a rebound during the third quarter, the economy showed continued growth in October, fed by the strong labor market. Consumer spending has remained resilient despite sharply rising costs with a jump in retail sales for October. Business sector growth slowed further, but firms continue to hire and expand while also preparing for weaker conditions ahead. Inflation cooled in October and may have peaked, especially for goods costs, but remains significantly above trend. Because of this, the Fed signaled that more rate tightening could occur over 2023 than previously estimated, adding to recession fears.



EMPLOYMENT

3-MONTH TREND

Nonfarm payroll gains remained solid in October, although the trend for hiring has slowed over 2022. Job openings rose in September and initial jobless claims are low, suggesting that demand from employers for labor is still strong. The unemployment rate ticked higher as labor supply continues to be a constraint, with only a modest increase in the labor force since March.

	Current	Previous	Year ago
Employment growth – Oct	261,000	315,000	677,000
Unemployment rate – Oct	3.7%	3.5%	4.6%

FINANCIAL

3-MONTH TREND

Equity markets rebounded in October and the first half of November on better-than-forecasted third quarter earnings and signs of cooler inflation. Still, most indices are near bear market levels (down by at least 20 percent). The 10-year Treasury yield crossed over 4.00 percent for the first time since 2008 after Chair Powell indicated that more rate tightening than previously forecasted will be needed to reduce inflation back to trend — although yields have since fallen back.

	Current	Previous	Year ago
Yield spread – Nov	-1.01 pp	-0.45 pp	1.42 pp
BAA Credit spread – Nov	2.18 pp	2.29 pp	1.70 pp
CBOE market volatility – Nov	21.13	30.46	17.09
S&P 500 stock index – Nov	4,002	3,702	4,695

CONSUMER

3-MONTH TREND

Retail sales jumped in October, boosted by higher auto sales, but spending also rose at a sturdy pace across a broad range of categories. Housing activity continues to contract as many potential buyers have been priced out by sharply higher mortgage rates. Consumer sentiment slumped again in November amid lingering high inflation and building recession concerns for 2023.

	Current	Previous	Year ago
Retail sales – Oct	1.3%	0.0%	1.6%
Light vehicles sales – Oct	14.9 M	13.6 M	13.2 M
Total home sales – Oct	5.06 M	5.30 M	6.86 M
Consumer sentiment – Nov	56.8	59.9	67.4

BUSINESS

3-MONTH TREND

The ISM manufacturing index was barely in expansion territory (i.e. – above 50) in October, lowered by reduced new orders with demand for goods faltering. Service sector growth also weakened, although business activity remains solid within most service industries. Small business owners continue to expect worse economic conditions ahead, impacting current hiring and investment decisions.

	Current	Previous	Year ago
ISM Manufacturing – Oct	50.2	50.9	60.8
ISM Services – Oct	54.4	56.7	66.7
NFIB small business optimism – Oct	91.3	92.1	98.2

INFLATION

3-MONTH TREND

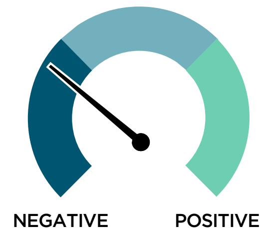
Consumer inflation was cooler than expected in October, led by lower costs for core goods as supply chains heal. Although down from September, the 12-month trend rates for the overall and core CPI — at 7.7 and 6.3 percent, respectively — remain far above the long-run average. But weaker producer prices for inputs indicate that inflation readings could be past their peaks.

	Current	Previous	Year ago
Consumer price index (CPI) – Oct	0.4%	0.4%	0.9%
Core CPI – Oct	0.3%	0.6%	0.6%

Future Scorecard – November 2022

OVERALL

The prevailing opinion is that the U.S. economy is trending towards a recession over 2023, albeit one that is likely to be moderate. Strong labor market momentum and lower debt obligations suggest that most households and businesses should be able to weather a period of higher interest rates and weaker activity. But there remain risks on both sides, centered on Fed actions over the next year. If the Fed is compelled to hike interest rates much more sharply to bring inflation to heel, the potential downturn could be longer and deeper. Conversely, should inflation slow more quickly, the Fed could ease policy sooner, reducing the recessionary impact.



THE ECONOMY

A moderate recession is projected for 2023 as the full impact of the Fed's tightening cycle reduces consumer spending and business investment. Still, a potential economic downturn should not be severe in depth or length as the there are few imbalances in the economy at present. But much will depend upon incoming inflation data and the Fed's policy reaction over the next year.

NEGATIVE — POSITIVE

	2021	2022F	2023F	2024F
Real GDP growth	5.7%	1.8%	-0.7%	1.2%

CONSUMER

The housing market is expected to bottom out in 2023 with flat-to-negative price growth likely — but receding mortgage rates should lift activity in 2024. Auto sales are expected to get a boost in 2023 from increased inventories of new vehicles (also cooling prices for new and used cars), but purchases are likely to be capped by weaker economic growth and higher financing rates.

NEGATIVE — POSITIVE

	2021	2022F	2023F	2024F
Total home sales	6.89 M	5.75 M	4.90 M	5.15 M
Light vehicle sales	14.9 M	13.9 M	14.8 M	15.5 M

JOB MARKET

Job gains, while likely remaining positive in early 2023, should turn negative later next year and into 2024 in response to recessionary conditions. The unemployment rate should move modestly higher over 2023-24 as hiring demand weakens with the economy contracting. Still, unemployment is not expected to approach the double-digit rates seen over the past two downturns.

NEGATIVE — POSITIVE

	2021	2022F	2023F	2024F
Average job growth	562,000	370,000	10,000	80,000
Unemployment rate	5.4%	3.7%	4.7%	5.3%

INTEREST RATES

The Fed is projected to tighten further into early 2023 with a terminal fed funds rate in the 5.00-5.25 percent range (or higher). With inflation still moderately above-trend over 2023, we expect the Fed to keep monetary policy restrictive until 2024 to ensure that inflation is under control. As such, the yield curve could remain inverted into 2024 with long-term interest rates declining modestly.

LOWER — HIGHER

	2021	2022F	2023F	2024F
Federal funds rate	0.00%	4.25%	5.00%	3.50%
10-year Treasury note	1.52%	4.15%	4.00%	3.20%

INFLATION

Prices for many goods and commodities should continue to fade over the next year, allowing overall inflation to moderate from current peaks. But core inflation could run above the Fed's 2.0 percent goal for a while with housing and service costs still climbing — suggesting that price growth at the end of 2023 could still be around twice the long-term average.

LOWER — HIGHER

	2021	2022F	2023F	2024F
Consumer Price Index (CPI)	6.7%	7.6%	3.8%	2.6%
Core CPI	5.0%	6.5%	3.9%	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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