Nationwide Economics

# Monthly Economic Dashboard

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OCTOBER 2022

## Modest downturn projected for 2023 as Fed tightening tamps down activity

Further sharp interest rate increases from the Fed in November and December should set the stage for a recession to start within the next year. While a downturn should help to bring inflation back to trend, history suggests that there will be a cost in terms of some job losses and closed businesses. But a likely recession should be shorter and less severe with eventual Fed easing (maybe not until 2024) driving an economic recovery in the years that follow.

- Job gains slowed again in September, although employer demand remains strong with far more job openings than available workers.
- Consumer spending has flatlined in recent months as households cut back on discretionary expenditures to afford much higher costs for essential items.
- Interest rates spiked further as markets factor in higher expectations for near-term Fed tightening. But the yield curve remains inverted over most durations — a historically accurate early predictor of a forthcoming recession.
- Equity markets are pricing in elevated recession risks as third-quarter corporate profits took a hit from higher costs and rising interest rates — with most broad equity indices only slightly above year-lows.

### Current Scorecard


### Future Scorecard


Full scorecards ▶

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# Current Scorecard – October 2022

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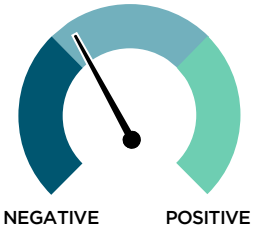
Data through October 26, 2022

## OVERALL

3-MONTH TREND

Growth readings continue to broadly weaken as another hot inflation report lifted expectations for further Fed tightening. Retail spending stagnated over the third quarter in response to sharply rising costs, while much higher mortgage rates continue to batter the housing market. Business sector growth remains in expansion, but investment and hiring trends are weakening as recession concerns build. Long-term interest rates continued their steep ascent into October, but the yield curve is flashing a recession warning — contributing to the dour outlook from investors with most equity market indices near year-lows.




## EMPLOYMENT

3-MONTH TREND

Nonfarm payroll growth slowed further in September, posting the weakest monthly increase since April 2021. Job openings dropped sharply in August, but the level was still much higher than pre-Covid norms and demand for workers remains solid in most sectors. The unemployment rate again matched its 50-year low, highlighting the continued tight conditions for labor.


| | Current | Previous | Year ago |
|---|---|---|---|
| Employment growth – Sept | 263,000 | 315,000 | 424,000 |
| Unemployment rate – Sept | 3.5% | 3.7% | 4.7% |

## FINANCIAL

3-MONTH TREND

Interest rates continued to climb sharply through mid-October with the 10-year Treasury note yield crossing 4.20 percent for the first time in 15 years. Still, much of the yield curve remains inverted as markets price in higher odds of further Fed tightening to combat inflation — pushing up short-term rates. Equity markets continue to be volatile and are only modestly above year-lows as growth expectations weaken.


| | Current | Previous | Year ago |
|---|---|---|---|
| Yield spread – Oct | -0.45 pp | -0.49 pp | 1.54 pp |
| BAA Credit spread – Oct | 2.33 pp | 2.16 pp | 1.84 pp |
| CBOE market volatility – Oct | 30.46 | 25.97 | 15.59 |
| S&P 500 stock index – Oct | 3,702 | 3,953 | 4,527 |

## CONSUMER

3-MONTH TREND

Retail sales were flat in September as high prices and interest rates weighed on household spending. The market for single-family homes contracted further in response to the highest mortgage rates in 20+ years. While sentiment continues to recover from its June record low, consumers still show poor future growth expectations with inflation projected to remain high over the next year.


| | Current | Previous | Year ago |
|---|---|---|---|
| Retail sales – Sept | 0.0% | 0.4% | 1.1% |
| Light vehicles sales – Sept | 13.5 M | 13.1 M | 12.3 M |
| Total home sales – Sept | 5.31 M | 5.46 M | 6.91 M |
| Consumer sentiment – Oct | 59.8 | 58.6 | 71.7 |

## BUSINESS

3-MONTH TREND

The ISM manufacturing index dropped to its weakest reading since May 2020 as demand and production wanes despite signs of cheaper input costs. Service sector growth remained solid even with cuts in discretionary spending. Inflation and labor concerns continue to be top of mind for small business owners; the optimism index in September was only slightly improved from June's nine-year low.


| | Current | Previous | Year ago |
|---|---|---|---|
| ISM Manufacturing – Sept | 50.9 | 52.8 | 60.5 |
| ISM Services – Sept | 56.7 | 56.9 | 62.6 |
| NFIB small business optimism – Sept | 92.1 | 91.8 | 99.1 |

## INFLATION

3-MONTH TREND

Housing and service costs rose sharply again in September, pushing up the 12-month core CPI rate to a 40-year high of 6.6 percent. Food prices also jumped, offsetting further moderation of energy costs — with the overall CPI still up 8.2 percent over the past year. The faster core inflation prints are likely to keep pressure on the Fed to tighten aggressively in the near-term.


| | Current | Previous | Year ago |
|---|---|---|---|
| Consumer price index (CPI) – Sept | 0.4% | 0.1% | 0.4% |
| Core CPI – Sept | 0.6% | 0.6% | 0.3% |

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# Future Scorecard – October 2022

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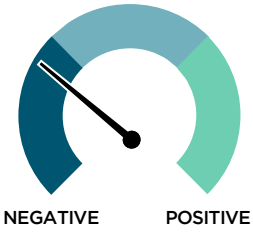
## OVERALL

A recession call for 2023 is gaining broader consensus as economic activity is expected to weaken further under the weight of high inflation and Fed tightening. The timing of a potential downturn remains uncertain, but recessionary conditions with job losses and reduced spending should prevail within the next 12 months. But this recession is expected to be shorter and more modest, even with Fed stimulus support likely delayed by still above-trend price growth. Fed easing in 2024 and a more typical pace of inflation should shift the economy into recovery mode.




## THE ECONOMY

A modest recession is now expected over 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 future inflation trends and the Fed's policy reaction over the next year.


| | 2021 | 2022F | 2023F | 2024F |
|---|---|---|---|---|
| Real GDP growth | 5.7% | 1.7% | -0.6% | 1.4% |

## CONSUMER

The housing market is expected to bottom out in 2023 with much slower house price growth — but positive demographics should keep sales activity from falling too sharply. Auto sales should get a boost in 2023 as the inventory of new vehicles should finally improve (while also cooling prices for new and used cars), but sales will be capped by weaker economic growth and higher financing rates.


| | 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 | 13.6 M | 14.8 M | 15.5 M |

## JOB MARKET

Job gains, while remaining positive into early 2023, are likely to turn negative for a time in response to the modest recessionary conditions. The unemployment rate should move higher over 2023-24 as hiring demand slows with the economy contracting. Still, unemployment is not expected to come close to the double-digit rates seen over the past two downturns.


| | 2021 | 2022F | 2023F | 2024F |
|---|---|---|---|---|
| Average job growth | 562,000 | 380,000 | 50,000 | 100,000 |
| Unemployment rate | 5.4% | 3.7% | 4.8% | 5.2% |

## INTEREST RATES

The Fed is projected to tighten sharply in November and December with the fed funds rate rising to the 4.50-4.75 percent range in early 2023. With inflation still moderately above-trend over 2023, we expect the Fed to hold off on cutting rates 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.


| | 2021 | 2022F | 2023F | 2024F |
|---|---|---|---|---|
| Federal funds rate | 0.00% | 4.25% | 4.50% | 3.00% |
| 10-year Treasury note | 1.52% | 3.50% | 3.20% | 3.10% |

## 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 goal for a while with housing and service costs still climbing — suggesting that price growth at the end of 2023 could still be nearly double the long-term average.


| | 2021 | 2022F | 2023F | 2024F |
|---|---|---|---|---|
| Consumer Price Index (CPI) | 6.7% | 7.2% | 3.8% | 2.6% |
| Core CPI | 5.0% | 6.2% | 3.9% | 2.6% |

# 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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