Nationwide Economics
Weekly Economic Review & Outlook
September 5, 2023

The Fed weighs conflicting signals

Job growth continued to cool in August as the three-month moving average dropped to 150,000 — the slowest since the 2020 Covid disruptions. Additionally, the unemployment rate climbed to an 18-month high while wage growth was modest. The slower data are welcome signs for the Fed, but the news was worse on the inflation front. The path back to the Fed's target inflation rate continues to be protracted and bumpy, as core PCE services ex-housing inflation spiked again in July.

Downward revisions show job growth has been weaker than expected

At 187,000, month-over-month growth in nonfarm payrolls was solid and beat consensus expectations. However, the August job gains came with massive downward revisions to the prior two months totaling 110,000, indicating a much slower hiring trend over the summer. There were also annual benchmark revisions which reduced some of the strong readings from earlier in the year — although average job growth through August was still solid at 235,5000.

Adding to the slower trend, the unemployment rate climbed 0.3 percentage points to 3.8 percent (an 18-month high) in August, mostly due to a rise in the labor force participation rate to a post-Covid high of 62.8 percent. The boost to labor supply is a positive sign for the market as it has been sorely needed, but it could also speak to building cost pressures on many households prompting parents to seek out new sources of income now that school has resumed.

The jump in the labor force lowered the ratio of job openings to unemployed job seekers to 1.39 — the lowest level in two years, while growth in average hourly earnings rose a modest 0.2 percent. The 12-month trend rate remains high at 4.3 percent, but there are broader signs that wage pressure may be cresting, including the quits rate falling back to pre-pandemic norms in July. The cooler August jobs data is a step in the right direction for the Fed and suggests that the Fed's tightening moves over the past year are working as desired, albeit more delayed than expected.

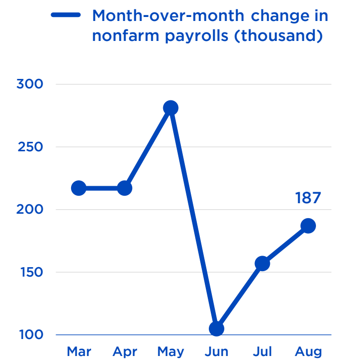
Services inflation is still very strong

Somewhat counteracting the weaker signals from the jobs report was a sharp uptick in reported services inflation. The core PCE index, the preferred inflation measure of the Fed, rose a modest 0.2 percent in July. However, the year-on-year pace ticked higher due to base effects, leaving annual core inflation more than double the Fed's target rate at 4.2 percent. And when removing declines for goods and housing costs, core services ex-housing — supercore PCE — jumped by 0.5 percent (the fastest gain since January) and the annual pace increased to 4.5 percent from 3.8 percent in June. Persistent services remains a challenge for Fed officials and could increase calls for another rate hike at an upcoming FOMC meeting.

Looking forward, core PCE readings could decline again in coming months given sharper increases over the second half of 2022. But a return to trend remains far off in the future, suggesting an extended period of restrictive monetary policy. The increased slack in the labor market points to a likely hold from the Fed at the September FOMC meeting — but avoiding an upside surprise within the August CPI report coming out next week will be important, too.

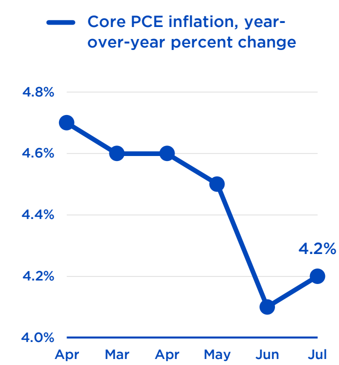
Riding rising incomes, consumer spending surged by 0.8 percent for July. After adjusting for inflation, the 0.6 percent gain was the fastest since January 2022 — a sign that consumers continue to spend despite elevated inflation and rising interest rates. The spending spree was partially fueled by consumers dipping into reserves with the saving rate falling to the lowest level this year and credit card debt on the rise. This suggests that it will take a much sharper slowdown in the labor market to curtail the consumer sector.

Nonfarm payrolls lower than expected



While payroll growth climbed in August, there were significant downward revisions to July and June, showing that the trend for hiring continues to weaken.

Core inflation is still far from the target



Progress has been made on core PCE inflation, but the small climb in July left the year-on-year growth more than twice the Fed's two percent target.

Source: Bureau of Economic Analysis; Bureau of Labor Statistics

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The Week Ahead

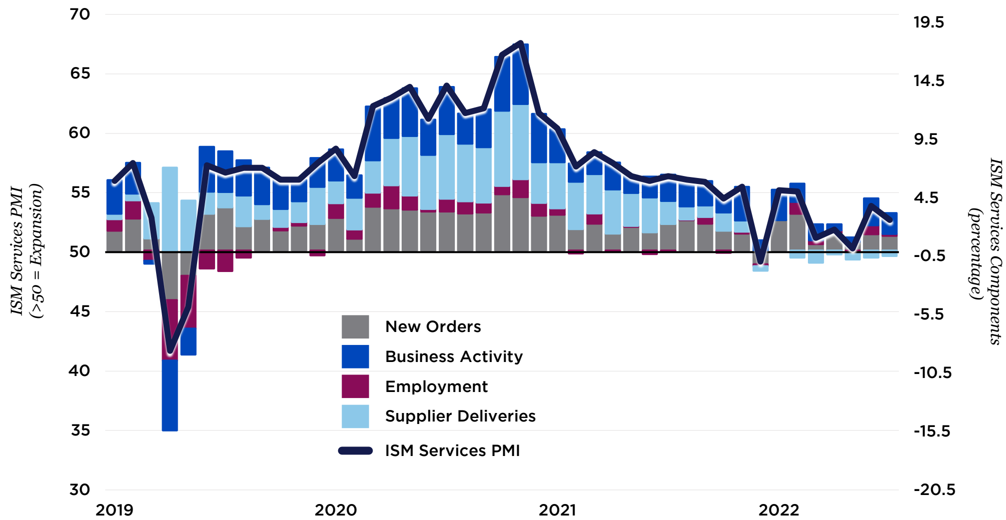
Here's our outlook for the days ahead. Subscribe to [Daily Insight] for updates throughout the week.

ISM Services

Sept 6

Service sector activity to dip with summer's end

While the service sector should stay in expansion territory, service growth is expected to decelerate as the summer comes to a close and households return back to their school year routines. Service providers surveyed by S&P Global reported growth slowing to the weakest rate since February due to new orders declining. High interest rates and inflationary pressures weighed on consumer spending in August and firms alike, reducing business activity and sparking concerns that firms need to invest in advertising to stimulate new sales. August's ISM Services should reflect a slight slowdown in activity, dropping to 52.3, as the labor market continues to gradually fade and consumer demand eases.



Sources: Institute for Supply Management, Haver

Initial Jobless Claims

Sept 7

Unemployment claims should rise as job market slows

The labor market cooldown is underway as job growth decelerates further with businesses reining in hiring and reducing future hiring plans. But jobless claims have climbed little, confirming that businesses are choosing to reduce hours rather than implement layoffs to lower costs so far. We expect jobless claims to rise the week of September 2nd to 230,000, still roughly in line with the recent trend.

Consumer Credit

Sept 8

Consumer borrowing set to increase

Strong consumer spending and a mild income gain means that consumer credit likely increased in July. Auto sales rose last month to an annual rate of 15.74 million units, also boosting consumer borrowing for the month. Consumer credit will likely rise further in the near term as the expansion continues but could fall into 2024 as recessionary conditions take hold. An uptick in delinquencies signals that some consumers are falling behind on loans, and the looming restart of student loan payments could lead consumers to tighten their purse strings.

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Additional Economic Indicators

Previous Week's Indicators

		Period	Actual	Previous
JOLTS Job Openings	Tuesday	July	8827k	9582k
Conf. Board Consumer Confidence	Tuesday	August	106.1	117.0
Advance Goods Trade Balance	Wednesday	July	-$91.2b	-$87.8b
Wholesale Inventories MoM	Wednesday	July P	-0.1%	-0.5%
Pending Home Sales MoM	Wednesday	July	0.9%	0.3%
Personal Consumption	Wednesday	2Q S	1.7%	1.6%
GDP Annualized QoQ	Wednesday	2Q S	2.1%	2.4%
Personal Income	Thursday	July	0.2%	0.3%
Personal Spending	Thursday	July	0.8%	0.5%
PCE Deflator MoM	Thursday	July	0.2%	0.2%
PCE Core Deflator MoM	Thursday	July	0.2%	0.2%
Initial Jobless Claims	Thursday	Week ending August 26	228,000	230,000
Change in Nonfarm Payrolls	Friday	August	187k	187k
Unemployment Rate	Friday	August	3.8%	3.5%
Average Hourly Earnings MoM	Friday	August	0.2%	0.4%
Average Weekly Hours All Employees	Friday	August	34.4	34.3
Labor Force Participation Rate	Friday	August	62.8%	62.6%
Construction Spending MoM	Friday	July	0.7%	0.5%
ISM Manufacturing	Friday	August	47.6	46.4
Wards Total Vehicle Sales	Friday	August		15.74m

This Week's Indicators

	Release Day	Period	Forecast*	Previous
Factory Orders	Tuesday	July	-2.1%	2.3%
Factory Orders Ex Trans	Tuesday	July	0.1%	0.2%
Trade Balance	Wednesday	July	-$68.0b	-$65.5b
ISM Services Index	Wednesday	August	52.3	52.7
Initial Jobless Claims	Thursday	Week ending Sept 2	230,000	228,000
Consumer Credit	Friday	July	$16.0b	$17.847b

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