Nationwide Economics
Weekly Economic Review & Outlook
November 13, 2023

Fed still engaged in inflation fight

Last week was a slow week for economic news and data. Fed Chair Jerome Powell restated his prior stance that the door remains open for more rate hikes if inflation and the economy do not slow meaningfully but added that the Fed will be cautious when considering policy decisions at next month's FOMC meeting. On the data front, consumer sentiment fell again, hitting a six-month low and nearing its lowest reading in a year.

Fed is not yet confident it has slayed the inflation dragon
During a panel discussion at the International Monetary Fund Conference (IMF) last Thursday, Jerome Powell reiterated that "The Federal Open Market Committee (FOMC) is committed to achieving a stance of monetary policy that is sufficiently restrictive to bring inflation down to two percent over time; we are not confident that we have achieved such a stance." Further, while he acknowledged that the Fed is "gratified" by the progress made on inflation during this rate-hiking cycle (the CPI has fallen from over 9.0 percent in June 2022 to 3.7 percent in September), he noted that Fed policymakers "expect that the process of getting inflation sustainably down to two percent has a long way to go."

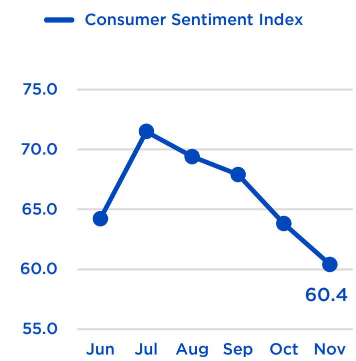
While Powell continues to leave open the possibility of further rate hikes, he also suggested the Fed will be cautious going forward as the risks of being too restrictive with monetary policy versus too lenient have become more balanced. From our perspective, the Fed has likely pushed rates high enough to bring inflation back to trend over time. That said, given that further progress in lowering inflation could be slower and more difficult, policy should remain restrictive for longer than usual. We do not envisage rate cuts until mid-2024 — putting the economy at increasing risk of a mild recession in the first half of next year.

Consumer remain on edge due to inflation
Consumer sentiment fell for a fourth straight month according to the University of Michigan's survey. At 60.4, the November reading was near a 12-month low and reflected declines in both the current conditions and future expectations. The decline was due partly to continued high prices and rising interest rates.

The most concerning part of the consumer sentiment report was the surprising climb in inflation expectations. Short-term (i.e., 12-month) inflation expectations rose to 4.4 percent following a 1 percentage point surge in October. Long-run (i.e., 5-10 years) inflation expectations climbed to 3.2 percent, which matches a 12-year high. Additionally, short- and long-term gas price expectations both hit their highest readings of the year, likely in part reflecting fears of a wider conflict in the Middle East.

The Fed monitors long-term consumer inflation expectations closely since they can become a self-fulling prophecy. As consumers and businesses expect higher inflation, they behave in ways that brings about that outcome. However, officials will look to see how the preliminary reading is adjusted in the final monthly reading for November and whether the early (preliminary) read for December shows a similar result. To underscore both the importance of the consumer inflation expectations measure and its tendency to be revised significantly, in June 2022 the initial reading on long-run inflation expectations popped to an alarming 3.3 percent, prompting the Fed to aggressively raise rates by 75 basis points; however subsequently the June expectations measure was revised down to 3.1 percent.

Consumer sentiment falls again



The Consumer Sentiment Index fell to a six-month low in November as consumers are being weighed down by higher interest rates.

Consumer inflation expectations rise

In the consumer sentiment survey, long-run inflation expectations climbed to match a 12-year high.

Source: University of Michigan

The Week Ahead

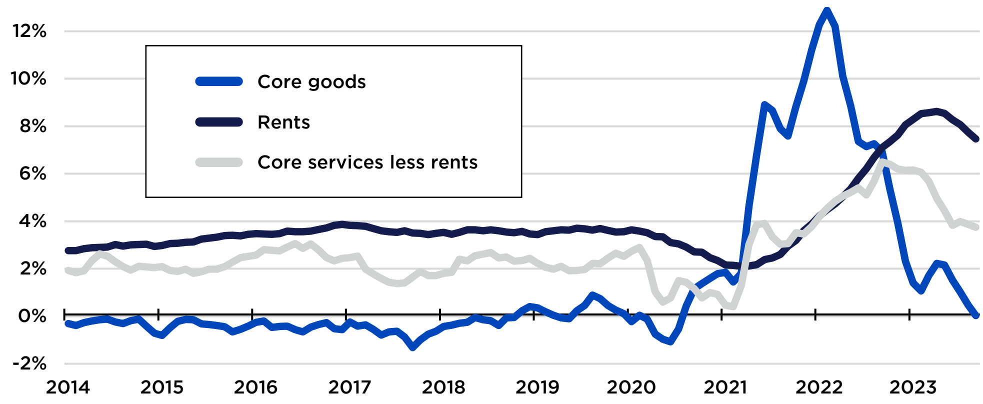
Here's our outlook for the days ahead. Subscribe to [Daily Insight](#) for updates throughout the week.

Consumer Price Index (CPI)

Nov 14

Core inflation remains elevated

We think that headline CPI rose a tame 0.1 percent month-over-month (m/m) in October, weighed down by a 5.5 percent decline in gasoline prices. Core CPI, meanwhile, is estimated to have risen at a faster 0.3 percent m/m pace in October, underpinned by stubborn costs for services. Within services costs, we think that buoyant transportation services and shelter prices will continue to drive higher costs for consumers. Our estimate keeps the annual pace of core CPI steady at 4.1 percent — well above the Fed's 2 percent target.



Sources: Bureau of Labor Statistics, Haver Analytics, Nationwide

Retail Sales

Nov 15

Retailers should feel the pinch of reduced spending

Retail sales likely recorded a 0.4 percent decline in October after a healthy 0.7 percent increase in September. Lower gasoline prices and a decline in vehicle sales alongside lower used car prices should lead to a lower headline figure. Meanwhile, the retail sales control group, which excludes autos, gasoline and building materials, likely began Q4 with a modest advance, partly boosted by an early start to the holiday shopping season. Looking to the coming months, we think that slowing income growth, dwindling excess savings, and restrictive credit conditions will constrain consumers' willingness to spend.

Building Permits & Housing Starts

Nov 17

Housing starts rise despite higher rates

Housing starts should edge modestly higher in October, though remain under pressure amid depressed homebuilder sentiment and elevated interest rates. Meanwhile, we think that building permits were essentially steady. We anticipate that housing growth will remain limited in 2024 as the weight of high mortgage rates and softening income gains deter potential homebuyers from purchases. Builders have been using financial incentives and modest price cuts to entice homebuyers, but they can only utilize these tools for so long without significantly hurting their bottom lines.

Nationwide®

Additional Economic Indicators

Previous Week's Indicators		Period	Actual	Previous
Trade Balance	Tuesday	Sep	-$61.5b	-$58.3b
Consumer Credit	Tuesday	Sep	$9.057b	-$15.628b
Initial Jobless Claims	Thursday	Week ending Nov 4	217,000	217,000
U. of Mich. Sentiment	Friday	Nov P	60.4	63.8

This Week's Indicators	Release Day	Period	Forecast*	Previous
CPI MoM	Tuesday	Oct	0.1%	0.4%
CPI Ex Food and Energy MoM	Tuesday	Oct	0.3%	0.3%
Retail Sales Advance MoM	Wednesday	Oct	-0.4%	0.7%
Retail Sales Ex Auto MoM	Wednesday	Oct	0.0%	0.6%
Retail Sales Control Group	Wednesday	Oct	0.2%	0.6%
PPI Final Demand MoM	Wednesday	Oct	0.1%	0.5%
Business Inventories	Wednesday	Sep	0.4%	0.4%
Import Price Index MoM	Thursday	Oct	-0.3%	0.1%
Initial Jobless Claims	Thursday	Week ending Nov 11	224,000	217,000
Industrial Production MoM	Thursday	Oct	-0.4%	0.3%
Capacity Utilization	Thursday	Oct	79.3%	79.7%
Building Permits	Friday	Oct	1470k	1473k
Housing Starts	Friday	Oct	1370k	1358k

Discover more
from **Nationwide Economics**
blog.nationwidefinancial.com/markets-economy

Contributors

Kathy Bostjancic
SVP & Chief Economist

Oren Klachkin
AVP, Financial Market Economist

Ashleigh Leonard
Economics Specialist

Ben Ayers, MS
Senior Economist

Daniel Vielhaber, MA
Economist

Brian Kirk
Communications Consultant

Nationwide®