Nationwide Economics

Monthly Economic Dashboard

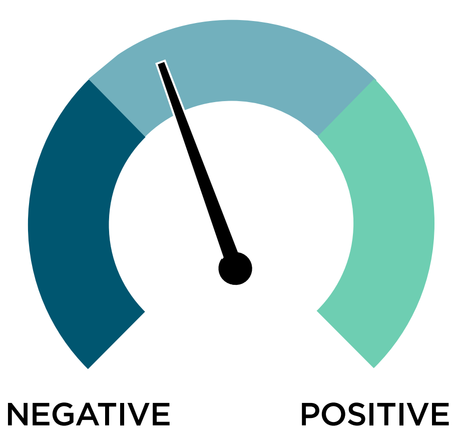
October 2023

Economic outlook still spooky despite recent treats

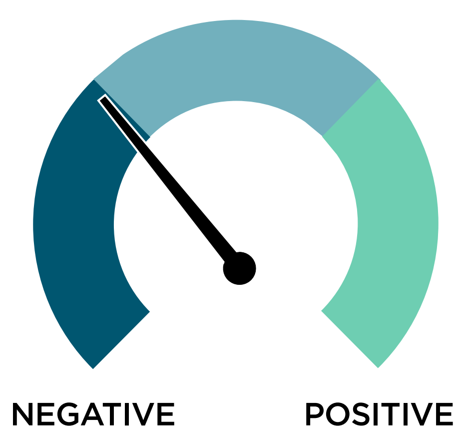
Consumers finished the third quarter strong as the still solid labor market continues to support spending, especially on services. But households are cutting deeper into personal savings and adding to debt, not a sustainable path for spending to remain buoyant in coming quarters. Headwinds for near-term activity are building, including rising interest rates, the resumption of student loan payments, emergent geopolitical concerns, and the potential for a federal government shutdown. This should result in significantly slower economic growth over the fourth quarter, a likely forerunner to a mild recession in the first half of 2024. The strength of recent economic data may even increase the odds of a recession as it reinforces a higher-for-longer rate path from the Fed into the new year.

- Job gains shocked to the upside in September, and sharp upward revisions to prior months suggest that the labor market hasn't cooled much after all. Wage growth, albeit weakening gradually, continues to run faster than usual, indicative of ongoing tight labor conditions.
- Retail sales were robust in September as consumers for now remain resilient despite elevated inflation and climbing interest rates, but the housing market is at a standstill.
- Long-term interest rates rose to the highest levels since 2007, doing some of the work of tightening financial conditions for the Fed. Still, Fed officials remain biased towards restrictive monetary policy given the continued strength of the incoming data.

Current Scorecard



Future Scorecard



Full scorecards

Nationwide Economics — Monthly Economic Dashboard

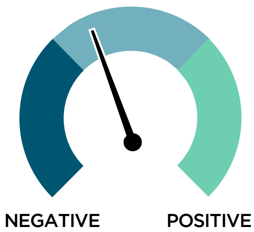
Current Scorecard – October 2023

Data through October 25, 2023

OVERALL

3-MONTH TREND

Much stronger-than-expected hiring and retail spending in September suggest that activity continues to run too hot to meaningfully slow inflation in the near term. This complicates policy decisions for the Fed despite signs that corporate profits are waning in response to even tighter financial conditions and rising interest rates. The way forward for consumers may be tougher, too, as more households are turning to credit with excess savings nearly exhausted and student loan payment resuming. For now, the economy continues to hum along despite the building clouds on the horizon.



EMPLOYMENT

3-MONTH TREND

Job growth surged to an eight-month high in September. In combination with large upward revisions to August and July, this suggests much less cooling in the labor market than what was previously believed. The unemployment rate was unchanged at 3.8 percent, while wage growth slowed to a still-fast 4.2 percent — indicative of a continued tight labor market.

NEGATIVE — POSITIVE

	Current	Previous	Year ago
Employment growth – Sep	336,000	227,000	350,000
Unemployment rate – Sep	3.8%	3.8%	3.5%

FINANCIAL

3-MONTH TREND

The 10-year Treasury note yield spiked to 5.0 percent in late October as financial markets adjust to higher-for-longer rate estimates from the Fed — also driving a sharp steepening of the yield curve. A rise in real rates and the term premium for longer duration Treasuries drove the increase. Equity markets extended declines from late September into October, with volatility climbing in response to the Israel-Hamas conflict and concerns.

NEGATIVE — POSITIVE

	Current	Previous	Year ago
Yield spread – Oct	-0.57 pp	-1.13 pp	-0.43 pp
BAA Credit spread – Oct	1.83 pp	1.79 pp	2.26 pp
CBOE market volatility – Oct	19.48	13.62	32.72
S&P 500 stock index – Oct	4,313	4,474	3,606

CONSUMER

3-MONTH TREND

September was another strong month for retail sales as consumers continued to spend despite a depleted reserve of pandemic-related savings and higher costs. Existing home sales fell to their lowest level since 2010 due to a lack of supply and high mortgage rates, leading to sluggish total home sales. Sentiment readings fell to a five-month low and continue to reflect recession fears.

NEGATIVE — POSITIVE

	Current	Previous	Year ago
Retail sales – Sep	0.7%	0.8%	-0.1%
Light vehicles sales – Sep	15.7 M	15.3 M	13.7 M
Total home sales – Sep	4.72 M	4.72 M	5.25 M
Consumer sentiment – Oct	63.0	68.1	59.0

BUSINESS

3-MONTH TREND

The ISM manufacturing index climbed for the third straight month but remained narrowly in contraction in August, while the services index fell but still suggested moderate expansion. The NFIB Small Business Optimism Index fell to a four-month low as business owners continue to struggle with high costs and a tight labor market.

NEGATIVE — POSITIVE

	Current	Previous	Year ago
ISM Manufacturing – Aug	49.0	47.6	51.0
ISM Services – Aug	53.6	54.5	55.6
NFIB small business optimism – Aug	90.8	91.3	92.1

INFLATION

3-MONTH TREND

Headline CPI climbed a faster 0.4 percent in September, while the core rate rose 0.3 percent. Annual CPI inflation was steady at 3.7 percent while the core rate pulled back modestly to 4.1 percent. While goods prices are flat over the past year, core services inflation remains buoyant, a key focus area for the Fed which could drive a higher for longer policy path.

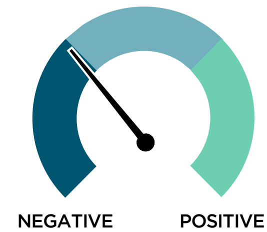
LOWER — HIGHER

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

Future Scorecard – October 2023

Nationwide

OVERALL



Economic growth remained robust heading into the fourth quarter, but headwinds for consumers and businesses continue to build and should slow economic activity sharply before the end of the year. Interest rates have climbed further, stifling the housing sector and business investment, while many households are hitting spending limits with pandemic savings exhausted and debt levels rising. For these reasons, we believe a recession will unfold over the first half of 2024, although the length and severity of the projected downturn should be relatively mild.

THE ECONOMY

The odds of a mild recession in the first half of next year remain elevated in response to the cumulative impact of highly restrictive Fed monetary policy, tighter bank lending standards, and compressed profit margins for businesses. There is a risk of a deeper-than-expected contraction if the Fed needs to keep policy highly restrictive for an extended period to slow inflation.

	2022	2023F	2024F	2025F
Real GDP growth	2.1%	2.4%	0.6%	1.7%

CONSUMER

Home sales are expected to see an extended sluggish period due to a lack of inventory, high mortgage rates, and rising unemployment depressing buyer demand. Falling mortgage rates should boost activity by the end of 2024 and into 2025. Auto sales should be solid with improved supply of new vehicles, but purchases will be held back by weaker incomes and high financing rates.

	2022	2023F	2024F	2025F
Total home sales	5.67 M	4.82 M	4.73 M	5.40 M
Light vehicle sales	13.8 M	15.4 M	15.1 M	16.3 M

JOB MARKET

Labor demand should progressively weaken through year end as businesses respond to cost pressures and lower earnings trends, but substantial job losses are unlikely to occur until next year. Still, layoffs should be relatively light with the unemployment rate only climbing to around 5.0 percent later in 2024 — quite low for a recessionary period.

	2022	2023F	2024F	2025F
Average job growth	399,000	230,000	80,000	150,000
Unemployment rate	3.6%	3.7%	4.6%	4.4%

INTEREST RATES

Monetary policy is expected to remain restrictive for an extended period in response to lingering inflation concerns. We don't see a rate cut from the Fed until May 2024 with a much more modest easing cycle over 2024 and into 2025 than in prior rate cutting cycles. As a result, the yield curve inversion should be sustained into late 2024 with higher long-term rates over the next year.

	2022	2023F	2024F	2025F
Federal funds rate	4.25%	5.25%	4.00%	3.00%
10-year Treasury note	3.88%	4.50%	4.00%	3.45%

INFLATION

Overall and core CPI inflation are expected to fade gradually from here but should remain above the Fed's 2.0 percent target through 2024 due to lingering services inflation pressures. Consumer inflation should finally return to trend in 2025, but there remain upside risks to costs (including energy prices).

	2022	2023F	2024F	2025F
Consumer Price Index (CPI)	7.1%	3.5%	2.9%	2.4%
Core CPI	6.0%	4.1%	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

NFM-11859M1.3