

September 2023

U.S. Economic Outlook

**What type of landing is in store – hard,
soft or no landing?**

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SVP & Chief Economist

Headwinds and turbulence mean high odds of a hard landing



Where are we in the business cycle?

Expansions and recessions are amplified through the labor market before being ended via changes in inflation and interest rates.

The inversion in the yield curve late last year is an indication that this cycle may be nearing its conclusion. Other leading economic indicators point to prospective recession as well.



Nationwide's Economic Forecasts - Mild recession ahead

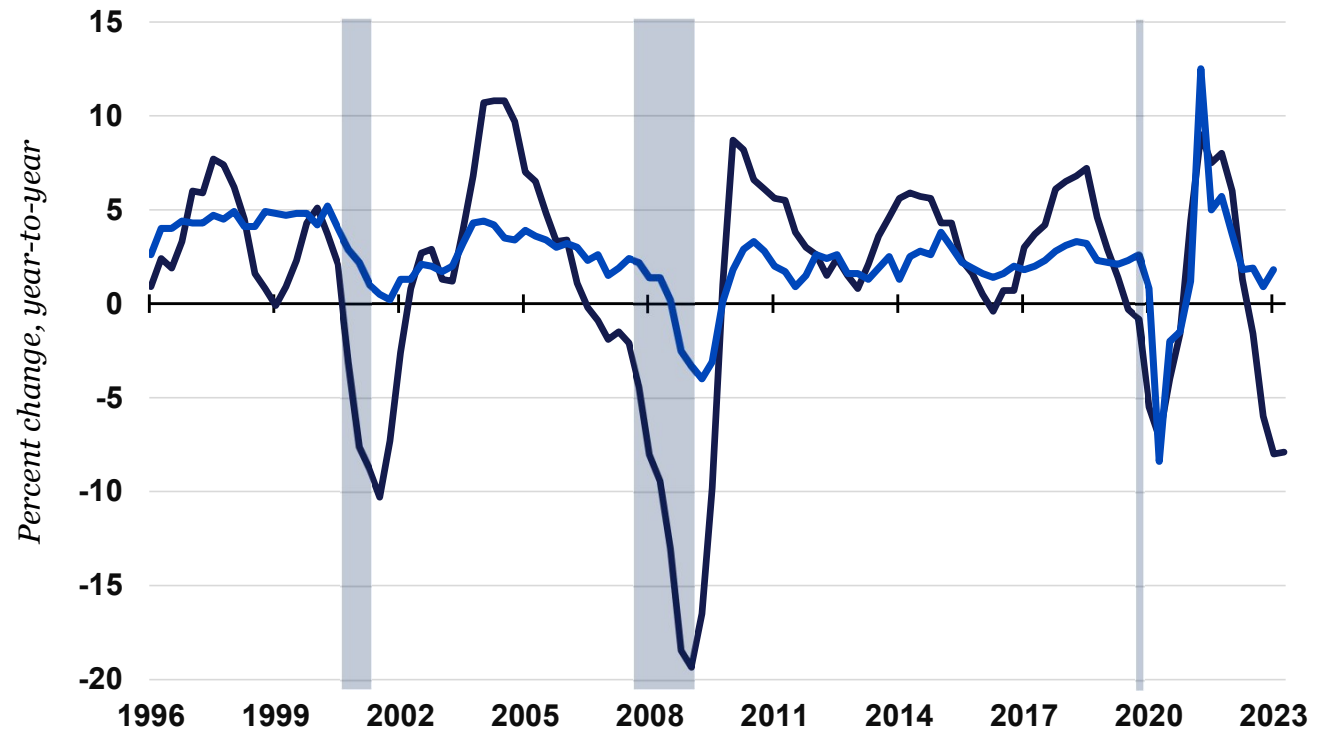
		Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Real GDP	Y/Y	1.8	2.5	2.7	2.3	1.6	0.6	-0.1	0.4
	Q/Q ann.	2.0	2.1	4.3	0.8	-0.7	-2.0	1.5	2.8
Unemployment rate	average	3.5	3.6	3.7	3.8	4.1	4.5	4.8	4.7
CPI	Y/Y	5.8	4.1	3.5	3.5	3.3	3.3	3.1	2.9
Total home sales		4.98	4.94	4.80	4.70	4.65	4.60	4.80	5.15
Home Price Index	Y/Y	2.1	-0.2	2.2	4.8	5	1.3	0.6	2
Light vehicle sales		15.2	15.6	15.6	15.3	14.9	14.7	15.4	15.7
Fed funds (lower)	(EOP)	4.75%	5.00%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%
5yr rates	(EOP)	3.60%	4.13%	4.15%	4.40%	4.15%	3.75%	3.30%	3.10%
10yr rates	(EOP)	3.48%	3.81%	4.00%	4.20%	4.00%	3.70%	3.40%	3.30%
30yr FRM	(EOP)	6.32%	6.71%	7.10%	6.90%	6.50%	6.00%	5.65%	5.35%

Source: Nationwide, Haver Analytics

Leading indicators point to high recession risks and negative GDP figures ahead

Index of Leading Economic Indicators (LEI)
vs. Real GDP
July 2023

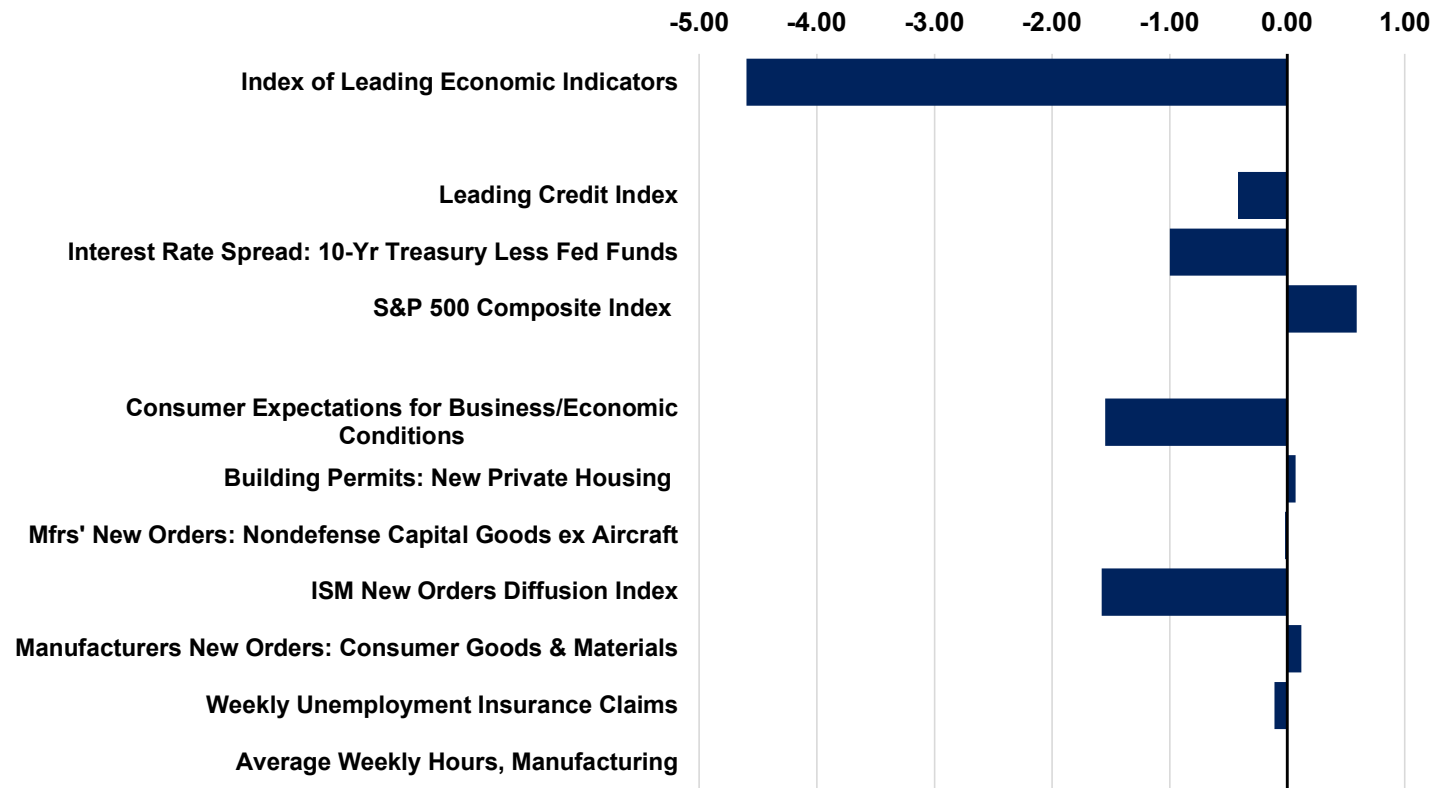
— Real GDP
— LEI



Shaded areas depict recessionary periods
Sources: Bureau of Economic Analysis and Conference Board

Most leading indicators contracting

Leading Economic Indicator Components July 2023



Source: The Conference Board, Haver Analytics, Nationwide

Yield curve is still inverted

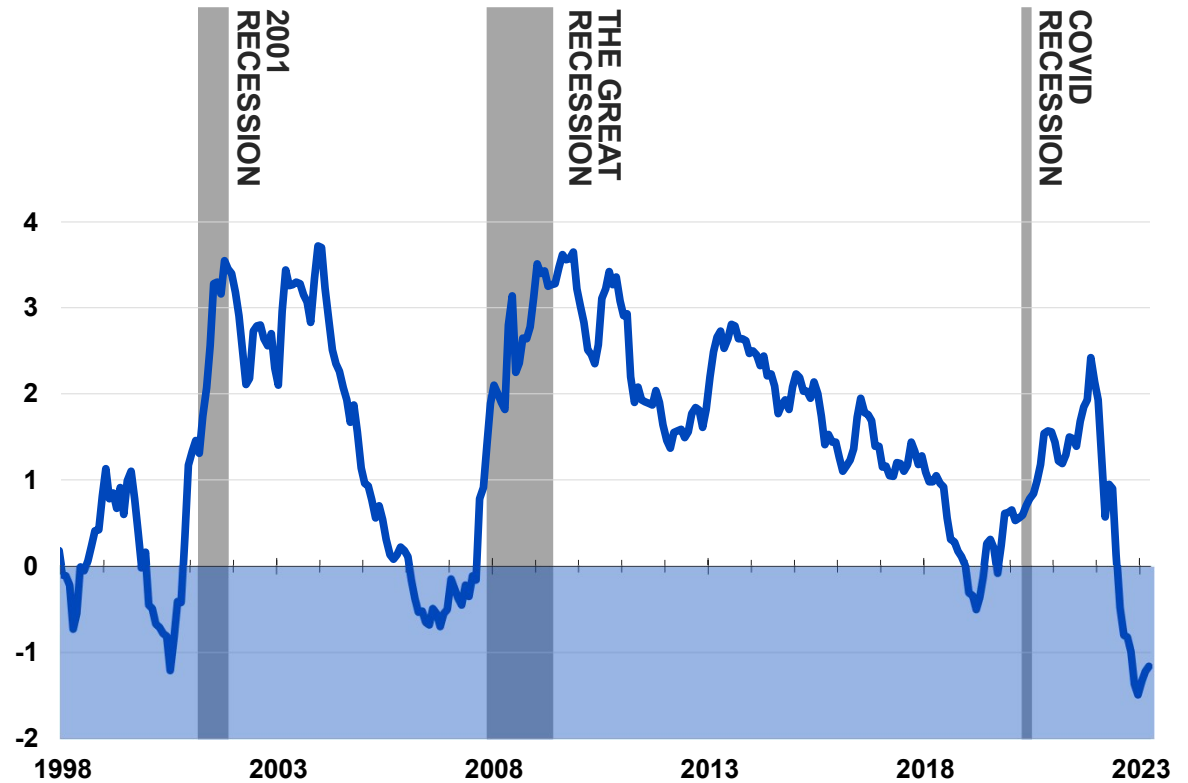
Spread between 10-year U.S. Treasury yield and the fed funds rate

September 2023

The 10-year/fed funds spread has inverted prior to every recession in modern history.

The 10-year to fed funds rate spread has been inverted for 10 months, still short of the average length of inversion ahead of prior recessions.

The current inversion suggests that the bond market is pricing in a recession over the next year, although the timing remains fluctuant

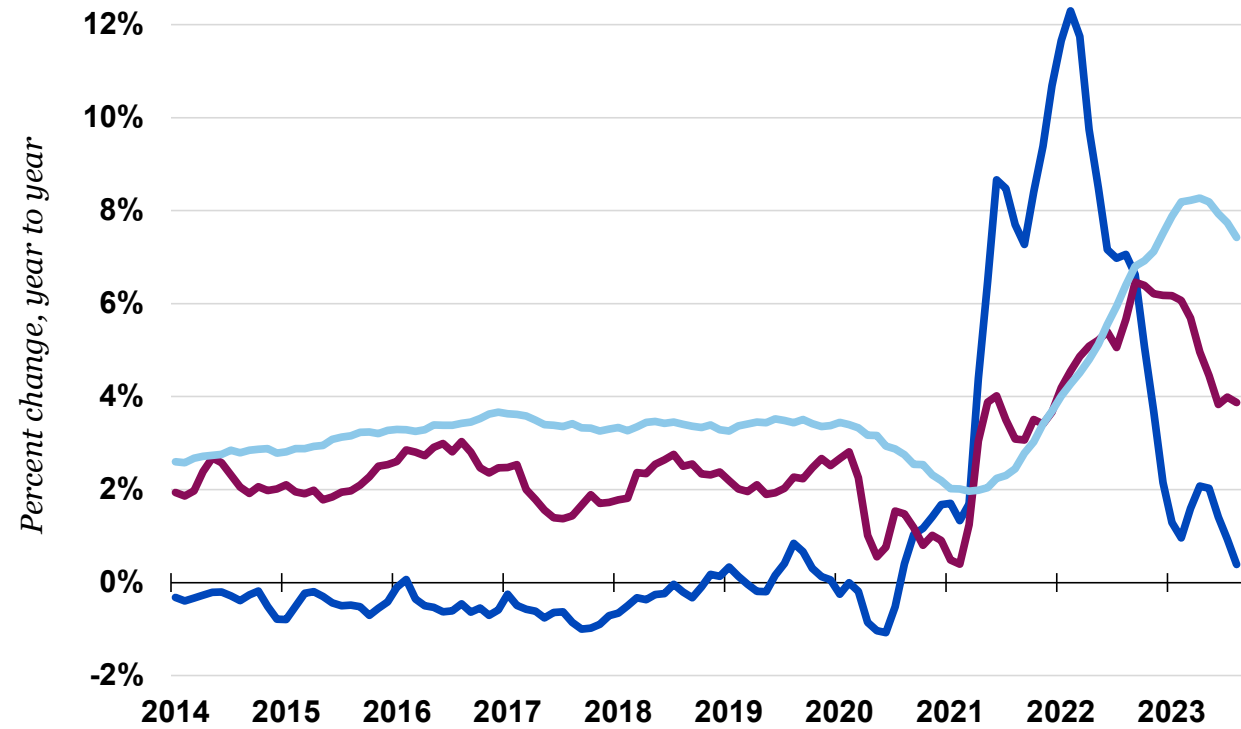


Sources: Bloomberg; National Bureau of Economic Research

Super core services rolling over but still high

Consumer inflation breakdown August 2023

- Core goods
- Rents
- Core services excluding rents



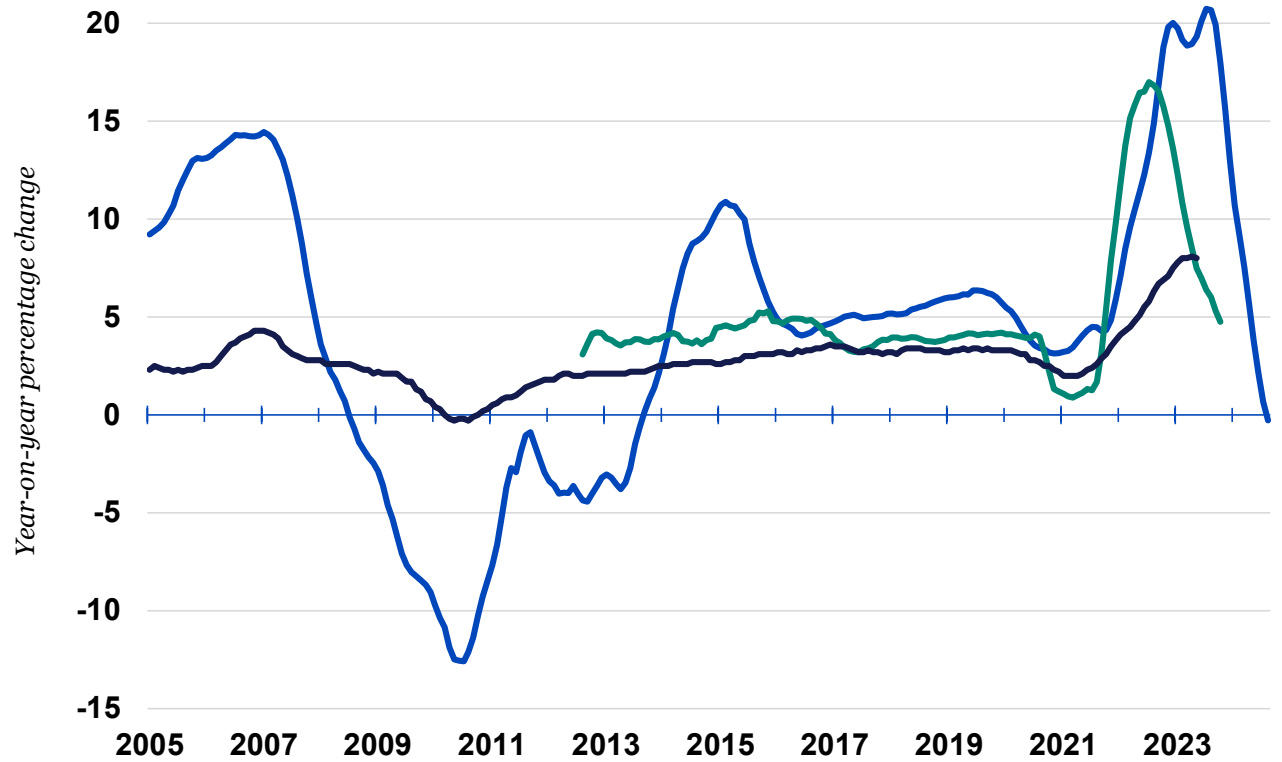
Source: Federal Reserve Board, CME Group

Residential rental inflation have soared, but have likely peaked

Rental prices

August 2023

- S&P/Case-Shiller Home Price Index, 16-month lead
- Rental prices -CPI
- Zillow rental prices, 5-month lead

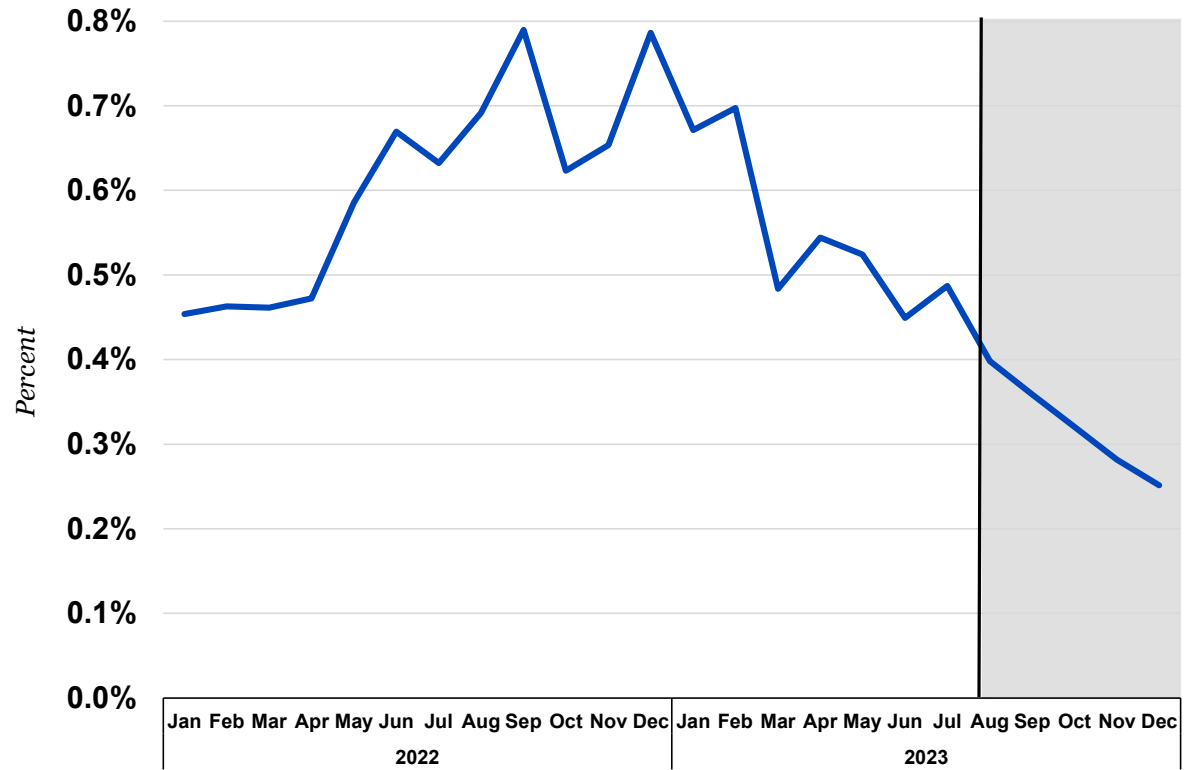


Source: Standard & Poor's, Zillow, Bureau of Labor Statistics, Haver

Rental inflation forecasts

OER month-over-month forecast based on HPI and Zillow observed rent index
August 2023

— OER/OER forecast

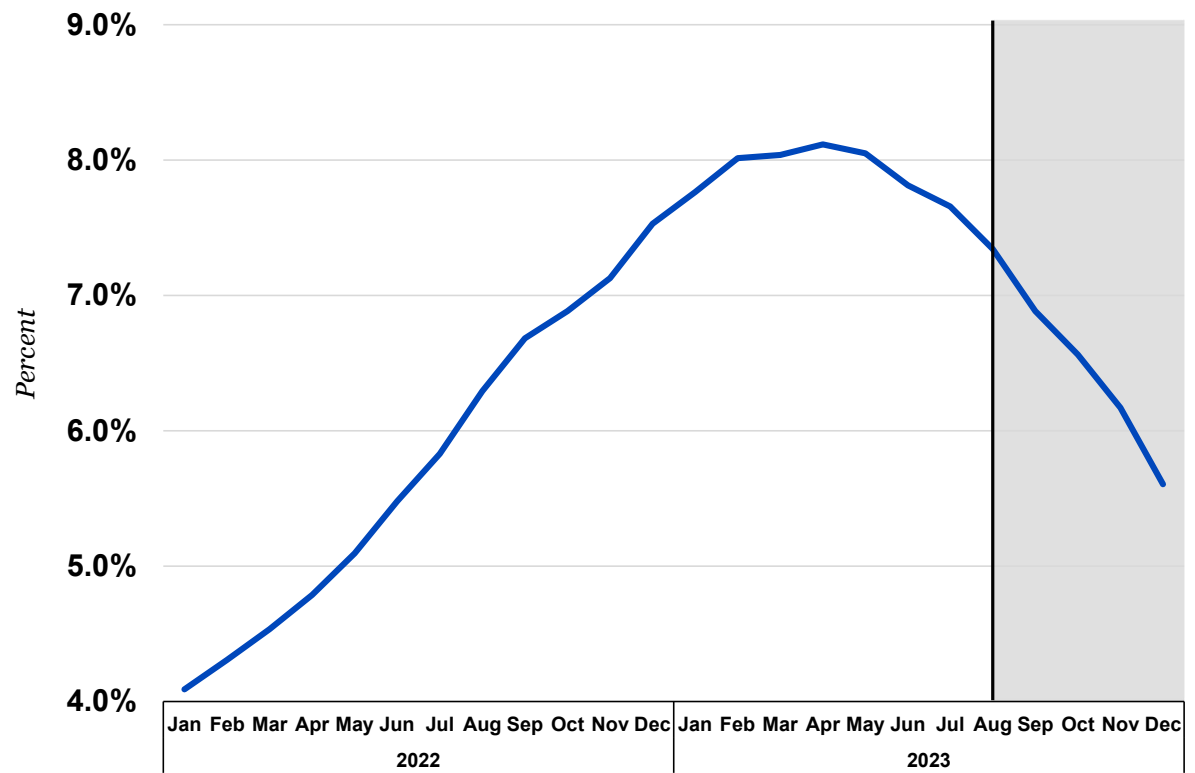


Source: Nationwide Economics, Bureau of Labor Statistics, S&P Global, Zillow

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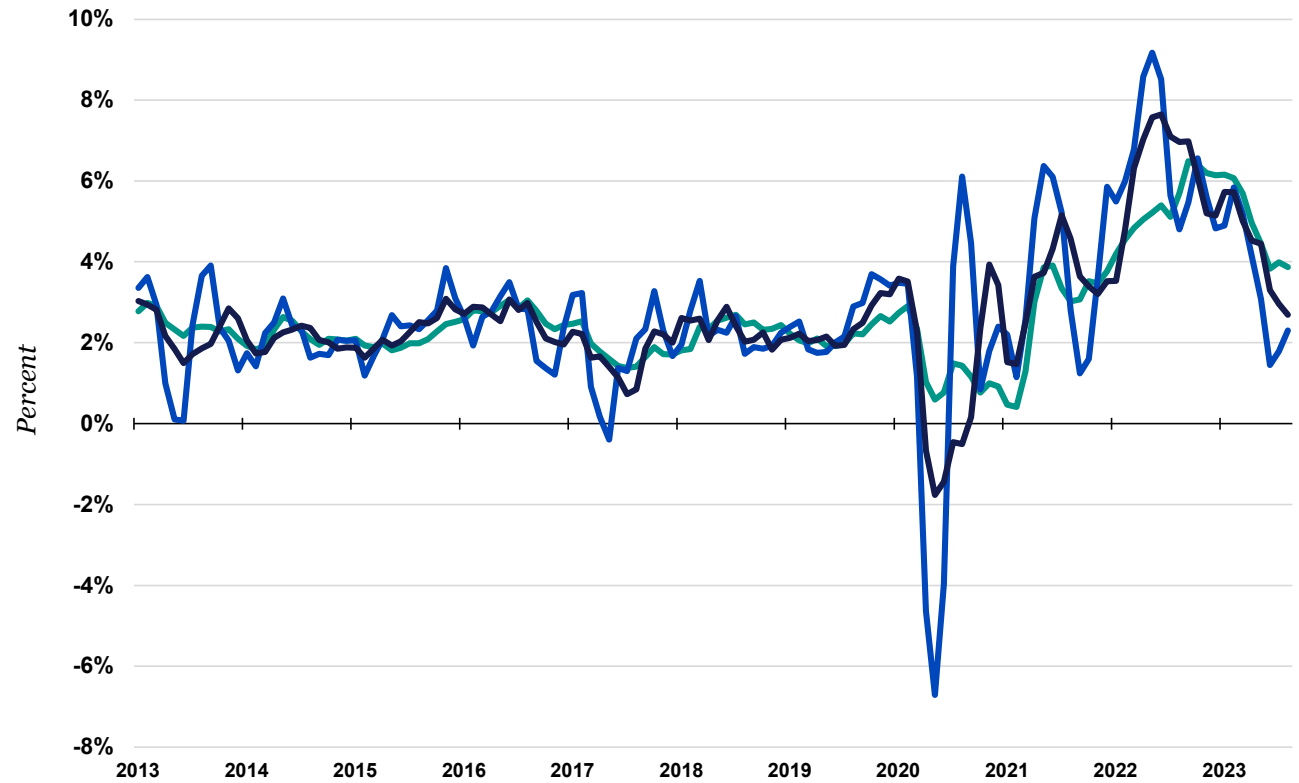
Source: Nationwide Economics, Bureau of Labor Statistics, S&P Global, Zillow

Super core services trending lower – especially over past few months

CPI 3-Month Annualizations

August 2023

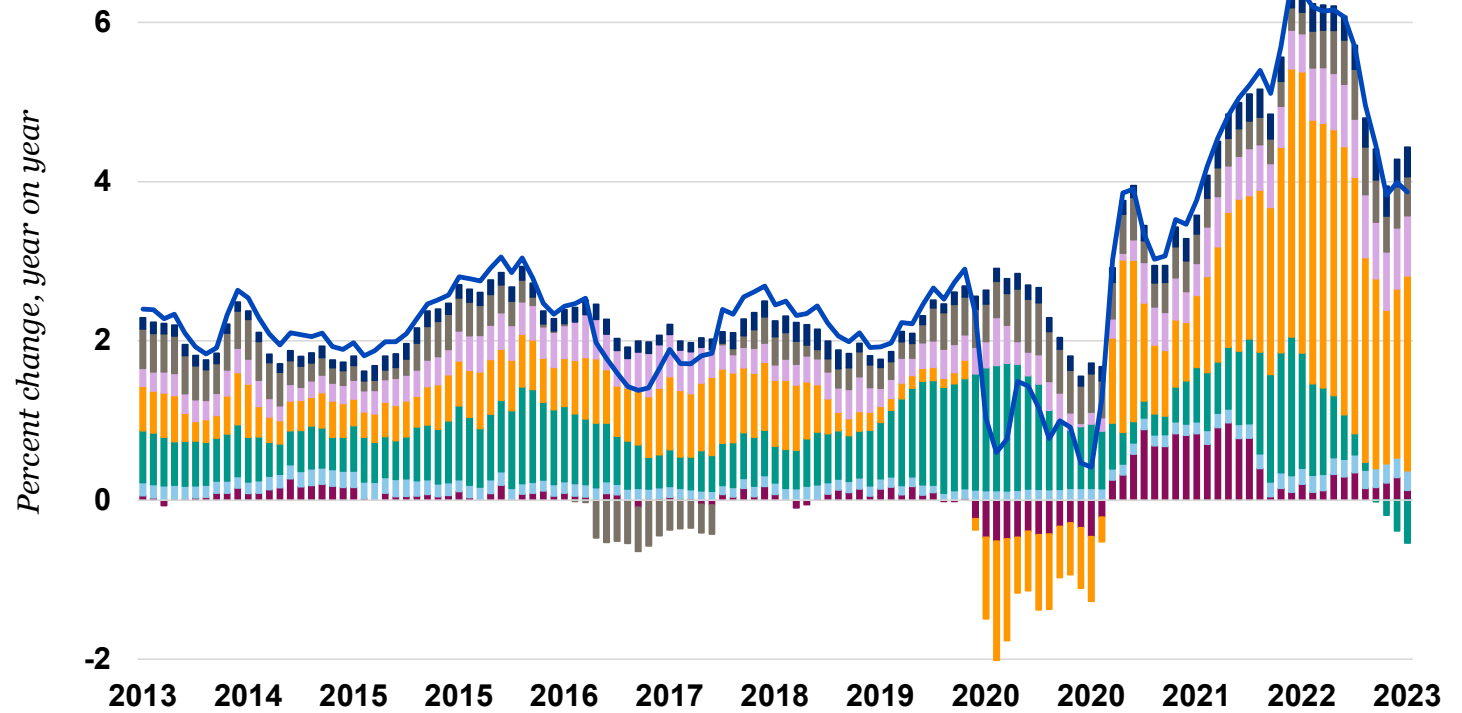
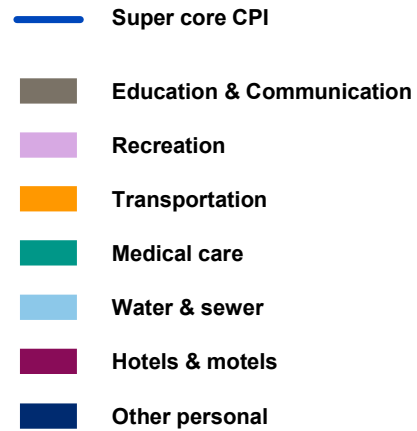
- Core services excluding rents
- 3 Month Annualized
- 6 Month Annualized



Source: Haver Analytics

Transportation services are largest and "stickiest" contributor

Super Core Services CPI August 2023



Source: BLS, Nationwide, Haver Analytics

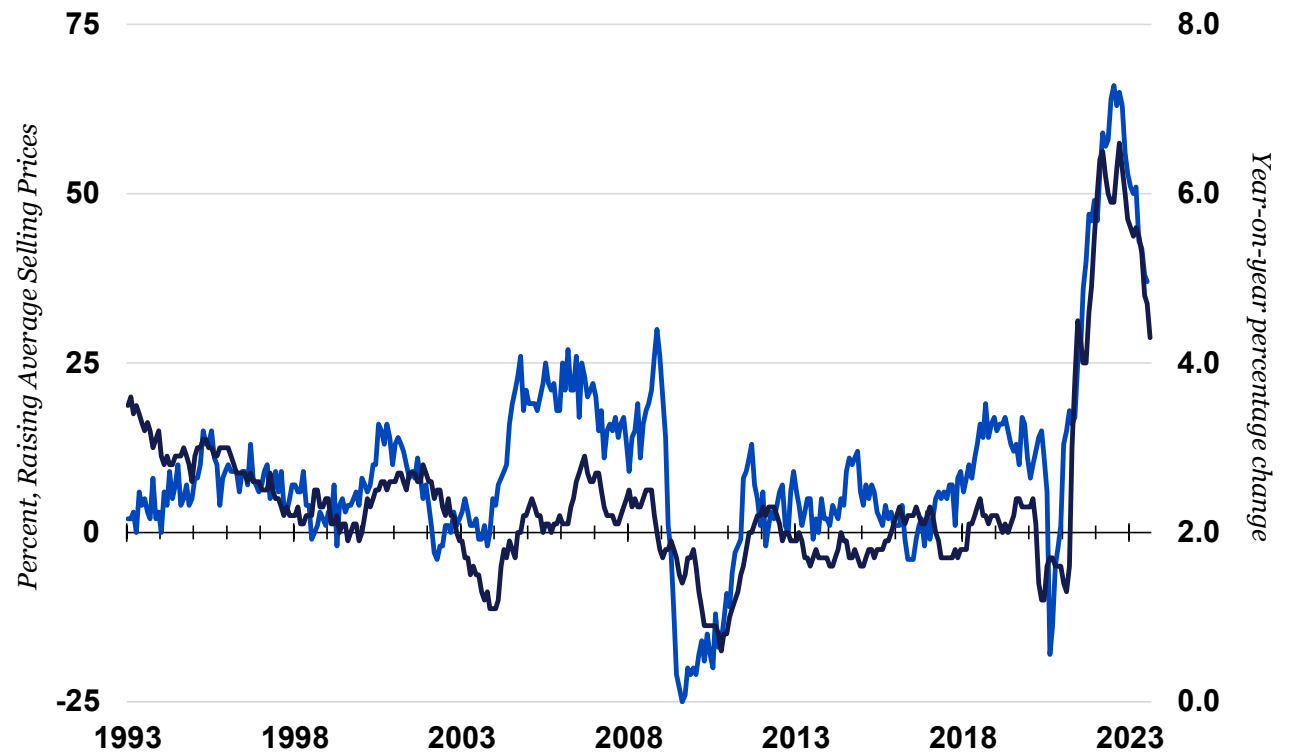
Companies will lose pricing power as inflation cools

NFIB survey – share of companies raising prices leads changes in CPI

August 2023

- Core CPI (*right axis*)
- NFIB Small Businesses share of companies raising prices, 4-month lead (*left axis*)

Elevated inflation rates allowed companies to finally gain strong pricing power, which boosted revenue and profit margins. As inflation cools, this will erode companies' pricing power, revenues and profit margins.



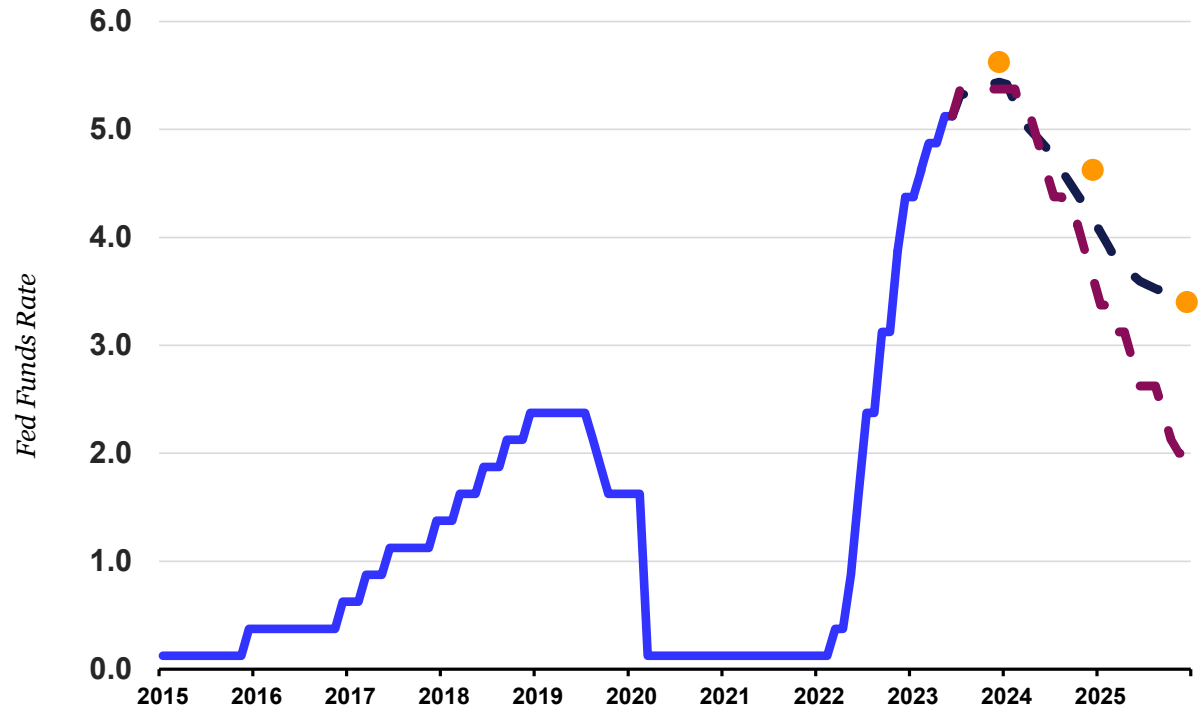
Source: National Federation of Independent Business, Bureau of Labor Statistics, Haver

Fed to hold rates steady through year-end – gradually cut rates starting in March 2024

Fed Funds Rate

September 2023

- History
- - - Bond market expectations (as of 9/10/2023)
- - - Nationwide forecast
- FOMC June median forecasts



Source: Federal Reserve Board; CME Group

Real fed funds rate– finally restrictive

Fed funds target rate less CPI inflation

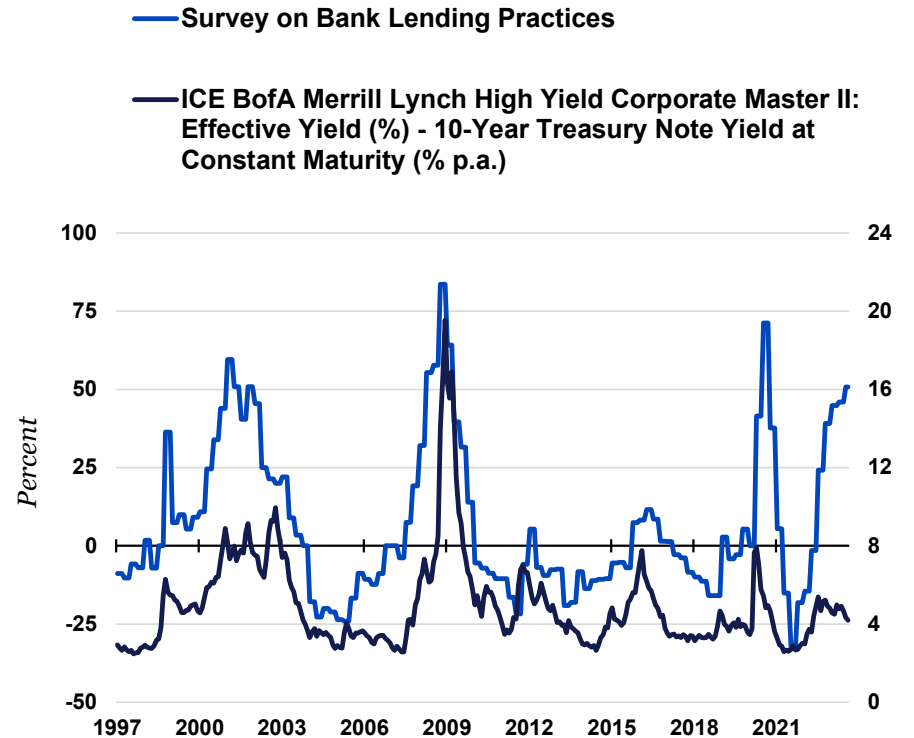
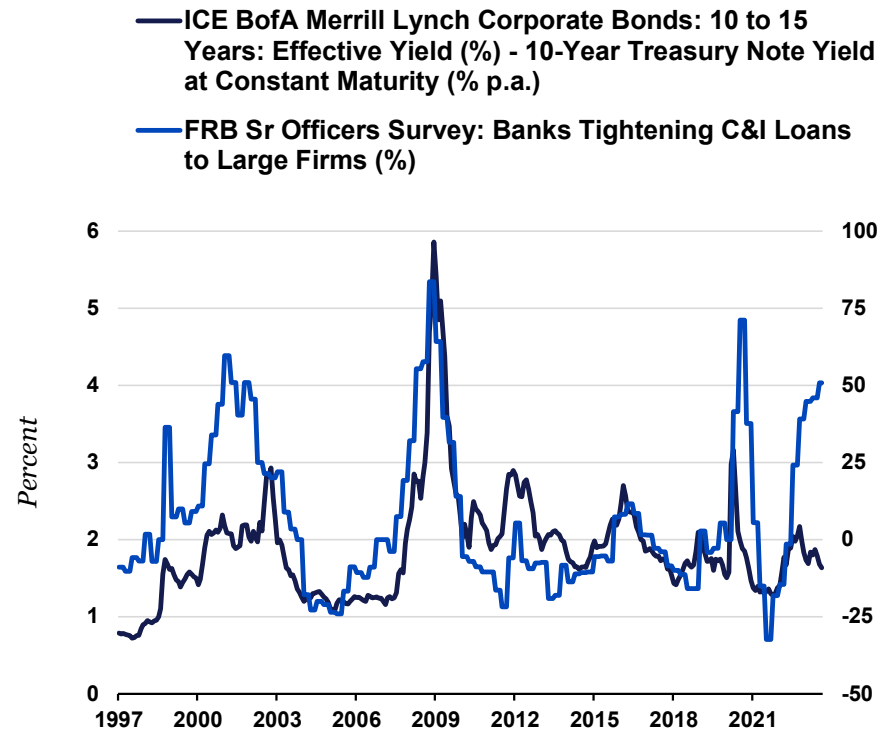
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- Fed funds target rate less CPI
- Forecast



Shaded areas depict recessionary periods
Sources: Federal Reserve Board; BLS; Haver Analytics

Atypical disconnect between bank lending standards and corporate bond spreads

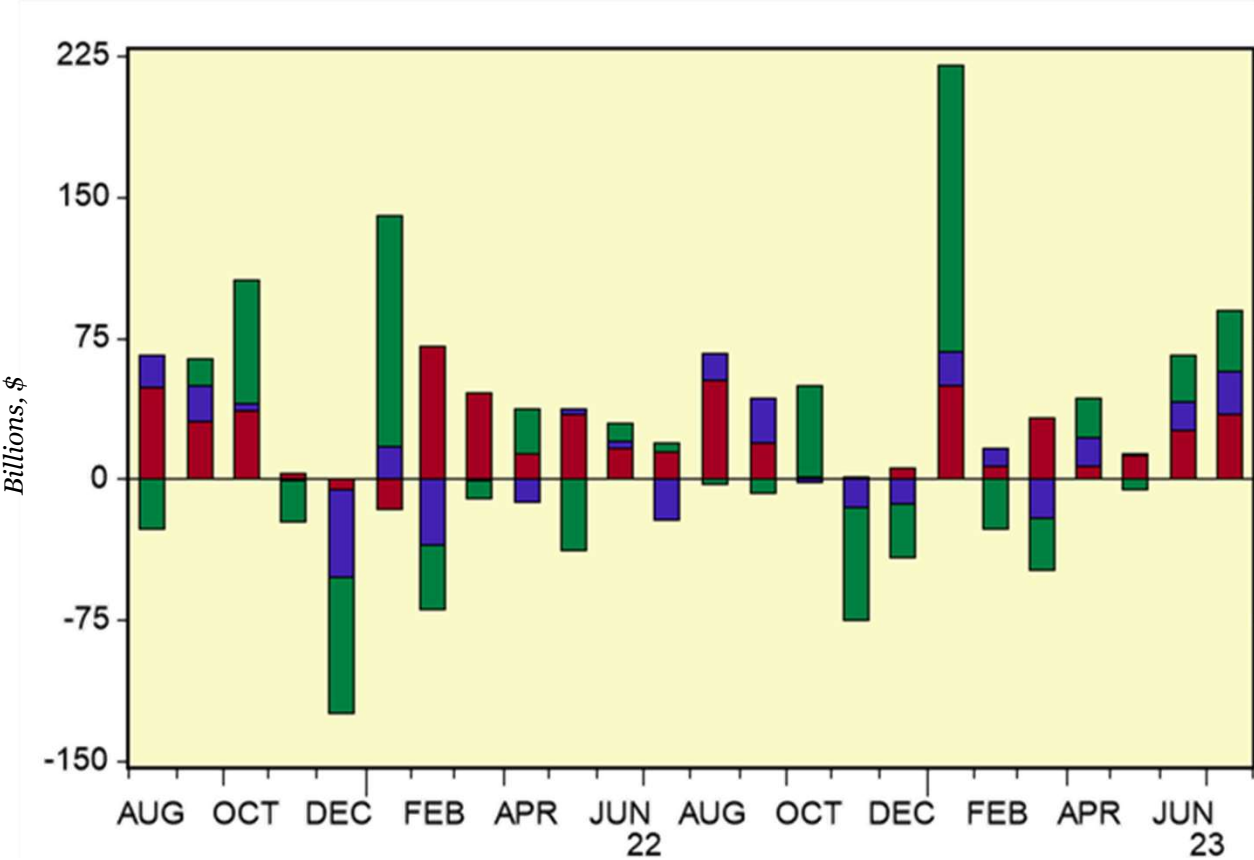


Source: Federal Reserve Board, Haver Analytics

Services spending buoyant but could be cooling

Real PCE

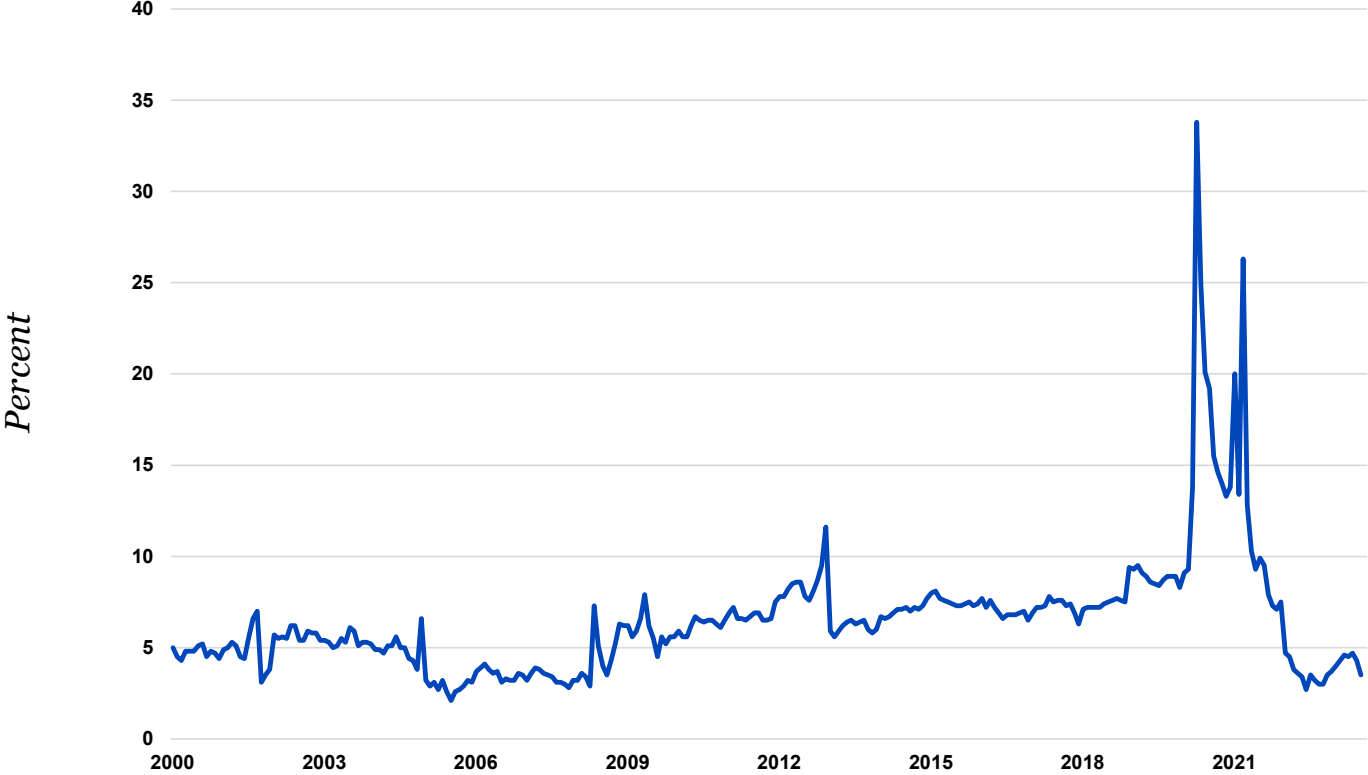
- Real PCE: Services
- Real PCE: Nondurable Goods
- Real PCE: Durable Goods



Source: Bureau of Economic Analysis, Haver Analytics

Consumers drove savings rate significantly lower

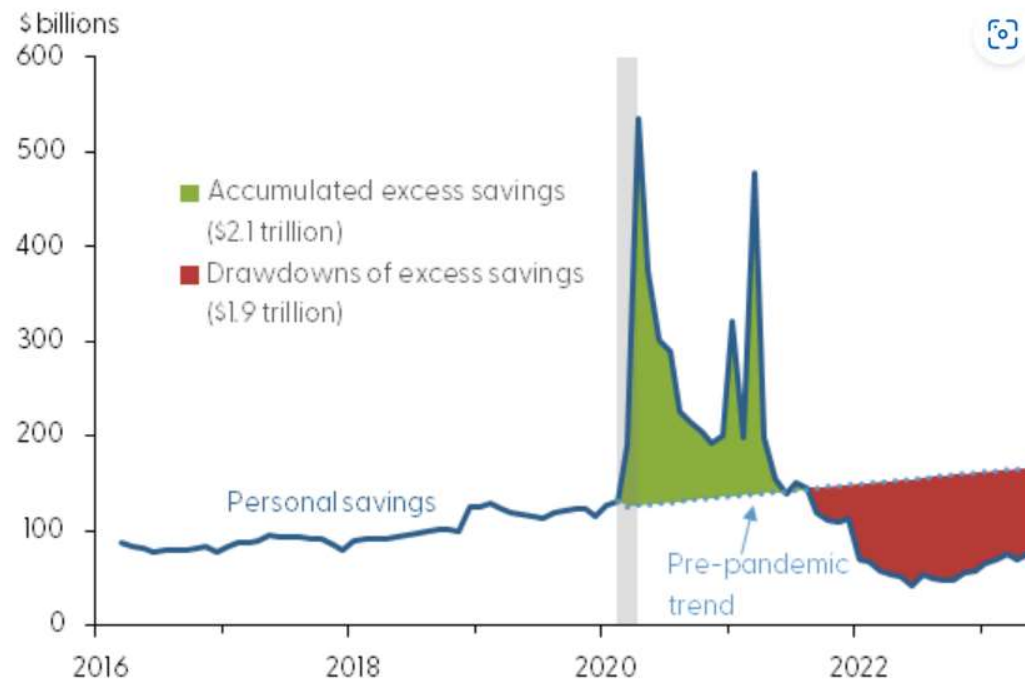
Personal Saving Rate



Source: Bureau of Economic Analysis, Haver Analytics

Consumer on course to drawdown excess savings by end of Q3

Figure 1: Aggregate personal savings versus the pre-pandemic trend



Source: Bureau of Economic Analysis and authors' calculations.

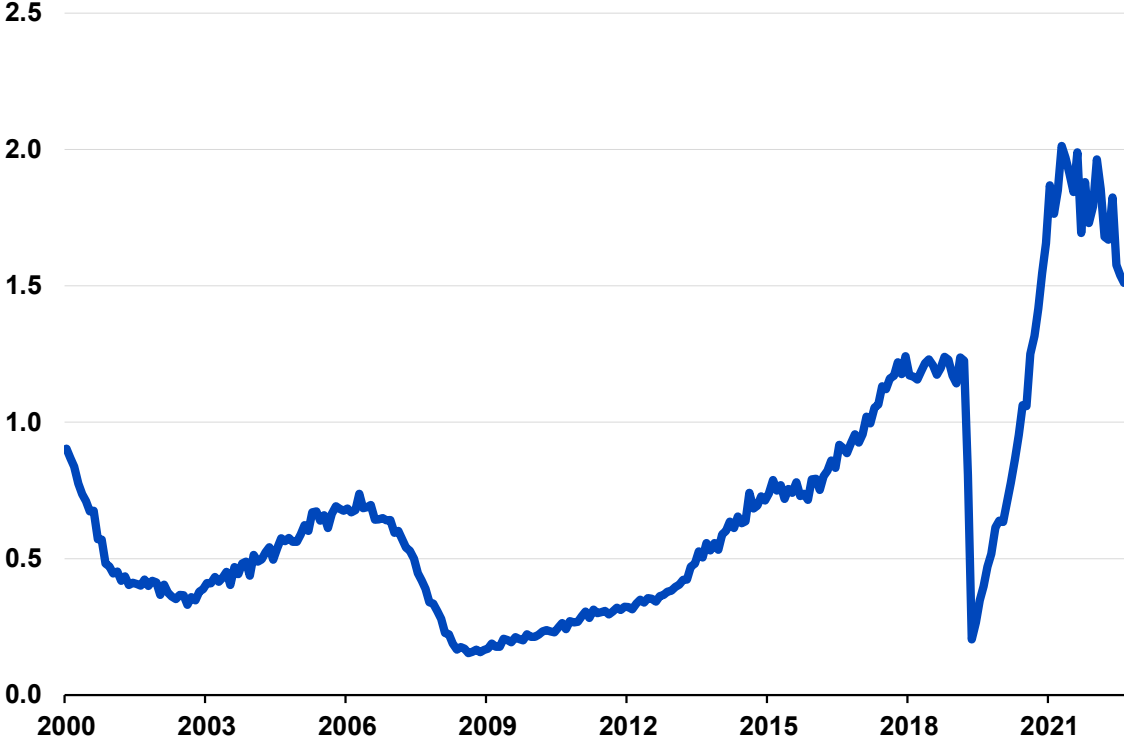
Source: Bureau of Economic Analysis and authors' calculations

Job openings/unemployed workers

Ratio between job openings and unemployed workers

July 2023

— Job openings/unemployed workers

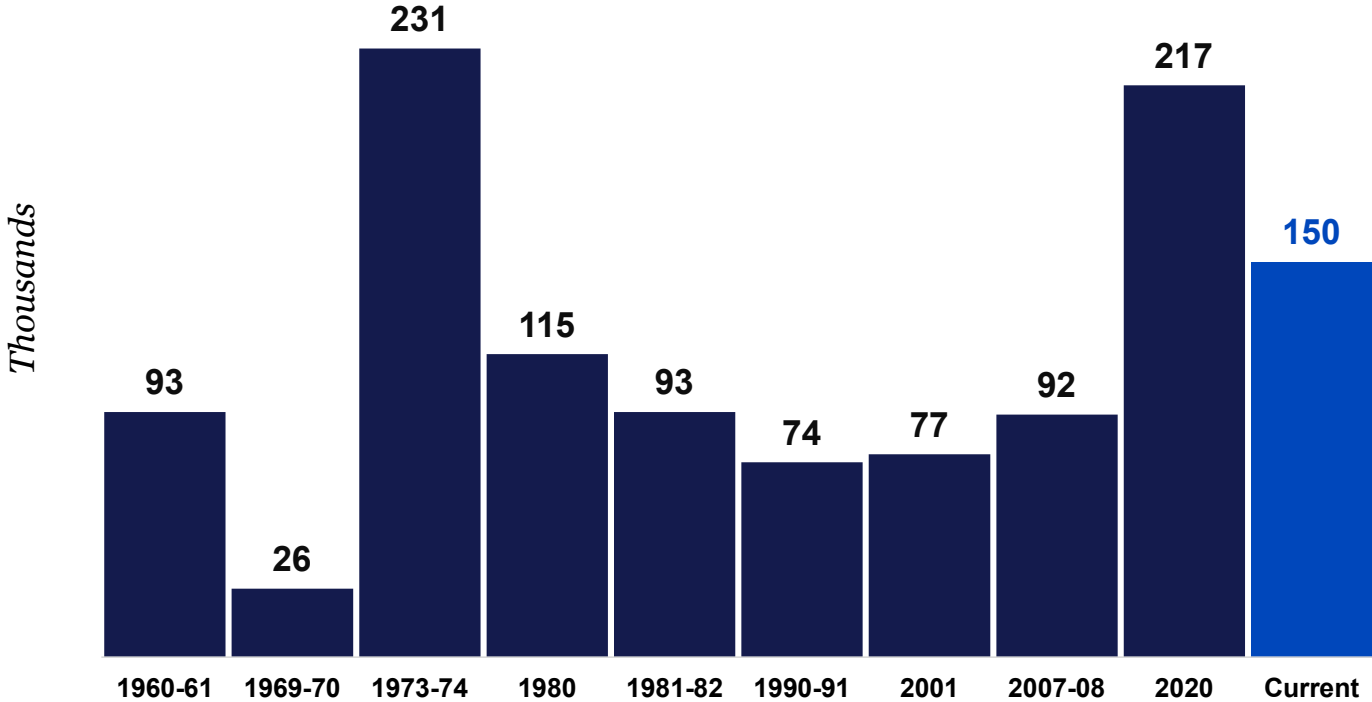


Source: Haver Analytics

Job growth remains positive until the recession sets in

Average job growth in the three months ahead of recessions

Job losses typically occur in step with recessionary conditions, rather than acting as a leading indicator



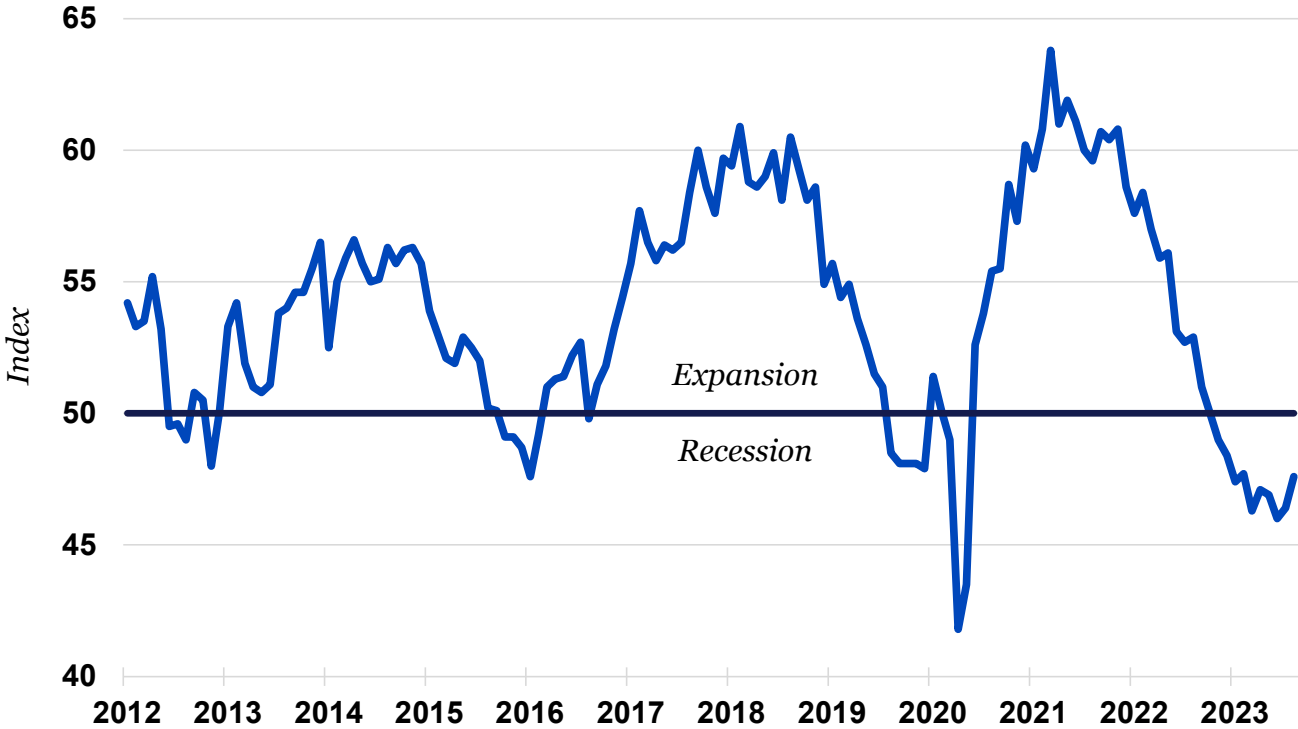
Source: BLS, Haver Analytics, and Nationwide

Manufacturing sector remains in recession

ISM Manufacturing

July 2023

— ISM Manufacturing Composite PMI

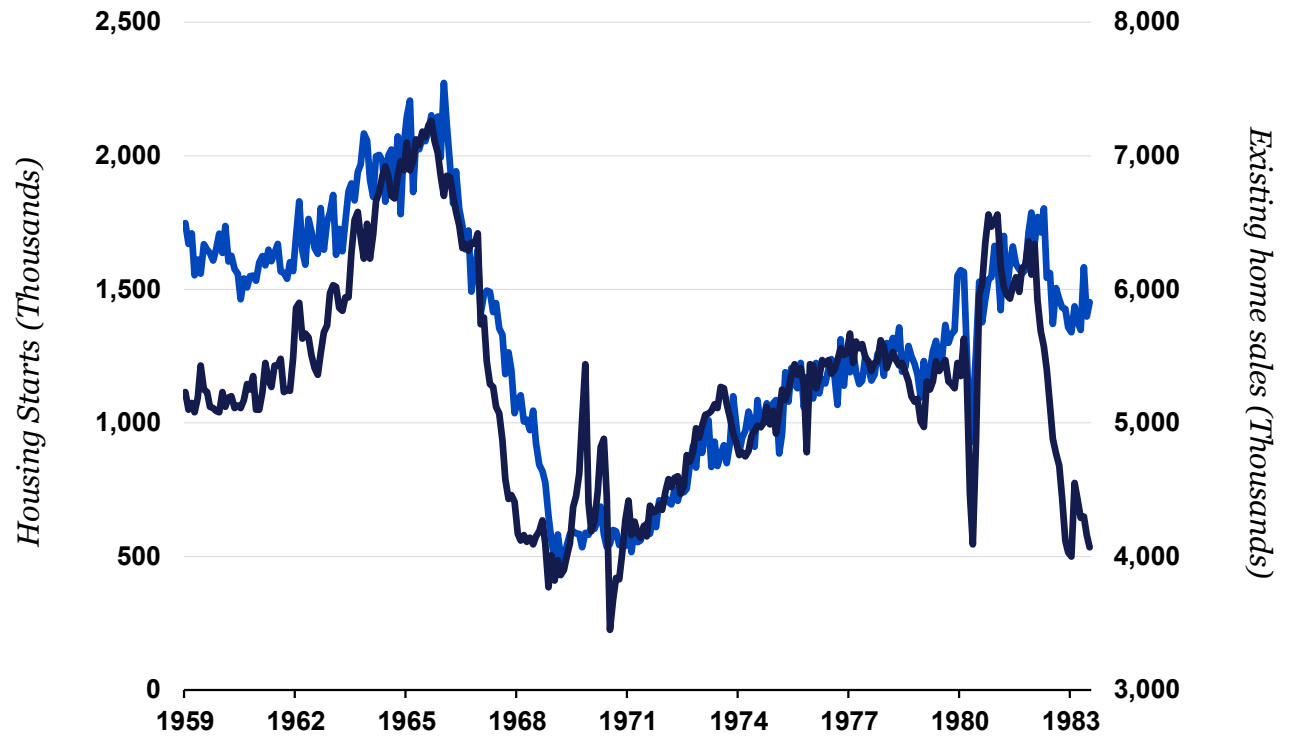


Sources: Institute for Supply Management, Haver Analytics

Existing home sales have paralyzed by high rates, home builders subsidizing the mortgage rate for new homes

August 2023

- Housing Starts, SAAR
- Existing Home Sales, SAAR



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