Nationwide Economics

Monthly Economic Dashboard

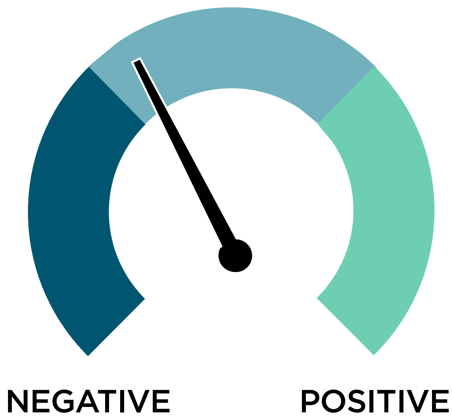
November 2023

Economic growth slows as recessionary conditions loom

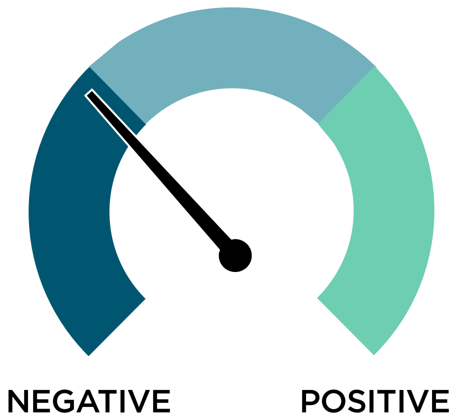
October data finally showed clear signs of a weaker labor market as employers reassess expenses in the face of tighter lending standards and higher loan rates. Consumers may have also reached an inflection point with spending in October weighed down by ever-rising costs, dwindling savings, and rising credit card debt. Hiring and spending activity should wane further in coming months as steady headwinds continue to hit consumers and businesses. These factors should drive a significantly slower pace of real GDP growth in the fourth quarter, culminating in a mild recession over the first half of 2024. Rate cuts are not expected until mid-2024 as lingering inflation concerns should lead to a later and more cautious easing cycle from the Fed.

- Job gains were lower than expected in October, and downward revisions to the prior two months indicate that demand for workers has slowed. Wage growth, albeit easing, continues to run faster than usual, and the unemployment rate remains under four percent — indicative of ongoing tight labor conditions.
- Retail sales contracted in October, a sign that the consumer spending spree from the third quarter may be over. Additionally, the housing market remains stifled as high mortgage rates weigh on both the demand for and supply of homes.
- Although long-term interest rates have declined from recent highs, financial conditions have tightened broadly, helping the Fed to cool demand and prices. The downshift in the pace of economic activity and inflation support our view that the Fed is done hiking interest rates for this cycle.

Current Scorecard



Future Scorecard



Full scorecards

Nationwide Economics — Monthly Economic Dashboard

Current Scorecard – November 2023

Data through November 27, 2023

OVERALL

3-MONTH TREND

The pace of hiring slowed in October and a decline in retail spending suggests that mounting headwinds are finally beginning to slow consumer activity. Business sector growth is also waning in the face of more restrictive credit conditions and rising interest rates. These factors along with softer inflation readings in October support our view that the Fed is done tightening rates for this cycle and will allow tighter financial conditions to cool the economy further. Equity markets roared back sharply in November from October's downdraw with long-term interest rates falling moderately from recent peaks.

EMPLOYMENT

3-MONTH TREND

Job growth slowed in October to a pace roughly half the previous month, and large downward revisions to September and August indicate that employer demand has slowed broadly. The unemployment rate ticked up to 3.9 percent, while wage growth slowed to a still-fast 4.1 percent — suggesting that some additional slack is being created within the tight labor market.

NEGATIVE POSITIVE

	Current	Previous	Year ago
Employment growth – Oct	150,000	297,000	324,000
Unemployment rate – Oct	3.9%	3.8%	3.7%

FINANCIAL

3-MONTH TREND

Equity markets more than offset October's decline in November in response to better-than-expected Q3 earnings and increasing confidence that the Fed will not raise rates further. The 10-year Treasury, which topped 5.0 percent in late October, fell sharply to below 4.5 percent — causing the yield curve inversion to deeper once again. Credit spreads remain relatively tight despite the increased volatility in rates.

NEGATIVE POSITIVE

	Current	Previous	Year ago
Yield spread – Nov	-0.82 pp	-0.57 pp	-0.86pp
BAA Credit spread – Nov	1.84 pp	1.83 pp	2.13 pp
CBOE market volatility – Nov	13.02	19.48	23.89
S&P 500 stock index – Nov	4,550	4,313	3,964

CONSUMER

3-MONTH TREND

October's decline in retail sales signals that slowing income growth, depleted excess savings, and restrictive credit conditions are constraining consumers' willingness to spend. Sentiment fell to a six-month low with elevated inflation expectations also highlighting the pressure on household budgets. Home sales have pulled back further in response to lack of supply and even higher mortgage rates.

NEGATIVE POSITIVE

	Current	Previous	Year ago
Retail sales – Oct	-0.1%	0.9%	1.4%
Light vehicles sales – Oct	15.5 M	15.7 M	14.7 M
Total home sales – Oct	4.47 M	4.67 M	5.02 M
Consumer sentiment – Nov	60.4	63.8	56.7

BUSINESS

3-MONTH TREND

The ISM manufacturing index fell and remained in contraction for a twelfth straight month, while the services index retreated close to the expansion/contraction line - its lowest reading since April. The NFIB Small Business Optimism Index was weak again as business owners continue to struggle with high costs and have an increasingly dour view of the economic outlook.

NEGATIVE POSITIVE

	Current	Previous	Year ago
ISM Manufacturing – Oct	46.7	49.0	50.0
ISM Services – Oct	51.8	53.6	54.5
NFIB small business optimism – Oct	90.7	90.8	91.3

INFLATION

3-MONTH TREND

Headline CPI was flat in October, while the core rate climbed a modest 0.2 percent. Annual CPI inflation decreased to 3.2 percent, but the three-month annualized pace was still 4.4 percent, suggesting there is lingering momentum for prices. Inflation is being driven almost entirely by services and housing as year-on-year growth in goods prices is flat.

LOWER HIGHER

	Current	Previous	Year ago
Consumer price index (CPI) – Oct	0.0%	0.4%	0.5%
Core CPI – Oct	0.2%	0.3%	0.3%

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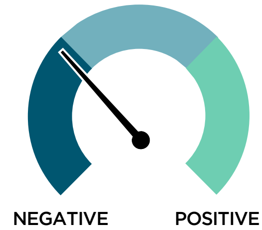
Future Scorecard – November 2023

OVERALL

Overall activity slowed in October as headwinds for consumers and businesses have finally tamped down spending and the pace of hiring. Higher interest rates and a tighter credit environment should lead to job and investment cuts by businesses, driving a further deterioration of consumer metrics in the months ahead. We foresee a relatively short and mild recession in 2024, focused on the second quarter. The Fed is likely to only gradually reduce interest rates, with lingering inflation pressures resulting in an extended period of restrictive monetary policy — a downside risk for a deeper downturn than currently projected.



THE ECONOMY

The cumulative impact of restrictive monetary policy, tighter bank lending standards, and narrow profit margins for businesses leave the odds of a mild recession in the first half of 2024 elevated. If inflation does not respond quickly enough and the Fed needs to make monetary policy even more restrictive, there is a risk that the recession will be more severe than expected.

	2022	2023F	2024F	2025F
Real GDP growth	2.1%	2.4%	0.7%	1.8%

CONSUMER

High mortgage rates have paralyzed the housing market by depressing both demand and supply. Market conditions should remain weak for much of the next year, but falling mortgage rates should boost activity by the end of 2024 and into 2025. Demand for new autos should remain solid, but weaker incomes and high financing rates should cause sales to fade modestly in 2024.

	2022	2023F	2024F	2025F
Total home sales	5.67 M	4.82 M	4.66 M	5.40 M
Light vehicle sales	13.8 M	15.4 M	15.1 M	16.3 M

JOB MARKET

Labor demand should continue to weaken through the last two months of the year and into the first half of 2024 as businesses respond to cost pressures and lower earnings trends, with outright job losses expected to occur around a recession. Still, cumulative layoffs should be light relative to past recessions with the unemployment rate only climbing to around 5.0 percent later in 2024.

	2022	2023F	2024F	2025F
Average job growth	399,000	220,000	70,000	150,000
Unemployment rate	3.6%	3.7%	4.6%	4.4%

INTEREST RATES

While we expect there will be no more rate hikes in this cycle, monetary policy should remain restrictive for an extended period in response to lingering inflation concerns. We don't forecast a rate cut from the Fed until mid-2024 and expect a much more modest easing cycle over 2024 and into 2025. As a result, the yield curve inversion could be sustained into late 2024 with a slow retrenchment of long-term rates in the second half of the year.

	2022	2023F	2024F	2025F
Federal funds rate	4.25%	5.25%	4.00%	3.00%
10-year Treasury note	3.88%	4.60%	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 could finally return to trend in 2025, but there remain upside risks to costs (including still high residential rent inflation).

	2022	2023F	2024F	2025F
Consumer Price Index (CPI)	7.1%	3.6%	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