Nationwide Economics

Monthly Economic Dashboard

May 2024

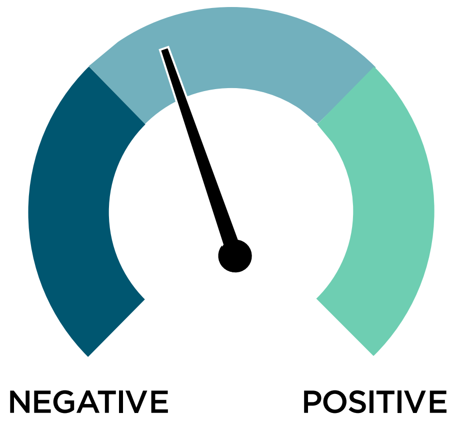
Data was cooler in April but one month does not make a trend

Economic activity slowed in April as employers ratcheted back the pace of hiring and consumers dialed down spending. This could be the start of a slower trend, but we still believe the momentum for consumers is sturdy enough to drive solid economic growth in the second quarter above a 2.0 percent annualized rate. Additionally, although inflation eased in April, costs for services and housing continued to climb sharply, likely delaying Fed rate cuts until September — possibly later if inflation fails to improve in coming months.

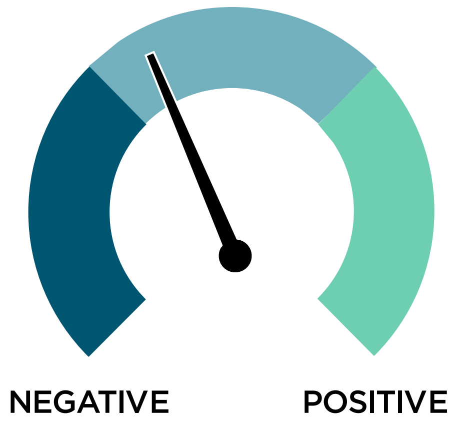
Headwinds for activity from elevated interest rates and rising consumer debt suggest that growth will slow in the second half of 2024. Still, the U.S. economy should remain far from a recession as solid job and income gains drive further consumer spending. Downside risks from an extended period of high interest rates from the Fed or an unexpected shock still hang in the background — keeping a possible recession on the radar for 2025.

- Job gains downshifted in April, while the unemployment rate inched up to 3.9 percent. Annual wage growth also fell below 4.0 percent for the first time since 2021 but remains too fast to be consistent with 2.0 percent consumer inflation.
- Retail sales flatlined in April but it's too early to determine if this was a pause or the start of a weaker trend. The momentum for spending on services remains strong and should drive further activity this summer.
- Recent comments from Fed officials and the minutes from the May FOMC meeting make it clear that the Fed is comfortable holding rates steady until it is certain that inflation is on a sustainable downward path. Equity markets were boosted further in May by solid corporate earnings over the first quarter.

Current Scorecard



Future Scorecard



Full scorecards ▶

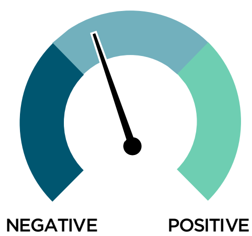
Current Scorecard – May 2024

Data through May 23, 2024

OVERALL

3-MONTH TREND

Job growth eased in April, and along with the moderation in wage growth indicates a downtick in labor demand across many industries. Still, the trend for job gains remains resilient, the unemployment rate is still below 4.0 percent, and job listings are widespread — all signs of lingering labor market tightness. Inflation was a little slower in April but prices for services continue to drive up costs for consumers and businesses. The Fed needs to see additional signs of slower inflation and economic activity in the coming months to shift to policy easing, with the initial rate cut likely postponed until September at the earliest.



EMPLOYMENT

3-MONTH TREND

The job market pulled back in April with a six-month low in nonfarm payroll growth and downward revisions to prior months. The unemployment rate also climbed to 3.9 percent, but it remains low from a historical perspective. Annual wage growth also fell to 3.9 percent. While this wage pace is still too fast to be consistent with 2.0 percent inflation, it was the first dip below 4.0 percent since June 2021.

NEGATIVE — POSITIVE

	Current	Previous	Year ago
Employment growth – Apr	175,000	315,000	278,000
Unemployment rate – Apr	3.9%	3.8%	3.4%

FINANCIAL

3-MONTH TREND

After a pause in April, the 2024 equity rally resumed in May with the S&P 500 index hitting new highs. Long-term rates fell modestly in the past month, causing the yield curve inversion to increase; this indicator continues to signal a higher-than-normal recession risk. With recent economic and inflation data slowing only modestly, the first fed funds rate is likely to be delayed until at least the September FOMC meeting.

NEGATIVE — POSITIVE

	Current	Previous	Year ago
Yield spread – May	-0.72 pp	-0.54 pp	-1.32 pp
BAA Credit spread – May	1.48 pp	1.47 pp	2.32 pp
CBOE market volatility – May	12.78	18.51	16.97
S&P 500 stock index – May	5,275	5,023	4,159

CONSUMER

3-MONTH TREND

Consumers dialed back retail spending in April as low savings and rising debt continue to provide headwinds to consumer activity. Existing home sales fell again in April as housing activity continues to be weighed down by high mortgage rates and low inventory levels — a modest boon for new sales. Consumer sentiment fell sharply in May to a five-month low, coinciding with a rise in inflation expectations.

NEGATIVE — POSITIVE

	Current	Previous	Year ago
Retail sales – Apr	0.0%	0.7%	0.8%
Light vehicles sales – Apr	15.8 M	15.6 M	15.7 M
Total home sales – Apr	4.77 M	4.89 M	4.91 M
Consumer sentiment – May	67.4	77.2	59.0

BUSINESS

3-MONTH TREND

The ISM manufacturing index fell back into contraction territory in April, and it was joined by the services index — the first time both indices have had contractionary readings since December 2022. The rise in the prices paid index for both is a worrying sign for future inflation. The NFIB Small Business Optimism Index remains low as small business owners contend with rising costs for labor and inputs.

NEGATIVE — POSITIVE

	Current	Previous	Year ago
ISM Manufacturing – Apr	49.2	50.3	47.0
ISM Services – Apr	49.4	51.4	52.3
NFIB small business optimism – Apr	89.7	88.5	89.0

INFLATION

3-MONTH TREND

Headline and core CPI moderated somewhat in April, but services inflation was still hot — boosted by strong gains in transportation and hospital care services. Momentum for services is concerning; the 3-month annualized rate for core services fell to a still high 5.7 percent, while the 6-month annualized rate climbed to 6.0 percent.

LOWER — HIGHER

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

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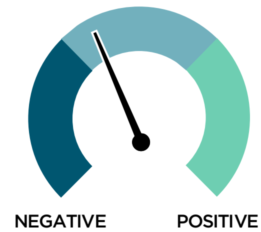
Future Scorecard – May 2024

OVERALL

A recession in 2024 looks increasingly unlikely given the solid momentum for job gains and spending. That said, we expect hiring and spending will moderate in the second half of the year in response to elevated interest rates and rising prices — setting the stage for a weaker growth trend heading into 2025. Lower and middle-income households are struggling due to inflation, meager savings and rising debt burdens. This presents downside risk for future spending, especially if the labor market cools sharply. Rate cuts from the Fed look to be delayed until late 2024 (and maybe further), another downside concern that keeps recession risks alive for 2025.



THE ECONOMY

While economic growth should slow modestly in the second half of 2024, buoyant momentum for consumers should keep the economic expansion on solid legs. The positive trend for activity could carry into 2025, but recession risks remain for next year if inflation remains elevated and the Fed maintains a restrictive interest rate stance for longer than currently expected.

	2023	2024F	2025F	2026F
Real GDP growth	2.5%	2.4%	1.6%	1.9%

CONSUMER

High mortgage rates and low supply of listed homes for sale should suppress home sales for the remainder of 2024. However, falling rates should boost supply and demand for housing in 2025 and beyond. Strong underlying demand for new autos should drive steady sales in 2024, but weaker incomes and elevated financing rates are expected to put a cap on purchases through 2025.

	2023	2024F	2025F	2026F
Total home sales	4.77 M	4.76 M	5.10 M	5.95 M
Light vehicle sales	15.5 M	15.5 M	15.6 M	16.4 M

JOB MARKET

Hiring activity should slow in the second half of 2024, especially within cyclically sensitive areas. However, a sharp drop off is not expected as hiring needs remain strong in some sectors. Labor demand should soften further in 2025, although the unemployment rate is likely to remain below 4.5 percent for the foreseeable future — assuming the economy does not slip into a recession.

	2023	2024F	2025F	2026F
Average job growth	255,000	210,000	150,000	180,000
Unemployment rate	3.6%	3.9%	4.2%	4.0%

INTEREST RATES

The start of Fed easing should be delayed until September at the earliest, with only two cuts expected in 2024. If inflation does not continue to improve, then the first cut would be delayed until 2025. The Fed is also expected to be more cautious in this easing cycle, with the fed funds rate only falling to the 3.50-3.75 percent range by the end next year. As a result, the yield curve should remain inverted over much of 2025 with long-term rates declining slowly as the Fed eases.

	2023	2024F	2025F	2026F
Federal funds rate	5.25%	4.75%	3.50%	2.75%
10-year Treasury note	3.88%	4.15%	3.60%	3.50%

INFLATION

Overall and core CPI inflation could remain higher over 2024 due to persistent services inflation pressures — ending the year faster than it did in 2023. Consumer inflation could approach the Fed's 2.0 percent target later in 2025, but there remain upside risks from energy prices and high residential rents.

	2023	2024F	2025F	2026F
Consumer Price Index (CPI)	3.2%	3.5%	2.4%	2.1%
Core CPI	4.0%	3.9%	2.5%	2.1%

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

Nationwide is on your side

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