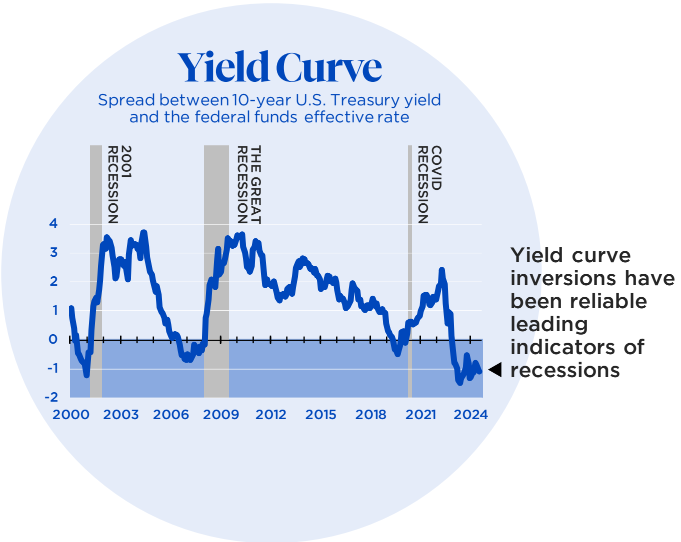
Nationwide®
is on your side

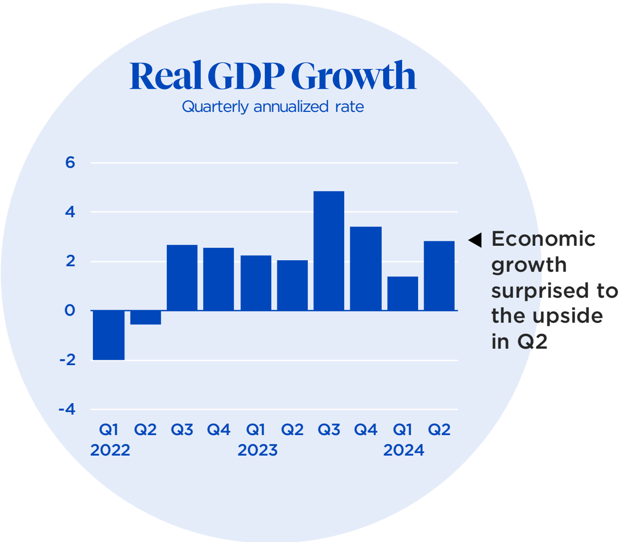
Economic & Financial Markets Monthly Review | August 2024

Concerns grow for the forward outlook

Where is the economy now?

Weaker conditions are broadening across the economy as consumers pull back on spending and businesses reduce hiring plans in the face of elevated interest rates and inflation fatigue. This reinforces our outlook for below-trend economic growth in the second half of 2024 and the need for the Fed to begin reducing monetary policy restrictions soon. We look for multiple rate cuts before year end as the Fed tries to stick a soft landing for the economy.





Where we are this month

Economy steady in late cycle phase

The U.S. economy should post more modest growth in the second half of 2024 as interest rate and inflation headwinds remain strong and positive tailwinds ease.

Yield curve inversion lessens

The spread between the 10-year Treasury rate and the fed funds rate was little changed but, but the 10-year Treasury yields less the 2-year Treasury yield spread became less inverted in anticipation of Fed rate cuts.

Solid growth into midyear

Real GDP growth came in stronger than expected in Q2 at an annualized pace of 2.8 percent, doubling the meager rate from the first quarter.

What does this mean

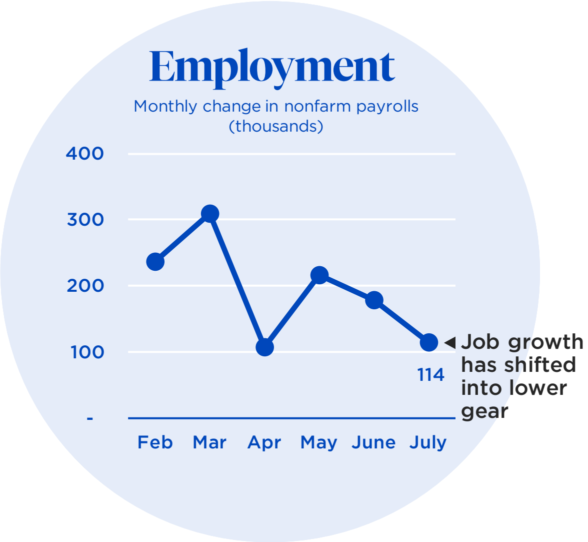
- A soft landing still seems the most likely scenario for the economy over the next year, especially with the Fed on the verge of reducing interest rates in coming months.
- But recession risks still loom on the horizon for 2025 and beyond, led by the prospect that the Fed maintains restrictive monetary policy for too long or if consumers experience an unexpected price/income shock.

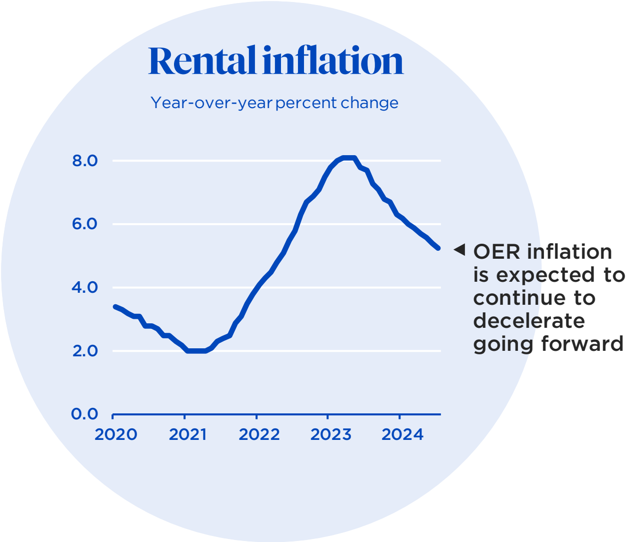
- The negative spread between the 2- and 10-year Treasury rates has tightened considerably since mid-June, dropping to only 14 basis points in late July. Other portions of the yield curve have normalized as the market now expects more substantial easing from the Fed over the next year.
- An inverted yield curve has historically indicated that recession odds are elevated, although a downturn could be delayed for some time by a soft landing.

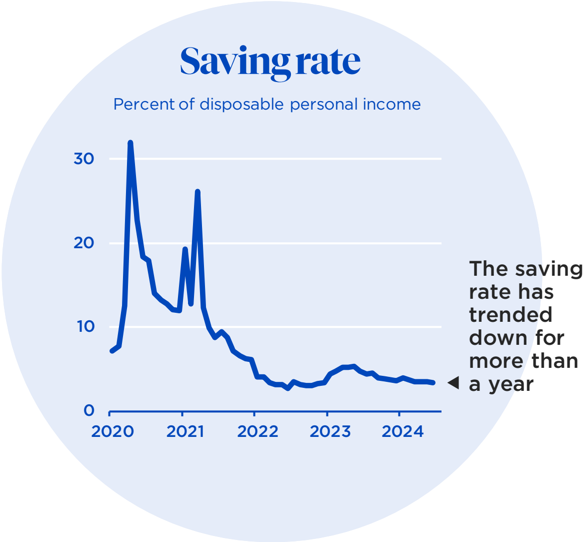
- Consumer expenditures led the way again in Q2 as households spent broadly on goods and services. But with excess savings tapped out and debt piling up, spending activity is likely to wane in the second half.
- There was also an outsized boost from inventories as businesses see goods piling up as demand fades. Still, business investment was up solidly over the second quarter as firms enhance technology capabilities to boost worker productivity.

Second half starts with slow job growth, rising unemployment

Job gains undershot expectations in July while the unemployment rate climbed for a fourth straight month and annual wage growth moved lower — signaling much cooler labor market conditions and reigniting recession concerns. Moreover, consumer indicators suggest that many households are in a vulnerable position and could pull back quickly on spending if the labor market continues to throttle back.







Where we are this month

Job growth was tepid in July

At 114,000, the headline advance in nonfarm payrolls missed expectations by a wide margin in July, while the unemployment rate climbed to 4.3 percent.

Residential rent inflation has turned over

The owners' equivalent rent (OER) component of the CPI climbed by a slower 0.3 percent in June, dropping the year-on-year rate to 5.4 percent.

Consumers forgo savings to spend

The personal saving rate fell to a very low 3.4 percent in June. The saving rate has fallen below this level in only a couple periods on record (data back to 1959).

What does this mean

- Private payrolls climbed by only 97,000, and most of the gain came from the health care and social services sector. Job gains in cyclical sectors continue to be sluggish.
- Annual wage growth advanced at a pace of 3.6 percent in July, which is consistent with the Fed's two percent target inflation rate. In combination with rising unemployment, it's clear that the labor market is becoming less tight.

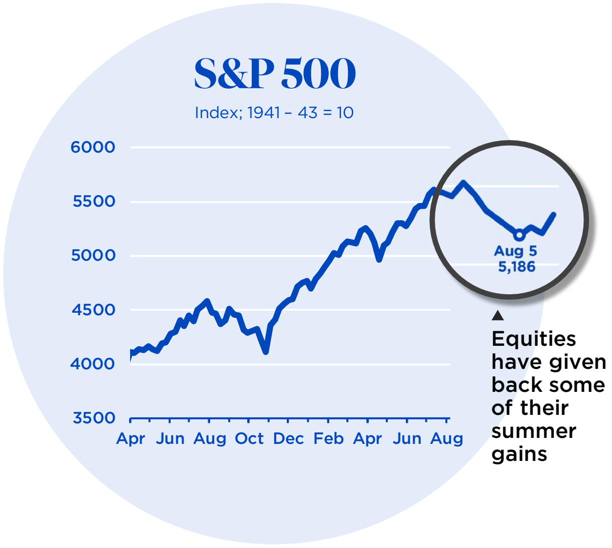
- Rental inflation appears to have turned a corner as June's monthly growth was the slowest since April 2021. The 3-month annualized inflation rate for OER fell to 4.6 percent — still elevated, but well down from the 6.0 seen at the beginning of the year.
- Our forecast shows rental inflation continuing to slow through the end of the year. We believe the 12-month annual growth in OER will slow to around 4.3 percent by year's end.

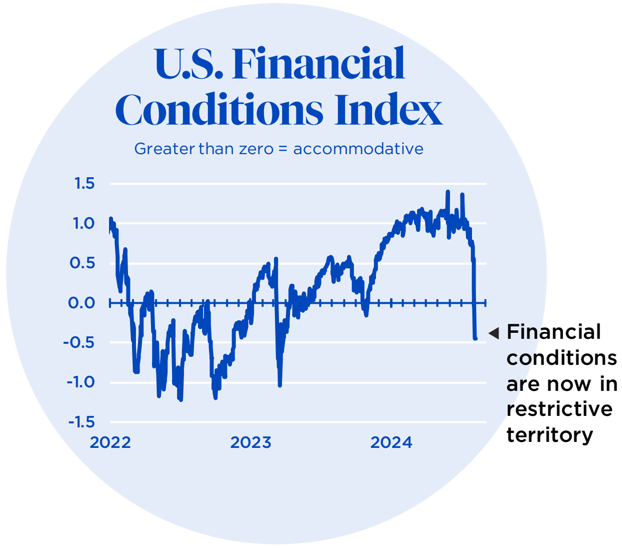
- Despite slowing income growth, consumers continued to spend through the end of the first half – with estimates showing that excess pandemic savings have been exhausted for most households.
- In combination with rapidly climbing credit card debt, this leaves the consumer vulnerable should the labor market continue to cool from here. A slowing in net hiring represents a significant downside risk to the economy.

Financial Market Review

Market rout wakes traders from their summer slumber

Risk assets were jolted in August by signs of a slowing economy and the unwinding of unprofitable global trades as the Bank of Japan tightened policy. In our view, the sharp selloff in risk assets was overdone relative to the current state of the U.S. economy, which is not on the precipice of recession. We believe economic activity is moderating as the Fed has held interest rates high, though the slowdown in the labor market is a bit faster than we have been forecasting. Therefore, we now think the Fed will lower interest rates by 75 basis points (bps) before year end, compared to our previous call of 50bps.





Where we are this month

Equities tumble

Stocks trended lower in July and saw a global rout in early August in a widespread risk off move. The S&P 500 is down 8 percent from its summer high.

Interest rates slide

Investors fled to the safety of U.S. government debt amid softer economic growth and the market sell-off. The 10-year Treasury yield now stands at its lowest level since Q1 2024.

Financial conditions tighten

Financial conditions tightened amidst the early August financial market retreat. The Bloomberg U.S. Financial Conditions Index fell sharply, despite some rebound in the past few days.

What does this mean

- The equity market is losing momentum as economic data have softened and investors have been underwhelmed by the Q2 earnings of several major tech companies. Still, the recent panic overstates the economy's weakness. Incoming data maintain a positive tone and overall earnings have been upbeat.
- The equity market remains overvalued by traditional metrics even after the recent selloff. We think it will find its footing, but risks are tilted to the downside.

- Softer economic activity and inflation reports led to lower interest rates in July and the early-August market selloff accelerated the move. The 2-year Treasury yield has declined around 70bps since the end of June.
- Additional evidence of cooler inflation should lower borrowing costs. However, the federal government's fiscal health lends upside risks to our interest rate forecasts.

- The speed of the move may indicate that investors panicked in early August. The rapid tightening is not in line with the fundamental economic backdrop, which remains encouraging even though growth is slowing.
- It remains to be seen whether financial conditions remain significantly tighter. If they do, we should expect economic growth to slow more meaningfully and inflation pressures to ease further. This would also tilt risks toward greater Fed policy easing.

Outlook

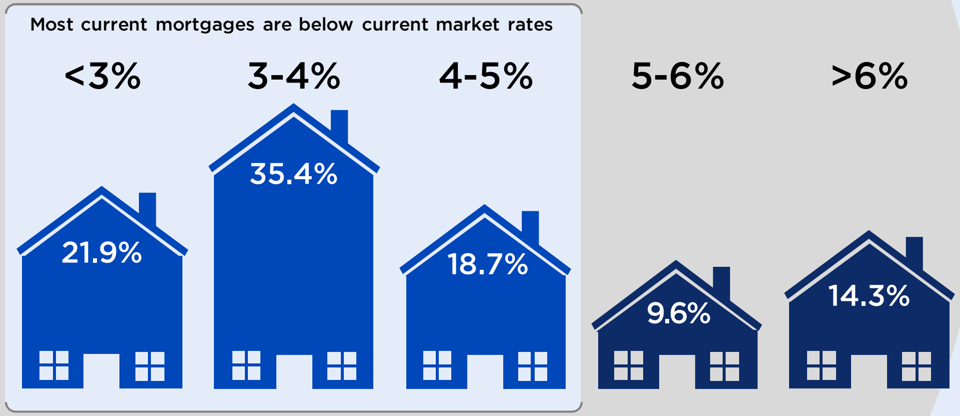
Lock-in effect to be lingering issue for housing market

Ever since mortgage rates spiked in late 2022, home sales activity has been paralyzed as many potential homebuyers have been priced out of the market. And lack of supply has been a further constraint as most current homeowners locked-in low rates or refinanced in the pre-Covid period. This has kept home prices on the rise to further exacerbate affordability concerns.

Most mortgage borrowing rates remain well below current markets rates, leading current homeowners to remain in place. As of the first quarter, 76 percent of mortgage loan rates were lower than 5.0 percent. As a result, the number of existing homes for sale has run at historic lows until a very recent uptick.

While mortgage rates are projected to decline, we don't expect the 30-year rate to approach 5.0 percent until 2026. Even at that level, many potential sellers may choose to wait for potentially lower mortgages rates to gain more equity in their homes. This means existing home supply is likely to remain limited for an extended period — restricting availability for buyers while also underpinning prices.

Percentage of mortgage loans by interest rate *as of Q1 2024*



Podcast
Hear more in our podcast
PLAY

FIND **NATIONWIDE MARKET INSIGHTS** WHEREEVER YOU LISTEN TO PODCASTS

Latest Forecast

Data as of August 2024

	2023 ACTUAL	2024 ESTIMATE	2025 FORECAST	2026	2027
REAL GDP	2.5%	2.5%	1.4%	1.9%	1.8%
UNEMPLOYMENT RATE	3.6%	4.2%	4.8%	4.4%	4.2%
INFLATION [1] (CPI)	3.2%	2.6%	2.2%	2.1%	2.0%
TOTAL HOME SALES	4.75	4.77	4.97	5.90	6.15
S&P/CASE-SHILLER HOME PRICE INDEX	5.5%	5.4%	3.3%	3.2%	3.0%
LIGHT VEHICLE SALES	15.5	15.5	15.5	16.2	16.5
FEDERAL FUNDS RATE [2]	5.25%	4.50%	3.00%	2.75%	2.75%
5-YEAR TREASURY NOTE [2]	3.84%	4.05%	3.66%	3.40%	3.40%
10-YEAR TREASURY NOTE [2]	3.88%	3.95%	3.80%	3.80%	3.80%
30-YEAR FIXED-RATE MORTGAGE [2]	6.61%	6.30%	5.35%	5.00%	5.00%
MONEY MARKET FUNDS	5.09%	5.03%	3.47%	2.78%	2.78%

[1] *Percent change Q4-to-Q4*
[2] *Year end*

Economic growth to slow from here

After the upside surprise in the second quarter, real GDP growth is projected to downshift in the second half of 2024 in the face of weaker hiring and elevated interest rates. We expect a below trend pace of growth to extend into 2025.

Home price gains remain buoyant

Housing supply remains very limited in many markets, slowing sales and pushing up prices. These conditions should linger into 2025 with home values still rising faster than normal until mortgage rates drop enough to spur more listings of existing homes.

Contributors

Kathy Bostjancic
SVP & Chief Economist

Ben Ayers, MS
AVP, Senior Economist

Oren Klachkin
AVP, Financial Market Economist

Daniel Vielhaber, MA
Economist

Ashleigh Leonard
Economics Specialist

Brian Kirk
Communications Consultant

Sources

Page 1 |	**Where is the economy now?**	
	Business Cycle	*Nationwide Economics*
	Yield Curve	*Bloomberg; National Bureau of Economic Research*
	Real GDP growth	*Bureau of Economic Analysis*
2 |	**Economic Review**	
	Nonfarm payroll gains	*Bureau of Labor Statistics*
	Rental inflation	*Bureau of Labor Statistics*
	Personal savings rate	*Bureau of Economic Analysis*
3 |	**Financial Markets Review**	
	S&P 500	*Standard & Poor's*
	10-year Treasury yield	*Federal Reserve Board*
	U.S. Financial Conditions Index	*Bloomberg*
4 |	**Outlook**	
	Mortgage loans by interest rates	*Federal Housing Finance Agency*
	Latest Forecast	*Nationwide Economics*

NFM-11356AO.3