RETIREMENT INSTITUTE[SM]

Economic perspective

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Monthly Economic Dashboard

Slow economic growth is behind us, with a faster pace of activity expected ahead.

- Job growth accelerated again in May, climbing to the fastest pace of the year, and low unemployment claims suggest that the job market should stay strong. Wage gains are edging upward as the labor market tightens, and this should help boost consumer spending over the rest of the year.
- We project faster economic growth for the remainder of this year and 2016, helped by strong job growth, rising wages, still low (albeit rising) oil prices, and a continuation of the recently improved pace of household formations.
- Inflation has likely bottomed. Core inflation is expected to edge up over the next few years in response to reduced slack in the economy/job market.
- We expect the first Fed tightening move to come in September, although it will be data dependent so the exact timing is still uncertain. Further Fed tightening, and higher interest rates, should occur in coming years.

Find more perspectives inside.

June 2015

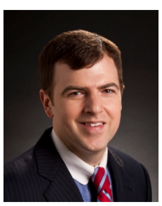
A clearer view of the economy

The Nationwide Retirement Institute breaks down and simplifies complex topics to help advisors have meaningful and productive conversations with their clients. When it comes to the economic picture, the Retirement Institute calls on the experience, perspective and statistical analysis of the Nationwide Economics team. This assures advisors of a relevant economic perspective that's both easy to use and understand.

DAVID BERSON, PhD

Senior Vice President, Chief Economist

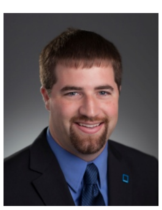
David holds a doctorate in Economics and a master's degree in Public Policy from the University of Michigan. Prior to Nationwide, David served as Chief Economist & Strategist and Head of Risk Analytics for The PMI Group, Inc., and Vice President and Chief Economist for Fannie Mae. David has also served as Chief Financial Economist at Wharton Econometrics and visiting scholar at the Federal Reserve Bank of Kansas City. His government experience has included roles with the President's Council of Economic Advisors, U.S. Treasury Department and the Office of Special Trade Representative. He is a past President of the National Association for Business Economics.



BRYAN JORDAN, CFA

Deputy Chief Economist

Bryan is a frequent author and knowledgeable source on economic topics, and has been featured in The Wall Street Journal and New York Times. Bryan holds degrees in Economics and Political Science from Miami University and has earned the Chartered Financial Analyst designation. He currently serves as Chairman of the Ohio Council on Economic Education and is a member of the Ohio Governor's Council of Economic Advisors, the National Association for Business Economics, and the Bloomberg monthly economic forecasting panel.



BEN AYERS, MS

Senior Economist

Ben authors periodic economic analyses from the Nationwide Economics team, as well as commentary on key economic topics. Ben is also responsible for understanding and analyzing the enterprise business drivers to assist the strategic planning process. He holds a Master of Science in Economics from the Ohio State University, specializing in applied economic analysis, and a BSBA from the Fisher College of Business at the Ohio State University, with a focus on economics and international business.

MICHAEL GROOM, MS

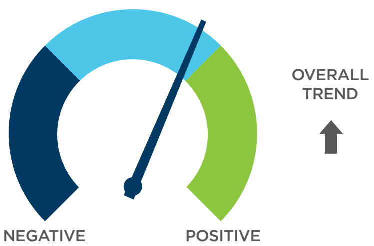
Financial Markets Economist

Michael is responsible for developing a point of view on global macro and market trends that are impacting the investments business. He analyzes various financial markets including global equities, fixed income and currencies. He currently authors the weekly investment/economic review and co-authors *Charting the Markets*, a quarterly capital markets publication. Michael earned a master's degree in finance from the University of South Florida and his bachelor's degree in finance, from the University of Florida.

MONTHLY ECONOMIC DASHBOARD:

Review (Data through June 19, 2015)

Current overall economic scorecard



Data for May and early June show that economic growth is accelerating, eliminating concerns that the first quarter's decline was the start of an extended negative trend. The labor market especially showed strength, with a reacceleration of job growth, an increase in labor force participation, and an uptick in wage gains. Consumers responded positively to better job conditions, improved weather, and still-low (if higher) gas prices by going on a spending spree in May — especially for autos and houses. Additionally, manufacturing may be turning around as the impacts of the West Coast ports labor strife and the surge in the dollar fade. Uncertainty plagued equity markets (Greece) as well as interest rates (Fed tightening) over the month.

Employment

Payroll employment outpaced expectations in May with the strongest monthly gain of 2015. While the unemployment rate ticked up in May, it came from a rise in the labor force participation rate — a positive.

	Current	Previous	Year ago
Employment growth — May	280,000	221,000	236,000
Unemployment rate — May	5.5%	5.4%	6.3%

Financial

Equity markets ended the month close to their starting levels, but with intra-month volatility caused by the uncertainty of Greek debt negotiations. Long-term interest rates jumped before easing a bit following the June FOMC meeting on more dovish statements for the future path of monetary policy.

	Current	Previous	Year ago
Yield curve — June	2.08 pp	1.92 pp	2.50 pp
BAA credit spread — June	2.74 pp	2.67 pp	2.20 pp
CBOE market volatility — June	14.15	13.35	11.54
S&P 500 stock index — June	2,100	2,111	1,946

Consumer

Retail sales climbed strongly in May, mostly on a jump in auto sales, although core sales were up solidly as well. Home sales rose sharply in May, driven by high affordability, faster job growth, and strong household formations.

	Current	Previous	Year ago
Retail sales growth — May	1.2%	0.2%	0.1%
Total home sales — May	5.90 M	5.62 M	5.36 M
Consumer sentiment — June	94.6	90.7	82.5

Business

The ISM manufacturing index improved in May, after six months of weaker data. The small business optimism index rose to the second highest level of the expansion, with business owners citing improved earnings and a brighter economic outlook.

	Current	Previous	Year ago
ISM Manufacturing — May	52.8	51.5	55.6
ISM Non-manufacturing — May	55.7	57.8	56.1
NFIB small business optimism — May	98.3	96.9	96.6

Inflation

Overall inflation rose at a moderate pace in May despite a jump in energy prices, with the 12-month change (trend) edging up to zero. Core inflation slowed in May, lowering the trend rate to 1.7 percent.

	Current	Previous	Year ago
Consumer Price Index (CPI) — May	0.4%	0.1%	0.3%
Core CPI — May	0.1%	0.3%	0.2%

MONTHLY ECONOMIC DASHBOARD:

Outlook

Nationwide® is on your side

Future overall economic scorecard

With weak growth again behind us, it appears that real GDP growth above 3.0 percent is in store for at least the next year, especially with housing now contributing more strongly. We also expect that continued job gains will tighten the labor market further and allow for faster wage increases. This will boost other consumer spending, as well as give a modest upward push to inflation. We expect the Fed to begin a long tightening cycle later this year, with interest rates rising only modestly at the start. While we think that events in Greece will end positively, there are risks that things go badly — creating a temporary financial market shock.

The Economy

We continue to project faster economic growth for the remainder of this year into 2016. While this would be the fastest pace of sustained growth in this expansion, it would still be considered relatively modest compared with prior growth periods.

	2014	2015 F	2016 F	2017 F
Real GDP growth	2.4%	2.5%	3.2%	2.8%

Interest Rates

We expect the Fed to begin a long, gradual tightening cycle later this year — probably in September. Long-term interest rates should rise only modestly as the Fed tightens, due to a stronger dollar and capital inflows, resulting in a flattening of the yield curve.

	2014	2015 F	2016 F	2017 F
Federal funds rate	0.06%	0.50%	2.00%	3.75%
10-year treasury note	2.17%	2.60%	3.35%	3.65%

Consumer

Consumer spending should rise solidly over the next year, fueled by job and wage gains along with better demographics. This will be seen most clearly with rising light vehicle and home sales, which will lead to increased auto production and housing starts.

	2014	2015 F	2016 F	2017 F
Total home sales	5.37 M	5.75 M	6.00 M	6.10 M
Light vehicle sales	16.5 M	17.0 M	17.1 M	17.2 M

Job Market

Nonfarm payroll employment is expected to rise at a plus-200,000 pace for the rest of this year and into 2016. These ongoing strong job gains should fuel further increases in the labor force, which will slow the pace of decline for the unemployment rate. Wage gains should accelerate as the job market tightens.

	2014	2015 F	2016 F	2017 F
Average job growth	260,000	240,000	210,000	180,000
Unemployment rate	6.1%	5.2%	4.8%	4.7%

Inflation

Overall inflation should rise as the economy strengthens and labor and product markets tighten — pulling up core inflation modestly in the next year. Still, core inflation should stay below the Fed's 2.0 percent goal for 2015.

	2014	2015 F	2016 F	2017 F
Consumer Price Index (CPI)	1.2%	1.1%	2.3%	2.2%
Core CPI	1.7%	1.5%	2.0%	2.2%

Glossary

CBOE — Chicago Board Options Exchange

BAA Credit Spread — Spread between 10-year Treasury note and BAA-rated corporate bond rates

E — Estimate; **F** — Forecast

ECB — European Central Bank

EU — European Union

FOMC — Federal Open Market Committee

GDP — Gross Domestic Product

ISM — Institute for Supply Management

Market Volatility Index (VIX) — Measure of implied volatility in the S&P 500 stock index

NFIB — National Federation of Independent Business

pp — Percentage points

QE — Quantitative Easing (the Federal Reserve's special purchase program of longer-term Treasury notes and mortgage-backed securities)

Trend arrows — Predominant directional movement over the past 3-6 months

Yield Curve — Spread between the 1-year and 10-year Treasury note rates

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