Truist Advisory Services, Inc.

Economic data tracker – Even more mixed economic data

Michael Skordeles, AIF®
Head of U.S. economics

Week 13 – March 31, 2023

Trend watch and what's new this week

First, the dining reservations data is temporarily unavailable since OpenTable is refreshing the index. Accordingly, we have substituted the Back-to-Work Barometer Index on slide 6.

The activity-based data continues to remain stronger than expected (slides 5 and 6). The last week of March is typically soft, though it's wholly dependent on timing of the spring holidays (Easter and the start of both Passover and Ramadan). Nonetheless, weekly air passenger counts have stayed above 16.3 million for three straight weeks for the first time since mid-October 2019.

The Fed's favorite inflation gauge cooled in February

The Federal Reserves' (Fed) favorite inflation gauge—the price index of core personal consumption expenditures—cooled in February (slide 7). While it has been moving in the right direction, it remains uncomfortably high and well above the Fed's 2% target, meaning the Fed will likely keep its focus on inflation.

Big 4 remains solid – no recession yet

We also received real personal income and spending figures for February. Both of those are part of the so-called "big 4" indicators of economic activity used to determine a recession (slide 8). While they have flattened out, which shows that the economy is slowing, the big 4 don't indicate the U.S. is currently in a recession.

Retail and wholesale inventories continue to reset

On slide 9, we show retail and wholesale inventories, which have fallen sharply since peaking last summer. We view these as a healthy reset of inventories to be more in-line with goods sales, which have been normalizing for roughly a year as consumers shifted spending back towards services.

Consumer confidence mixed signals

Given all the cross currents, consumers don't seem very confident based on two recent surveys. That said, there are some positives, including inflation expectations and their view of jobs.

The University of Michigan Consumer Sentiment Survey final reading for March dipped to 62.0, below the preliminary 63.3 and down from 67.0 in February. Yet, 1-year inflation expectations dropped to a nearly two-year low.

Meanwhile, on slide 10, we show the Conference Board's Consumer Confidence Survey, which ticked up in March after declining during the prior two months. The 1-year Inflation expectations ticked up to 6.3%, though remain well-below the peak of 7.9% in June '22. Meanwhile, consumers view that it's fairly easy to get a job (officially known as "Jobs Plentiful").

TRUIST

Wealth

Economic commentary – Our take and the bottom line

Our take

We're back in a situation where there isn't a clear view of the economy. The trend of economic data remains mixed, many times even within the same report. That was certainly the case with the two main consumer sentiment surveys for March. By the way, both captured at least part of consumers' reaction following the recent bank failures.

Thus, we'd caution not to get overly fixated on one "good" or "bad" economic data point. Nonetheless, the economic slowdown we expected in 2023 has materialized. Whether activity slides enough to be officially categorized as a recession is less important in our view.

The business cycle had been gradually slowing in late 2022 and into early 2023 due to the ramp up in inflation and higher interest rates. However, credit conditions have tightened dramatically in recent weeks, pinching many businesses just when they may need credit most. This pulls forward our recession expectations. That said, there are some positive economic offsets; most notably, continued solid labor market dynamics. Moreover, consumer and business balance sheets don't typically look "this good" at the onset of a recession.

With respect to inflation, it has been moving in the right direction, but it remains uncomfortably high and well above the Fed's 2% target, meaning the Fed will rightly remain focused on curbing inflation, aka price stability.

As the past two years have illustrated, once the inflation toothpaste is out of the tube, it's extremely difficult to regain control. Historically, it has taken years and required a recession to do so.

We maintain our view that Fed policy is being guided by scar tissue—from prematurely loosening policy in the past. More importantly, the Fed is hamstrung by inflation. Cutting rates to support the economy appear unlikely in the near term, especially with still-solid employment trends. While deeper rate cuts are plausible in the event of a sharper recession, we maintain our view that the coming economic slowdown will be relatively mild. Hence, we believe that the Fed rate tightening cycle is effectively over, though wouldn't rule out that the Fed could do one more hike rate if inflation persists.

Bottom line

The recent addition of tightening of credit conditions broadly is unwelcomed. A recession was already our base case due to dramatically higher interest rates. We also maintain our view that, while it has clearly peaked, elevated inflation remains public enemy number one and will dictate the Fed's future actions.

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▲	4Q P: 2.6%	1Q P: 2.5%†	Revised down by 0.1 percentage points from the 2.1% "preliminary estimate", including a modest downward revision to consumer spending. Tracking estimates for 1Q23 remain solid.
Jobs	Unemployment rate[X]	▲	Feb: 3.6%	Mar: 3.6%	Rose 0.2% from the cycle low, which was the lowest since May '69.
	Monthly jobs (nonfarm)	▲	Feb: 311K	Mar: 240K	Another upside surprise, but wages have clearly cooled, which is a positive for the inflation debate.
	Weekly jobless claims[+]	▲	3/25: 198K	4/1: 200K	Rose for the first time in 3 week but remain near the all-time low.
	Nonfarm productivity	▲	4Q F: 1.7%	1Q P: N/A	Revised downward from 3.0%. Also, unit labor costs revised to 3.2% from 1.1%, compared to 6.9% in 3Q22 and 6.6% in 2Q22.
Interest rates	Federal funds rate	⇆	4.75% – 5.00%	5/3: 4.75% – 5.00%	At the March meeting, the Fed followed through with another 0.25% rate increase, as promised, based on inflation trends.
	10-year U.S. Treasury yield	▼	3.48%‡	Flat/down	Rates continue to gyrate daily, though only had a modest increase from last week. We expect more volatility.
	10-year AAA GO muni yield	▼	2.27‡	Flat/down	Muni yields slid further this past week.
	30-year fixed mortgage rate	▼	6.84%‡	Flat/down	Finally drifting lower after largely ignoring the broader rate decline for two weeks. Still, rates remain elevated, which hurts affordability.
Inflation	Consumer prices (CPI)[X]	▼	Feb: 0.4%	Mar: 0.3%	Inline with expectations though cooler than 0.5% in Jan. The year-over-year pace slipped to 6.0% from 9.1% in June.
	Core CPI	▼	Feb: 0.5%	Mar: 0.4%	YoY rose 5.5%. Shelter, which lags, continues to grind higher.
	Producer prices (PPI)	▼	Feb: -0.1%	Mar: 0.2%	YoY cooled to 4.6%, the coolest reading in two years, from 5.7%.
	Core PPI	▼	Feb: 0.0%	Mar: 0.4%	Has clearly peaked as YoY rose 4.4%, down from 9.7% in March '22.

▲Good ▼ Bad ⇆ Neutral [+]Leading indicator [x]Lagging indicator ‡Intraday quote Bloomberg consensus shown †FRB-ATL GDPNOW (3/31/2023)

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Housing	Existing home sales	▼	Feb: 4.58M	Mar: N/A	Jumped 14.5% MoM, snapping an ugly 12-month decline streak.
	New home sales	▼	Feb: 640K	Mar: N/A	Rose 1.1% MoM, up for third straight month, while prices rose.
	New housing starts	▼	Feb: 1.450M	Mar: N/A	Jumped 9.8% MoM, snapped 5-mo down streak, multifamily up 24.1%.
	New permits+	▼	Feb: 1.524M	Mar: N/A	Soared 13.8% MoM, multifamily up 24% and single family rose too.
Business	Durable goods orders+	▲	Jan F: -4.5%	Feb P: 1.4%	Commercial aircraft orders fell sharply, but core capital goods orders (ex-air & defense) rose 0.8% MoM, just 0.1% under the all-time high.
	ISM Manufacturing Index	▼	Feb: 47.7	Mar: 47.5	Activity contracted for the fourth month in a row. Prices paid component increased but remains well below year ago levels.
	ISM Services Index	▲	Feb: 55.1	Mar: 54.5	Expanded in January and February after contracting in December. Prices paid component dropped for the 9th time in 10 months.
	Business inventoriesX	▲	Jan: -0.1%	Feb: 0.3%	Held steady for a second straight month.
Consumer	Personal income	▲	Feb: 0.3%	Mar: N/A	Continued wage growth, though the pace ratcheted downward.
	Personal spending	▲	Feb: 0.2%	Mar: N/A	Sizable upward revision to January, taking it to up 2.0% MoM.
	Advance retail sales	⇆	Jan: 3.0%	Feb: 0.2%	Massive upside surprise with largest monthly rise since March ’21.
	Consumer sentiment	▲	Mar F: 62.0	Apr P: N/A	Slumped, halting 3-mo up streak. But short-term inflation expectations cooled to 3.6%, which was a 23-mo low, from 4.1%.

▲Good ▼ Bad ⇆ Neutral +Leading indicator XLagging indicator ‡Intraday quote Bloomberg consensus shown

U.S. activity-based data matrix

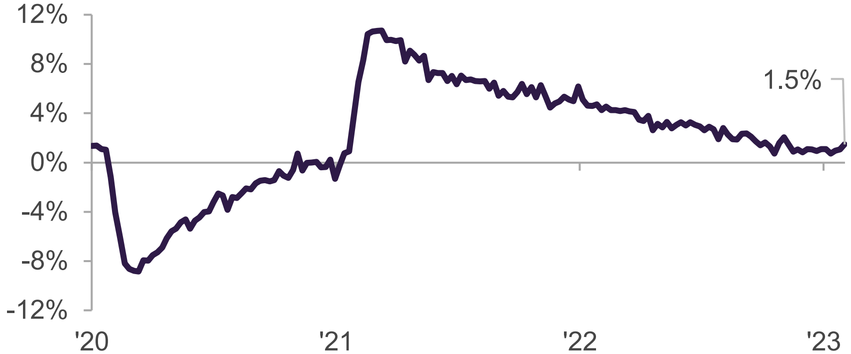
Indicator	Relative trend	What we're watching
Back to office	⇆	Rose to 48.5 (pre-pandemic indexed to 100) from 47.3 in the prior week. Top cities were Austin (58), Houston (58), and Dallas (52); bottom were San Jose (39) and Philadelphia (43). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts fell 0.8% WoW to 16.3 million, which is now 1.3% above the 2019 average of 16.1M. Passenger counts are -1.1% from the same week in March '19 and are up 11.7% from March '22.
OpenTable restaurant bookings		This is temporarily unavailable as OpenTable is refreshing the index.
Hotel occupancy	▲	Ebbed to 64.9% from 67.6% in the prior week. The average daily rate fell WoW to $158.61.04, up 19.5% from the same week in March '19, and revenue per available room fell WoW to $102.98, up 12.0% from March '19.
Freight (rail/truck/ship)	▼	Rail carloads jumped 3.6% last week but fell 2.0% MoM in February. Container traffic at the top 5 U.S. ports (LA, LB, NY/NJ, SAV, SeaTac) dropped 13.1% MoM in February, though it is typically one of the weakest months of the year. The Cass Freight Index rebounded 3.8% MoM in February, snapping 5-month slide.
Staffing index	▼	Fell for the seventh consecutive week to 98.2, though that remains above the 2019 average of 94.2. The pre-pandemic all-time high was 105.8 set in Dec. '14. The cycle low was 59.6 set in April '20.
Apartment rental prices	⇆	Rent index rose 0.3% in February, snapping a four-month slide. The rental growth rate clearly peaked during the second half of 2021.

Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

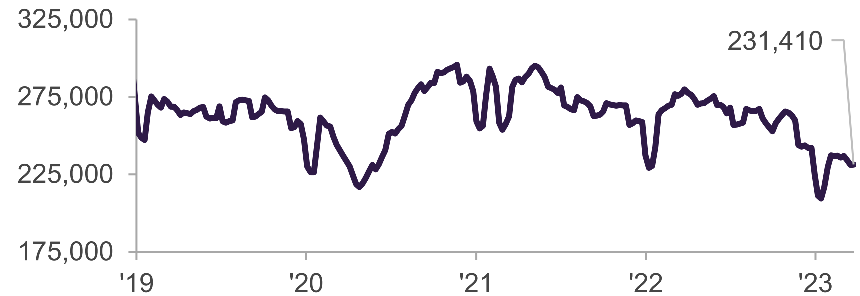
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

Activity-based trends slipped to start 2023, but firming in March

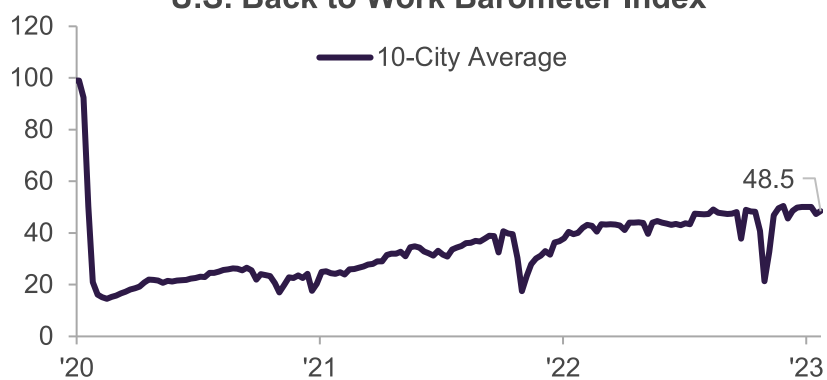
NY Fed weekly economic index



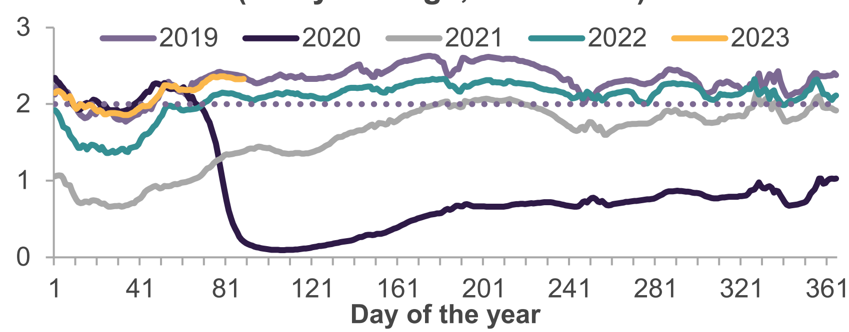
U.S. intermodal freight carloads (4-week average)



U.S. Back to Work Barometer Index



TSA checkpoint traveler throughput (7-day average, in millions)

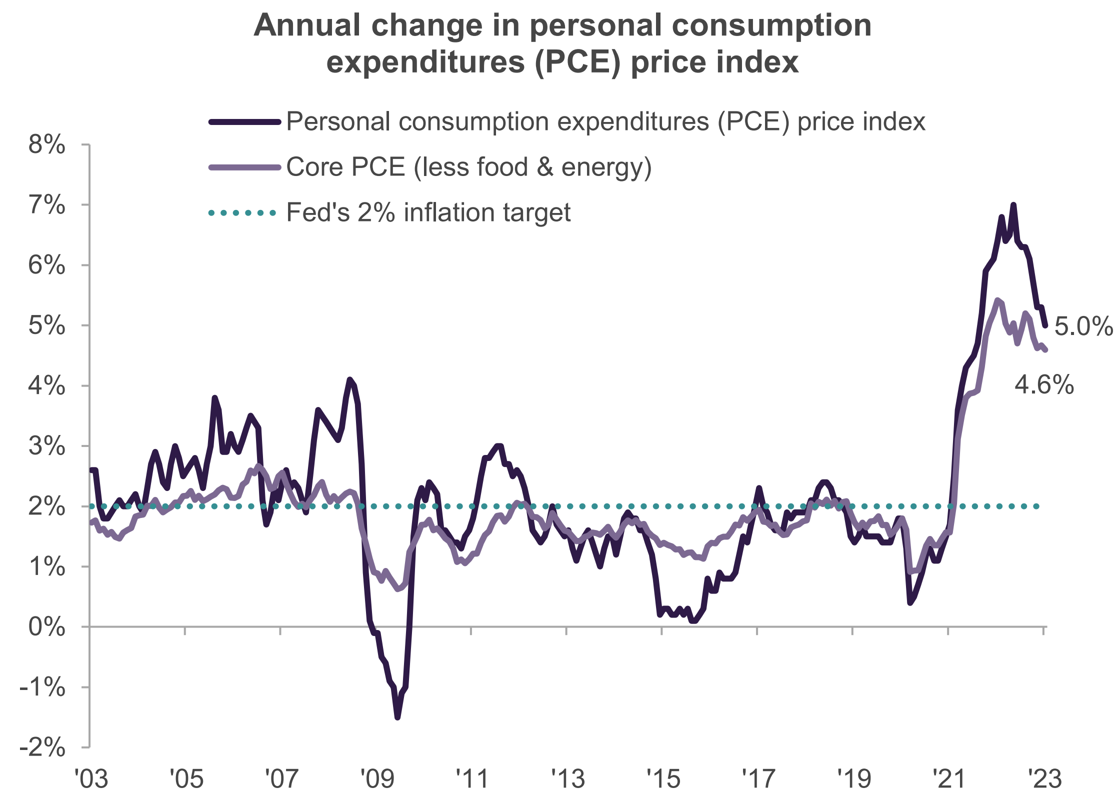


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through March 25, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through March 24. Bottom left: Bloomberg, Kastle Systems averaged weekly through March 22. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through March 30.

The Fed's favorite inflation gauge down from its peak, but still too high

Core PCE, the Federal Reserve's favored inflation gauge, has been moving in the right direction. It cooled to 4.6% on a year-over-year basis and is down from its February '22 high of 5.4%.

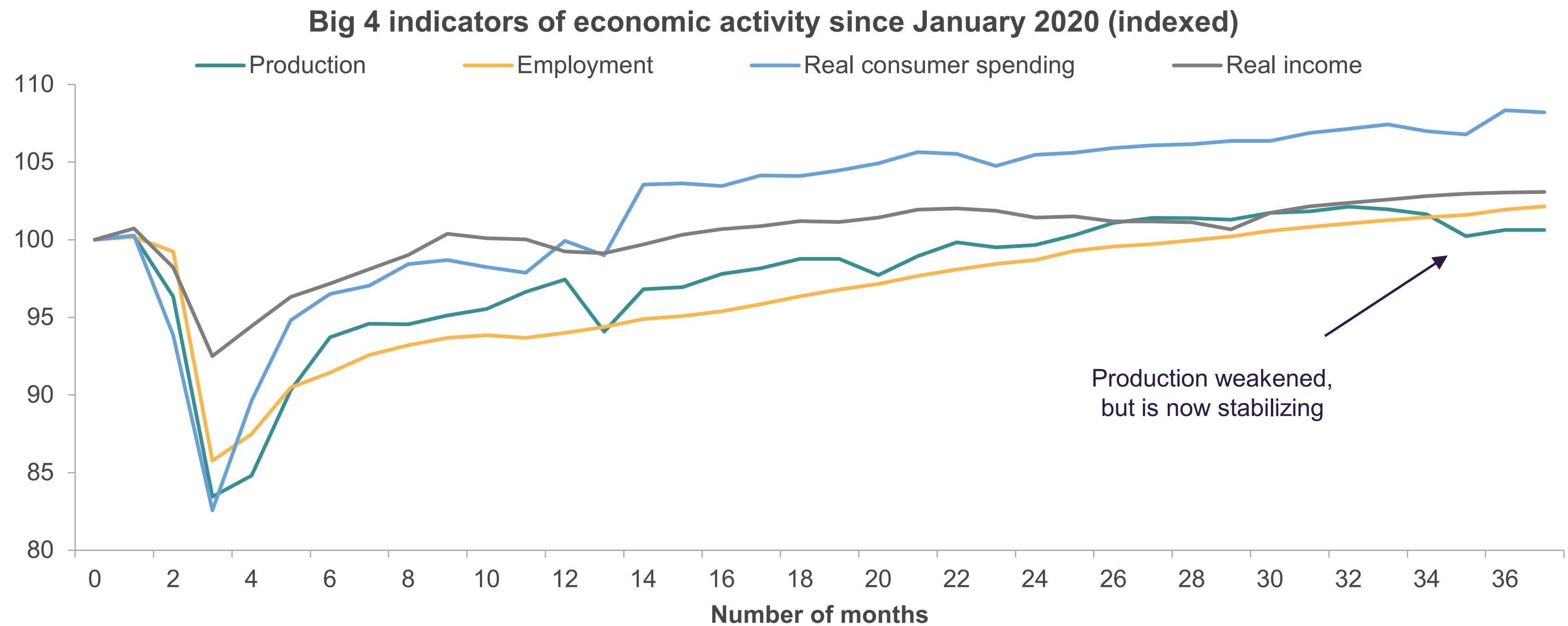
Yet, it remains uncomfortably high and well above the Fed's 2% target, meaning the Fed will likely keep its focus on inflation.



Sources: Truist IAG, Bloomberg, Bureau of Economic Analysis; monthly data through February 2023.

The four primary indicators used to date a U.S. recession suggest the economy is slowing, though not yet in a recession

The National Bureau of Economic Research (NBER) Business Cycle Dating Committee is the official arbiter of the business cycle. It calls a recession based on many factors, including four primary indicators – industrial production, nonfarm payrolls, real personal consumption expenditures, and real personal income excluding transfer receipts. These indicators, which are considered coincidental rather than leading, currently suggest the U.S. is not yet in a recession.

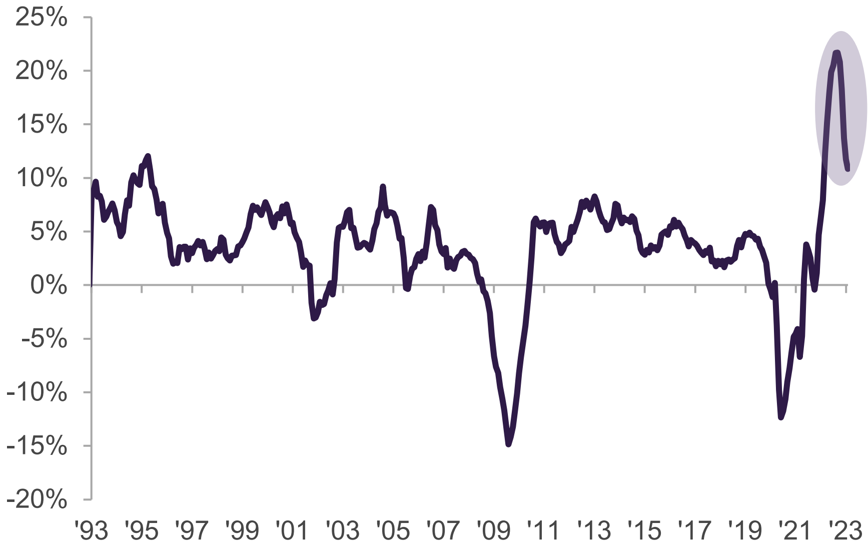


Data source: Truist IAG, Bloomberg. Monthly data through February 2023.

Companies continue to right-size retail and wholesale inventories

Retail inventories rose to $747.3 billion in February, up 10.8% from a year ago. They have fallen sharply since the peak last summer. Similarly, merchant wholesale inventories were up 12.2% from last year, down from the peak of 25.6% in June 2022. This is a healthy reset of inventories to be more in-line with goods sales, which have been normalizing for roughly a year as consumers shifted spending back towards services.

Annual change in retail inventories

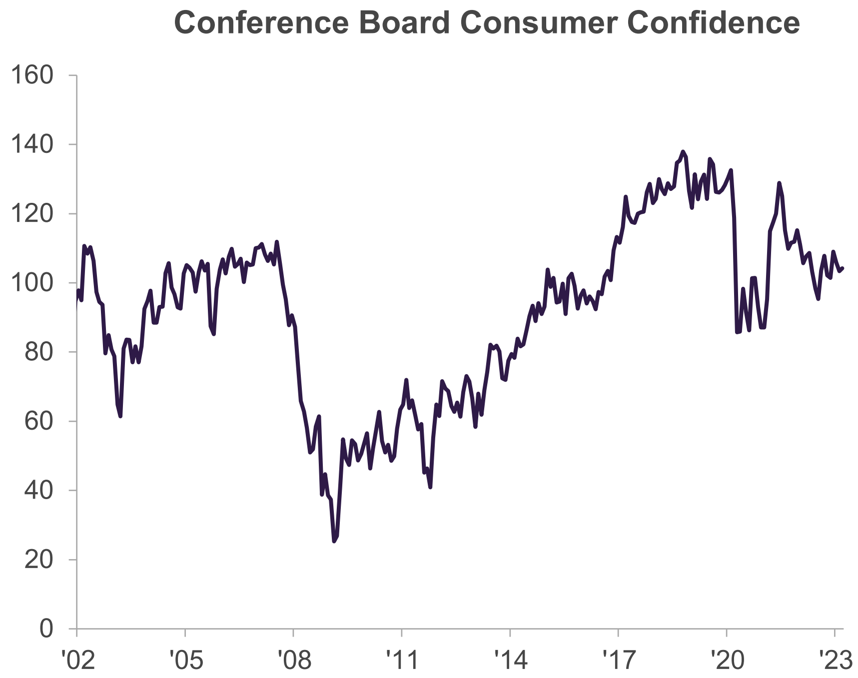


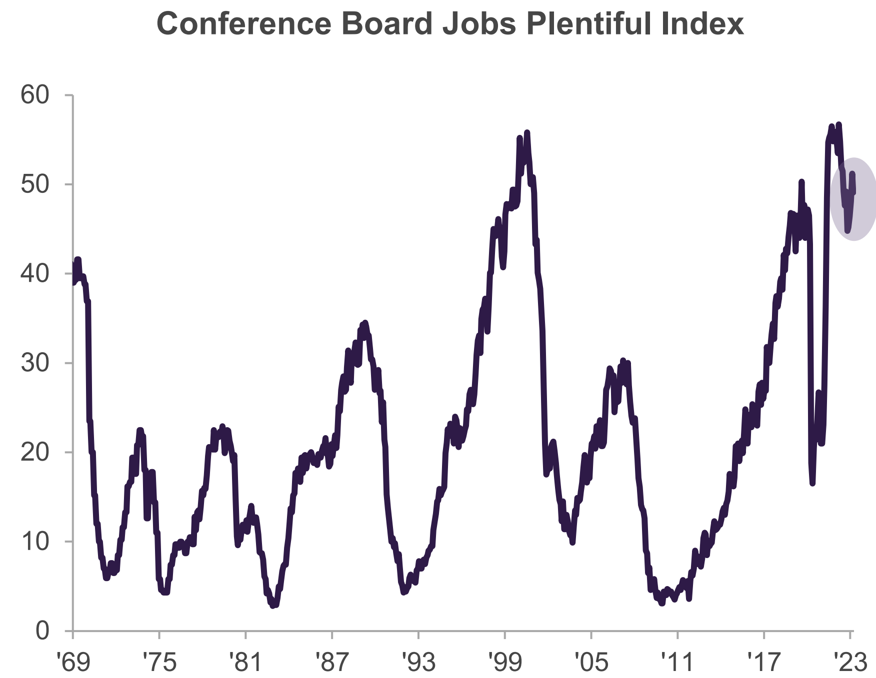
Annual change in wholesale inventories

Sources: Truist IAG, Bloomberg, U.S. Census Bureau. Monthly data through February 2023.

Consumer confidence uptick as jobs remain easy to get

The Conference Board Consumer Confidence Survey rose to 104.2, snapping a two-month slide. The 1-year inflation expectations ticked up to 6.3%, though remain well-below the peak of 7.9% in June ’22. Meanwhile, consumers view that it’s fairly easy to get a job (officially known as “Jobs Plentiful”).





Sources: Truist IAG, Bloomberg, U.S. Census Bureau. Monthly data through February 2023.

Disclosures

Advisory managed account programs entail risks, including possible loss of principal and may not be suitable for all investors. Please speak to your advisor to request a firm brochure which includes program details, including risks, fees and expenses.

Truist Wealth is a name used by Truist Financial Corporation. Banking products and services, including loans, deposit accounts, trust and investment management services provided by Truist Bank, Member FDIC. Securities, brokerage accounts, insurance/annuities offered by Truist Investment Services, Inc. member FINRA, SIPC, and a licensed insurance agency where applicable. Life insurance products offered by referral to Truist Insurance Holdings, Inc. and affiliates. Investment advisory services offered by Truist Advisory Services, Inc., Sterling Capital Management, LLC, and affiliated SEC registered investment advisers. Sterling Capital Funds advised by Sterling Capital Management, LLC. While this information is believed to be accurate, Truist Financial Corporation, including its affiliates, does not guarantee the accuracy, completeness or timeliness of, or otherwise endorse these analyses or market data.

The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Truist Financial Corporation makes no representation or guarantee as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. The information contained herein does not purport to be a complete analysis of any security, company, or industry involved. This material is not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions and information expressed herein are subject to change without notice. TIS and/or its affiliates, including your Advisor, may have issued materials that are inconsistent with or may reach different conclusions than those represented in this commentary, and all opinions and information are believed to be reflective of judgments and opinions as of the date that material was originally published. TIS is under no obligation to ensure that other materials are brought to the attention of any recipient of this commentary.

Comments regarding tax implications are informational only. Truist and its representatives do not provide tax or legal advice. You should consult your individual tax or legal professional before taking any action that may have tax or legal consequences.

Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance.

TIS/TAS shall accept no liability for any loss arising from the use of this material, nor shall TIS/TAS treat any recipient of this material as a customer or client simply by virtue of the receipt of this material.

The information herein is for persons residing in the United States of America only and is not intended for any person in any other jurisdiction.

The information contained in this material is produced and copyrighted by Truist Financial Corporation and any unauthorized use, duplication, redistribution or disclosure is prohibited by law.

TIS/TAS's officers, employees, agents and/or affiliates may have positions in securities, options, rights, or warrants mentioned or discussed in this material.

CN2023-5602428.1 EXP03-2024