Truist Advisory Services, Inc.

Economic data tracker

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Week 14 – April 8, 2022

Trend watch and what's new this week

On the COVID-19 front, key virus trends in the U.S. continue decline (slide 6). However, the Omicron BA.2 variant, which is now the dominant strain in the U.S. (slide 8), appears to be pushing up cases marginally in some states.

New cases in the Midwest and the Northeast have edged up on a week over week basis but were more than offset by bigger declines in the South and West. Anecdotally, we have heard of new infections among family and friends in both regions, most of whom initially dismissed the symptoms as seasonal allergies.

Incoming activity-based data has strengthened (slides 5 and 7). This week, we highlight hotel trends (slide 9), which are finally back to pre-pandemic levels by several industry metrics. However, we suspect that the mix will remain tilted toward leisure rather than business travelers compared to pre-pandemic trends. That said, corporate travel has improved in '22 (slide 13).

On slide 10, we show apartment rental trends. While supply remains tight (based on the vacancy rate), rents have been cooling for the past two quarters compared to the red-hot '21, which saw effective rents jump an astonishing 12.7% year over year.

We also explore wage growth trends on slide 11. Data from the Federal Reserve Bank of Atlanta's wage tracker shows that low-skill job jumpers are seeing the biggest wage gains. In fact, wage growth for low-skill workers has outpaced high-skilled workers for an unprecedent 13-month stretch. Aside from a 5-month span in 2010 when high-skill wages plunged, wages for low-skill workers haven't grown faster in 25 years.

Lastly, we also revisit the number of new vehicles shipped via rail (slide 12), which hit a 13-month high. As new vehicles supply continues to climb, it should help with inflation pressures.

Our take

We have taken notice of the bump higher in new infections regionally within the U.S., which is likely due the Omicron BA.2 variant. Accordingly, we now expect that new infections will continue to increase. Yet, health care experts don't expect another massive surge in the U.S. because roughly 75% of Americans over 12 are fully vaccinated (slide 6) and a large portion of the unvaccinated have already been infected by one or more of the prior strains. The overwhelming evidence—both in the U.S. and elsewhere—shows that more than 90% of the severe cases (hospitalizations and deaths) are unvaccinated persons.

Economic Commentary – Our take and the bottom line

Our take (continued)

Recession calls for the coming 12 months are now in full bloom around Wall Street. While we fully acknowledge that recession risks have risen, the overwhelming weight of the evidence is on the side of "no recession."

Even the famed 2/10 yield curve, which briefly inverted in the past week, has relaxed. The 2/10 yield curve is the difference between the 10-year U.S. Treasury yield and the 2-year yield. The yield curve typically has a positive slope, with longer-term yields above those of short-term rates, during an economic expansion. When this curve inverts, meaning short-term rates rise above long-term rates, it is often seen as a recession indicator.

However, while 2/10 yield curve has been a relatively accurate indicator in calling a recession, it hasn't been perfect, having given a false signal. In the past 50 years, it has signaled a recession 6 of the 7 times, so it shouldn't be dismissed. We feel that it should be viewed in conjunction with other economic indicators such as weekly jobless claims, the unemployment rate, housing starts, building permits, manufacturing surveys, etc. All of those indicators are pointing toward continued economic growth.

That said, we expect hotter inflation readings will linger for longer, especially due to higher energy prices. The world's reaction to the Russian invasion—specifically, shunning Russian crude oil and natural gas exports—has aggravated already-high energy prices. It may be the right thing to do morally or politically, but Russian energy exports cannot be easily or quickly replaced.

Furthermore, the Federal Reserve (Fed) will remain laser focused on inflation, which equates to faster-than-expected rate hikes in '22.

Indeed, inflation-adjusted growth will be lower than we expected in '22. We recently lowered our outlook for real U.S. gross domestic product (GDP) to 2.2% year over year from 2.8% previously. While growth will be a notch lower than our forecast, we don't see the makings of recession at this time.

Bottom line

We maintain our view that the risk of a U.S. recession within the next year remains low but acknowledge that the risk has increased from very low odds just a few months ago.

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▲	4Q F: 6.9%	1Q A: 1.1%†	It handily beating the consensus expectation of 5.5% and was dramatically faster than the 2.3% pace in 3Q21. The rebuilding of business inventories was the key driver, along with consumers.
Jobs	Unemployment rate^{X}	▲	Mar: 3.6%	Apr: N/A	Just 0.1 below Feb. '20, hard to argue U.S. isn't at full employment.
	Monthly jobs (nonfarm)	▲	Mar: 431K	Apr: N/A	6-month average is 600K shows resilience and labor market strength.
	Weekly jobless claims^{+}	▲	4/2: 166K	4/9: N/A	Down to the lowest level since 1968 in the latest week.
	Nonfarm productivity	▲	4Q F: 6.6%	1Q P: N/A	Big jump following -5% in 4Q21, while unit labor costs rose 0.9%.
Interest rates	Federal funds rate	▲	0.25% – 0.50%	5/4: 0.75% – 1.00%	First rate hike was in March. Market expects aggressive 0.50% move in May. Fed still needs to announce when it will reduce bond holdings.
	10-year U.S. Treasury yield	▼	2.69%‡	Down	Up a quarter point in roughly a week on concerns about inflation and an aggressive Fed rate hike response causing an eventual recession.
	10-year AAA GO muni yield	▼	2.38%‡	Up/flat	Steadily climbing higher in lockstep with all other bond yields.
	30-year fixed mortgage rate	▼	5.04%‡	Up	Soared above 5% for the first time since 2010. Dramatically higher mortgage rates negatively impact housing affordability.
Inflation	Consumer prices (CPI)^{X}	▼	Feb: 0.8%	Mar: 1.2%	Gasoline increased 6.6% MoM; it jumped 38.0% YoY, which was the hottest annual pace since 1981.
	Core CPI	▼	Feb: 0.5%	Mar: 0.5%	YoY jumped 6.4%, the fastest pace in 40 years.
	Producer prices (PPI)	▼	Feb: 0.8%	Mar: 1.1%	It cooled considerably from 1.2% pace in January. Up 10% YoY.
	Core PPI	▼	Feb: 0.2%	Mar: 0.5%	Up 0.2% MoM, the coolest pace in five months. Up 8.4% YoY.

▲Good ▼ Bad ⇆ Neutral $^{+}$Leading indicator ^{x}Lagging indicator ‡Intraday quote Bloomberg consensus shown †FRB-ATL GDPNOW (4/8/2022)

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Housing	Existing home sales	⇆	Feb: 6.02M	Mar: 5.70M	Fell 7.2% MoM and dropped 2.4% from a year ago.
	New home sales	▲	Feb: 772K	Mar: N/A	Fell 2.0% MoM as sales in the South and West fell.
	New housing starts+	▲	Feb: 1.769M	Mar: 1.740M	Up 6.8% MoM thanks to single-family strong, up 5.7% MoM.
	New permits+	▲	Feb: 1.865M	Mar: 1.840M	Fell 1.6% MoM, snapping a 4-month streak as both multi- and single-family declined during February.
Business	Durable goods orders+	▲	Feb F: -2.1%	Mar P: N/A	Commercial aircraft dropped 30.4% MoM. Core capital goods orders (ex-air & defense) fell MoM, snapping an impressive 11-mos streak.
	ISM manufacturing	▲	Mar: 57.1	Apr: N/A	Slipped from strong February reading, but it is still expanding.
	ISM services/non-manufacturing	▲	Mar: 58.3	Apr: N/A	Snapped 3-mo decline and is now above pre-pandemic 3-year avg.
	Business inventoriesX	▲	Jan: 1.1%	Feb: 1.3%	Strong MoM increase but most inventories remain depleted by ongoing supply chain issues and transportation bottlenecks.
Consumer	Personal income	▲	Feb: 0.5%	Mar: N/A	Largest MoM rise in 3 months buoyed by wage & income growth.
	Personal spending	▲	Feb: 0.2%	Mar: N/A	Rose modestly MoM from upwardly revised Jan., and up 14% YoY.
	Advance retail sales	▲	Feb: 0.3%	Mar: 0.5%	5.3% jump in gasoline sales offset -3.7% in online sales, pushing overall retail sales to yet another all-time high.
	Consumer sentiment	▼	Mar F: 59.4	Apr P: 58.8	Inflation worries have punched sentiment down to a 10-year low.

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

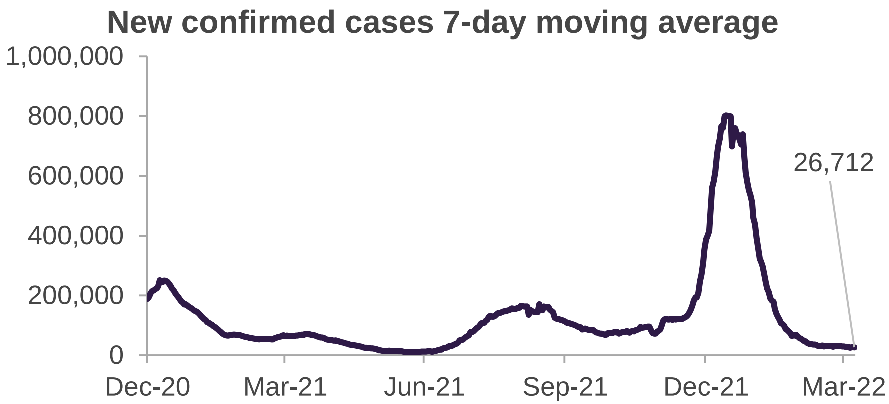
U.S. activity-based data matrix

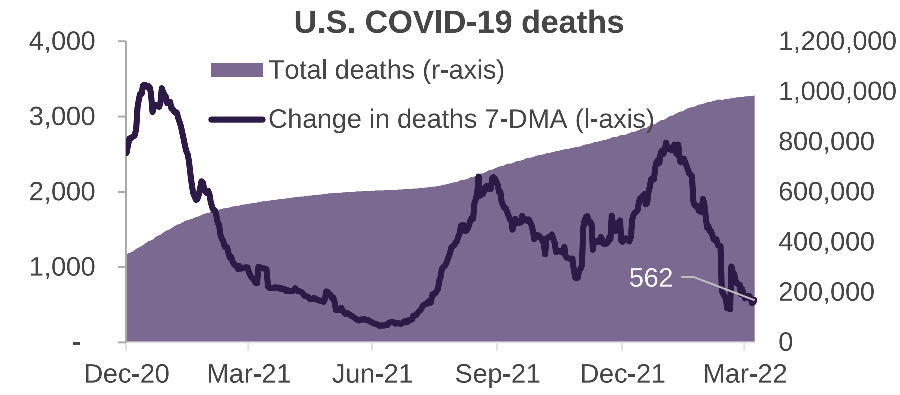
Indicator	Relative trend	What we're watching
Back to office	▼	Edged up to 41.9 (pre-pandemic indexed to 100); up 11 of the past 13 weeks. Top cities are Austin (62), Houston (54), and Dallas (51); bottom are San Francisco (32) and San Jose (34). While the trend has steadily improved, it remains less than half of pre-pandemic levels, which is not conducive for overall growth.
TSA air passenger throughput	▲	Weekly passengers edged up 0.1% WoW to 14.6 million, which was 9.5% below the 2019 weekly average of 16.1M. Passenger counts are -8.9% from the same week in April '19 but 45% above April '21.
OpenTable restaurant bookings	▲	Rose to -1.7% compared to pre-pandemic levels from -3.1% the prior week. Top positive states were led by Utah (+58%) and Florida (+38%); bottom were Illinois (-37%) and New York (-32%). Top cities were Miami (+52%), Naples (+52%), and Ft. Lauderdale (+50%); bottom were Minneapolis (-59%) and San Fran (-52%).
Google mobility	▲	Parks remain elevated thanks to warmer spring weather. 7-day averages relative to 2020: Parks +13%, Residential +4%, Transit -24%, Grocery/Pharmacy -5%, Workplaces -16%, Retail/Restaurant/Recreation -9%.
Hotel occupancy	▲	Occupancy fell to 64.1% but remains roughly in-line with the pre-pandemic 5-year average. The average daily rate fell to $145.74, but was up 11.7% from April '19, while revenue per available room rose to $97.92, up 7.3%.
Freight	▲	Rail carloads in March rose 3.6% MoM, the third straight increase and highest level in 5 months. Container traffic at top 5 U.S. ports slipped 0.1% in February but volumes remain were 23.2% above February 2019.
Staffing index	▲	Increased to 105.6 from 105.1 in the prior week. It has only seen three WoW declines this year (13 weeks). The low for this cycle was 59.6 set in April 2020.
Apartment rental prices	⇆	Rent index rose to 1.23 in February, up 3.3% MoM. While prices are significantly above pre-pandemic levels, rents are down 2.4% during 2022 and fell 2.6% during the second half of 2021.

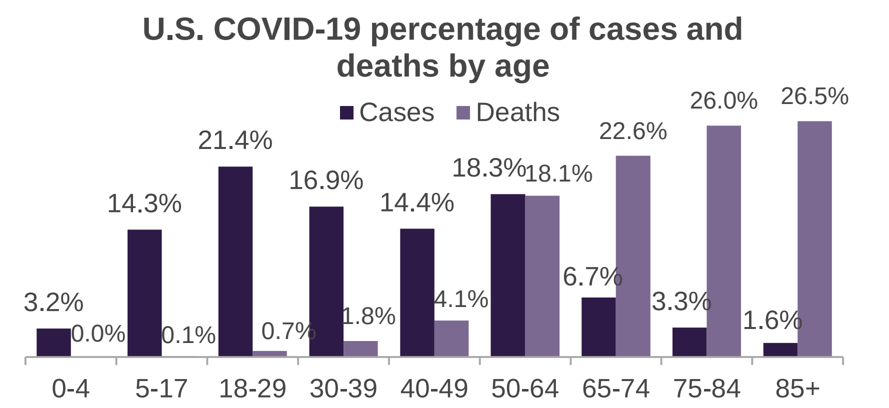
Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

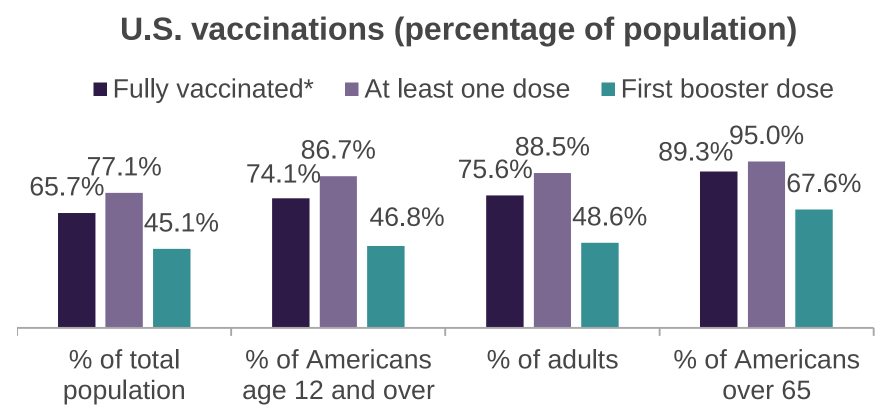
Data sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, Google COVID-19 Community Mobility Report, STR/CoStar, American Staffing Association, Zillow. Week-over-weak and year-over-year change are abbreviated as WoW and YoY, respectively.

U.S. COVID-19 watch: cases, hospitalizations, and death rate still falling



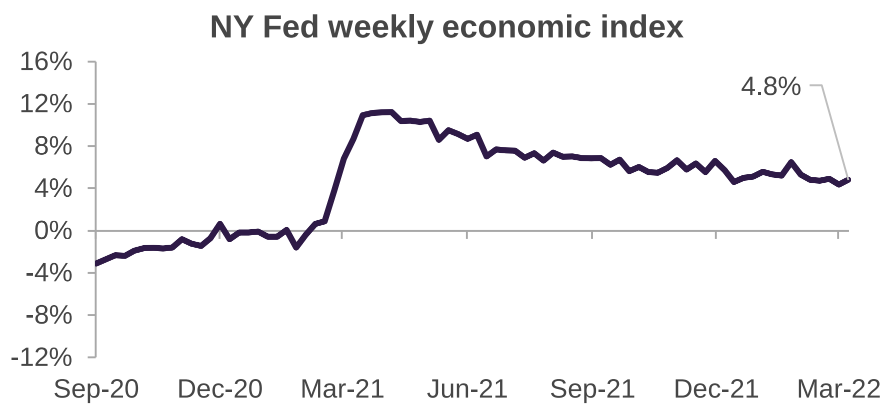


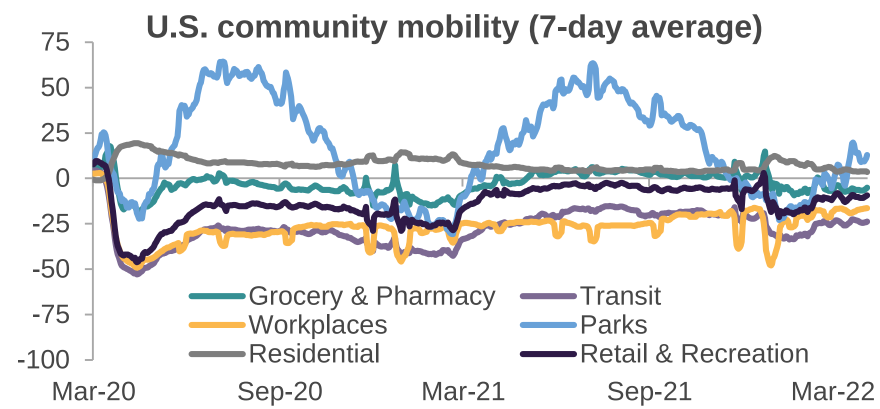


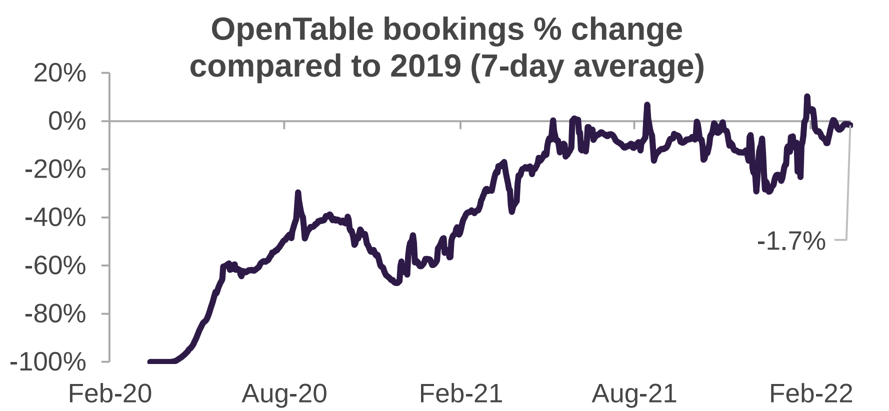


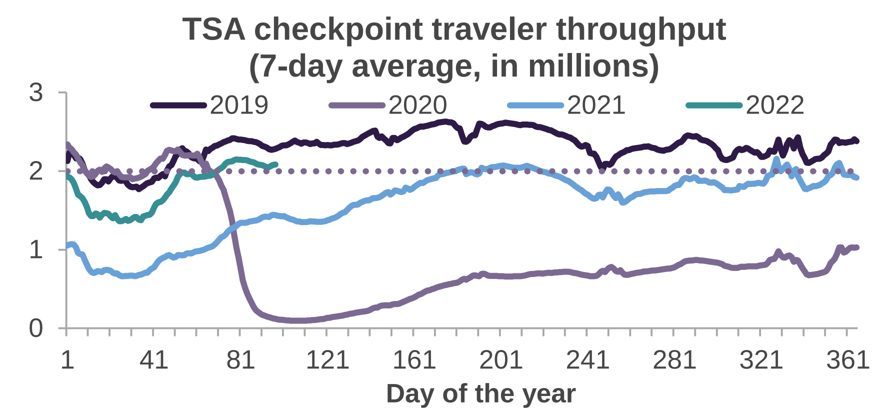
Sources: Truist IAG and the following additional sources respectively: Top left and right, Bloomberg, Johns Hopkins University through April 7, 2021. Data for 50 U.S. states plus American Samoa, Washington D.C., Guam, Northern Mariana Islands, Puerto Rico, and U.S. Virgin Islands. 7-day moving average (DMA). Top left, bottom right: Centers for Disease Control & Prevention (CDC), through April 7, 2021. *Fully vaccinated is defined as receiving two doses on different days (regardless of time interval) of the two-dose mRNA series or receiving a single-dose vaccine regimen.

Strong rebound in activity-based trends from early January slowdown









Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through April 2, 2022. Top right: (U.S. Community Mobility) Google COVID-19 Community Mobility Reports 7-day average through April 4. Bottom left: Bloomberg, OpenTable 7-day average through April 6. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through April 7.

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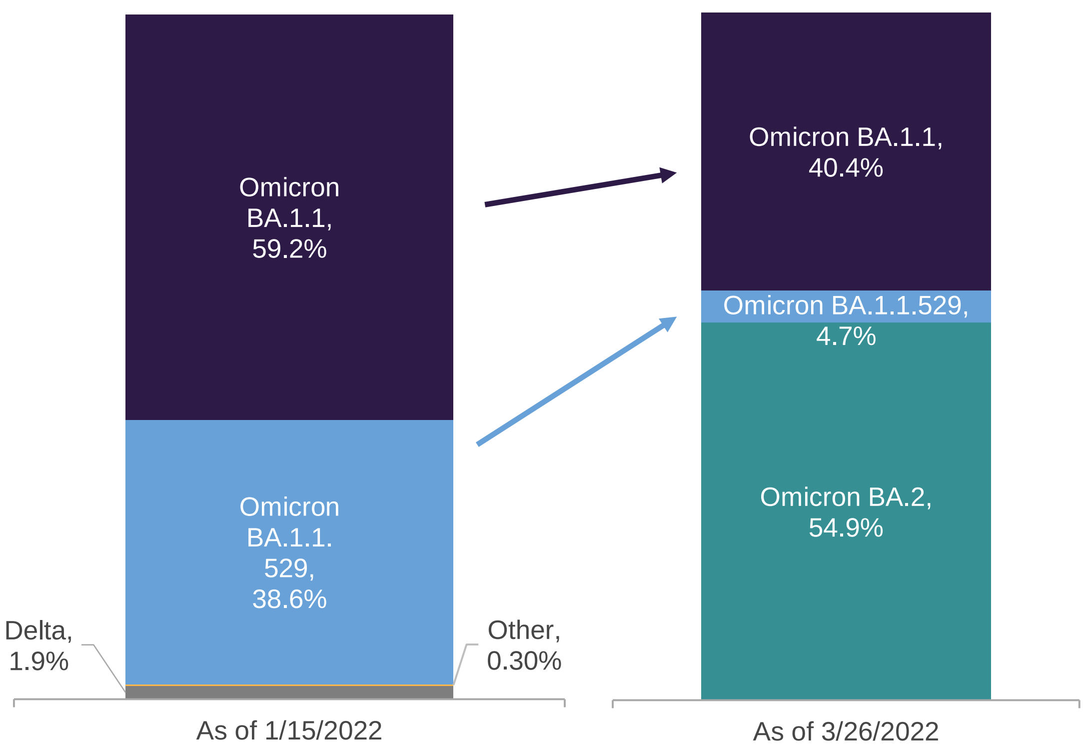
Wealth

New Omicron BA.2 variant now the dominant U.S. strain, still less deadly

The Omicron BA.2 variant, which is more transmissible than prior strains and caused new case surges in Europe and China, is now the dominant strain within the U.S.

However, much like the original Omicron variant (B.1.1.529), the BA.2 variant spreads faster, but doesn't appear to cause severe outcomes (hospitalizations and deaths) compared to prior omicron strains, according to health data in the U.K. and South Africa.

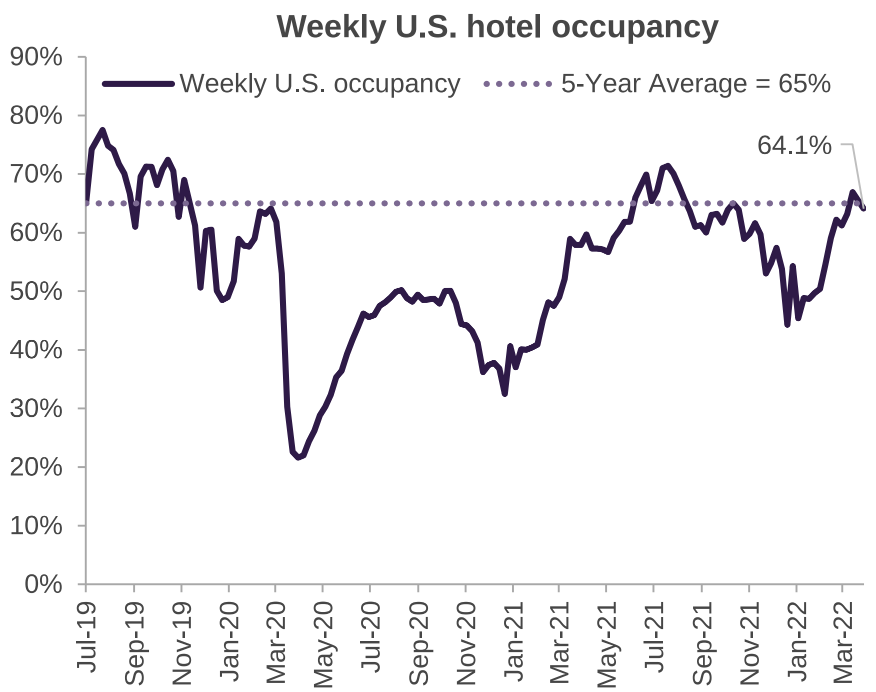
While new COVID-19 cases will likely increase from current levels, health care experts don't expect another surge in the U.S. because roughly 75% of Americans over 12 are fully vaccinated and large portion of the unvaccinated have already been infected by one or more of the prior strains.

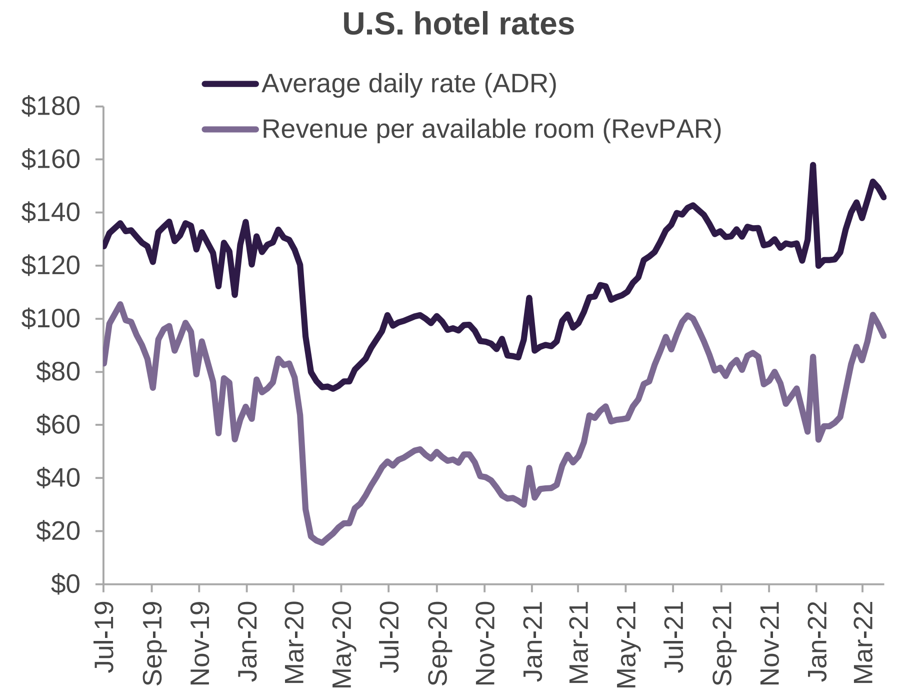


Source: Truist IAG, Centers for Disease Control & Prevention (CDC). Left column data through January 15, 2021, right column data through March 26, 2021, utilizing CDC SARS-CoV-2 Lineages NOWCAST. Columns may not total 100% due to rounding.

Hotel trends back to pre-pandemic levels

While this is the peak spring break week, hotel trends are back to pre-pandemic trends both in terms of occupancy and rates, measured by average daily revenue and revenue per available room. This is a very good sign, though we suspect that the mix is still tilted toward leisure rather than business travelers compared to pre-pandemic trends.



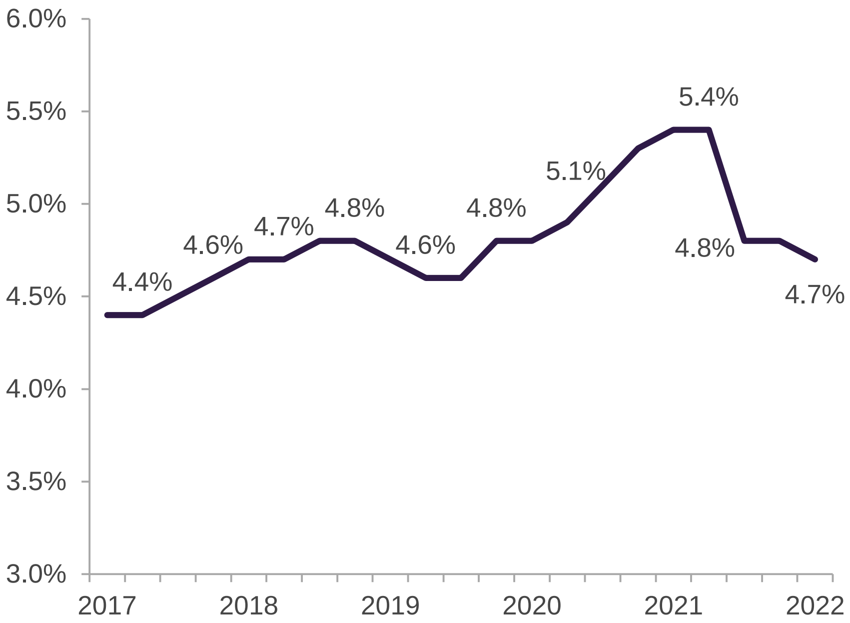


Sources: Truist IAG, STR; weekly data through April 2, 2022.

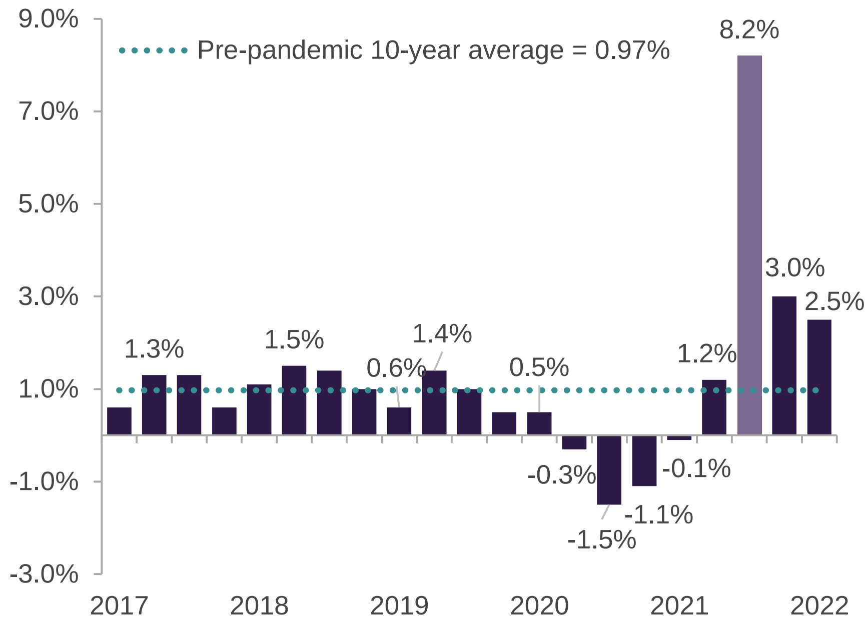
Apartment rental trends still tight, but rents now cooling from red-hot ’21

Despite the lapse in federal moratorium on evictions, the vacancy rate quickly dropped from its pandemic-era peak of 5.4% in the first quarter of 2021 to 4.7% currently, which is in-line with the pre-pandemic rate. Meanwhile, headlines regarding skyrocketing rents appear to fixated on 2021, which saw effective rents jump an astonishing 12.7% year over year. However, rental growth rate in the first quarter of 2022 slipped to 2.5% quarter over quarter. Given its importance within key inflation gauges, this trend should help cool overall inflation going forward.

Apartment vacancy rate by quarter



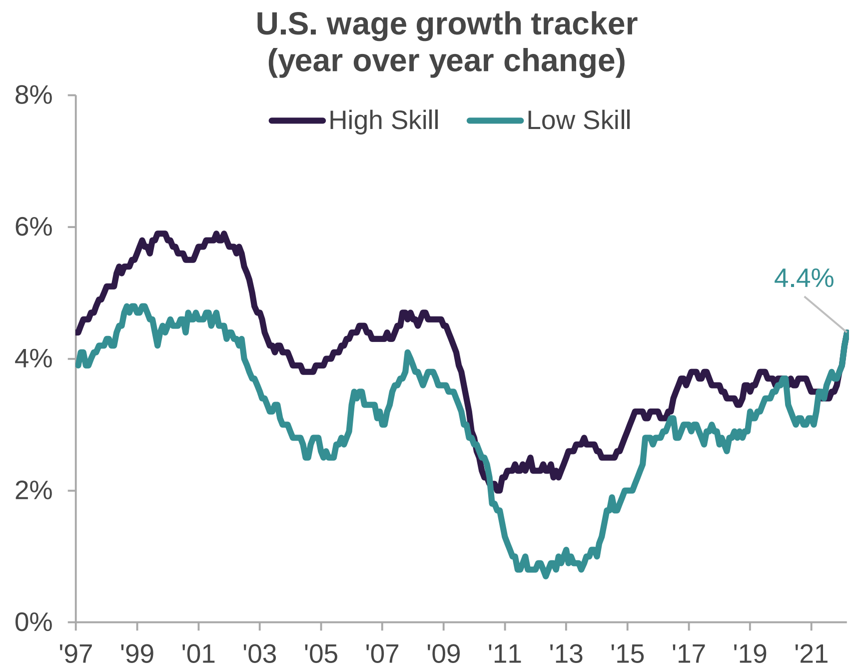
Apartment rental growth by quarter

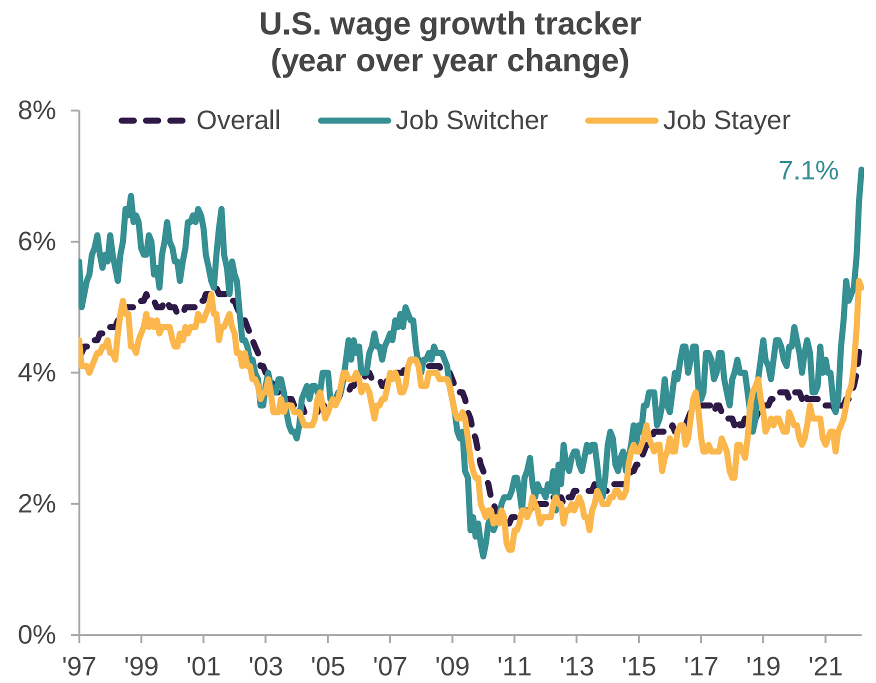


Sources: Truist IAG, Moody’s Analytics CRE/REIS; quarterly data through 1Q2022.

Low-skill job jumpers seeing the biggest wage gains

Wage growth for low-skill workers has outpaced high-skilled workers for an unprecedent 13-month stretch. Aside from a 5-month span in 2010 when high-skill wages plunged, wages for low-skill workers haven't grown faster in 25 years. Similarly, wages for job switchers are growing 7.1% from a year ago compared to 4.5% for all workers.





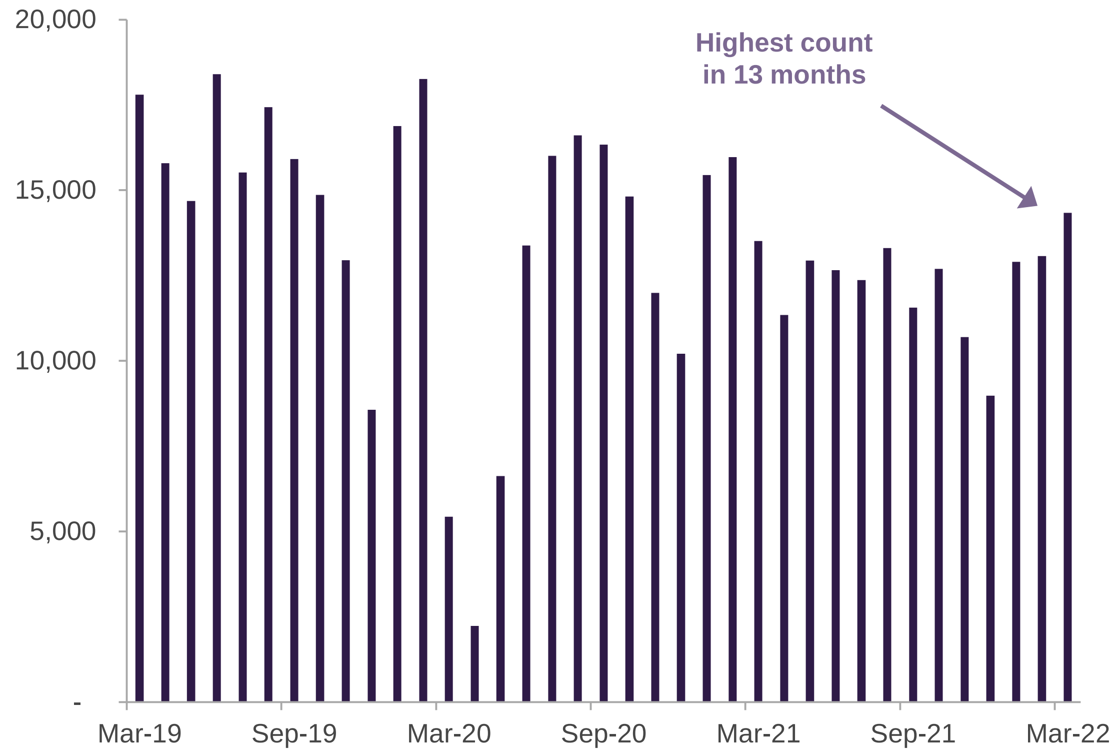
Sources: Truist IAG, Bloomberg, Federal Reserve Bank of Atlanta; monthly data through March 2022.

New vehicles supply continues to climb, should help with inflation pressures

Once manufactured, finished vehicles primarily travel via rail towards their final destination (or a port, in the case of exports). The number of motor vehicle rail carloads in March jumped to 14,341, up 9.7% month over month and the highest count since February 2021.

The additional supply of new vehicles should help ease inflation, which has spiked due to a lack of inventory.

Monthly change in motor vehicle rail carloads

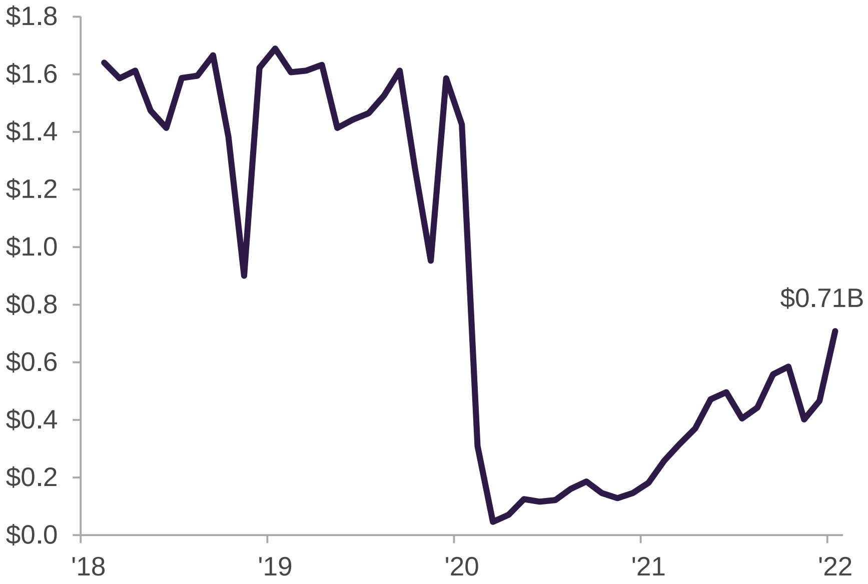


Source: Truist IAG, Bloomberg, Association of American Railroads. Number of freight carloads; monthly data through March 2021.

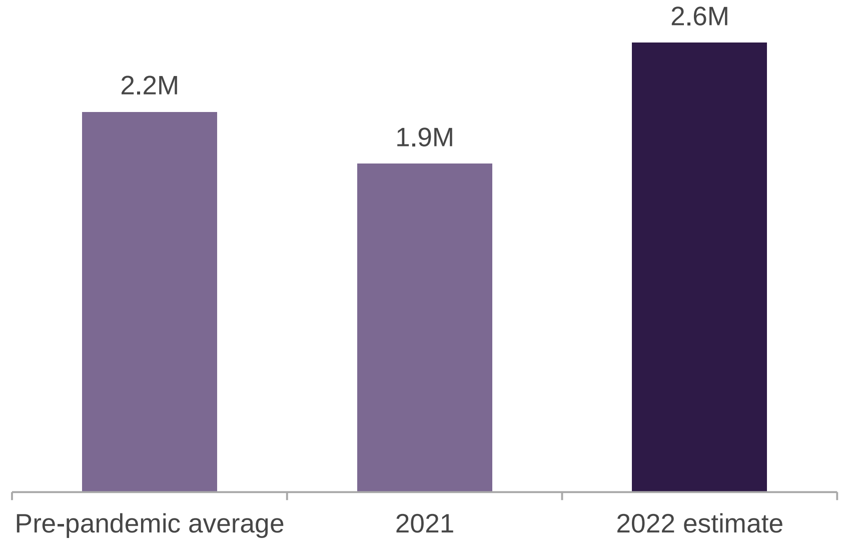
Corporate travel and weddings should continue to rebound in ’22

Corporate travel is quickly returning in 2022; however, it remains nearly 60% below February 2019. Meanwhile, weddings are expected to surge more than 35% compared to last year, which would be 18% above the pre-pandemic average.

Corporate travel agency bookings ($ in billions)



Number of U.S. weddings per year (in millions)



Data Sources: left chart: Truist IAG, Bloomberg, Airlines Reporting Corporation; monthly data through February 2022. Right chart: Truist IAG, The Wedding Report, The Knot; 2022 estimate from The Knot 2021 Real Weddings Study.

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CN2022-4666333.1 EXP04-2023