Truist Advisory Services, Inc.

Economic data tracker – Housing focus

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Week 16 – April 22, 2022

Trend watch and what's new this week

U.S. COVID-19 infections are increasing modestly (slide 6). New cases in the Western United States continue to fall on a week over week basis, while edging up in the Midwest, South, and Northeast. However, there has been a very modest rise in U.S. hospitalizations thus far (slide 8).

Spring break season is winding down, but it certainly boosted the activity-based data, which remains strong (slides 5 and 7). For example, weekly air passengers held steady at 15.0 million. Air travel is rebounding sharply in 2022 (slide 9), especially corporate, which likely continues as this year progresses.

Meanwhile, a federal judge struck down the mask mandate on airplanes and other public transportation. The four major U.S. airlines have since made masks optional for passengers and employees, as did Amtrak. Some state and local operators, including the New York Metropolitan Transportation Authority, are keeping mask rules for now.

In light of the change in masking rules, we highlight that most employers have steered clear of vaccine mandates for their employees (slide 10). Additionally, in-office trends for white collar workers remain mixed by industry and geography (slide 11). For instance, more than 70% of the legal segment are back in the office. The differences are particularly stark in places like New York City, where just 37% of all office workers are back, but legal is nearly double that at 65%.

Strong housing trends holding up despite rising mortgage rates

On slide 12, we show the inventory of existing single-family homes. Tight supply means the strong housing trend should persist and prices should remain elevated despite higher mortgage rates. While housing affordability is certainly impacted, it likely translates into a shift towards multifamily (slide 13) as some potential buyers are priced out of single-family homes.

Furthermore, this also benefits remodeling activity (slide 14), which remains brisk, as some homeowners choose to improve their existing home rather than paying higher prices for a larger home.

Our take

While it is too early to cheer since there is a 7 to 10-day lag between new cases and hospitalizations, it is an encouraging sign that hospitalizations have not dramatically increased thus far. That said, the U.S. very quietly passed a milestone: 70% of those over age 5 are now fully vaccinated and nearly half have already gotten a booster (slide 6). The reduced incidence of hospitalizations appears related to the increased vaccination rate.

TRUIST

Wealth

Economic Commentary – Our take and the bottom line

We also expect that activities will continue to ramp higher, particularly travel, as the year progresses. We are an example of this, as our team has just started a multi-city road show that is booked through the next eight months. Thus far, we have been eagerly greeted by clients, who want to meet in person.

As we outlined here last week, inflation remains a headwind for the U.S. economy. However, as the housing slides illustrate, tight housing supply following more than a decade of underbuilding should ultimately trump higher mortgage rates and higher home prices. It will likely cause a shift towards multifamily units compared to the recent past.

In the near term, higher home prices should encourage more supply (construction) and continued remodeling. That equates to more economic activity, not less. However, it also likely means that housing inflation will persist for the foreseeable future, which informs our expectation for hotter inflation readings lingering for longer, especially when coupled with higher energy prices.

Bottom line

We reiterate our view that the risk of a U.S. recession within the next year remains low but acknowledge the risk has increased from very low odds just a few months ago. While there will be bumps in the path forward, we anticipate the current “recession mania” that is gripping investors and markets will subside in the next few months as data continues to show that peak growth does not mean weak growth.

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▲	4Q F: 6.9%	1Q A: 1.0%	It handily beat 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: 3.6%	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[+]	▲	4/9: 185K	4/23: 180K	Bumped up after hitting the lowest level since 1968 in the prior week.
	Nonfarm productivity	▲	4Q F: 6.6%	1Q P: -2.3%	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	▼	2.90%‡	Down	Up another 0.4% in past two weeks on concerns about inflation and an aggressive Fed rate hike response causing an eventual recession.
	10-year AAA GO muni yield	▼	2.67%‡	Up/flat	Is a far-cry from where it ended 2021, which was 1.05%.
	30-year fixed mortgage rate	▼	5.29%‡	Up/flat	Up roughly a quarter point in the past week and at the highest level since '10. Higher mortgage rates hurts housing affordability.
Inflation	Consumer prices (CPI)[X]	▼	Mar: 1.2%	Apr: N/A	Gasoline soared 18.3% MoM, accounting for half of the total MoM gain. CPI increased 8.5% YoY, the most since 1981.
	Core CPI	▼	Mar: 0.3%	Apr: N/A	Cooler than the consensus of 0.5%, and down from 0.5% in February.
	Producer prices (PPI)	▼	Mar: 1.4%	Apr: N/A	Up 11.2% YoY. Energy, up 5.7% MoM, has been a big driver.
	Core PPI	▼	Mar: 1.0%	Apr: N/A	The fastest pace in 8 months. Up 9.2% YoY.

▲Good ▼ Bad ⇆ Neutral [+]Leading indicator [x]Lagging indicator ‡Intraday quote Bloomberg consensus shown

TRUIST Wealth

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Housing	Existing home sales	⇆	Mar: 5.77M	Apr: N/A	Fell 2.7% MoM but have increased 9.9% from March 2019.
Housing	New home sales	▲	Feb: 772K	Mar: 774K	Fell 2.0% MoM as sales in the South and West fell.
Housing	New housing starts[+]	▲	Mar: 1.793M	Apr: N/A	Up 0.3% MoM, multifamily was strong, but single-family slipped MoM.
Housing	New permits[+]	▲	Mar: 1.873M	Apr: N/A	Up 0.4% MoM, multifamily hit the highest level since 1985.
Business	Durable goods orders[+]	▲	Feb F: -2.1%	Mar P: 1.0%	Commercial aircraft dropped 30.4% MoM. Core capital goods orders (ex-air & defense) fell MoM, snapping an impressive 11-mos streak.
Business	ISM manufacturing	▲	Mar: 57.1	Apr: 57.5	Slipped from strong February reading, but it is still expanding.
Business	ISM services/non-manufacturing	▲	Mar: 58.3	Apr: 58.5	Snapped 3-mo decline and is now above pre-pandemic 3-year avg.
Business	Business inventories[X]	▲	Feb: 1.5%	Mar: N/A	Up MoM after the pace ebbed in January. Inventories were depleted by ongoing supply chain issues and transportation bottlenecks.
Consumer	Personal income	▲	Feb: 0.5%	Mar: 0.4%	Largest MoM rise in 3 months buoyed by wage & income growth.
Consumer	Personal spending	▲	Feb: 0.2%	Mar: 0.6%	Rose modestly MoM from upwardly revised Jan., and up 14% YoY.
Consumer	Advance retail sales	▲	Mar: 0.5%	Apr: N/A	Rose despite a 2% decline in auto sales. Overall, retail sales hit yet another all-time high and are up 26% from January 2020.
Consumer	Consumer sentiment	▼	Apr P: 65.7	Apr F: 65.7	Bounced to a 3-month high after hitting a 10-year low last month.

▲Good ▼ Bad ⇆ Neutral [+]Leading indicator [X]Lagging indicator [‡]Intraday quote Bloomberg consensus shown

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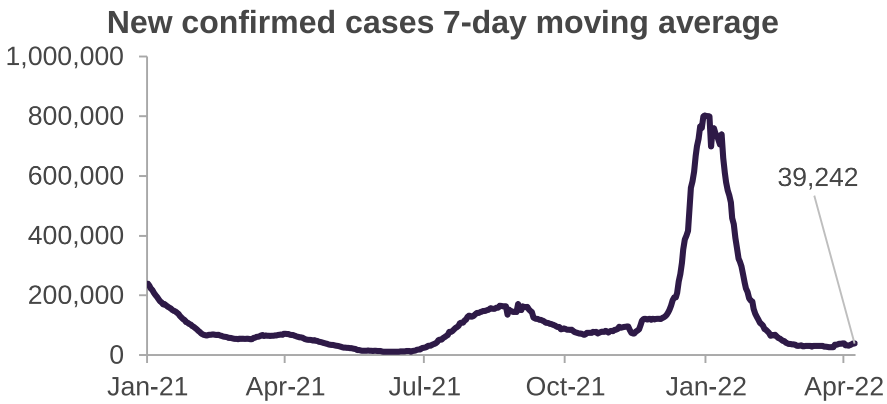
U.S. activity-based data matrix

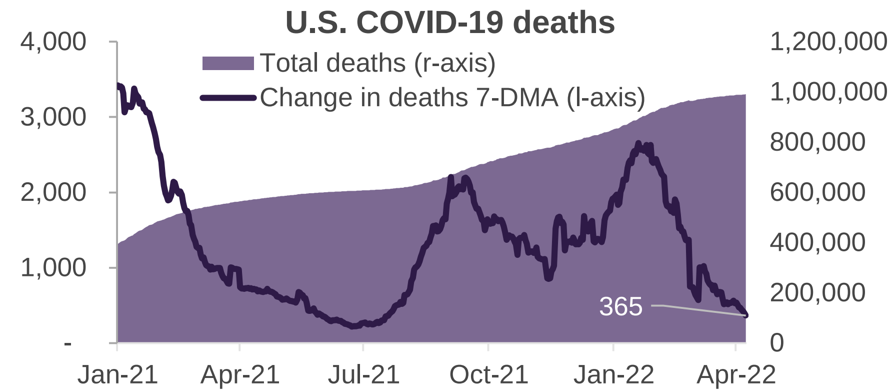
Indicator	Relative trend	What we're watching
Back to office	▼	Slipped to 42.8 (pre-pandemic indexed to 100) from 43.1 in the prior week. Top cities are Austin (62), Houston (56), and Dallas (52); bottom are San Jose (32) and San Francisco (35). While the trend has steadily improved, it remains less than half of pre-pandemic levels, which is not conducive for overall growth.
TSA air passenger throughput	▲	Weekly passengers held steady at 15.0 million, which was 6.9% below the 2019 weekly average of 16.1M. Passenger counts are -9.4% from the same week in April '19 but 58% above the same week in April '21.
OpenTable restaurant bookings	▲	Slipped to -2.9% compared to pre-pandemic levels from -1.7% two weeks ago. Top positive states were led by Nevada (+48%) and Rhode Island (+44%); bottom were New York (-39%) and Maryland (-33%). Top cities were Las Vegas (+45%) and Scottsdale (+35%); bottom were Minneapolis (-62%) and Philadelphia (-54%).
Google mobility	▲	Parks up 21% thanks to warmer spring weather from 11% a month ago. 7-day averages relative to 2020: Residential +4%, Transit -24%, Grocery/Pharmacy -3%, Workplaces -23%, Retail/Restaurant/Recreation -11%.
Hotel occupancy	▲	Occupancy slipped to 62% as spring break traffic faded. The average daily rate fell to $147.25, up 14.4% from the same week in April '19, while revenue per available room rose to $91.25, 8.0% above April '19.
Freight (rail/truck/ship)	▲	Container traffic at the top 4 U.S. ports (LA, Long Beach, Sav., SeaTac) rose 5.8% in March. Rail carloads rose 3.6% MoM in March but fell in 2 of past 3 weeks. Truck loading rose 0.4% MoM in March to an all-time high.
Staffing index	▲	Ebbed again slightly to 105.1 from 105.6 two weeks ago, and the second WoW decline. The low for this cycle was 59.6 set in April 2020.
Apartment rental prices	⇆	Rent index dropped to 0.688 in March from 1.23 in February. 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.

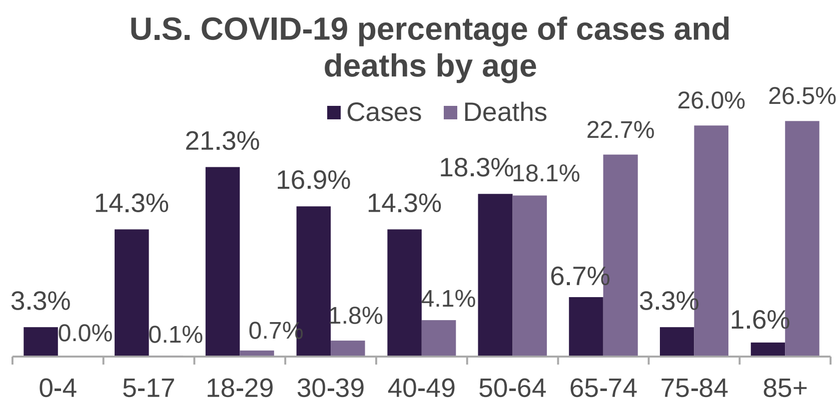
Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

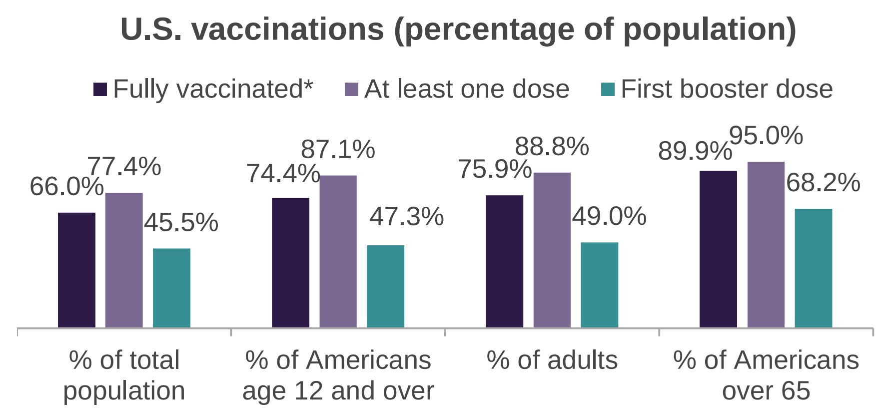
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, Google COVID-19 Community Mobility Report, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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





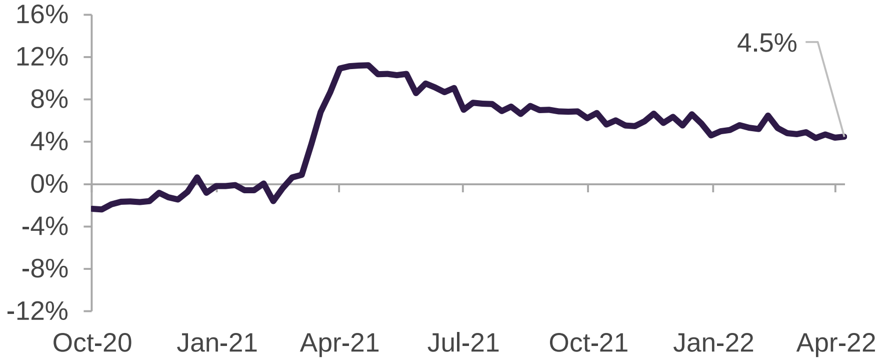




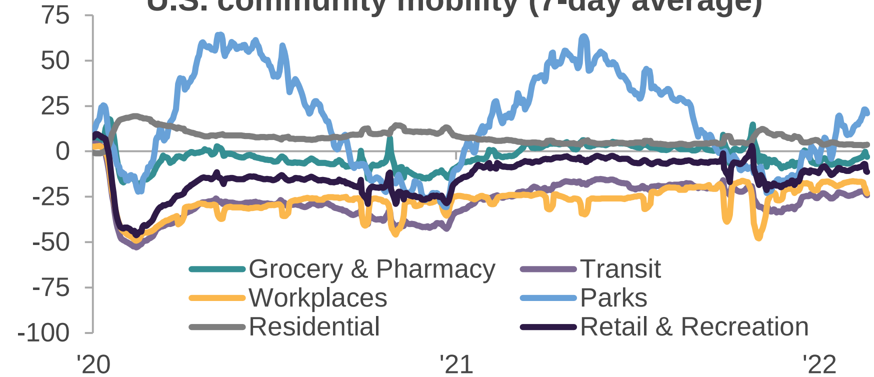
Sources: Truist IAG and the following additional sources respectively: Top left and right, Bloomberg, Johns Hopkins University through April 21, 2022. Data for 50 U.S. states plus American Samoa, Washington D.C., Guam, Northern Mariana Islands, Puerto Rico, and U.S. Virgin Islands. 7-day moving average (DMA). Top left, bottom right: Centers for Disease Control & Prevention (CDC), through April 21, 2022. *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.

Activity-based trends remain solid through spring break season

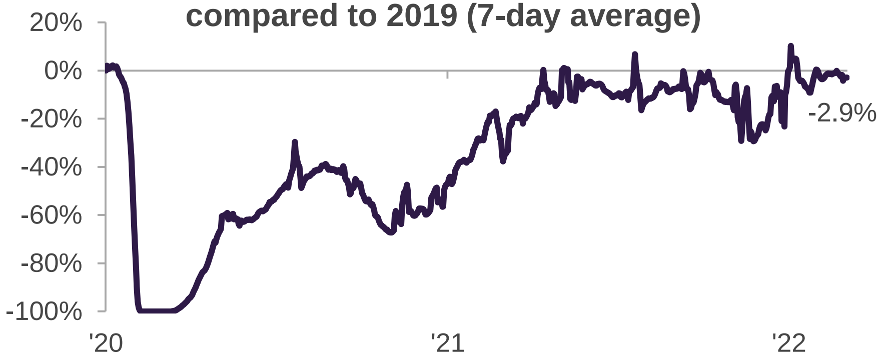
NY Fed weekly economic index



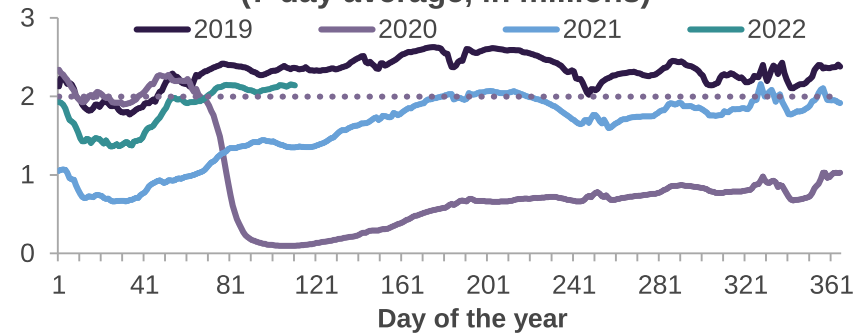
U.S. community mobility (7-day average)



OpenTable bookings % change compared to 2019 (7-day average)



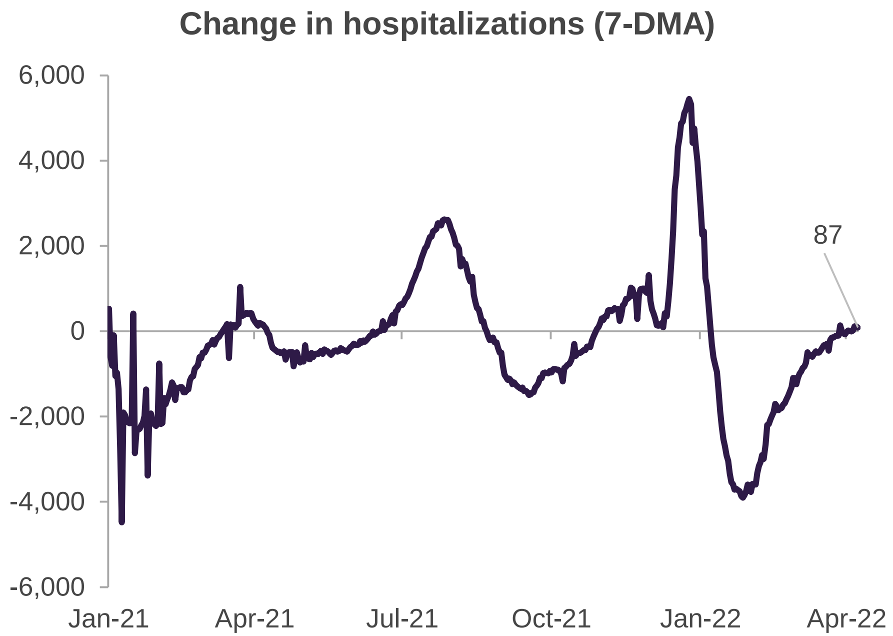
TSA checkpoint traveler throughput (7-day average, in millions)

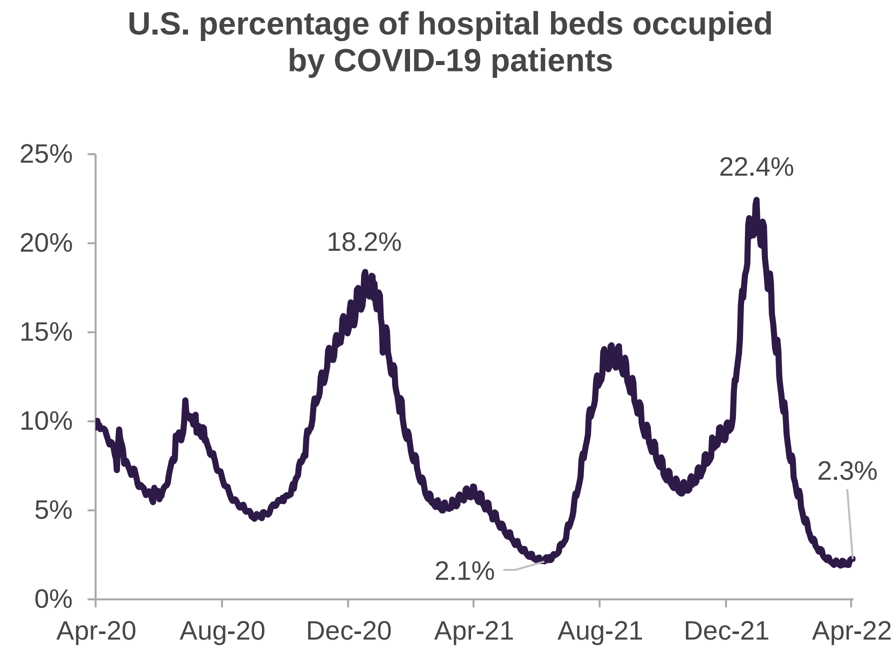


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through April 16, 2022. Top right: (U.S. Community Mobility) Google COVID-19 Community Mobility Reports 7-day average through April 18. Bottom left: Bloomberg, OpenTable 7-day average through April 21. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through April 21.

Very modest rise in U.S. hospitalizations thus far

The number of COVID-19 hospitalizations is modestly increasing once again. Similarly, the percentage of COVID-19 patients is edging slightly. While it is too early to cheer since there is a 7 to 10-day lag between new cases and hospitalizations, this is an encouraging sign.

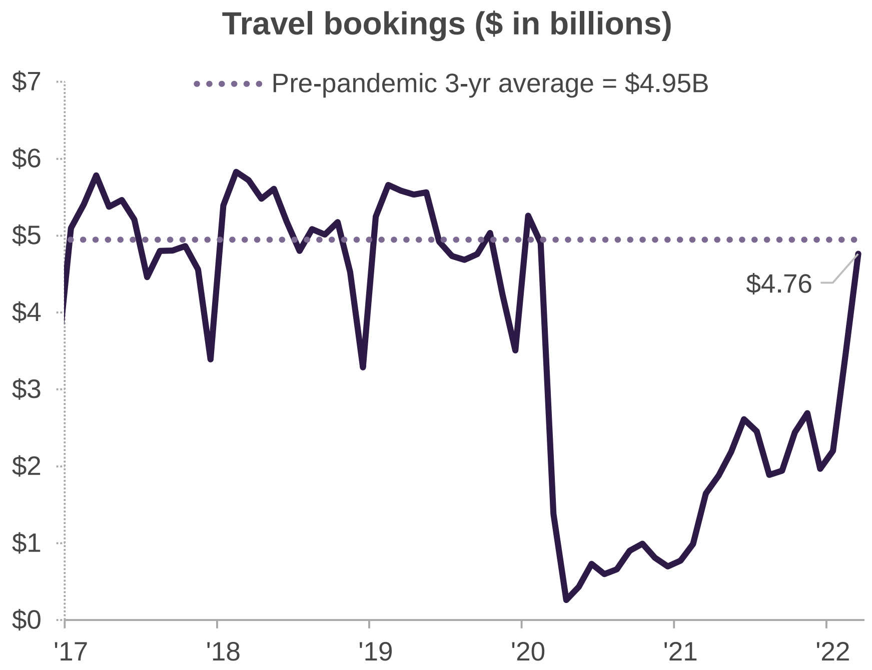


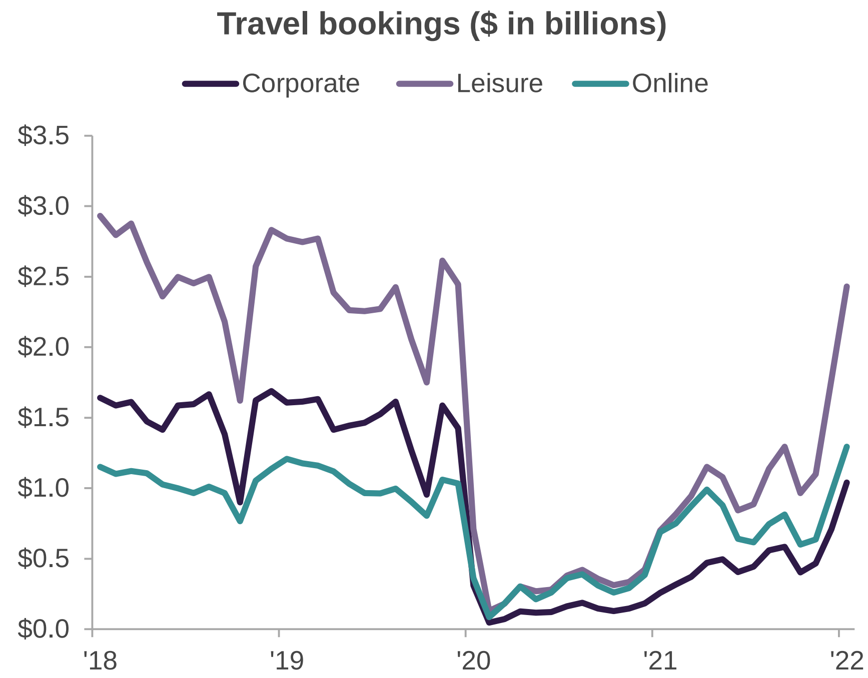


Sources: Truist IAG, Bloomberg, Department of Health & Human Services; daily data through April 21, 2022. 7-day moving average (7-DMA).

Travel rebounding sharply in 2022, which likely continues

Total travel bookings hit $4.76 billion in March, nearly back to the pre-pandemic 3-year average of $4.95 billion. Leisure bookings are just 2% below the pre-pandemic 3-year average. While Corporate bookings are still 30% below the pre-pandemic average, this segment jumped 47% MoM in March. This rebound likely continues throughout 2022.





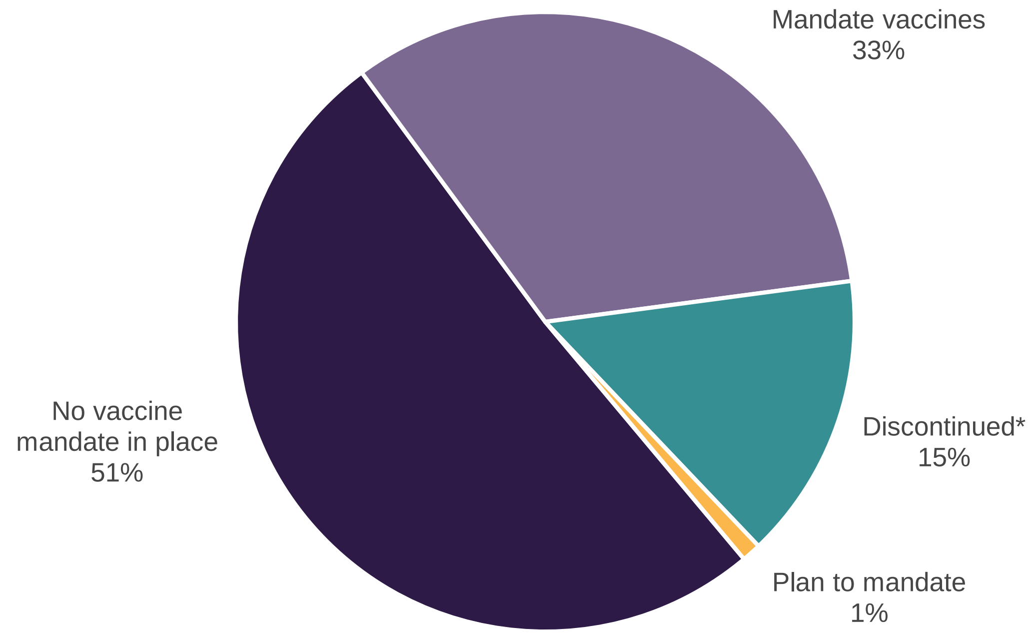
Source: Truist IAG, Bloomberg, Airlines Reporting Corporation; monthly data through March 2022.

Most employers steering clear of vaccine mandates

An overwhelming majority of private employers have strongly encouraged their employees to get the COVID-19 vaccine. Some have provided incentives, including additional personal time off, gift cards, fancy company swag, and even cold-hard cash.

However, given tight labor market dynamics, frayed workers' nerves, dicey legal standing, and political undertones, most employers don't have vaccine mandates in place for their employees. Moreover, another 15% have ditched vaccine mandates or plan to do so.

Employer plans for COVID-19 vaccines



Sources: Truist IAG, Bloomberg Business Prognosis, Willis Towers Watson survey, roughly 600 employers representing 10 million workers.

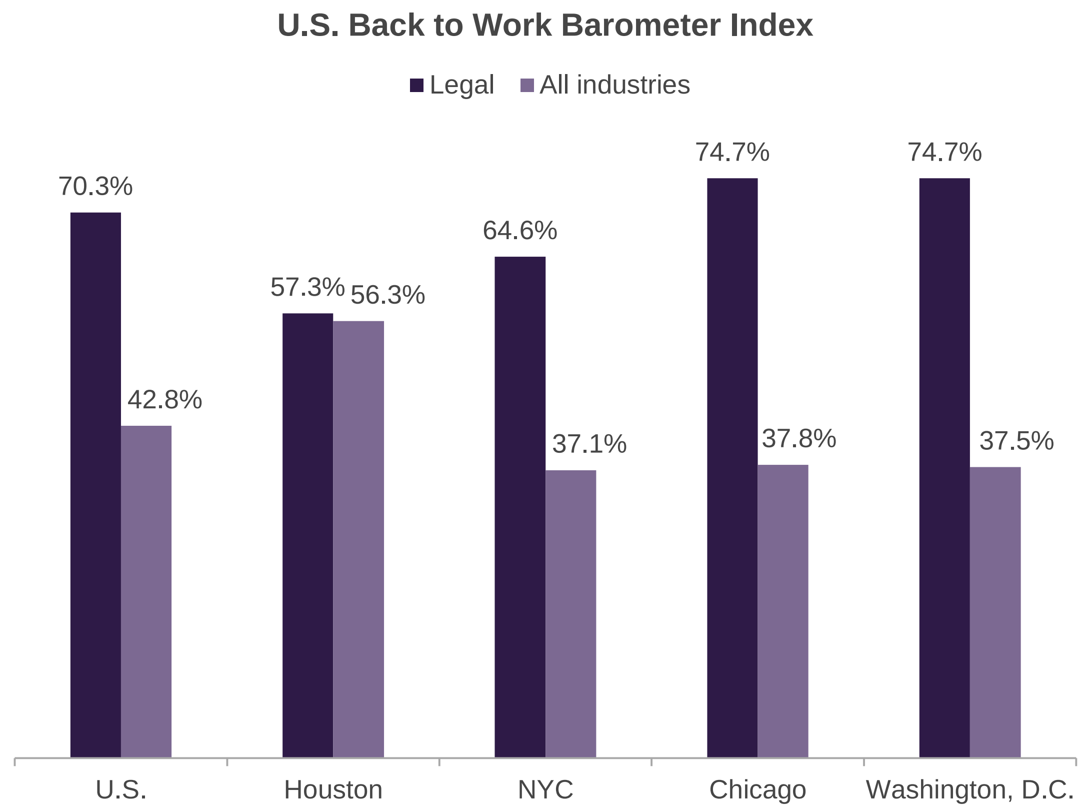
*Discontinued includes vaccine mandates that were announced but never implemented.

In-office trends for white collar workers remain mixed by industry & location

The back to work trend for white collar workers has steadily climbed to 42.8% in the most recent week after it plunged to 14.6% (pre-pandemic indexed to 100) in April 2020. Still, it remains less than half of pre-pandemic levels, which is not conducive for overall growth.

Additionally, it varies greatly by industry and location. For instance, the in-office reading for the legal segment nationwide was 70.3% in the most recent week.

Meanwhile, the reading for all industries is significantly higher in cities such as Austin (62%) and Houston (56%) than it is in places like San Francisco (35%) or D.C. (38%).

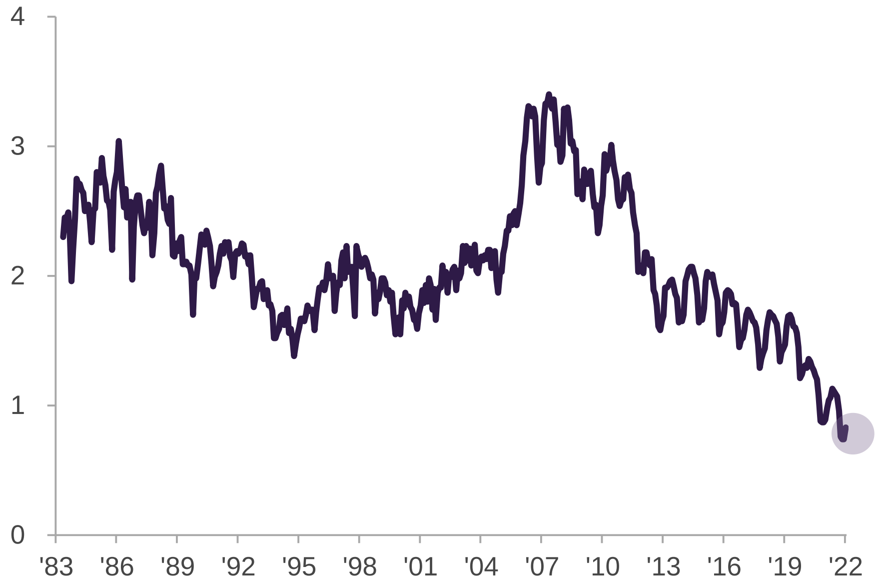


Sources: Truist IAG, Bloomberg, Kastle Systems based on building access control systems data relative to a pre-COVID baseline, averaged weekly; weekly data through April 18, 2022.

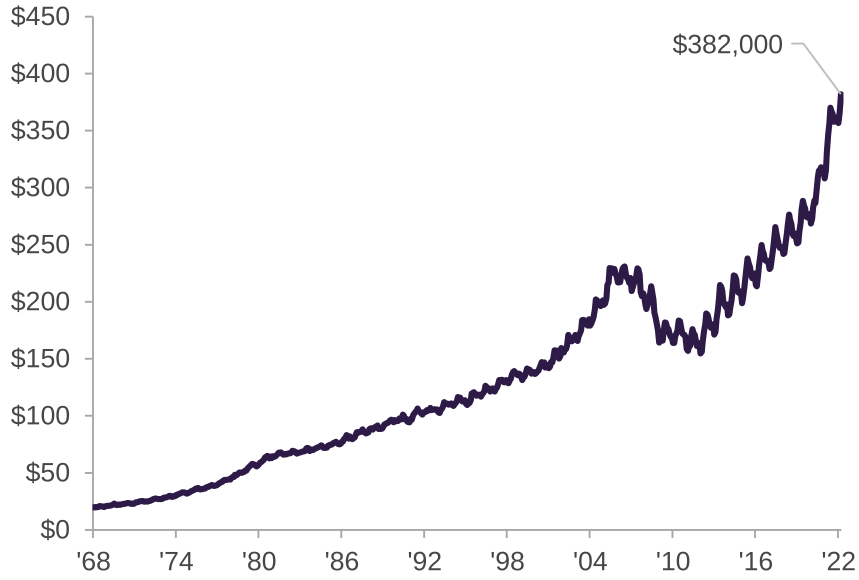
Despite higher rates, tight supply means strong housing trend should persist and prices should stay elevated

With mortgage rates hitting a 12-year high, many people assume that housing activity will see a dramatic slowdown. However, the U.S. has underbuilt in the 15 years since the housing bubble. In fact, the inventory of existing single-family homes is hovering near its lowest level since 1982. This also means prices, which are at an all-time high, will likely stay elevated.

Inventory of existing single-family homes for sale (units in millions)



Median sales price of existing single-family homes (in $ thousands)

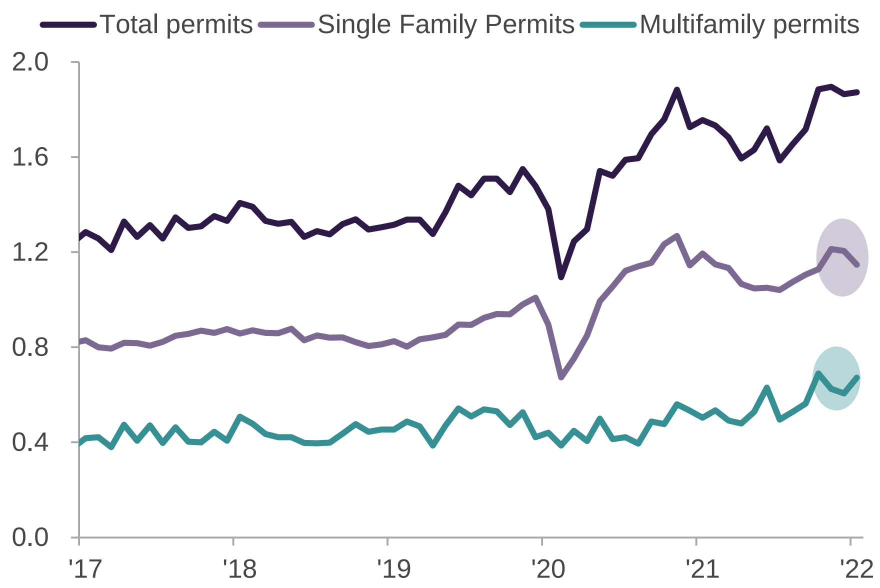


Sources: Truist IAG, Bloomberg, National Association of Realtors; monthly data through March 2022. Seasonally adjusted annualized rate (SAAR).

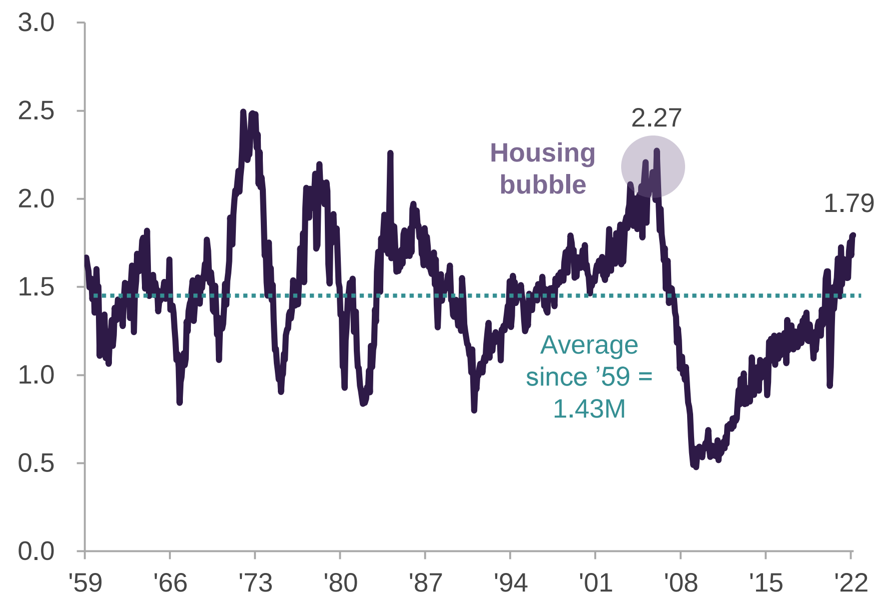
Housing affordability will likely shift construction towards multifamily

With existing home prices at an all-time high (see slide 12) and mortgage rates hitting a 12-year high, housing affordability will likely continue to push some people towards multifamily. New permits for single-family homes has cooled somewhat during the past few months, but multifamily activity has surged to its highest level since 1985. The number of new housing starts is currently above the long-term average of 1.4 million but was below it for more than a decade following the housing bubble and the Great Financial Crisis.

New building permits (units in millions, SAAR)



Total housing starts (units in millions, SAAR)

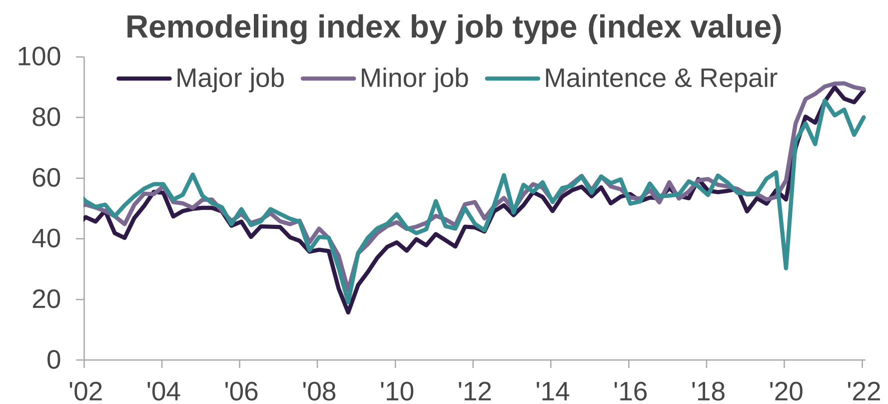


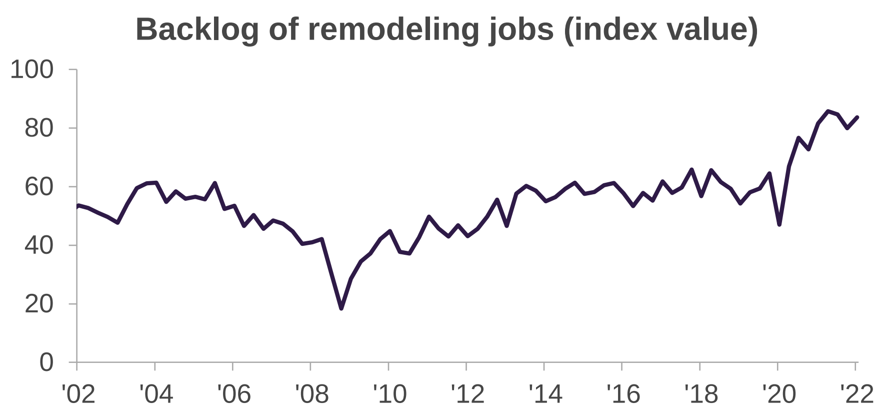
Sources: Truist IAG, Bloomberg, U.S. Census Bureau; monthly data through March 2022. Seasonally adjusted annualized rate (SAAR).

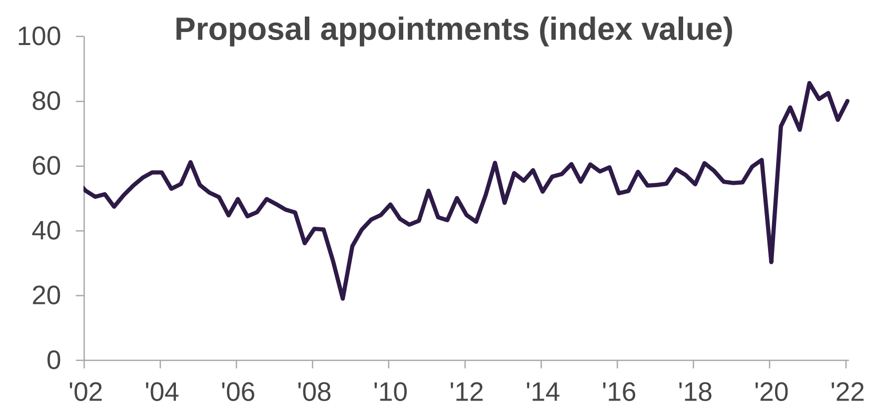
Remodeling activity reaccelerated in 1Q2022 suggesting it's not just WFH

The remodeling boom was supposedly temporary due to work-from-home (WFH) during the pandemic. However, nearly two years after the lockdowns ended, remodeling activity has remained strong.

In fact, remodeling activity reaccelerated during the first quarter 2022 for all job types (top right chart). Additionally, the backlog of jobs has picked up again (lower left chart). Furthermore, contractors are reporting that proposal appointments, which are a leading indicator for remodeling projects, remain brisk (lower right chart). Together, these trends point towards continued strength in this space.

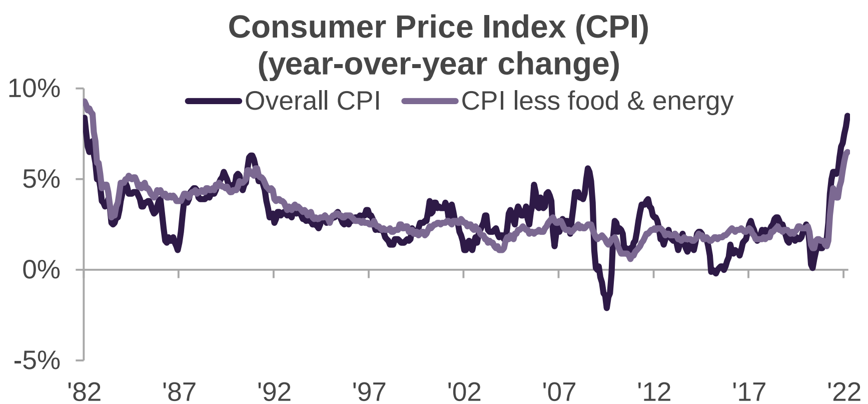


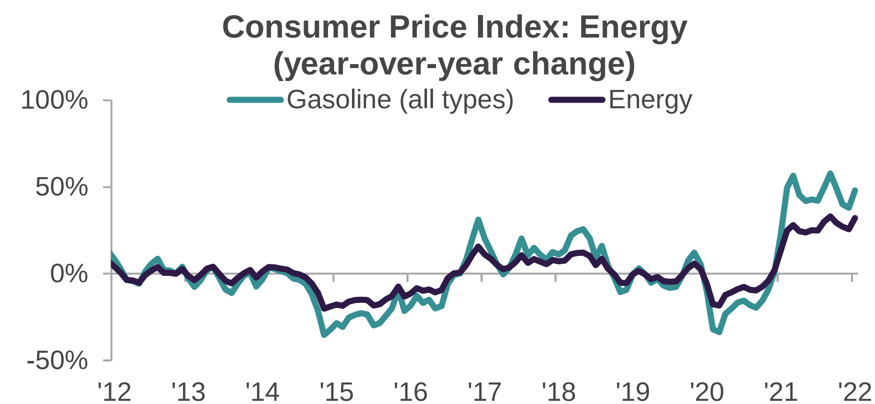


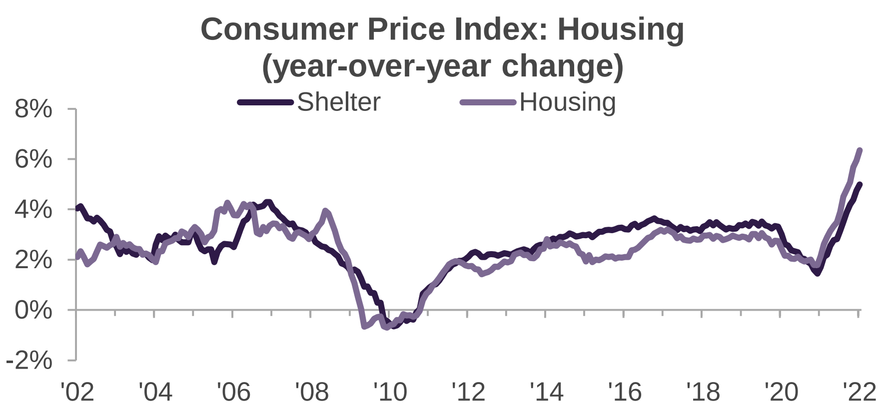


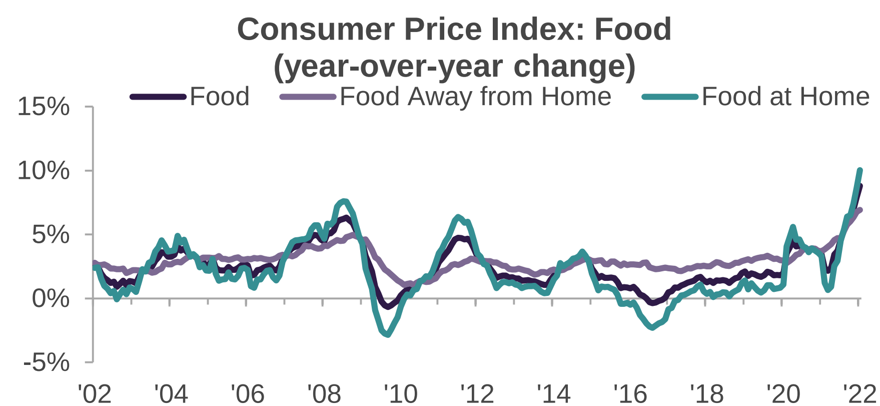
Sources: Truist IAG, Bloomberg, National Association of Home Builders; quarterly data through 1Q2022.

Consumer inflation key components









Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through March 2022.

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