Truist Advisory Services, Inc.

Economic data tracker – April jobs report and Fed hike

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Trend watch and what's new this week

Based on hospitalizations (slide 9), COVID-19 remains largely under control in the U.S. Yet, new cases are rising again, albeit modestly (slide 6). A handful of the largest states have increasing cases (slide 8).

Some of the travel-related activity-based data (slides 5 and 7) has dipped WoW, including weekly air passengers and restaurant bookings. However, hotel occupancy remains strong, jumping to 66.6%, which is the highest level since October '21 and above the pre-pandemic 5-year average. Temporary staffing also rebounded, snapping a 3-week decline. Rail freight also strengthened in April and the latest week.

Strong job growth continued in April, but overheating fading

U.S. payrolls in April added 428,000, which was much stronger than expected. It marked the twelfth straight month with job growth greater than 400,000, which is unprecedented. The total number of U.S. jobs is now less than 1% from the pre-pandemic level (slide 10). We also show the breakdown by industry of where the jobs were created (slide 11).

Some of the internal component figures ebbed, signaling that the overheating conditions within the labor market that have panicked investors are beginning to wane. Average hourly earnings, including for production & non-supervisory workers (slide 11) and hours worked slipped, while the unemployment rate held steady at 3.6%.

Meanwhile, the April jobs report clearly illustrates that the U.S. economy can power through the risks associated with the Russia-Ukraine conflict, including higher energy prices, and inflation pressures. However, U.S. is among the largest energy producers. Oil & natural gas drillers have already hired more workers in 2022 than during any of the past 11 years (slide 12). This should continue to ramp up throughout this year.

Federal Reserve delivers half-point hike, announces balance sheet reduction, and expects soft-ish landing

As widely expected, the Fed raised interest rates this week by a half point, the second increase in this cycle (slide 13). Additionally, the Fed took the next step in normalization, announcing that it will start reducing its balance sheet on June 1.

More importantly, Chair Powell stressed the Fed's nimbleness, opening the door to adjusting future moves based on incoming economic data. That was decidedly less hawkish than the Fed's last meeting. It also restores the maximum flexibility doctrine, making it easier to maneuver a "soft-ish" landing of the economy.

Our take

With so many crosswinds, **we acknowledge that the U.S. economic picture appears cloudy.** Furthermore, many people are onboard the "U.S. is heading for a recession" train.

TRUIST Wealth

Economic Commentary – Our take and the bottom line

Our take (continued)

Indeed, there continue to be mixed signals, including the negative first quarter GDP figure and the brief yield curve inversion a month ago, along with extreme trepidation that the Fed will push the economy into recession.

Inflation remains an obvious headwind for the U.S. economy. The Russian invasion has aggravated inflationary pressures, forcing global energy prices higher and seeping into food prices. We don't expect higher food and energy prices to correct anytime soon. Moreover, given the amount of uncertainty for a resolution of the conflict, price volatility will persist, especially for crude oil. Alas, higher inflation has choked U.S. consumer and business sentiment.

Our Global Macro Strategist, Eylem Senyuz, has flagged **the high likelihood of core members of the European Union fall into recession in 2022**. However, it is important to remember that some of these same countries went in and out of recession in 2012, 2014, and 2018. Yet, the U.S. economy continued to expand from 2009 through 2021 until it was upended by the pandemic lockdowns. We think this same scenario of weaker Europe, but resilient U.S. growth will repeat.

The April jobs report bolsters our "no recession" call and is corroborated by a nearly 50-year low in initial jobless claims and record levels of job openings and quit rates.

Aside from employment, **most incoming economic data strengthened in April** from retail sales and new durable goods orders—both hitting fresh all-time highs—to new housing starts. Some manufacturing gauges softened with supply chain snags, though all continue to expand.

We reiterate our view that the U.S. is currently struggling with supply issues, not demand issues. We aren't hearing complaints about a lack of demand. On the contrary, many companies are talking about "too much" demand for their capacity, which is being constrained by supply chain bottlenecks or insufficient labor, or both. Either way, that's not a recipe for stagnant growth. Also, European demand for U.S. energy just started and should be reflected in upcoming quarters, particularly within mining investment and exports.

Bottom line

We maintain our view that the U.S. economy remains on solid footing and reiterate our stance that recession fears are overdone. We expect inflation to stay elevated compared to pre-pandemic levels, which the Fed will attempt to address by hiking rates. Similarly, inflation will continue to gouge real inflation-adjusted growth figures. However, there are early signs of peak inflation, which would allow the Fed to throttle down rate increases later in 2022 and into 2023. Accordingly, those recession fears should wilt as temperatures warm and additional data proves the proof in the summer months.

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▲	1Q A: -1.4%	1Q P: -1.4%	Badly missed the consensus expectation of +1.0%. Inflation, imports, and inventories punched down real GDP in the first quarter.
Jobs	Unemployment rate[x]	▲	Apr: 3.6%	May: N/A	Held steady from March; hard to argue U.S. isn't at full employment.
	Monthly jobs (nonfarm)	▲	Apr: 428K	May: N/A	12th straight month with over 400,000, which is unprecedented.
	Weekly jobless claims[+]	▲	4/30: 200K	4/30: 183K	Bumped higher WoW after being down for 5 of the past 7 weeks.
	Nonfarm productivity	▲	1Q P: -7.5%	1Q P: -2.8%	Big decline as supply chain snags persist, and unit labor costs up big.
Interest rates	Federal funds rate	▲	0.75% – 1.00%	5/4: 1.25% – 1.50%	Fed delivered half-point rate hike and unveils how it will reduce bond holdings. We expect another half-point rate hike at June 15 meeting.
	10-year U.S. Treasury yield	▼	3.10%‡	Flat/down	The extreme swings in rates has continued, which likely continues.
	10-year AAA GO muni yield	▼	2.81%‡	Up/flat	After a flattish week, muni yields are climbing once again.
	30-year fixed mortgage rate	▼	5.42%‡	Up/flat	It actually fell slightly but remains at the highest level since 2009. Higher mortgage rates hurt housing affordability.
Inflation	Consumer prices (CPI)[x]	▼	Mar: 1.2%	Apr: 0.2%	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: 0.4%	Cooler than the consensus of 0.5%, and down from 0.5% in February.
	Producer prices (PPI)	▼	Mar: 1.4%	Apr: 0.5%	Up 11.2% YoY. Energy, up 5.7% MoM, has been a big driver.
	Core PPI	▼	Mar: 1.0%	Apr: 0.6%	The fastest pace in 8 months. Up 9.2% YoY.

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

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.
	New home sales	▲	Mar: 763K	Apr: N/A	Down 8.6% MoM, the third straight monthly decline.
	New housing starts⁺	▲	Mar: 1.793M	Apr: N/A	Up 0.3% MoM, multifamily was strong, but single-family slipped MoM.
	New permits⁺	▲	Mar: 1.873M	Apr: N/A	Up 0.4% MoM, multifamily hit the highest level since 1985.
Business	Durable goods orders⁺	▲	Mar P: 0.8%	Mar F: 0.8%	Up despite commercial aircraft -9.9% MoM. Core capital goods orders (ex-air & defense) up 1.0% MoM, rebounding from dip in Feb.
	ISM manufacturing	▲	Apr: 55.4	May: N/A	Fell sharply, but it's still expanding and above pre-pandemic average.
	ISM services/non-manufacturing	▲	Apr: 57.1	May: N/A	It's roughly pulled back to the pre-pandemic 3-year average.
	Business inventories[X]	▲	Feb: 1.5%	Mar: 1.8%	Up MoM after the pace ebbed in January. Inventories were depleted by ongoing supply chain issues and transportation bottlenecks.
Consumer	Personal income	▲	Mar: 0.5%	Apr: N/A	Largest MoM rise in 3 months buoyed by wage & income growth.
	Personal spending	▲	Mar: 1.1%	Apr: N/A	Nearly doubled the consensus; third straight strong month, which belies the widely-held narrative that inflation will smother spending.
	Advance retail sales	▲	Mar: 0.7%	Apr: 0.8%	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 sentiment	▼	Apr F: 65.2	May P: 64.0	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

U.S. activity-based data matrix

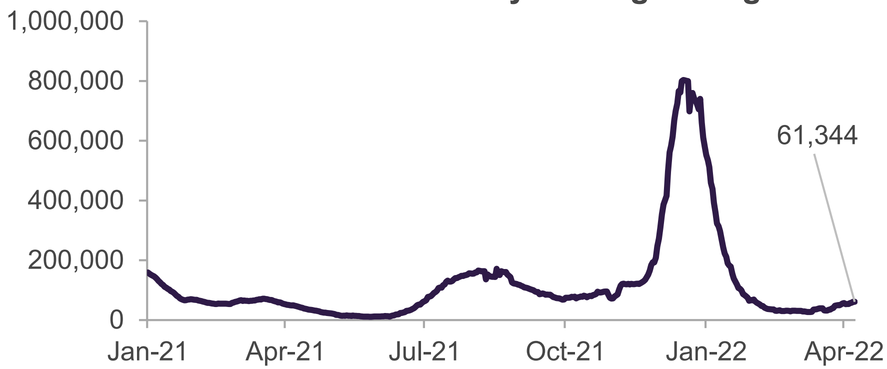
Indicator	Relative trend	What we're watching
Back to office	▼	Rose to 43.4 (pre-pandemic indexed to 100), snapping a two-week decline. Top cities are Austin (60), Houston (56), and Dallas (51); bottom are San Jose (34) and San Francisco (35). While the trend has steadily improved, it remains less than half of pre-pandemic levels, which is not conducive for overall growth.
TSA air passenger throughput	▲	Weekly passengers slipped 1.4% WoW to 14.5 million, which was 9.9% below the 2019 weekly average of 16.1M. Passenger counts fell 11.3% from the same week in May '19 but 46% above the same week in May '21.
OpenTable restaurant bookings	▲	Slipped to -2.4% compared to pre-pandemic levels. Top positive states were led by Texas (22%) and Nebraska (+19%); bottom were New York (-38%) and Illinois (-30%). Top cities were Naples (+56%), Austin (+51%), and Miami (+26%); bottom were San Francisco (-47%), NYC (-43%), and Portland (-42%).
Google mobility	▲	Parks ebbed to 27% from 30% last weeks. 7-day averages relative to 2020: Residential +2%, Transit -21%, Grocery/Pharmacy -6%, Workplaces -16%, Retail/Restaurant/Recreation -7%.
Hotel occupancy	▲	Occupancy rose to 66.6%, the highest since Oct. '21. The average daily rate fell to $146.67, up 10.2% from the same week in April '19, while revenue per available room rose to $97.72, up 6.4% from April '19.
Freight (rail/truck/ship)	▲	Rail carloads rose for the 3rd time in 4 weeks, and up 1% for April. But truck loading fell 0.1% MoM in April, after touching the all-time high. Container traffic at the top 5 U.S. ports rose 8.9% in March.
Staffing index	▲	Rebounded to 105.2 from 104.0 in the prior week and snapping a 3-week decline. The softness was likely related the holidays (Easter/Passover/Ramadan). 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

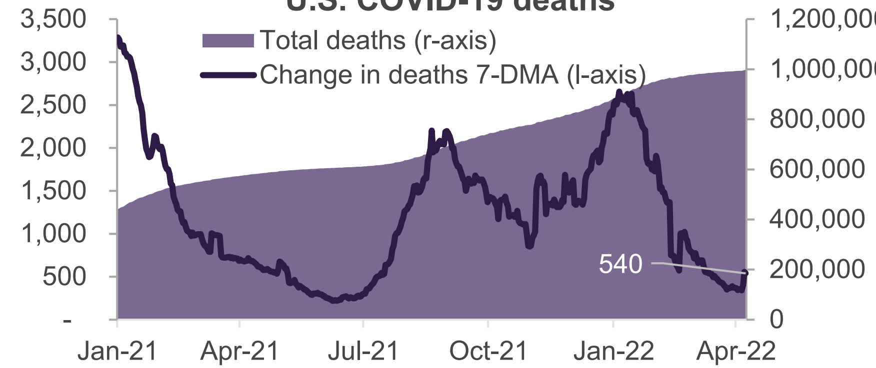
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, Google COVID-19 Community Mobility Report, STR/CoStar, American Staffing Association, Zillow. Week-over-weak and year-over-year change are abbreviated as WoW and YoY, respectively.

U.S. COVID-19 watch – New cases and hospitalizations modestly rising, now death rate bumping higher, too

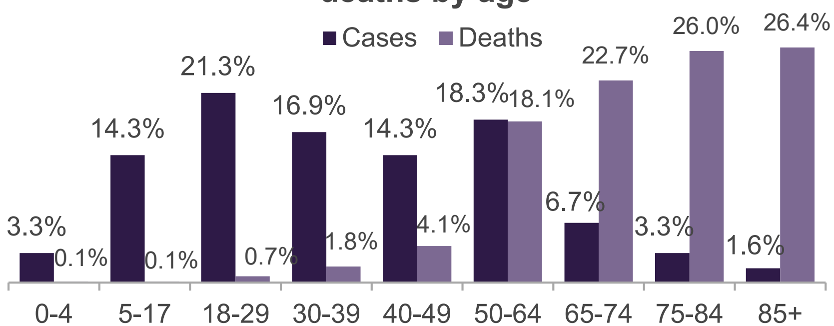
New confirmed cases 7-day moving average



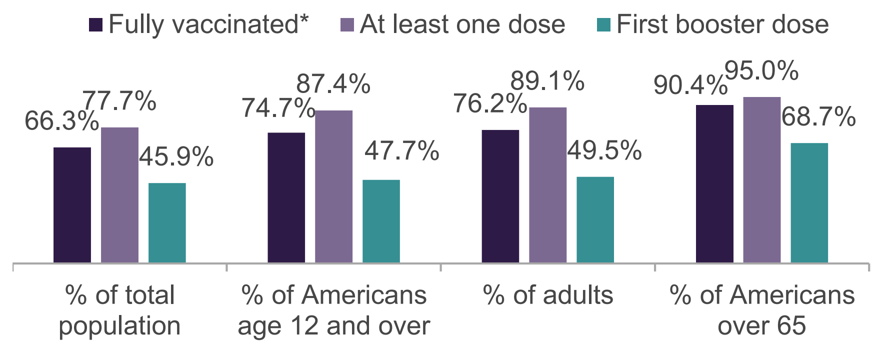
U.S. COVID-19 deaths



U.S. COVID-19 percentage of cases and deaths by age



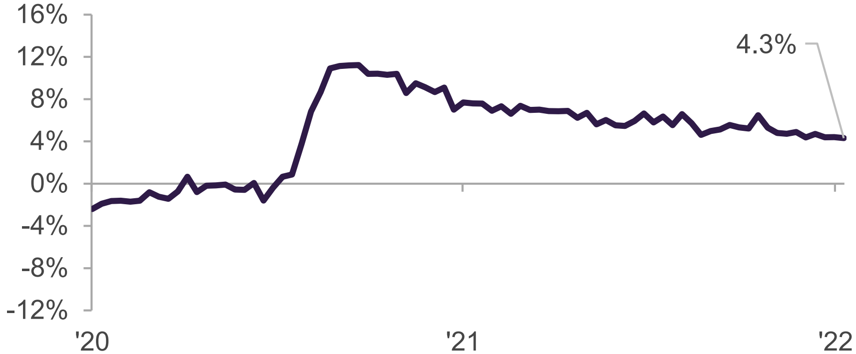
U.S. vaccinations (percentage of population)



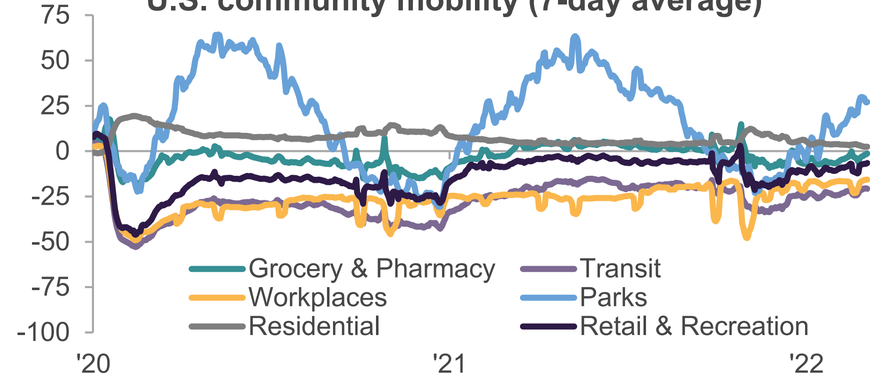
Sources: Truist IAG and the following additional sources respectively: Top left and right, Bloomberg, Johns Hopkins University through May 5, 2022. Data for 50 U.S. states plus American Samoa, Washington D.C., Guam, Northern Mariana Islands, Puerto Rico, and U.S. Virgin Islands. 7-day moving average (DMA). Top left, bottom right: Centers for Disease Control & Prevention (CDC), through May 5, 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 following spring break season

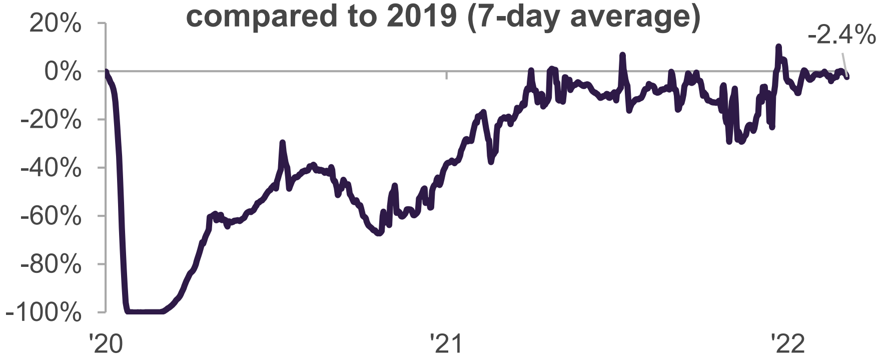
NY Fed weekly economic index



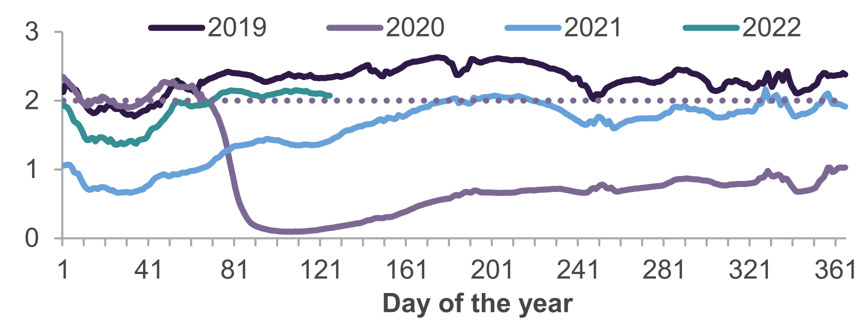
U.S. community mobility (7-day average)



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



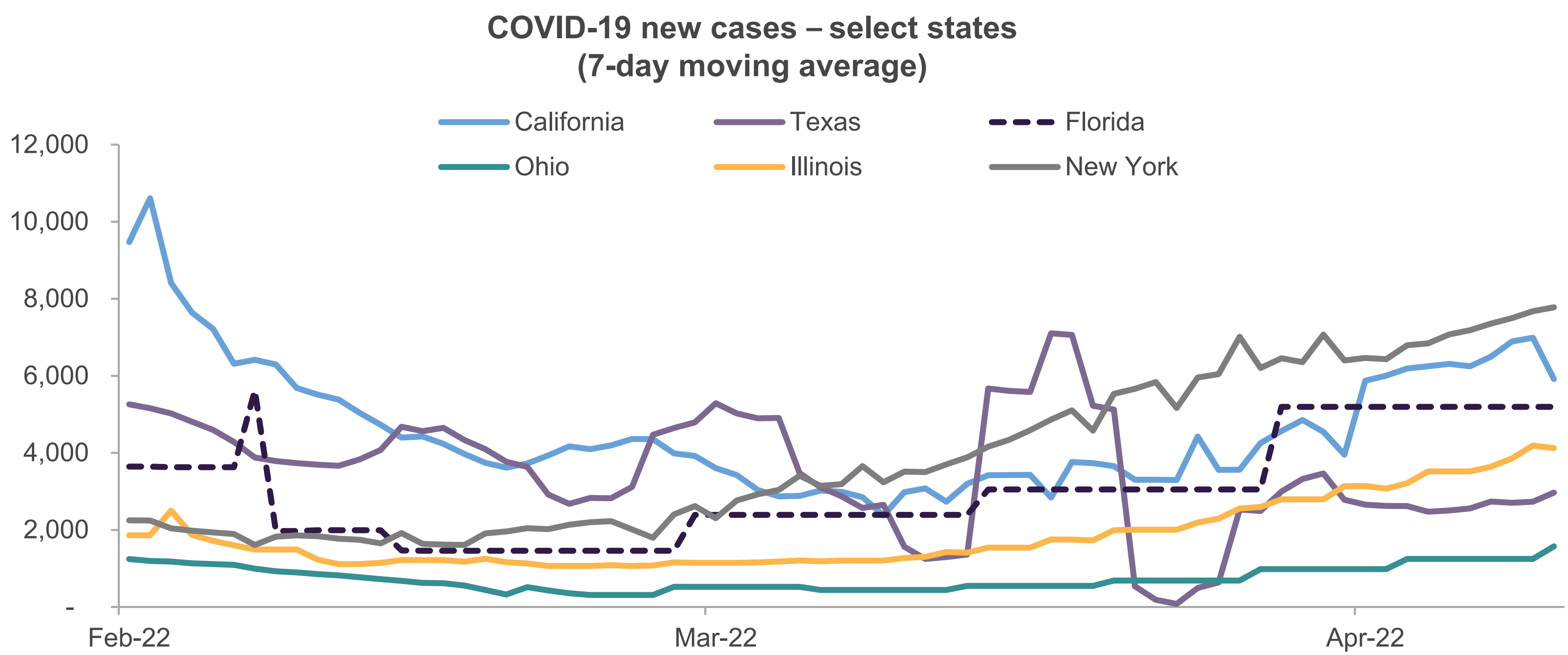
TSA checkpoint traveler throughput (7-day average, in millions)



Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through April 23, 2022. Top right: (U.S. Community Mobility) Google COVID-19 Community Mobility Reports 7-day average through May 2. Bottom left: Bloomberg, OpenTable 7-day average through May 4. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through May 5.

A handful of states are seeing infections rising

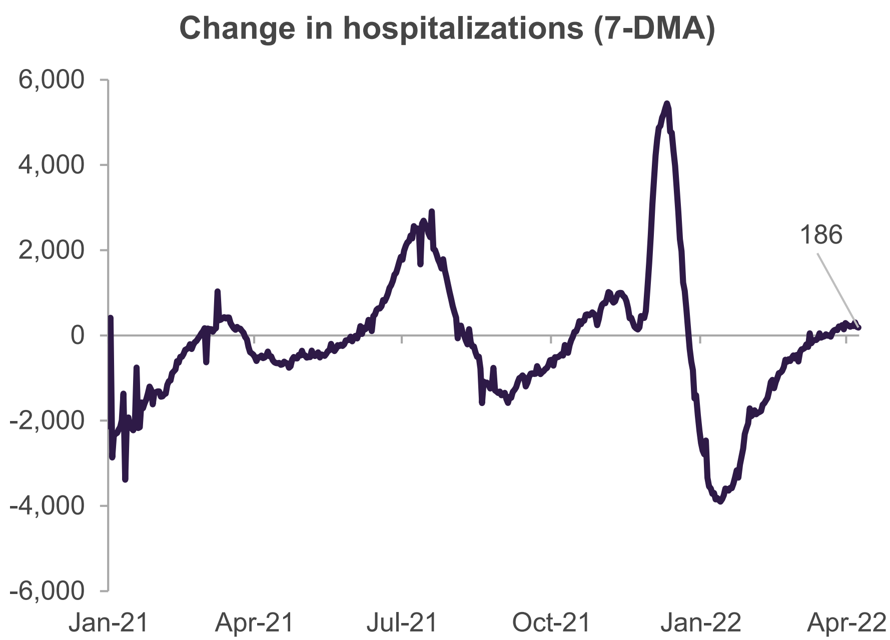
The states with the most new cases of COVID-19 are also among the largest in terms of population. On a per capita basis (per 100,000 people), Rhode Island and Maine lead the pack with 57 and 55, respectively, compared to California and Texas at 18 and 9, respectively.

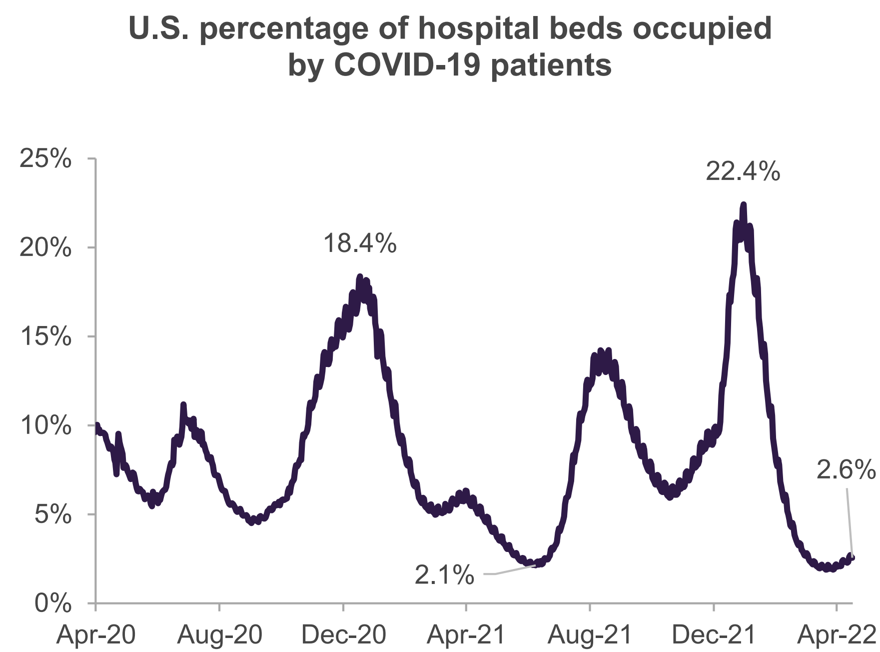


Sources: Truist IAG, Bloomberg, Johns Hopkins University; daily data through May 5, 2022. Florida reports case counts every two weeks.

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 up slightly. While it is too early to cheer since there is a seven to 10-day lag between new cases and hospitalizations, this is an encouraging sign.



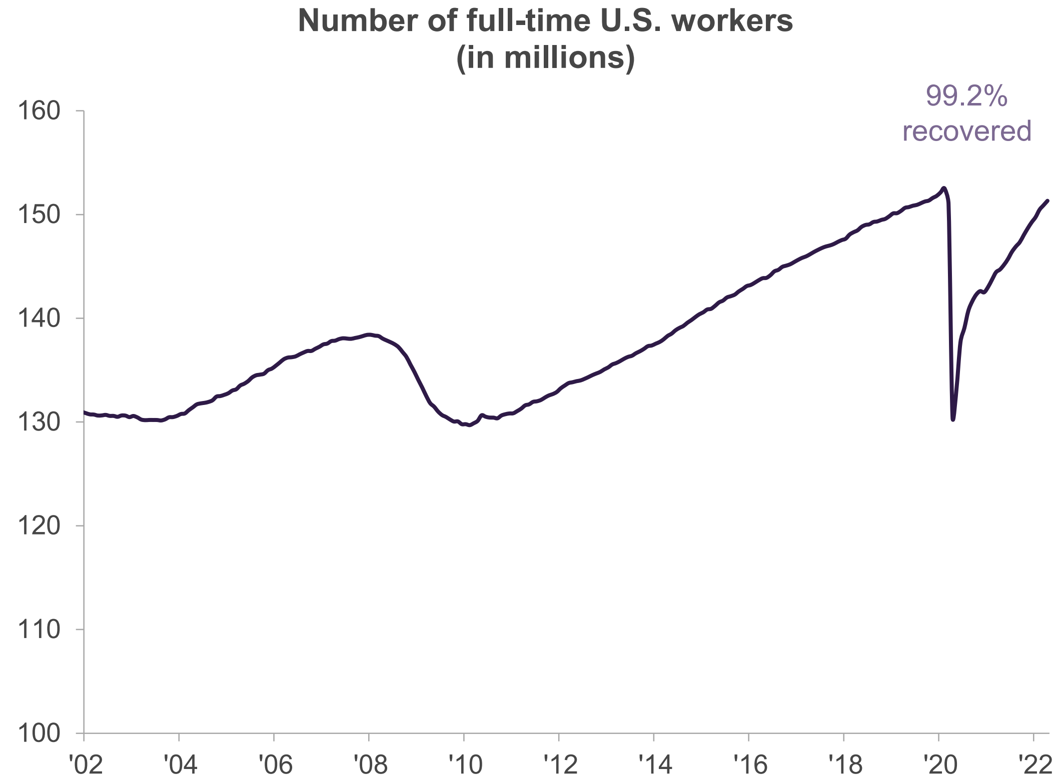


Sources: Truist IAG, Bloomberg, Department of Health & Human Services; daily data through May 5, 2022. 7-day moving average (7-DMA).

Job creation continued, less than 1% from pre-pandemic level

U.S. payrolls in April added 428,000, which marked the twelfth straight month with job growth greater than 400,000, which is unprecedented.

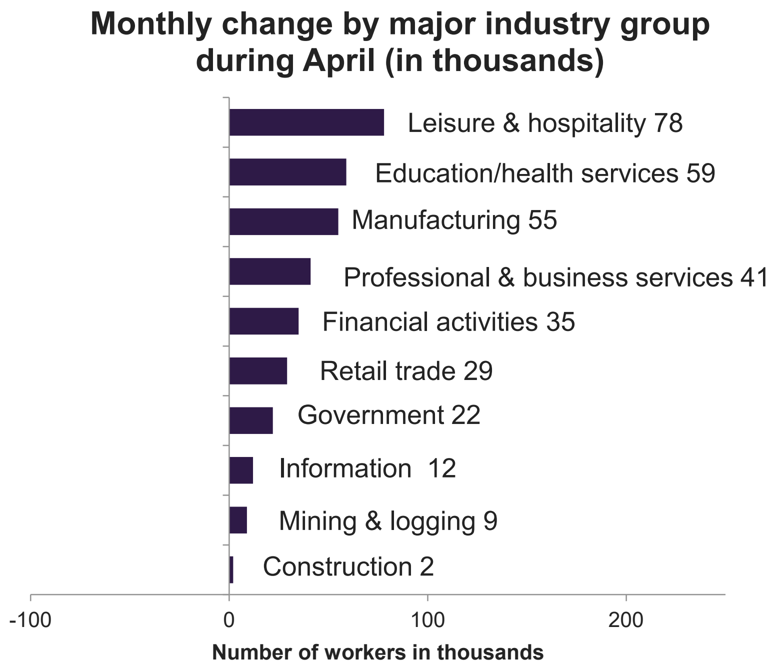
The U.S. has recovered an incredible 20.8 million jobs, or 99.2%, in just 26 months. By comparison, it took 3.8 years to fully recover from the 2001 recession and almost 6.5 to fully recover the jobs lost during the Great Financial Crisis.

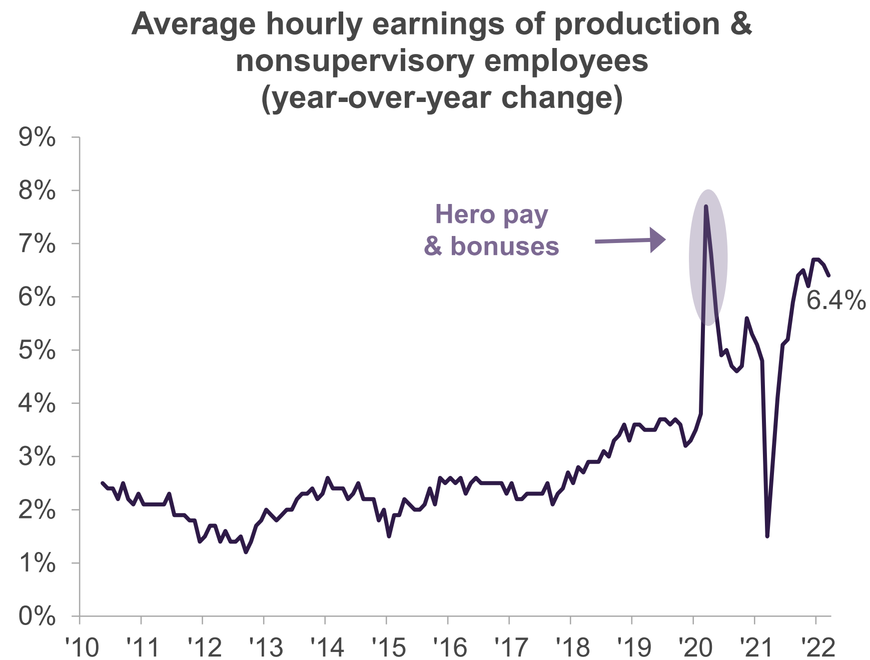


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through April 2022.

Strong job growth continued in April, but overheating fading

All of the major industries added jobs in April. Some of the internal component figures ebbed, signaling that the overheating conditions within the labor market that have panicked investors are beginning to wane. For instance, average hourly earnings and hours worked slipped, and the unemployment rate held steady at 3.6%.





Data sources: Truist IAG, Bloomberg, Bureau of Labor Statistics

U.S. drillers add most jobs in 11 years

While small in number, oil & gas extraction jobs have surged in 2022. The industry has created 11,100 jobs in the past three months – the most in over a decade! This should continue given elevated crude oil and natural gas prices, and the dramatic surge exports for the latter.

Annual change in oil and gas extraction jobs (in thousands)

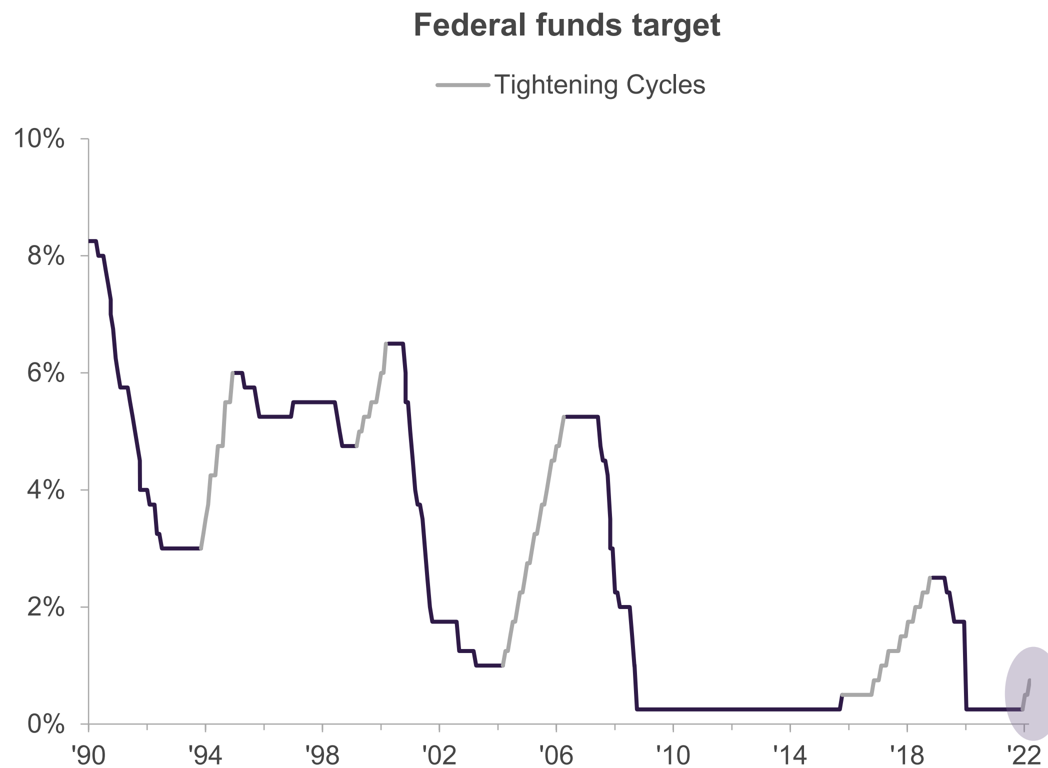
Sources: Truist IAG, Federal Reserve Board. Upper bound shown after December 2008.

Fed delivers half-point hike

As widely expected, the Federal Reserve (Fed) raised interest rates by a half point. This was the second interest rate increase in this cycle, and the largest since May 2000.

Additionally, the Fed took the next step in normalization, announcing that it will start reducing its balance sheet on June 1.

More importantly, Chair Powell stressed the Fed's nimbleness, opening the door to adjusting future moves based on incoming economic data. That was decidedly less hawkish than the last meeting. It also restores the maximum flexibility doctrine, making it easier to maneuver a "soft-ish" landing of the economy.



Sources: Truist IAG, Federal Reserve Board. Upper bound shown after December 2008.

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