

Economic data tracker – Inflation watch

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Trend watch and what's new this week

U.S. COVID-19 cases are rising modestly (slide 6). The rate of hospitalizations has held steady (slide 8), but the percentage of COVID-19 patients has ticked up in recent weeks.

The travel-related activity-based data (slides 5 and 7) remains mixed. Weekly air passengers strengthened to a three-week high, but restaurant bookings and hotel occupancy slipped. Rail freight also fell modestly during the latest week.

Temporary staffing (slide 15) has rebounded in the past two weeks, jumping to the highest reading since mid-December 2021.

Inflation watch – inflation appears to be peaking

Inflation, as measured by the Consumer Price Index (CPI), rose 0.3% MoM in April substantially cooler than the 1.2% MoM pace in March (slide 9). However, it's up 8.3% from a year ago (slide 10). We also show the trend for several of the key components – housing, food, and energy.

On slide 11, we show core inflation, which excludes the volatile food and energy components. It appears that core inflation has peaked as used car prices have recoiled (slide 12) and shelter costs have stabilized (slide 13).

We also revisit lumber prices (slide 14), which is a key input for residential housing and remodeling projects. Lumber prices have been on a roller-coaster since the pandemic, repeatedly surging and plunging. Price has fallen 30% since early March 2022 but has increased in recent weeks.

Lastly, consumer sentiment slumped to an 11-year low (slide 16), according to the University of Michigan survey.

Our take

Inflation remains an obvious headwind for the U.S. economy.

Consumers and investors remain understandably concerned about inflation, which erodes purchasing power. Indeed, inflation is rising at the fastest annual pace in 40 years after a one-two punch from the pandemic-induced recession of 2020 and now the Russian invasion, which has spiked global energy prices higher and is seeping into food prices.

We don't expect higher food and energy prices to correct

anytime soon; thus, prices will likely remain elevated for the foreseeable future. Moreover, given the amount of uncertainty for a resolution of the conflict, price volatility will persist, especially for crude oil, where daily 5% price swings have been commonplace.

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Economic Commentary – Our take and the bottom line

Our take (continued)

Alas, higher inflation has choked U.S. consumer and business sentiment. However, **inflation is cooling**. For example, gasoline prices fell 6.1% in April, which was the second monthly decline in the past four months. Additionally, as we've shown, **core inflation appears to be peaking**.

Similarly, wholesale prices, as measured by the Producer Price Index (PPI), have cooled (slide 3). PPI rose 0.5% in April, while core PPI rose 0.4% – considerably cooler than the March readings of 1.6% and 1.2%, respectively.

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. Accordingly, the Federal Reserve (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 front-end load its rate hikes in the near term, while the ebb in the overheating conditions may provide enough cover to slow their pace later this year and next. It won't be easy and will likely include plenty of bumps, but a softish landing is achievable.

Bottom line

The U.S. will continue to struggle with inflation, yet the pressures appear to be abating, albeit modestly. This is important insofar as it should allow the Fed to throttle down interest rate increases later in 2022 and into 2023. Accordingly, the widespread 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.
	Unemployment rate ^x	▲	Apr: 3.6%	May: 3.6%	Held steady from March; hard to argue U.S. isn't at full employment.
Jobs	Monthly jobs (nonfarm)	▲	Apr: 428K	May: N/A	12th straight month with over 400,000, which is unprecedented.
	Weekly jobless claims ⁺	▲	5/7: 203K	5/14: 200K	Modest increase WoW but still indicates tightness in the labor market.
	Nonfarm productivity	▲	1Q P: -7.5%	1Q F: -7.5%	Big decline as supply chain snags persist, and unit labor costs up big.
Interest rates	Federal funds rate	▲	0.75% – 1.00%	6/15: 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	▼	2.92%‡	Flat/down	Slumped as recession fears and gloom abound, causing extreme swings in rates. Rate volatility will likely continue for some time.
	10-year AAA GO muni yield	▼	2.88%‡	Up/flat	Unlike most bonds, muni yields have continued to climb.
	30-year fixed mortgage rate	▼	5.57%‡	Up/flat	It continues to grind higher and is now at the highest level since 2009. Higher mortgage rates hurt housing affordability.
Inflation	Consumer prices (CPI) ^x	▼	Apr: 0.3%	May: N/A	It was the smallest MoM rise in 8 months. Gasoline dropped 6.1% MoM. Still, CPI increased 8.6% YoY, the most since 1981.
	Core CPI	▼	Apr: 0.6%	May: N/A	Faster than the consensus of 0.4%, and up from 0.3% in March.
	Producer prices (PPI)	▼	Apr: 0.5%	May: N/A	Cooler MoM reading in 7 months. But jumped 11.0% YoY.
	Core PPI	▼	Apr: 0.4%	May: N/A	The coolest pace in 6 months. Up 8.8% YoY (was up 9.6% in March).

▲ Good ▼ Bad ⇄ Neutral ⁺Leading indicator ^xLagging indicator [‡]Intraday quote Bloomberg consensus shown

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Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Housing	Existing home sales	↔	Mar: 5.77M	Apr: 5.65M	Fell 2.7% MoM but have increased 9.9% from March 2019.
	New home sales	▲	Mar: 763K	Apr: 758K	Down 8.6% MoM, the third straight monthly decline.
	New housing starts ⁺	▲	Mar: 1.793M	Apr: 1.765M	Up 0.3% MoM, multifamily was strong, but single-family slipped MoM.
	New permits ⁺	▲	Mar: 1.870M	Apr: 1.820M	Up 0.4% MoM, multifamily hit the highest level since 1985.
Business	Durable goods orders ⁺	▲	Mar F: 1.1%	Apr P: 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: 1.9%	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: 0.6%	Largest MoM rise in 3 months buoyed by wage & income growth.
	Personal spending	▲	Mar: 1.1%	Apr: 0.6%	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: 0.9%	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	▼	May P: 59.1	May F: 59.1	Slumped down to an 11-year low in May thanks to inflation worries.

▲ Good ▼ Bad ↔ Neutral ⁺Leading indicator ^XLagging 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	▼	Dipped to 43.2 (pre-pandemic indexed to 100) from 43.4 the prior week. Top cities are Austin (60), Houston (57), and Dallas (51); bottom are San Jose (33) and San Francisco (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 jumped 2.6% WoW to 14.9 million, which was 7.6% below the 2019 weekly average of 16.1M. Passenger counts fell 10.0% from the same week in May '19 but 37% above the same week in May '21.
OpenTable restaurant bookings	▲	Slipped to -3.4% compared to pre-pandemic levels. Top positive states were led by Nevada (+46%) and Arizona (+45%); bottom were New York (-32%) and Pennsylvania (-23%). Top cities were Scottsdale (+49%) and Naples (+47%); bottom were Minneapolis (-50%) and San Francisco (-44%).
Google mobility	▲	Grocery/Pharmacy swung to a positive, +2%, while Parks held steady at +27%. 7-day averages relative to 2020: Residential +2%, Transit -21%, Workplaces -17%, Retail/Restaurant/Recreation -4%.
Hotel occupancy	▲	Occupancy slipped to 63.9% from 66.6% during the prior week. The average daily rate fell to \$147.24, up 12.0% from the same week in May '19, while revenue per available room slipped to \$94.10, up 5.1% from May '19.
Freight (rail/truck/ship)	▲	Rail carloads fell 0.4% WoW, the first decline in 3 weeks, but rose 1% for April. 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	▲	Jumped to 105.9, the highest level since mid-December 2021 as the recent softness from the spring holidays (Easter/Passover/Ramadan) has passed. The low for this cycle was 59.6 set in April 2020.
Apartment rental prices	↔	Rent index rose to 0.996 in April from 0.846 in March, but down from 1.23 in February. While prices are significantly above pre-pandemic levels, rental growth clearly peaked during the second half of 2021.

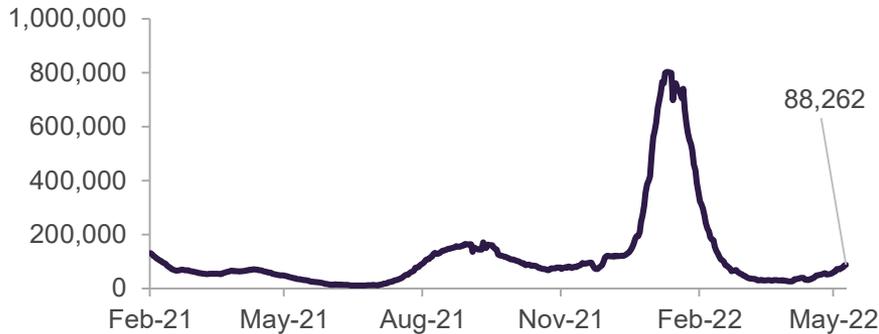
Trend relative to whether it is favorable for economic growth:

▲ Positive ▼ Negative ↔ Neutral / Mixed

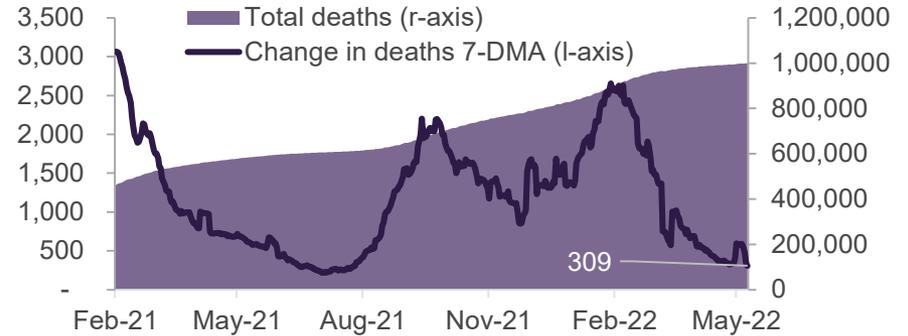
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, Google COVID-19 Community Mobility Report, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

U.S. COVID-19 watch – New cases and hospitalizations modestly rising, but death rate slumping

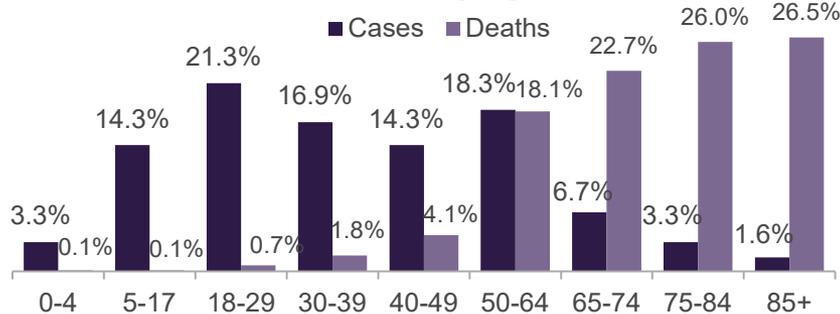
New confirmed cases 7-day moving average



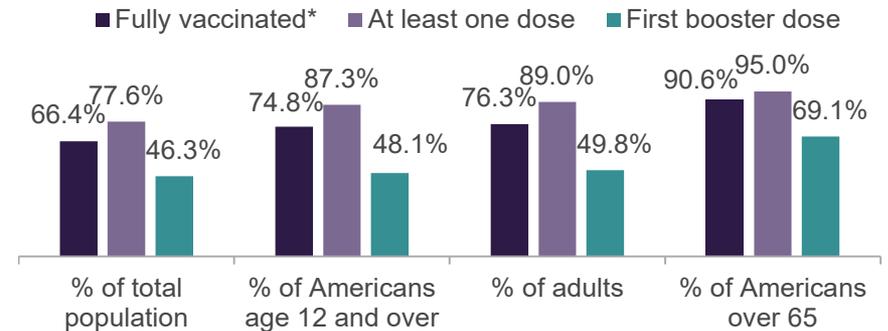
U.S. COVID-19 deaths



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



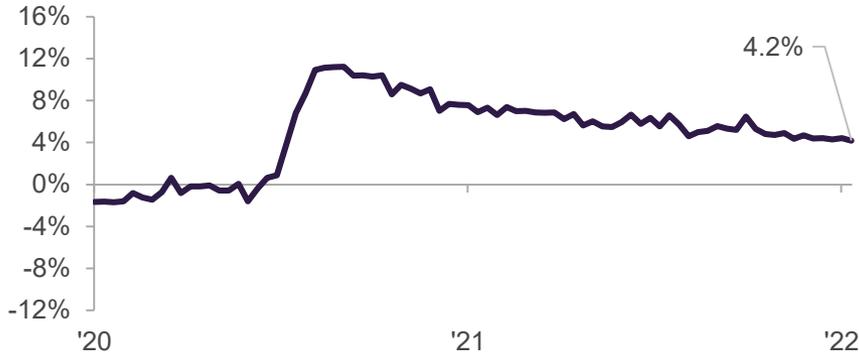
U.S. vaccinations (percentage of population)



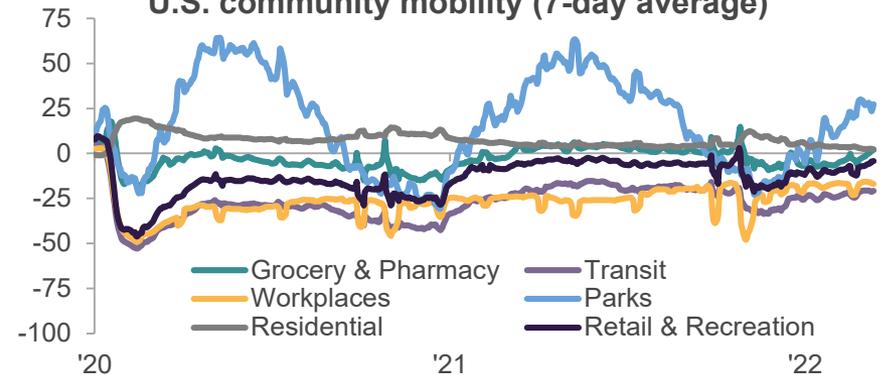
Sources: Truist IAG and the following additional sources respectively: Top left and right, Bloomberg, Johns Hopkins University through May 12, 2022. Data for 50 U.S. states plus American Samoa, Washington D.C., Guam, Northern Mariana Islands, Puerto Rico, and U.S. Virgin Islands. 7-day moving average (DMA). Top left, bottom right: Centers for Disease Control & Prevention (CDC), through May 12, 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

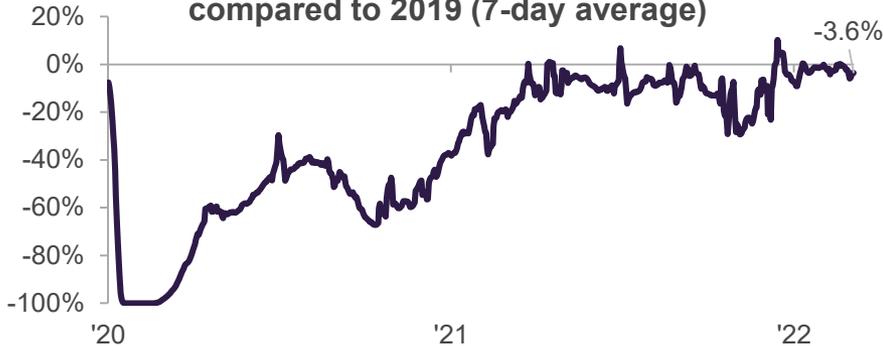
NY Fed weekly economic index



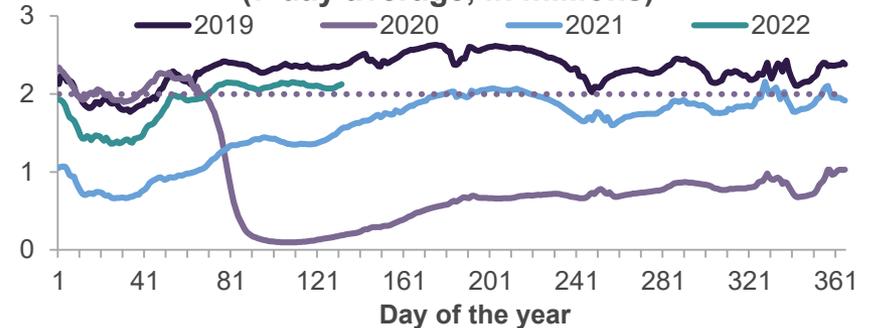
U.S. community mobility (7-day average)



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



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

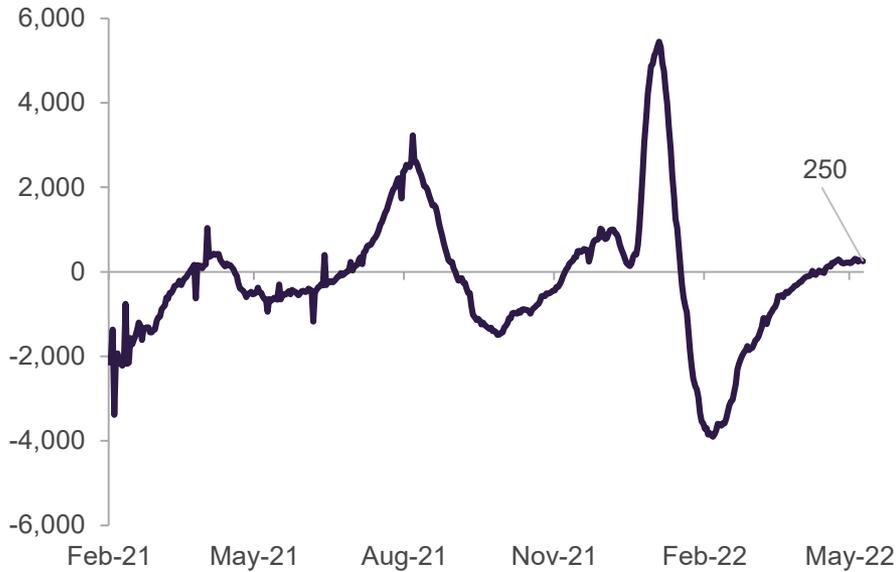


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through May 7, 2022. Top right: (U.S. Community Mobility) Google COVID-19 Community Mobility Reports 7-day average through May 2. Bottom left: Bloomberg, OpenTable 7-day average through May 12. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through May 12.

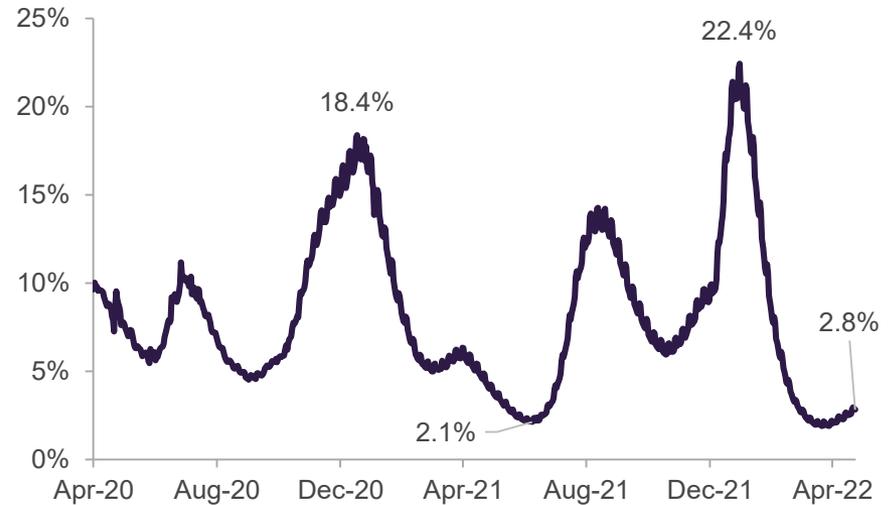
Very modest rise in U.S. hospitalizations thus far

The number of COVID-19 hospitalizations is modestly increasing once again, but the rate has held steady for the past few weeks. Similarly, the percentage of COVID-19 patients is edging up 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.

Change in hospitalizations (7-DMA)



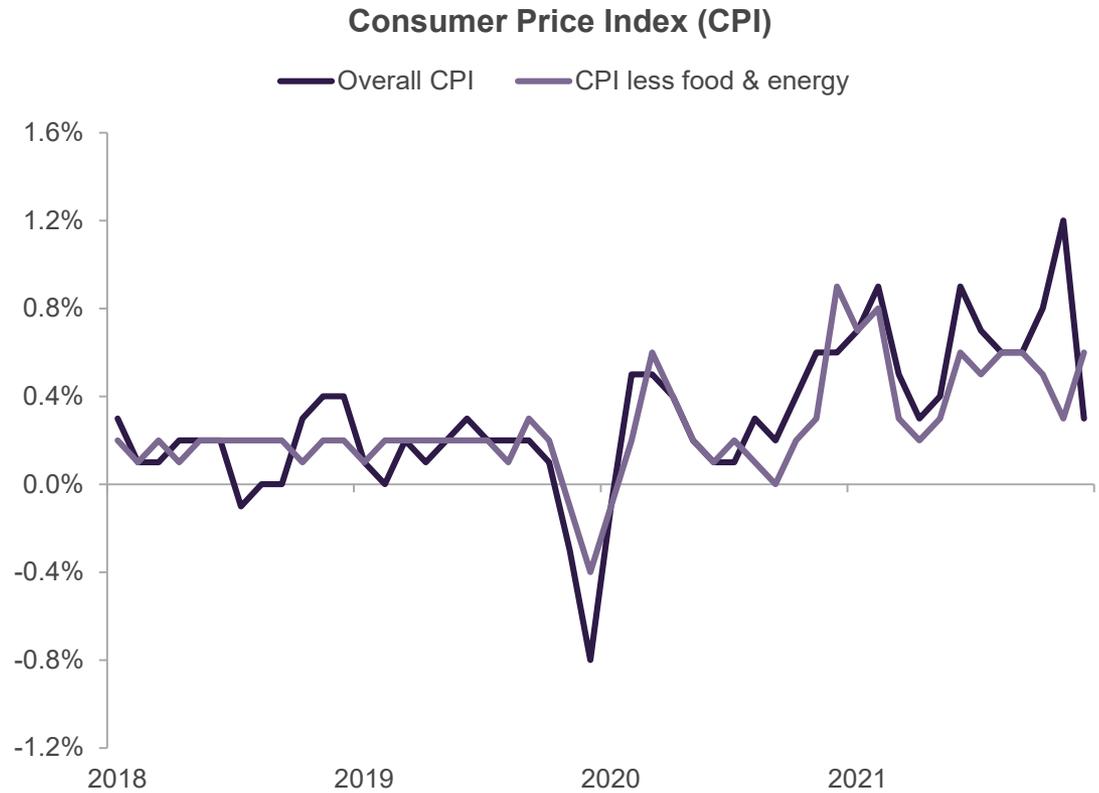
U.S. percentage of hospital beds occupied by COVID-19 patients



Sources: Truist IAG, Bloomberg, Department of Health & Human Services; daily data through May 12, 2022. 7-day moving average (7-DMA).

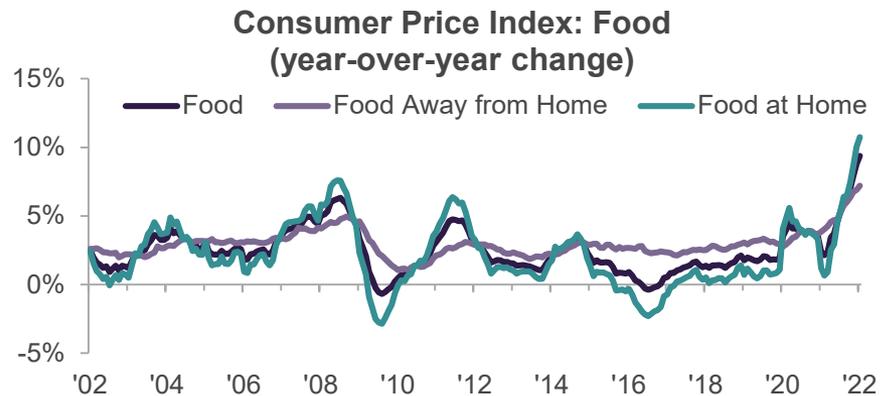
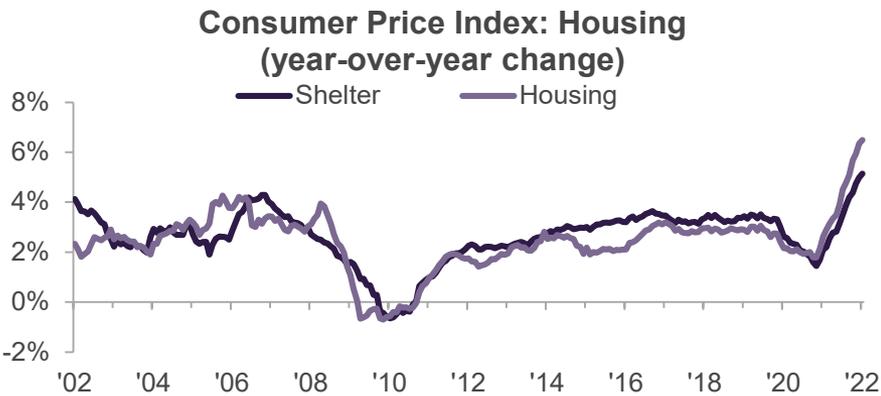
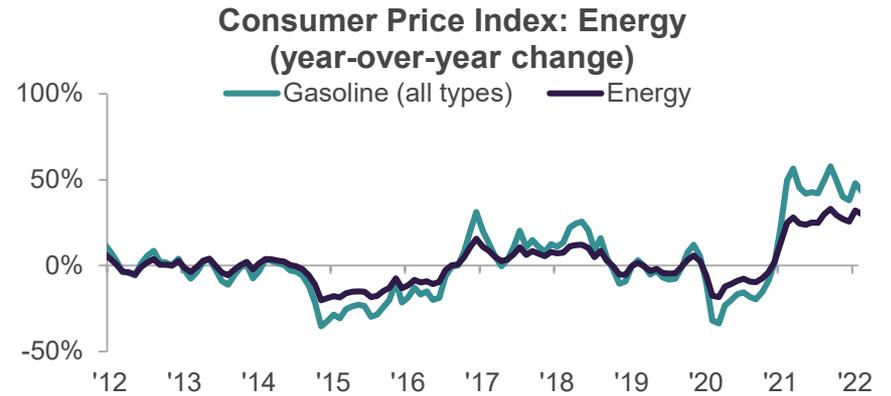
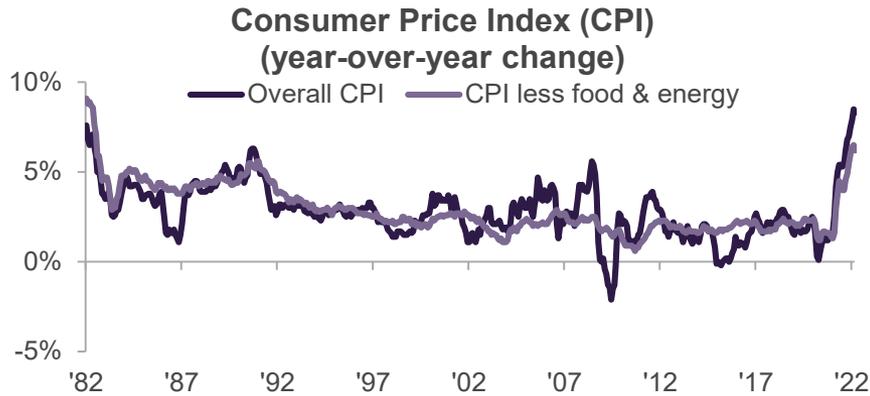
Headline inflation cooled in April

Inflation, as measured by the Consumer Price Index (CPI), rose 0.3% in April, the smallest monthly change in eight months. It is up 8.3% from a year ago, which is dramatically faster than the pre-pandemic 3-year average of 2.1%.



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

Consumer inflation key components

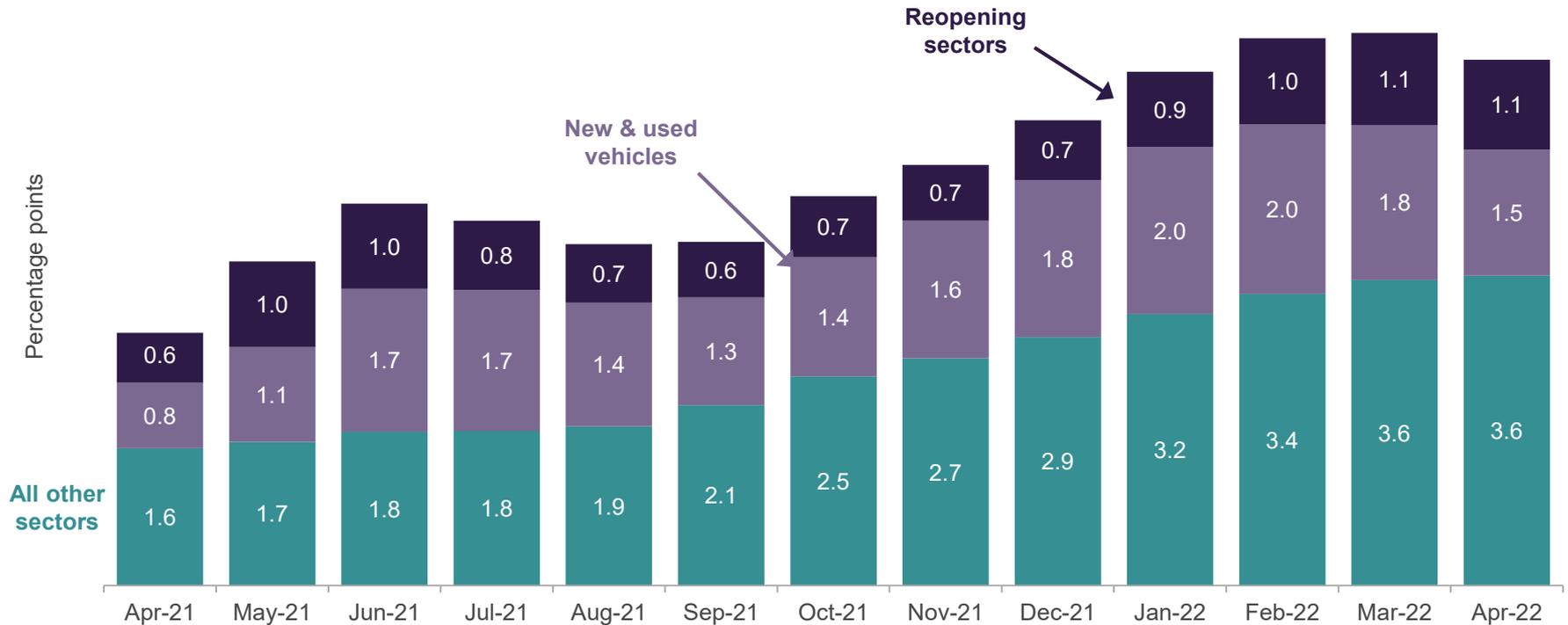


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through April 2022.

Core inflation is hotter, but monthly pace stabilizing

It appears that core inflation has peaked as used car prices have recoiled (see slide 12) and shelter costs have stabilized (see slide 13).

Contributors to core Consumer Price Index (year-over-year change)



Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through April 2022. Core consumer price index excludes food and energy. Vehicles includes new vehicles, used cars and trucks. Reopening sectors includes transportation services, recreation services, recreation commodities, and apparel. All other components, includes shelter and medical care. Total may vary due to rounding.

Used car prices coming back down to earth, should help ease overall inflation

Used car prices have declined for the third straight month in April. On a year-over-year basis, prices were up 22.7% through April. Still, used vehicle prices remain 27.5% above December 2019. Used car prices accounted for roughly twenty percent of the increase in core inflation during 2021.

Consumer Price Index: Used vehicles (year-over-year change)



Consumer Price Index: Used vehicles (index value)



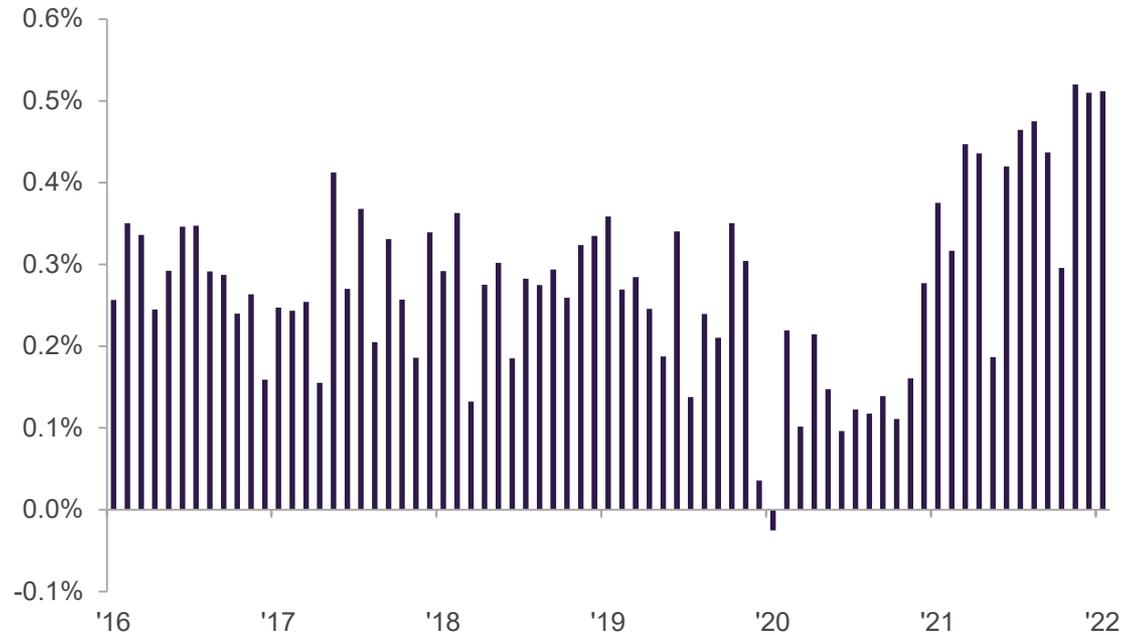
Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through April 2022.

Shelter costs appear to be stabilizing, down more than 40% from '21

Shelter costs account for roughly one-third of the Consumer Price Index (CPI). The monthly change has held steady, up 0.5%, for the past three months.

Still, shelter is up 5.1% from a year ago, which is dramatically faster than the pre-pandemic 3-year average of 3.3%.

**Consumer Price Index: Shelter
(month-over-month change)**



Source: Truist IAG, Bloomberg, Chicago Mercantile Exchange; daily data through May12, 2022. Random length futures contract for 110,000 board feet for lengths between 8' and 20' softwood 2 x 4s, the type used for rehabbing and construction.

Volatility in lumber prices persists, down more than 40% from '21, as demand ebbs and production continues to grow

Lumber prices continue to swing wildly, perplexing experts, angering consumers, and hammering contractors.

The price of lumber (based on future contracts) has fallen 30% since early March 2022 and is down 40% from April 2021. Demand has leveled off due in part to the higher prices, while the production has continued to rebound from depressed levels during 2020.

Still, the price has soared an eye-popping 189% compared to April 2019.

Lumber price (\$ per 110,000 board feet)



Source: Truist IAG, Bloomberg, Chicago Mercantile Exchange; daily data through May12, 2022. Random length futures contract for 110,000 board feet for lengths between 8' and 20' softwood 2 x 4s, the type used for rehabbing and construction.

Temp staffing remains above pre-pandemic level

Temp positions are traditionally very seasonal, making the data quite volatile especially around holidays. In the first full week of May, the staffing index rebounded to 105.9, which is the highest reading since mid-December 2021 and above the pre-pandemic all-time high of 105.8 set in December 2014.

Also, an increase indicates a need for more workers, which tends to be a good harbinger of eventually increasing permanent jobs.



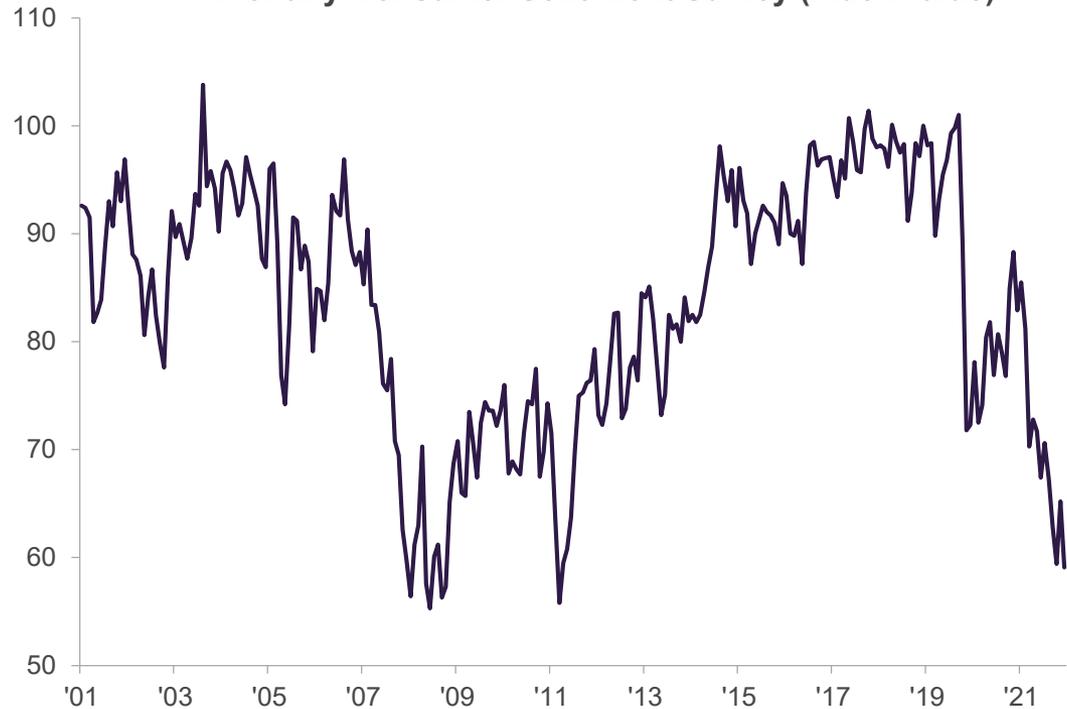
Sources: Truist IAG, Bloomberg, American Staffing Association; weekly data through May 2, 2022.

Consumer sentiment slumped to 11-year low

Consumer sentiment, as measured by the University of Michigan Consumer Sentiment Survey, fell to a reading of 59.1 in May. That's the lowest level since August 2011.

Inflation remains the biggest concern. Nearly half of respondents don't expect their incomes to keep pace with inflation in the coming 12 months. However, long-term inflation expectations within the survey held steady at 3.0% for the fourth straight month.

**University of Michigan
Monthly Consumer Sentiment Survey (index value)**



Sources: Truist IAG, Bloomberg, University of Michigan; monthly data through May 2022.

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