

# Economic data tracker – Inflation continues to heat up

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## Trend watch and what's new this week

Good news for all those taking an international vacation this summer; The U.S. is relaxing the negative COVID-19 test requirement for travelers entering the U.S. beginning next week. That may be partly due to the trend of new COVID-19 cases (slide 6), which appears to have stalled. Similarly, the percentage of hospitalized COVID-19 patients has stalled (slide 8), while the rate of hospitalizations declined again in the past week.

The activity-based data (slides 5 and 7) remained solid this past week, there was some week-to-week hiccups. For instance, air passenger counts jumped above 15.6 million for the week, but restaurant bookings, hotel occupancy, and temporary staffing slipped WoW. The hiccups appear to related to the timing of the Memorial Day holiday.

## Hot headline inflation readings continue, but the composition and core views showing a different picture

The bad news for summer vacation travelers – spiking gasoline prices are going to put a big dent in your budget, whether you're taking a road trip or flying.

Inflation, as measured by the Consumer Price Index (CPI), continued to heat up in May, up 8.6% from a year ago (slide 9). Energy prices were the primary cause (slide 9), which was largely driven by higher gasoline

prices (slide 10). Unfortunately, gasoline price will likely continue to climb for the foreseeable future due to the fallout from the Russia-Ukraine conflict. On slide 11, we show the key components of consumer inflation.

However, the pace of core CPI, which excludes food & energy, held steady in May and softened on a year-over-year basis (slide 12). Used car prices coming back down to earth (slide 13).

## Consumer sentiment has crashed in June

With inflation is seemingly everywhere, consumer sentiment has continued to sour. The University of Michigan Consumer Sentiment Survey crashed to the lowest level since the survey began in 1978 (slide 14).

Finally, on slide 15, we show that moviegoers are returning to theaters in 2022, apparently enticed to see big-budget blockbusters such as "The Batman" and "Top Gun: Maverick," which were released after a nearly two-year delay.

## Our take

The hotter inflation readings are certainly disappointing and add to the cross currents within the economic data, whereby some data are strong and others are soft. These cross currents make it difficult to get a "clean" read on the health of the U.S. economy.

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# Economic Commentary – Our take and the bottom line

## **Our take (continued)**

Even within the inflation data, both the composition of inflation (what's driving it) and core CPI components are showing a different picture. For instance, the pace of goods prices (non-food & energy) slipped MoM in May, while services prices actually fell slightly in May (excluding energy). Similarly, as we showed on slide 13, used vehicles are moderating compared to last summer and earlier this year.

Another point that appears to be completely lost in the widely-held inflation and recession narrative: this inflation has surprised to the upside because nominal growth remains robust. Indeed, we acknowledge that inflation greatly impacts the behavior of consumers and businesses. However, if inflation was having the enormous impact some believe, then demand would be declining and prices would, too. But that simply has not happened.

Of course, continued robust nominal growth also feeds the “Fed is going to overtighten” narrative. On this point, we agree that the Federal Reserve (Fed) has a very challenging task – cool inflation by raising interest rates but don't interrupt the strong recovery. And do it in real time with incomplete data.

At least one segment of the U.S. economy is seeing demand cool in response to higher interest rates – housing. Nearly every housing-related metric has rolled over in the past few months from construction and mortgage indicators to prospective buyer traffic. The exception has been

home prices, which have largely continued to climb due to tight supply. Here, too, inventories have started to rise, and price should begin to soften in the coming months.

## **Bottom line**

We maintain our “no recession” call for the next 12-months. Unfortunately, the cross currents aren't going to end anytime soon, which will contribute to the turbulence within the stock and bond markets, as investors try to parse the data to determine what is a signal and what is noise.



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# Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▲	1Q P: -1.5%	1Q F: -1.3%	Revised downward by 0.1 from -1.4%. Inflation, imports, and inventories punched down real GDP in the first quarter.
	Unemployment rate <sup>x</sup>	▲	May: 3.6%	Jun: N/A	Held steady since March; hard to argue U.S. isn't at full employment.
Jobs	Monthly jobs (nonfarm)	▲	May: 390K	Jun: N/A	Another strong month. The six-month average is 505K.
	Weekly jobless claims <sup>+</sup>	▲	6/4: 226	6/11: 215K	Jumped WoW following the holiday but remains near a 50-year low.
	Nonfarm productivity	▲	1Q F: -7.3%	2Q P: N/A	Revised modestly upward from -7.5%. The big decline as supply chain snags persist, and unit labor costs soared 12.6% in 1Q22.
Interest rates	Federal funds rate	▲	0.75% – 1.00%	6/15: 1.25% – 1.50%	We expect another half-point rate hike on June 15. Fed's May meeting minutes suggest it won't be as aggressive if inflation eases.
	10-year U.S. Treasury yield	▼	3.16% <sup>‡</sup>	Flat/up	Jumped back above 3% in the past week on inflation worries. Buckle in – we expect rate volatility will continue for some time.
	10-year AAA GO muni yield	▼	2.55% <sup>‡</sup>	Flat/up	Up modestly but sharply lower than 2.9% in the middle of May.
	30-year fixed mortgage rate	▼	5.58% <sup>‡</sup>	Flat/up	Edged up to the highest level since 2009 but was around 4.5% for most of 2018 and early 2019. Higher rates hurt housing affordability.
Inflation	Consumer prices (CPI) <sup>x</sup>	▼	May: 1.0%	Jun: N/A	Energy jumped 3.9% MoM, including gasoline up 4.1%. Overall CPI increased 8.6% YoY, the most since 1981.
	Core CPI	▼	May: 0.6%	Jun: N/A	It held steady with the 0.6% April pace.
	Producer prices (PPI)	▼	Apr: 0.5%	May: 0.8%	Cooler MoM reading in 7 months. But jumped 11.0% YoY.
	Core PPI	▼	Apr: 0.4%	May: 0.6%	The coolest pace in 6 months. Up 8.8% YoY (was up 9.6% in March).

▲ Good ▼ Bad ⇄ Neutral <sup>+</sup>Leading indicator <sup>x</sup>Lagging indicator <sup>‡</sup>Intraday quote Bloomberg consensus shown

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# Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Housing	Existing home sales	▼	Apr: 5.61M	May: 5.42M	Fell 2.4% MoM, the third straight monthly decline.
	New home sales	▼	Apr: 591K	May: 625K	Big MoM drop of -16.6%, the fourth monthly decline, due to both higher prices and sharply higher mortgage rates.
	New housing starts <sup>+</sup>	▼	Apr: 1.724M	May: 1.707M	Fell 0.2% MoM; with downward revisions, down for second month.
	New permits <sup>+</sup>	▼	Apr: 1.823M	May: 1.795M	Down 3.0% MoM. Both single and multifamily were weak.
Business	Durable goods orders <sup>+</sup>	▲	Apr F: 0.5%	May P: N/A	Business equipment demand remained solid. Core capital goods orders (ex-air & defense) rose 0.3% MoM after very strong March.
	ISM manufacturing	▲	May: 56.1	Jun: N/A	Jumped in May, snapping a two-month slide. It was the 24 <sup>th</sup> straight month of expansion, which began in June 2020.
	ISM services/non-manufacturing	▲	May: 55.9	Jun: N/A	The pace fell for the second straight month but remains roughly at the pre-pandemic 3-year average and continues to expand.
	Business inventories <sup>x</sup>	▲	Mar: 2.0%	Apr: 1.2%	The largest MoM increase in 3 month. Inventories were depleted by ongoing supply chain issues and transportation bottlenecks.
Consumer	Personal income	▲	Apr: 0.4%	May: N/A	Third straight strong month, buoyed by wage & income growth.
	Personal spending	▲	Apr: 0.9%	May: N/A	Fourth strong month in a row, which belies the widely-held narrative that inflation will smother spending.
	Advance retail sales	▲	Apr: 0.9%	May: 0.2%	Just hit a fresh all-time high and are up 33% from April 2019.
	Consumer sentiment	▼	Jun P: 50.2	Jun F: 50.2	Crashed to the lowest level since 1978 due to hotter inflation and sky-high gasoline prices.

▲ Good ▼ Bad ⇄ Neutral <sup>+</sup>Leading indicator <sup>x</sup>Lagging indicator <sup>‡</sup>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	▼	Fell for a third week in a row to 41.2 (pre-pandemic indexed to 100). Top cities are Austin (56), Houston (54), and Dallas (50); bottom are San Francisco (32) and San Jose (32). 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 rebounded, up 3.0% WoW to 15.6 million, just 3.4% below the 2019 weekly average of 16.1M. Passenger counts are 11.7% below the same week in June '19 but are 25.3% above June '21.
OpenTable restaurant bookings	▲	Fell to -4.5% compared to pre-pandemic levels. Top positive states were led by Nevada (+64%) and Rhode Island (+49%); bottom were Washington (-26%) and New York (-24%). Top cities were Las Vegas (+66%), Austin (+48%) and Miami (+39%); bottom were Minneapolis (-58%) and Seattle (-47%).
Google mobility	▲	Parks fell to +43% from +50% last week, the highest since late July '21. 7-day averages relative to 2020: Residential +3%, Grocery/Pharmacy 0%, Transit -18%, Workplaces -21%, Retail/Restaurant/Recreation -7%.
Hotel occupancy	▲	Occupancy slipped to 63.2%, likely to timing of Memorial Day holiday. The average daily rate was \$147.53, up 11.3% from the same week in June '19, while revenue per available room was \$93.16, or -2.2% from June '19.
Freight (rail/truck/ship)	▲	Container traffic at Long Beach port jumped 8.6% in May. Rail carloads dropped 8.6% WoW due to the holiday but rose 2.5% in May. Truck loading rose 0.5% MoM in May, a fresh all-time high, and the 4 <sup>th</sup> monthly rise.
Staffing index	▲	Slipped to 105.7 from the prior week reading of 106.6, which was the highest level since mid-December 2021. 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.

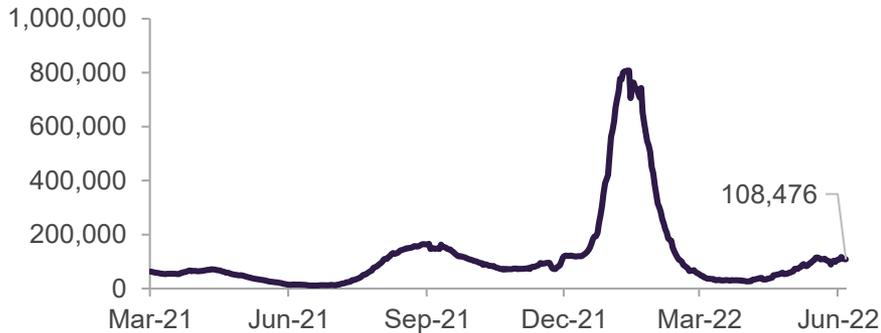
Trend relative to whether it is favorable for economic growth:

▲ Positive   ▼ Negative   ↔ Neutral / Mixed

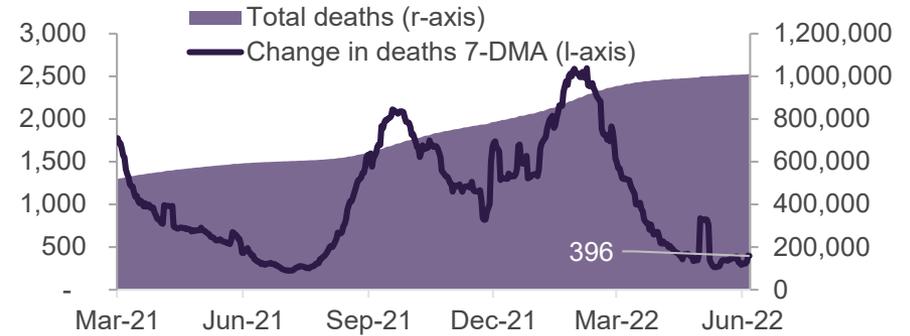
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, Google COVID-19 Community Mobility Report, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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

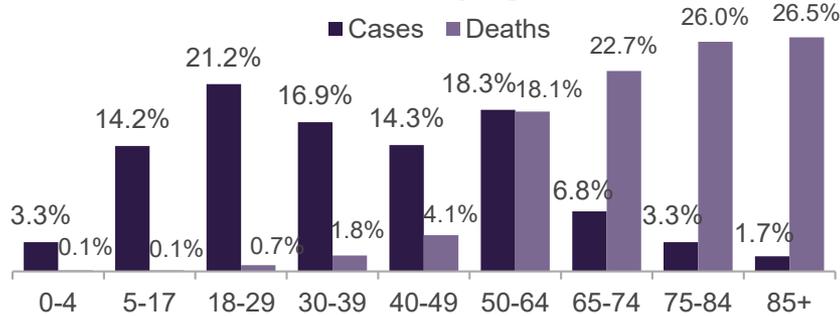
**New confirmed cases 7-day moving average**



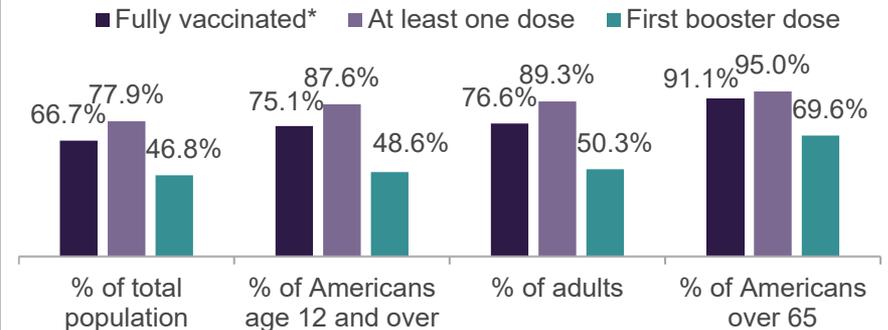
**U.S. COVID-19 deaths**



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



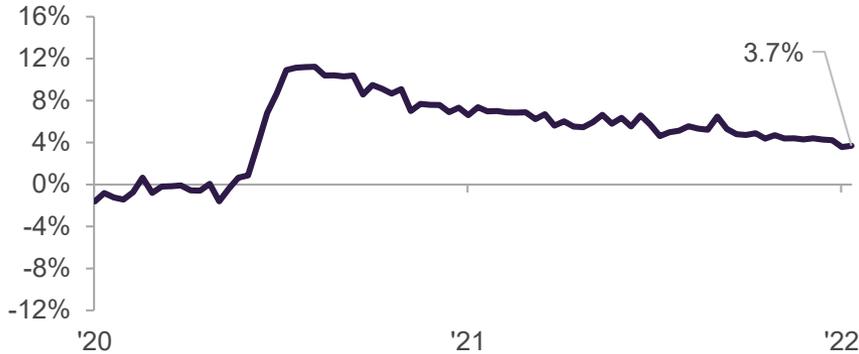
**U.S. vaccinations (percentage of population)**



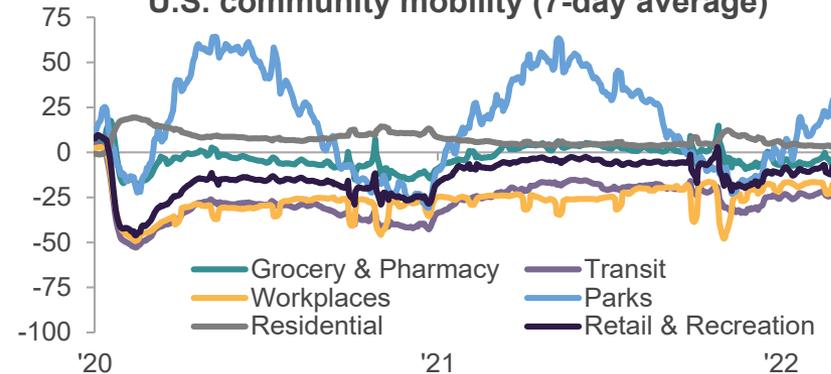
Sources: Truist IAG and the following additional sources respectively: Top left and right, Bloomberg, Johns Hopkins University through June 9, 2022. Data for 50 U.S. states plus American Samoa, Washington D.C., Guam, Northern Mariana Islands, Puerto Rico, and U.S. Virgin Islands. 7-day moving average (DMA). Top left, bottom right: Centers for Disease Control & Prevention (CDC), through June 9, 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 into early June

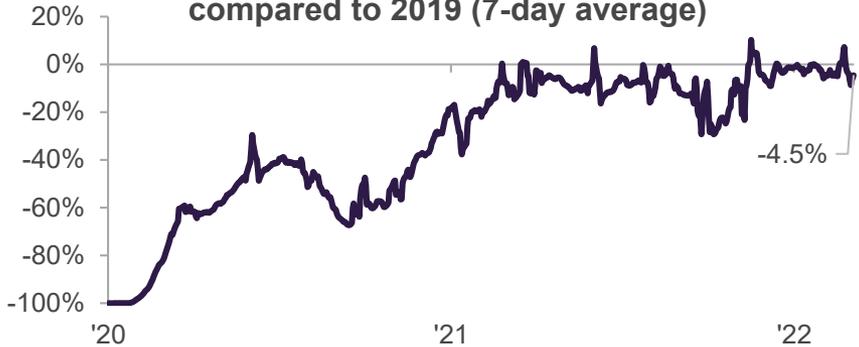
**NY Fed weekly economic index**



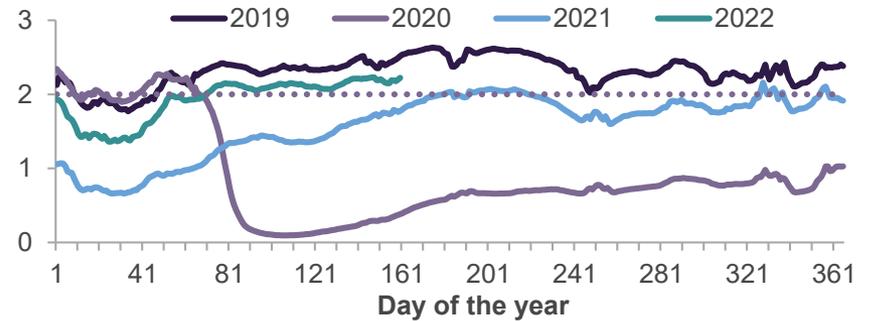
**U.S. community mobility (7-day average)**



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



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

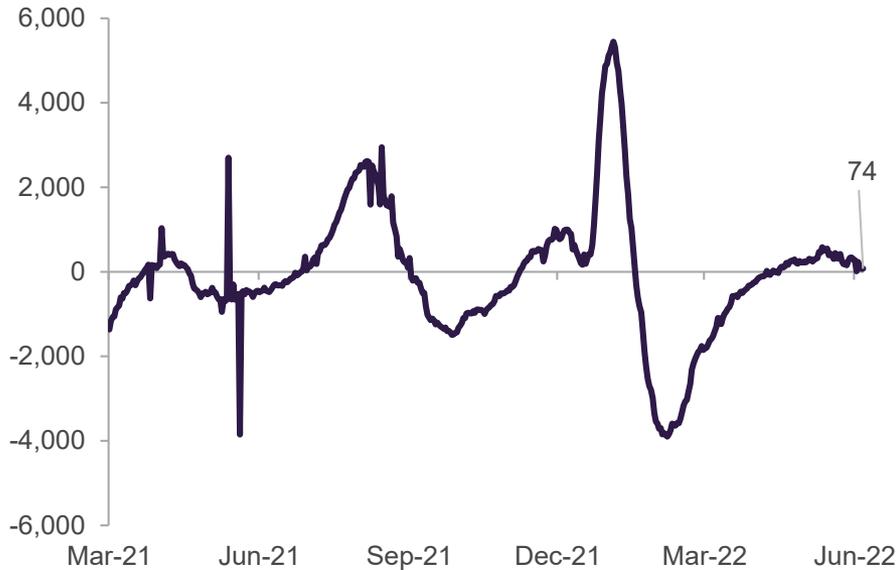


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through May 28, 2022. Top right: (U.S. Community Mobility) Google COVID-19 Community Mobility Reports 7-day average through June 7. Bottom left: Bloomberg, OpenTable 7-day average through June 9. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through June 9.

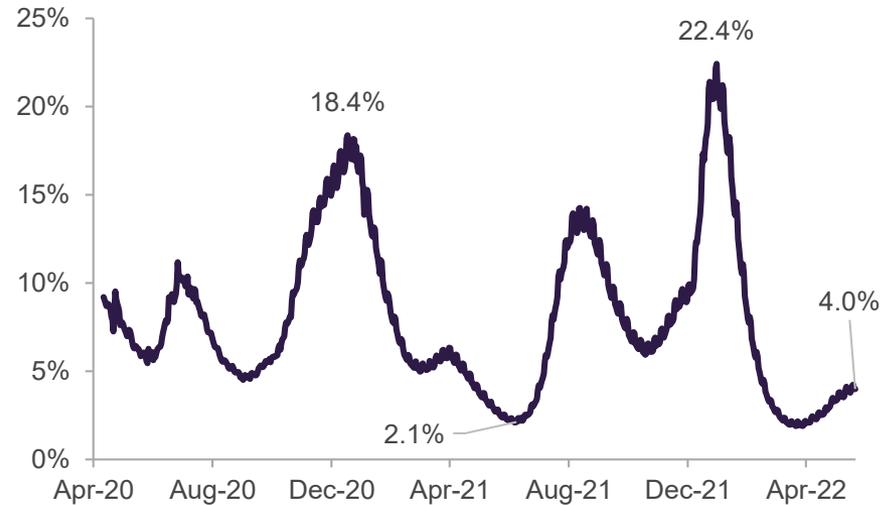
# The pace of U.S. hospitalizations slipping, percentage of beds stalled

The pace of COVID-19 hospitalizations declined again in the past week. Meanwhile, the total number of COVID-19 hospitalizations and the percentage of COVID-19 patient hospitalizations appeared to have stalled.

**Change in hospitalizations (7-DMA)**



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

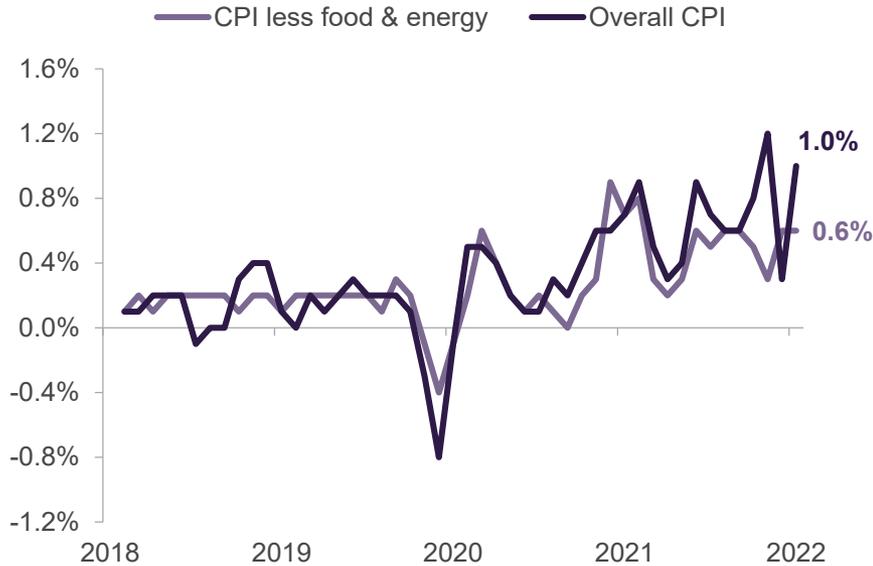


Sources: Truist IAG, Bloomberg, Department of Health & Human Services; daily data through June 9, 2022. 7-day moving average (7-DMA).

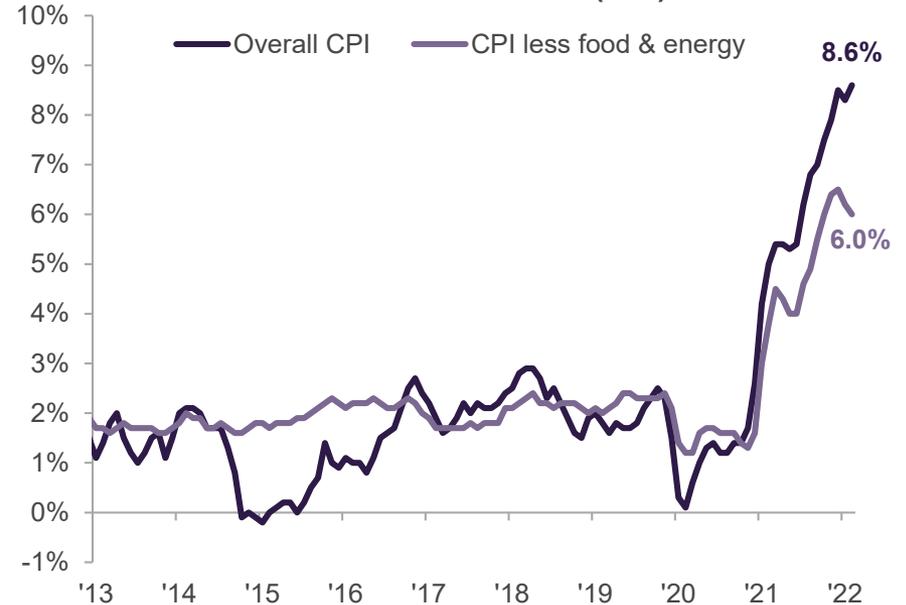
# Spiking energy pushed headline inflation higher in May, but not core prices

Inflation, as measured by the Consumer Price Index (CPI), rose 1.0% in May and up 8.6% from a year ago, which is dramatically faster than the pre-pandemic 3-year average of 2.1%. However, the pace of core CPI, which excludes food & energy, held steady – up 0.6% MoM and up 6.0% YoY.

**Month-over-month in change  
Consumer Price Index (CPI)**



**Year-over-year change in  
Consumer Price Index (CPI)**



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

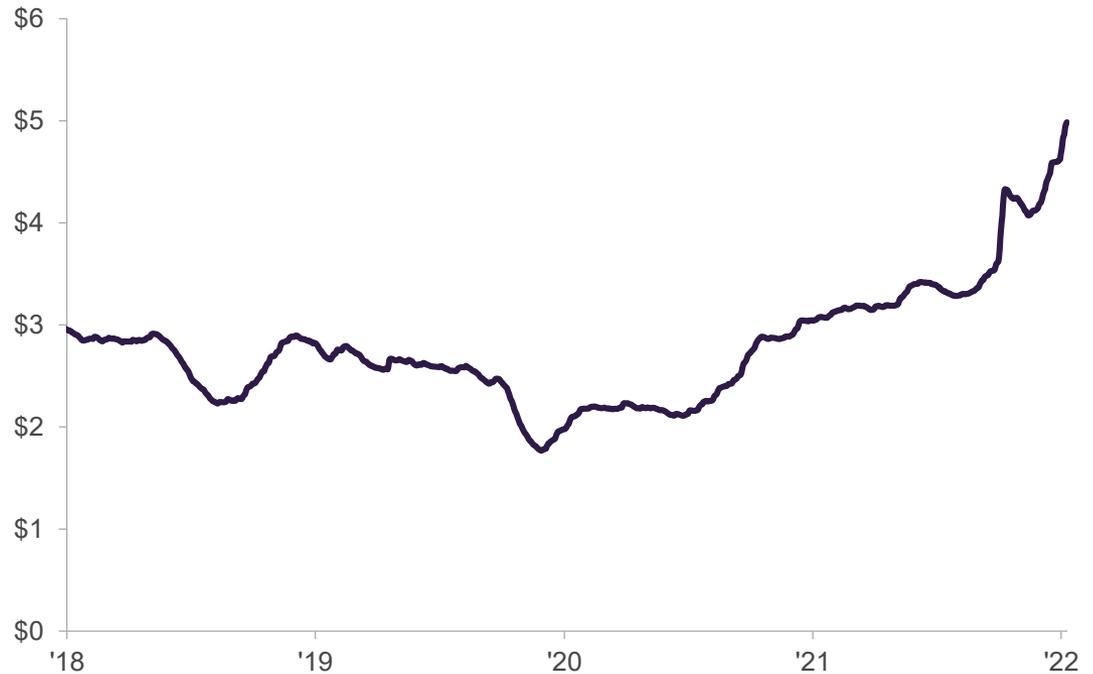
# Gasoline prices driving energy costs higher, likely headed higher

Gasoline prices jumped 3.9% on a month-over-month basis and are up 48.7% from a year ago. The broader energy category within the Consumer Price Index, which includes utilities such as electricity and piped natural gas, jumped 34.4% from last year.

The latest leg higher for gasoline prices is related to Europe's scramble to replace Russian crude oil by year end.

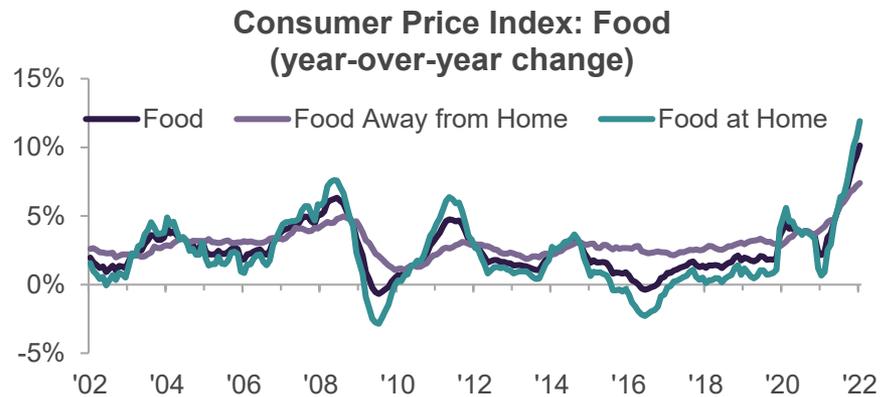
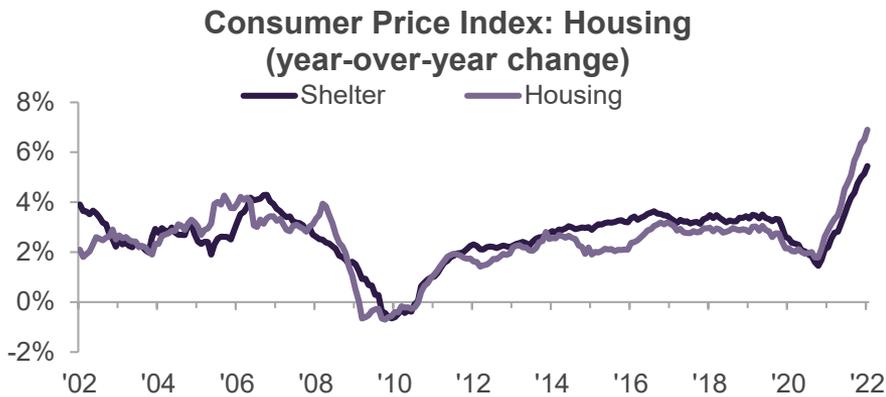
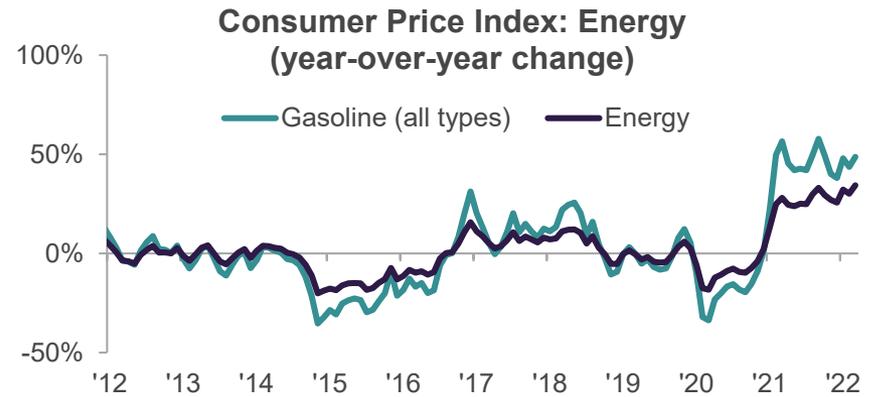
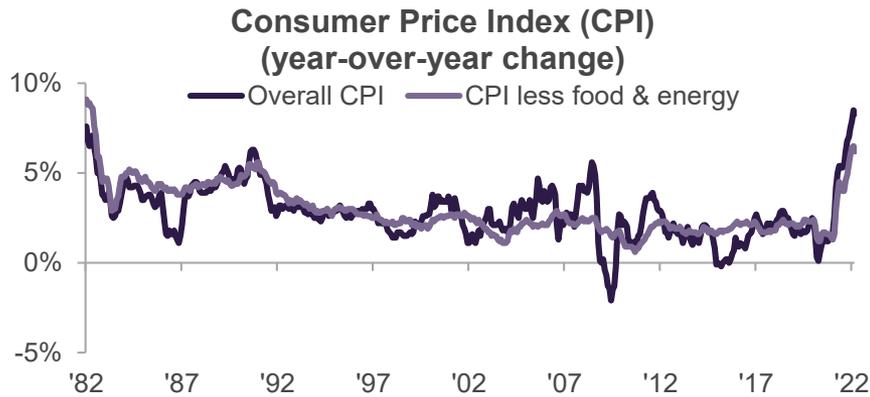
Unfortunately, we already know that U.S. gasoline prices have topped \$5 per gallon in June, or more than 6% above the month-end price for May.

**U.S. unleaded gasoline price national average (\$ per gallon)**



Sources: Truist IAG, Bloomberg, American Automobile Association; regular unleaded grade; daily data through June 9, 2022.

# Consumer inflation key components

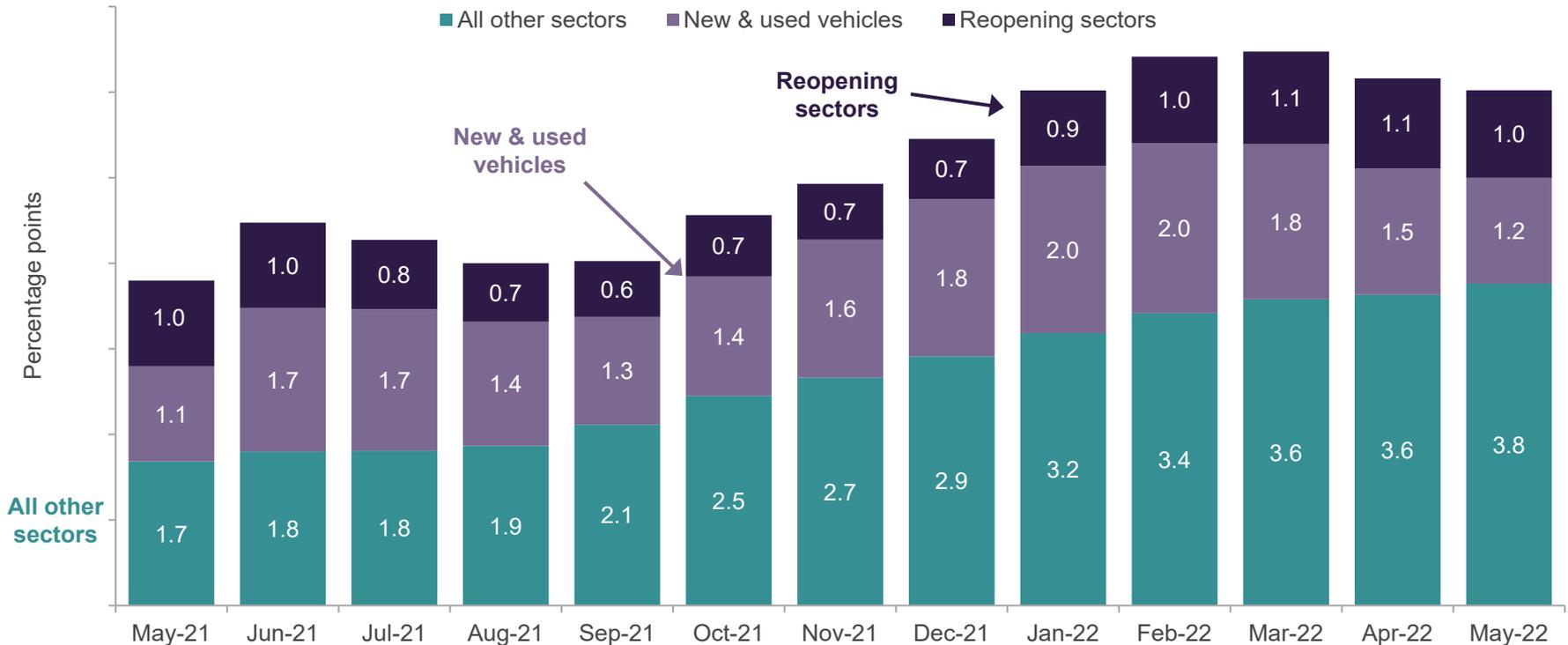


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through May 2022.

# Core inflation remains hotter, but monthly pace stabilizing

It appears that core inflation has peaked as used car prices moderate, after massive increases in 2021 (see slide 11), along with some of the reopening sectors, such as apparel and transportation services.

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



Sources: Truist IAG, Have, Bureau of Labor Statistics; monthly data through May 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 rose 1.8% month-over-month in May, snapping a three-month decline. On a year-over-year basis, prices were up 16.1% through May, which is considerably from increase of greater than 40% last summer (when it soared more than 9% for three straight month) and early '22. Still, used vehicle prices remain well-above the December 2019 level.

**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 May 2022.

# Consumer sentiment crashed to lowest level since 1978

Consumer sentiment, as measured by the University of Michigan Consumer Sentiment Survey, fell to a reading of 50.2 in June. That's the lowest level since the series began in 1978, below May 1980 and November 2008, during the Great Financial Crisis.

Inflation remains the biggest concern. Just 13% of respondents expect their incomes to keep pace with inflation in the coming 12 months. And long-term inflation expectations within the survey jumped to 3.3% over the next 5-10 years.

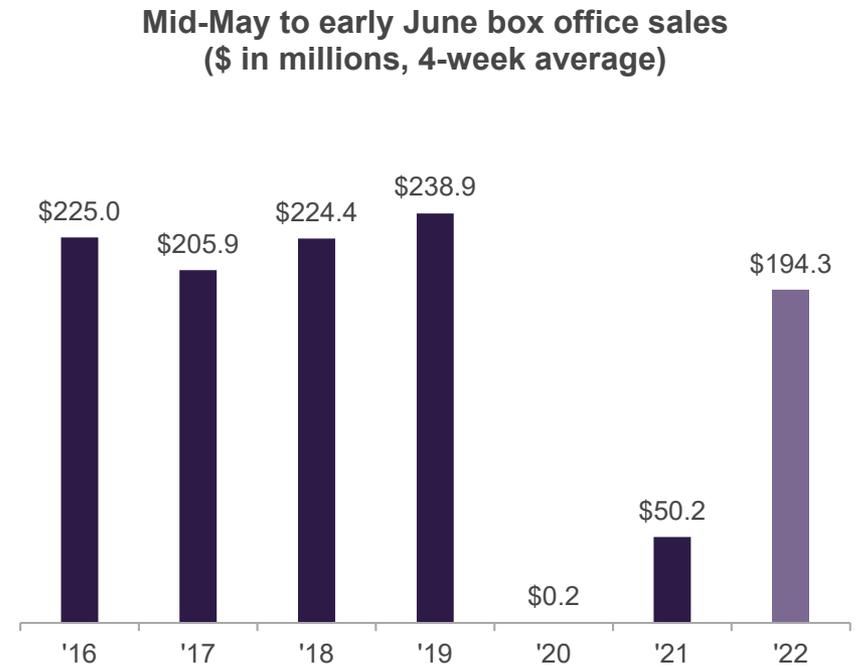
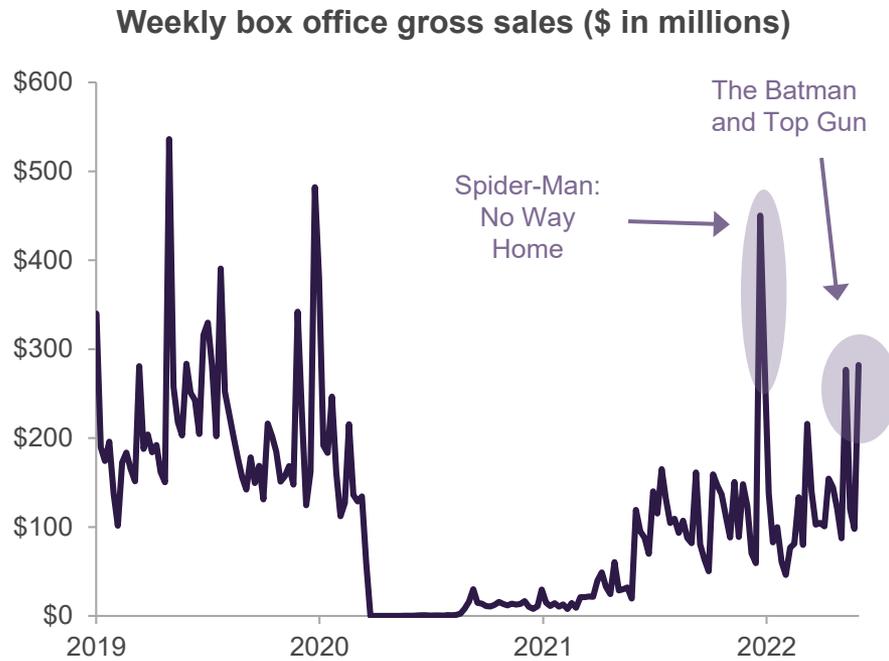
**University of Michigan  
Monthly Consumer Sentiment Survey (index value)**



Sources: Truist IAG, Bloomberg, University of Michigan; monthly data through June 2022 (preliminary).

# Moviegoers are coming back to see blockbusters

The pandemic impacted both moviegoers' willingness to return to theaters and studios' ability to make big-budget movies, with 2020 results crushed by the former while 2021 was squeezed by the latter. Now in 2022, with the release of blockbuster movies such as "The Batman" and "Top Gun: Maverick," box office sales are trending towards pre-pandemic levels.



Source: Truist IAG, Bloomberg, BoxOffice Media; weekly data through June 2, 2022.

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