

Economic data tracker – Inflation appears to have peaked

Michael Skordeles, AIF®
Senior U.S. Macro Strategist

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Trend watch and what's new this week

COVID-19 continues to fade. This week, the CDC relaxed several key guidelines, including recommendations for quarantines after possible exposure and screening asymptomatic people in most settings. Also, the rate and percentage of COVID-19 hospitalizations are drifting lower.

Meanwhile, some of the activity-based data (slides 5 and 6) has ebbed WoW. Most of travel-related data slipped modestly to start August, including hotel occupancy, air passenger counts, and restaurant bookings, but all are coming off unusually strong late July figures. Similarly, temp staffing and rail traffic dipped in early August from stronger July data.

Key metrics show inflation is cooling

Inflation, as measured by the Consumer Price Index (CPI), cooled in July, up 8.5% from a year ago compared to 9.1% in June. Energy prices dropped 4.6% MoM, helped by sharply lower gasoline prices. On slide 7, we show the MoM and YoY trends for both headline and core CPI, which excludes the volatile food & energy components. On slide 8, we look ahead at several CPI scenarios, showing how inflation might unfold over the coming year.

Wholesale inflation readings, known as producer prices (slide 9), also cooled, falling 0.5% MoM in July. Core PPI cooled for a fourth straight month, up 7.6% YoY compared to 9.7% in March. Of course, wholesale

prices eventually work their way into consumer prices.

After falling during the pandemic, rents spiked during 2021. Now the Zillow Rent Index shows that rental price growth has continued to moderate on a month-over-month basis, up 0.6% in July (slide 10). While still above the pre-pandemic pace of 0.45%, that was the smallest increase in the past six months and was less than half of the 2021 average of 1.3%.

Our take

The crosscurrents within the economic data persists. Inflation pressures are very real, especially for those on the lower end of the income spectrum. Despite cooling substantially (which is a very good sign), both consumer and wholesale inflation in July remained well above the norms from the past decade.

The July CPI and PPI figures, along with several other reports – including the ISM Manufacturing and Services indices – give us some hope that peak inflation is likely in our rearview mirror. Given other demand softness, it probably has peaked. Still even with the sharp declines, which we highlighted here last week, U.S. gasoline prices remain more than \$1 per gallon higher than pre-pandemic levels.

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Economic Commentary – Our take and the bottom line

Our take (continued)

More importantly, prices aren't the only data driving the Federal Reserve (Fed) to raise interest rates. Still-hot labor market and inflation expectations are also key factors. Thus, the peak in prices likely won't deter the Fed from another rate hike at the upcoming meeting in late September.

Our base case remains that the Fed will continue front-end loading interest rate hikes to dampen inflation. However, there is another cycle of inflation and labor data between now and then. We expect a vigorous debate both within the Fed and by markets on whether the September rate hike will be a half (0.50%) or three-quarters (0.75%) point rate hike.

Bottom line

Alas, crosscurrents continue and our warning that it would be difficult to get a "clean" view of the economy has materialized. On balance, we think it's possible that the U.S. can power through much of the crosscurrents, but not all of them. That points toward a slowing U.S. economy or prolonged sluggishness until these crosscurrents abate. Whether that's officially labeled a recession remains to be seen.



Wealth

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▼	2Q A: -0.9%	2Q P: -0.9%	Dragged down 2.01 percentage points by business inventories, which grew in 2Q following massive back-to-back jumps in 4Q21 and 1Q22.
	Unemployment rate ^x	▲	Jul: 3.5%	Aug: N/A	Ticked lower, a new cycle low; U.S. is clearly at full employment.
Jobs	Monthly jobs (nonfarm)	▲	Jul: 528K	Aug: N/A	Another big upside surprise, nearly double the consensus of 250K.
	Weekly jobless claims ⁺	▲	8/6: 262K	8/13: 265K	Up to highest level since Nov., but still hovering near a 50-year low.
	Nonfarm productivity	▲	2Q P: -4.6%	2Q F: -4.6%	Dropped again but improved from a revised -7.4%. Also, unit labor costs starting to slip, up 10.8% vs. 12.7% in 1Q22.
Interest rates	Federal funds rate	↔	2.25% – 2.50%	9/21: 2.75% – 3.00%	Fed hiked another 0.75% rates in July to counter spiraling inflation expectations. Market expects at least another 0.50% in September.
	10-year U.S. Treasury yield	▼	2.84% [‡]	Up	Basically flat WoW after big jump last week with stronger economic figures. We expect rate more volatility.
	10-year AAA GO muni yield	▼	2.26% [‡]	Up	Essentially unchanged WoW, but up modestly from two weeks ago.
	30-year fixed mortgage rate	▼	5.54% [‡]	Flat	Up more than 0.25% from the end of July, though down from 6% in June. Higher rates hurt housing affordability.
Inflation	Consumer prices (CPI) ^x	↔	Jul: 0.0%	Aug: N/A	Smallest MoM rise since the pandemic as energy dropped 4.6%. Overall CPI increased 8.5% YoY, the lowest level in three months.
	Core CPI	▼	Jul: 0.3%	Aug: N/A	YoY held steady at 5.9%, which is a six-month low.
	Producer prices (PPI)	▼	Jul: -0.5%	Aug: N/A	First MoM drop since the pandemic, while up 9.8% YoY.
	Core PPI	▼	Jul: 0.2%	Aug: N/A	Cooler MoM pace since the pandemic, while YoY rose 7.6%.

▲ 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	▼	Jun: 5.12M	Jul: 4.85M	Fell 5.4% MoM, the 5 th straight monthly decline, but prices still rose.
	New home sales	▼	Jun: 590K	Jul: 585K	Down 8.1% MoM, the 5 th drop in six months. Prices fell 9.5% MoM.
	New housing starts	▼	Jun: 1.559M	Jul: 1.530M	Dropped 2% MoM. Single family down for 4 th month in a row.
	New permits ⁺	▼	Jun: 1.696M	Jul: 1.640M	Rose 0.1% MoM, as multifamily strength helped snap a 2-mo decline.
Business	Durable goods orders ⁺	▲	Jun F: 2.0%	Jul P: 1.0%	Hit a new all-time high. Core capital goods orders (ex-air & defense) rose 0.7% MoM, most in 3 months and a fresh all-time high.
	ISM Manufacturing Index	▲	Jul: 52.8	Aug: N/A	Dipped MoM, but was the 26 th month of expansion, which began in June 2020. New orders rebounded some but still contracted.
	ISM Services Index	▲	Jul: 56.7	Aug: N/A	Surprised to the upside as new orders to surge to a 4-month high. Price paid dropped to a 17-month low, suggesting inflation peaked.
	Business inventories ^x	▲	May: 1.4%	Jun: 1.4%	Inventories rebounding sharply, up 1.6%/month on average in 2022.
Consumer	Personal income	▲	Jun: 0.6%	Jul: 0.6%	Fifth straight strong month, buoyed by wage & income growth.
	Personal spending	▲	Jun: 1.1%	Jul: 0.6%	The sixth straight increase and largest in three months.
	Advance retail sales	▲	Jun: 1.0%	Jul: 0.1%	Just hit a new high, as did sales excluding autos and gasoline.
	Consumer sentiment	▼	Aug P: 55.1	Aug F: 55.1	Nice rebound to a 3-month high, though long-term inflation expectations ticked up slightly.

▲ 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 slightly WoW to 43.6 (pre-pandemic indexed to 100). Top cities are Austin (57), Houston (55), and Dallas (51); bottom are San Jose (35) and San Francisco (38). 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 fell 0.6% WoW, a third straight decline, to 15.8 million, -1.9% from the 2019 weekly average of 16.1M. Passenger counts are 10.7% below the same week in August '19 but are up 14.6% from August '21.
OpenTable restaurant bookings	▲	Held fairly steady at -2.5% compared to pre-pandemic levels. Top positive states were led by Connecticut (+59%) and Nevada (+49%); bottom were New York (-28%) and Maryland (-22%). Top cities were Las Vegas (+51%) and Ft. Lauderdale (+40%); bottom were Minneapolis (-51%) and San Francisco (-45%).
Google mobility	▲	With schools starting, Parks slipped to +41% from +46% last week. 7-day averages relative to 2020: Residential +4%, Transit -17%, Grocery/Pharmacy 0%, Workplaces -24%, Retail/Restaurant/Recreation -7%.
Hotel occupancy	▲	Occupancy slipped to 69.9%, above the 5-year average of 65%, from 71.9%. The average daily rate was \$154.48, up 15.1% from the same week in Aug. '19, while revenue per available room was \$108.04, or up 8.5%.
Freight (rail/truck/ship)	▲	Truck loading rose 0.2% MoM in July, a fresh all-time high. Rail carloads fell 1.8% WoW to start August, but increased 1.8% in July, helped by motor vehicle shipments, which snapped a 3-month slide. Container traffic at Long Beach (#2 in the U.S.) fell 5.9% MoM in July, but Savannah (#4) jumped 7.4% to a fresh all-time high.
Staffing index	▲	Modest downtick to 106.6 from 107.0 during the last week of July. It remains well-above the 2019 average of 93.6. The low for this cycle was 59.6 set in April 2020.
Apartment rental prices	↔	Rent index in July rose 0.6% MoM and up 13.2% YoY, the coolest pace in 10 months. While prices are significantly above pre-pandemic levels, rental growth clearly peaked during the second half of 2021.

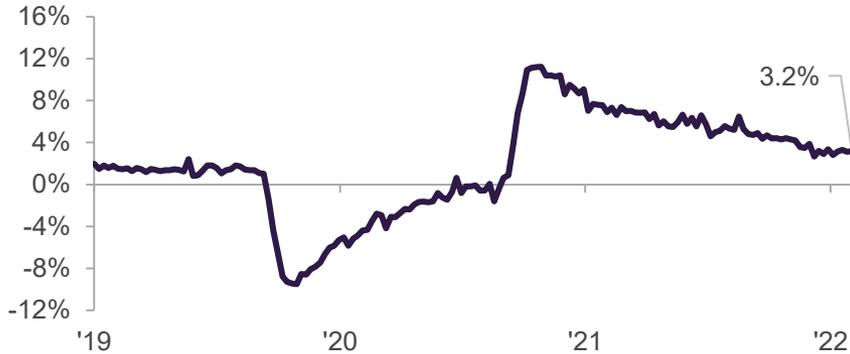
Trend relative to whether it is favorable for economic growth:

▲ Positive ▼ Negative ↔ Neutral / Mixed

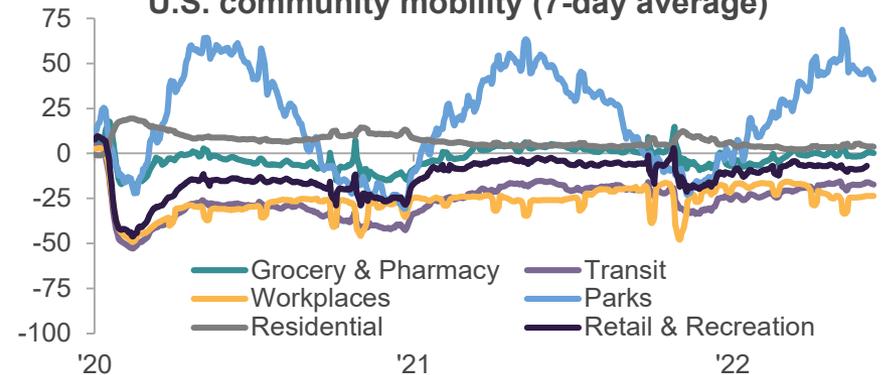
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, Google COVID-19 Community Mobility Report, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

Activity-based trends remain solid through late July

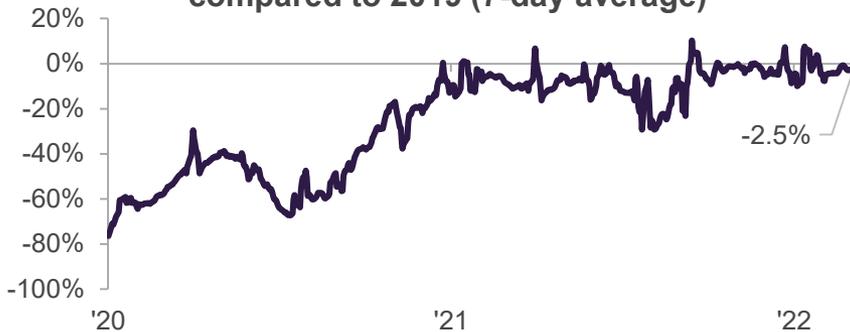
NY Fed weekly economic index



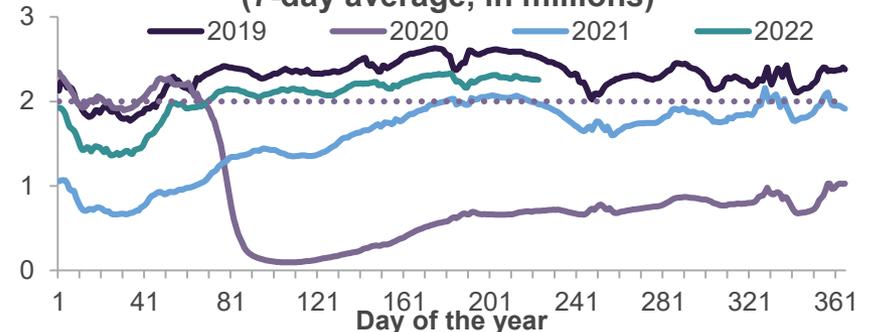
U.S. community mobility (7-day average)



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



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

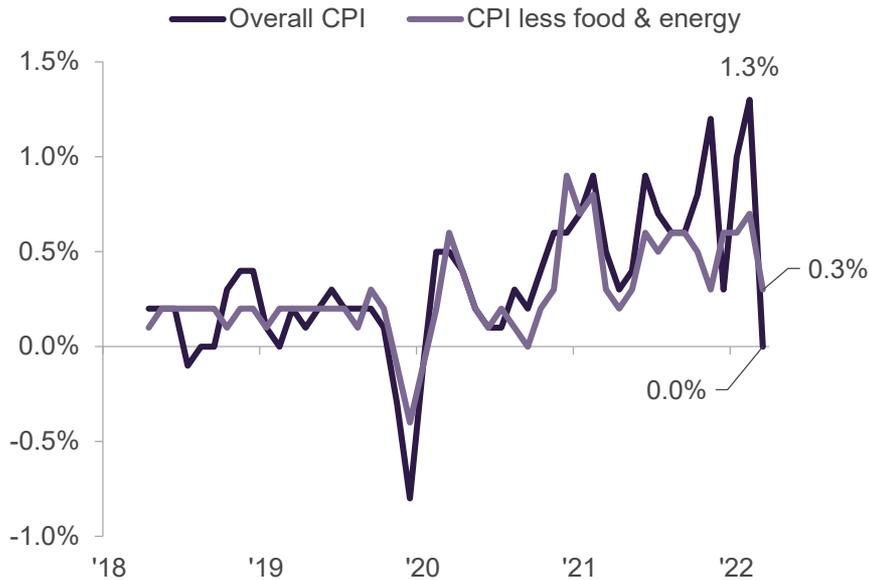


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through August 6, 2022. Top right: (U.S. Community Mobility) Google COVID-19 Community Mobility Reports 7-day average through August 9. Bottom left: Bloomberg, OpenTable 7-day average through August 11. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through August 11.

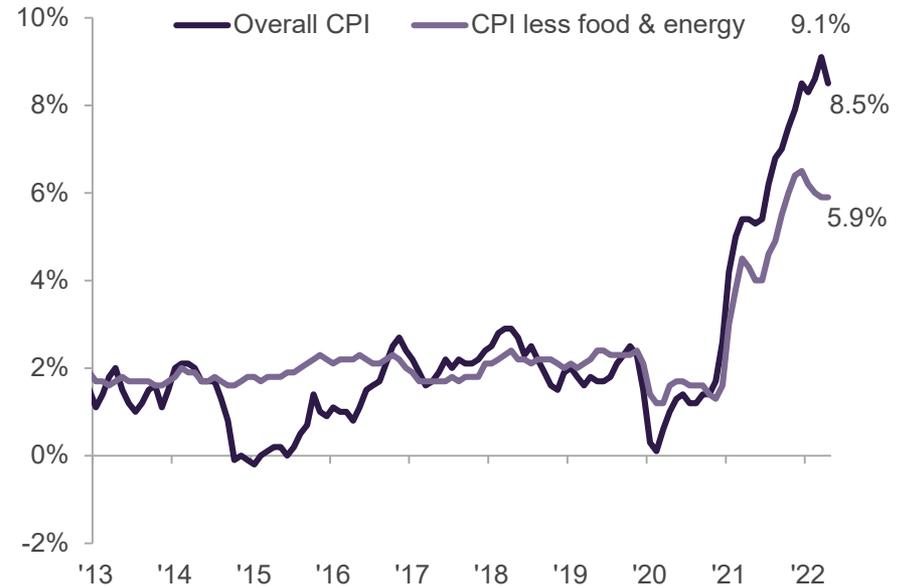
Though still elevated, consumer prices are finally cooling

The Consumer Price Index (CPI) cooled as prices were unchanged in July due to a sharp decline in energy prices. That helped the year-over-year pace to slip to 8.5% from 9.1% in June. Excluding food & energy, core CPI cooled to 0.3% month over month and 5.9% from a year ago.

Monthly change Consumer Price Index (CPI)



Annual change in Consumer Price Index (CPI)

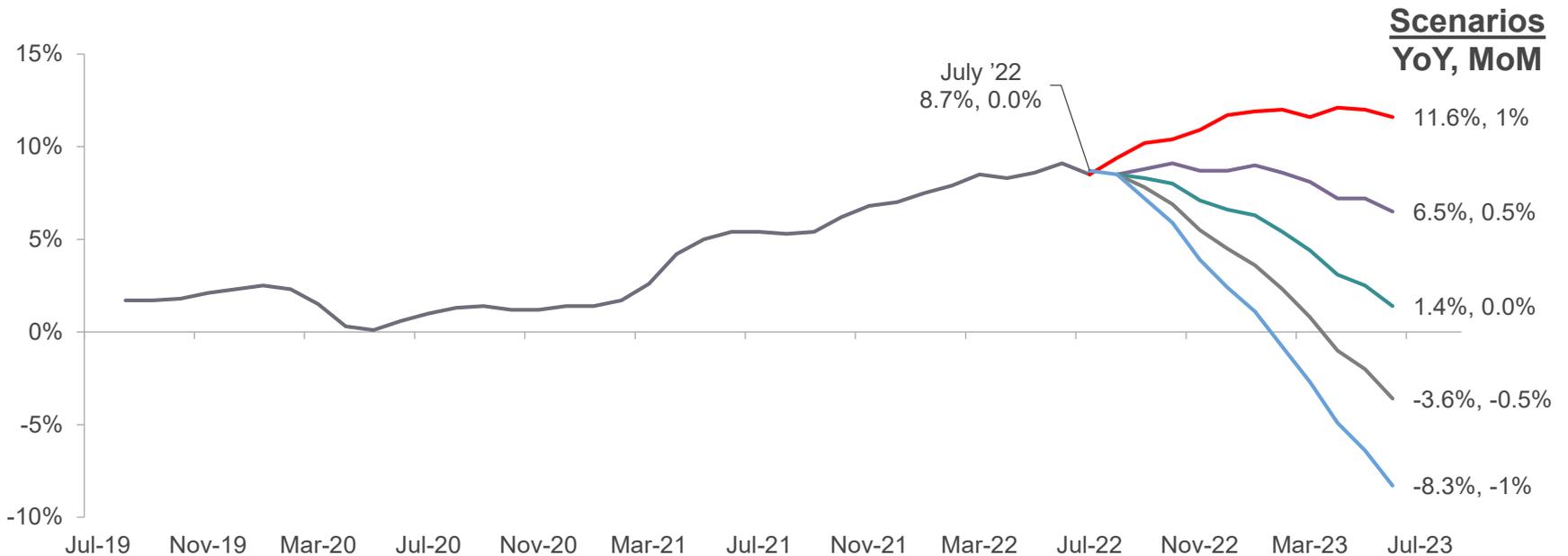


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through July 2022.

Consumer inflation scenarios – wide range of outcomes

The decline in the year-over-year (YoY) rate of the Consumer Price Index (CPI) to 8.7% in July from 9.1% in June has many investors wondering how inflation might behave going forward. Below are several scenarios of how it might unfold over the coming year. For instance, the month-over-month (MoM) change was 0% during July; if CPI continued at that pace, it would equate to a 1.4% YoY rate in July '23.

Consumer Price Index scenarios



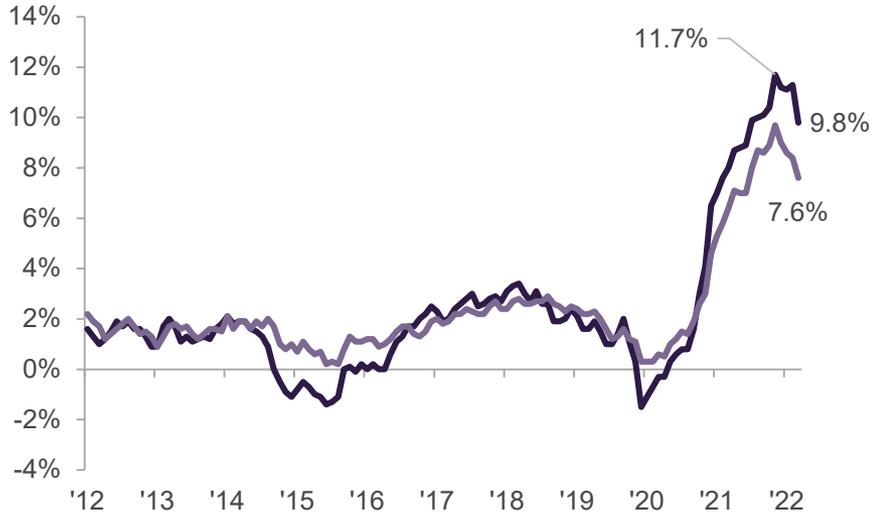
Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through July 2022.

Wholesale prices are also sliding

Wholesale inflation readings, measured by the Producer Price Index, falling 0.5% MoM in July, the first monthly decline since the pandemic. Core PPI, which excludes food & energy, cooled for a fourth straight month, up 7.6% YoY compared to 9.7% in March. Of course, wholesale prices eventually work their way into consumer prices.

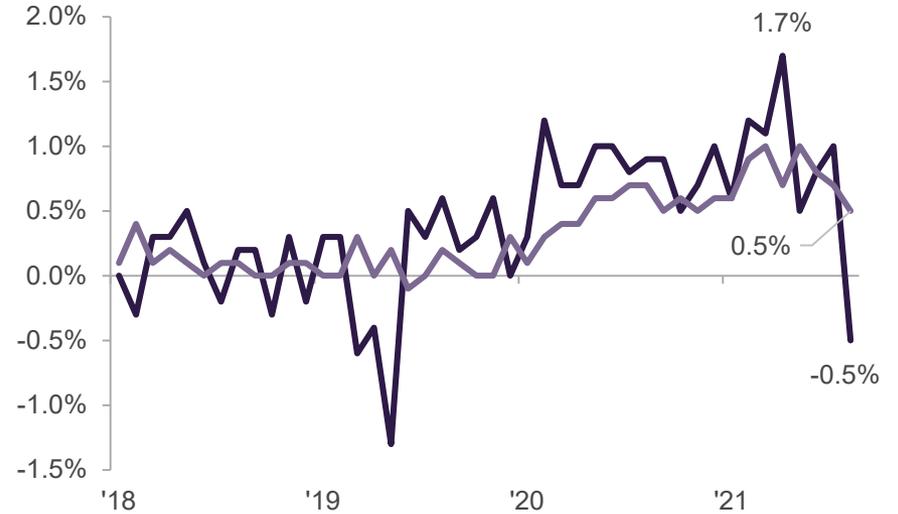
Annual change in Producer Price Index (PPI)

— Overall PPI (Final Demand) — PPI Less Food & Energy



Monthly change in Producer Price Index (PPI)

— Overall PPI (Final Demand) — PPI Less Food & Energy

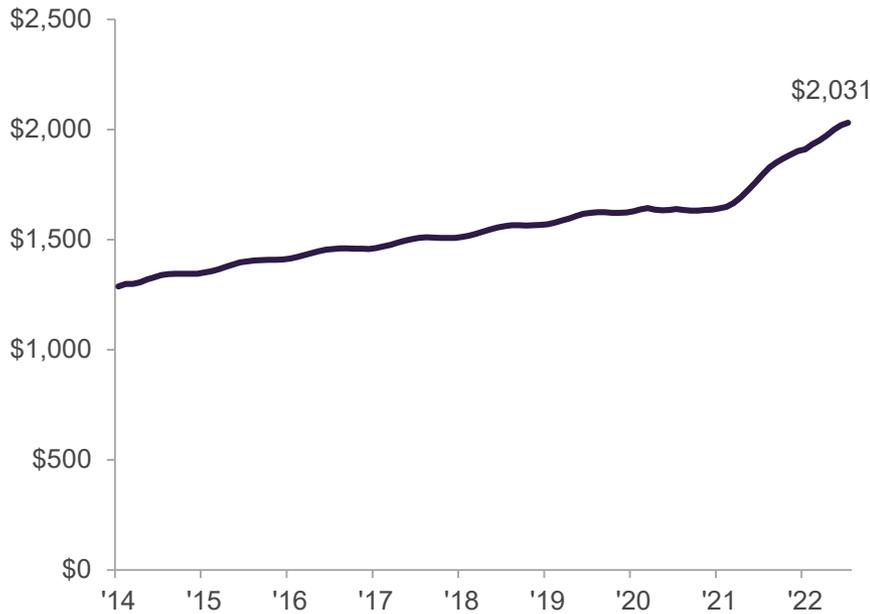


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through June 2022.

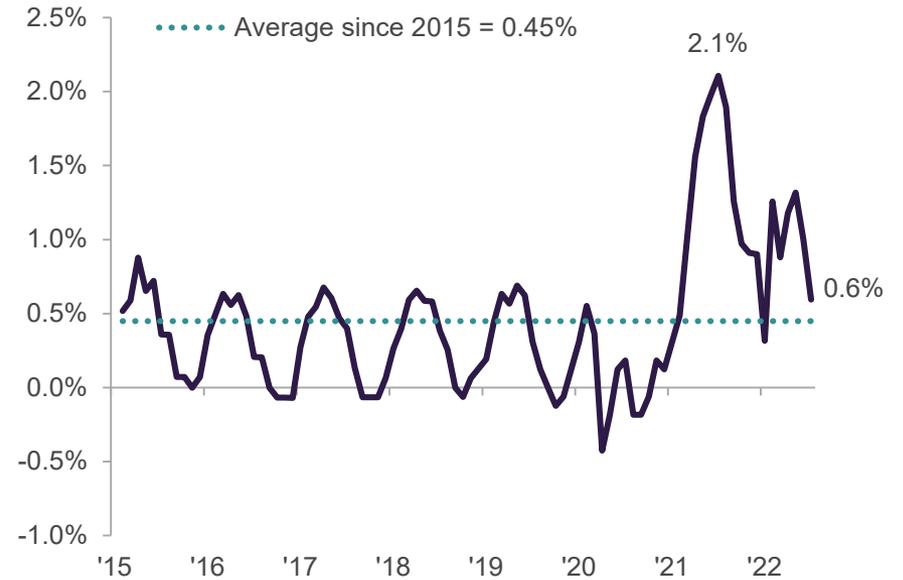
Rental growth rapidly returning to pre-pandemic trend

After falling during the pandemic, rents spiked during 2021. Rental price growth has continued to moderate on a month-over-month basis, up 0.6% in July. While still above the pre-pandemic pace of 0.45%, that was the smallest increase in the past six months and was less than half of the 2021 average of 1.3%.

Rent index



Rent index month-over-month change



Source: Truist IAG, Bloomberg, Zillow; monthly data through July 2023.

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