Economic data tracker – Housing weakens, retail sales solid

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Trend watch and what's new this week

COVID-19 continues to fade as confirmed cased have fallen dramatically in the past three weeks. Similarly, the rate and percentage of COVID-19 hospitalizations and deaths are dropping.

Meanwhile, the activity-based data (slides 5 and 6) remains mixed. Most of travel-related data slipped modestly to start August, including hotel occupancy and air passenger counts. But restaurant bookings has rebounded, flipping to positive compared to the same week in 2019. Temp staffing and rail traffic also rebounded in mid-August after tripping in early August.

More weakness within housing

Several key housing metrics were released this week, all of which weakened. We attribute all of this to dramatically higher mortgage rates, which have stayed above 5.5% nationally, though remains below the peak of 6% in June. Higher rates hurt housing affordability.

Existing home sales figures (slide 7) dropped for the sixth month in a row in July; however, median prices fell for the first time since January.

On slide 8, new building permits fell for the second time in three months. Also, new housing starts fell for the fifth month in a row. Additionally, we show the National Association of Home Builders (NAHB) traffic of prospective buyers index and the NAHB Housing Market Index, which gauges homebuilders' confidence. Both have weakened considerably in the past, nearing the lows of the pandemic.

On slide 9, we show the Index of Leading Economic Indicators, which has dropped for five straight months. That is a recession red flag and bears watching.

Consumer still appears solid

On slide 10, we show retail & food sales, which inched up slightly in July. However, sales of autos (still hampered by supply chain issues) and gasoline both fell sharply during the month and account for roughly 30% of total retail sales. Still, sales hit a fresh all-time high. We also show an index view on slide 11, which illustrates the strength of this recovery compared to the prior two recessions.

Our take

We reiterate our warning that crosscurrents within the economic data will continue for the foreseeable future. Case in point: housing and retail sales offer compelling yet differing views of the U.S. economy. The former is in a steep downward spiral, reacting to both dramatically higher mortgage rates in 2022 and home prices since the reopening. The latter is buoyed by continued wage and income growth, along with a powerful shift in consumer spending back towards services rather than goods.

Economic Commentary – Our take and the bottom line

Our take (continued)

Both are accurate in our view, highlighting the crosscurrents. And both will very likely persist for many more months.

We anticipate that new and existing home sales will continue to decline. On the other hand, we expect new and existing home prices to remain elevated generally given the tight supply of both. While higher mortgage rates will cool housing sales further, more than a decade of underbuilding will likely continue to support prices, especially in the south, which accounts for more than 50% of all new home sales.

Conversely, we expect that consumer spending will continue to defy the “weak consumer” narrative. We believe that markets rightly concluded that retailers were overstocked this spring but extrapolated it into a misplaced view that consumers were buckling because of inflation. On the contrary, consumers were simply shifting their spending back towards services, which is typically a much larger slice of spending than goods. Evidence of this includes robust spending at restaurant & bars, which hit a new all-time high and remain nearly 20% above the pre-pandemic trend. While that won’t continue indefinitely, it does strongly contradict the notion that consumers are tapped out.

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.

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▼	2Q A: -0.9%	2Q P: -0.8%	Dragged down 2.01 percentage points by business inventories, which grew in 2Q following massive back-to-back jumps in 4Q21 and 1Q22.
Jobs	Unemployment rate[X]	▲	Jul: 3.5%	Aug: 3.5%	Ticked lower, a new cycle low; U.S. is clearly at full employment.
	Monthly jobs (nonfarm)	▲	Jul: 528K	Aug: N/A	Another big upside surprise, nearly double the consensus of 250K.
	Weekly jobless claims[+]	▲	8/13: 250K	8/13: 255K	Surprised to the downside last week. It remains 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	▼	2.98%‡	Up	Has quickly returned to 3% on the backs of stronger economic figures. We expect more rate volatility.
	10-year AAA GO muni yield	▼	2.43%‡	Up	Up big WoW after essentially treading water for several weeks.
	30-year fixed mortgage rate	▼	5.66%‡	Flat/up	It has stayed above 5.5% nationally, though remains 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	Coolest MoM pace since the pandemic, while YoY rose 7.6%.

▲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	▼	Jul: 4.81M	Aug: N/A	Fell 5.9% MoM, down for a 6th straight month. Prices finally fell MoM.
	New home sales	▼	Jun: 590K	Jul: 575K	Down 8.1% MoM, the 5th drop in six months. Prices fell 9.5% MoM.
	New housing starts	▼	Jul: 1.446M	Aug: N/A	Dropped 9.6% MoM. Single family down for 5th month in a row.
	New permits⁺	▼	Jul: 1.674M	Aug: N/A	Down 1.3% MoM but helped by continued strength from multifamily.
Business	Durable goods orders⁺	▲	Jun F: 2.0%	Jul P: 0.7%	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 26th 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 inventoriesˣ	▲	Jun: 1.4%	Jul: N/A	The pace is slipping compared to up 1.7%/mo for the prior 6 months.
Consumer	Personal income	▲	Jun: 0.6%	Jul: 0.6%	Fifth straight strong month, buoyed by wage & income growth.
	Personal spending	▲	Jun: 1.1%	Jul: 0.5%	The sixth straight increase and largest in three months.
	Advance retail sales	▲	Jul: 0.0%	Aug: N/A	Hit a new high despite sizable drops in sales of autos and gasoline.
	Consumer sentiment	▼	Aug P: 55.1	Aug F: 55.5	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

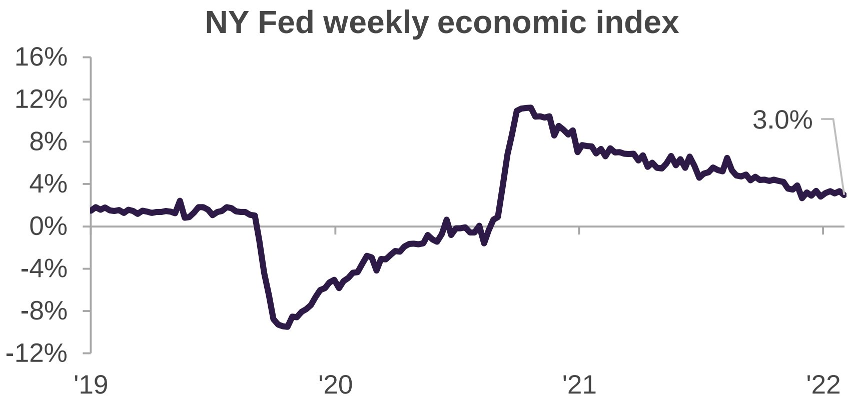
U.S. activity-based data matrix

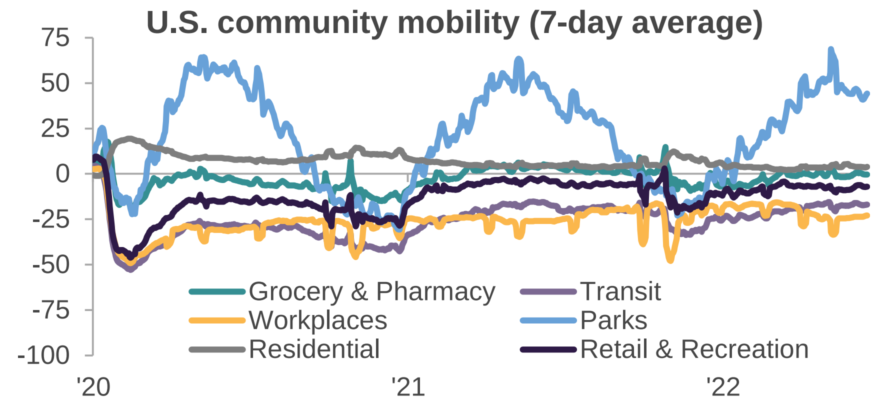
Indicator	Relative trend	What we're watching
Back to office	▼	Edged down WoW to 43.2 from 43.6 in prior week (pre-pandemic indexed to 100). Top cities are Austin (58), Houston (55), and Dallas (50); bottom are San Jose (34) and D.C. (38). While the trend has steadily improved, it remains less than half of pre-pandemic levels, which is not conducive for overall growth.
TSA air passenger throughput	▲	Weekly passengers fell 2.8% WoW, a fourth straight drop, to 15.3 million, -4.7% from the 2019 weekly average of 16.1M. Passenger counts are -10.8% the same week in August '19 but are up 15.3% from August '21.
OpenTable restaurant bookings	▲	Jumped to +1.0% compared to pre-pandemic levels. Top positive states were led by Connecticut (+42%) and Nebraska (+36%); bottom were New York (-23%) and Illinois (-21%). Top cities were Miami (+43%) and Nashville (+31%); bottom were Minneapolis (-46) and San Francisco (-44%).
Google mobility	▲	Activity has trended up. Parks rose to +44% from +41% last week. 7-day averages relative to 2020: Residential +4%, Transit -17%, Grocery/Pharmacy 0%, Workplaces -23%, Retail/Restaurant/Recreation -7%.
Hotel occupancy	▲	Occupancy fell to 68.5% but remains above the 5-year average of 65%. The average daily rate was $152.34, up 15.8% from the same week in Aug. '19, while revenue per available room was $104.30, or up 10.5% from '19.
Freight (rail/truck/ship)	▲	Rail carloads increased 1.3% WoW in the latest week and were up 1.8% in July. Container traffic at Long Beach (#2 in the U.S.) fell 5.9% MoM and SeaTac (#5) fell 15.7% in July, but Savannah (#4) jumped 7.4% to a fresh all-time high. Truck loading rose 0.2% MoM in July, a fresh all-time high.
Staffing index	▲	Essentially unchanged at 106.6. Aside from the week of Independence Day, it has stayed remarkably steady. 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.

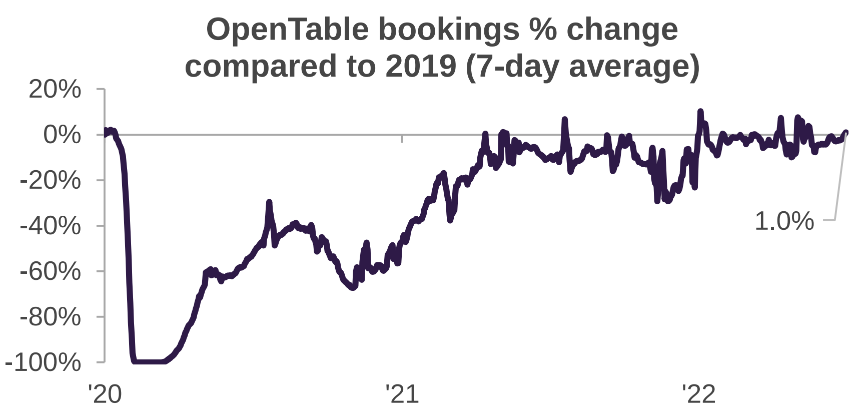
Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

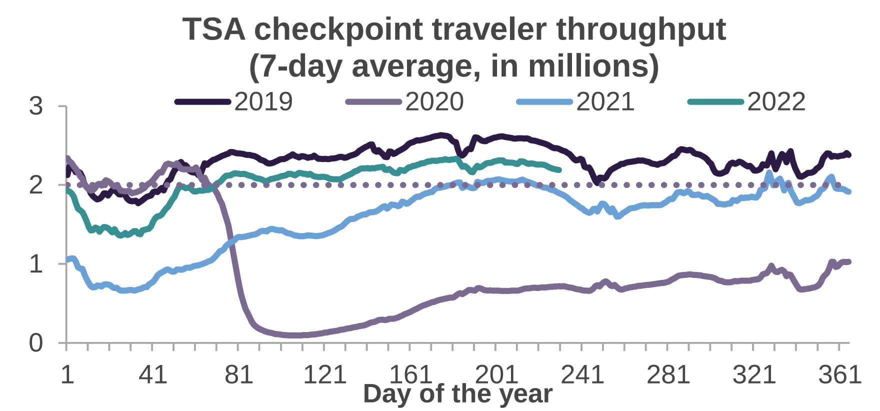
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, Google COVID-19 Community Mobility Report, STR/CoStar, American Staffing Association, Zillow. Week-over-weak and year-over-year change are abbreviated as WoW and YoY, respectively.

Activity-based trends remain solid through mid-August









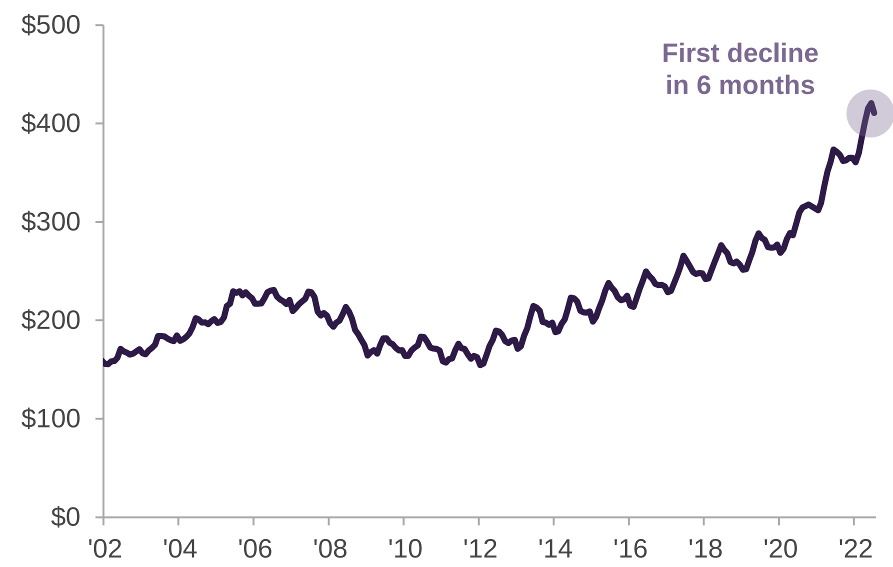
Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through August 13, 2022. Top right: (U.S. Community Mobility) Google COVID-19 Community Mobility Reports 7-day average through August 15. Bottom left: Bloomberg, OpenTable 7-day average through August 18. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through August 18.

Existing home sales drop for 6th straight month, prices finally starting to slip

Total existing home sales, which includes single-family and condos, fell by 5.9% to 4.81 million SAAR in July. Single-family sales dropped for the sixth straight month and are now below the 20-year average.

Existing single-family home sales (units in millions, SAAR)

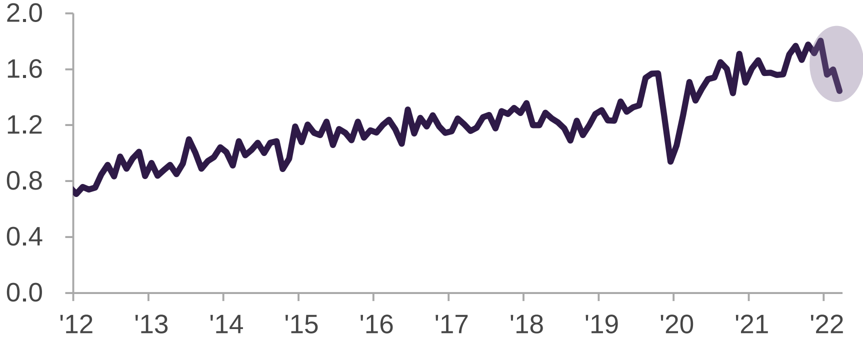
Median sales price of existing single-family homes (in thousands)



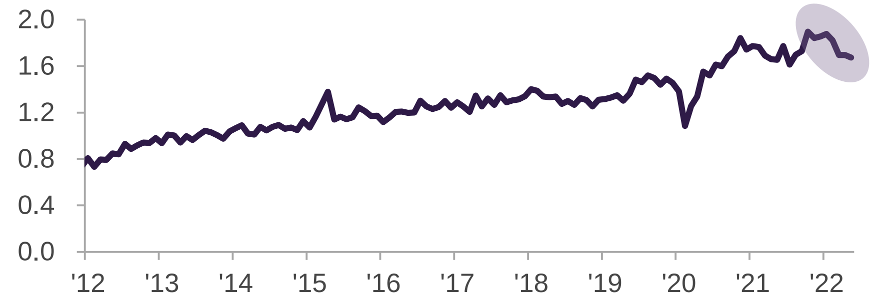
Data Sources: Truist IAG, Bloomberg, National Association of Realtors. Figures shown are seasonally-adjust annualized rate (SAAR); monthly data through July 2022.

Higher mortgage rates rapidly cooling new housing activity

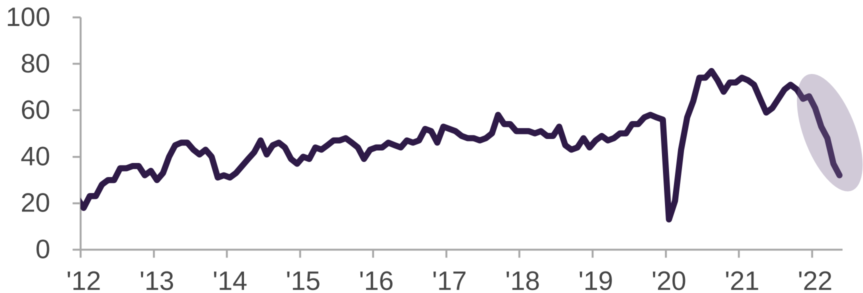
U.S. Housing starts (units in millions, SAAR)



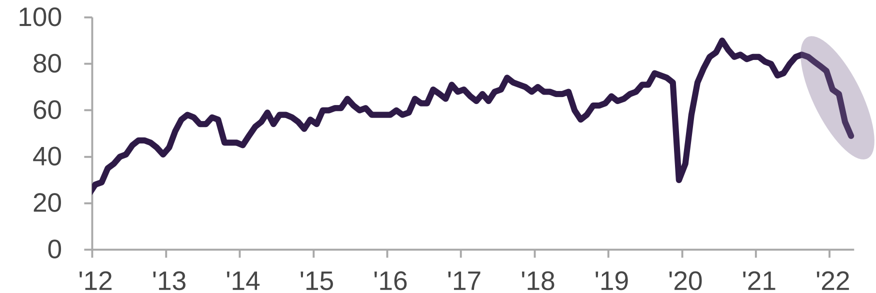
Total new building permits (units in millions, SAAR)



National Association of Home Builders traffic of prospective buyers (index value)



National Association of Home Builders Market Index



Sources: Truist IAG, Bloomberg. Seasonally adjusted annualized rate (SAAR).

Leading indicators dipped for fifth straight month

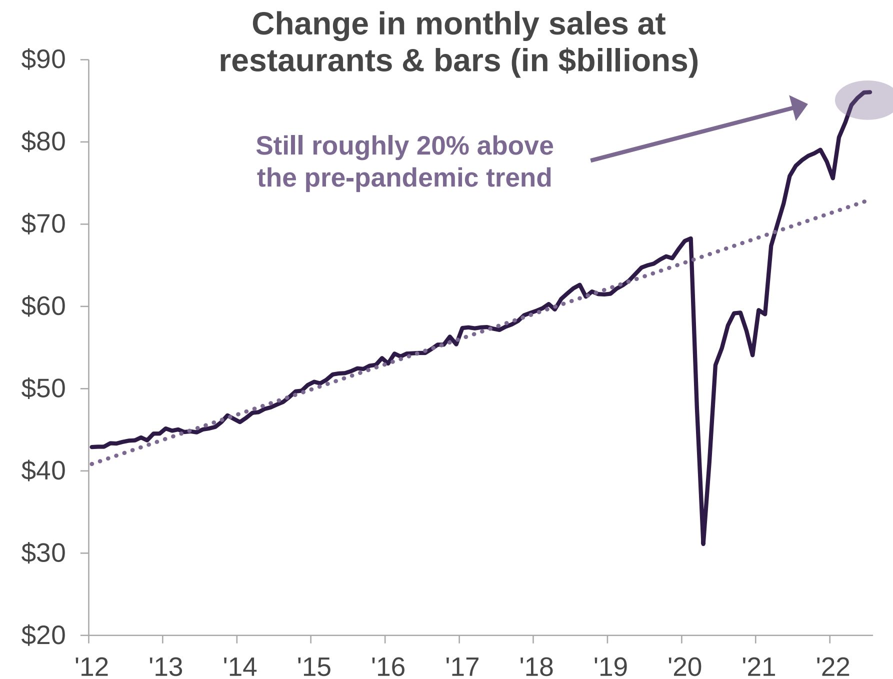
The Index of Leading Economic Indicators is comprised of 10 components that tend to move ahead of the overall economy. It has declined for five months in row (March through July).

It's important to note that consumer expectations were the biggest negative contributor during July.

Sources: Truist IAG, Bloomberg, Conference Board Index Value (2016 = 100); monthly data through Julyy 2022.

Retail sales cooling, but not weak, especially considering gasoline's drop and tepid auto sales

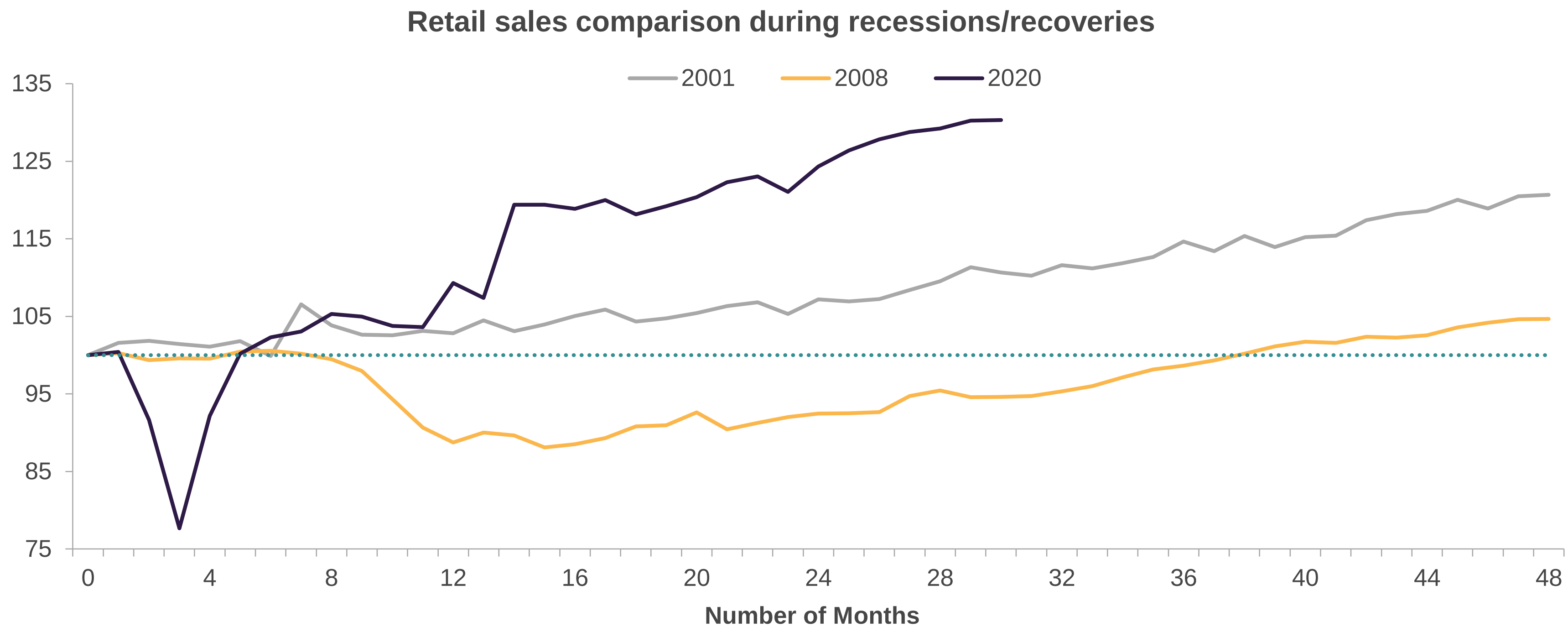
Retail & food sales edged up fractionally in July to $682.81 billion, a new all-time high. Gasoline sales dropped 1.8% month-over-month, matching the largest monthly decline in 20 months. Moreover, auto sales fell 1.6% in July. Together autos and gasoline account for about 30% of total retail sales. Meanwhile, restaurant & bar sales (about 13% of total sales) also hit a new all-time high and remain nearly 20% above the pre-pandemic trend.



Source: Truist IAG, Bloomberg, U.S. Census Bureau; monthly data through July 2022.

Retail sales continue to defy “weak consumer” narrative

Retail & food sales hit a new all-time high in July of $682.81 billion, despite a sharp pullback in gasoline prices. Retail sales are up 30% from pre-pandemic levels, though are being boosted by inflation. Still, the speed and strength of the rebound in retail sales during the current recovery is unprecedented.



Sources: Truist IAG, Bloomberg, U.S. Census Bureau. Index constructed based on monthly retail and food service sales in nominal dollars. For 2020 recovery, monthly data through July 2023.

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