

# Economic data tracker – More evidence inflation is cooling

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## Trend watch and what's new this week

The mixed trend of the activity-based data (slides 4 and 5) persists. On the upside, weekly air passenger counts rose WoW, snapping a 6-week slide, while restaurant bookings remained strong, jumping to the highest post-pandemic reading this past week. Back-to-office have ticked up in the latest week. On the downside, hotel occupancy fell the sixth straight week, which is typical as the summer wanes.

Several more recent data points indicate that inflation is cooling. Rail traffic rose week-over-week (WoW) and month-over-month (MoM) in August. Among the cargo sectors that helped boost August traffic, new vehicle shipments jump to 18-month high (slide 6). More vehicles should help with inflation.

On slide 7, the Institute for Supply Management (ISM) Services Index rose for the second straight increase after declining in six of the prior seven months. Within the components, new orders rebounded to an eight-month high. Also, the sharp pullback in the price paid component during past five months (April through August) suggests that inflation has already peaked within service industries.

On slide 8, we show the price index of used vehicles, which has fallen in six of the past seven months. Prices fell 4% in August, one of the largest monthly declines in the past decade.

## Our take

As we have highlighted, various price measures show that inflation appears to have peaked. Two of the crucial monthly data points—for consumer and wholesale inflation—will be released next week. We expect both to decline MoM, primarily due to falling gasoline prices.

Yet, it's not entirely clear whether inflation expectations are moderating enough to satisfy the Federal Reserve (Fed) decisionmakers. One of the key reasons was the solid August jobs report, which showed job growth of 315,000.

A steady stream of Fed leaders, including Chairman Jay Powell, have voiced support of three-quarter point (0.75%) rate hike at the September Fed meeting. In his Jackson Hole speech two weeks ago, Powell pointedly referenced history regarding the dangers of prematurely loosening policy as validation to keep rates higher for longer. Accordingly, we anticipate that the Fed will raise rates by three-quarter point on September 21.

## Bottom line

Crosscurrents within the economic data have continued, making it difficult to get a “clean” view of the economy. We maintain our view that 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.

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# Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▼	2Q P: -0.6%	2Q P: -0.6%	Revised upward from -0.9% thanks to modestly stronger consumer spending. Still, business inventories sliced off 1.83 percentage points.
	Unemployment rate <sup>x</sup>	▲	Aug: 3.7%	Sep: N/A	The first increase from the cycle low of 3.5%.
Jobs	Monthly jobs (nonfarm)	▲	Aug: 315K	Sep: N/A	In-line with the consensus. Now the six-month average is under 400,000, the slowest monthly pace since late 2020.
	Weekly jobless claims <sup>+</sup>	▲	9/3: 222K	9/10: 227K	It has dropped to the lowest level since this past May.
	Nonfarm productivity	▲	2Q F: -4.1%	3Q P: N/A	Revised upward from -4.6% and improved from -7.4% in 1Q22. Also, unit labor costs starting to slip, up 10.2% vs. 12.7% in 1Q22.
Interest rates	Federal funds rate	↔	2.25% – 2.50%	9/21: 2.75% – 3.00%	Fed hiked rates another 0.75% in July to counter spiraling inflation expectations. Market expects at least another 0.50% in September.
	10-year U.S. Treasury yield	▼	3.27% <sup>‡</sup>	Flat/down	Grinding higher with stronger economic data and more large rate hikes by foreign central banks. We expect continued rate volatility.
	10-year AAA GO muni yield	▼	2.73% <sup>‡</sup>	Flat/up	Modest increased after a dramatic rise for the prior three weeks.
	30-year fixed mortgage rate	▼	6.11% <sup>‡</sup>	Flat/up	Staying above 6% and has quickly reached the highest level since late 2008. Higher rates hurt housing affordability.
Inflation	Consumer prices (CPI) <sup>x</sup>	↔	Jul: 0.0%	Aug: -0.1%	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: 0.3%	YoY held steady at 5.9%, which is a six-month low.
	Producer prices (PPI)	▼	Jul: -0.5%	Aug: -0.1%	First MoM drop since the pandemic, while up 9.8% YoY.
	Core PPI	▼	Jul: 0.2%	Aug: 0.3%	Cooler MoM pace since the pandemic, while YoY rose 7.6%.

▲ 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	▼	Jul: 4.81M	Aug: N/A	Fell 5.9% MoM, down for a 6 <sup>th</sup> straight month. Prices finally fell MoM.
	New home sales	▼	Jul: 511K	Aug: N/A	Down 12.6% MoM, the 6 <sup>th</sup> drop in 7 months and lowest annualized level since 2016. Prices up 5.9% MoM, but off their highs.
	New housing starts	▼	Jul: 1.446M	Aug: N/A	Dropped 9.6% MoM. Single family down for 5 <sup>th</sup> month in a row.
	New permits <sup>+</sup>	▼	Jul: 1.685M	Aug: N/A	Down 0.6% MoM but helped by continued strength from multifamily.
Business	Durable goods orders <sup>+</sup>	▲	Jul F: -0.1%	Aug P: N/A	The MoM pace slowed, but June revised upward. Core capital goods orders (ex-air & defense) rose 0.3% MoM and a fresh all-time high.
	ISM Manufacturing Index	▲	Aug: 52.8	Sep: N/A	Flat MoM but was the 26 <sup>th</sup> month of expansion. The prices paid component declined for a 5 <sup>th</sup> month, which is good for inflation.
	ISM Services Index	▲	Aug: 56.9	Sep: N/A	It was the 27 <sup>th</sup> consecutive month of expansion and the second straight increase after declining in six of the prior seven months.
	Business inventories <sup>x</sup>	▲	Jun: 1.4%	Jul: 0.6%	The pace is slipping compared to up 1.7%/mo for the prior 6 months.
Consumer	Personal income	▲	Jul: 0.2%	Aug: N/A	Pace slipped after 5 straight strong months, buoyed by wage growth.
	Personal spending	▲	Jul: 0.1%	Aug: N/A	Slowed but it average a robust 0.9%/mo for the prior six months.
	Advance retail sales	▲	Jul: 0.0%	Aug: 0.0%	Hit a new high despite sizable drops in sales of autos and gasoline.
	Consumer sentiment	▼	Aug F: 58.2	Sep P: 59.5	Big upward revision from prelim reading to three-month high, while long-term inflation expectations held steady at 2.9%.

▲ 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

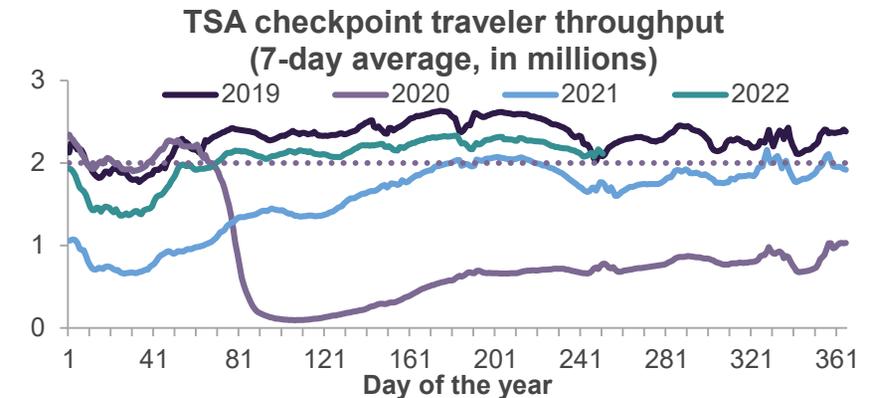
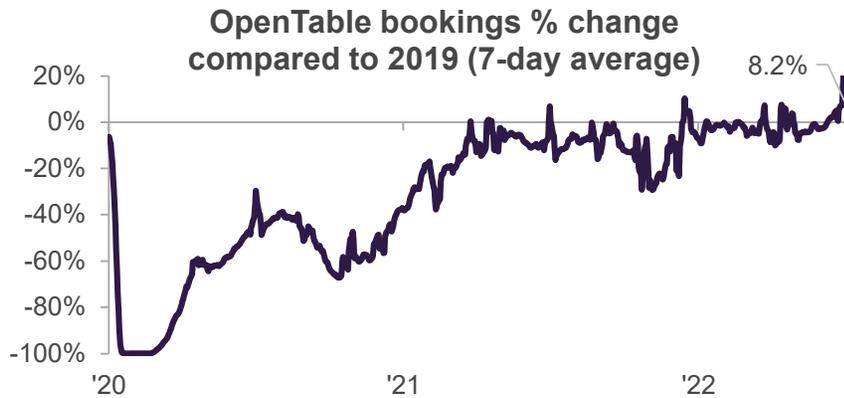
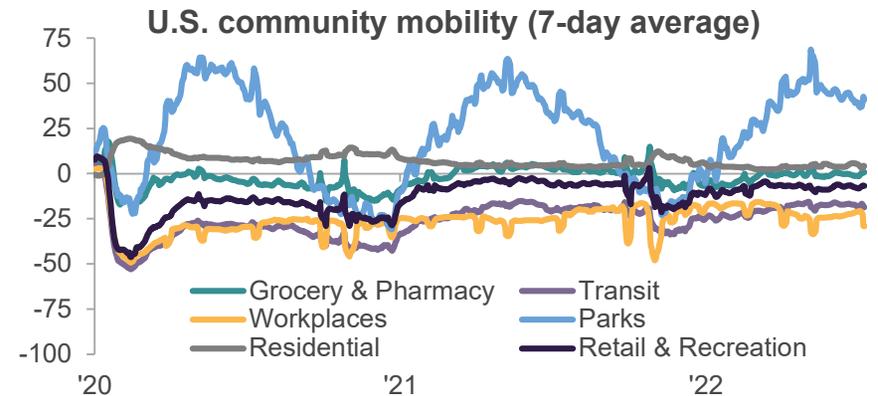
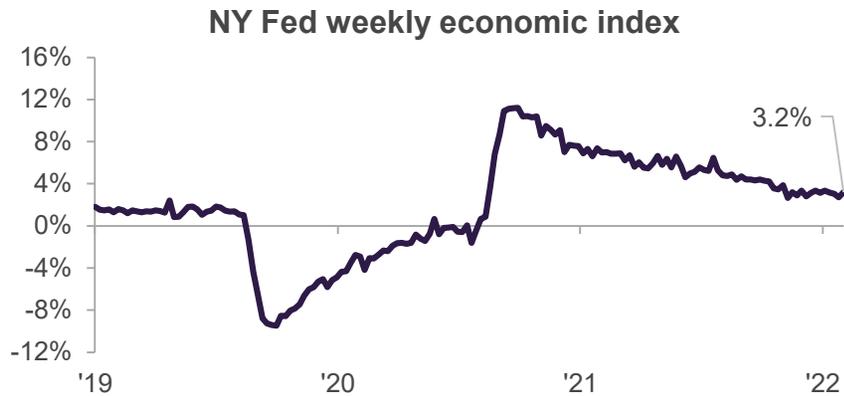
Indicator	Relative trend	What we're watching
Back to office	▼	Rose slightly WoW to 43.8 (pre-pandemic indexed to 100). Top cities are Houston (55), Austin (55), and Dallas (51); bottom are New York City (35) and San Jose (35). While the trend has steadily improved, it remains less than half of pre-pandemic levels, which is not conducive for overall growth.
TSA air passenger throughput	▲	Weekly count rose 1.2% WoW, snapping a 6-week decline, to 14.8 million, -8.2% from the 2019 weekly average of 16.1M. Passenger counts are +1.5% the same week in Sep. '19 and 19.8% above Sep. '21.
OpenTable restaurant bookings	▲	Rose to +8.2% compared to pre-pandemic levels, after hitting the highest post-pandemic reading mid-week. Top positive states were led by Rhode Island (+30%) and Nevada (+27%); bottom were Illinois (-37%) and NY (-36%). Top cities were Las Vegas (+23%) and Miami (+19%); bottom was Minneapolis (-59%).
Google mobility	▲	Most activity dropped with the Labor Day holiday. 7-day averages relative to 2020: Residential +4%, Parks +41%, Transit -19%, Grocery/Pharmacy +1%, Workplaces -29%, Retail/Restaurant/Recreation -7%.
Hotel occupancy	▲	Occupancy fell to 62.8%, the sixth straight weekly decline. The average daily rate was \$147.14, up 3.1% from the same week in Sep. '19, while revenue per available room was \$92.45, or up 24.6% from Sep. '19.
Freight (rail/truck/ship)	▲	Rail carloads rose 0.3% WoW in the latest week and were up 0.2% in August. Truck loading rose 0.1% MoM in August, a fresh all-time high. Container traffic at the top 5 U.S. ports fell 1.8% MoM in July.
Staffing index	▲	Increased to 107.2. Excluding the 2021 holiday season (when it hit 108.7), the staffing index remains above the pre-pandemic all-time high of 105.8 set in December 2014. The low for this cycle was 59.6 set in April 2020.
Apartment rental prices	↔	OLD 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, the rental growth rate 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 early September

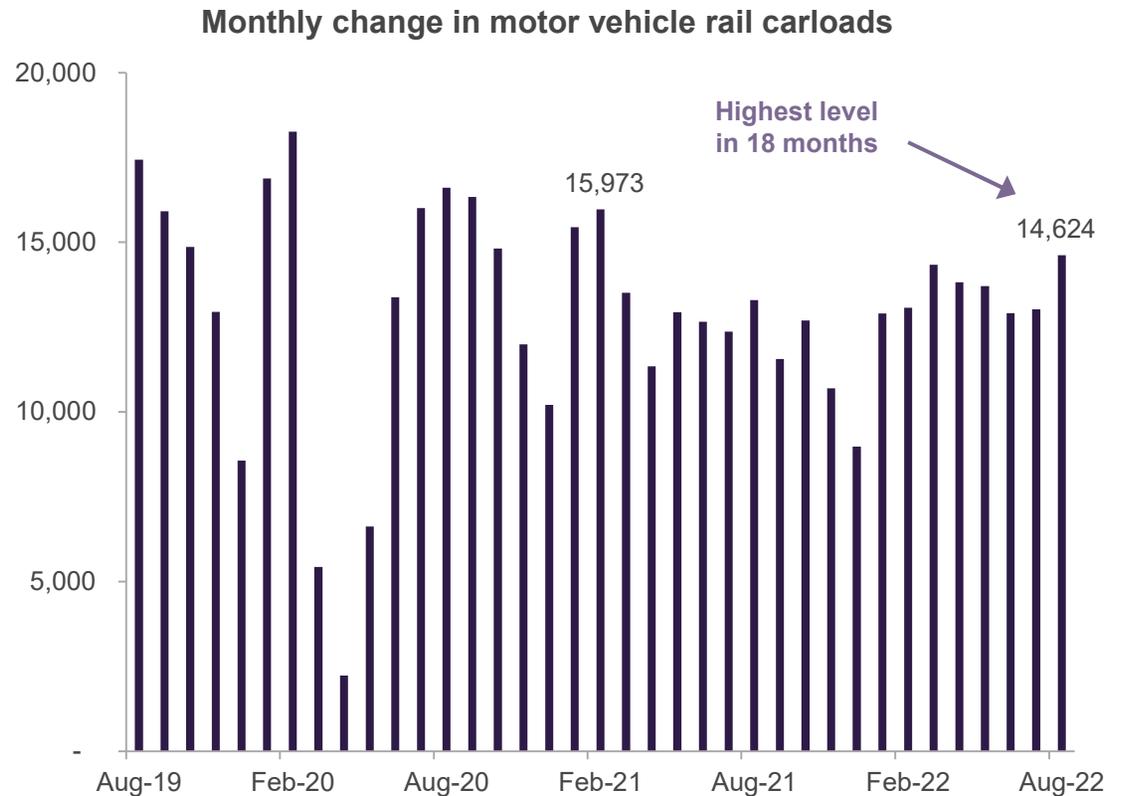


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through September 3, 2022. Top right: (U.S. Community Mobility) Google COVID-19 Community Mobility Reports 7-day average through September 6. Bottom left: Bloomberg, OpenTable 7-day average through September 7. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through September 8.

# New vehicle shipments jump to 18-month high in August, should help with inflation

Once manufactured, finished motor vehicles primarily travel via rail towards their final destination (or a port, in the case of exports). The number of motor vehicle rail carloads in August jumped to 14,624, up 12.2% month over month and the highest count since February 2021.

The additional supply of new vehicles should help ease inflation, which has spiked due to a lack of inventory.

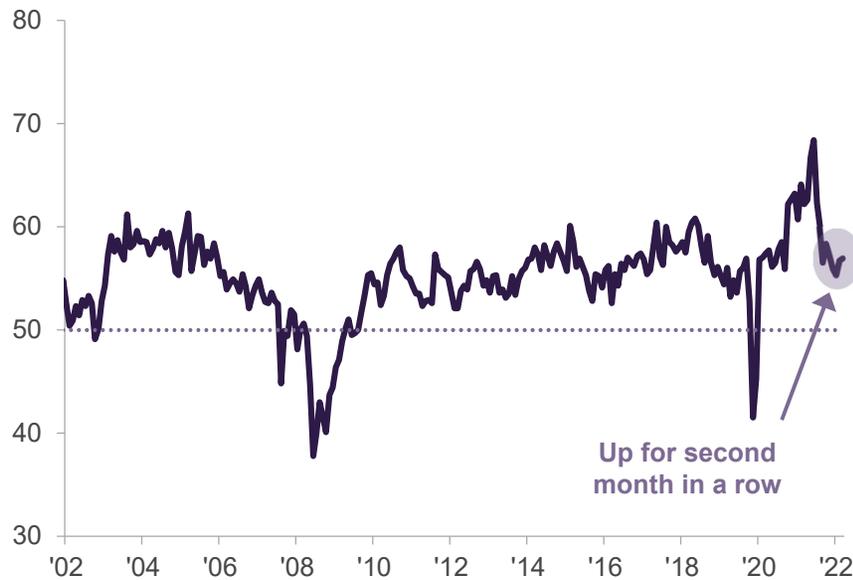


Source: Truist IAG, Bloomberg, Association of American Railroads. Number of freight carloads; monthly data through August 2022.

# ISM Services up for 2<sup>nd</sup> straight month, while price paid suggests inflation peaked

Institute for Supply Management (ISM) Services Index rose to a reading of 56.9 in August. It was the 27<sup>th</sup> consecutive month of expansion and the second straight increase after declining in six of the prior seven months. The new orders component rebounded to an eight-month high. Meanwhile, the price paid component during past four months (May through August) suggests that inflation has already peaked.

**ISM Services Index (50 = expansion)**



**ISM Services Index: Price paid component (50 = expansion)**

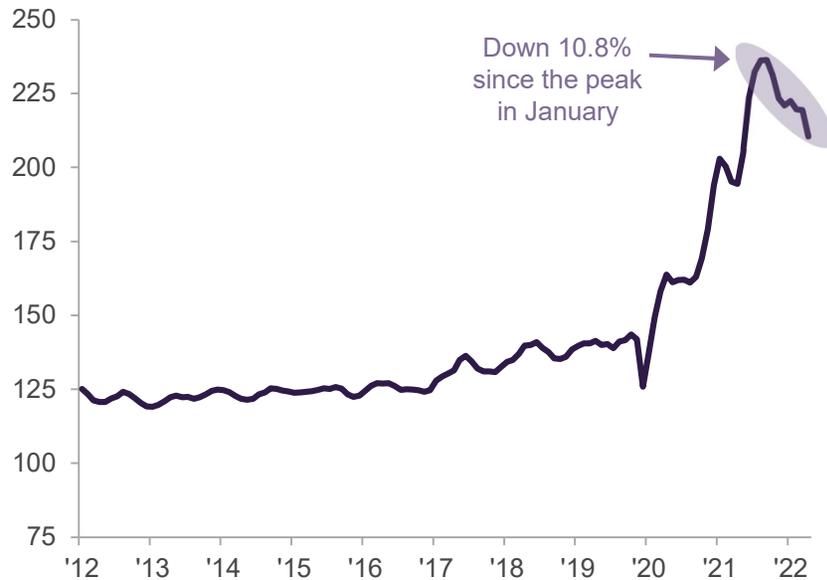


Sources: Truist IAG, Bloomberg, Institute for Supply Management (ISM); monthly data through August 2022.

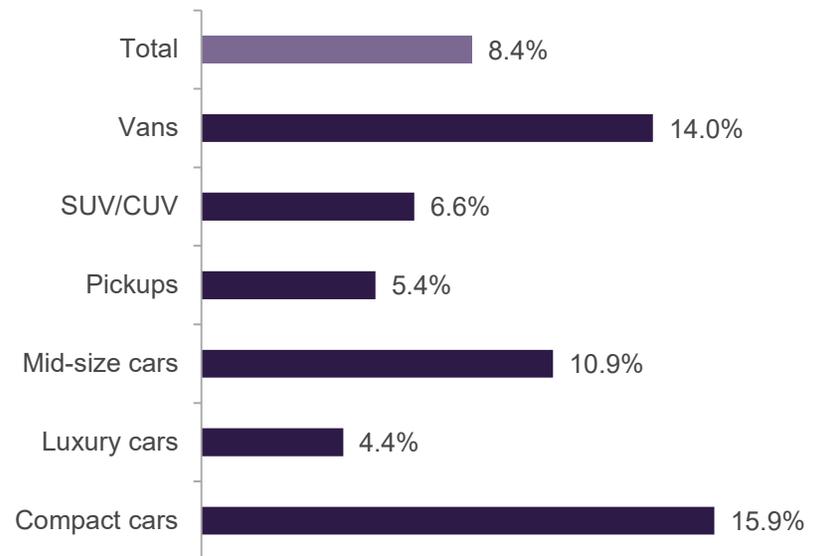
# Used car prices dropping sharply, more signs inflation is cooling

The price of used vehicles have fallen in six of the past seven months. In August, prices fell 4%, the largest monthly decline in the past decade excluding the pandemic-induced -11.3% in April '20. Prices rose 8.4% on a year-over-year basis, which is a far cry from the 54% spike in April '21 but remains considerably faster than the pre-pandemic 3-year average of 3.6%

**Manheim Used Vehicle Value Index**



**Used price change by vehicle class (in August '22, year over year)**



Sources: Truist IAG, Haver, Manheim; figures shown on a mix, mileage, and seasonally adjusted basis. Sports Utility Vehicle (SUV) and Crossover Utility Vehicle.

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