

Economic data tracker – Mixed inflation data jars markets

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Week 37 – September 16, 2022

Trend watch and what's new this week

With Labor Day behind us, travel has faded with the summer heat based on the activity-based data (slides 5 and 6). Weekly air passenger counts, restaurant bookings, and overall mobility all slipped. Back-to-office have ticked up in the latest week. Back-to-office also slumped in the latest week.

Hotel occupancy fell for the seventh straight week (slide 7). Yet, this typically occurs as the summer wanes, following a similar pattern as 2019 and 2021.

Mixed inflation data, though most show cooling trend

Consumer inflation was mixed in August. The Consumer Price Index (CPI) rose 8.3% from a year ago compared to 9.1% in June. Energy prices dropped 5.0% month-over-month, helped by a 10.1% decline in gasoline prices, but utility prices rose 2.1%. However, core CPI, which excludes the volatile food & energy components, reaccelerated. Among the culprits, shelter (rents) increased 0.7%, the fastest monthly pace since 1991.

On slide 8, we show the month-over-month and year-over-year trends for both headline and core CPI. On slide 9, we look ahead at several CPI scenarios, showing how inflation might unfold over the coming year.

Meanwhile, wholesale inflation readings, known as producer prices (slide

10), cooled for the second straight month. The Producer Price Index (PPI) fell 0.1% in August, though was -0.4% in July. The annual pace of core PPI, which excludes food & energy, cooled for the fifth straight month. It rose 7.3% from a year ago 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 August (slide 11). While still above the pre-pandemic pace of 0.45%, it was less than half of the 2021 average of 1.3%. Also, the pace declined for the second month in a row and the 9th in the past 12 months.

Lastly in terms of inflation, the recovery for global supply chains continued in August (slide 12). The Global Supply Chain Pressures Index decreased for the fourth straight month and is now at its lowest reading since January 2021.

Consumer still appears solid

On slide 13, we show retail & food sales, which rose 0.3% in August. Auto sales surged 2.8%, but gasoline sales dropped 4.2%; together those two sectors comprise almost a third of total sales. Excluding both, sales hit a new all-time high. Food service and drinking establishments sales also rose 1.1%.

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Economic commentary – Our take and the bottom line

Consumer sentiment rose again, inflation expectations falling

Consumer sentiment continues to improve after being battered this summer thanks to sky-high gasoline prices. On slide 14, the University of Michigan Consumer Sentiment Survey rose for the third straight month after crashing in June to the lowest level since the survey began in 1978. Meanwhile, within the survey, long-term inflation expectations slumped to their lowest level in 14 months. This is a key indicator for the Federal Reserve (the Fed), which is keen on reining in inflation expectations.

Our take

Despite some mixed components, it still appears that inflation has peaked based on various price measures. Yet, as the consumer inflation gauges showed in August, inflation is indeed more broad-based. In other words, simply seeing gasoline prices dropping is not enough to move the needle.

Ultimately, it's not entirely clear whether overall inflation trends and inflation expectations are moderating enough to satisfy the Federal Reserve (Fed) decisionmakers.

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. However, given the reacceleration of some inflation, we wouldn't rule out a full-point (1.00%) rate hike.

Of course, this uncertainty caused some panic in U.S. stock and bond markets this past week. Our core thesis remains that markets will likely stay in choppy waters.

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, along with continued choppy waters for markets.



Wealth

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 ^x	▲	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 ⁺	▲	9/10: 213K	9/17: 218K	It has dropped for 5 straight weeks to the lowest level since 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 0.75% in September.
	10-year U.S. Treasury yield	▼	3.43% [‡]	Flat/up	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	▼	2.85% [‡]	Flat/up	It has steadily increased since mid August.
	30-year fixed mortgage rate	▼	6.28% [‡]	Flat/up	Staying above 6% and has quickly reached the highest level since late 2008. Higher rates hurt housing affordability.
Inflation	Consumer prices (CPI) ^x	▼	Aug: 0.1%	Sep: N/A	Surprising uptick MoM given energy dropped 5.0% MoM. Overall CPI increased 8.3% YoY, the lowest level in four months.
	Core CPI	▼	Aug: 0.6%	Sep: N/A	Reaccelerated, up 0.6% MoM and YoY rose to 6.0%.
	Producer prices (PPI)	▼	Aug: -0.1%	Sep: N/A	Second straight MoM decline, while up 8.7% YoY.
	Core PPI	▼	Aug: 0.4%	Sep: N/A	Broad-based cooling, while YoY rose 7.3% down from 9.7% 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	▼	Jul: 4.81M	Aug: 4.70M	Fell 5.9% MoM, down for a 6 th straight month. Prices finally fell MoM.
	New home sales	▼	Jul: 511K	Aug: 500K	Down 12.6% MoM, the 6 th 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: 1.450M	Dropped 9.6% MoM. Single family down for 5 th month in a row.
	New permits ⁺	▼	Jul: 1.685M	Aug: 1.610M	Down 0.6% MoM but helped by continued strength from multifamily.
Business	Durable goods orders ⁺	▲	Jul F: -0.1%	Aug P: -0.5%	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 th month of expansion. The prices paid component declined for a 5 th month, which is good for inflation.
	ISM Services Index	▲	Aug: 56.9	Sep: N/A	It was the 27 th consecutive month of expansion and the second straight increase after declining in six of the prior seven months.
	Business inventories ^x	▲	Jul: 0.6%	Aug: N/A	The pace is slipping compared to up 1.7%/mo for the prior 6 months.
Consumer	Personal income	▲	Jul: 0.2%	Aug: 0.2%	Pace slipped after 5 straight strong months, buoyed by wage growth.
	Personal spending	▲	Jul: 0.1%	Aug: 0.3%	Slowed but it averaged a robust 0.9%/mo for the prior six months.
	Advance retail sales	▲	Aug: 0.3%	Sep: N/A	Handily beat consensus of -0.1% despite big drop in gasoline sales.
	Consumer sentiment	▼	Sep P: 59.5	Sep F: 59.5	Up for third month in a row, while long-term inflation expectations slipped to 2.8%, the lowest level since July 2021.

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

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Wealth

U.S. activity-based data matrix

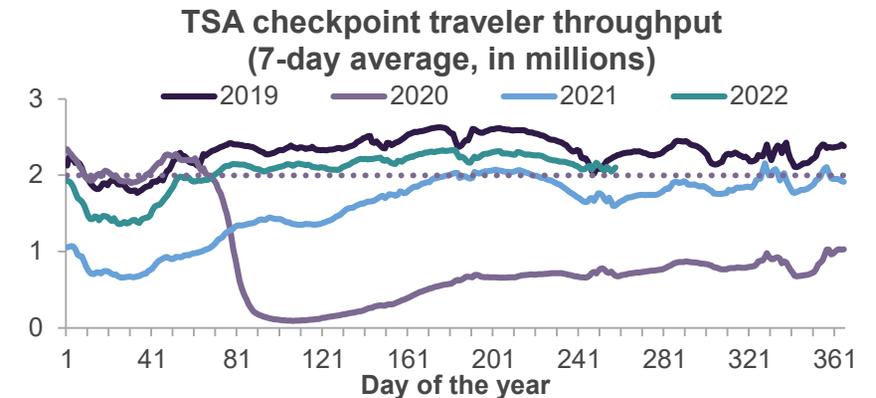
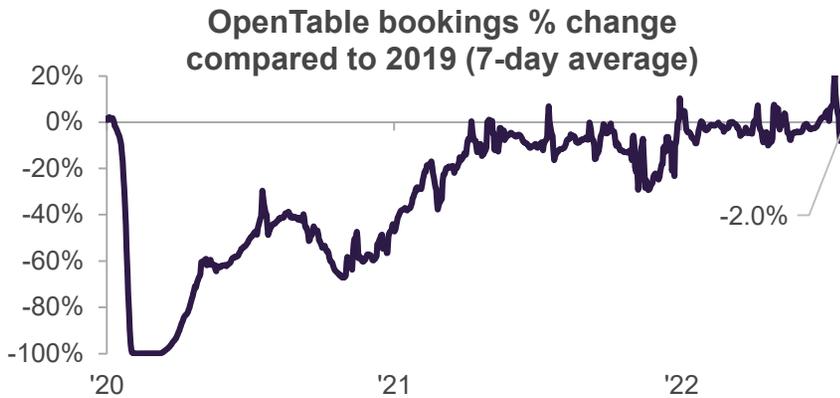
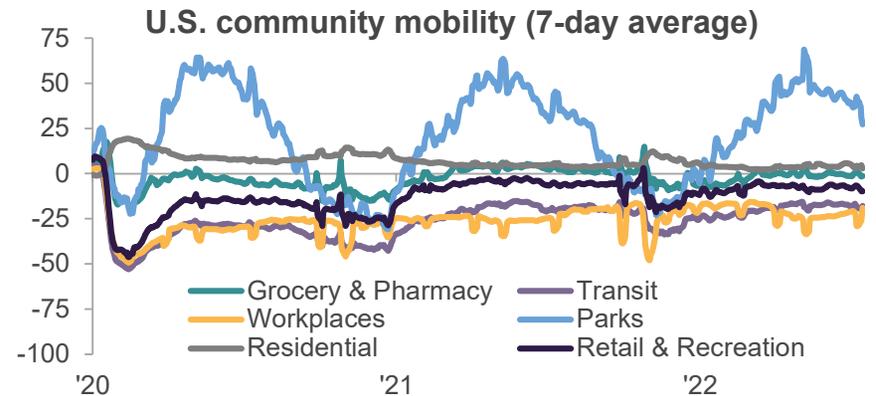
Indicator	Relative trend	What we're watching
Back to office	▼	Slipped modestly WoW to 43.4 (pre-pandemic indexed to 100). Top cities are Austin (57), Houston (54), and Dallas (51); bottom are San Jose (34) and Philadelphia (37). While the trend has steadily improved, it remains less than half of pre-pandemic levels, which is not conducive for overall growth.
TSA air passenger throughput	▲	Weekly count fell 0.5% WoW to 14.7 million, down 8.7% from the 2019 weekly average of 16.1M. Passenger counts are down 6.5% from the same week in Sep. '19 but are now 31.2% above Sep. '21.
OpenTable restaurant bookings	▲	Dropped down to -2.0% compared to pre-pandemic levels, after hitting the highest post-pandemic reading last week. Top positive states were led by Rhode Island (+51%) and Connecticut (+38%); bottom were NY (-24%) and Pennsylvania (-24%). Top cities were Tampa and Las Vegas (both +33%); bottom was Philadelphia (-59%).
Google mobility	▲	Activity dropped again in the past week. 7-day averages relative to 2020: Residential +3%, Parks +37%, Transit -18%, Grocery/Pharmacy -1%, Workplaces -19%, Retail/Restaurant/Recreation -10%.
Hotel occupancy	▲	Occupancy slipped to 61.7%, the seventh straight weekly decline. The average daily rate was \$146.80, up 10.6% from the same week in Sep. '19, while revenue per available room was \$90.50, or -1.8% from Sep. '19.
Freight (rail/truck/ship)	▲	Container traffic at the Long Beach and Savannah rose 2.7% and 8.4% MoM, respectively, in Aug. Big drop in rail carloads -51.7% WoW during Labor Day week. Truck loading rose 0.1% MoM in August, an all-time high.
Staffing index	▲	Fell sharply during the week of Labor Day to 105.7 from 107.2 in the prior week. Still, that is just below 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	↔	Rent index in August rose 0.6% MoM and up 12.4% YoY, the coolest pace in 12 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.

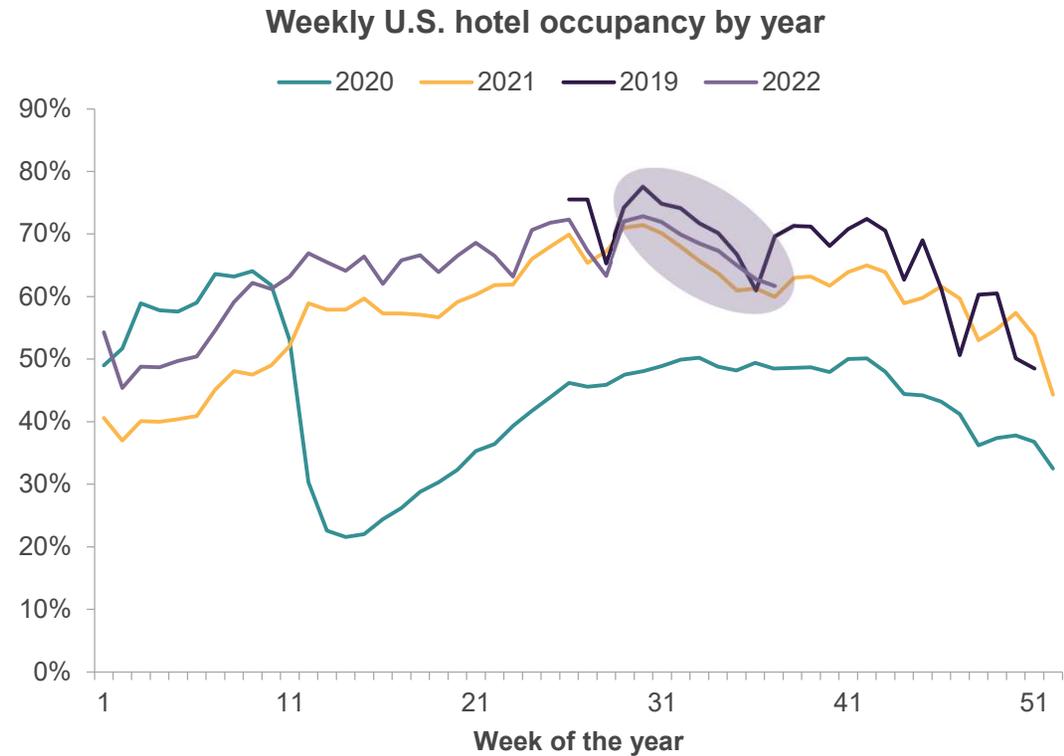
Activity-based trends remain solid through early September



Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through September 10, 2022. Top right: (U.S. Community Mobility) Google COVID-19 Community Mobility Reports 7-day average through September 12. Bottom left: Bloomberg, OpenTable 7-day average through September 15. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through September 15.

Typical end-of-summer slowdown for hotel occupancy

Hotel occupancy has fallen for seven straight weeks. However, this appears to be the typical end-of-summer seasonal pattern. For instance, occupancy during 2019 declined from 9 out of the 10 weeks between August 1st and mid-October. Similarly, occupancy dropped in 7 out of 10 during the same period in 2021.

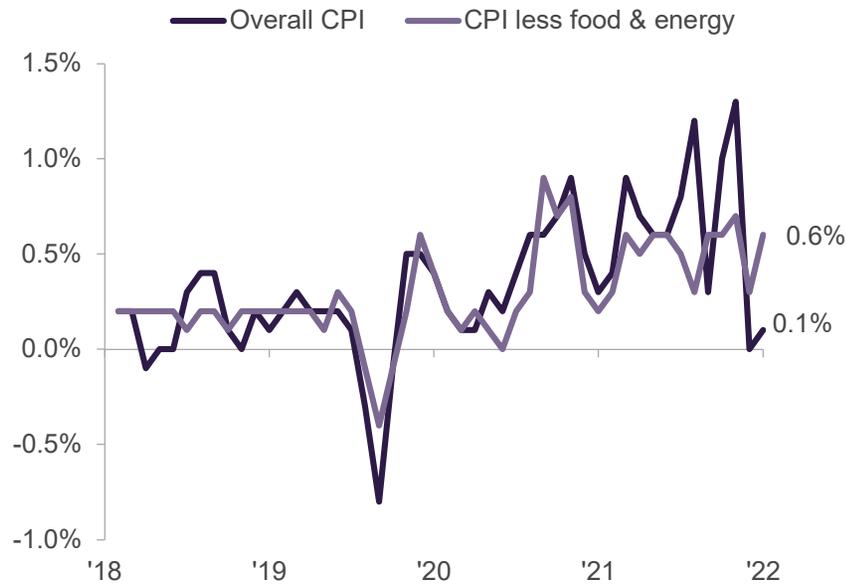


Sources: Truist IAG, STR; weekly data through August 10, 2022.

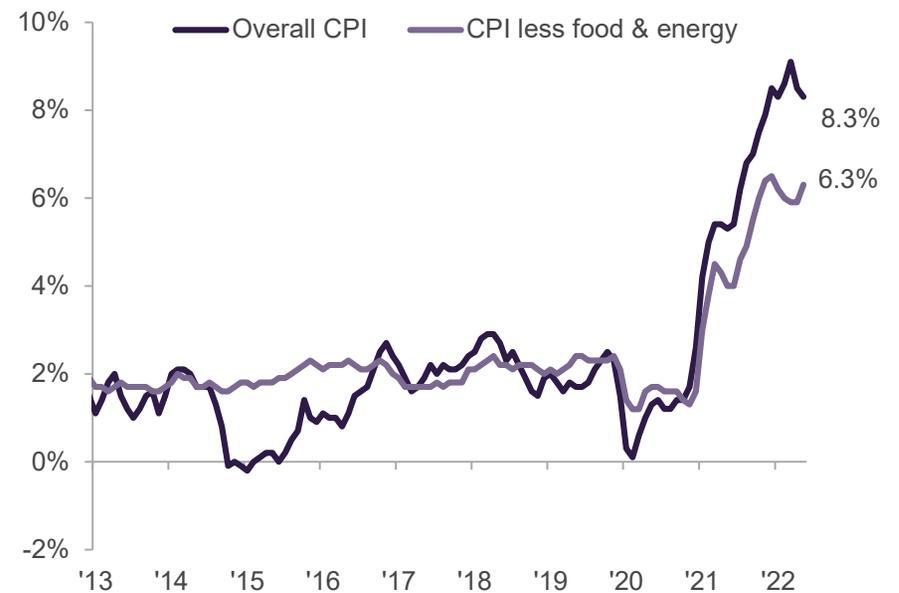
Core consumer prices push higher

The Consumer Price Index (CPI) cooled rose 0.1% in August, while the year-over-year pace slipped to 8.3% from 8.5% in July. However, core CPI excluding food & energy reaccelerated unexpectedly rose 0.6% month over month and 6.3% from a year ago. Prices rose for services, including shelter (rents) increased 0.7%, the fastest monthly pace since 1991.

Monthly change Consumer Price Index (CPI)



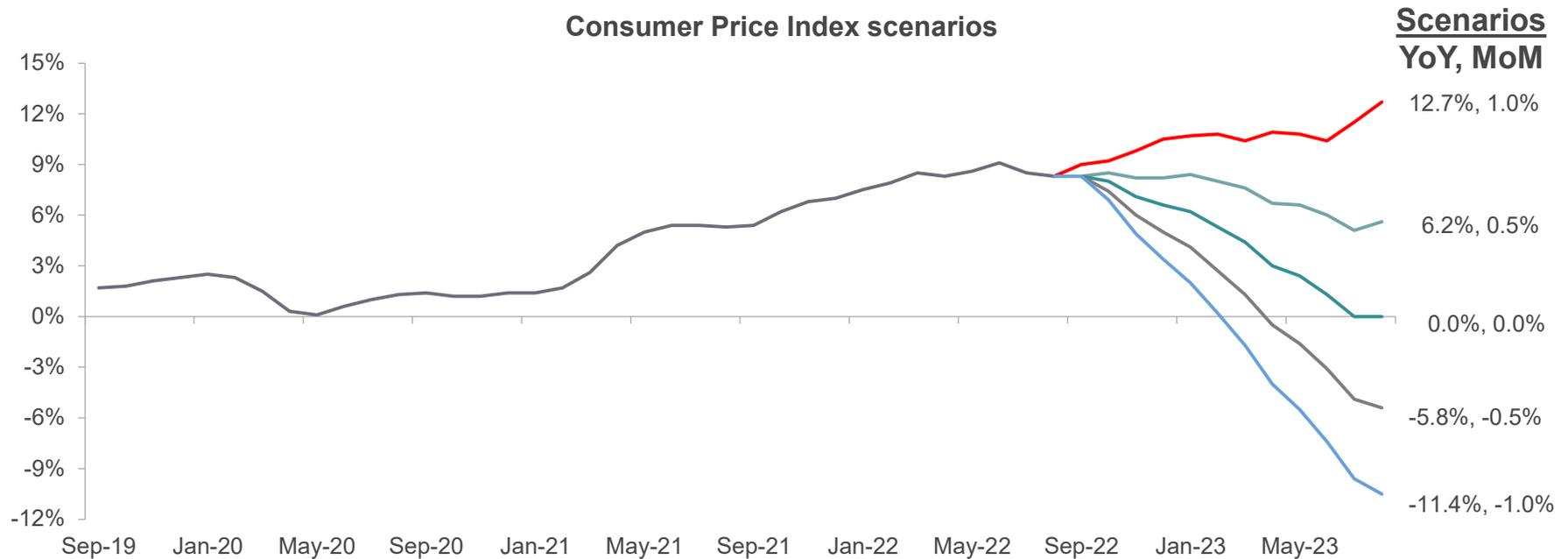
Annual change in Consumer Price Index (CPI)



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

Consumer inflation scenarios – wide range of outcomes

The decline in the year-over-year (YoY) rate of the Consumer Price Index (CPI) to 8.3% in August from 8.5% in July. However, the month-over-month (MoM) pace edged up 0.1%, spurring many investors to wonder how inflation might behave going forward. Below are several scenarios of how it might unfold over the coming year. For instance, if the pace of CPI was unchanged (0%) MoM for the next 12 months, it would equate to a 0.0% YoY rate in August '23. Or, if the MoM pace accelerated to 1.0% per month, it would swell to 12.7% YoY.

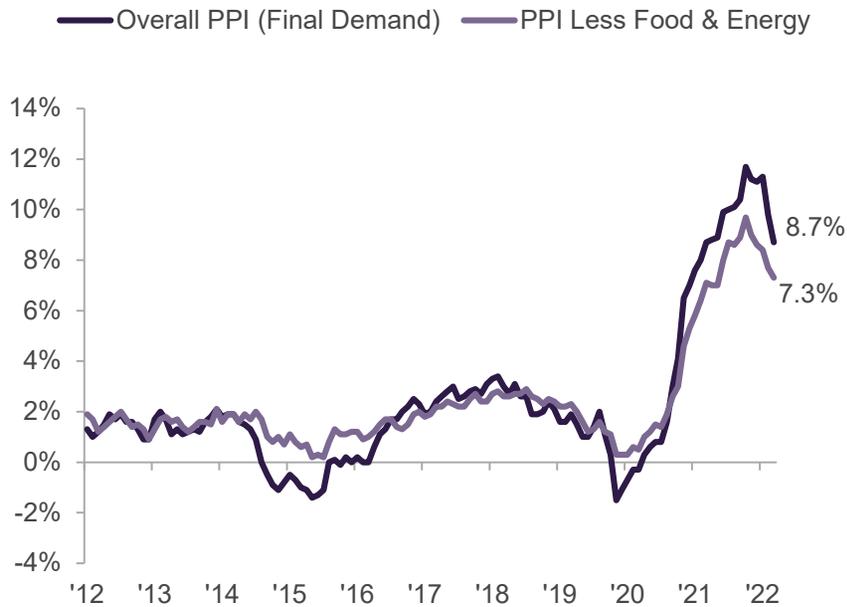


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through August 2022.

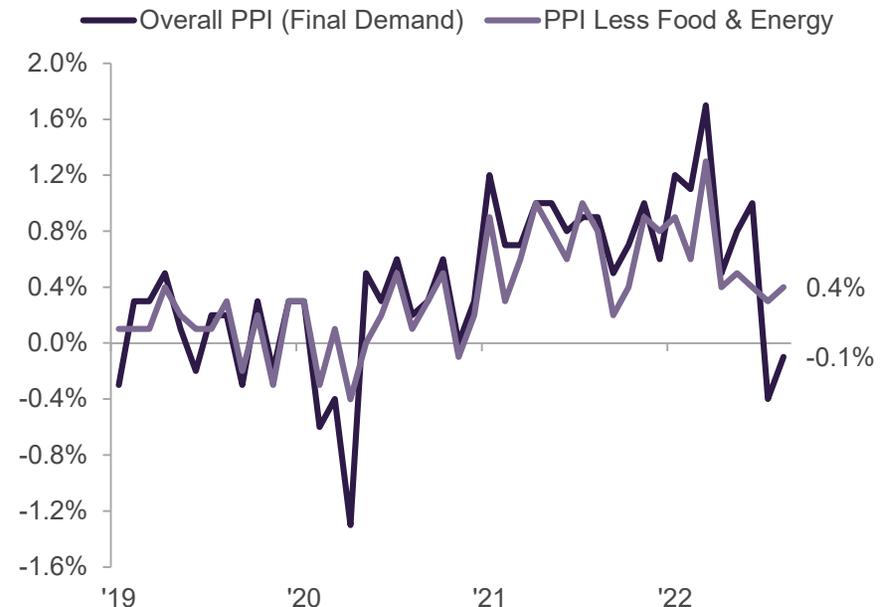
Wholesale prices are cooling

Wholesale inflation readings, measured by the Producer Price Index, falling 0.1% MoM in August, the second consecutive monthly decline. The pace of core PPI, which excludes food & energy, cooled for a fifth straight month, up 7.3% 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)



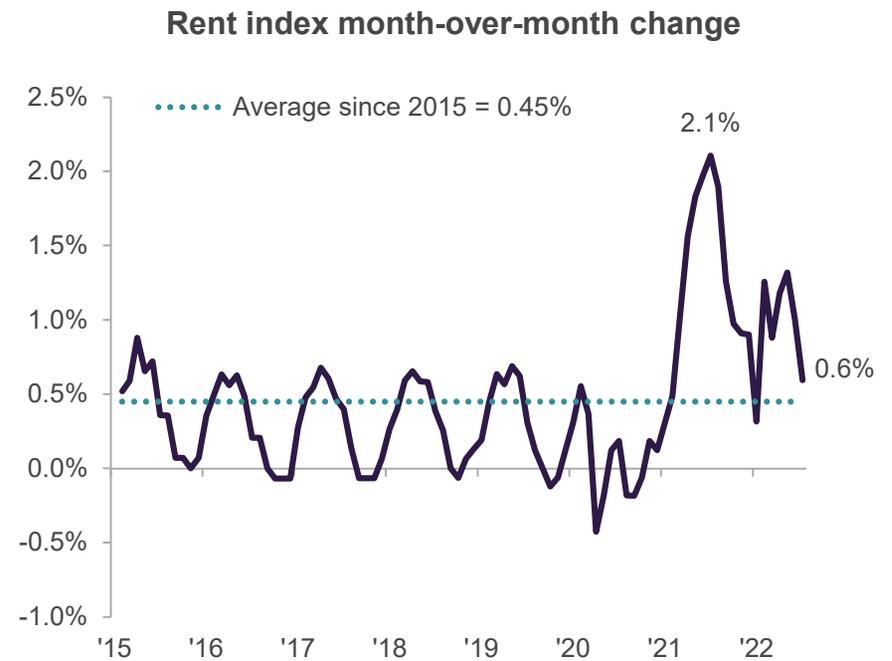
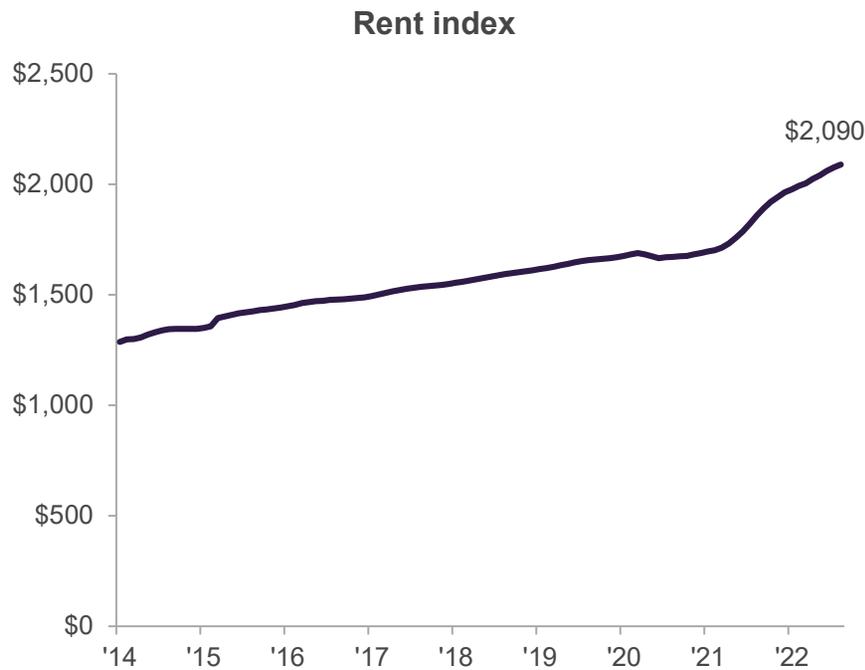
Monthly change in Producer Price Index



Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through August 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 August. While still above the pre-pandemic pace of 0.45%, it was less than half of the 2021 average of 1.3%. Also, the pace declined for the second month in a row and the 9th in the past 12 months.



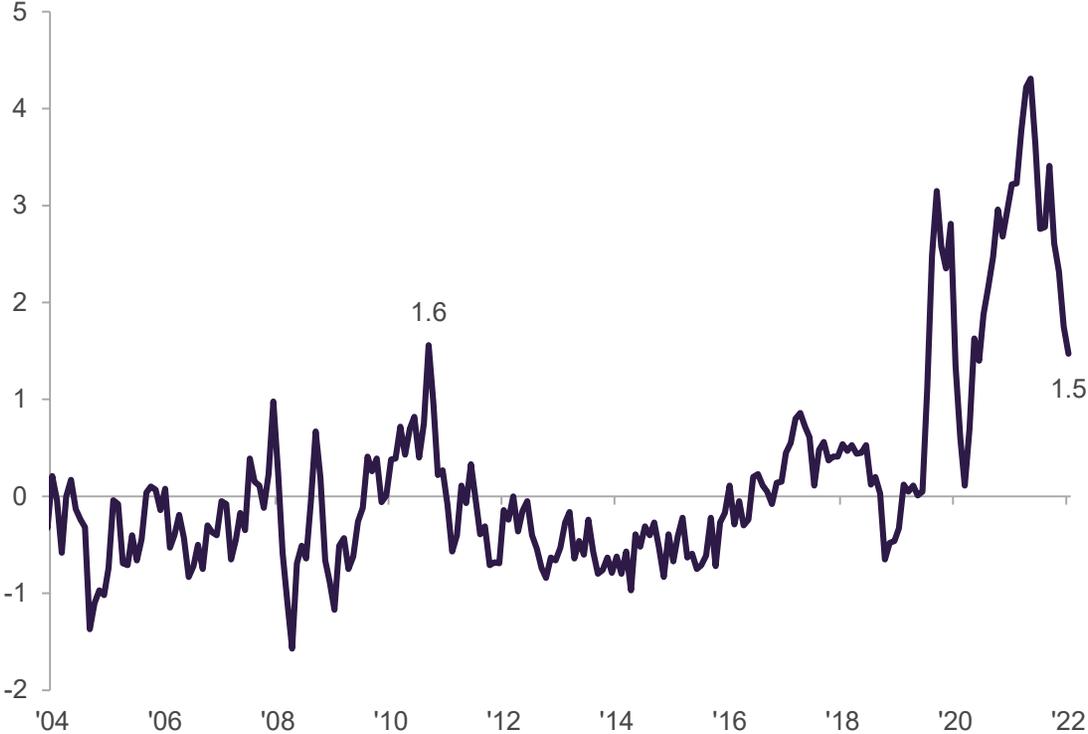
Source: Truist IAG, Bloomberg, Zillow; monthly data through August 2022.

Recovery continues for supply chains

The recovery for global supply chains continued in August. The Global Supply Chain Pressures Index decreased for the fourth straight month. The August decline was fairly broad-based, with decreases in delivery times recorded for all the countries within the index.

While the index is now at its lowest reading since January 2021, it remains at historically high levels, just below the pre-pandemic all-time high of 1.6 in April 2011.

Global Supply Chain Pressures Index



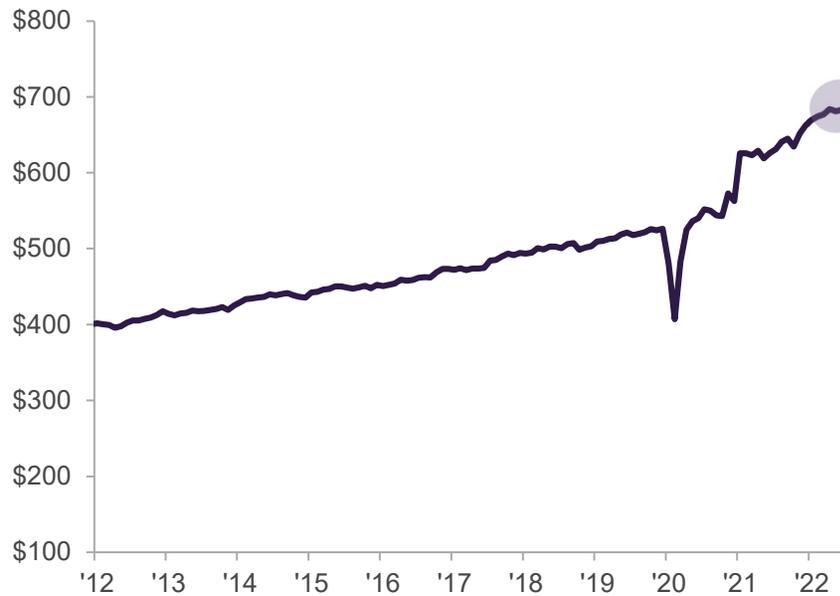
Source: Truist IAG, Bloomberg, Federal Reserve Bank of New York; 100 = June 12, 2006; monthly data through August 2022.



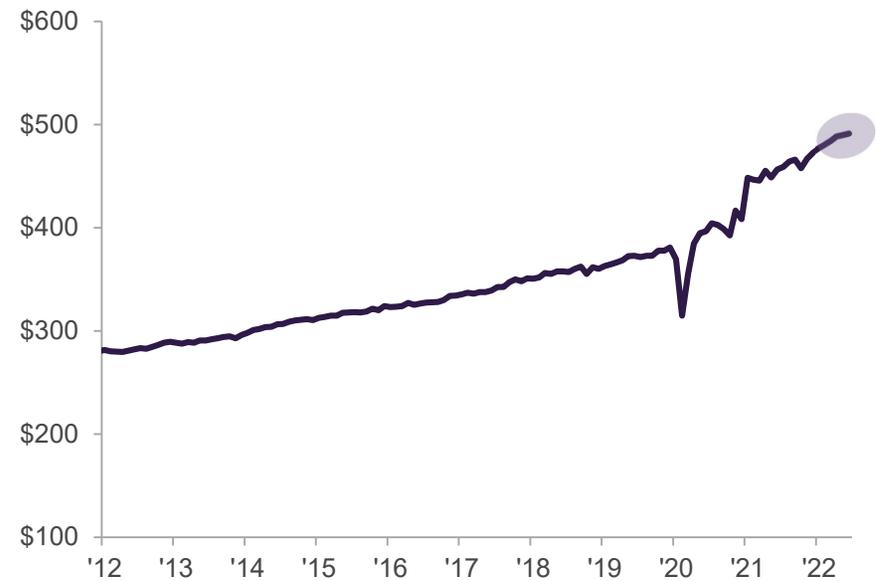
Retail sales ex-autos & gasoline makes fresh all-time high

Total retail & food sales rose 0.3% in August to \$683.3 billion, although July was revised downward to -0.4%. Auto sales surged 2.8%, but gasoline sales dropped 4.2%; together those two sector comprise almost a third of total sales. Excluding both, sales hit a new all-time high. Food service and drinking establishments sales also rose 1.1%.

U.S. retail & food service sales (in billions)



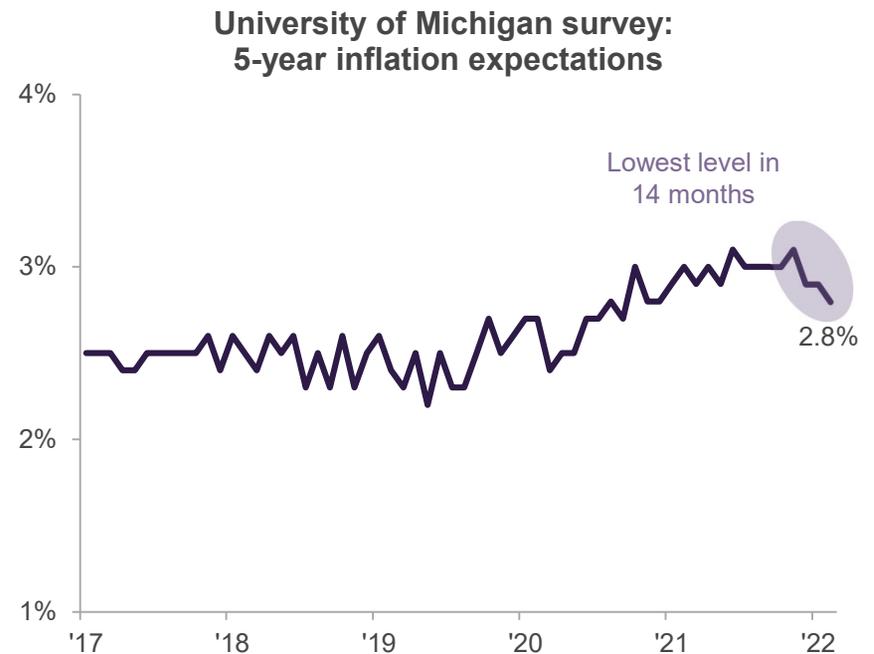
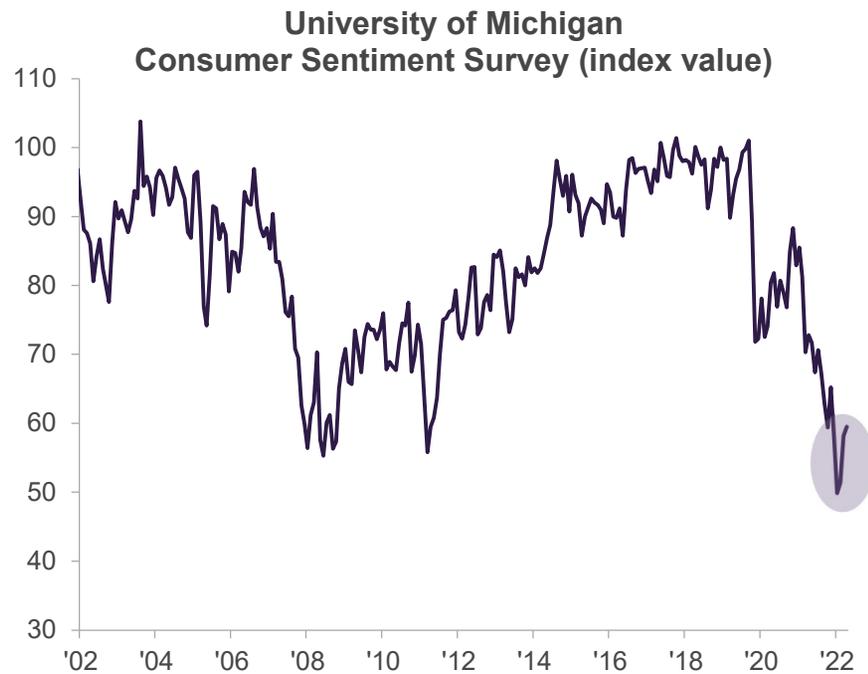
U.S. retail sales ex-autos & gasoline (in billions)



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

Consumer sentiment rebounding from the lows, while long-term inflation expectations reset lower

Consumer sentiment, as measured by the University of Michigan Consumer Sentiment Survey, rose to a reading of 59.5 in August. That's much improved from June when it crashed to the lowest level since the series began in 1978. Meanwhile, within the survey, inflation expectations over the next 5-10 years slipped to 2.8%, the lowest level since July 2021.



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

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CN2022-4954579.1 EXP09-2023



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