Truist Advisory Services, Inc.

Economic data tracker – Fed goes with big hike (again)

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Trend watch and what's new this week

The activity-based data (slides 5 and 6) seemed to firm in the week following Labor Day. The travel-related indicators all improved week-over-week, including weekly air passenger counts, restaurant bookings, and hotel occupancy.

Back to office have ticked up again in the latest week (slide 7). Yet, there is wide variation based on industry and geography. Moreover, the decision appears to hinge on whether positions have customer-facing or not, with a growing tolerance for back-office workers with no customer interactions to work mostly or entirely remote.

Fed follows through with another supersized rate hike, more ahead

The Federal Reserve (Fed) raised interest rates by three-quarters of a point (0.75%), an unprecedented third straight supersized move. That said, the starting point of essentially zero was similarly extreme, only having occurred following the Great Financial Crisis (slide 8). Additionally, we show where the Fed expects the federal funds rate to be by year-end 2022—hike by another 1.25%—a big change from their view just three months ago. On slide 9, we show how dramatically the Fed has increased interest rates at the fastest pace in 42 years.

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 are now above 6.5% nationally. Of course, higher rates hurt housing affordability. In fact, Fed Chair Powell specifically called out housing as an area that they'd expect to see more weakness as a result of their aggressive rate hikes.

Existing home sales figures (slide 10) dropped for the seventh month in a row in August. Median prices fell for the third time this year. Prices continue to be supported by low inventories, which remain more than 25% below 2019 levels.

On slide 11, new building permits fell for the fourth time in five months. Also, new housing starts rose in August, but July was revised sharply lower. Single-family starts rose for just the third month in the past year.

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 2022, nearing the lows of the pandemic.

On slide 12, we show the Index of Leading Economic Indicators, which has dropped for six straight months. That is a recession red flag, which – at the very least – suggests continued slower growth ahead.

Lastly, on (slide 13), the preliminary September readings for S&P Global's U.S. PMI indices for manufacturing and services improved, snapping four-month and five-month decline streaks, respectively.

Economic commentary – Our take and the bottom line

Our take

Much like his speech last month in Jackson Hole, Chair Powell remained straightforward and unambiguous in his messaging, leaving very little to interpretation. He was also clear-eyed in saying that slower economic growth to bring down unacceptably high inflation was the Fed's objective, though without saying the word recession. He essentially acknowledged that a recession was likely, conceding that increased unemployment was a painful, but likely outcome.

One might equate this as Powell's "whatever it takes" speech, similar to then-President of the European Central Bank Mario Draghi's comments in July 2012 that marked the turnaround of the euro crisis. That said, Powell did maintain that the Fed's actions weren't on a preset course and that it would adjust its actions based on incoming data, regardless of the projections released this week.

Several other global central banks, including the Bank of England, also raised rates this week. Accordingly, global stock and bond markets had another tough week trying to digest both higher interest and the prospects for slower growth.

Aside from most of the travel-related indicators, much of incoming economic data is softening and is more broad-based. Unfortunately, the risk of a U.S. recession have risen substantially in the past few months.

The silver lining is that the recent weakness might prove to be enough to hasten the recoil of prices and inflation without having to endure a prolonged downturn. For instance, the price of U.S. crude oil fell below $80 per barrel for the first time since early January. Whether a recession can be avoided or perhaps mild remains to be seen.

Bottom line

We view the Fed's third straight supersized rate increase and Powell's post-meeting comments as essentially acknowledging that a recession is a possible outcome of restrictive monetary policy. While it isn't necessarily inevitable, a recession in the coming 12 months does appear likely.

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.
Jobs	Unemployment rate[X]	▲	Aug: 3.7%	Sep: N/A	The first increase from the cycle low of 3.5%.
	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[+]	▲	9/17: 213K	9/24: 220K	Edged up, halting a 5-week down streak, but flat WoW with revisions.
	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	⇆	3.00% – 3.25%	11/2: 3.75% – 4.00%	Fed followed through with 3rd straight supersized rate hike of 0.75% in Sep. to combat inflation. Market expects 0.75% at the Nov. meeting.
	10-year U.S. Treasury yield	▼	3.67%‡	Flat/up	Jumped to highest level since 2010 as more large rate hikes by the Fed and foreign central banks. We expect continued rate volatility.
	10-year AAA GO muni yield	▼	3.07%‡	Flat/up	It has steadily risen since mid August, now at highest level since ’13.
	30-year fixed mortgage rate	▼	6.55%‡	Flat/up	Staying above 6% and has quickly reached the highest level since 2002. 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

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Housing	Existing home sales	▼	Aug: 4.80M	Sep: N/A	Fell 0.4% MoM, dropped for the seventh month in a row in August.
	New home sales	▼	Jul: 511K	Aug: 500K	Down 12.6% MoM, the 6th drop in 7 months and lowest annualized level since 2016. Prices up 5.9% MoM, but off their highs.
	New housing starts	▼	Aug: 1.575M	Sep: N/A	Up 12.2% MoM from sharply lower July starts. Single family up for just the third month in the past year.
	New permits+	▼	Aug: 1.517M	Sep: N/A	Down 10% MoM and fourth time in five months.
Business	Durable goods orders+	▲	Jul F: -0.1%	Aug P: -0.1%	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: 52.8	Flat MoM but was the 26th month of expansion. The prices paid component declined for a 5th month, which is good for inflation.
	ISM Services Index	▲	Aug: 56.9	Sep: 56.4	It was the 27th consecutive month of expansion and the second straight increase after declining in six of the prior seven months.
	Business inventoriesX	▲	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

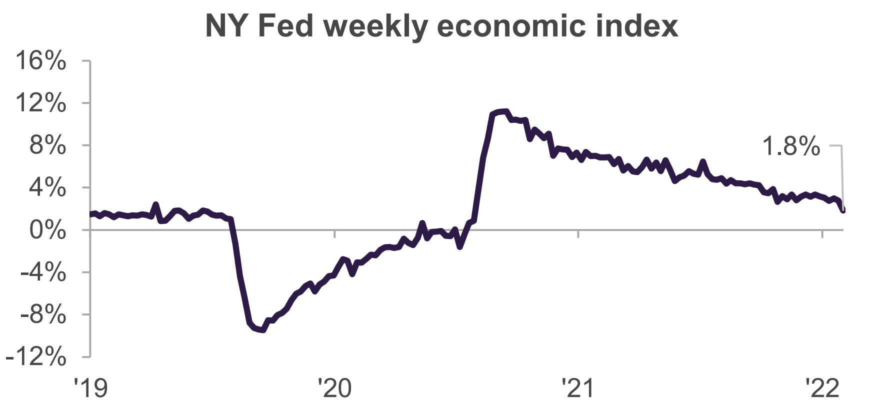
U.S. activity-based data matrix

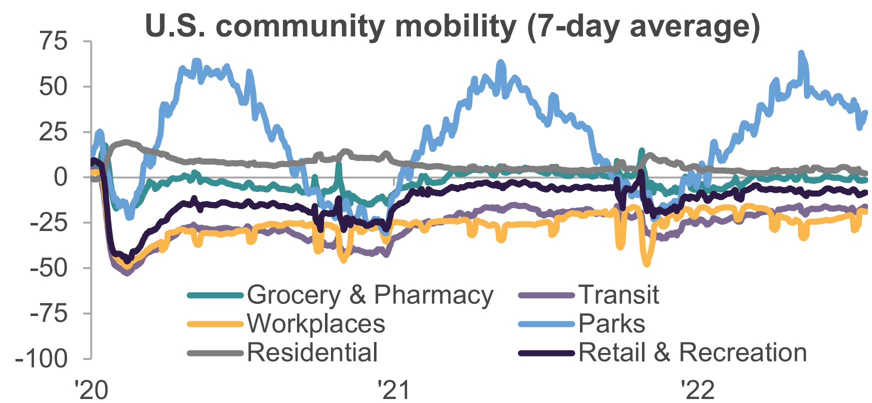
Indicator	Relative trend	What we're watching
Back to office	▼	Jumped WoW to 47.50 (pre-pandemic indexed to 100). Top cities are Austin (60), Houston (57), and Dallas (55); bottom are San Jose (40) and San Francisco (41). While the trend has steadily improved, it remains less than half of pre-pandemic levels, which is not conducive for overall growth.
TSA air passenger throughput	▲	Weekly count rose 2.7% WoW to 15.1 million, down 6.2% from the 2019 weekly average of 16.1M. Passenger counts are down 6.2% from the same week in Sep. '19 but are now 26.2% above Sep. '21.
OpenTable restaurant bookings	▲	Ticked upward to -1.3% compared to pre-pandemic levels from -2.0% in the prior week. Top positive states were led by Nevada (+45%) and Rhode Island (+37%); bottom were NY (-25%) and Illinois (-23%). Top cities were Las Vegas (+44%) and Miami (+34%); bottom were Philadelphia and Minneapolis (both -46%).
Google mobility	▲	Outdoor activity continues to slide as autumn weather begins. 7-day averages relative to 2020: Residential +2%, Parks +35%, Transit -16%, Grocery/Pharmacy -2%, Workplaces -19%, Retail/Restaurant/Recreation -8%.
Hotel occupancy	▲	Occupancy rebounded sharply to 69.6% from 61.7% in the prior week. The average daily rate was $155.58, up 15.6% from the same week in Sep. '19, while revenue per available room was $108.25, up 12.9% from 2019.
Freight (rail/truck/ship)	▲	Rail carloads surged 5.7% WoW as shipments rebounded following Labor Day. Container traffic at the top 5 (ex-NY/NJ) fell 1.8% MoM in Aug. Truck loading rose 0.1% MoM in August, an all-time high.
Staffing index	▲	Fell modestly in the week following Labor Day to 105.0, which is typical seasonality. 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.

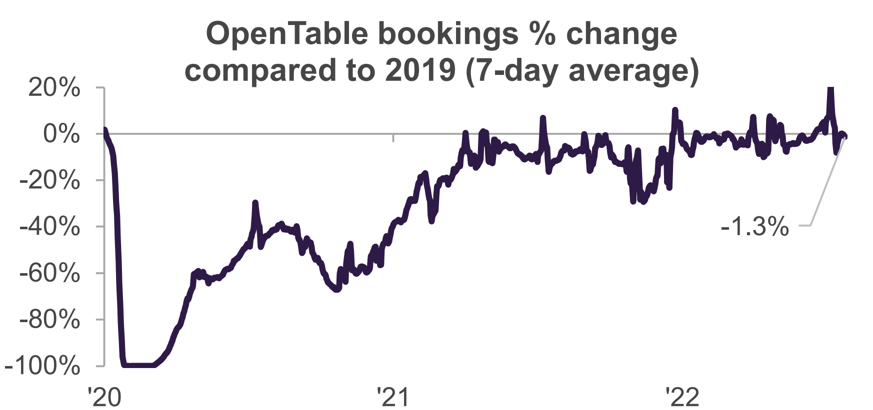
Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

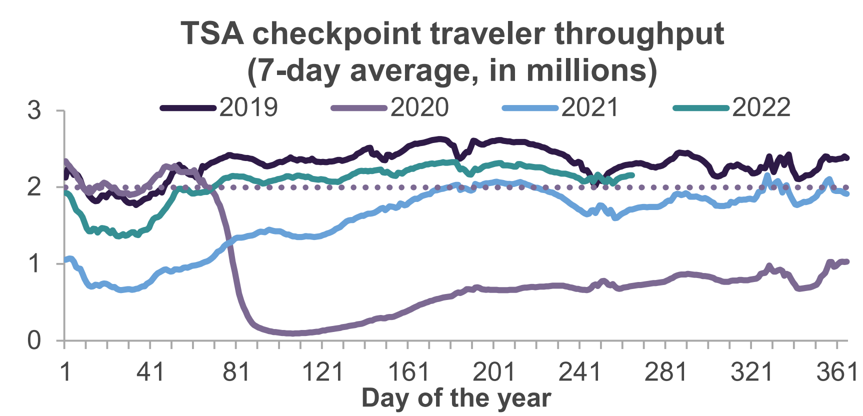
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, Google COVID-19 Community Mobility Report, STR/CoStar, American Staffing Association, Zillow. Week-over-weak and year-over-year change are abbreviated as WoW and YoY, respectively.

Activity-based trends slipping in September, though some is seasonality





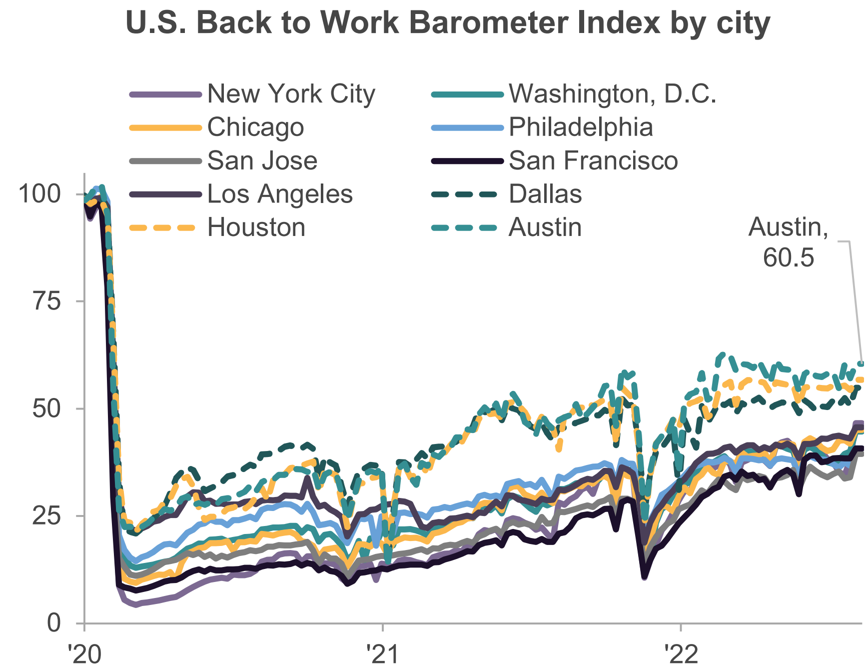




Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through September 17, 2022. Top right: (U.S. Community Mobility) Google COVID-19 Community Mobility Reports 7-day average through September 12. Bottom left: Bloomberg, OpenTable 7-day average through September 22. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through September 22.

Working in the office gradually approaching 50%, but varies by industry and geography

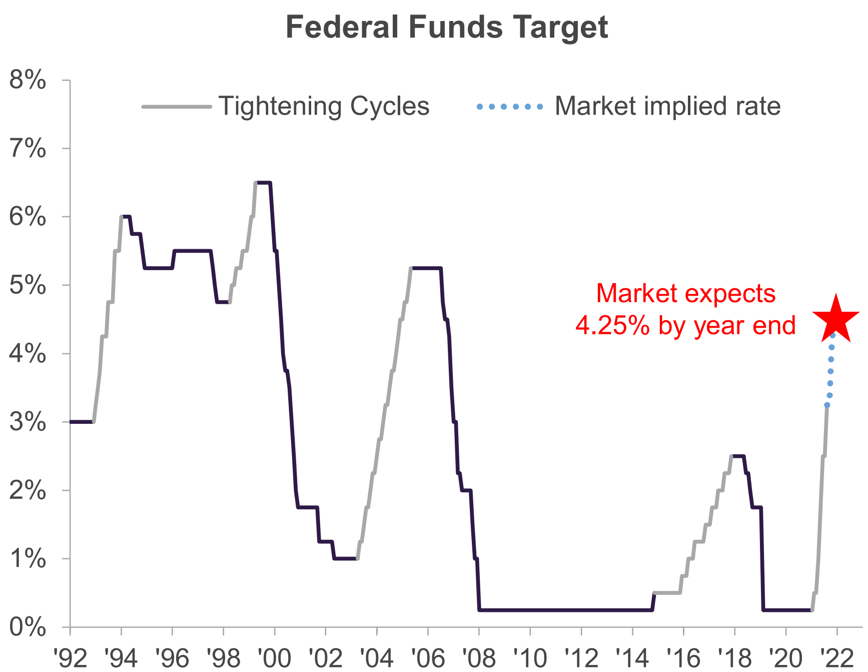
Back to office is grinding higher. The Texas metros – Austin, Houston, and Dallas – are clustered near 60% and have consistently been above 50% since early in ’22. Within legal, the nationwide average is nearly 60%, almost 10 percentage points higher than for all industries. Not surprisingly, the daily data shows higher office traffic midweek for all industries, with Tuesday as the busiest, followed by Wednesday, then Thursday.

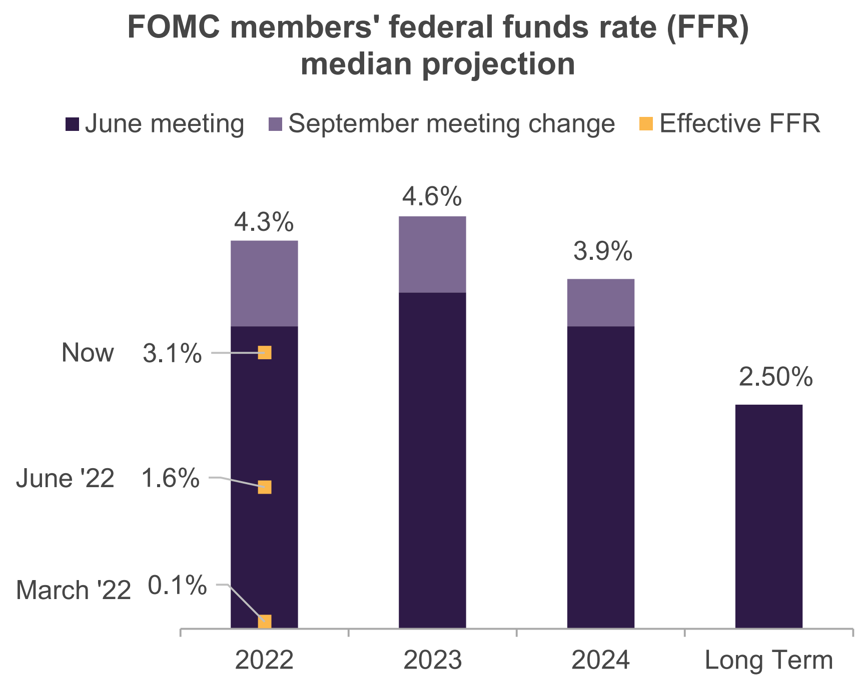


Sources: Truist IAG, Bloomberg, Kastle Systems based on building access control systems data relative to a pre-COVID baseline, averaged weekly. Weekly data through September 14, 2022.

Fed follows through with third straight supersized three-quarter point rate hike to combat inflation

At its September rate-setting meeting, the Federal Open Market Committee (FOMC) increased its target range for the federal funds rate by three-quarters of a point (0.75%) to a range of 3.00% to 3.25%. Additionally, the FOMC released its economic projections, which sees slower economic growth, a sharper rise in the unemployment rate, and a slower improvement in inflation compared to the June projections. Most notably, the committee dramatically upped its projections for where it expects the federal funds rate to be by year-end 2022—hike by another 1.25%—from just three months ago.





Sources: Truist IAG, Federal Reserve Board. Year-end upper bound figures shown. The effective federal funds rate is calculated as a volume-weighted median of overnight federal funds transactions.

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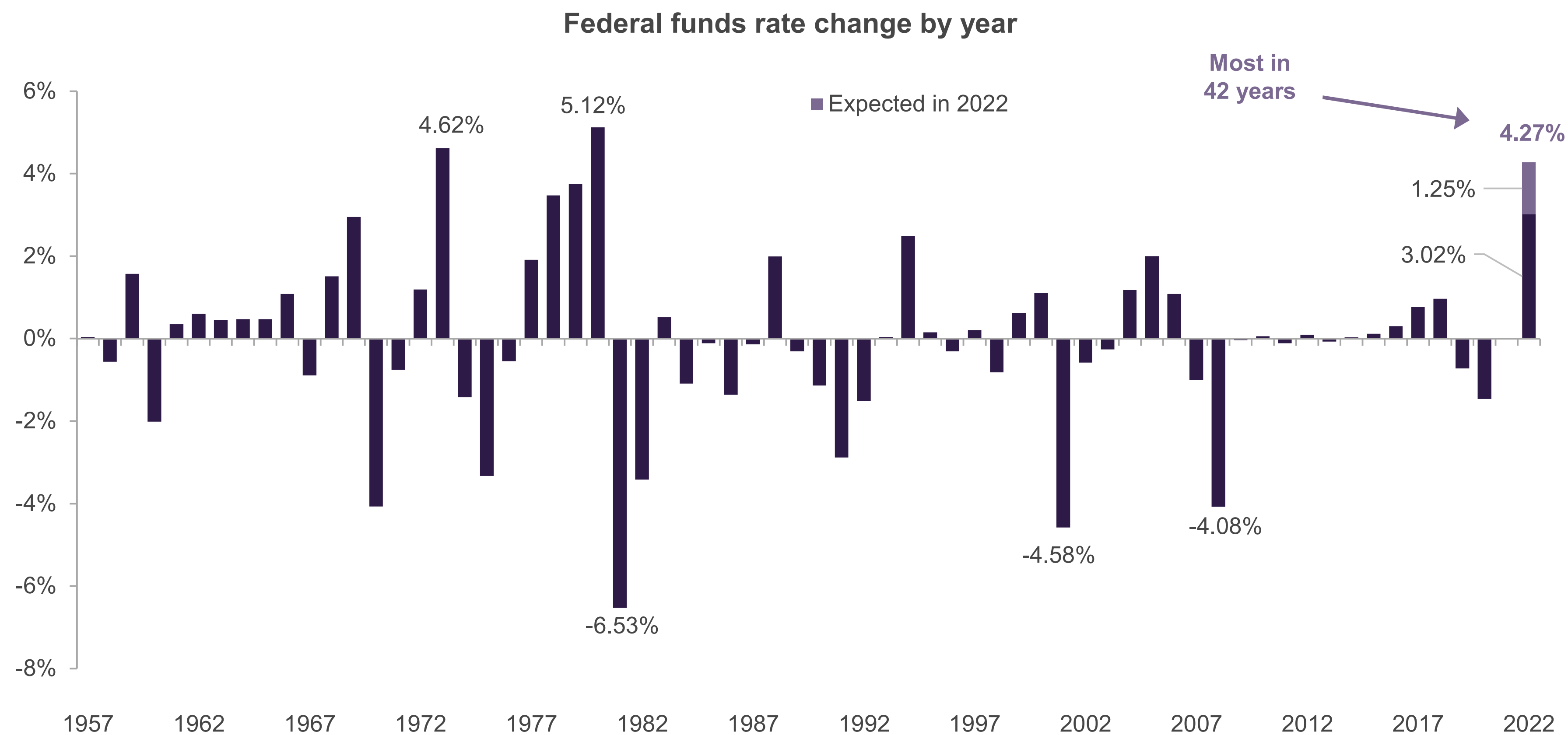
Fed's fastest rate increase since the early 1980s



Source: Truist IAG, Bloomberg, Federal Reserve Bank of New York. Effective rate shown. Expected based on the Federal Reserve summary of economic projections, September 2022.

TRUIST

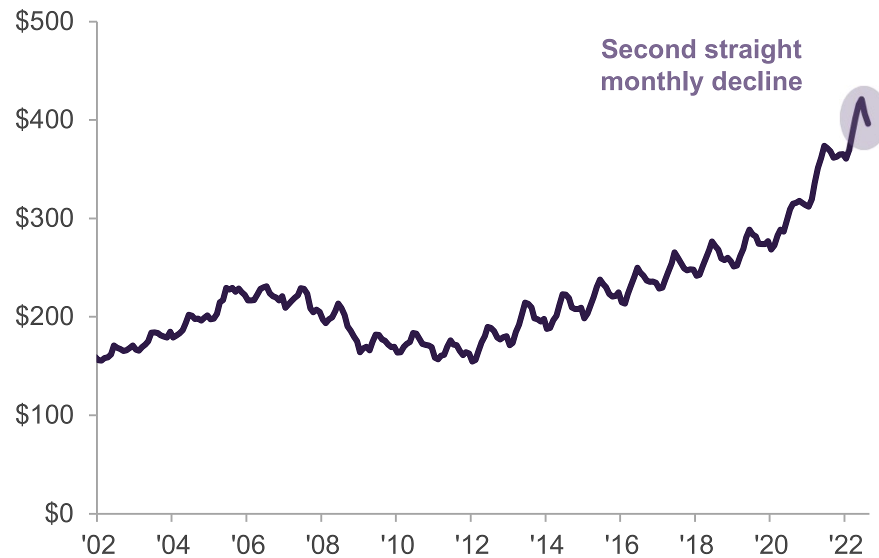
Wealth

Existing home sales drop for 7th straight month, while prices finally slipping

Total existing home sales, which includes single-family and condos, fell by 0.4% to 4.80 million SAAR in August. Single-family sales dropped for the seventh straight month and the eight time in nine months. Meanwhile, prices fell for the second month in row and just the third time this year. Prices continue to be supported by low inventories, which remain more than 25% below 2019 levels.

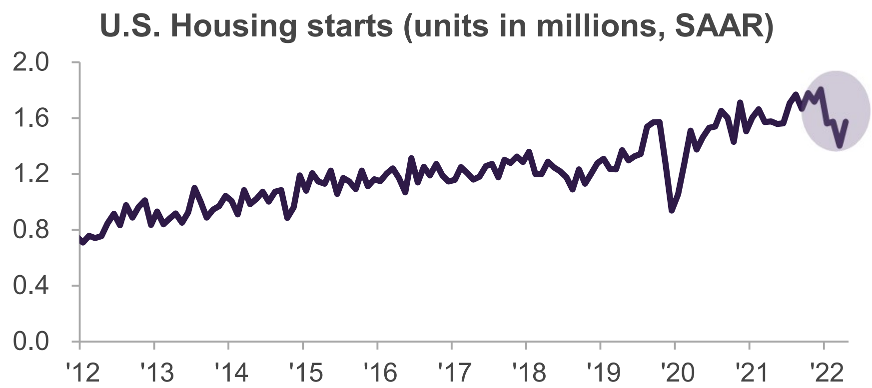
Existing single-family home sales (units in millions, SAAR)

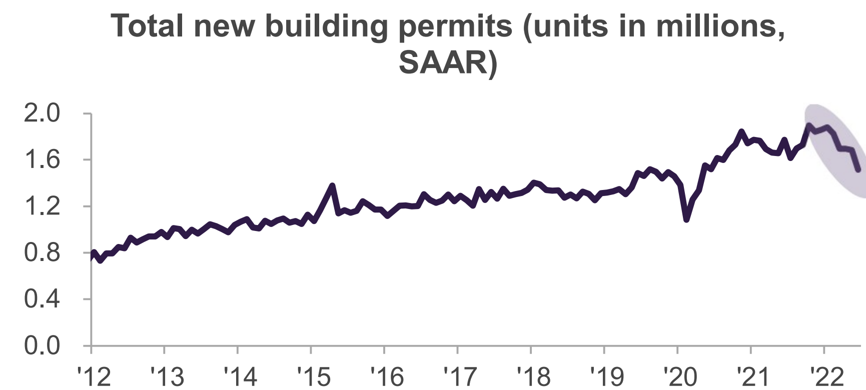
Median sales price of existing single-family homes (in thousands)

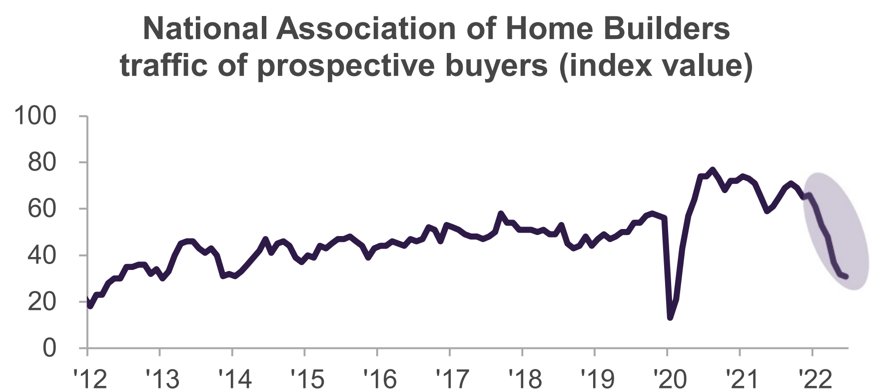


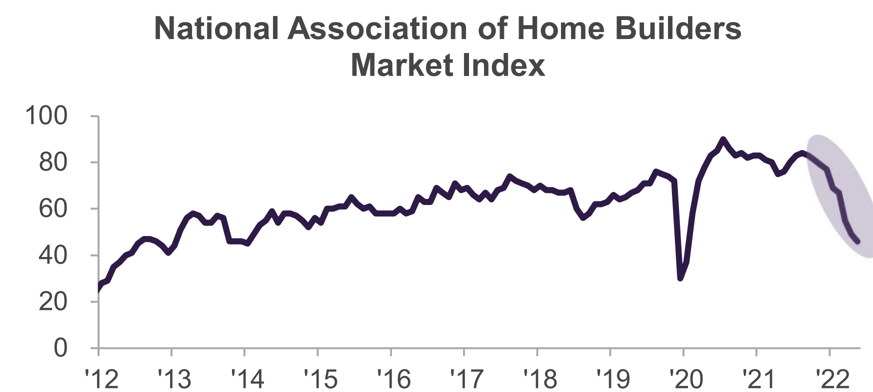
Data Sources: Truist IAG, Bloomberg, National Association of Realtors. Figures shown are seasonally-adjust annualized rate (SAAR); monthly data through August 2022.

Higher mortgage rates rapidly cooling new housing activity









Sources: Truist IAG, Bloomberg. Seasonally adjusted annualized rate (SAAR). Permits and starts monthly data through August; NAHB figures through September.

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Leading indicators down for 6 straight months and 7 out of 8

The Conference Board's Index of Leading Economic Indicators (LEI), which is a composite of 10 economic indicators that tend to lead turning points in the business cycle, peaked in February and has declined for six months in a row (March through August) and seven of the past eight.

Our work shows that over the past eight recessions, on average, the LEI has peaked about 12 months before the onset of recession, though the lead time has varied.

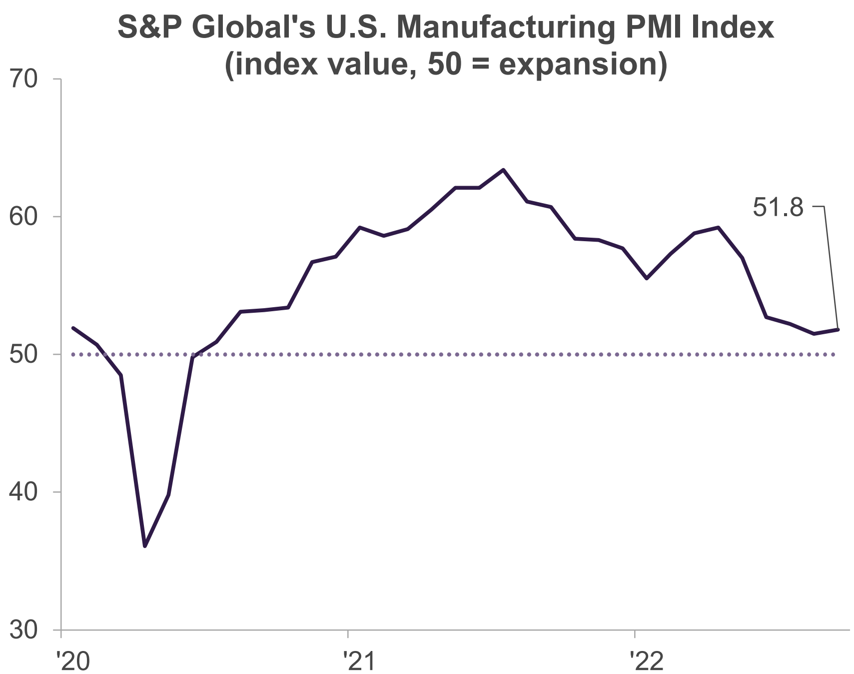
Sources: Truist IAG, Bloomberg, Conference Board Index Value (2016 = 100); monthly data through August 2022.

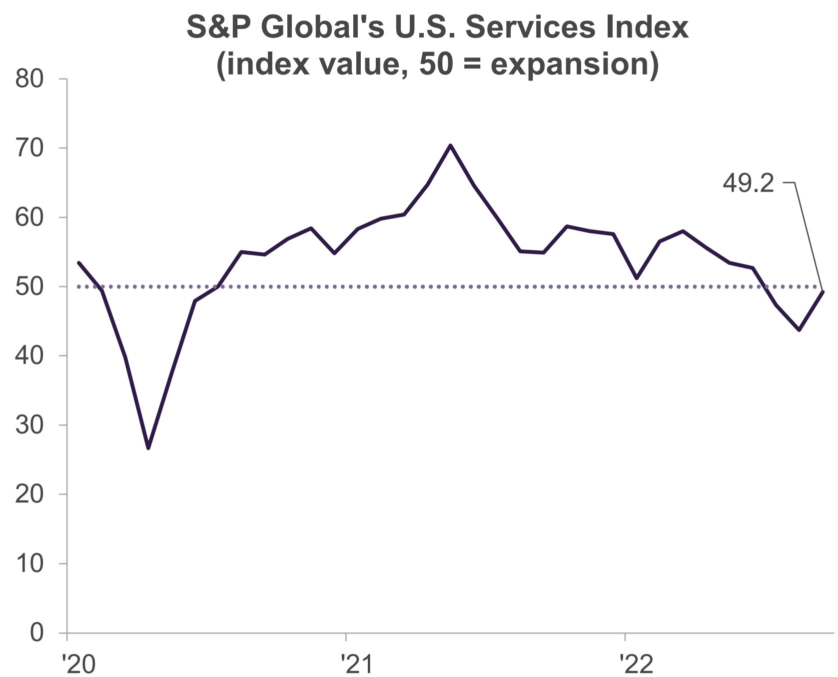
TRUIST

Wealth

U.S. manufacturing & services surveys improve in September

S&P Global's U.S. Manufacturing PMI Index rose slightly to a reading of 51.8 in September, snapping a four-month decline streak. It was the 27th consecutive month of expansion. The U.S. Services PMI Index continued to contract, but improved to a reading 49.2, which was a three-month high and halts a five-month decline streak.





Data Source: Truist IAG, Bloomberg, S&P Global. Monthly data through September (preliminary).

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