Economic data tracker – More mixed economic data

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Week 47 – November 23, 2022

Trend watch and what's new this week

The upcoming Thanksgiving holiday is skewing the activity-based data mostly to the upside (slides 5 and 6). Air passenger counts surged 6% WoW partway through the busiest travel week of the year. As an aside, 2022 passenger counts have closely tracked 2019 since mid-August. Also, dining reservations have improved.

Meanwhile, seasonal hiring of temporary workers remains strong through mid-November. That said, temp staffing figures usually take a dive during Thanksgiving week, then quickly recover.

New home sales buck otherwise weak housing trend

On slide 7, new homes sales jumped 28.8% to an annualized rate of 632,000 in October, roughly in-line with the 20-year average. Still, sales have declined in 7 of the past 10 months. Meanwhile, prices rose to $493,000, which is a new all-time high and 52.6% above the October 2019 level. Although other data sources indicate that prices have softened in certain cities, overall prices have been supported by limited inventories of new and existing homes for sale.

Separately, the National Association of Home Builders said that 59% of builders reported using incentives to boost sales in November. Also, 37% of builders reduced prices in November, up from 26% in September, and cutting prices by 6% on average.

More mixed data

New orders for core capital goods (slide 8), which excludes the volatile aircraft and defense components, is one leading economic indicator that has remained solid. It's hovering near the all-time high set in August and has increased in seven of the past eight months.

On slide 9, the preliminary November readings for S&P Global's U.S. Purchasing Managers Index (PMI) indices for manufacturing and services show that both are now contracting for the first time since the pandemic shutdown. A different set of PMI surveys from the Institute of Supply Management have also weakness considerably but haven't contracted yet.

On slide 10, consumer sentiment, as measured by the University of Michigan Consumer Sentiment Survey, improved to 56.8 final November reading from the preliminary figure of 54.7. Still, that snapped a streak of four straight monthly increases and remains near the lowest level since the series began in 1978.

Meanwhile, within the survey, inflation expectations over the next 5-10 years rose to 3.0% in November from 2.7% in September and 4.9% over the next year, down from the preliminary figure of 5.1%.

Economic commentary – Our take and the bottom line

Our take

Prices jumped nearly universally in 2021 and the early part of 2022 with the rebound in demand. Interest rates have steadily increased this year, propelled by five rate increases by the Federal Reserve (Fed), including four supersized rate hikes of 0.75% since June.

Indeed, tightening financial conditions have caused the U.S. economy to slow significantly since the summer. Now, economic activity has cooled in nearly every sector of the economy. For instance, freight volumes have declined in four of the past five months. There are pockets of strength, such as core capital goods, but there are progressively fewer examples.

Housing activity, which is among the most interest sensitive, was the tip of the spear. It began to wobbled almost immediately in the early spring as a result of the higher mortgage rates, which remain at their highest level in 20 years. Though new home sales jumped in October, it was thanks to heavy incentives and price cuts, which we view as builders attempting to clear inventory. Those aren't the hallmarks of strong trends. Otherwise, housing is in freefall with most metrics down seven or eight months in a row.

On the other hand, inflation has clearly peaked in our view, aided by the decrease in demand seemingly across the board and improved production as supply chains continue to repair from pandemic-related issues. Additionally, crude oil prices have continued to recede due to a combination of softer demand and steady production. Even stable crude oil prices from here would be somewhat deflationary as we move through 2023.

Even labor markets, which have remained solid, have seen conditions cool of late. For instance, monthly job gains have steadily moderated recently. Moreover, the unemployment rate, one of the most "laggy" economic indicators, has begun to tick higher.

While the crosscurrents in the data will persist, the clear slowdown of economic activity should provide enough cover for the Fed to back down from its aggressive moves and hawkish rhetoric. That doesn't mean stopping interest rates hikes, which is the so-called pivot some investors are clamoring about. Ultimately, we think that the Fed will hike by 0.50% at their meeting on December 14 based on how the data is trending currently. We also wouldn't rule out a smaller 0.25% rate hike in December if labor market data weakens further.

Bottom line

The U.S. economy has slowed significantly since the summer and inflation has clearly peaked. This should provide enough cover for the Fed to back down from its aggressive moves and hawkish rhetoric, which increases the possibility, albeit slightly, that the U.S. economy might achieve a soft-ish landing. While it isn't necessarily inevitable, a recession in the coming 12 months still appears highly probable in our view.

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▼	3Q A: 2.6%	3Q P: 2.7%	Rose after two straight negative quarters with a big boost from net imports (as exports rose but imports fell). Consumer and business spending remain solid aside from residential housing.
Jobs	Unemployment rate[x]	▲	Oct: 3.7%	Nov: 3.8%	Rose for the second time in three months off of the cycle low of 3.5%.
	Monthly jobs (nonfarm)	▲	Oct: 261K	Nov: 200K	Easily beat the 200K consensus, but conditions have clearly cooled.
	Weekly jobless claims[+]	▲	11/19: 240K	11/26: 240K	Rose WoW, but likely impacted by the holiday; still near historic lows.
	Nonfarm productivity	▲	3Q P: 0.3%	3Q F: 0.3%	Rose modestly in 3Q22 after two straight negative quarters. Also, unit labor costs rose 3.5% vs. 8.9% in 2Q22.
Interest rates	Federal funds rate	⇆	3.75% – 4.00%	12/14: 4.50% – 4.75%	Fed followed through with 4th straight supersized rate hike of 0.75% in Nov. to combat inflation. Market expects 0.50% at the Dec. meeting.
	10-year U.S. Treasury yield	▼	3.73%[‡]	Flat/down	Rates collapsed 0.50% in two weeks with cooler inflation readings, but still near the highest level since ’07. We expect more volatility.
	10-year AAA GO muni yield	▼	2.85%[‡]	Flat/down	Continues to drift lower, under 3% for first time in roughly two months.
	30-year fixed mortgage rate	▼	6.85%[‡]	Flat/down	Down sharply from above 7.35% three weeks ago, though remains at the highest level since 2001. Higher rates hurt housing affordability.
Inflation	Consumer prices (CPI)[x]	▼	Oct: 0.4%	Nov: N/A	Inflation is definitely cooling. Stayed at up 0.4% MoM vs. consensus of up 0.6%. Overall CPI rose 7.7% YoY, down from 9.1% in June.
	Core CPI	▼	Oct: 0.3%	Nov: N/A	Cooled, up 0.3% MoM, while YoY rose 6.3% down from 6.6%.
	Producer prices (PPI)	▼	Oct: 0.0%	Nov: 0.2%	YoY increased 8.0% down substantially from 11.7% in March.
	Core PPI	▼	Oct: 0.2%	Nov: N/A	Has clearly peaked as YoY rose 6.7% down from 9.7% in March.

▲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	▼	Oct: 4.43M	Nov: N/A	Fell 5.9% MoM, dropped for record 9th month in a row in October.
	New home sales	▼	Oct: 632K	Nov: N/A	Jumped 5.7% MoM, but down in 8 of the past 10 months. Meanwhile, prices rose 8.2% MoM on continued tight supply regionally.
	New housing starts	▼	Oct: 1.425M	Nov: N/A	Down 4.2% MoM, with weakness from both multi- and single family.
	New permits+	▼	Oct: 1.512M	Nov: N/A	Down 2.4% MoM, single family down for the eighth straight month.
Business	Durable goods orders+	▲	Oct P: 1.0%	Oct F: 1.0%	Rose MoM thanks to transports, but core capital goods orders (ex-air & defense) fell 0.4% MoM, just below the fresh all-time high.
	ISM Manufacturing Index	▲	Oct: 50.2	Nov: 49.9	Activity has slowed though Oct was the 29th month of expansion. Prices paid component is now contracting, which is good for inflation.
	ISM Services Index	▲	Oct: 54.4	Nov: 53.9	It was the 29th consecutive month of expansion, but pace has slowed markedly. Prices paid rose, snapping 5 straight monthly declines.
	Business inventoriesX	▲	Sep: 0.4%	Oct: N/A	Down to its slowest MoM pace since April ’21.
Consumer	Personal income	▲	Sep: 0.4%	Oct: 0.4%	Up MoM for the 8th straight month, buoyed by solid wage growth.
	Personal spending	▲	Sep: 0.6%	Oct: 0.8%	Up 0.6% MoM two months in a row after dipping modestly in July.
	Advance retail sales	▲	Oct: 1.3%	Nov: N/A	Big upside surprise, with the largest increase in eight months and hitting a new all-time high.
	Consumer sentiment	▼	Nov F: 56.8	Dec P: N/A	Snapped four-month up streak, while long-term inflation expectations rose to 3.0% after slipping to 2.7% in September.

▲Good ▼ Bad ⇆ Neutral +Leading indicator XLagging indicator ‡Intraday quote Bloomberg consensus shown

TRUIST

Wealth

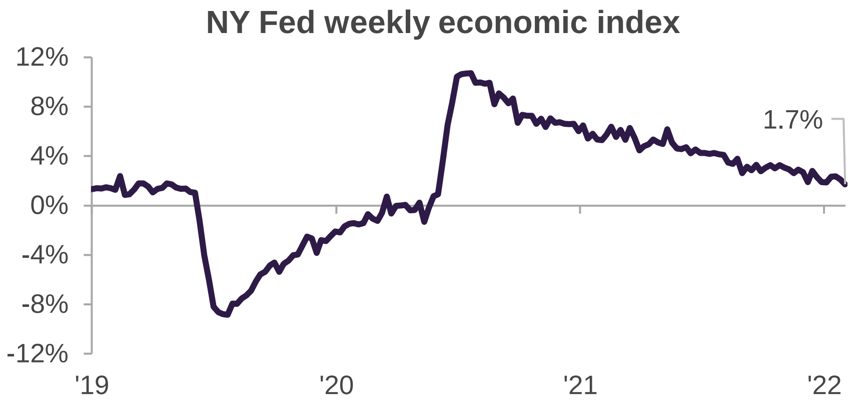
U.S. activity-based data matrix

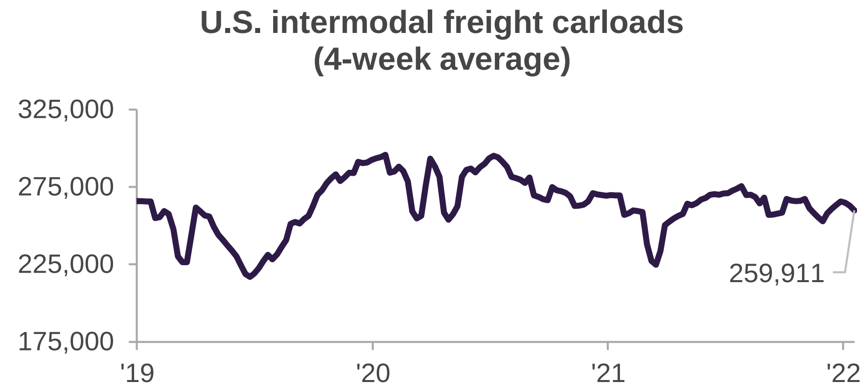
Indicator	Relative trend	What we're watching
Back to office	▼	Rose to 48.1 (pre-pandemic indexed to 100). Top cities are Austin (63), Houston (59), and Dallas (54); bottom are San Jose (37), Philadelphia (41), and San Fran (43). While the trend is steadily improving, it remains less than half of pre-pandemic levels, which is not conducive for overall growth.
TSA air passenger throughput	▲	Weekly count rose 6% WoW to 15.18million, which is 2.0% below the 2019 weekly average of 16.1M. Passenger counts are +0.1% from the same week in Nov. '19 and are now 15.1% above Nov. '21.
OpenTable restaurant bookings	▲	Ebbed to +0.2% compared to pre-pandemic levels. Top positive states were led by Nevada (+69%) and Nebraska (+65%); bottom were New York (-33%) and Illinois (-28%). Top cities were Las Vegas (+72%), Scottsdale (+31%), and Denver (+28%); bottom were Seattle (-55%) and San Francisco (-51%).
Hotel occupancy	▲	Occupancy jumped to 64.6% from 62.4% in the prior week. The average daily rate was $148.43, up 0.9% from the same week in Nov. '19, and revenue per available room was $95.89, up 18.2% from Nov '19.
Freight (rail/truck/ship)	▲	Rail carloads rose 0.3% WoW, snapping a 2-week down streak, and rose 3.3% MoM in October. Container traffic, which fell 0.5% MoM in October, appears to be permanently shifting away from west coast ports in U.S. Freight volumes dropped 1.4% MoM in October.
Staffing index	▲	Jumped to 108.0 from 107.7 in the prior week, just below the all-time high of 108.7 set in mid October. The pre-pandemic all-time high was 105.8 set in Dec. '14. The cycle low was 59.6 set in April '20.
Apartment rental prices	⇆	Rent index in October rose 0.3% MoM, the coolest pace in 24 months, and up 9.8% YoY. While prices are significantly above pre-pandemic levels, the rental growth rate clearly peaked during the second half of 2021.

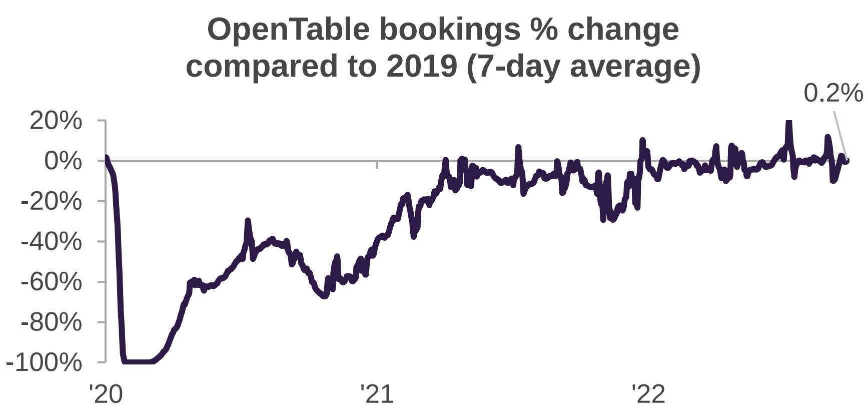
Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

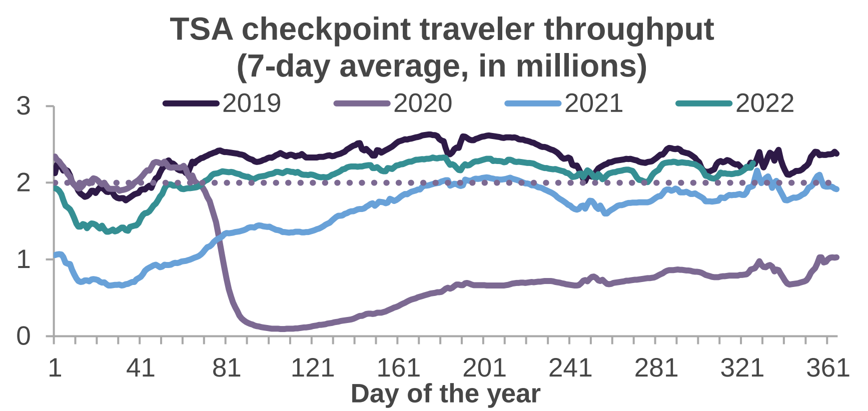
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

Activity-based trends dipped with seasonality in October, but improving in November







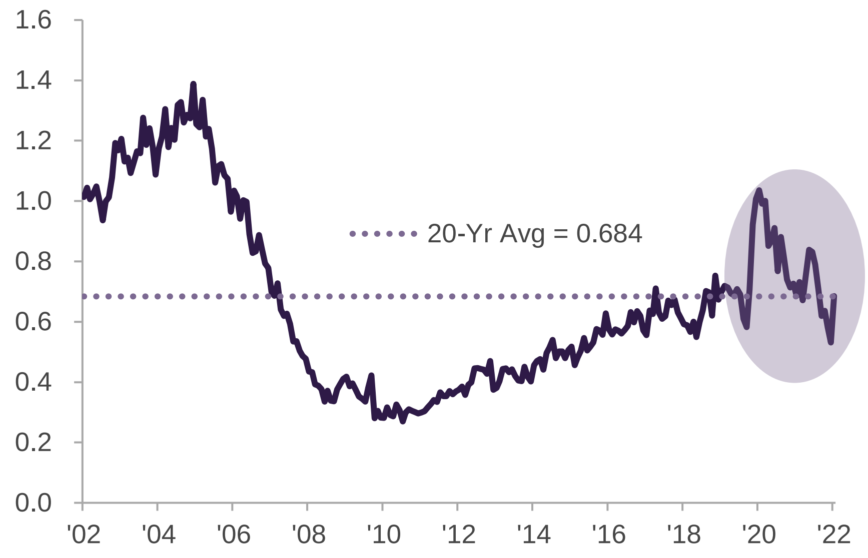


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through November 12, 2022. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through November 18. Bottom left: Bloomberg, OpenTable 7-day average through November 22. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through November 22.

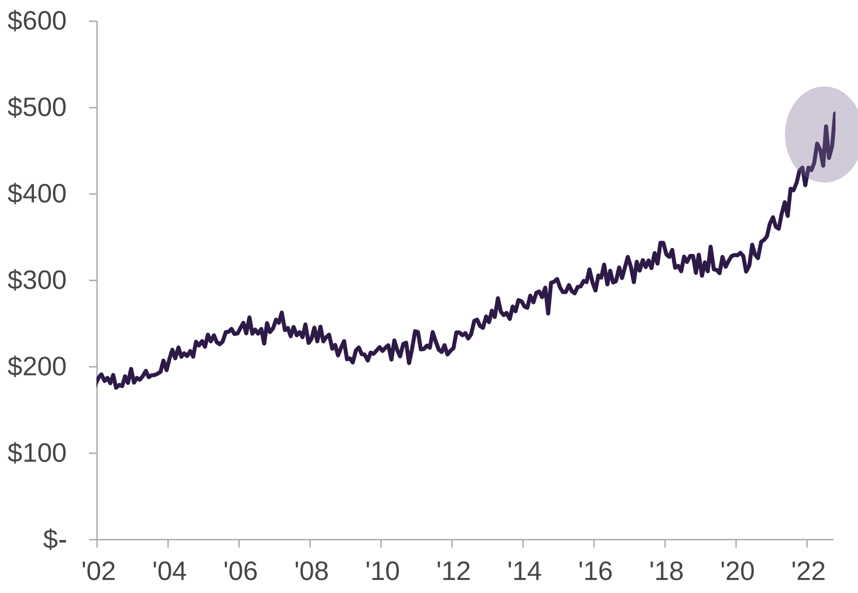
New home sales surprisingly jump in October, but prices jumped

New homes sales jumped 28.8% to an annualized rate of 632,000 in October, roughly in-line with the 20-year average. Still, sales have declined in 7 of the past 10 months. Meanwhile, prices rose to $493,000 in October and are 52.6% above the October 2019 level. Although other data sources indicate that prices have softened in certain cities, overall prices have been supported by limited inventories of new and existing homes for sale.

U.S. new single-family home sales (SAAR, units in millions)



Median price of new single-family homes (in $thousands)



Sources: Truist IAG, Bloomberg, U.S. Census Bureau. Figures shown are seasonally-adjust annualized rate (SAAR); monthly data through October 2022.

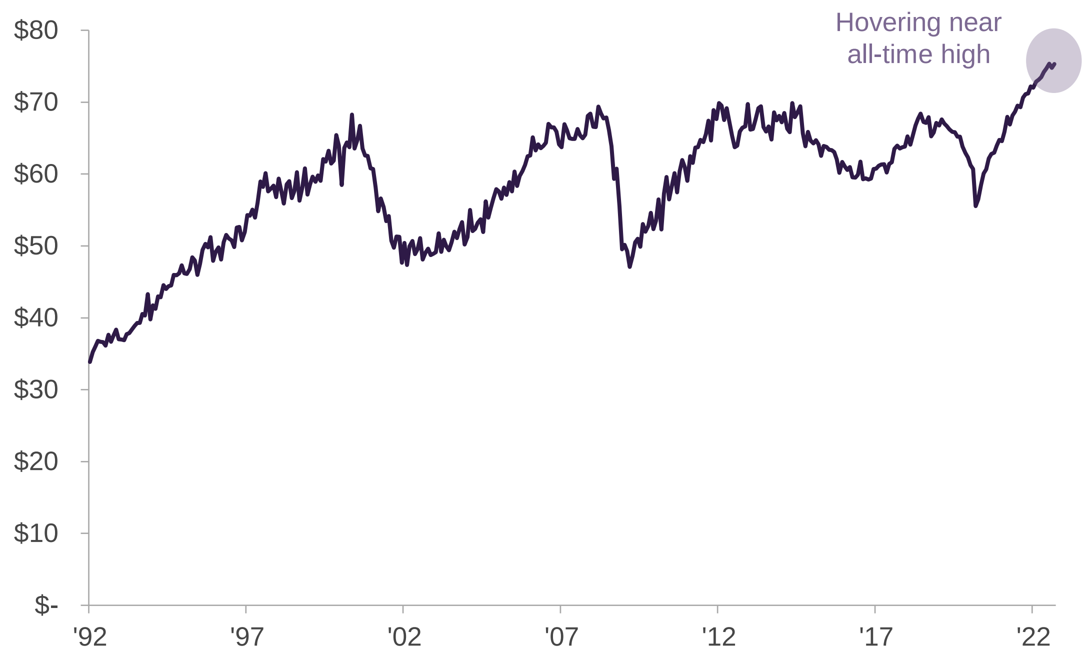
Core capital goods, hovering near all-time high, remains an area of strength

New orders for durable goods—big-ticket items such as cars, appliances, electronics, and furniture—rose 1.0% in October to $277.4 billion, a fresh all-time high and 24.4% above October 2019.

New orders for core capital goods, which excludes the volatile aircraft and defense components, rose 0.7% in October to $75.3 billion, which is a $56 million shy of the all-time high set in August.

These are new orders, which suggests that demand for business equipment remains solid despite inflation and higher interest rates.

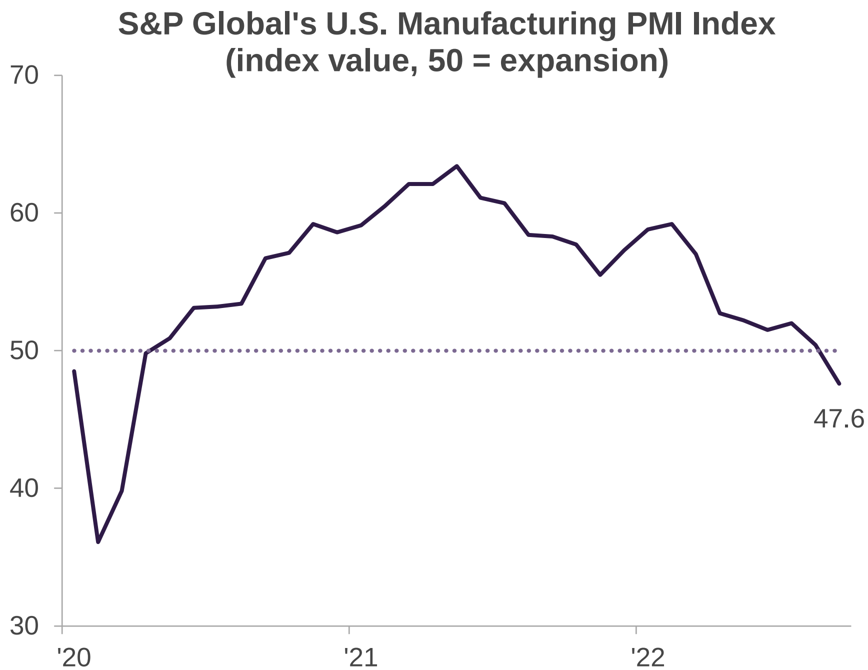
New orders for core capital goods
(excludes aircraft & defense, in $billions)

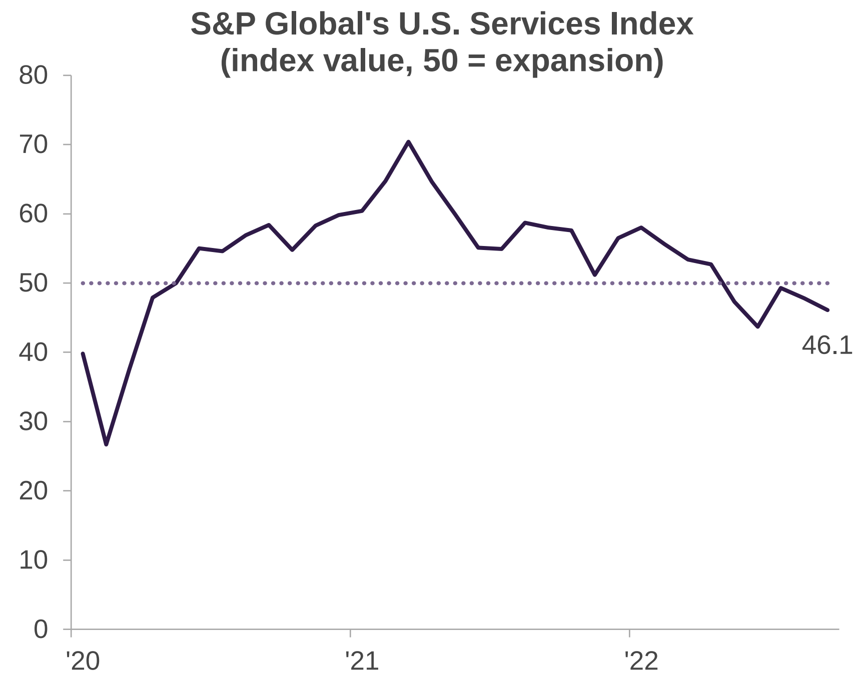


Data source: Truist IAG, Bloomberg, U.S. Census Bureau; monthly data through October 2022.

U.S. manufacturing & services surveys slump in November

S&P Global's U.S. Manufacturing PMI Index fell to 47.6 in November. Readings below 50 indicate shrinking activity. It was the first monthly contraction for manufacturing, snapping a 28-month expansion streak. Similarly, the U.S. Services PMI Index continued to contract, to a reading 46.1, the fifth straight monthly decline.

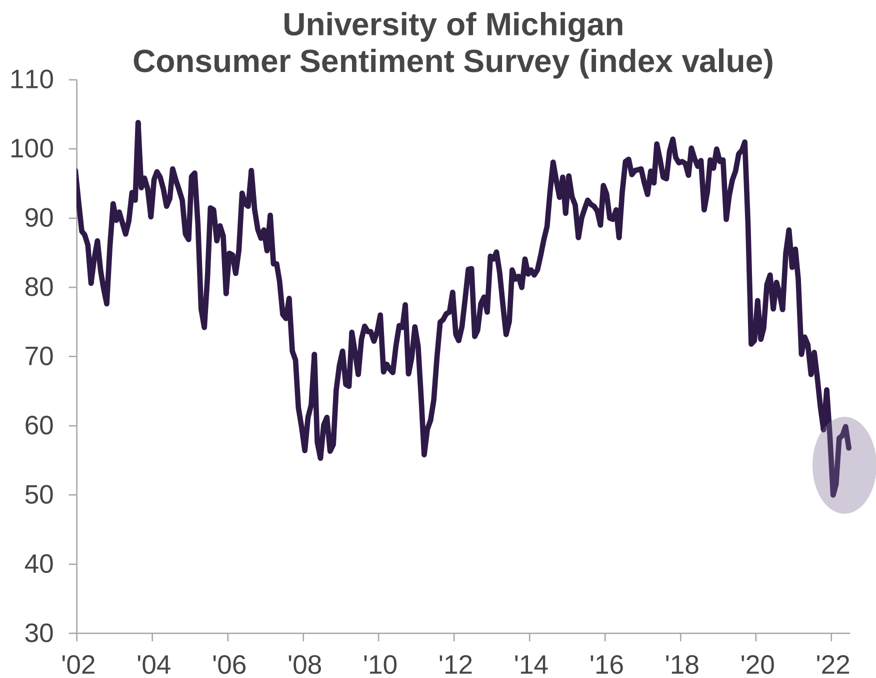


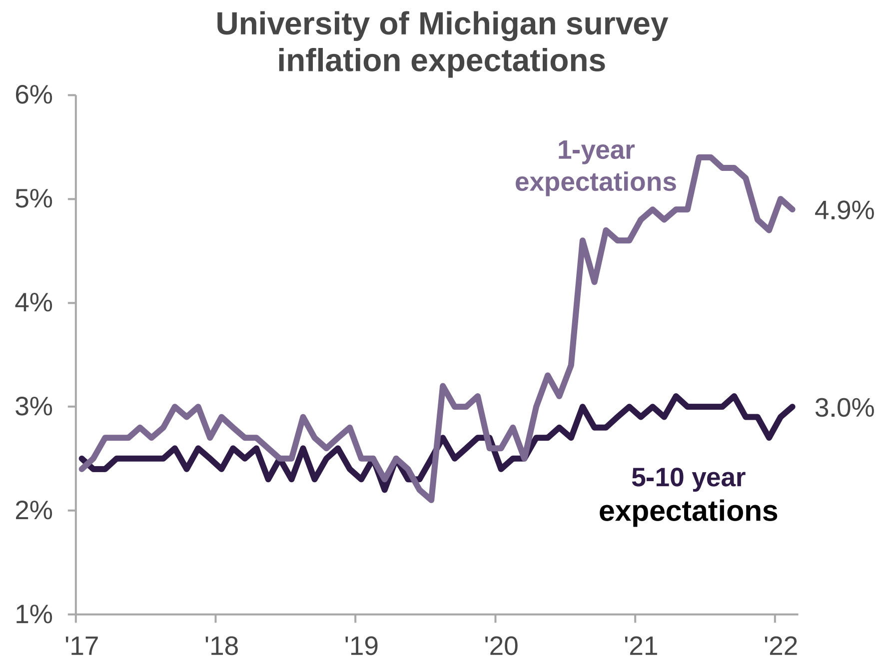


Data Source: Truist IAG, Bloomberg, S&P Global. Monthly data through November (preliminary).

Consumer sentiment slumped in November, while long-term inflation expectations remain elevated

Consumer sentiment, as measured by the University of Michigan Consumer Sentiment Survey, improved to 56.8 final November reading from the preliminary figure of 54.7. Still, that snapped a streak of four straight monthly increases and remains near the lowest level since the series began in 1978. Meanwhile, inflation expectations over the next 5-10 years rose to 3.0% in November from 2.7% in September and 4.9% over the next year, down from the preliminary figure of 5.1%.





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

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CN2022- 5247772.1 EXP11-2023