Truist Advisory Services, Inc.

Economic data tracker – Goldilocks jobs report in December

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Trend watch and what's new this week

As we'd expect, the holidays have certainly skewed most of the activity-based data (slides 5 and 6). For instance, dining reservations spiked to their highest levels since the pandemic (compared to 2019). Though some of that spike was boosted by favorable the day of the week comparisons – Christmas and New Year's Day both fell during the weekend in 2022 versus mid-week during 2019 – it doesn't explain all of the increase, which appeared to be broad based.

Similarly, air passenger counts hit their highest post-pandemic level of 16.2 million during the week before Christmas. That topped Thanksgiving week, which is traditionally the heaviest air travel week of the year. Hotel occupancy rose in the most recent week to close out the year (slide 7).

Job growth surprises again in December, but wages cooling

U.S. payrolls in December increased by 223,000, above the consensus of 203,000. Along with downward revisions to the prior two months, the six-month average fell to 307,000. Meanwhile, the unemployment rate slipped down to 3.5%, revisiting the lowest level for this cycle and the prior cycle. Both are on slide 8.

On slide 9, average hourly earnings cooled to a 16-month low, though it remains well-above the pre-pandemic rate. Additionally, there were more cracks visible at the industry level, including general merchandisers and temporary help (slide 10).

Manufacturing data weaker; inflation appears to be retreating

Two separate gauges showed continued weakness with manufacturing. The Institute for Supply Management (ISM) Manufacturing Index (slide 11) declined for the second straight month in December. The prices paid component continued its sharp decline, down for the ninth month in a row, which confirms that inflation within manufacturing has already peaked.

Similarly, the final December reading of S&P Global's U.S. Manufacturing Index also contracted for the second month in row.

Services index unexpectedly weak

The ISM Services Index dropped unexpectedly to a reading of 49.6 in November. That snapped a 30-month expansion streak dating back to May '20. The price paid component continued its sharp decline, down for the seventh time in eight months (May through December). However, despite the recent weakening, service sector prices remain significantly above pre-pandemic levels (slide 12).

Meanwhile, the final December reading of S&P Global's U.S. Services Index fell to 44.7, contracting for the second straight month.

Economic commentary – Our take and the bottom line

Our take

The December jobs report was truly a goldilocks report for markets – not too hot (wage gains waning), not too cold (still has solid overall job gains). That said, labor market conditions are clearly cooling, which reflects a slowdown in the broader economy.

Yet, despite recent high-profile job cuts, layoff announcements actually improved in December compared to November, at least according to outplacement firm Challenger, Gray, and Christmas. This was also supported by several other labor market reports, including JOLTS. These suggest that many of these workers are finding other jobs, skipping the unemployment line at least for now.

It is important to understand, however, that most of the employment data – are lagging indicators, including the unemployment rate and headline jobs growth. The notable exception is weekly jobless claims, which continue to hover just above historic lows.

Equally, the economic plunge that some expect due to a recession hasn't happened. That's very consistent with historic job loss patterns, which tend to be gradual rather than falling off the proverbial table.

More importantly, this report – though backward looking – indicates the U.S. economy is stronger than many are giving it credit. Again, not as strong as it was in 2021, but not so weak as to see companies dumping workers in big numbers. As we've repeatedly mentioned, there appears to be an increasing trend of firms using attrition – so-called "hiring freezes" – ratcheting back on hiring plans, particularly large companies.

It also props open the door for a possible soft landing, which is a euphemism for sidestepping a recession or simply having a mild slowdown. This is especially true given other receding inflationary pressures from a wide range of indicators from commodities and energy prices to wholesale prices and housing.

In turn, we believe this report opens the door for the Fed to possibly stepdown the size of hikes to 0.25% in February from 0.50% at the December meeting and 0.75% at the prior four straight meetings. Of course, there is a lot of coming economic data that will influence the Fed's decision making; most notably, next week's inflation data along with a raft of housing figures and retail sales.

To clarify, while the chances of soft landing have increased, a recession in the coming 12 months remains our base case.

Bottom line

Employment is going in the direction the Federal Reserve (Fed) wants, allowing it to taper the size and perhaps the pace of interest rate hikes needed to slow the economy. A recession in the coming 12 months remains highly probable in our view, though it isn't necessarily inevitable.

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▲	3Q F: 3.2%	4Q A: 3.8%[†]	Revised up by another 0.3 percentage points due to better consumer and business spending, and net exports, but were partially offset by downward revisions residential housing and business inventories.
Jobs	Unemployment rate[X]	▲	Dec: 3.5%	Jan: N/A	Slipped back down to the cycle low of 3.5%.
	Monthly jobs (nonfarm)	▲	Dec: 223K	Jan: N/A	Another upside surprise, but labor conditions have clearly cooled.
	Weekly jobless claims[+]	▲	12/31: 204K	1/7: 218K	Dropped WoW, likely impacted by the holiday; still near historic lows.
	Nonfarm productivity	▲	3Q F: 0.8%	4Q A: N/A	Revised upward and rose in 3Q22 after 2 straight negative quarters. Also, unit labor costs rose 2.4% vs. 6.7% in 2Q22 and 8.5% in 1Q22.
Interest rates	Federal funds rate	⇆	4.25% – 4.50%	2/1: 4.50% – 4.75%	Fed stepped down the rate hike size to 0.50% in Dec. but maintained its hawkish tone. Market expects 0.25% to 0.50% at the Feb. meeting.
	10-year U.S. Treasury yield	▼	3.55%[‡]	Flat/down	Rates down sharply to start'23. While down from 4.25% in Oct., rates remain near the highest level since 2011. We expect more volatility.
	10-year AAA GO muni yield	▼	2.49%[‡]	Flat/down	Muni yields are down nearly 1% as yields continue to recoil from above 3.4% in mid October.
	30-year fixed mortgage rate	▼	6.63%[‡]	Flat/down	Up several ticks WoW but down sharply from 7.35% early Nov. It's still the highest since '08. Higher rates hurt housing affordability.
Inflation	Consumer prices (CPI)[X]	▼	Nov: 0.1%	Dec: 0.0%	Inflation continues to cool. The YoY pace slipped to 7.1% from 9.1% in June, which was the fifth straight decline.
	Core CPI	▼	Nov: 0.2%	Dec: 0.3%	Cooled to the slowest pace in 15 months. YoY rose 6.0%.
	Producer prices (PPI)	▼	Nov: 0.3%	Dec: 0.0%	YoY increased 7.4% down substantially from 11.7% in March.
	Core PPI	▼	Nov: 0.4%	Dec: 0.1%	Has clearly peaked as YoY rose 6.2% down from 9.7% in March.

▲Good ▼ Bad ⇆ Neutral [+]Leading indicator [x]Lagging indicator [‡]Intraday quote Bloomberg consensus shown [†]FRB-ATL GDPNOW (1/5/2023)

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Housing	Existing home sales	▼	Nov: 4.09M	Dec: 3.93M	Fell 4% MoM, dropped for record 10th month in a row in November.
	New home sales	▼	Nov: 640K	Dec: N/A	Jumped 5.8% MoM, but down 15.3% YoY. Meanwhile, prices fell 2.8% MoM as builders heaped on discounts and incentives.
	New housing starts	▼	Nov: 1.427M	Dec: 1.336M	Fell 0.5% MoM, but single family dropped 4.8% in November.
	New permits+	▼	Nov: 1.351M	Dec: 1.367M	Dropped 10.6% MoM as single family fell for the 9th straight month.
Business	Durable goods orders+	▲	Nov F: -2.1%	Dec P: N/A	Fell MoM after a strong November, but core capital goods orders (ex-air & defense) rose 0.1% MoM, just below the fresh all-time high.
	ISM Manufacturing Index	▼	Dec: 48.4	Jan: N/A	Activity declined for the second month in a row. Prices paid component is nearing the pandemic lows, which is good for inflation.
	ISM Services Index	▼	Dec: 49.6	Jan: N/A	Contracted, snapping a 30-month expansion streak. Prices paid component slipped for 7th time in 8 months.
	Business inventoriesX	▲	Oct: 0.3%	Nov: 0.4%	Came in below the consensus (again), and Sept. was revised down.
Consumer	Personal income	▲	Nov: 0.4%	Dec: N/A	Remains solid, buoyed by continued wage growth.
	Personal spending	▲	Nov: 0.1%	Dec: N/A	Rose MoM, but the pace slipped after a strong October.
	Advance retail sales	▲	Nov: -0.6%	Dec: -0.5%	Big upside surprise, with the largest increase in eight months and hitting a new all-time high.
	Consumer sentiment	▼	Dec F: 59.7	Jan P: 60.5	Rose for the fifth time in the past six months, while short-term inflation expectations slipped to 4.4%, lowest since June ’21.

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

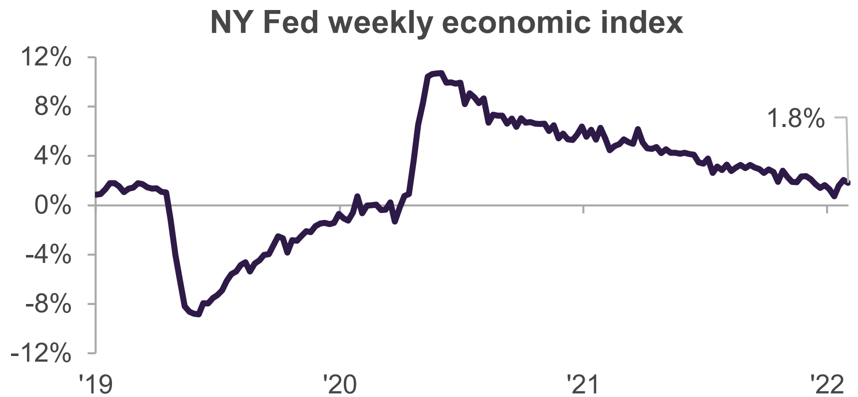
U.S. activity-based data matrix

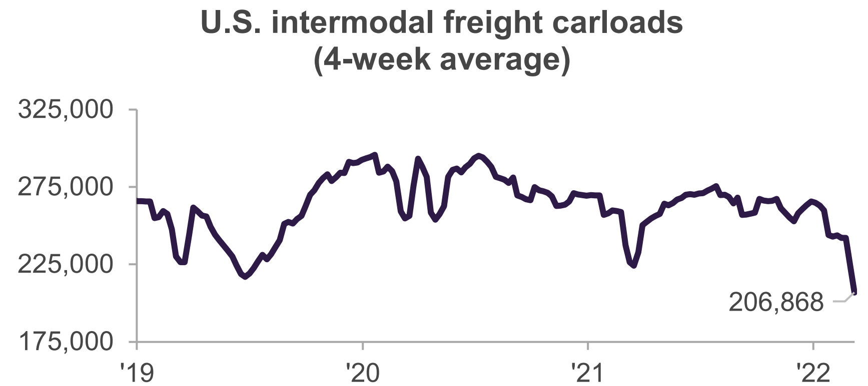
Indicator	Relative trend	What we're watching
Back to office	▼	Plunged to 21.4 (pre-pandemic indexed to 100) due to the holidays. Top cities were Houston (28), Dallas (27), and Los Angeles (25); bottom are San Jose (15) and San Francisco (16). While the trend was steadily improving, it remains less than half of pre-pandemic levels, which is not conducive for overall growth.
TSA air passenger throughput	▲	Weekly count jumped 3.6% WoW to 14.6 million, which is 7.4% below the 2019 weekly average of 16.1M. Passenger counts are -4.0% from the same week in Dec. '19 but are now 13.2% above Dec. '21.
OpenTable restaurant bookings	▲	Jumped to +15.2% compared to pre-pandemic levels from -7.3% the prior week. Top positive states were led by Nevada (+38%) and Florida (+29%); bottom were Massachusetts (-30%) and New York (-30%). Top cities were Miami (+53%) and Ft. Lauderdale (+51%); bottom were San Francisco (-59%) and Minneapolis (-51%).
Hotel occupancy	▲	Occupancy reached 59.6%, the highest level since before Thanksgiving. The average daily rate was $144.79, up 15.4% from the same week in Dec. '19, and revenue per available room was $86.29, up 14% from Dec. '19.
Freight (rail/truck/ship)	▼	Rail carloads fell for 3 straight weeks to end 2022 and dropped 10.1% MoM in December. Container traffic the top 5 U.S ports (LA, Long Beach, NY/NJ, Savannah, SeaTac) dropped 9.7% MoM in November, the fifth straight monthly decline. The Cass Freight Index fell 1.9% MoM in November.
Staffing index	▲	Dropped to 98.0 in the last full week of 2022, which is fairly typical around the holiday. 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 inched up just 0.05% in November, the smallest increase since 2015 (excluding the pandemic). The pace fell for the 5th straight month and the 12th time in the past 15 months. The rental growth rate clearly peaked during the second half of 2021.

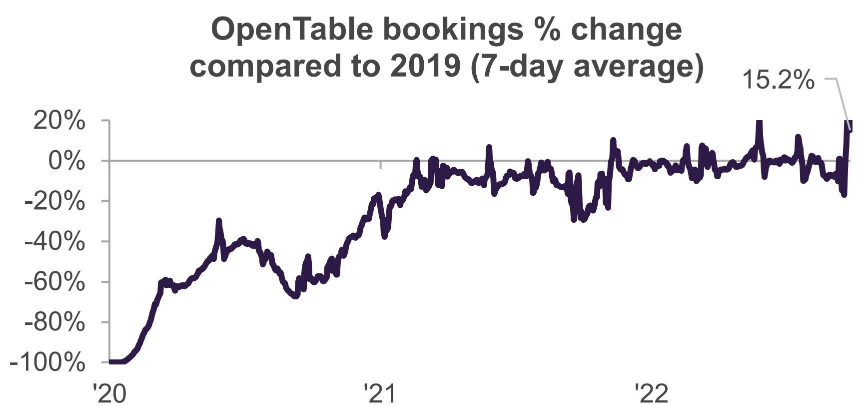
Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

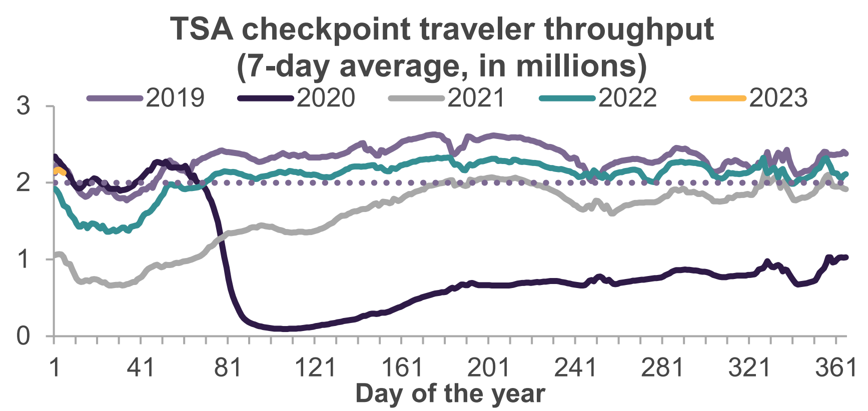
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

Activity-based trends jumped to start 2023







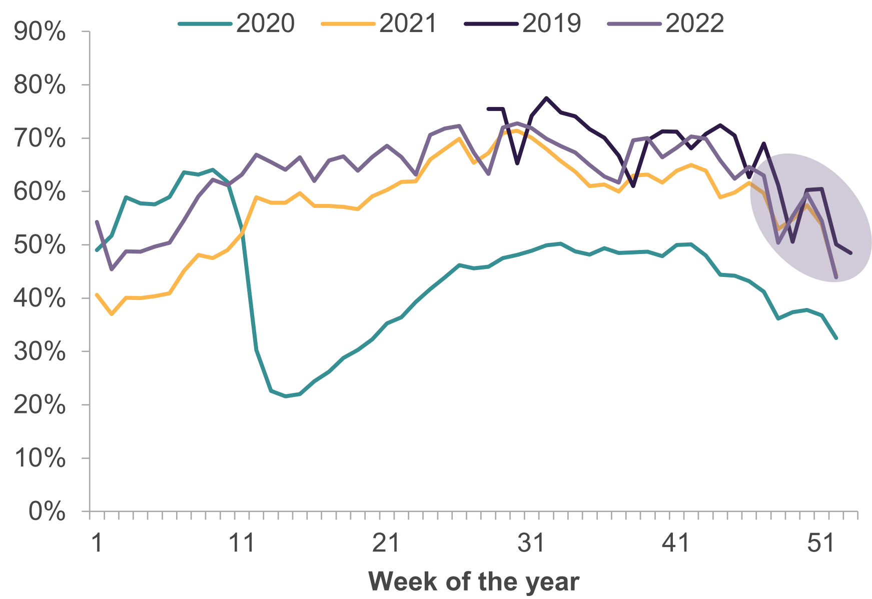


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through December 31, 2022. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through December 30. Bottom left: Bloomberg, OpenTable 7-day average through January 5, 2023. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through January 5.

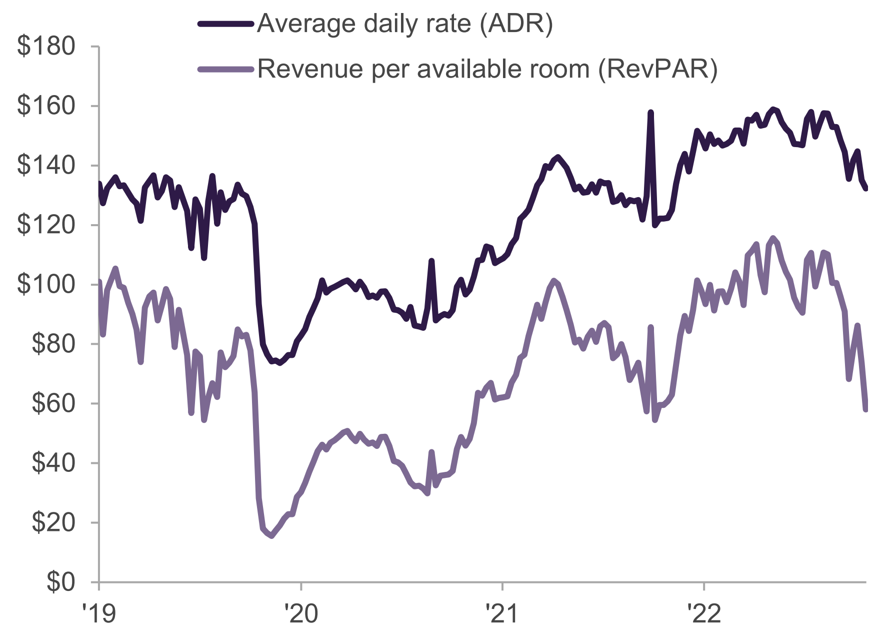
Hotel occupancy appears to be closely tracking pre-pandemic trend

Hotel occupancy nationally slumped in the final few months of 2022. Similarly, average daily rates and revenue per available room pulled back. Nonetheless, the overall occupancy trend has closely tracked the 2019 for most of the second half of 2022, while ADR and RevPAR have largely returned to pre-pandemic trends.

Weekly U.S. hotel occupancy by year



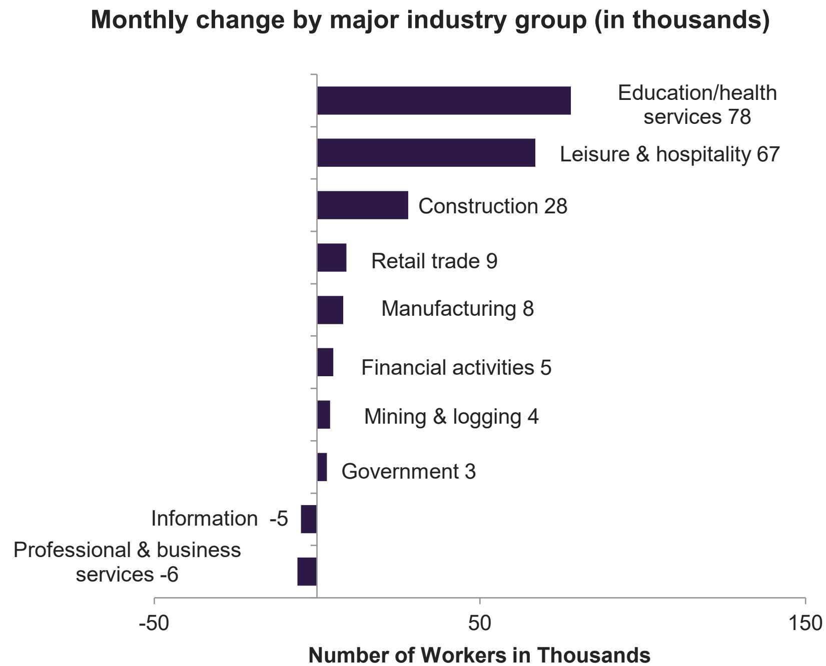
U.S. hotel rates

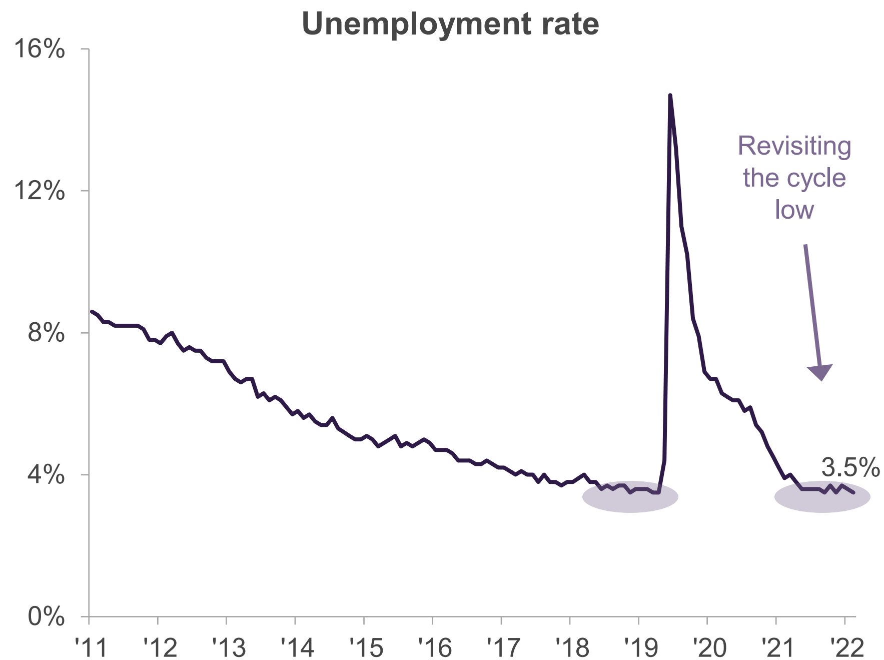


Sources: Truist IAG, STR; weekly data through December 31, 2022.

Job growth surprises again in December, but cooling wages should allow the Fed to taper rate hikes

U.S. payrolls in December increased by 223,000, above the consensus of 203,000. Along with downward revisions to the prior two months, the six-month average fell to 307,000. Meanwhile, the unemployment rate slipped down to 3.5%, matching the lowest level for this cycle and the prior cycle.





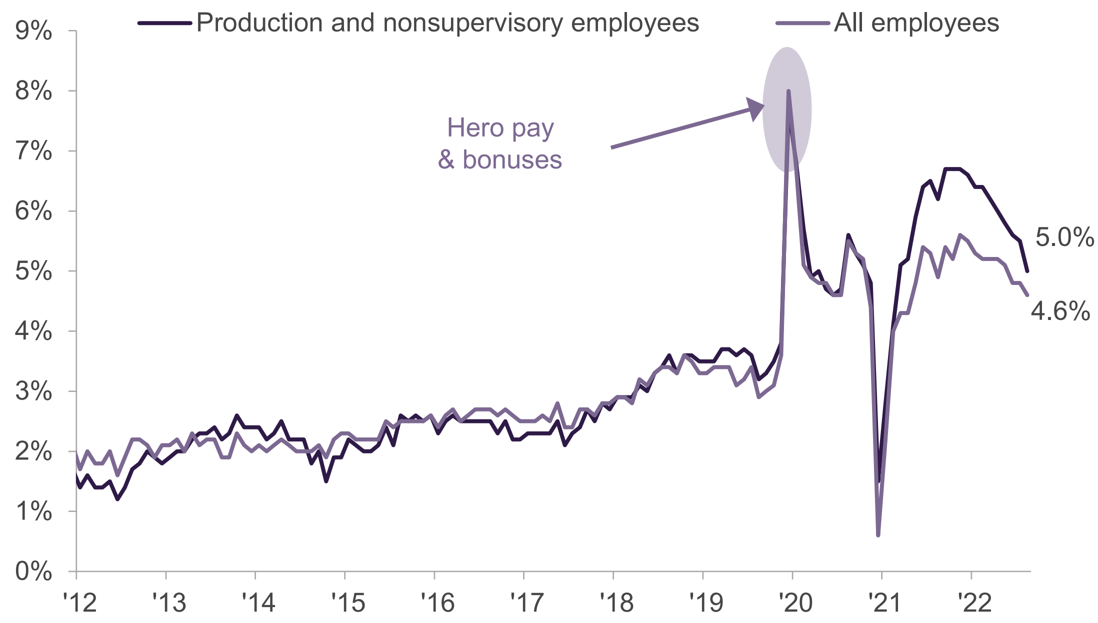
Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics. Monthly data through December 2022.

Wages cool in December, but remain well-above pre-pandemic levels

Average hourly earnings rose 4.6% from a year ago, which is 0.5 percentage points below the previously reported 5.1% in November. Still, it remains well-above the pre-pandemic rate of 3.0%. Moreover, it rose 0.3% month over month, matching its coolest pace in 10 months.

The pace of average hourly earnings for rank & file workers (officially known as production & nonsupervisory employees) also cooled in December on both a month-over-month (up 0.2%) and year-over-year basis (up 5.0%). It, too, remains significantly above its pre-pandemic rate of 3.2% and its 10-year average of 2.4%. This is important since production & nonsupervisory employees are the bulk of all employees and where most of the dramatic wage gains since the pandemic have been concentrated.

Average hourly earnings (change year-over-year)



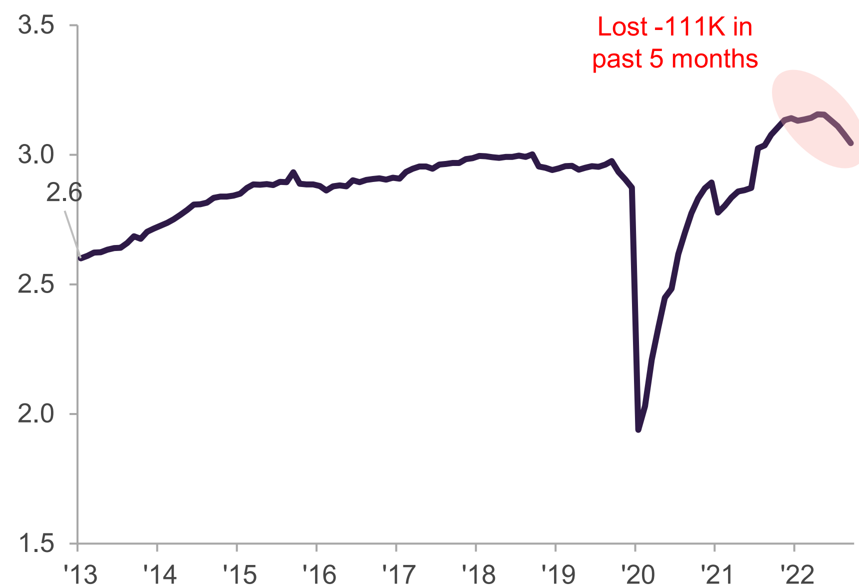
Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics. Monthly data through December 2022.

More cracks below the surface appeared in December

General merchandise stores shed 7,200 workers in December, the fourth month in a row, and have lost 127,000 positions since March. Also, temporary help services cut 35,000 workers, which was the fifth month in a row for a cumulative total of -111,000.

Employment at general merchandise stories (in millions)

Employment at temporary help services (in millions)

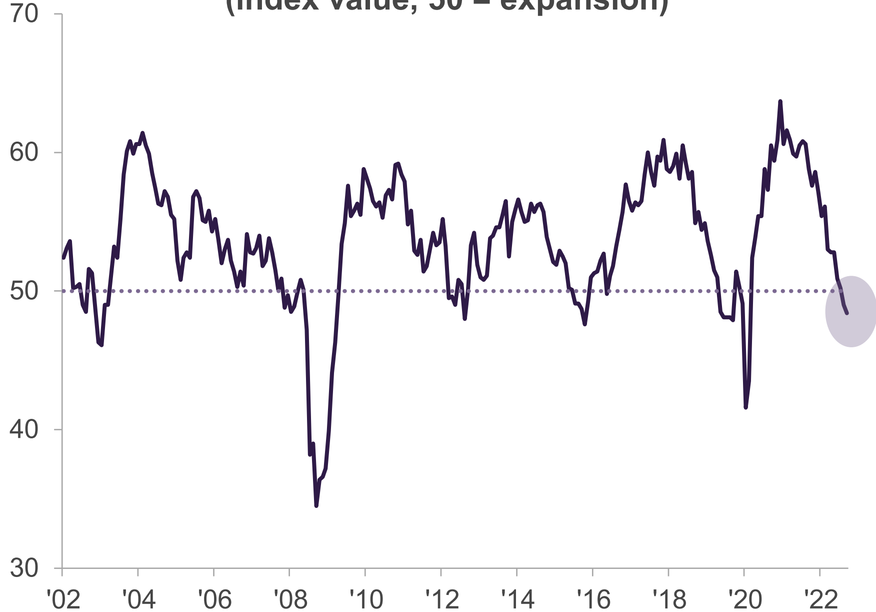


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics. Monthly data through December 2022.

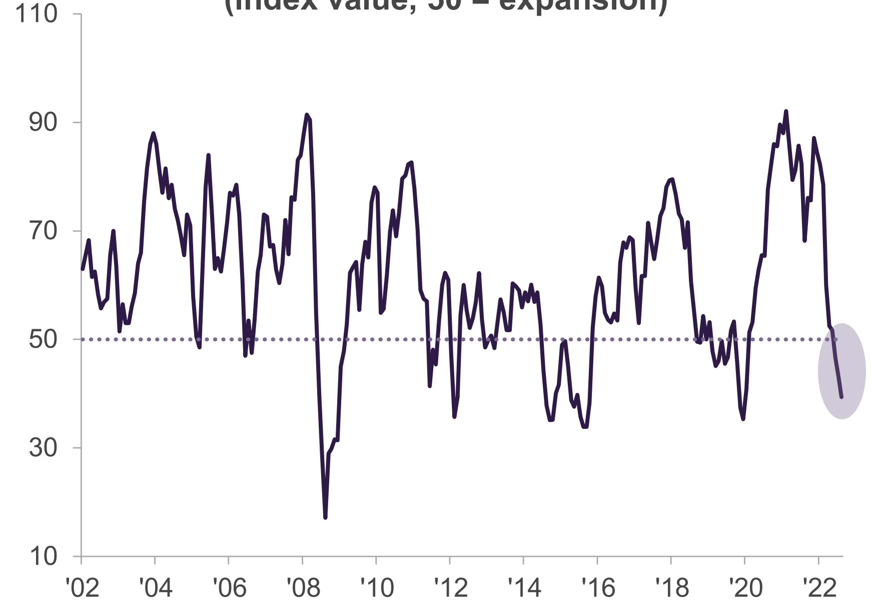
ISM Manufacturing contracts again in December, while prices clearly peaked

Institute for Supply Management (ISM) Manufacturing Index slipped to a reading of 48.4 in December from 49.0 in November; a reading below 50 signifies a decrease in manufacturing activity for the month. The prices paid component continued its sharp decline, down for the ninth month in a row (April through December), which confirms that inflation within manufacturing has already peaked.

ISM Manufacturing Index (index value, 50 = expansion)



ISM Mfg Prices Paid Index (index value, 50 = expansion)

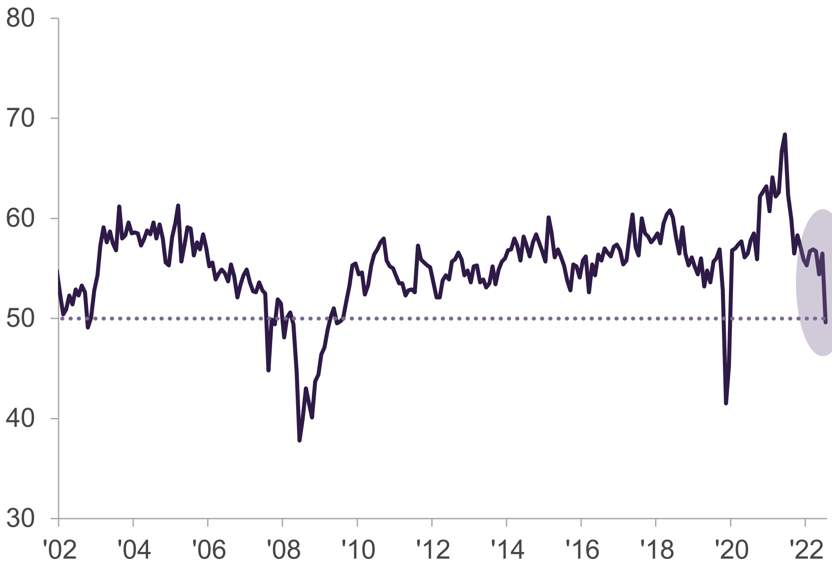


Sources: Truist IAG, Bloomberg, Institute for Supply Management (ISM); monthly data through December 2022.

ISM Services contracted for first time in December, as prices slip

Institute for Supply Management (ISM) Services Index dropped unexpectedly to a reading of 49.6 in November, snapping a 30-month expansion streak dating back to May ’20. The price paid component continued its sharp decline, down for the seventh time in eight months (May through December).

ISM Services Index (index value, 50 = expansion)



ISM Services Index: Price paid component (index value, 50 = expansion)

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

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