Economic data tracker – Inflation cooled in December

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Trend watch and what's new this week

Much of the activity-based data (slides 5 and 6) is still being skewed by the holidays. For instance, dining reservations pulled back sharply after spiking to their highest levels since the pandemic in the prior week.

Hotel occupancy and air passenger counts also slumped WoW, as did staffing levels. However, rail freight carloads surged 13.9% for the first week of '23 after dropping for the final three weeks of December. We attribute most of these big WoW swings to the holidays.

Inflation continued cooling in December

On slide 7, we show the Consumer Price Index (CPI), which fell 0.1% in December, the first decline since the pandemic. It was driven by gasoline, which dropped 9.4% MoM. The year-over-year pace for CPI slipped to 6.5% from 9.1% in June and the sixth straight decline.

On slide 8, core CPI, which excludes food & energy, rose 0.3% month over month and up 5.7% from a year ago. Among the biggest decliners were used vehicles, which dropped for the sixth straight month, along with tech gadgets. However, services prices rose by 0.6%, propelled by shelter (rents).

On slide 9, we show some possible inflation scenarios. While there are a wide range of potential outcomes, we expect CPI to trend toward 3% to 4% by year-end 2023. That would be considerably lower than the peak this past June, but above pre-pandemic levels. Of course, a recession would accelerate the cooling of prices.

On slide 10, rental price growth—from a different data source—has continued to moderate since spiking during 2021. It rose 0.12% in December, which is less than third of the average monthly increase since 2015 of 0.4%.

Used car prices down sharply year over year

On slide 11, we revisit the price index of used vehicles, which rose just twice during 2022. In December, prices rose 0.8% MoM but have dropped 15% since January '22. Sports utilities and crossovers appear to be getting hit the worst, closely followed by luxury and midsized cars. Note these private figures are for a full month of sales, while the used vehicle component within CPI are for a partial month.

Economic commentary – Our take and the bottom line

Our take

Regardless of stocks climb out of the starting blocks for 2023, the U.S. economy is in a precarious spot. While investors are seemingly cheering about the recent December cooler inflation report and cooling wage pressures, we are more circumspect.

Indeed, these cooler inflation readings open the door for the Federal Reserve (Fed) to stepdown the size of rate hikes to 0.25% in February from 0.50% at the December meeting and 0.75% at the prior four straight meetings.

Yet, the receding inflation readings reflect a slowdown in the broader economy. Moreover, inflation remains elevated. Aside from a handful of things like gasoline, prices generally aren't falling, they're cooling. Thus, the Fed can't simply "declare victory" over inflation and stop hiking rates. While we'd acknowledge that the Fed is closer to their end point, if anything, the recent inflation readings reinforce the notion that the Fed will need to soldier on in its battle against inflation.

As we noted here last week, chances have increased for a soft landing, which is a euphemism for sidestepping a recession or 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.

However, engineering a soft landing is much harder in practice than in theory. The U.S. economy is huge and complex, more akin to an aircraft carrier than a small pleasure boat. In fact, most people underappreciate the large role momentum plays in the economy, especially considering that many businesses have long lead times depending on the industry.

For instance, building more vehicles means mining more iron ore, forming more steel, stamping more pieces, etc., let alone accounting for shipping times between each step. Each of those steps tend to be performed by third parties and are typically done in different locations.

Accordingly, if companies within those supply chains anticipate less demand, it takes a while to ramp up production. And given the amount of uncertainty, no one would blame companies for being cautious. Therefore, slowing demand is bigger concern for us than "cheering" that inflation is cooling.

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

Bottom line

Crosscurrents continue to cloud the view of the U.S. economy. And while we expect the Fed to taper the size and perhaps the pace of interest rate hikes needed to slow the economy, there are more rate hikes coming. A recession in the coming 12 months remains highly probable in our view, though it isn't necessarily inevitable.

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Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▲	3Q F: 3.2%	4Q A: 2.8%	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[+]	▲	1/7: 204K	1/14: 214K	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 now expects 0.25% at the Feb. meeting.
	10-year U.S. Treasury yield	▼	3.44%[‡]	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	▼	2.34%[‡]	Flat/down	Muni yields are down more than 1% as yields continue to recoil from above 3.4% in mid October.
	30-year fixed mortgage rate	▼	6.31%[‡]	Flat/down	Fell WoW and down sharply from 7.35% early Nov. It’s still near the highest level since ’08. Higher rates hurt housing affordability.
Inflation	Consumer prices (CPI)[X]	▼	Dec: -0.1%	Jan: N/A	Inflation continues to cool. The YoY pace slipped to 6.5% from 9.1% in June, which was the sixth straight decline.
	Core CPI	▼	Dec: 0.3%	Jan: N/A	Shelter, which lags, continues to grind higher. YoY rose 5.7%.
	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

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Wealth

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Housing	Existing home sales	▼	Nov: 4.09M	Dec: 3.95M	Fell 4% MoM, dropped for record 10th month in a row in November.
Housing	New home sales	▼	Nov: 640K	Dec: 615K	Jumped 5.8% MoM, but down 15.3% YoY. Meanwhile, prices fell 2.8% MoM as builders heaped on discounts and incentives.
Housing	New housing starts	▼	Nov: 1.427M	Dec: 1.355M	Fell 0.5% MoM, but single family dropped 4.8% in November.
Housing	New permits⁺	▼	Nov: 1.351M	Dec: 1.370M	Dropped 10.6% MoM as single family fell for the 9th straight month.
Business	Durable goods orders⁺	▲	Nov F: -2.1%	Dec P: 0.0%	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.
Business	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.
Business	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	Business inventories^X	▲	Oct: 0.3%	Nov: 0.4%	Came in below the consensus (again), and Sept. was revised down.
Consumer	Personal income	▲	Nov: 0.4%	Dec: 0.1%	Remains solid, buoyed by continued wage growth.
Consumer	Personal spending	▲	Nov: 0.1%	Dec: 0.0%	Rose MoM, but the pace slipped after a strong October.
Consumer	Advance retail sales	▲	Nov: -0.6%	Dec: -0.8%	Big upside surprise, with the largest increase in eight months and hitting a new all-time high.
Consumer	Consumer sentiment	▼	Jan P: 64.6	Jan F: 64.6	Rose for the sixth time in the past seven months, while short-term inflation expectations dropped to 4.0%, lowest since April '21.

▲Good ▼ Bad ⇆ Neutral ⁺Leading indicator ^X Lagging indicator ‡Intraday quote Bloomberg consensus shown

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U.S. activity-based data matrix

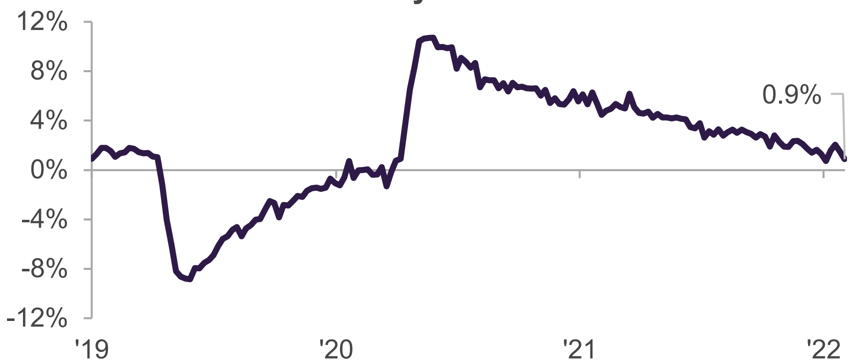
Indicator	Relative trend	What we're watching
Back to office	▼	Rose to 32.8 (pre-pandemic indexed to 100) in the first partial week of '23. Top cities were Houston (44), Austin (44), Dallas (41); bottom are San Jose (19) and San Francisco (21). While the trend was steadily improving, it remains less than half of pre-pandemic levels, which is not conducive for overall growth.
TSA air passenger throughput	▲	Weekly counts slumped 7.9% WoW to 13.7 million, which is 14.8% below the 2019 weekly average of 16.1M. Passenger counts are -4.0% from the same week in Jan. '19 and are now 37.4% above Jan. '22.
OpenTable restaurant bookings	▲	Slipped to -2.9% compared to pre-pandemic levels from +2.8% the prior week. Top positive states were led by Nebraska (+41%) and Washington (+25%); bottom were Pennsylvania (-31%) and New York (-29%). Top cities were Miami (+42%) and Las Vegas (+20%); bottom were Philadelphia (-56%) and D.C. (-44%).
Hotel occupancy	▲	Occupancy fell to 47.2%, which is typical seasonality after the holidays. The average daily rate was $142.82, up 11.2% from the same week in Jan. '19, and revenue per available room was $67.40, down 1.5% from Jan. '19.
Freight (rail/truck/ship)	▼	Rail carloads jumped 13.9% for the first week of '23 but dropped 10.1% MoM in December. Container traffic at 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 3.3% MoM in December, the fourth monthly decline.
Staffing index	▲	Fell to 85.0 in the first partial week of 2023, 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 rose 0.12% in December, which is less than third of the average monthly increase since 2015 of 0.4%. 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

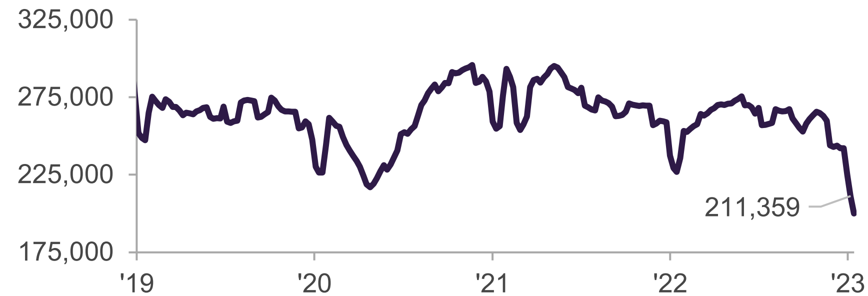
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

Activity-based trends slip to start 2023

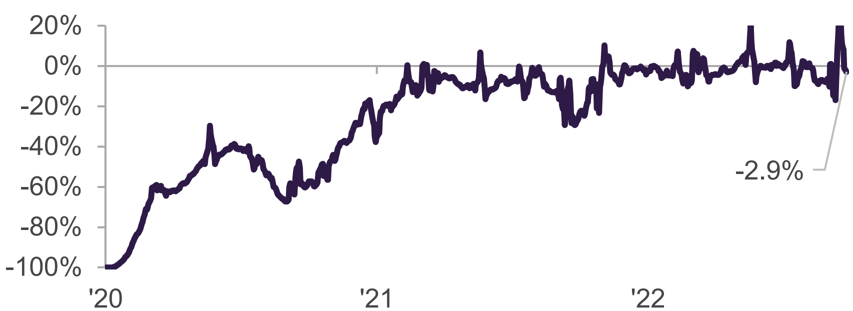
NY Fed weekly economic index



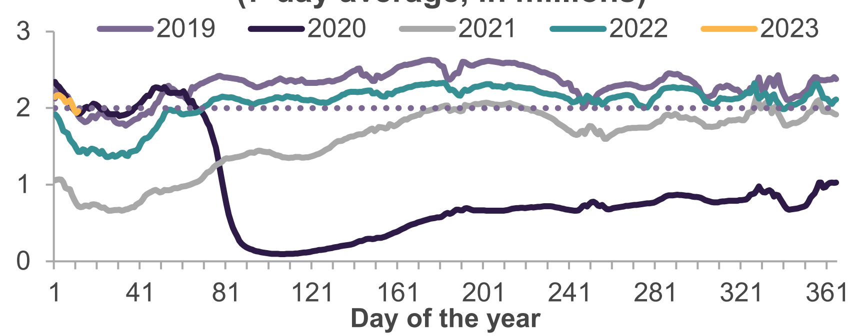
U.S. intermodal freight carloads (4-week average)



OpenTable bookings % change compared to 2019 (7-day average)



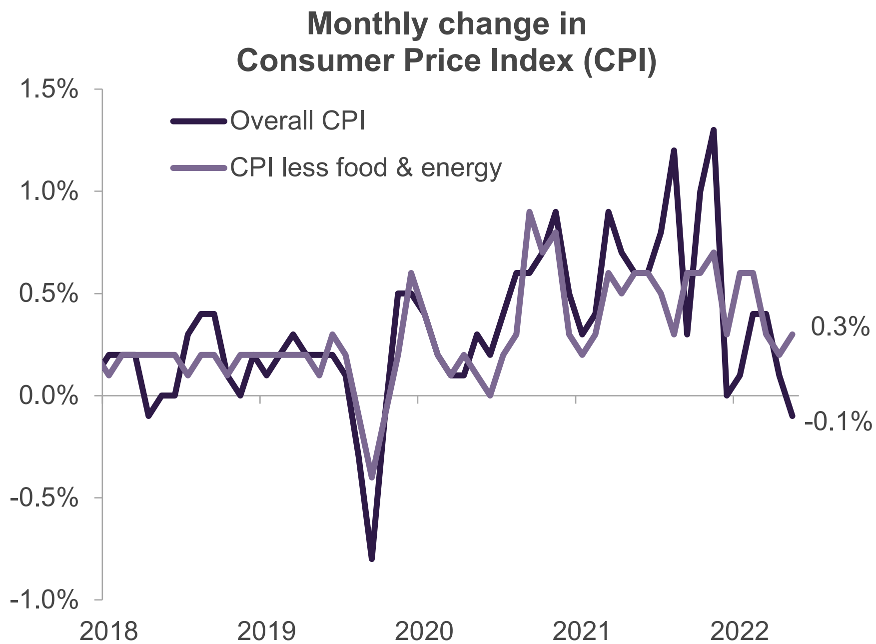
TSA checkpoint traveler throughput (7-day average, in millions)

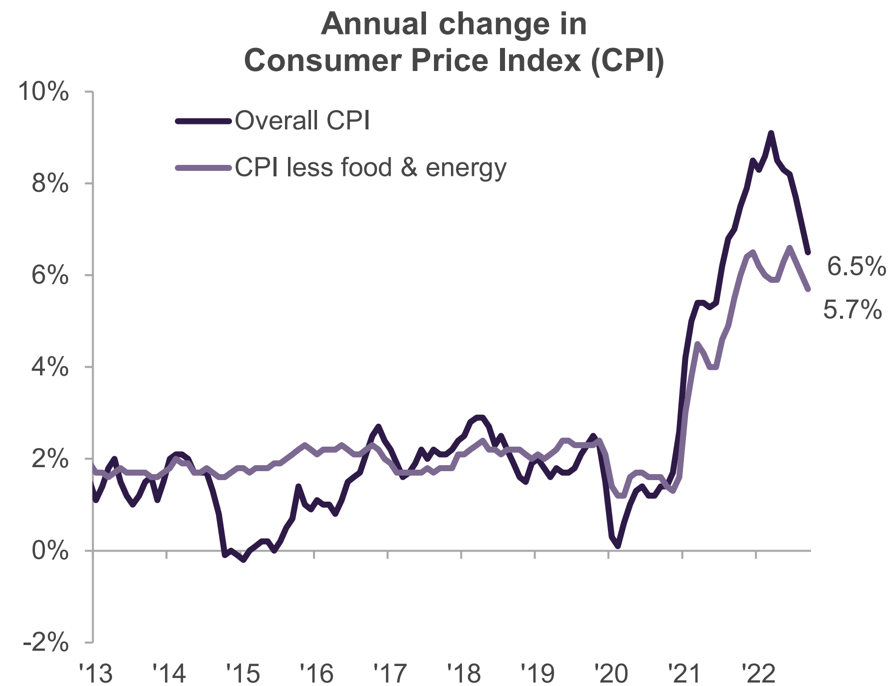


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through January 7, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through January 6. Bottom left: Bloomberg, OpenTable 7-day average through January 12. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through January 5.

Consumer prices continued to cool in December

The Consumer Price Index (CPI) pace fell 0.1%, the first decline in 31 months, while the year-over-year pace slipped to 6.5% from 9.1% in June and was the sixth straight decline. Core CPI, which excludes food & energy, rose 0.3% month over month, considerably cooler than up 0.7% in June, and rose 5.7% from a year ago. Bump up in core CPI was primarily driven by price increases in services, including shelter (rents), which increased 0.8%.

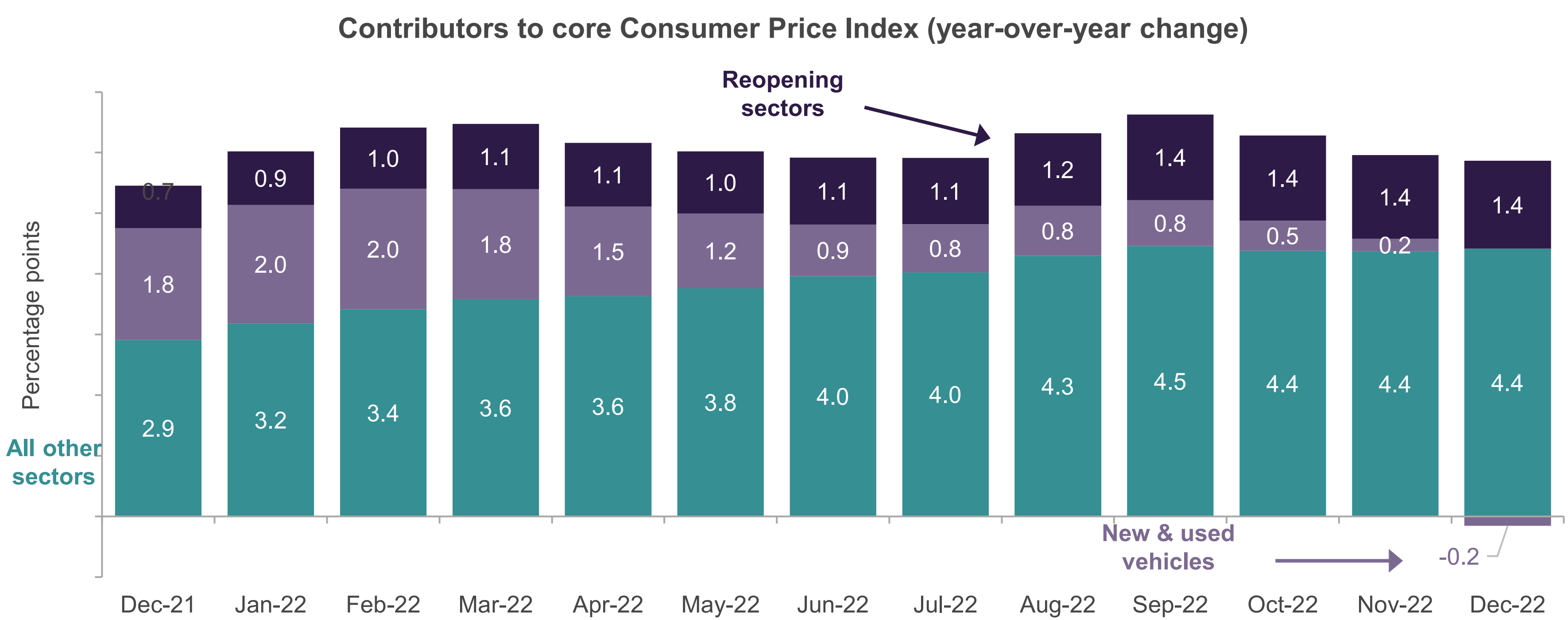




Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through December 2022.

Core inflation remains elevated, but vehicle prices are now a drag

The core Consumer Price Index, which excludes food & energy, rose 0.3% month over month and increased 5.7% from a year ago, down from 6.6% in September. Among the biggest decliners were used vehicles, which fell 2.5%, down for the sixth straight month. Prices for tech gadgets dropped 2.4% during the month. However, prices rose for services increased 0.6%, propelled by shelter (rents).

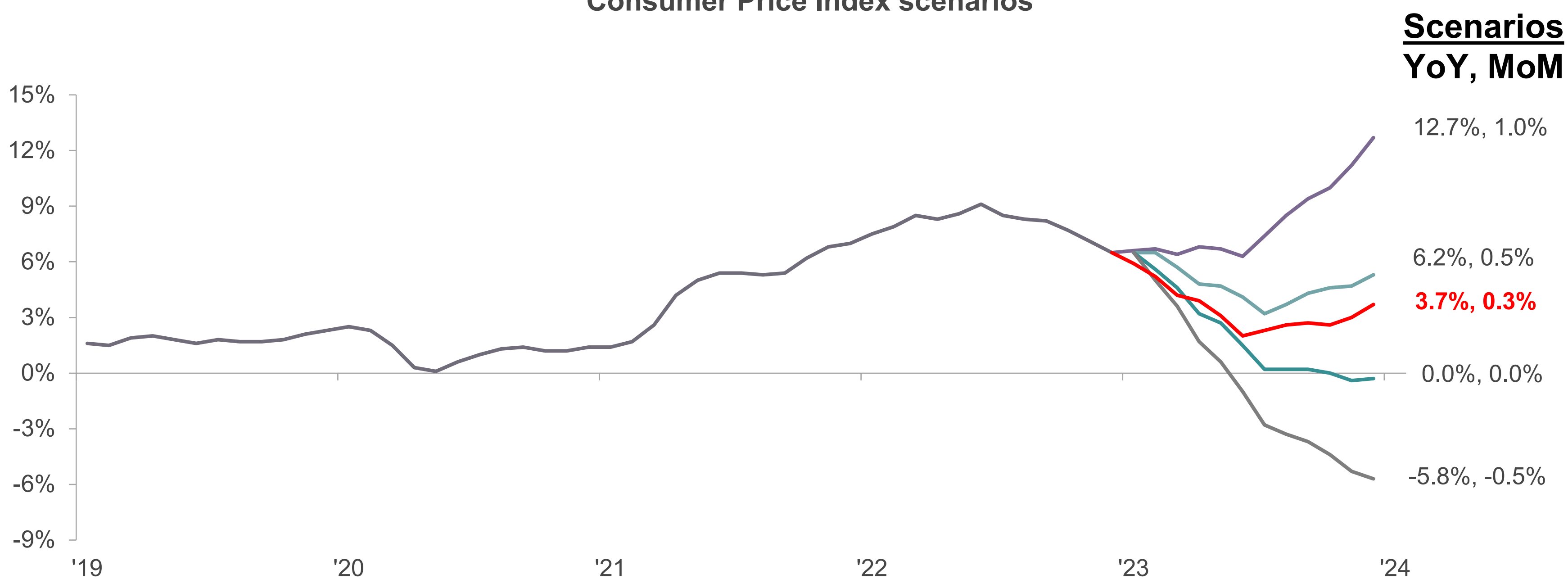


Data source: Truist IAG, Haver, Bureau of Labor Statistics; monthly data through December 2022. Core consumer price index excludes food and energy. Vehicles includes new vehicles, used cars and trucks. Reopening sectors includes transportation services, recreation services, recreation commodities, and apparel. All other components, includes shelter and medical care. Total may vary due to rounding.

Consumer inflation scenarios – Wide range of outcomes but expect it to trend toward 3% to 4%

The year-over-year (YoY) Consumer Price Index (CPI) slipped to 6.5% in December, down considerably from 9.1% in June. The month-over-month (MoM) pace fell 0.1%, the first decline in 31 months. 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 December '23. Or, if the MoM pace accelerated to 1.0% per month, it would swell to 12.7% YoY. We expect 0.275% per month during 2023, which would be 3.7% a year from now.

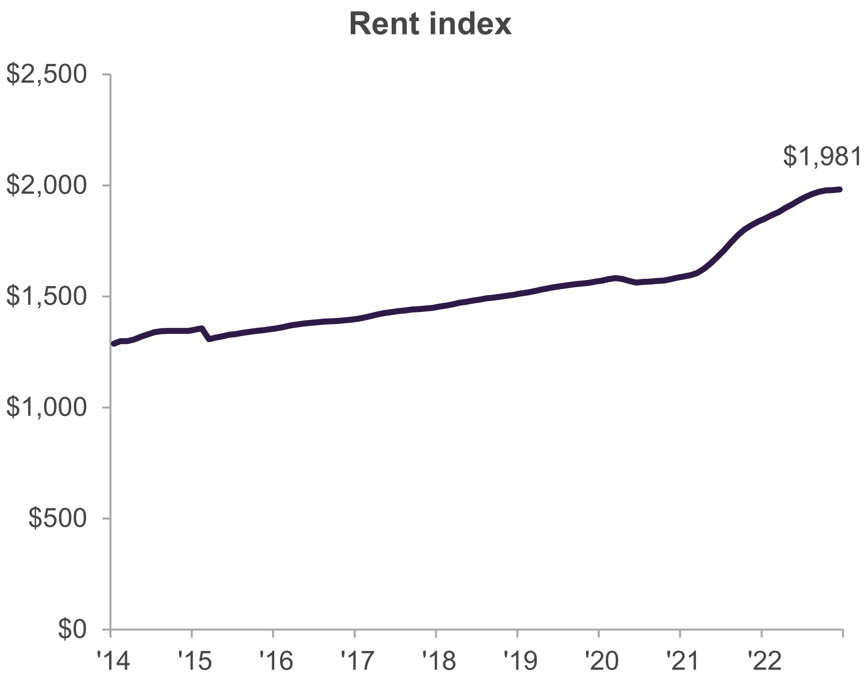
Consumer Price Index scenarios

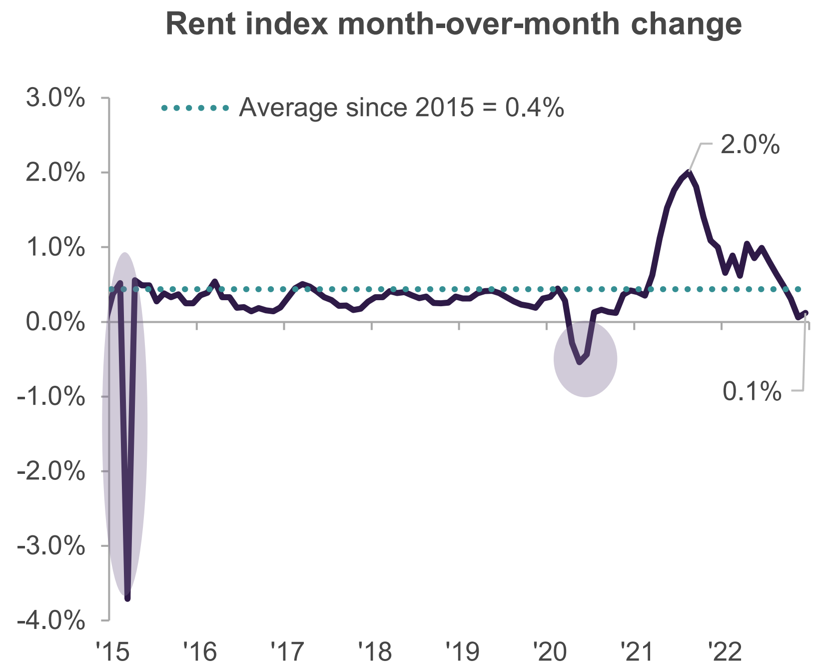


Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics; actual monthly data through December 2022; calculated scenarios and Truist IAG forecast (0.275%) through December 2023.

Rental prices steady in December, more signs inflation is cooling

After falling during the pandemic, rents spiked during 2021. Rental price growth has continued to moderate on a month-over-month basis, up 0.12% in December. That is less than a third of the average monthly increase since 2015 of 0.4%.



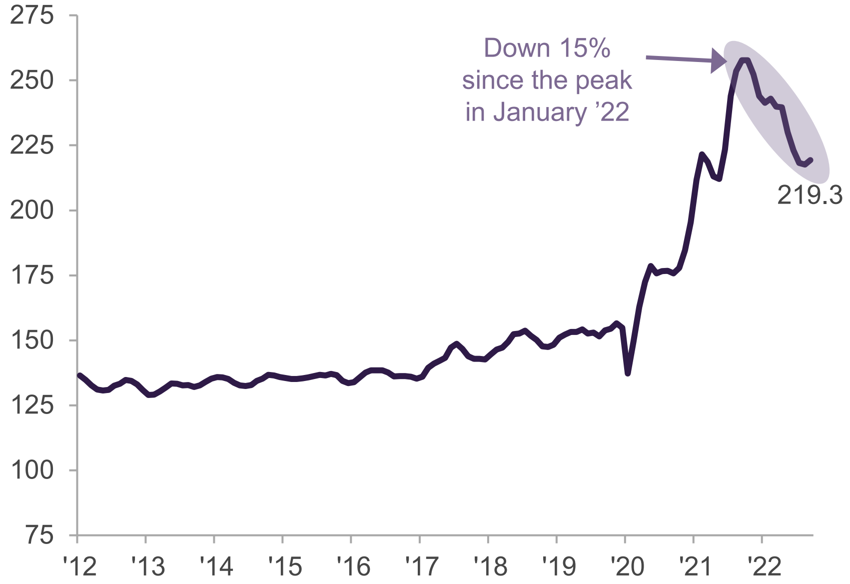


Source: Truist IAG, Bloomberg, Zillow; monthly data through December 2022.

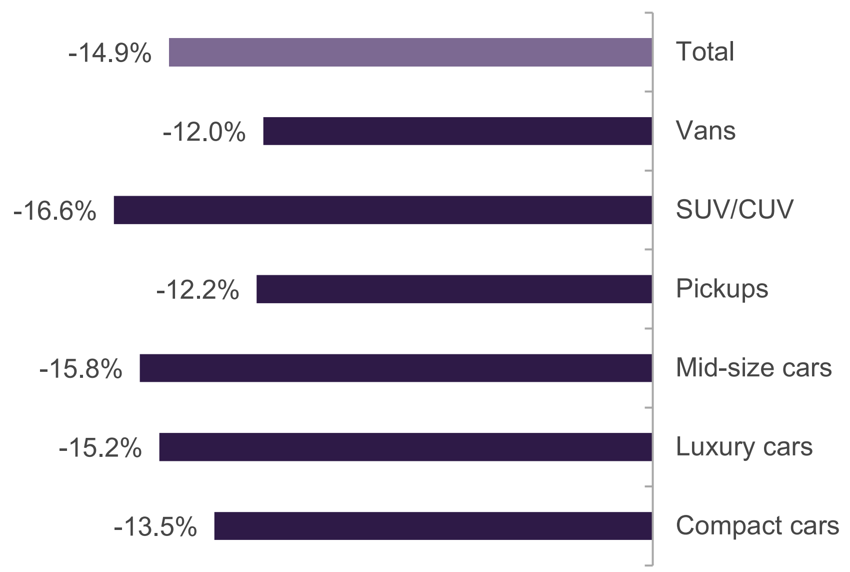
Used car prices edged up modestly in December, but definitely cooling

The price of used vehicles rose 0.8% in December, just the second monthly increase in 2022. Prices fell 15% on a year-over-year basis, a far cry from the 54% spike in April ’21. Sports utilities and crossovers appear to be getting hit the worst.

Manheim Used Vehicle Value Index



Used price change by vehicle class (year over year)



Sources: Truist IAG, Haver, Manheim; figures shown on a mix, mileage, and seasonally adjusted basis. Monthly data through December 2022. Sports Utility Vehicle (SUV) and Crossover Utility Vehicle (CUV).

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