Economic data tracker – Housing pain continued in December

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Trend watch and what's new this week

Interestingly, much of the activity-based data (slides 5 and 6) has been firming after being skewed by the holidays. Hotel occupancy, dining reservations, and air passenger counts all improved week-over-week (WoW). In fact, air passenger counts are now up 33.5% compared to the same week in January '22, which is nearly a half million more passenger per day. Similarly, rail freight carloads have surged during the first two full weeks of '23, though carloads dropped 10% during December.

Consumer spending backpedaling

On slide 3, we show retail & food sales, which fell 1.1% in December, the third month-over-month (MoM) decline in the past four months. Gasoline and auto sales, which together comprise almost a third of total sales, declined for the month. Excluding both, sales are just under the all-time high. Food service and drinking establishments sales also slipped. We would warn, however, that retail sales can be erratic month-to-month and have historically been an unreliable recession indicator.

More weakness within housing

Several key housing metrics were released this week, nearly all of which continued to weaken. We attribute all of this to dramatically higher mortgage rates, which have surged nationally throughout 2022. Of course, higher rates hurt housing affordability.

Existing home sales (slide 8) dropped for the 11th straight month to the lowest annualized level since the pandemic shutdown months. Meanwhile, prices fell for the sixth month in row. Still, prices aren't falling as much as you'd might guess as they continue to be supported by low inventories, with prices nearly 35% above 2019 levels.

On slide 9, new housing starts dropped for the 8th time in 12 months in December. Meanwhile, new building permits fell 1.6% MoM, down for the fifth time in six months. 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 weakened considerably in 2022, nearing the lows of the pandemic, but turned up in January, offering a glimmer of hope.

Differences between single-family vs. multifamily

On slide 10, we highlight the different trends of single-family permits compared to multifamily. Single-family permits have fallen for 10 months in a row. However, multifamily increased in December for the fourth time in the past seven months. This appears to be related to housing affordability pressures primarily driven by the dramatic home price appreciation post-pandemic and increased mortgage rates, whereby some potential homeowners are unable to purchase single-family homes. It also relates to the longer planning cycle for multifamily residential building.

Economic commentary – Our take and the bottom line

Weakness elsewhere, too

On slide 11, we show a key metric within the freight gauges, unit volumes of shipping containers, which stabilized in December, snapping a six-month plunge in volumes. Still, unit volumes are down 28.2% over that span and are well-below the long-term trend. Nonetheless, the sharp pullback in freight is not a good sign for overall economic growth in the near term.

Our take

Let's be clear – the U.S. economy continues to slow. There are glimmers of stabilization, which are encouraging; however, the overall trend does appear to be weakening.

Most of the recession flags we monitor tripped months ago. No, that doesn't mean a recession is inevitable, which we have repeatedly mentioned here.

Yet, the U.S. economy is huge and complex, more akin to an aircraft carrier than a small pleasure boat. Most people underappreciate the large role momentum plays in the economy, especially considering that many businesses have long lead times depending on the industry. And that aircraft carrier is now decelerating, making it increasingly difficult to change course (grow faster).

Conversely, don't expect that aircraft carrier to come to a screeching halt. Recessions tend to be slow-motion affairs rather than sudden collapses or action-packed thrillers. While it's possible events could repeat, we'd warn against recency bias in trying to draw parallels between the current period and the two most recent recessions – the Great Financial Crisis (2007-2009) and the COVID-19 Pandemic Shutdown. The current circumstances are very different than both of those periods for a multitude of reasons; most notably, the inflation dynamics. Furthermore, we view comparisons to the 1970s, which was the last big inflation-related recession, as equally misplaced. Each recession has unique drivers and dynamics.

Which brings us to an obvious question: the timing of a recession. Two quotes sum up forecasting a recession. The first is from Niels Bohr, the Physics Nobel laureate and father of the atomic model, who said, "Prediction is very difficult, especially if it's about the future!" The other is from the late, great Yogi Berra, "It ain't over 'til it's over." It, in this case, is the business cycle. Both quotes apply in this regard and are important to keep in mind when thinking about the timing.

We can point to just as many reasons why a recession will occur along with plenty of reasons for how we could sidestep it. Still, the weight of the evidence leads us to seeing a recession in the coming 12 months, which 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.

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▲	3Q F: 3.2%	4Q A: 2.5%	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: 3.6%	Slipped back down to the cycle low of 3.5%.
	Monthly jobs (nonfarm)	▲	Dec: 223K	Jan: 190K	Another upside surprise, but labor conditions have clearly cooled.
	Weekly jobless claims[+]	▲	1/14: 190K	1/21: 212K	Dropped WoW, the lowest level since September, near historic lows.
	Nonfarm productivity	▲	3Q F: 0.8%	4Q A: 3.4%	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	▼	3.49%[‡]	Flat	Rates up modestly WoW, though down sharply to start '23 from 4.25% in Oct., rates remain near the highest level since 2011. We expect more volatility, especially with debt ceiling distractions.
	10-year AAA GO muni yield	▼	2.22[‡]	Flat/down	Muni yields still slipping, down about 1.2% as yields continue to recoil.
	30-year fixed mortgage rate	▼	6.37%[‡]	Flat/down	Under 6.5% for the first time since early September. It's still closer to 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)	▼	Dec: -0.5%	Jan: N/A	YoY rose 6.2%, the coolest reading since the spring of '21.
	Core PPI	▼	Dec: 0.1%	Jan: N/A	Has clearly peaked as YoY rose 5.5% 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	▼	Dec: 4.02M	Jan: N/A	Fell 4% month-over-month (MoM), dropped for record 10th month in a row in November.
	New home sales	▼	Nov: 640K	Dec: 615K	Jumped 5.8% MoM, but down 15.3% year-over-year (YoY). Meanwhile, prices fell 2.8% MoM as builders heaped on discounts and incentives.
	New housing starts	▼	Dec: 1.382M	Jan: N/A	Fell 1.4% MoM, declined for the 8th time in 12 months.
	New permits⁺	▼	Dec: 1.330M	Jan: N/A	Dropped 1.6% MoM as single family is down 10 months in a row.
Business	Durable goods orders⁺	▲	Nov F: -2.1%	Dec P: 2.9%	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: 48.5	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: 50.1	Contracted, snapping a 30-month expansion streak. Prices paid component slipped for 7th time in 8 months.
	Business inventories^{X}	▲	Nov: 0.4%	Dec: N/A	Biggest MoM increase in three months.
Consumer	Personal income	▲	Nov: 0.4%	Dec: 0.2%	Remains solid, buoyed by continued wage growth.
	Personal spending	▲	Nov: 0.1%	Dec: -0.1%	Rose MoM, but the pace slipped after a strong October.
	Advance retail sales	⇆	Dec: -1.1%	Jan: N/A	Third MoM decline in the past four months.
	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

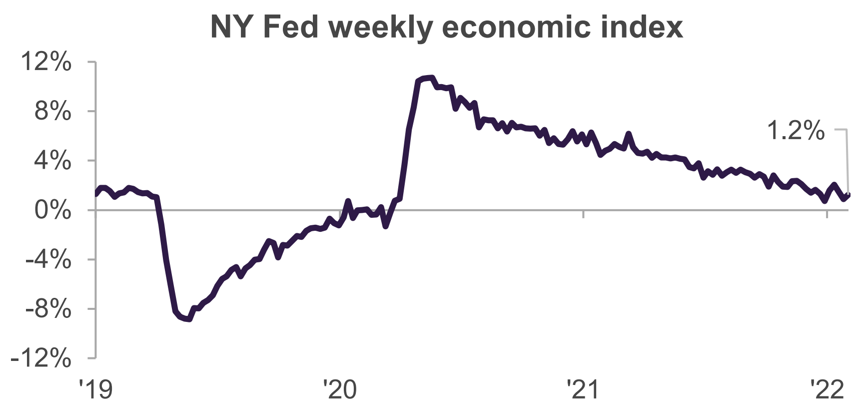
U.S. activity-based data matrix

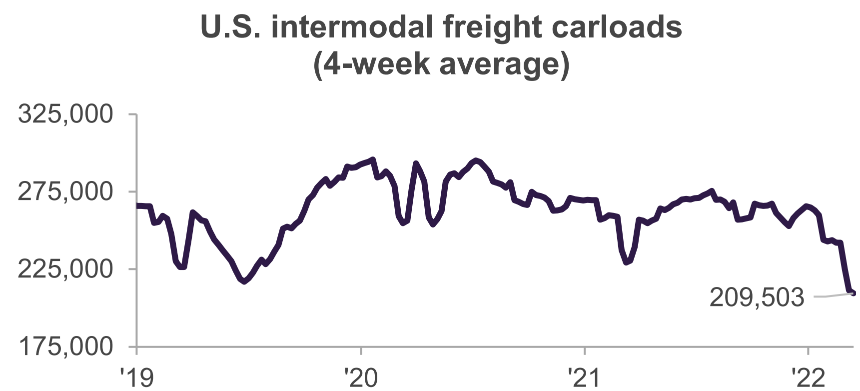
Indicator	Relative trend	What we're watching
Back to office	▼	Jumped to 45.5 (pre-pandemic indexed to 100) in the first full week of '23. Top cities were Austin (65), Houston (60), Dallas (53); bottom are San Jose (31) and San Francisco (36). While the trend was steadily improving, it remains less than half of pre-pandemic levels, which is not conducive for overall growth.
TSA air passenger throughput	▲	Weekly counts dipped 0.2% week-over-week (WoW) to 13.7 million, which is 14.9% below the 2019 weekly average of 16.1M. Passenger counts are +3.3% from the same week in Jan. '19 and are now up 33.5% from Jan. '22.
OpenTable restaurant bookings	▲	Rose to 0.0% compared to pre-pandemic levels from -2.4% the prior week. Top positive states were led by Rhode Island (+39%) and Kansas (+36%); bottom were Nebraska (-45%) and Colorado (-27%). Top cities were Austin (+33%) and Miami (+32%); bottom were Philadelphia (-47%) and Denver (-44%).
Hotel occupancy	▲	Occupancy rebounded to 54.8%, a five-week high. The average daily rate was $144.81, up 15.7% from the same week in Jan. '19, and revenue per available room jumped to $79.39, up 9.3% from Jan. '19.
Freight (rail/truck/ship)	▼	Rail carloads jumped 16.7% for the second week of '23 but dropped 10.1% MoM in December. Container traffic at four of the top 5 U.S ports (LA, Long Beach, Savannah, SeaTac) rose 0.3% MoM in December, snapping 6-month decline streak. The Cass Freight Index fell 3.3% MoM in December, the 4th monthly decline.
Staffing index	▲	Rebounded to 97.6 after falling 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.

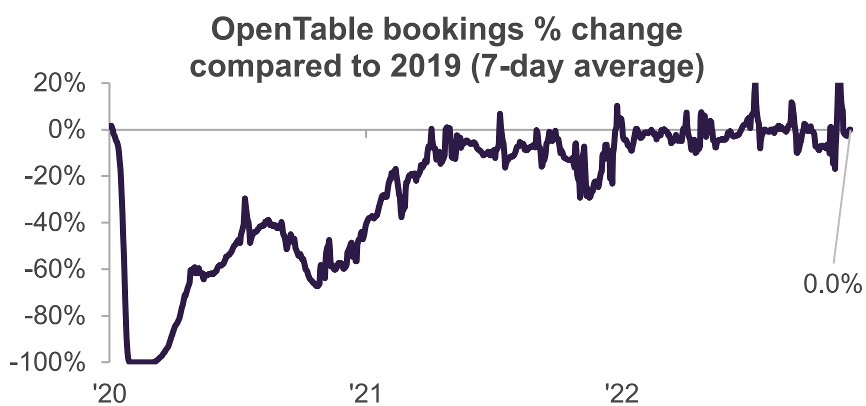
Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

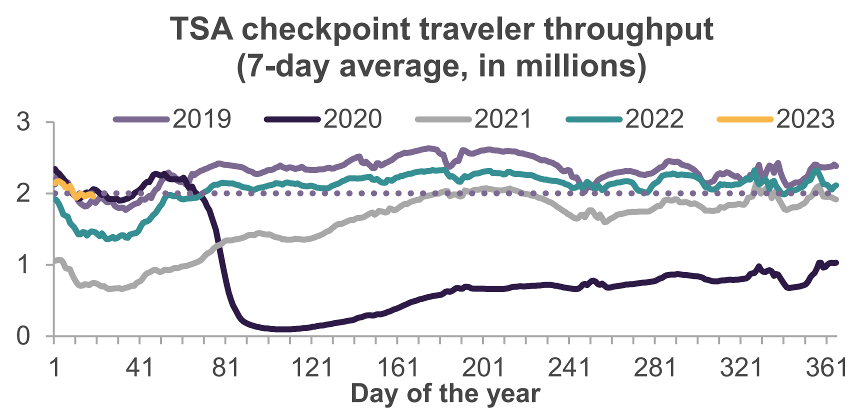
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

Activity-based trends slip to start 2023, firming by mid-January





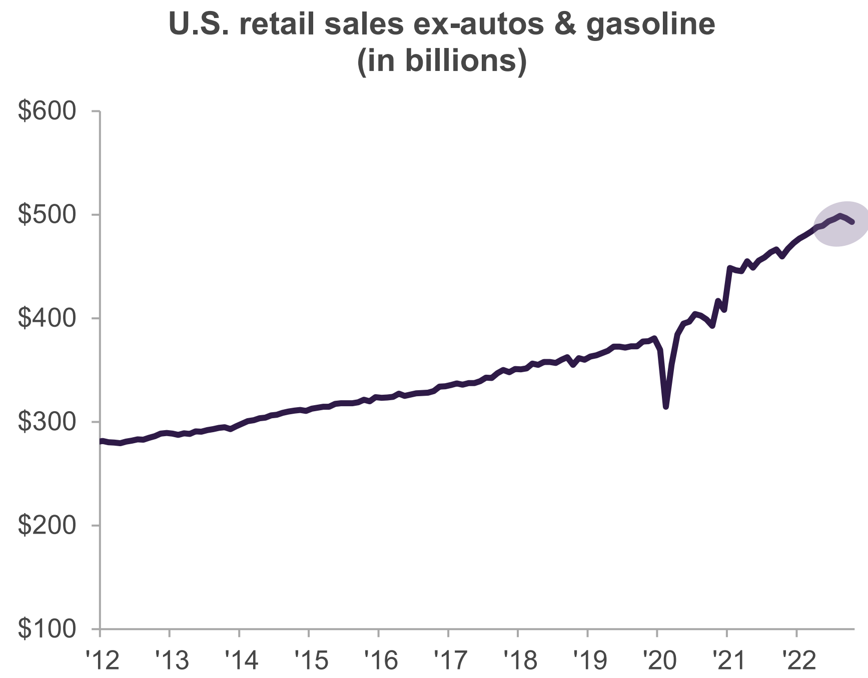




Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through January 14, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through January 6. Bottom left: Bloomberg, OpenTable 7-day average through January 19. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through January 19.

Retail sales slip for second straight month, down from all-time high

Total retail & food sales fell 1.1% in December to $677.1 billion, a little more 2% below the all-time high. The November tally was revised downward to -1.0%, the third decline in four months. Gasoline sales dropped 4.6% and auto sales fell 1.2%; together those two sectors comprise almost a third of total sales. Excluding both, sales slipped 0.8% in December. Food service and drinking establishments sales fell 0.9%.



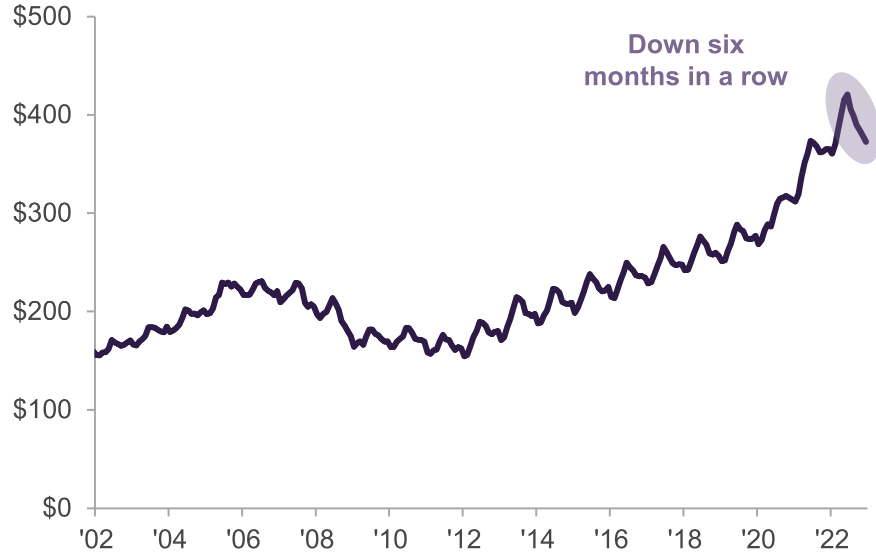
Source: Truist IAG, Bloomberg, U.S. Census Bureau; monthly data through December 2022.

Existing home sales down for 11th straight month, while prices down 6th time

Total existing home sales, which includes single-family and condos, dropped 1.5% in December to 4.02 million SAAR, the lowest level since the pandemic shutdown months. Single-family sales dropped for the 11th straight month to 3.60 million. Meanwhile, prices fell for the sixth month in row. Still, prices continue to be supported by low inventories, which remain nearly 35% above 2019 levels.

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

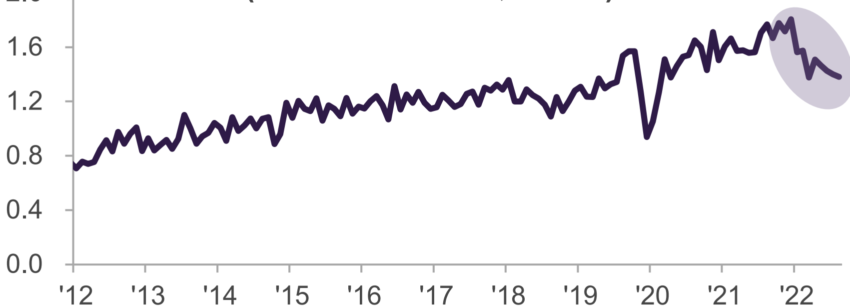
Median sales price of existing single-family homes ($ in thousands)



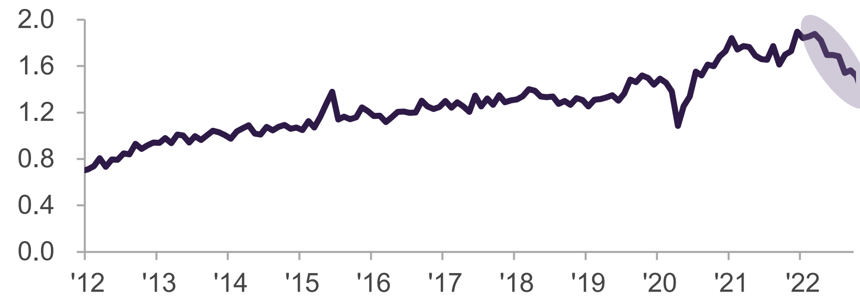
Data Sources: Truist IAG, Bloomberg, National Association of Realtors. Figures shown are seasonally-adjust annualized rate (SAAR); monthly data through December 2022.

Higher mortgage rates hammered new housing activity, but buyer traffic offers a glimmer of hope in January

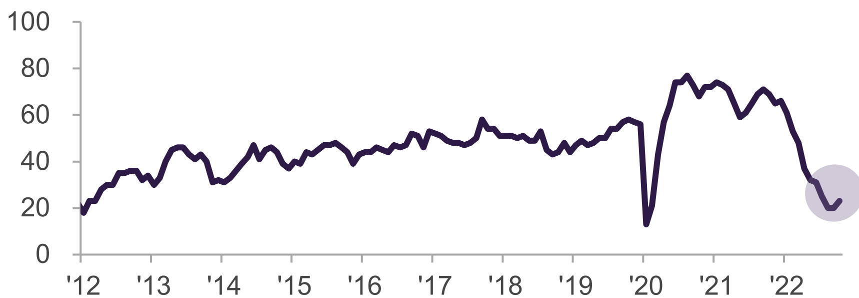
U.S. Housing starts (units in millions, SAAR)



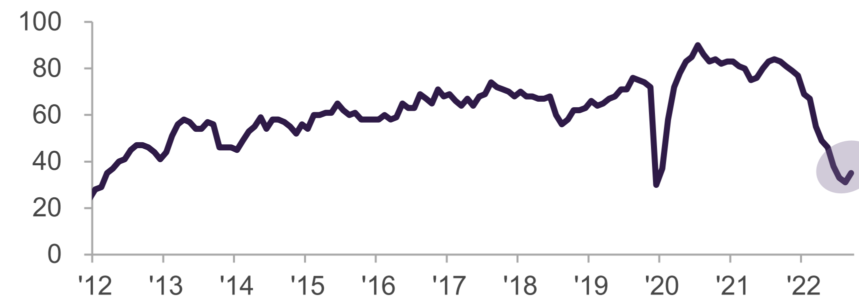
Total new building permits (units in millions, SAAR)



National Association of Home Builders traffic of prospective buyers (index value)



National Association of Home Builders Market Index

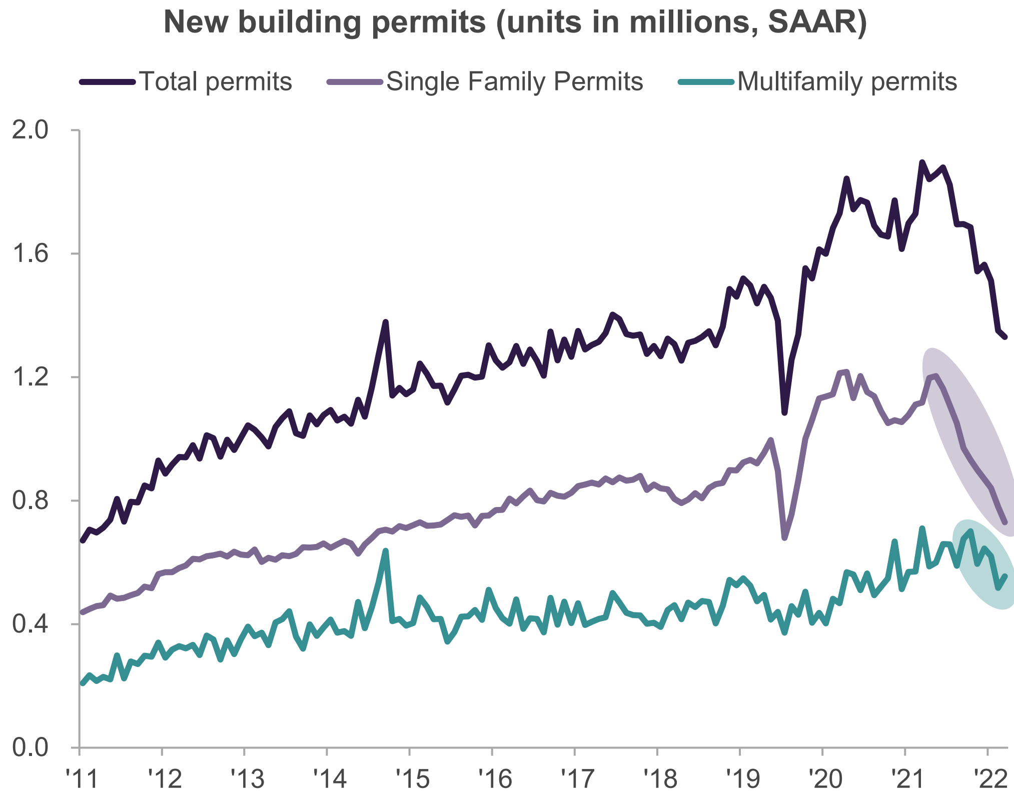


Sources: Truist IAG, Bloomberg. Seasonally adjusted annualized rate (SAAR). Permits and starts monthly data through December; NAHB figures through January '23.

Housing: Single-family beatdown vs. favorable environment for multi-family

New permits indicate a serious commitment to build a house or, in the case of a multifamily structure, many separate apartments or living quarters. There is typically a fee to file for the permit, along with submitting plans, designs, etc.

Single-family permits have fallen for 10 months in a row. Multifamily, however, increased for the fourth time in the past seven months. This appears to be related to housing affordability pressures primarily driven by the dramatic home price appreciation post-pandemic and increased mortgage rates, whereby some potential homeowners are unable to purchase single-family homes. It also relates to the longer planning cycle for multifamily residential building.

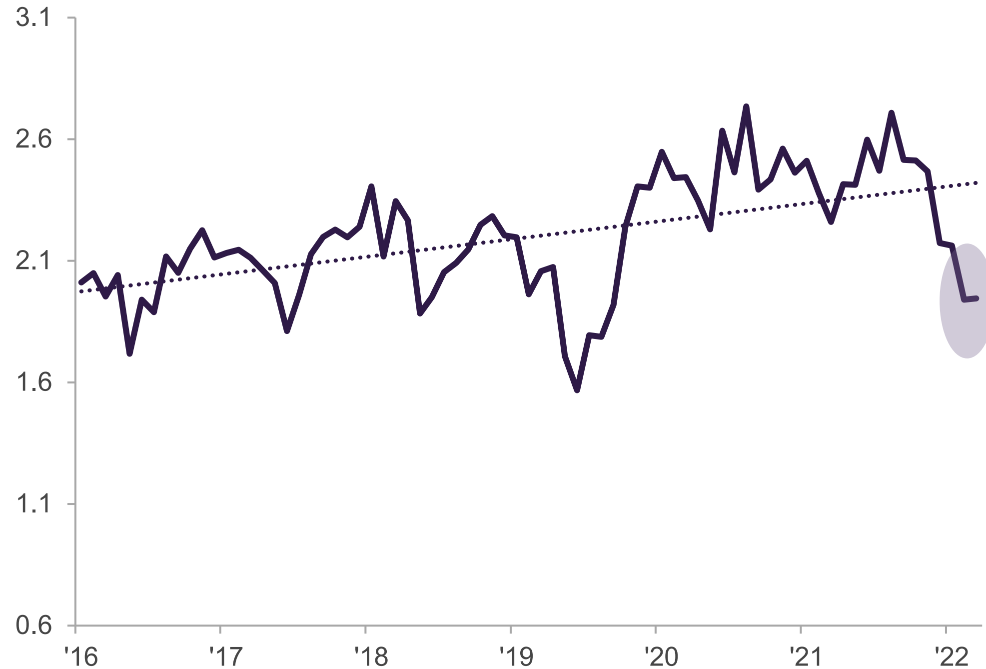


Sources: Truist IAG, Bloomberg. Seasonally adjusted annualized rate (SAAR). Monthly data through December 2022

U.S. ports volumes flat in December, perhaps stabilizing

Shipping volumes at four of the largest U.S. ports appear to have squeaked out an 0.3% rise in December, which snaps a 6-month plunge in volumes. Still, volumes are down 28.2% over that span and are well-below the long-term trend.

Total unit volumes at top U.S. ports (Los Angeles, Long Beach, Savannah, SEATAC, in millions)



Sources: Truist IAG, Bloomberg, respective port authorities; monthly data through December 2022. Port volumes track twenty-foot equivalent units (TEU).

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