

Economic data tracker – More cross currents in the data

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Trend watch and what's new this week

We are growing concerned about freight volumes, which are the lifeblood of the economy. Rail freight carloads have dropped during three of the past four months and have remained soft during January. Port volumes have fallen for seven straight months. The broader Cass Freight Index has declined for four months in a row. While freight volumes are very seasonal, these trends defy simple seasonality.

Meanwhile, most of the remained activity-based data (slides 5 and 6) is firmer than compared to 2022. In fact, air passenger counts are now up 38.1% compared to the same week in January '22, which is more than a half million more passengers per day. Similarly, dining reservations nationwide are running 15 percentage points higher than in 2022.

Overall growth remained solid in the fourth quarter

On slide 7, we dig a little deeper into fourth quarter gross domestic product (GDP), which rose 2.9% on an annualized basis. That was despite the big drag from residential building, which dropped 27% on an annualized basis compared to the third quarter. Additionally, we show real (inflation-adjusted) versus the nominal GDP, which remained solid.

Mixed data within housing

The overwhelming amount of housing metrics have been weak for much of 2022. Yet, a couple of the recent indicators were released this week were mixed. New homes sales (slide 8) rose for the third month in a row

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in December, though remains below the 20-year average and is 10.5% below the December 2019 level. Meanwhile, new home prices dipped for the second straight month, but remain 34.2% above the December 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.

Pending sales of existing homes rose 2.5% in December, snapping a 6-month decline streak. Mortgage applications rose for the third week in a row, a feat that hasn't happened in over six months.

We attribute all of these to a recent slide in mortgage rates, which surged nationally throughout 2022 but have eased in the past six weeks. Of course, higher rates hurt housing affordability (slide 9).

Lastly, on slide 10, the housing slowdown appears to be spilling into adjacent areas such as remodeling, which has cooled considerably in the second half of 2022.

New orders for durable goods mixed, too

On slide 11, new orders for durable goods—big-ticket items such as equipment, machinery, electronics, and office furniture—hit a fresh all-time high in December and are 33.2% above December 2019. It was driven by a spike in commercial aircraft orders. But new orders for core capital goods, which excludes the volatile aircraft and defense components, dipped 0.2% to \$74.9 billion, just below the all-time high set in October.

Economic commentary – Our take and the bottom line

Our take

As we mentioned here last week, the U.S. economy is clearly slowing. While there are glimmers of stabilization, which is encouraging, the overall trend does appear to be weakening.

Indeed, these crosscurrents—mixed data with some strong, some weak—are frustrating for decision-makers, investors, and average folks alike. Frankly, “why is the data so mixed?” is one of the most frequent questions we have fielded in the past year.

Of course, some choose to extrapolate the latest data point as proof that the economy is going up. We take a weight of the evidence approach, which clearly appears to be trending lower.

Again, most of the recession flags we monitor tripped months ago. No, that doesn't mean a recession is inevitable. 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)	▲	4Q A: 2.9%	4Q P: 2.9%	Beat the consensus by 0.3. Consumer and business spending, including inventories, remained solid, but were partially offset by a massive decline in residential housing.
	Unemployment rate ^x	▲	Dec: 3.5%	Jan: 3.6%	Slipped back down to the cycle low of 3.5%.
Jobs	Monthly jobs (nonfarm)	▲	Dec: 223K	Jan: 190K	Another upside surprise, but labor conditions have clearly cooled.
	Weekly jobless claims ⁺	▲	1/21: 186K	1/28: 200K	Another WoW drop, down to a 39-week low, near historic lows.
	Nonfarm productivity	▲	3Q F: 0.8%	4Q A: 2.5%	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	▼	3.51% [‡]	Flat	Rates largely steady WoW, though down sharply to start '23 from 4.25% in Oct. We expect more volatility with debt ceiling distractions.
	10-year AAA GO muni yield	▼	2.23 [‡]	Flat/down	Muni yields flat WoW but yields continue to recoil from October highs.
	30-year fixed mortgage rate	▼	6.45% [‡]	Flat/down	Up modestly WoW, but largely holding below 6.5%. It remains near the highest level since '08. Higher rates hurt 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 ^xLagging indicator [‡]Intraday quote Bloomberg consensus shown

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Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Housing	Existing home sales	▼	Dec: 4.02M	Jan: N/A	Fell 4% MoM, dropped for record 10th month in a row in November.
	New home sales	▼	Dec: 616K	Jan: N/A	Rose 2.3% MoM, the third straight rise. Meanwhile, prices fell for second month in a row.
	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: 5.6%	Dec F: 5.6%	Jumped due to strong commercial aircraft orders, but core capital goods orders (ex-air & defense) fell 0.2% MoM, just the all-time high.
	ISM Manufacturing Index	▼	Dec: 48.4	Jan: 48.0	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: 50.5	Contracted, snapping a 30-month expansion streak. Prices paid component slipped for 7 th time in 8 months.
	Business inventories ^x	▲	Nov: 0.4%	Dec: N/A	Biggest MoM increase in three months.
Consumer	Personal income	▲	Dec: 0.2%	Jan: N/A	Remains solid, buoyed by continued wage growth.
	Personal spending	↔	Dec: -0.2%	Jan: N/A	Fell for the second straight month.
	Advance retail sales	↔	Dec: -1.1%	Jan: N/A	Third MoM decline in the past four months.
	Consumer sentiment	▼	Jan F: 64.9	Feb P: N/A	Rose for the sixth time in the past seven months, while short-term inflation expectations dropped to 3.9%, lowest since April '21.

▲ Good ▼ Bad ↔ Neutral ⁺Leading indicator ^xLagging 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 47.3 (pre-pandemic indexed to 100), which is a 14-week high. Top cities were Austin (65), Houston (61), Dallas (54); bottom are San Jose (38) and Philadelphia (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 counts fell 3.9% WoW to 13.2 million, which is 18.2% below the 2019 weekly average of 16.1M. Passenger counts are up 0.2% from the same week in Jan. '19 and are now up 38.1% from Jan. '22.
OpenTable restaurant bookings	▲	Slumped to 3.2% compared to pre-pandemic levels from 0.0% the prior week. Top positive states were led by Nebraska (+39%) and Rhode Island (+38%); bottom were New York (-28%) and Illinois (-22%). Top cities were Miami (+45%) and Ft. Lauderdale (+44%); bottom were Minneapolis (-46%) and New York City (-36%).
Hotel occupancy	▲	Occupancy ebbed slightly from five-week high to 54.2%. The average daily rate was \$140.16, up 11.3% from the same week in Jan. '19, and revenue per available room was \$75.97, up 4.4% from Jan. '19.
Freight (rail/truck/ship)	▼	Rail carloads dipped 3.8% after rebounding for two weeks but dropped 10.1% MoM in December. Container traffic for the top 5 U.S ports (LA, Long Beach, NY/NJ, Savannah, SeaTac) dropped 2.0% MoM in December, the 7 th straight decline. The Cass Freight Index fell 3.3% MoM in December, the 4th monthly decline.
Staffing index	▲	Continued rebounding, to 100.9, after falling to 85.0 near year-end, 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.

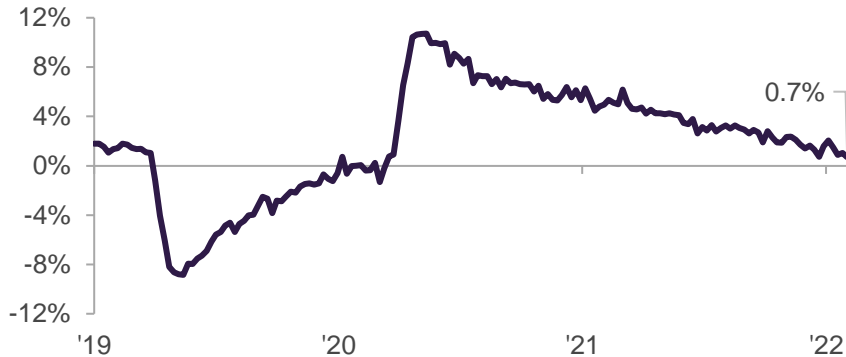
Trend relative to whether it is favorable for economic growth:

▲ Positive ▼ Negative ↔ Neutral / Mixed

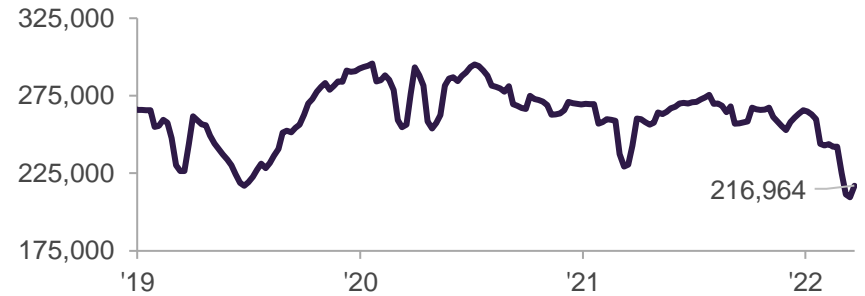
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

Activity-based trends slip to start 2023, but mostly solid compared to 2022

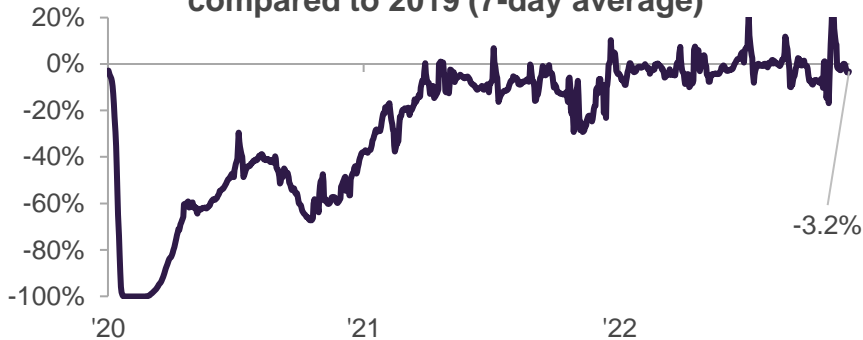
NY Fed weekly economic index



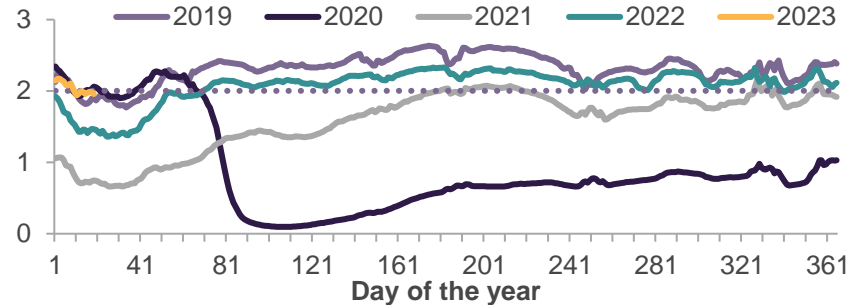
U.S. intermodal freight carloads (4-week average)



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



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

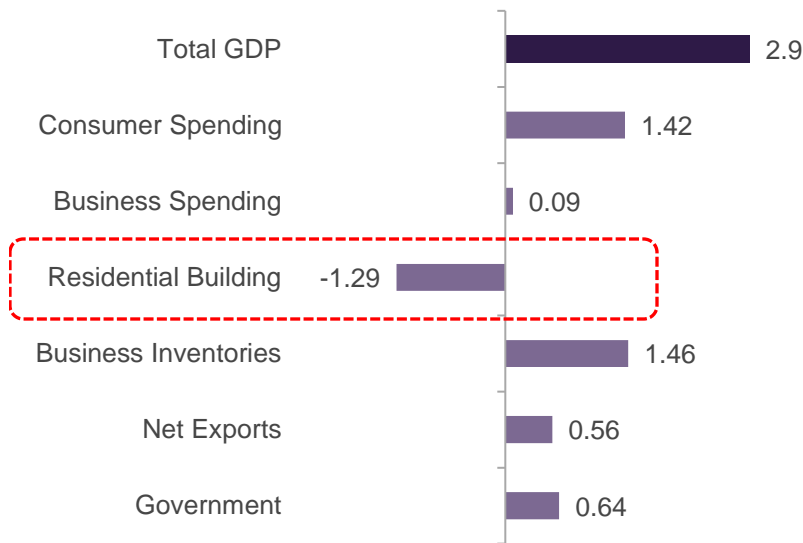


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through January 21, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through January 20. Bottom left: Bloomberg, OpenTable 7-day average through January 26. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through January 19.

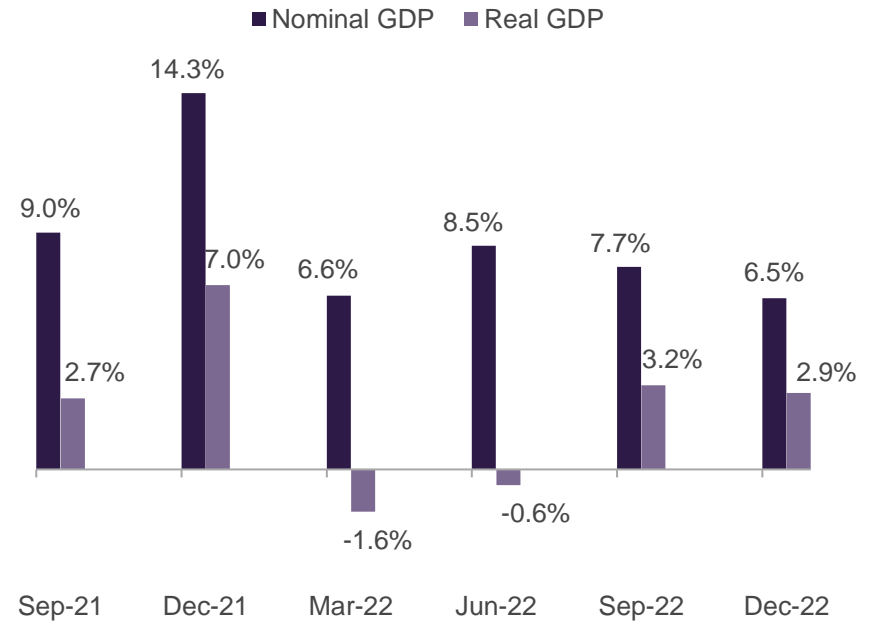
4th Quarter U.S. growth solid despite housing weakness

Real GDP rose 2.9% on an annualized basis in the fourth quarter. It was dragged down 1.29 percentage points by residential building, which dropped 27% on an annualized basis compared to the third quarter. Overall growth was solid, particularly on a nominal basis.

Contributions to percent change in real gross domestic product (GDP)



Nominal vs. real inflation-adjusted GDP



Sources: Truist IAG, Bureau of Economic Analysis. Left chart figures shown are inflation-adjusted (real) chained (2012) dollars on a seasonally adjusted annual rate.

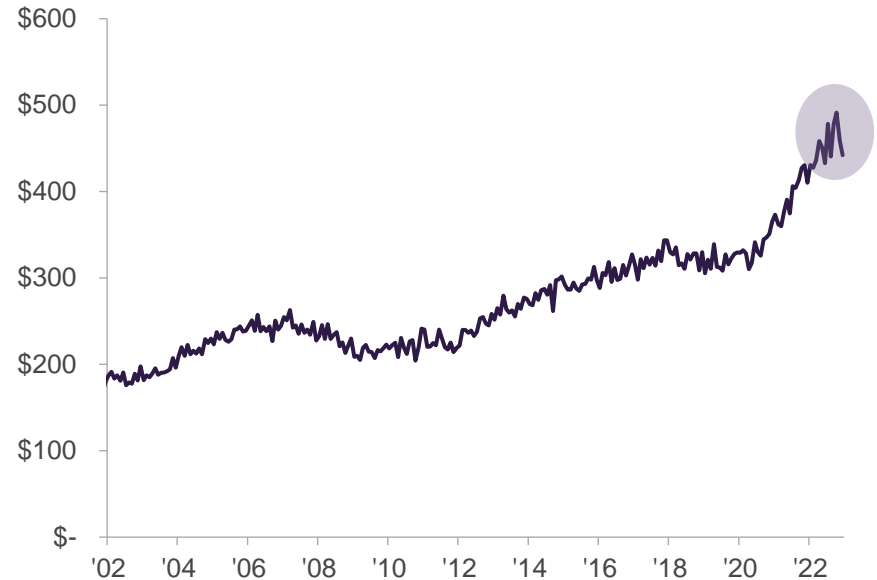
New home sales rose for third straight month, but prices dip for second

New homes sales rose 2.3% to an annualized rate of 616,000 in December, though remains below the 20-year average and is 10.5% below the December 2019 level. Meanwhile, prices dipped 3.7% to \$442,100 in December; still, that's 34.2% above the December 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)



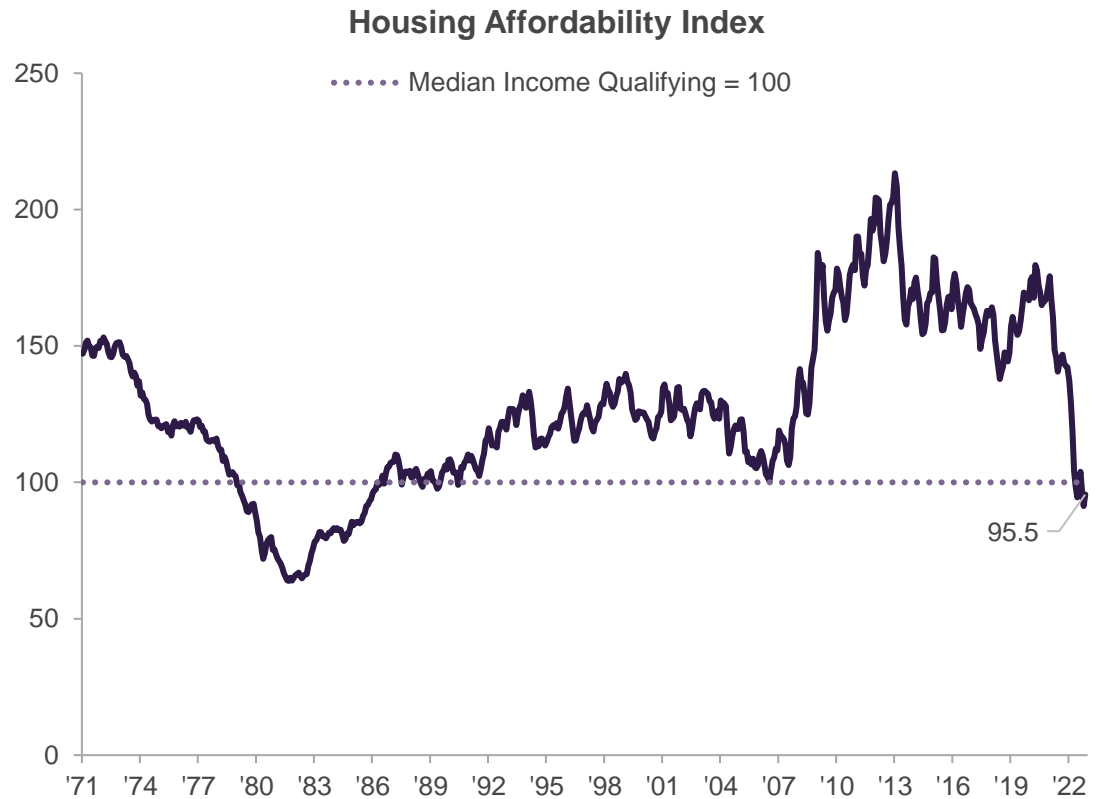
Sources: Truist IAG, Bloomberg, U.S. Census Bureau. Figures shown are seasonally-adjust annualized rate (SAAR); monthly data through December 2022.

Housing affordability remains challenged, likely continues

The affordability of single-family homes has dropped sharply during 2022, impaired by both higher mortgage rates and home prices.

While incomes have risen since the pandemic, home prices have escalated. New and existing home prices are both up more than 34% compared to December 2019. Then in 2022, mortgage rates have jumped to their highest level in 20 years.

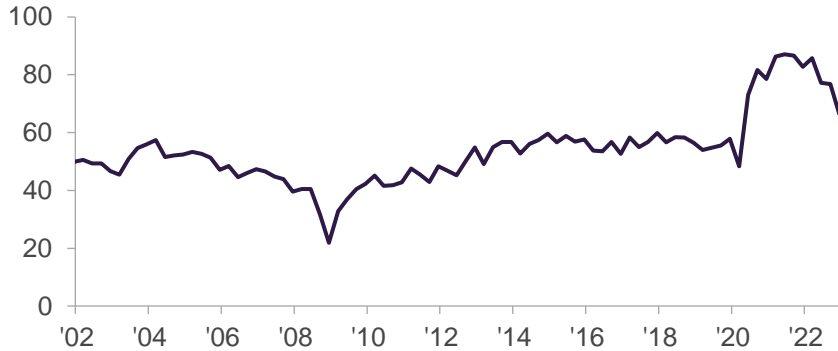
While rates have stabilized recently, home prices will likely remain supported by limited inventories of new and existing homes for sale.



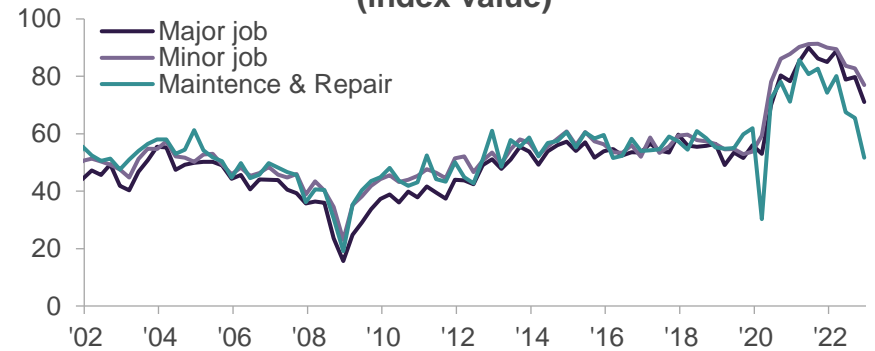
Sources: Truist IAG, Haver, NAR Composite Housing Affordability Index; monthly data through November 2022. 100 on the index is defined as the point where median-income families can qualify to purchase a median-priced existing single-family home (assuming 20% down payment and 25% of gross income devoted to mortgage principal and interest payments).

Housing slowdown spilling into adjacent areas such as remodeling

Remodeling Market Index (index value)



Remodeling Market Index by job type (index value)



Proposal appointments (index value)



Backlog of remodeling jobs (index value)

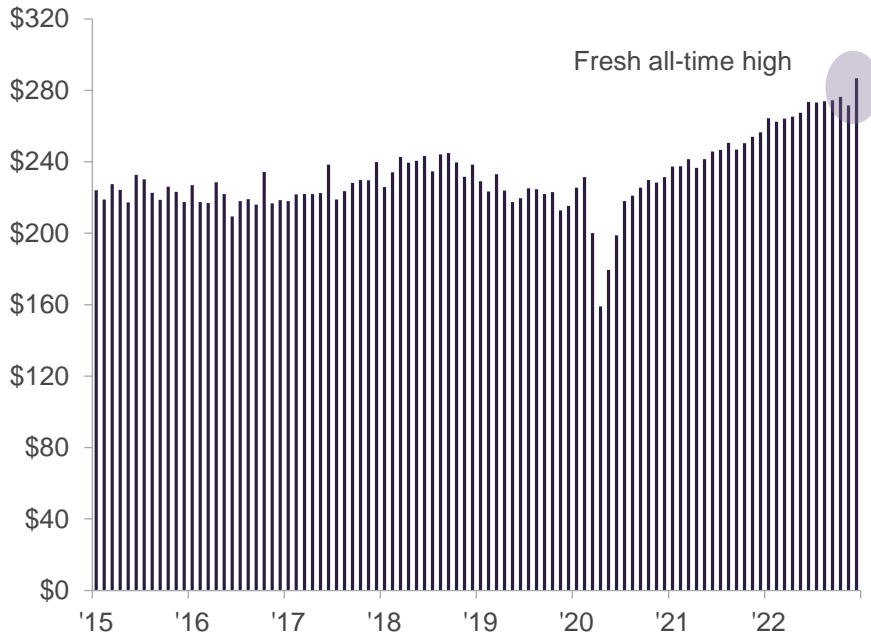


Sources: Truist IAG, Bloomberg, National Association of Home Builders; quarterly data through 4Q2022.

Commercial aircraft orders soared in December; core capital goods stalled

New orders for durable goods—big-ticket items such as equipment, machinery, electronics, and office furniture—rose 5.6% in December to \$286.9 billion, a fresh all-time high and 33.2% above December 2019. It was driven by transportation, which jumped 16.7%. But new orders for core capital goods, which excludes the volatile aircraft and defense components, dipped 0.2% to \$74.9 billion, just below the all-time high set in October.

New orders for durable goods (in \$billions)



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



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

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