

Economic data tracker – Animal spirits stirring as inflation slips

Michael Skordeles, AIF®
Senior U.S. Macro Strategist

Week 6 – February 10, 2023

Trend watch and what's new this week

Frigid temperatures and ice storms last week crippled parts of the South, Midwest, and Northeast. Those are rippling through some activity-based data (slides 5 and 6). For instance, dining reservations fell sharply week-over-week along with softer hotel occupancy in parts of the U.S.

The weather disruptions also caused a pullback in the back-to-office index, which had just broken 50 (pre-pandemic indexed to 100) during the prior week for the first time since the pandemic. In Austin and Dallas, the index plunged 26 and 23 percentage points, respectively, compared to the prior week.

However, last week's wave of flight cancellations helped push a 4.3% rise in air passenger counts this week as airlines scrambled to get people to their destinations and reset the system.

Consumer sentiment jumped to 13-month high

Consumer sentiment, as measured by the University of Michigan Consumer Sentiment Index, increased to a 13-month high in February (slide 7) and the 7th increase in 8 months. Given the steady improvement, we have changed the trend indicator for consumer sentiment to "neutral" (slide 4).

Within the survey, inflation expectations for the coming year ticked higher to 4.2%, while longer-term inflation expectations held steady at 2.9% for the third straight month. Inflation expectations are key indicators for the

Securities and insurance products and services –

Are not FDIC or any other government agency insured | are not bank guaranteed | may lose value

Federal Reserve, which is laser-focused on reining in inflation expectations.

Egg prices crack, though still sizzling

On slide 8, we spotlight egg prices, as the monthly price spiked 127% year-over-year in December due to a bird flu outbreak. Recent weekly data shows that warehouse egg prices have dropped roughly 45% since their mid-December peak. Still, weekly egg prices remain about 50% above the same week last year.

Gasoline prices complete roundtrip, flat from a year ago

On slide 9, the nationwide average price for gasoline has steadily declined since the peak just above \$5 in June. It is now a just few pennies above the price a year ago, thanks to a surge in the U.S. crude oil production. Still, U.S. gasoline prices remain more than 30% above the pre-pandemic level of \$2.58.

Used car prices rose again in January, but down sharply YoY

On slide 10, we revisit the price index of used vehicles, which rose 2.5% in January. That was the second straight monthly rise after an ugly streak during which prices dropped in 9 of 10 months (Feb. '22 to Nov. '22). Prices declined 12.8% on a year-over-year basis, which is a far cry from the 54% spike in April '21. Luxury cars and SUVs continue to see the biggest price declines on a year-over-year basis.

Economic commentary – Our take and the bottom line

Our take

Last week’s weather disruptions will continue to cycle through the economic data in coming weeks. While our daffodils are already in full bloom, they certainly aren’t blooming everywhere. It’s likely best to stay prepared for another winter weather event since it’s barely mid-February.

That’s probably a good metaphor for the U.S. economy generally. Indeed, we are encouraged by some of the recent data, including the strong January jobs report and the rebound in the ISM Service Index for January, which expanded. The latter is important insofar as services account for the largest portion of the U.S. economy.

Those green shoots, among others, have triggered the animal spirits in markets, which now appear to be discounting the chances of a recession. While there are encouraging green shoots, we recommend caution lest we prematurely celebrate.

We may be in an environment where the economy remains solid, perhaps triggering more inflation (like used car prices in January), forcing the Federal Reserve (Fed) and other central banks to continue hiking interest rates. Or, the economy weakens further, taming inflation but also dingy corporate profits, spurring more layoffs and challenging asset prices. Our Co-Chief Investment Officer Keith Lerner has dubbed it the “reverse Tepper trade,” a nod to the opposition scenario hedge-fund titan David Tepper outlined in September 2010.

To wit, Fed Chair Jay Powell and number of other Fed officials have been reiterating their laser focus on inflation and strong likelihood of maintaining higher rates for longer. The chances that the Fed will take the Fed funds target above 5% during this cycle has quickly become the consensus. Conversely, market expectations of multiple rate cuts in 2023 are becoming less likely.

In our view, higher interest rates have dramatically increased borrowing costs for consumers and businesses alike, which is referred to as tightening financial conditions. For instance, credit card balances for many consumers are hovering near 20%, which crimps a lot of economic activity. Furthermore, credit cards are the only financing for many of the smallest businesses, which aren’t big enough to get credit to finance inventory or other short-term expenses. Thus, higher interest rates are a tremendous headwind for the U.S. economy.

To clarify, the possibility for “no landing” are growing as the chances of soft landing have increased. Yet, a recession in the coming 12 months remains our base case due to those tighter financial conditions.

Bottom line

A recession in the coming 12 months remains probable in our view, though it isn’t necessarily inevitable. While there are green shoots, it’s way too early to definitively say there’s no recession on the horizon.



Wealth

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	▲	Jan: 3.4%	Feb: N/A	Dropped to a fresh cycle low, the lowest since May 1969.
Jobs	Monthly jobs (nonfarm)	▲	Jan: 517K	Feb: N/A	Blowout surprise, but wages have clearly cooled, which is a positive.
	Weekly jobless claims ⁺	▲	2/4: 196K	2/11: 200K	Rose for the first time in 6 weeks, remains near historic lows.
	Nonfarm productivity	▲	4Q A: 3.0%	4Q F: 3.0%	Also, 4Q22 revised upward to 1.4% from 0.8%. Also, unit labor costs rose 1.1% vs. 2.0% in 3Q22 and 8.5% in 1Q22.
Interest rates	Federal funds rate	↕	4.50% – 4.75%	3/22: 4.75% – 5.00%	Fed stepped down the rate hike size to 0.25% in Feb. but had a slightly hawkish tone. Market expects 0.25% at the March meeting.
	10-year U.S. Treasury yield	▼	3.72% [‡]	Up	With stronger econ data, rates are heading higher. We expect more volatility with debt ceiling distractions.
	10-year AAA GO muni yield	▼	2.32% [‡]	Flat/up	Muni yields are up WoW but yields remain well under October levels.
	30-year fixed mortgage rate	▼	6.61% [‡]	Flat/up	Jumped back above 6.5%. It remains near the highest level since '08. Higher rates hurt affordability.
Inflation	Consumer prices (CPI) ^x	▼	Dec: -0.1%	Jan: 0.5%	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: 0.3%	Shelter, which lags, continues to grind higher. YoY rose 5.7%.
	Producer prices (PPI)	▼	Dec: -0.5%	Jan: 0.4%	YoY rose 6.2%, the coolest reading since the spring of '21.
	Core PPI	▼	Dec: 0.1%	Jan: 0.3%	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

Investment and insurance products – are not FDIC or any other government agency insured – are not bank guaranteed – may lose value

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Housing	Existing home sales	▼	Dec: 4.02M	Jan: 4.12M	Fell 4% MoM, dropped for record 10th month in a row in November.
	New home sales	▼	Dec: 616K	Jan: 616k	Rose 2.3% MoM, the third straight rise. Meanwhile, prices fell for second month in a row.
	New housing starts	▼	Dec: 1.382M	Jan: 1.361M	Fell 1.4% MoM, declined for the 8th time in 12 months.
	New permits ⁺	▼	Dec: 1.337M	Jan: 1.350M	Dropped 1.6% MoM as single family is down 10 months in a row.
Business	Durable goods orders ⁺	▲	Dec F: 5.6%	Jan P: N/A	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	▼	Jan: 47.4	Feb: N/A	Activity contracted for the third month in a row. Prices paid component stabilized but still contract, which is good for inflation.
	ISM Services Index	▲	Jan: 55.2	Feb: N/A	Expanded in January after contracting in December. Prices paid component slipped for 8 th time in 9 months.
	Business inventories ^x	▲	Nov: 0.4%	Dec: 0.3%	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: 0.4%	Fell for the second straight month.
	Advance retail sales	↔	Dec: -1.1%	Jan: 1.7%	Third MoM decline in the past four months.
	Consumer sentiment	↔	Feb P: 65.0	Feb P: 65.0	Popped to 13-mo high, up for the 7th time in the past 8 months. But short-term inflation expectations rose to 4.2%, more than expected.

▲ Good ▼ Bad ↔ Neutral ⁺Leading indicator ^xLagging indicator [‡]Intraday quote Bloomberg consensus shown

Investment and insurance products – are not FDIC or any other government agency insured – are not bank guaranteed – may lose value

U.S. activity-based data matrix

Indicator	Relative trend	What we're watching
Back to office	↔	Fell to 45.6 due to ice storms after breaking 50 (pre-pandemic indexed to 100) for the first time since the pandemic. Top cities were Houston (61) and Chicago (50); bottom are Dallas (30) and San Jose (41). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts jumped 4.3% WoW to 13.6 million, which is 15.7% below the 2019 weekly average of 16.1M. Passenger counts are up 4.0% from the same week in Feb. '19 and are now up 31.6% from Feb. '22.
OpenTable restaurant bookings	▲	Slipped to -1.2% compared to pre-pandemic levels from 5.1% the prior week. Top positive states were led by Rhode Island (+48%) and Nebraska (+38%); bottom were Oregon (-27%) and New York (-24%). Top cities were Scottsdale (+49%) and Las Vegas (+30%); bottom were Minneapolis (-53%) and Philadelphia (-43%).
Hotel occupancy	▲	Occupancy fell to 55.3% due in part from the ice storms. The average daily rate was \$145.16, up 13.9% from the same week in Feb. '19, and revenue per available room was \$80.45, up 5.6% from Feb. '19.
Freight (rail/truck/ship)	▼	Rail carloads fell 5.1% last week but rebounded 28.1% MoM in January. 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	▲	Rose to 102.6, which was a fourth straight WoW increase and a six-week high. 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.

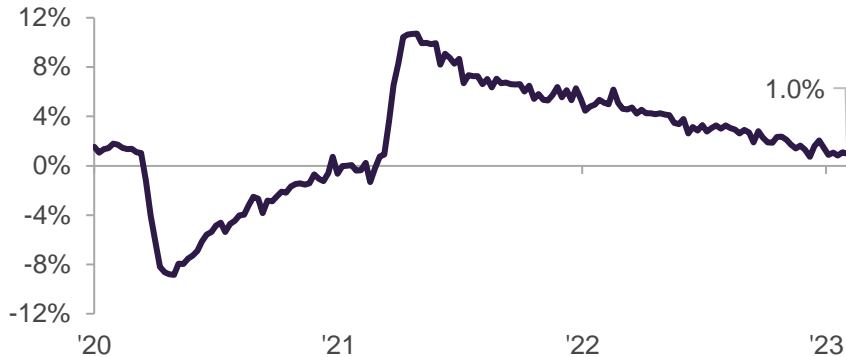
Trend relative to whether it is favorable for economic growth:

▲ Positive ▼ Negative ↔ Neutral / Mixed

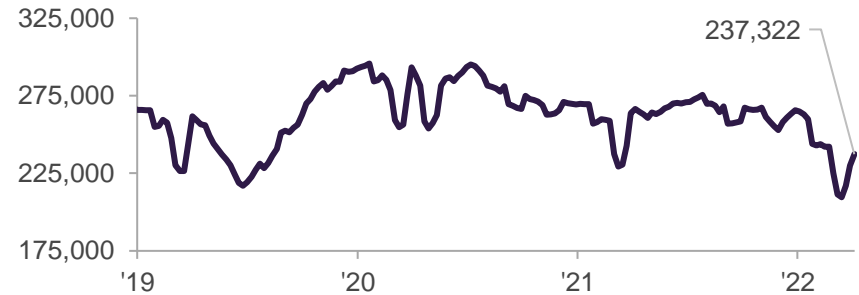
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

Activity-based trends slipped to start 2023, but firming into February

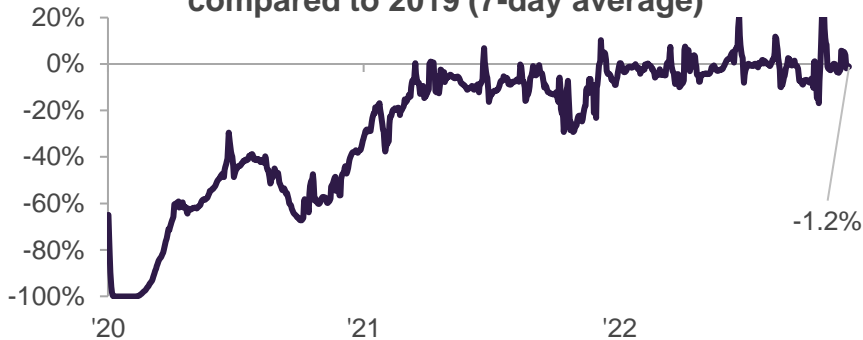
NY Fed weekly economic index



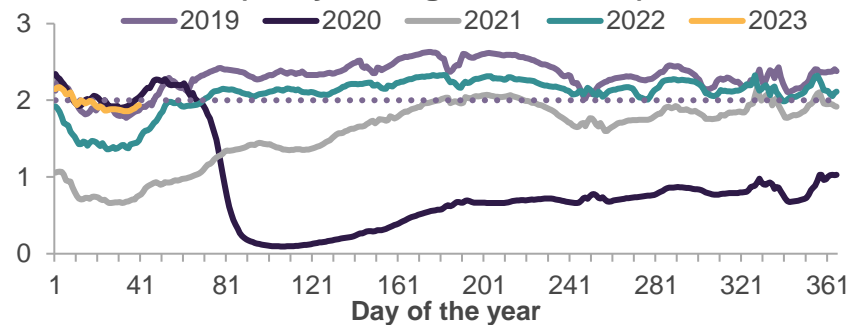
U.S. intermodal freight carloads (4-week average)



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



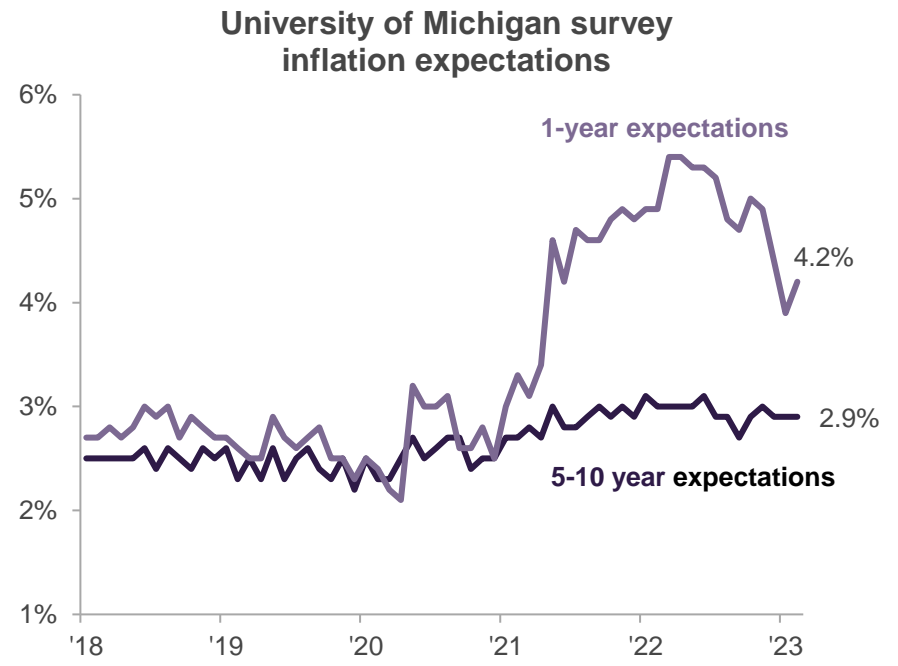
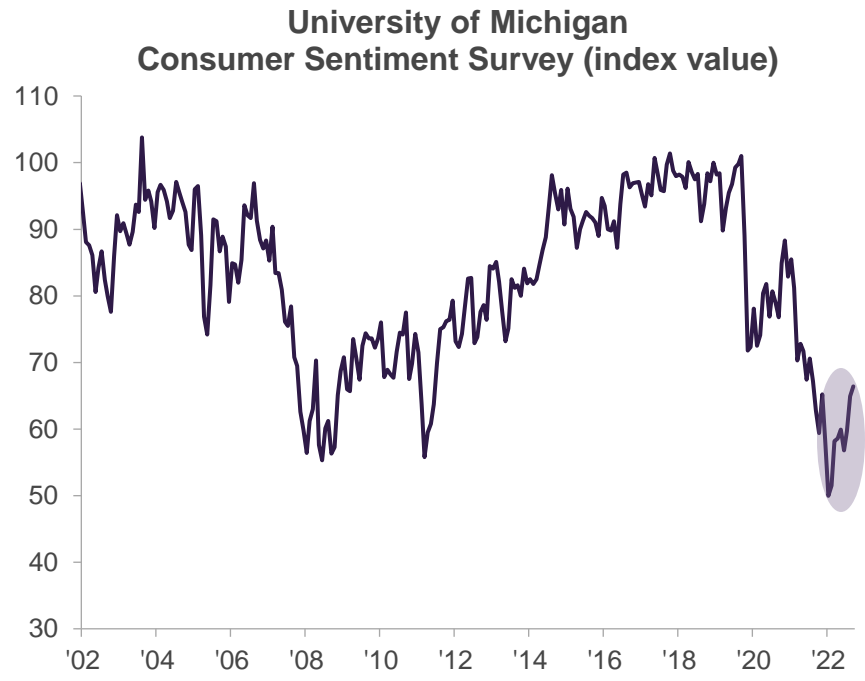
TSA checkpoint traveler throughput (7-day average, in millions)



Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through February 4, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through February 3. Bottom left: Bloomberg, OpenTable 7-day average through February 9. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through February 2.

Consumer sentiment recovering, while short-term inflation expectations rose slightly

Consumer sentiment, as measured by the University of Michigan Consumer Sentiment Survey, rebounded to a preliminary reading of 66.4 in February. That's a 13-month high, up considerably from 50.0 in June, which was the lowest level since the series began in 1978. Meanwhile, within the survey, inflation expectations for the coming year ticked higher to 4.2%, while longer-term inflation expectations held steady at 2.9% for the third straight month.



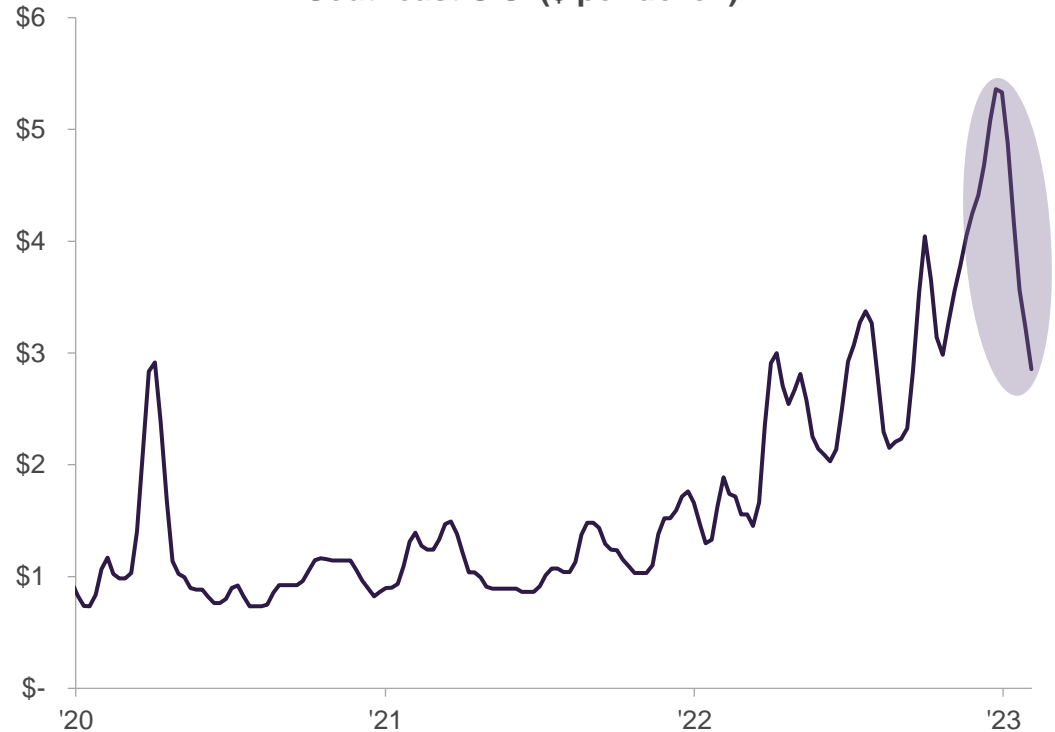
Sources: Truist IAG, Bloomberg, University of Michigan; monthly data through February 2023 (preliminary).

Egg prices crack, though still sizzling compared to last year

The nationwide average retail price for the month of December for large grade A spiked to \$4.25, up 127% year over year. The spike was caused by an outbreak of bird flu—known as highly pathogenic avian influenza (HPAI)—which wiped out more than 58 million birds, according to estimates from the Centers for Disease Control and Prevention (CDC).

Recent weekly data shows that warehouse egg prices have dropped roughly 45% since their mid-December peak. Still, egg prices remain about 50% above the same week last year.

USDA large egg warehouse weekly price, Southeast U.S. (\$ per dozen)



Source: Truist IAG, Bloomberg, U.S. Department of Agriculture (USDA). Weekly data through February 3, 2023.

Gasoline prices complete roundtrip, roughly flat from a year ago

The nationwide average price for gasoline has steadily declined since the peak just above \$5 in June. It is now a just few pennies above the price a year ago.

The cause of the first half surge in 2022 was the Russia-Ukraine war, which threatened global crude oil supply. The rollback has been driven by the resilience of crude oil production globally as well as a surge in the U.S.

Still, U.S. gasoline prices remain more than 30% above the pre-pandemic level of \$2.58.

U.S. unleaded gasoline price (\$ per gallon)

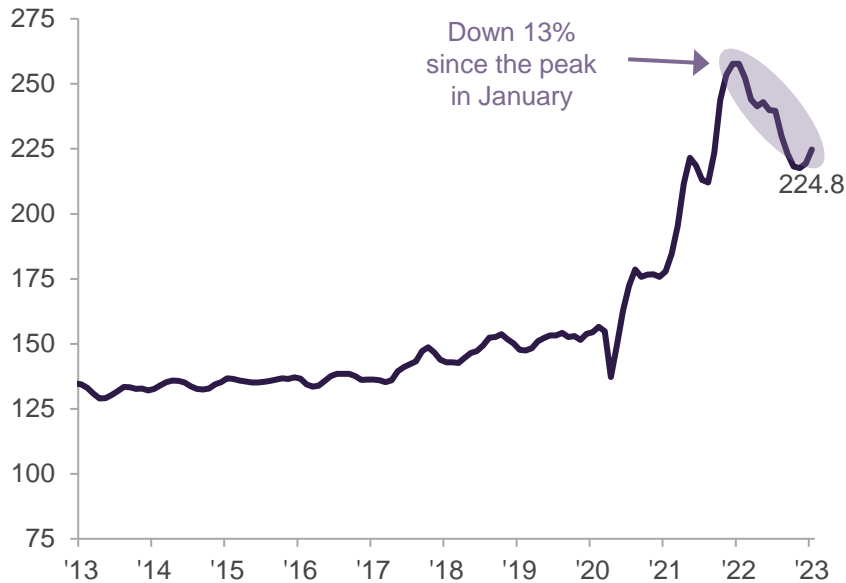


Source: Truist IAG, Bloomberg, CME-Chicago Mercantile Exchange. Daily data through February 9, 2023.

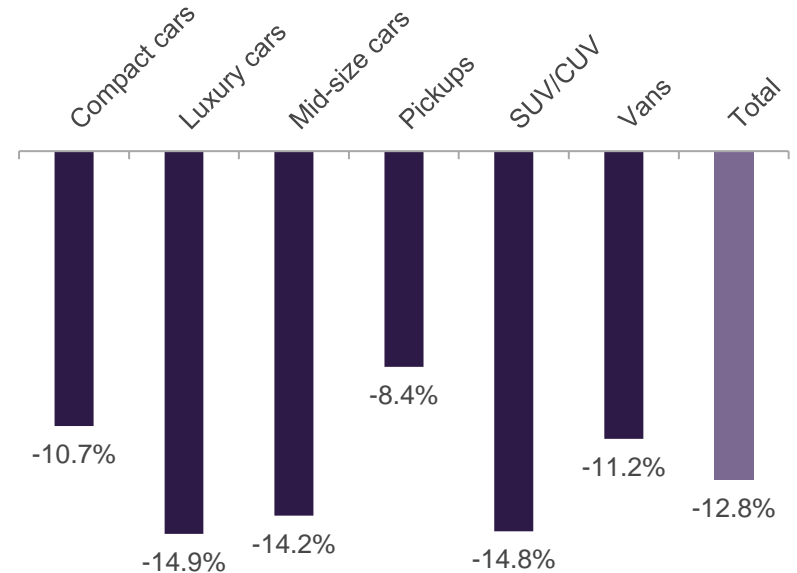
Used car prices rose again in January, though down sharply from a year ago

The price of used vehicles rose 2.5% in January. That's the second straight monthly rise after an ugly streak during which prices dropped in 9 of 10 months (Feb. '22 to Nov. '22). Prices declined 12.8% on a year-over-year basis, which is a far cry from the 54% spike in April '21. Luxury cars and SUVs continue to see the biggest price declines on a year-over-year basis.

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 January 2023. Sports Utility Vehicle (SUV) and Crossover Utility Vehicle (CUV).

Disclosures

Advisory managed account programs entail risks, including possible loss of principal and may not be suitable for all investors. Please speak to your advisor to request a firm brochure which includes program details, including risks, fees and expenses.

Truist Wealth is a name used by Truist Financial Corporation. Banking products and services, including loans, deposit accounts, trust and investment management services provided by Truist Bank, Member FDIC. Securities, brokerage accounts, insurance/annuities offered by Truist Investment Services, Inc. member FINRA, SIPC, and a licensed insurance agency where applicable. Life insurance products offered by referral to Truist Insurance Holdings, Inc. and affiliates. Investment advisory services offered by Truist Advisory Services, Inc., Sterling Capital Management, LLC, and affiliated SEC registered investment advisers. Sterling Capital Funds advised by Sterling Capital Management, LLC. While this information is believed to be accurate, Truist Financial Corporation, including its affiliates, does not guarantee the accuracy, completeness or timeliness of, or otherwise endorse these analyses or market data.

The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Truist Financial Corporation makes no representation or guarantee as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. The information contained herein does not purport to be a complete analysis of any security, company, or industry involved. This material is not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions and information expressed herein are subject to change without notice. TIS and/or its affiliates, including your Advisor, may have issued materials that are inconsistent with or may reach different conclusions than those represented in this commentary, and all opinions and information are believed to be reflective of judgments and opinions as of the date that material was originally published. TIS is under no obligation to ensure that other materials are brought to the attention of any recipient of this commentary.

Comments regarding tax implications are informational only. Truist and its representatives do not provide tax or legal advice. You should consult your individual tax or legal professional before taking any action that may have tax or legal consequences.

Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance.

TIS/TAS shall accept no liability for any loss arising from the use of this material, nor shall TIS/TAS treat any recipient of this material as a customer or client simply by virtue of the receipt of this material.

The information herein is for persons residing in the United States of America only and is not intended for any person in any other jurisdiction.

The information contained in this material is produced and copyrighted by Truist Financial Corporation and any unauthorized use, duplication, redistribution or disclosure is prohibited by law.

TIS/TAS's officers, employees, agents and/or affiliates may have positions in securities, options, rights, or warrants mentioned or discussed in this material.

© 2023 Truist Financial Corporation. Truist, the Truist logo and Truist purple are service marks of Truist Financial Corporation

CN2023-5461436.1 EXP02-2024



Wealth