Truist Advisory Services, Inc.

Economic data tracker – Inflation remains public enemy #1

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Trend watch and what's new this week

Moderating early spring temperatures are helping some of the activity-based data recover (slides 5 and 6). For instance, air passenger counts climbed above 14 million for the first time since the first week of the year. Air travel continues to track in-line with 2019 patterns.

Similarly, dining reservations swung back to positive (compared to pre-pandemic levels), hotel occupancy jumped to a nine-week high, and the back-to-office index reached its third-highest reading since the pandemic.

Inflation uptick in January

On slide 7, we show the Consumer Price Index (CPI), which jumped 0.5% in January. It was driven by a rebound in food and energy prices. Yet the year-over-year pace for CPI slipped to 6.4% from 9.1% in June.

On slide 8, core CPI, which excludes food & energy, rose 0.4% month-over-month and increased 5.6% from a year ago. Among the biggest decliners were used vehicles, which dropped for the seventh straight month. However, prices for services rose by 0.6%, propelled by shelter (rents), which rose 0.7% during the month. (The CPI rental data takes a weighted-average approach for rents because the change only impacts new or renewals since most residential leases are typically for one-year or longer.)

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, the monthly pace of wholesale prices, as measured by the Producer Price Index (PPI), rose 0.7% in January. That's a big swing from -0.2% in December as energy jumped 5.0% during the month. Yet, the year-over-year pace slipped to 6.0% from 11.7% in March. Core CPI, which excludes food & energy, also reaccelerated month over month, but continued to slide from a year ago.

Private rental data continued to soften in January

On slide 11, we show rents from private rental sources for new leases. Rents spiked during 2021, including a jump of 2.2% during July '21. That continued in 2022, growing 0.9% per month on average through September '22, but has cooled considerably since then. Rental prices in January '23 fell 0.1% month over month, the fourth decline in a row.

Retail sales jump in January

Retail & food service sales in January jumped 3.0% (slide 12). That's the largest monthly increase since March '21, which lines-up with the third stimulus checks. Auto sales were a big driver along with an outsized jump in department stores sales. Excluding both autos and gasoline, retail sales rose a solid 2.6% during the month.

Economic commentary – Our take and the bottom line

New housing activity

On slide 13, we updated several of the new housing metrics. Single-family permits fell for 11th month in a row, while housing starts declined for the 8th time in 12 months. Both are obviously being impacted by the dramatic increase in mortgage rates, which are up 2.6 percentage points from a year ago.

Also on slide 13, new buyer traffic has shown signs of life, increasing for the past two months from extremely depressed levels. That helped boost the NAHB Market Index, which is the builder sentiment survey, see its biggest MoM increase since the reopening months two and a half years ago. However, we suspect that enthusiasm will fade in February given a 0.5 percentage point increase in mortgage rates in the past few weeks.

Our take

We reiterate our warning to temper the “no landing” fervor that has seemed to permeate the consensus in recent weeks, essentially discounting the chances of a recession. Indeed, we are encouraged by some of the recent data, which could be green shoots. Yet, as illustrated by the hotter than expected January inflation data, those green shoots can get frozen.

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

Accordingly, several more Fed officials have publicly floated the possibility of reaccelerating the size of rate hikes to further tamp down inflation, perhaps increasing rates by 0.50% at next month’s meeting. Markets have quickly adjusted, pushing expectations and rates higher, with the yield on the 10-year U.S. Treasury approaching 4% once again.

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 rates for many consumers are hovering near 20%, which crimps a lot of economic activity, especially as card balances ramp higher. Moreover, there’s a cumulative affect of higher card rates month after month as the months progress.

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 business expenses. Thus, higher interest rates are a tremendous headwind for the U.S. economy.

While the possibility for “no landing” have grown, 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. In the meantime, expect more crosscurrents in the economic data.

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.
Jobs	Unemployment rate[X]	▲	Jan: 3.4%	Feb: N/A	Dropped to a fresh cycle low, the lowest since May 1969.
	Monthly jobs (nonfarm)	▲	Jan: 517K	Feb: N/A	Blowout surprise, but wages have clearly cooled, which is a positive.
	Weekly jobless claims[+]	▲	2/1: 194K	2/18: 200K	Dipped modestly and downward revisions, 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%	Since the Feb. 0.25% hike, the Fed has had a hawkish tone. Market now expects at least 0.25% and maybe 0.50% at the March meeting.
	10-year U.S. Treasury yield	▼	3.88%[‡]	Up	With stronger economic data, rates are heading higher again. We expect more volatility, especially with the debt ceiling distractions.
	10-year AAA GO muni yield	▼	2.51[‡]	Up	Muni yields are up WoW but yields remain well under October levels.
	30-year fixed mortgage rate	▼	6.79%[‡]	Up	Jumped to the highest rate since mid-November, which was the highest level since ’08. Higher rates hurt affordability.
Inflation	Consumer prices (CPI)[X]	▼	Jan: 0.5%	Feb: N/A	Way hotter than expected as energy prices rebounded in Jan. The YoY pace slipped to 6.4% from 9.1% in June.
	Core CPI	▼	Jan: 0.4%	Feb: N/A	Shelter, which lags, continues to grind higher. YoY rose 5.6%.
	Producer prices (PPI)	▼	Jan: 0.7%	Feb: N/A	YoY rose 6.2%, the coolest reading since the spring of ’21.
	Core PPI	▼	Jan: 0.5%	Feb: N/A	Has clearly peaked as YoY rose 5.4% 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: 4.10M	Fell 4% MoM, dropped for record 10th month in a row in November.
	New home sales	▼	Dec: 616K	Jan: 620K	Rose 2.3% MoM, the third straight rise. Meanwhile, prices fell for second month in a row.
	New housing starts	▼	Jan: 1.309M	Feb: N/A	Fell 4.5% MoM, declined for the 8th time in 12 months.
	New permits⁺	▼	Jan: 1.339M	Feb: N/A	Rose 0.1% MoM but single family fell for 11th month in a row.
Business	Durable goods orders⁺	▲	Dec F: 5.6%	Jan P: -3.0%	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: 48.0	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: 54.2	Expanded in January after contracting in December. Prices paid component slipped for 8th time in 9 months.
	Business inventories[X]	▲	Dec: 0.3%	Jan: N/A	Held steady for a second straight month.
Consumer	Personal income	▲	Dec: 0.2%	Jan: 0.9%	Remains solid, buoyed by continued wage growth.
	Personal spending	⇆	Dec: -0.2%	Jan: 1.3%	Fell for the second straight month; look for a January rebound.
	Advance retail sales	⇆	Jan: 3.0%	Feb: N/A	Massive upside surprise with largest monthly rise since March ’21.
	Consumer sentiment	▲	Feb P: 65.0	Feb F: 66.4	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 [X]Lagging indicator ‡Intraday quote Bloomberg consensus shown

U.S. activity-based data matrix

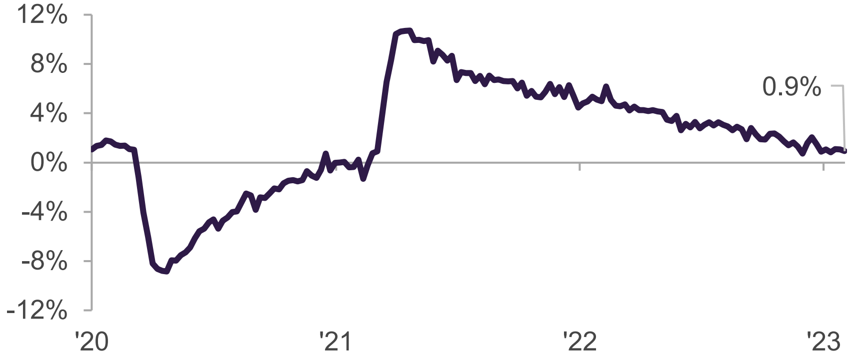
Indicator	Relative trend	What we're watching
Back to office	⇆	Rose to 48.6, approaching 50 again (pre-pandemic indexed to 100). Top cities were Houston (61), Austin (58), and Chicago (51); bottom were San Jose (41) and Philadelphia (42). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts jumped 5.0% WoW to 14.2 million, which is 11.5% below the 2019 weekly average of 16.1M. Passenger counts are up 1.6% from the same week in Feb. '19 and are now up 19.6% from Feb. '22.
OpenTable restaurant bookings	▲	Swung back to positive, up 3.8% compared to pre-pandemic levels. Top positive states were led by Nebraska (+49%) and Kentucky (+43%); bottom were New York (-21%) and Illinois (-15%). Top cities were Louisville (+57%) and Miami (+45%); bottom were New Orleans (-39%), Minneapolis (-32%), and Portland (-31%).
Hotel occupancy	▲	Occupancy rose to 57.8%, a nine-week high. The average daily rate rose to \$150.97, up 13.4% from the same week in Feb. '19, and revenue per available room jumped to \$87.21, up 5.6% from Feb. '19.
Freight (rail/truck/ship)	▼	Rail carloads fell 5.4% last week and rebounded 28.1% MoM in January after two down months. Container traffic at top U.S. ports (LA, LB, SAV, SEATAC) dipped 0.6% MoM in January. The Cass Freight Index fell 3.2% MoM in January, the fifth monthly decline.
Staffing index	▲	Held steady at 102.0, snapping a four-week increase streak. 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 fell 0.1% in January, the fourth straight MoM decline. 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

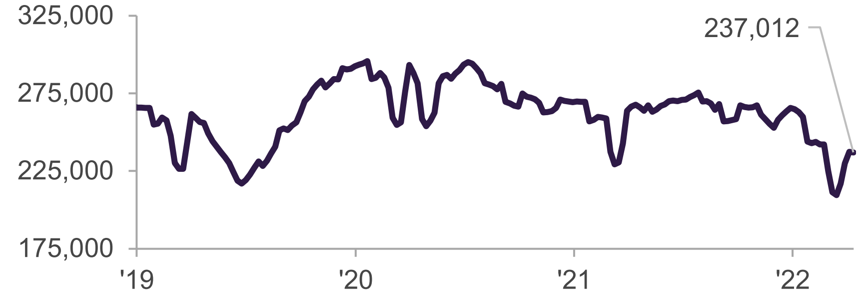
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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

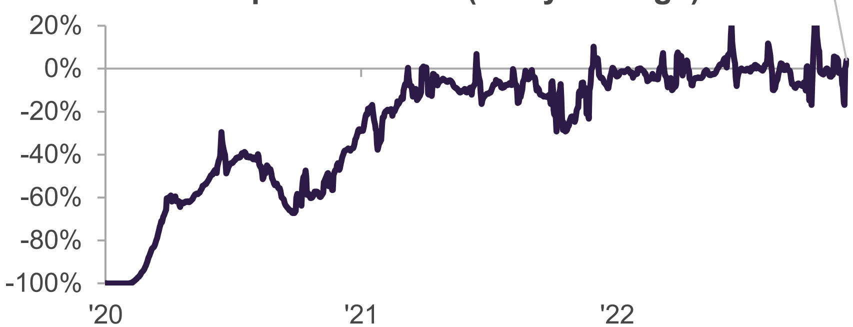
NY Fed weekly economic index



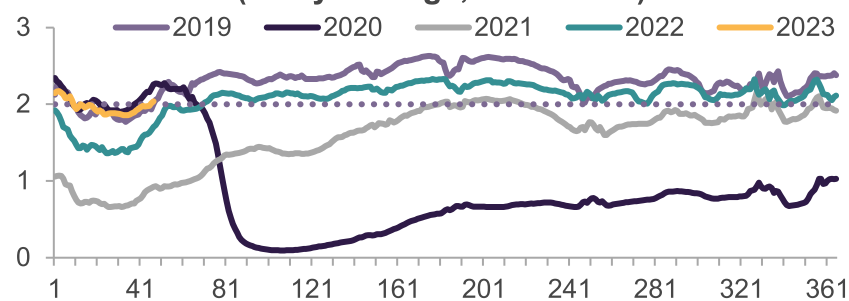
U.S. intermodal freight carloads (4-week average)



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



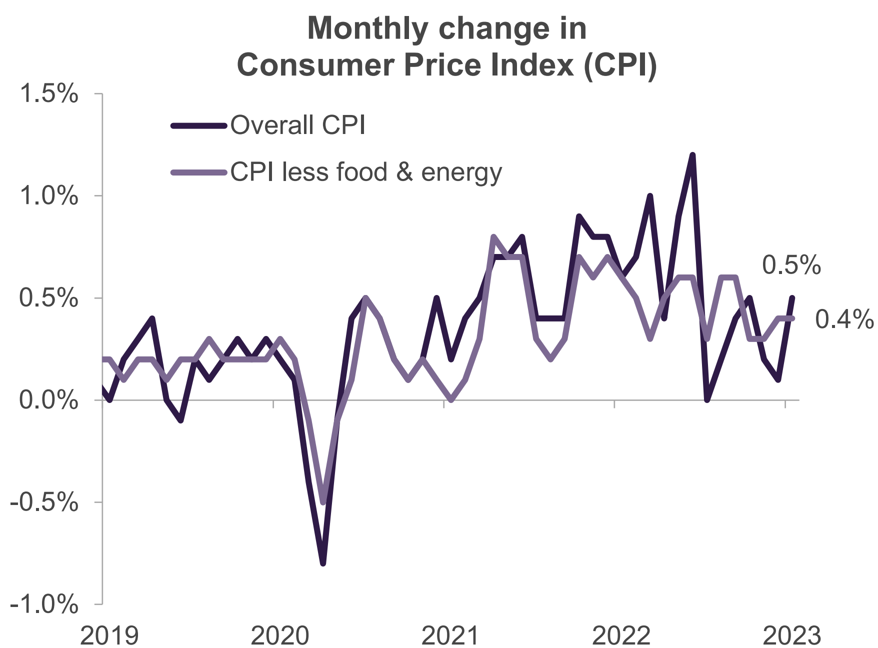
TSA checkpoint traveler throughput (7-day average, in millions)

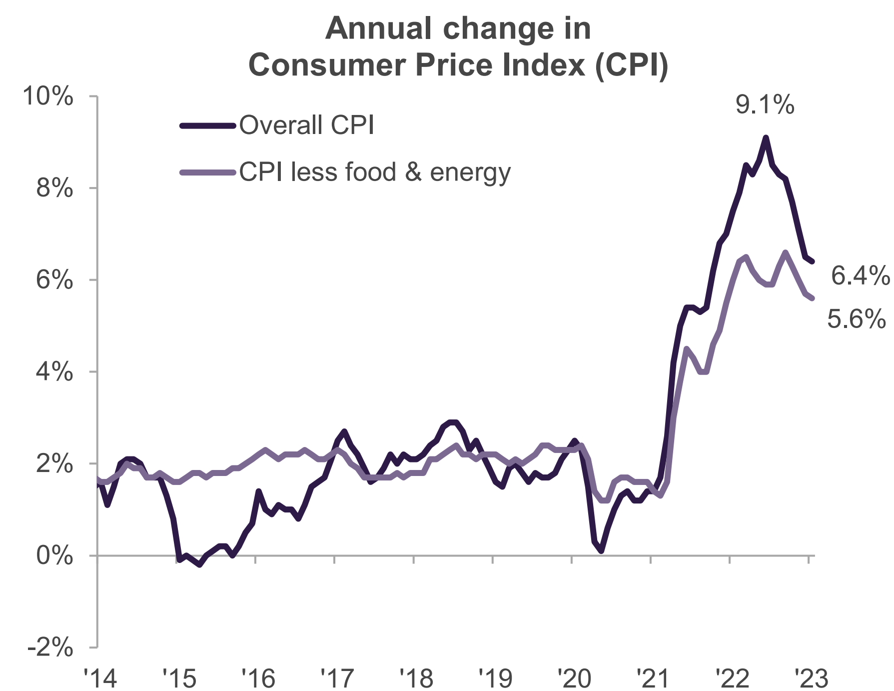


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through February 11, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through February 10. Bottom left: Bloomberg, OpenTable 7-day average through February 16. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through February 16.

Consumer prices still cooling but monthly pace rose in January

The Consumer Price Index (CPI) year-over-year pace slipped to 6.4% from 9.1% in June and was the seventh straight decline. But the monthly pace rose 0.5% driven by a 2% rebound in energy prices. Core CPI, which excludes food & energy, held steady month over month, up 0.4% for a second straight month and rose 5.6% from a year ago. Price increases for shelter (rents) within core CPI remain hotter than pre-pandemic trends.

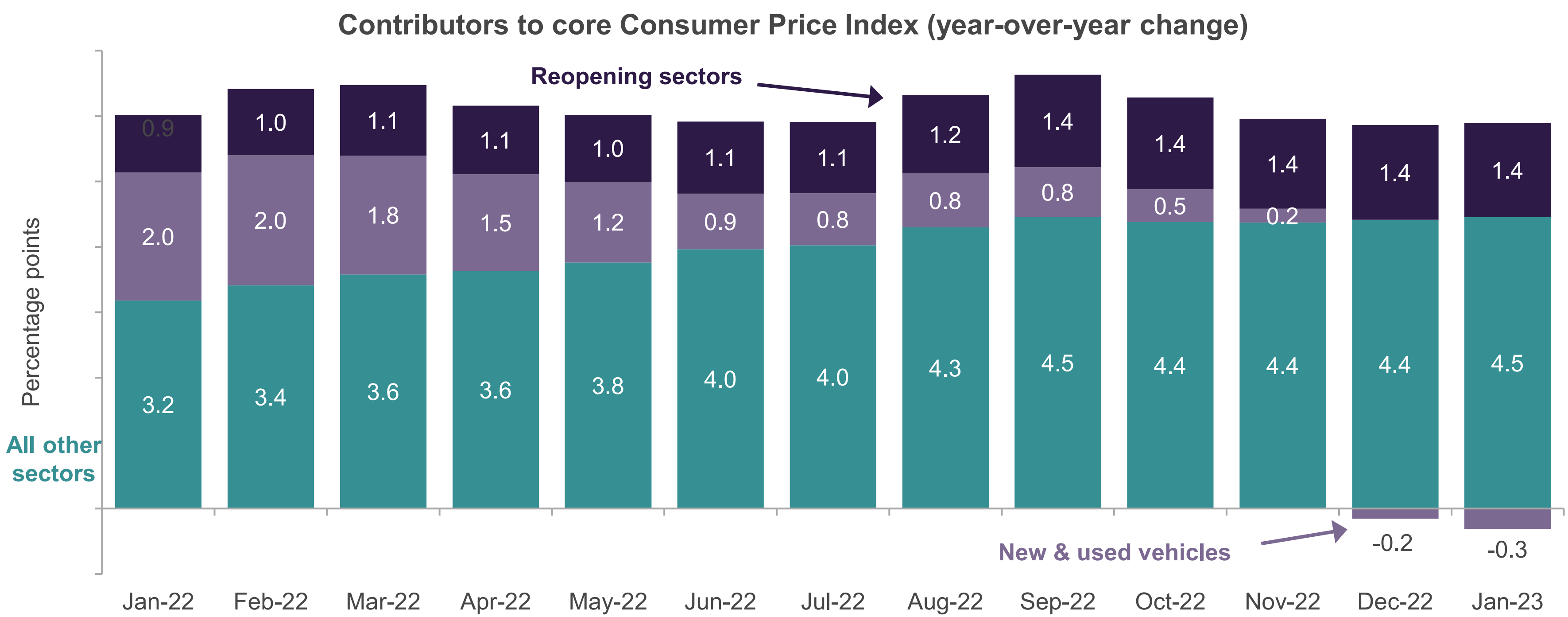




Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through January 2023.

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

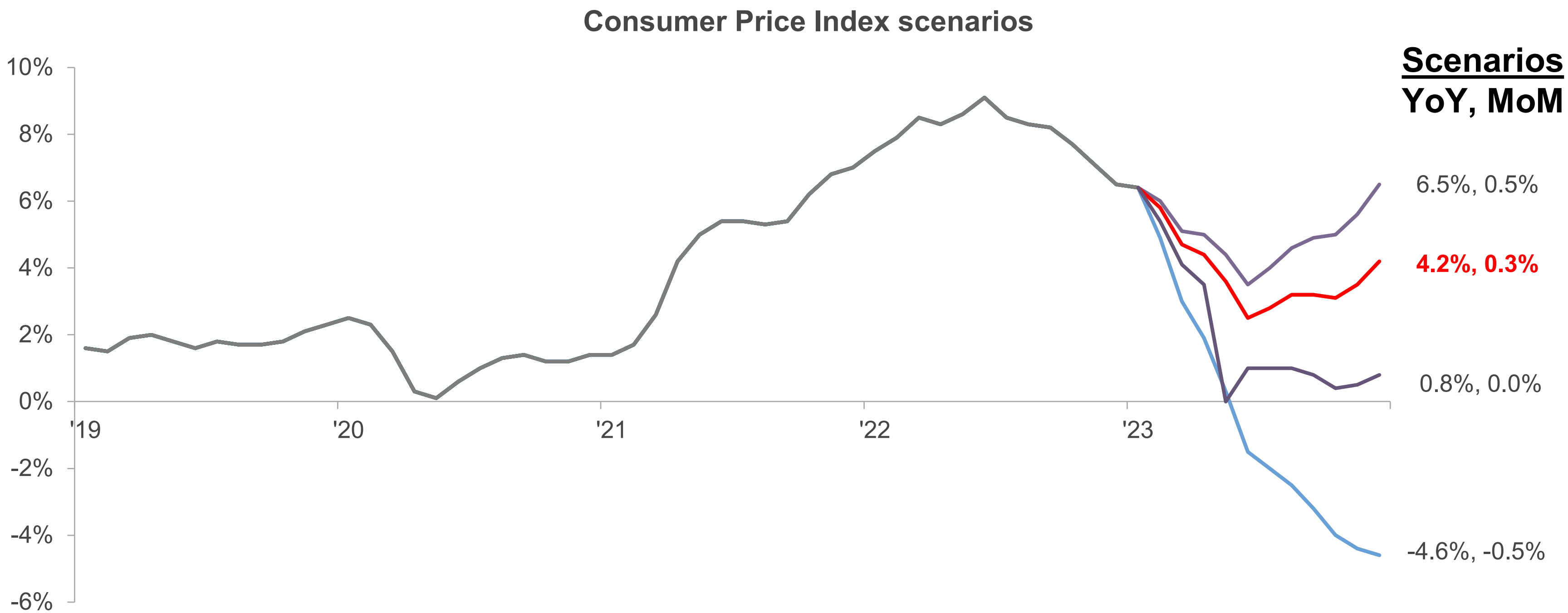
The core Consumer Price Index, which excludes food & energy, rose 0.4% month over month and increased 5.6% from a year ago, down from 6.6% in September. Among the biggest decliners were used vehicles, which fell 1.9%, down for the seventh straight month. However, prices rose for services increased 0.6%, propelled by shelter (rents), which rose 0.7% during the month.



Data source: Truist IAG, Haver, Bureau of Labor Statistics; monthly data through January 2023. 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%

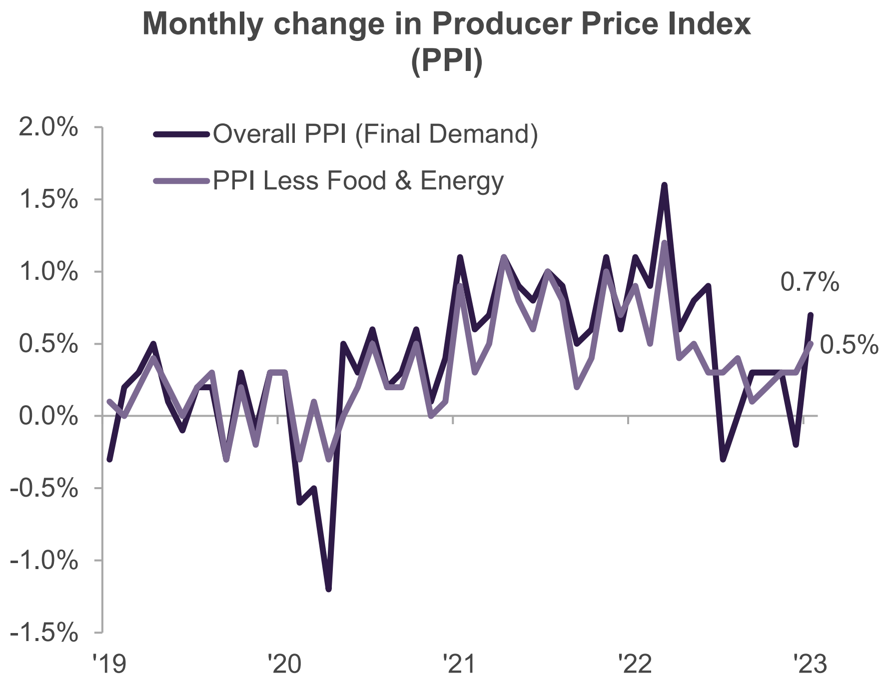
The year-over-year (YoY) Consumer Price Index (CPI) slipped to 6.4% in January, down considerably from 9.1% in June. The month-over-month (MoM) pace rose 0.5%, a bit hotter than in December. Below are several scenarios of how it might unfold over the coming year. For instance, if the pace of CPI was unchanged (0%) MoM for the rest of the year, it would equate to a 0.8% YoY rate in December '23. Or, if the MoM pace grew at 0.5% per month, it would be at 6.5% YoY. We expect 0.275% per month during 2023, which would be 4.2% by year end.

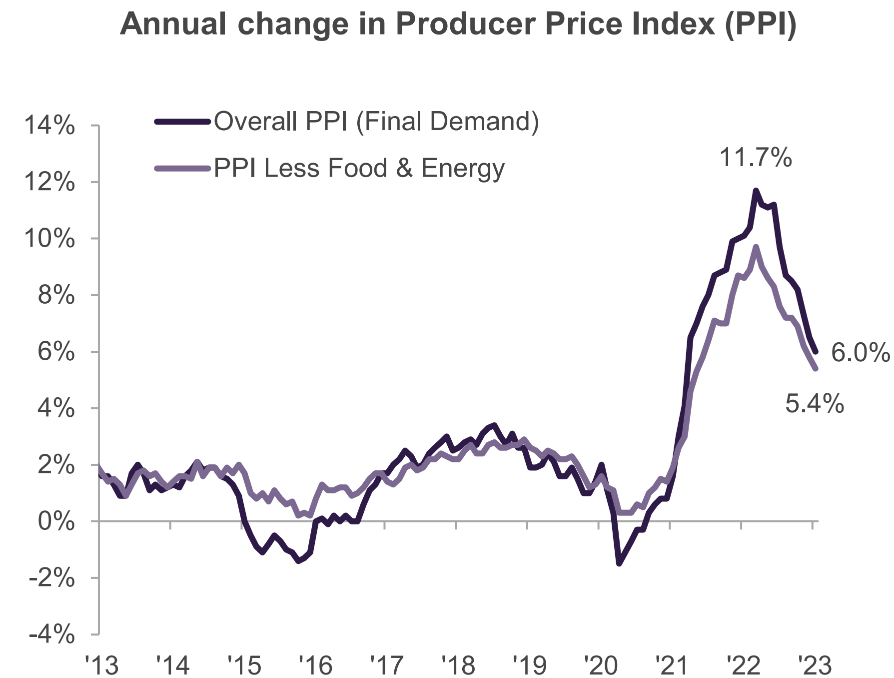


Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics; actual monthly data through December 2022; calculated scenarios and Truist IAG forecast (0.275%) through December 2023.

Wholesale prices rose in January, but down from ’22 peak

The monthly pace of wholesale prices, as measured by the Producer Price Index (PPI), rose 0.7% in January, rebounding from -0.2% in December as energy jumped 5.0% during the month. Yet, the year-over-year pace slipped to 6.0% from 11.7% in March. Core CPI, which excludes food & energy, also reaccelerated month-over-month, up 0.5%, but the annual change continued to slide, up 5.4% from a year ago.

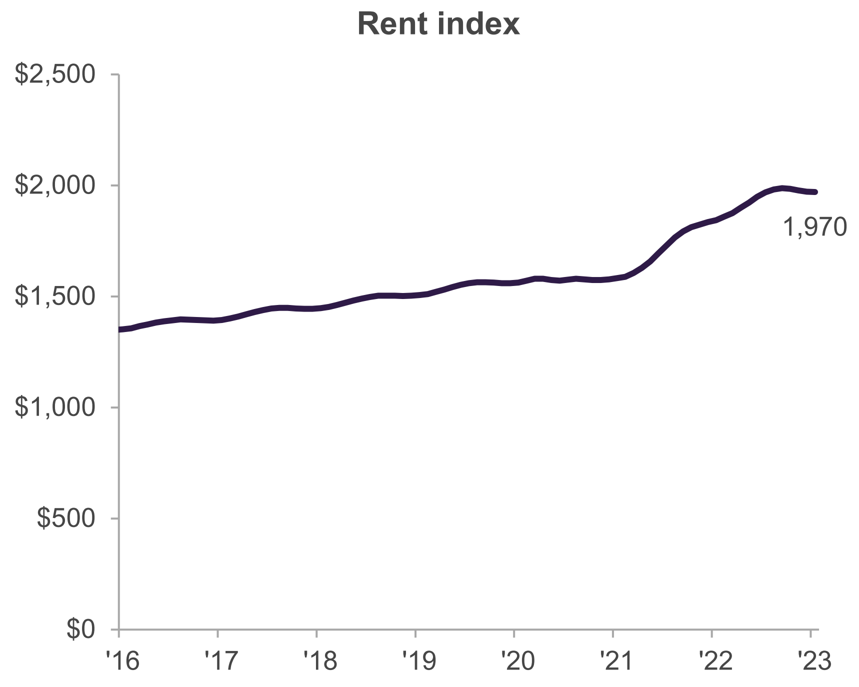


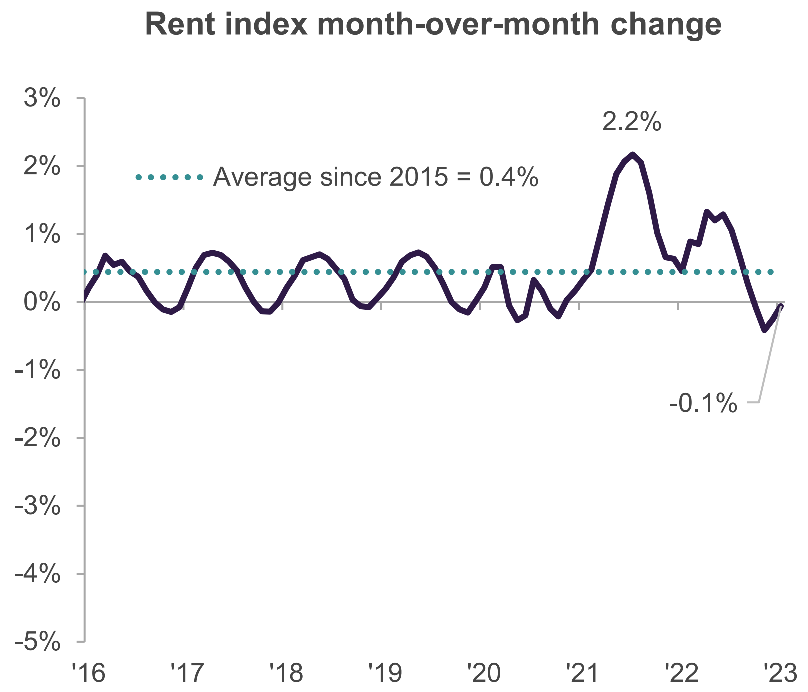


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through January 2023.

Rental prices fell again in January, more signs inflation is cooling

Rents spiked during 2021, including a jump of 2.2% during July ’21. That continued in 2022, growing 0.9% per month on average through September, but has cooled considerably since then. Rental prices in January fell 0.1% month over month, the fourth monthly decline in a row.



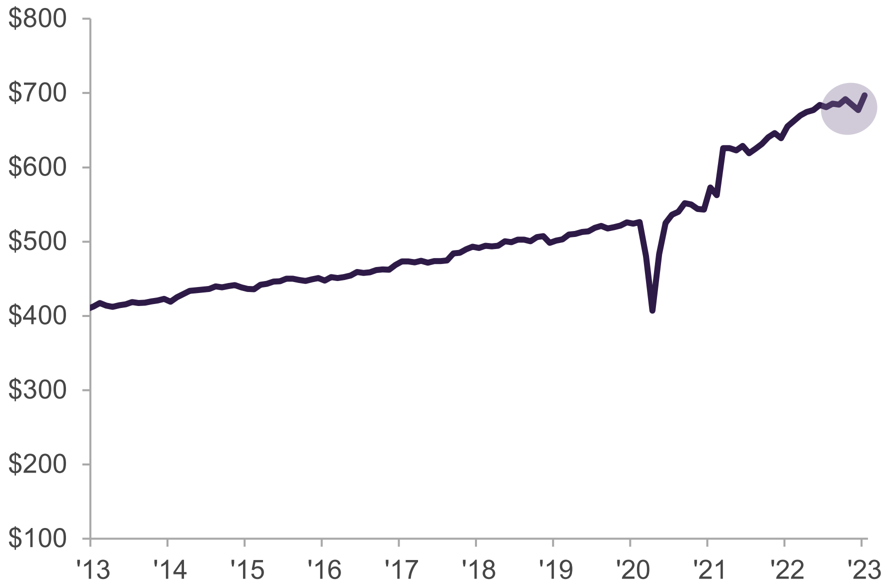


Source: Truist IAG, Bloomberg, Zillow; monthly data through January 2023.

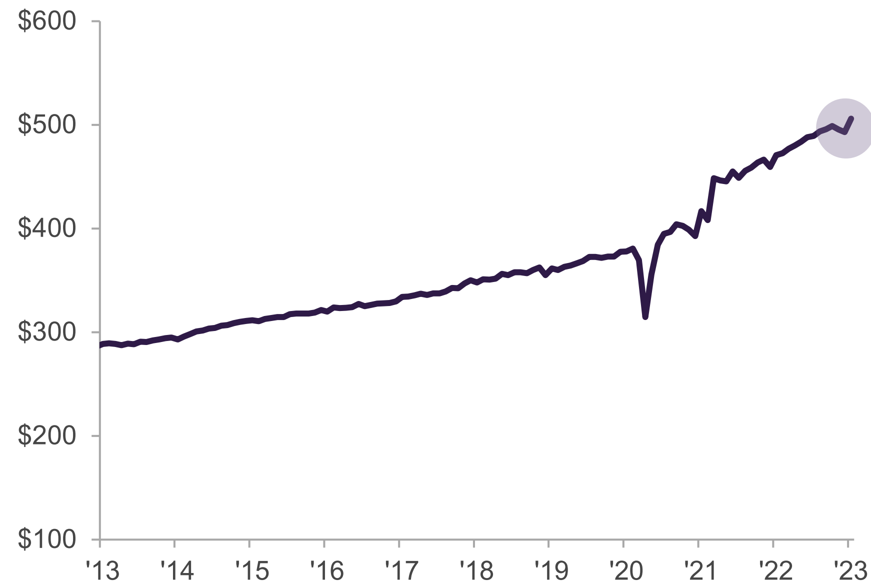
Retail sales jump in January

Retail & food service sales in January jumped 3.0% to $696.98 billion. That’s the largest monthly increase since March ’21, which basically lines-up with the third stimulus checks. Auto sales were a big driver, up 5.9%, along with department stores sales, which spiked 17.5% from December. Excluding both autos and gasoline, retail sales rose 2.6% during the month.

U.S. retail & food service sales (in billions)



U.S. retail sales ex-autos & gasoline (in billions)



Source: Truist IAG, Bloomberg, U.S. Census Bureau; monthly data through January 2023.

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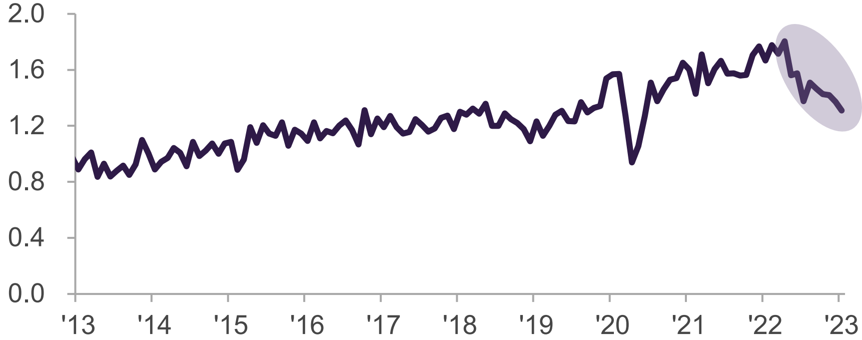
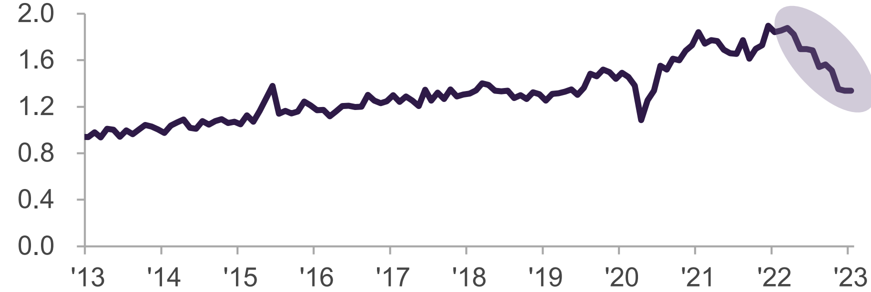
New housing activity crushed by higher mortgage rates, but new buyer traffic shows signs of life

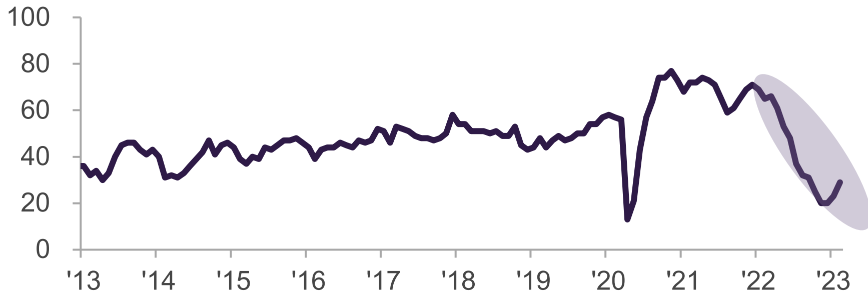
U.S. Housing starts (units in millions, SAAR)



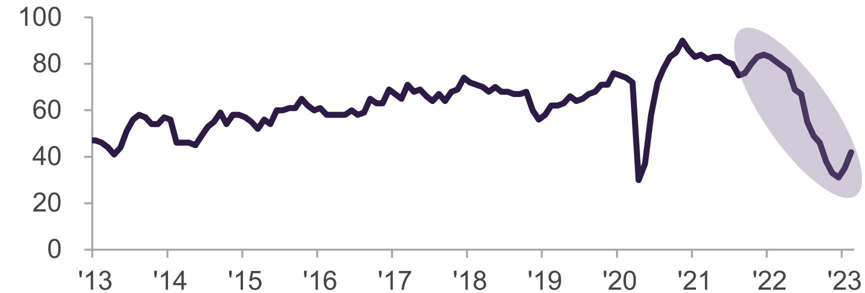
Total new building permits (units in millions, SAAR)



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).

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