Truist Advisory Services, Inc.

Economic data tracker – Services up, but manufacturing down

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Week 9 – March 3, 2023

Trend watch and what's new this week

The activity-based data has continued to recover as temperatures have warmed for most of the country (slides 5 and 6). Dining reservations have been especially strong in recent weeks, while hotel occupancy jumped to 64.2%, a 14-week high. The Back-to-Office Index broke 50 for just the second time since the pandemic.

Air passenger counts climbed back above 15 million for the first time in 2023 and continues to track in-line with 2019 patterns. On slide 7, we show air travel bookings, which have climbed for two straight months (December and January) following the typical decline in November. And that's ahead of the seasonal boost that occurs during the spring months.

Manufacturing contracted for fourth straight month

Two separate gauges showed continued weakness with manufacturing. The Institute for Supply Management (ISM) Manufacturing Index rose to 47.7 in February, the first uptick in six months (slide 8). But a reading below 50 signifies a decrease in manufacturing activity for the fourth month in a row. The prices paid component rose to 51.3, the highest reading in five months. Similarly, the final February reading of S&P Global's U.S. Manufacturing Index contracted for the fourth consecutive month.

Services indices rebounding

On slide 9, the ISM Services Index had a reading of 55.1 in February, expanding for the second straight month after contracting to 49.2 in December. The price paid component continued its sharp decline, down for the ninth time in 10 months (May through February).

Meanwhile, the final February reading of S&P Global's U.S. Services Index edged up to 50.6, snapping an ugly seven-month contraction streak.

New orders for core capital goods remain solid

On slide 10, new orders for durable goods—big-ticket items such as equipment, machinery, electronics, and office furniture—fell in January, which was largely due to transportation. Commercial aircraft orders plunged 55% after soaring 105% in January. But new orders for core capital goods, which excludes the volatile aircraft and defense components, rose in February and are just 0.1% below the all-time high set in August.

Economic commentary – Our take and the bottom line

Auto defaults/delinquencies signal increasing consumer stress

On slide 11, we show the percentage of consumers defaulting on auto loans, which has more than doubled in the past year. Those falling behind on payments—known as delinquencies—are also rising. For subprime borrowers, delinquencies of more than 60 days reached 7.1% in December, the highest rate since 2006.

Our take

While the notion of “no landing” is gaining popularity, we are growing more concerned about the renewed tightening of financial conditions during the past month.

In our view, consumers and smaller businesses are beginning to struggle with higher interest rates, which have dramatically increased borrowing costs. Mortgage rates have a 7-handle once again, while credit card rates are back above 20%. Those tighter financial conditions crimp a lot of economic activity, especially as card balances have ramped higher in recent months. Moreover, there’s a cumulative effect of increasingly higher card rates as the months progress.

Indeed, it’s really a have/have nots situation. Most homeowners are locked into lower rates, leaving them largely unaffected with effective mortgage rates at roughly 3.5%. Moreover, prime borrowers typically carry small or no balance on credit cards.

Furthermore, higher rates are boosting investment returns, particularly for bonds. However, those investment returns are very concentrated within two groups: the high-net worth and older-age cohorts. Meanwhile, those experiencing the dramatically higher rates are literally the opposite two groups: lower income and younger cohorts. Roughly 55% of Americans have stock ownership, less than half own bonds and less than 20% have EVER owned a certificate of deposit.

Additionally, “stickier” inflation remains a challenge for the Federal Reserve (Fed), with a parade of Fed officials publicly debating 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 hovering around 4% once again.

In our view, persistent inflation translates into interest rates staying higher for longer. In turn, that spells continued tight financial conditions as a headwind for consumers and businesses.

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 P: 2.7%	4Q F: 2.7%	Revised down by 0.2 percentage points from the 2.9% “advance estimate”, as upward revisions to business spending for commercial construction were offset by lower consumer spending.
Jobs	Unemployment rate[X]	▲	Jan: 3.4%	Feb: 3.4%	Dropped to a fresh cycle low, the lowest since May 1969.
	Monthly jobs (nonfarm)	▲	Jan: 517K	Feb: 200K	Blowout surprise, but wages have clearly cooled, which is a positive.
	Weekly jobless claims[+]	▲	2/18: 190K	2/25: 190K	Up just once in the past nine weeks and down 12% over that span.
	Nonfarm productivity	▲	4Q F: 1.7%	1Q P: N/A	Revised downward from 3.0%. Also, unit labor costs revised to 3.2% from 1.1%, compared to 6.9% in 3Q22 and 6.6% in 2Q22.
Interest rates	Federal funds rate	⇆	4.50% – 4.75%	3/22: 4.75% – 5.00%	Since the Feb. 0.25% hike, the Fed has set a hawkish tone. Market now expects at least 0.25% and maybe 0.50% at the March meeting.
	10-year U.S. Treasury yield	▼	3.96%[‡]	Flat/up	Knocking on the door of 4% thanks to stronger economic data and hawkish Fed talk. We expect more volatility.
	10-year AAA GO muni yield	▼	2.67[‡]	Flat/up	Roughly flat week-over-week (WoW) as muni yields remain well under October levels.
	30-year fixed mortgage rate	▼	7.12%[‡]	Flat/up	Pierced 7% for the first time since mid-November, approaching the highest level since ’08. Higher rates hurt affordability.
Inflation	Consumer prices (CPI)[X]	▼	Jan: 0.5%	Feb: 0.4%	Way hotter than expected as energy prices rebounded in Jan. The year-over-year (YoY) pace slipped to 6.4% from 9.1% in June.
	Core CPI	▼	Jan: 0.4%	Feb: 0.4%	Shelter, which lags, continues to grind higher. YoY rose 5.6%.
	Producer prices (PPI)	▼	Jan: 0.7%	Feb: 0.3%	YoY rose 6.2%, the coolest reading since the spring of ’21.
	Core PPI	▼	Jan: 0.5%	Feb: 0.4%	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	▼	Jan: 4.10M	Feb: N/A	Fell 0.7% month-over-month (MoM), dropped for record 12th month in a row.
	New home sales	▼	Jan: 670K	Feb: N/A	Rose 7.2% MoM, but nearly all of the strength was in the South.
	New housing starts	▼	Jan: 1.309M	Feb: 1.320M	Fell 4.5% MoM, declined for the 8th time in 12 months.
	New permits+	▼	Jan: 1.339M	Feb: 1.350M	Rose 0.1% MoM but single family fell for 11th month in a row.
Business	Durable goods orders+	▲	Jan P: -4.5%	Jan F: -4.5%	Commercial aircraft orders fell sharply, but core capital goods orders (ex-air & defense) rose 0.8% MoM, just 0.1% under the all-time high.
	ISM Manufacturing Index	▼	Feb: 47.7	Mar: N/A	Activity contracted for the fourth month in a row. Prices paid component increased but remains well below year ago levels.
	ISM Services Index	▲	Feb: 55.1	Mar: N/A	Expanded in January and February after contracting in December. Prices paid component dropped for the 9th time in 10 months.
	Business inventoriesX	▲	Dec: 0.3%	Jan: 0.0%	Held steady for a second straight month.
Consumer	Personal income	▲	Jan: 0.6%	Feb: N/A	Remains solid, buoyed by continued wage growth.
	Personal spending	▲	Jan: 1.8%	Feb: N/A	Rebound in January after stumbling in November and December.
	Advance retail sales	⇆	Jan: 3.0%	Feb: N/A	Massive upside surprise with largest monthly rise since March '21.
	Consumer sentiment	▲	Feb F: 67.0	Mar P: 67.3	Popped to 13-mo high, up for the 7th time in the past 8 months. But short-term inflation expectations rose to 4.1%, more than expected.

▲Good ▼ Bad ⇆ Neutral +Leading indicator XLagging indicator ‡Intraday quote Bloomberg consensus shown

U.S. activity-based data matrix

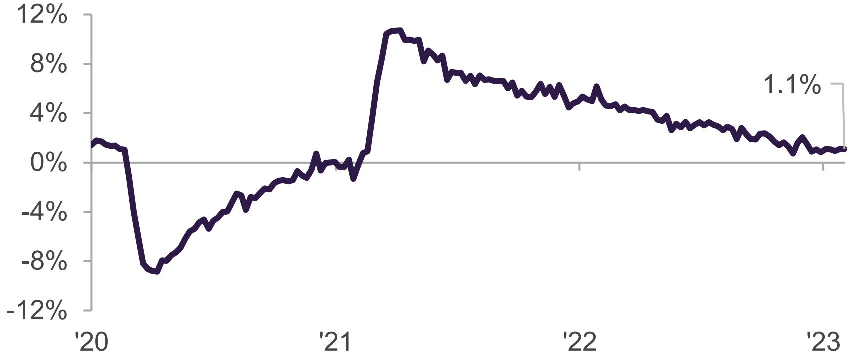
Indicator	Relative trend	What we're watching
Back to office	⇆	Rose to 50.1, above 50 for just the second time since the pandemic (pre-pandemic indexed to 100). Top cities were Austin (66), Houston (61), and Dallas (54); bottom were San Jose (41) and Philadelphia (43). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts fell 2.4% WoW to 15.3 million after hitting 15.7 million the prior week, highest in 2023. Passenger counts are up 1.5% from the same week in March '19 and are now up 14.2% from March '22.
OpenTable restaurant bookings	▲	Ebbed to 1.8% compared to pre-pandemic levels after spike to +30% during Valentine's weekend. Top positive states were led by Oklahoma (+42%) and Nevada (+38%); bottom were New York (-25%) and Illinois (-19%). Top cities were Miami (+67%) and Louisville (+56%); bottom were Minneapolis (-48%) and Philadelphia (-47%).
Hotel occupancy	▲	Jumped to 64.2%, the highest level since Thanksgiving week. The average daily rate rose to $156.51, up 22.2% from the same week in March '19, and revenue per available room rose to $100.43, up 20.3% from March '19.
Freight (rail/truck/ship)	▼	Rail carloads fell 1.5% last week, the second WoW decline, and dropped 2.0% MoM in February. 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	▲	Dipped to 100.3, stretching the decline streak to five. 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

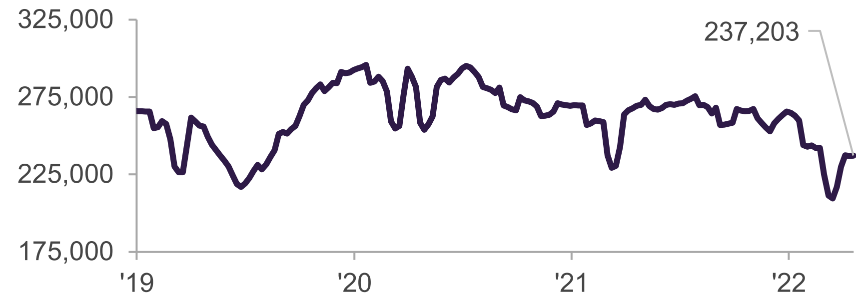
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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

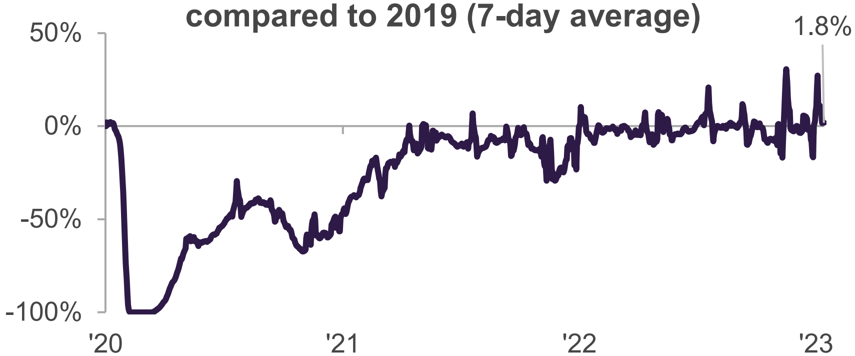
NY Fed weekly economic index



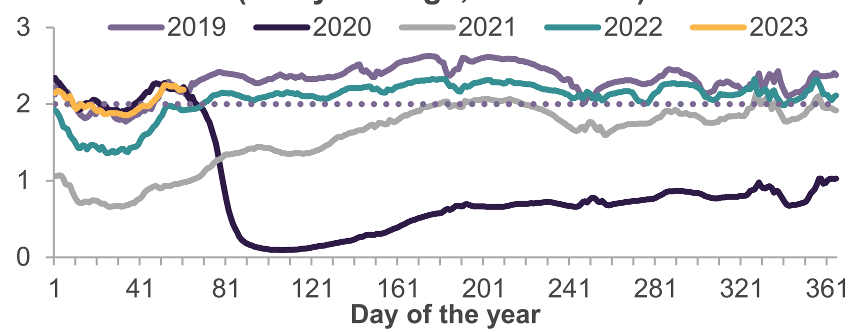
U.S. intermodal freight carloads (4-week average)



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



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

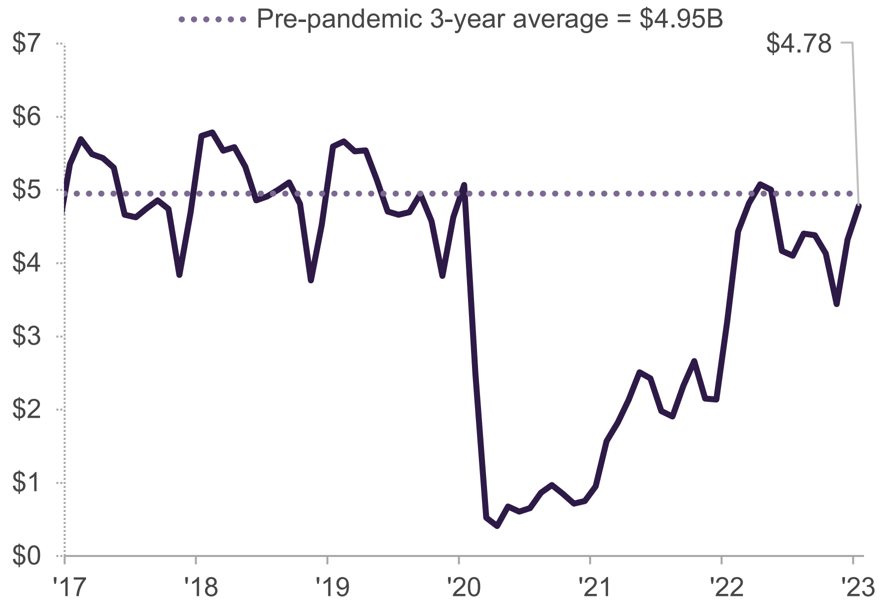


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through February 18, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through February 17. Bottom left: Bloomberg, OpenTable 7-day average through March 2. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through March 2.

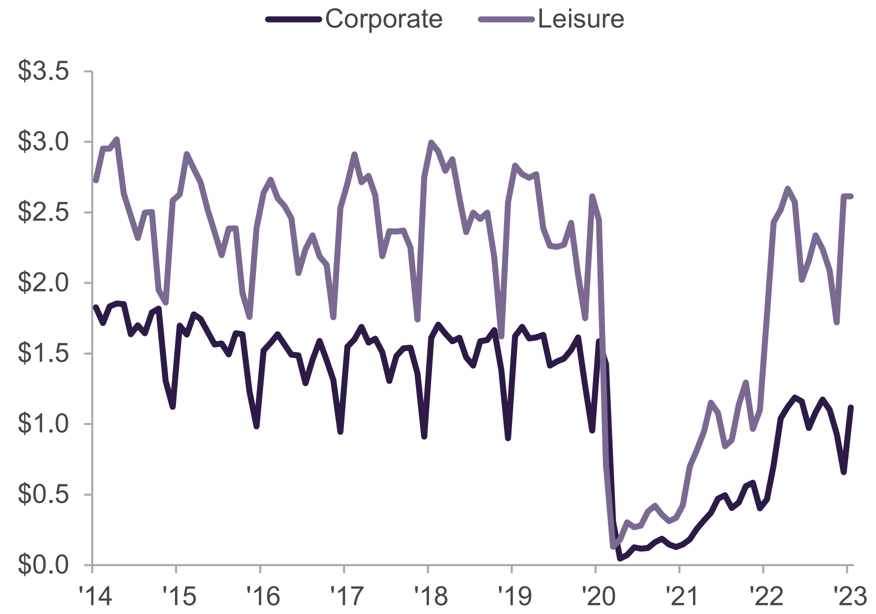
U.S. Air travel bookings firm heading into spring, corporate still lagging but improving

Although still about 3% below the pre-pandemic 3-year average, air travel bookings have climbed for two straight months following the typical decline in November. All of this is ahead of the seasonal boost that occurs during the spring months. Leisure bookings through January were running nearly 6% ahead of the pre-pandemic trend, while corporate travel is 25% below. However, a recent travel survey‡ showed 78% of travel managers globally expect more business travel in 2023 (unit volume).

Total air travel bookings ($ in billions)



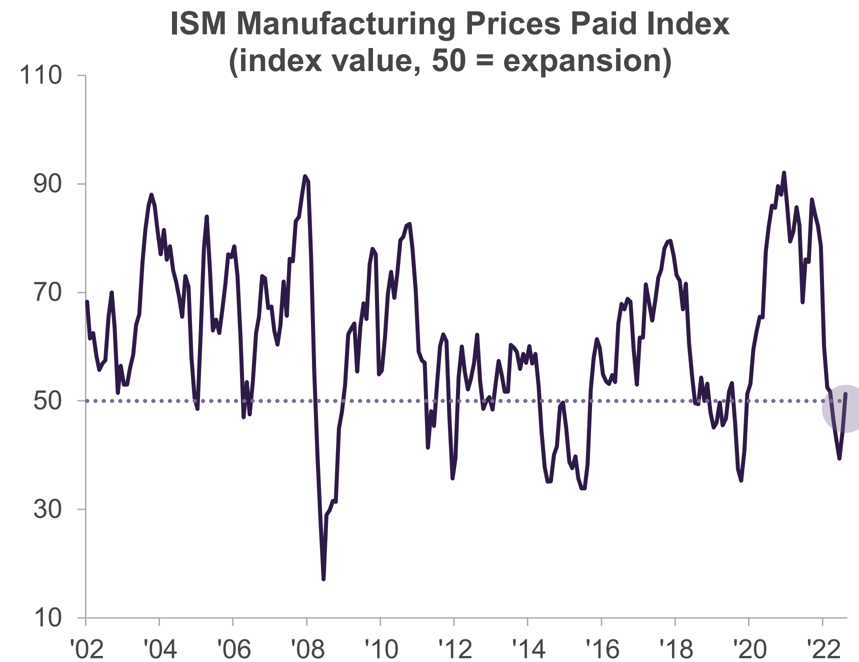
Air travel bookings by type ($ in billions)



Source: Truist IAG, Bloomberg, Airlines Reporting Corporation; monthly data through January 2023. ‡Global Business Travel Association (GNTA) 1Q2023 Business Travel Outlook Poll.

ISM Manufacturing contracts for fourth month in February, but prices up

The Institute for Supply Management (ISM) Manufacturing Index rose to a reading of 47.7 in February, the first uptick in six months. But the reading below 50 signifies a decrease in manufacturing activity for the fourth month in a row. The prices paid component rose to 51.3, this highest reading in five months and above 50, meaning prices increased compared to January. That said, prices remain dramatically lower than a year ago.



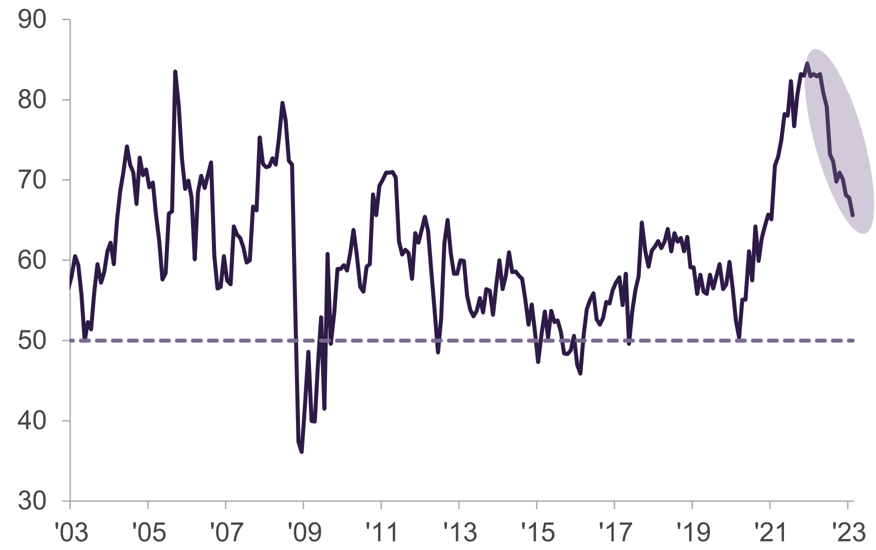
Sources: Truist IAG, Bloomberg, Institute for Supply Management (ISM); monthly data through February 2023.

ISM Services expands again in February, while prices continue slipping

The Institute for Supply Management (ISM) Services Index had a reading of 55.1 in February, expanding for second straight month after contracting to 49.2 in December. The prices paid component continued its sharp decline, down for the ninth time in 10 months (May through February).

ISM Services Index (index value, 50 = expansion)

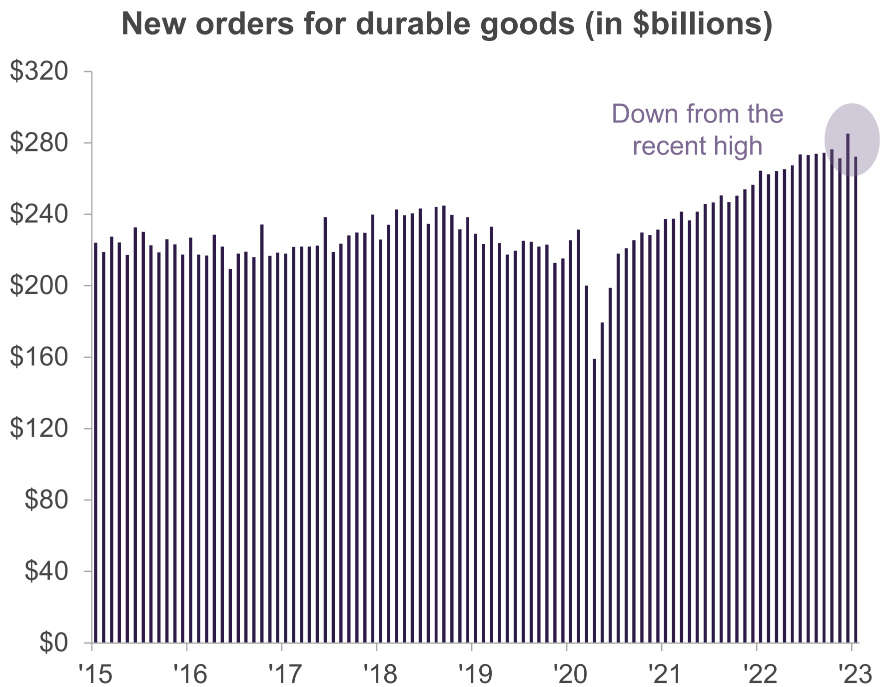
ISM Services Index: Prices paid component (index value, 50 = expansion)



Sources: Truist IAG, Bloomberg, Institute for Supply Management (ISM); monthly data through February 2023.

Commercial aircraft orders crashed in January; core capital goods still solid

New orders for durable goods—big-ticket items such as equipment, machinery, electronics, and office furniture—fell 4.5% in January to $272.3 billion from the most recent high of $285.2 billion in January. Commercial aircraft fell by 54.6% after soaring 105.0% in January. But new orders for core capital goods, which excludes the volatile aircraft and defense components, rose 0.8% to $75.3 billion, just 0.1% below the all-time high set in August.

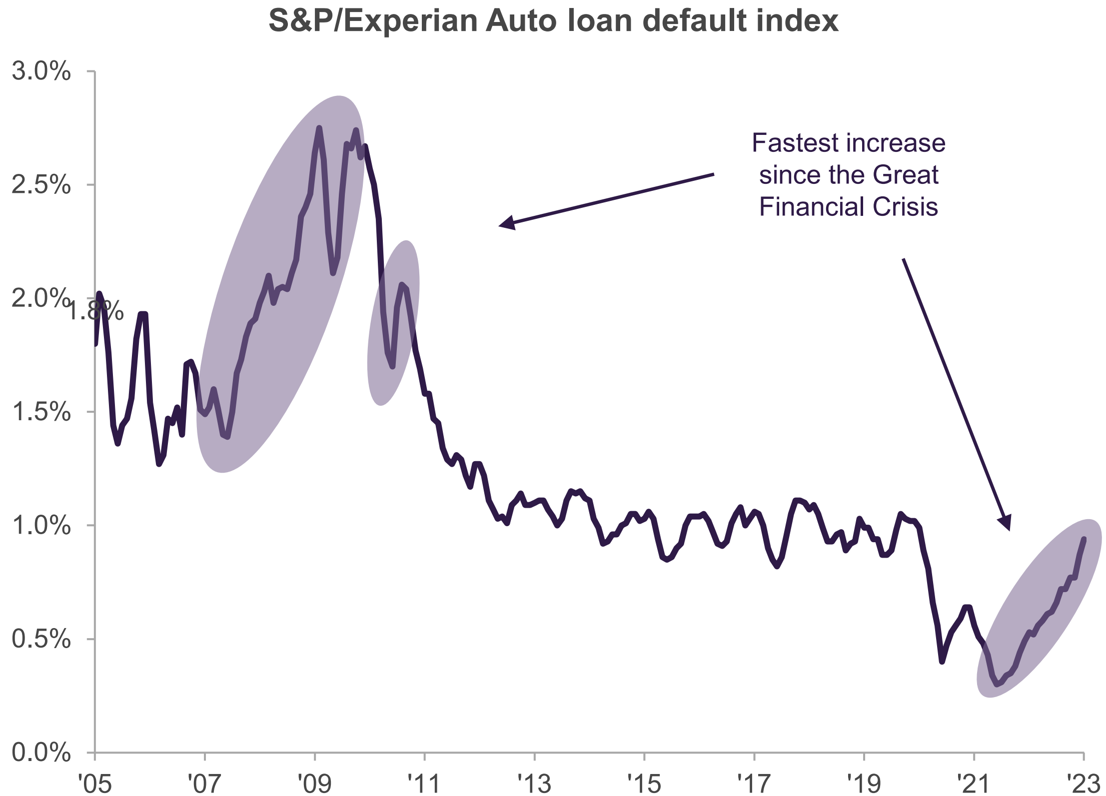


Data source: Truist IAG, Bloomberg, U.S. Census Bureau; monthly data through February 2023.

Auto loan defaults and delinquencies signal increasing consumer stress

The percentage of consumers defaulting on auto loans has more than doubled in the past year. While defaults are now roughly in-line with pre-pandemic levels, the pace of defaults is beginning to mirror parts of the Great Financial Crisis.

Defaults are likely to get worse before they get better: 1.8% of all auto loan borrowers are more than 60 days behind on payments, which is known as severely delinquent. For subprime borrowers, delinquencies of more than 60 days reached 7.1% in December, the highest rate since 2006.



Data source: Truist IAG, Bloomberg, S&P/Experian Consumer Credit Auto Loan Default Index. Monthly data through January 2023.

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