Truist Advisory Services, Inc.

Economic data tracker – More jobs, compelling a Fed hike

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Week 10 – March 10, 2023

Trend watch and what's new this week

With winter storms in the west, some of the activity-based data ebbed on a week-over-week basis (slides 5 and 6), including hotel occupancy and air passenger counts, though the weekly counts have remained above 15.5 million.

Dining reservations have been especially strong in recent weeks, as the 7-day average surged to 11.7%, hovering near the highest post-pandemic levels. The Back-to-Office Index has also stayed above 50 for just the third week since the pandemic.

More jobs in February, but cooling is evident

U.S. payrolls in February rose by 311,000, well-ahead of the consensus of 225,000. This was coupled with downward revisions to the prior two months. The six-month average slipped to 336,300.

Yet, there were several clear signs of cooling upon digging a little deeper. On slide 7, we show the unemployment rate, which rose to 3.6%. Additionally, there was weakness on the industry level in February, with three industries shedding workers and one unchanged; nearly half of the 10 major industries lost or maintained workers last month.

The monthly pace of average hourly earnings slipped to a 12-month low (slide 8). But the annual pace ticked higher.

Supplementary employment data mixed, too

On slide 9, the number of job openings remain at nearly 11 million, hovering near the all-time high. Within the same report, the quit rate for retailers continued to climb and hasn't fallen in nine months.

On slide 10, we also revisited temporary staffing. Staffing levels have declined for four consecutive weeks, though remain above the average during 2021.

Our take

Aside from the headline job growth, the February jobs report was rather mixed. Again, it's important to note that the jobs report is backward looking. Still, the trend continues to show that while the labor market is cooling from very strong levels, it remains solid. Which is to say, it's stronger than the Fed would like to see given the ongoing inflation struggle.

This mixed employment view is also corroborated by several other recent employment reports, including JOLTS and productivity, which show a plethora of job openings and sagging output, respectively. Even the weekly initial jobless claims, which are hovering near the lowest level since 1968, jumped to the highest level this year in the most recent week.

Economic commentary – Our take and the bottom line

Our take (continued)

Additionally, February had a sizable drop in the number of part-time workers, -227,000, the largest in 14 months. That jives with the staffing index for temporary workers, which has declined for four consecutive weeks (slide 10).

Ultimately, we believe this report supports the idea that the Fed will stay the course, hiking rates by a quarter point at its March 22 meeting. That said, a half-point move will ultimately hinge on the February inflation data, set to be released next week. Accordingly, there is elevated risk that the Fed may need to take the Fed funds target above 5.5% during this cycle.

Nonetheless, market expectations for the Fed funds target have reset higher since last month, now anticipating rates will peak near 5.25% in mid-2023 and fall to about 5% by year-end (up from 4.5% a month ago). While there is a healthy debate as to how high the Fed hikes rates during this cycle, multiple rate cuts in 2023 are becoming less likely in our view.

Bottom line

We still see a recession in the coming 12 months, most likely in the back half of 2023. That said, we reiterate that 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, like the February jobs report.

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]	▲	Feb: 3.6%	Mar: N/A	Rose 0.2% from the cycle low, which was the lowest since May '69.
	Monthly jobs (nonfarm)	▲	Feb: 311K	Mar: N/A	Another upside surprise, but wages have clearly cooled, which is a positive for the inflation debate.
	Weekly jobless claims[+]	▲	3/4: 211K	3/11: 210K	Jumped to the highest level in '23 but remains near the all-time low.
	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: 5.00% – 5.25%	Since the Feb. 0.25% hike, the Fed has gotten more hawkish with firmer econ data. Market is expecting at least a 0.25% hike in March.
	10-year U.S. Treasury yield	▼	3.71%‡	Flat/down	Has rapidly retreated after crossing 4% as mixed economic data might temper all the hawkish Fed talk. We expect more volatility.
	10-year AAA GO muni yield	▼	2.58‡	Flat/down	Down sharply WoW as muni yields followed Treasury yields lower.
	30-year fixed mortgage rate	▼	7.05%‡	Flat/down	Still holding above 7%, hovering near the highest level since late 2000. 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 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 '22.

▲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: 4.00M	Feb: 4.02M	Fell 0.7% month-over-month (MoM), dropped for record 12th month in a row.
	New home sales	▼	Jan: 670K	Feb: 650K	Rose 7.2% MoM, but nearly all of the strength was in the South.
	New housing starts	▼	Jan: 1.309M	Feb: 1.312M	Fell 4.5% MoM, declined for the 8th time in 12 months.
	New permits+	▼	Jan: 1.339M	Feb: 1.345M	Rose 0.1% MoM, but single family fell for 11th month in a row.
Business	Durable goods orders+	▲	Jan F: -4.5%	Feb P: 1.9%	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	Rebounded in January after stumbling in November and December.
	Advance retail sales	⇆	Jan: 3.0%	Feb: 0.2%	Massive upside surprise with largest monthly rise since March ’21.
	Consumer sentiment	▲	Feb F: 67.0	Mar P: 67.0	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

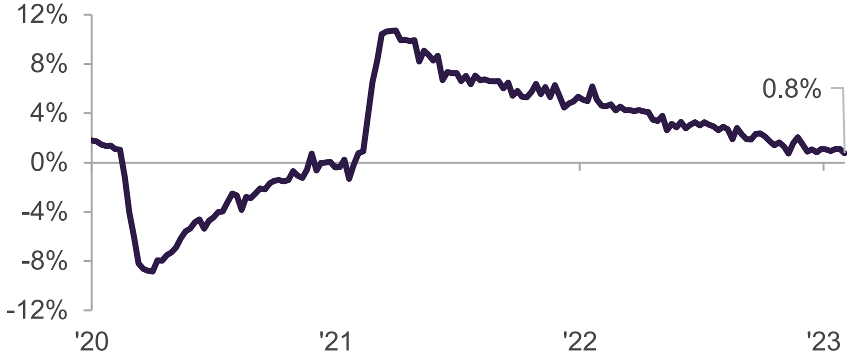
Indicator	Relative trend	What we're watching
Back to office	⇆	Rose to 50.1, above 50 for just the second time the pandemic (pre-pandemic indexed to 100). Top cities were Austin (68), Houston (62), and Dallas (54); bottom were San Jose (41) and Philadelphia (42). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts rose 0.9% WoW to 15.5 million, which is -4.0% below the 2019 average of 16.1M. Passenger counts are now -3.9% from the same week in March '19 but are up 12.9% from March '22.
OpenTable restaurant bookings	▲	Jumped to 11.7% compared to pre-pandemic levels from +1.9% during the prior week. Top positive states were led by Washington (+77%) and Rhode Island (+73%); bottom were South Carolina (-7%) and Louisiana (-6%). Top cities were Seattle (+122%) and Indy (+66%); bottom were Minneapolis (-42%) and Portland (-29%).
Hotel occupancy	▲	Slipped to 62.8%, the WoW decline in a month. The average daily rate fell WoW to $151.35, up 14.1% from the same week in March '19, and revenue per available room fell WoW to $95.06, up 7.7% from March '19.
Freight (rail/truck/ship)	▼	Rail carloads rose 3.3% last week, snapping a 2-week decline streak, but fell 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	▼	Dropped to 98.8, stretching the WoW decline streak to four. 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

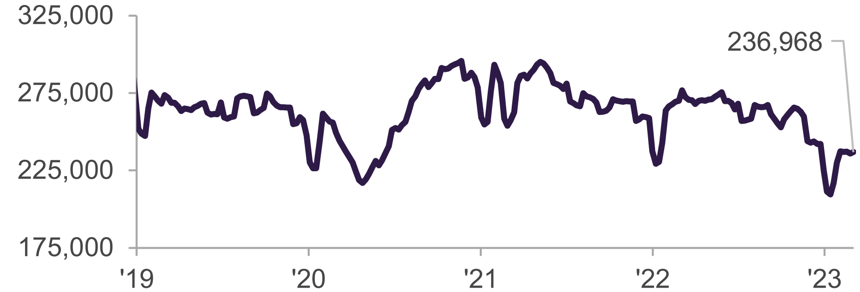
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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

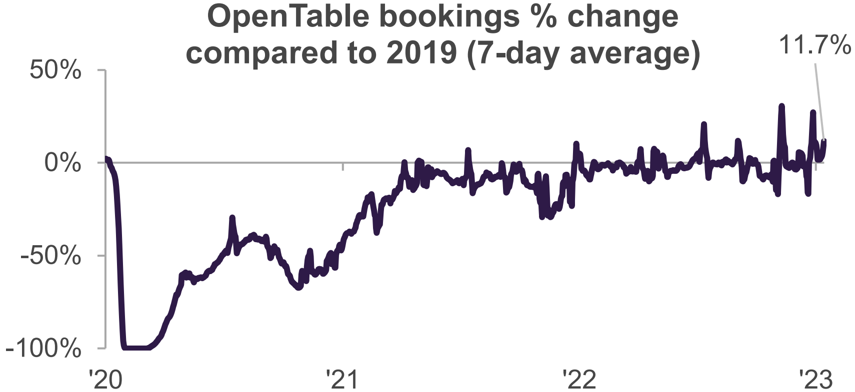
NY Fed weekly economic index



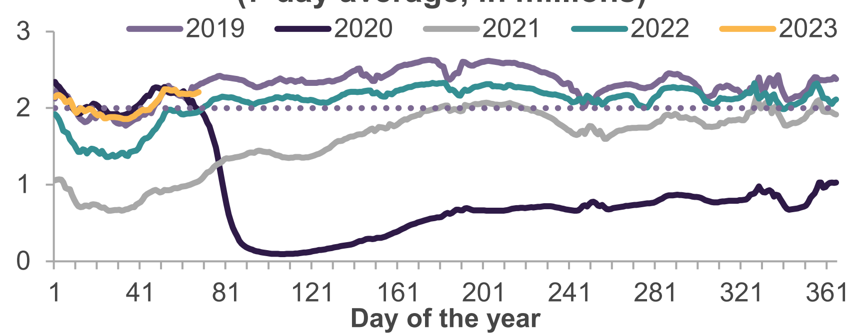
U.S. intermodal freight carloads (4-week average)



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



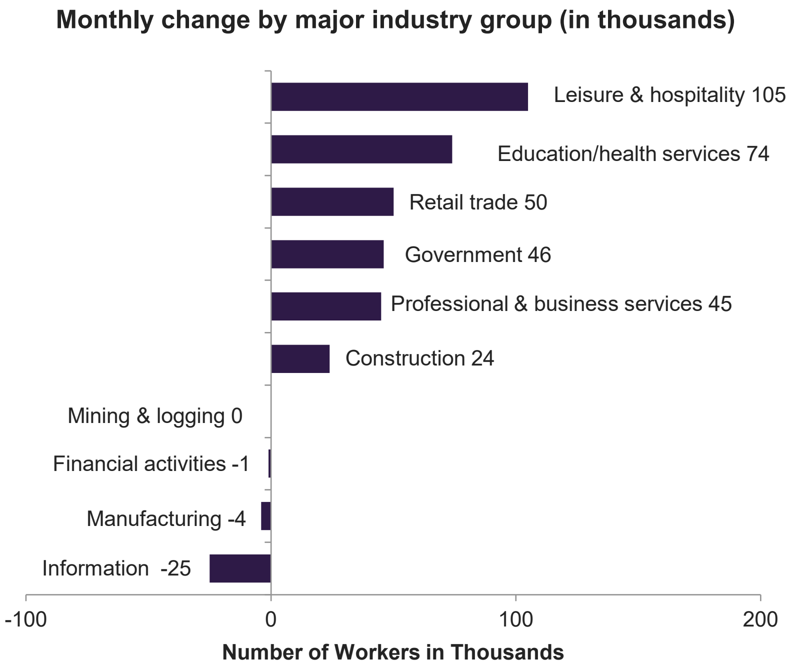
TSA checkpoint traveler throughput (7-day average, in millions)

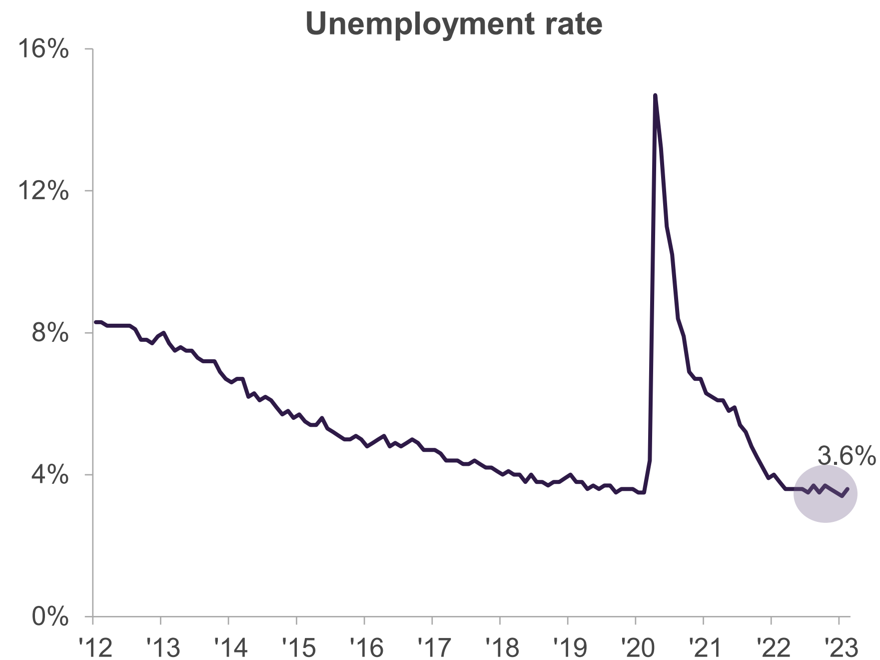


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through March 4, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average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

February job growth solid, but labor market cooling evident

The U.S. payrolls increased in February by 311,000. Still, three major industry groups lost jobs during the month, and another was unchanged. The unemployment rate rose to 3.6%, up from the 3.4%, which was the low of this cycle. There was also an increase in the labor force participation rate to 62.5%, the highest since March 2020.





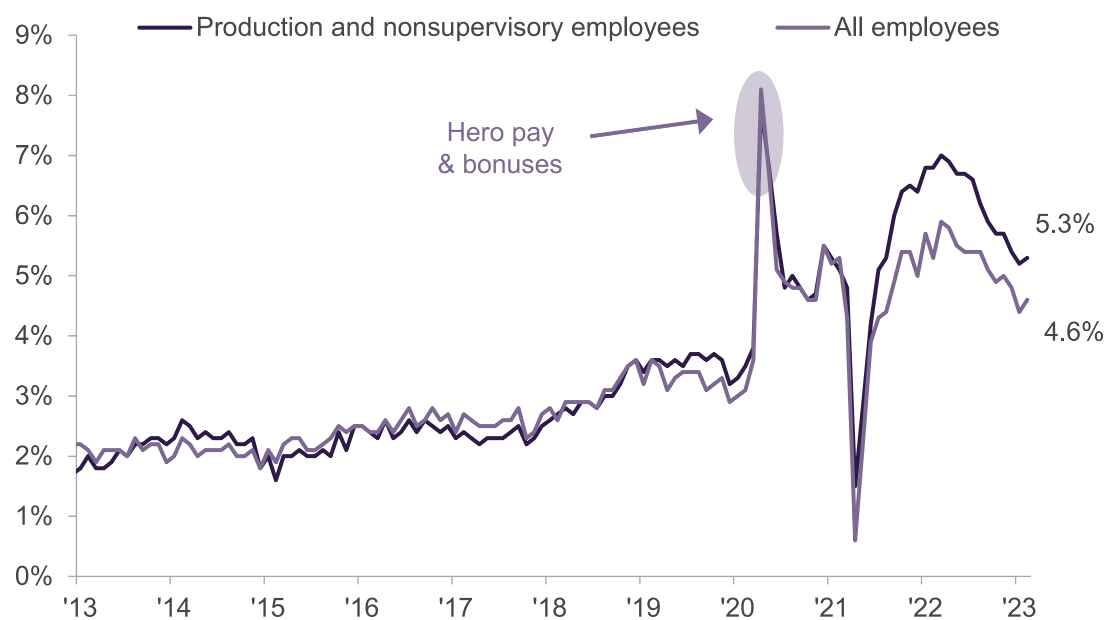
Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics. Monthly data through February 2023.

Wages cooling, but remain well-above pre-pandemic levels

Average hourly earnings rose 4.6% from a year ago, up from 4.4% in January, but rose just 0.2% month over month, the coolest pace in a year. Still, the annual pace remains well-above the pre-pandemic rate of 3.0%.

For rank & file workers (officially known as production & nonsupervisory employees), the pace of average hourly earnings rose on a month-over-month (up 0.5%) and year-over-year basis (up 5.3%). The annual pace remains significantly above its pre-pandemic rate of 3.2%. This is important since production & nonsupervisory employees are the bulk of all employees and where most of the dramatic recent wage gains have been concentrated.

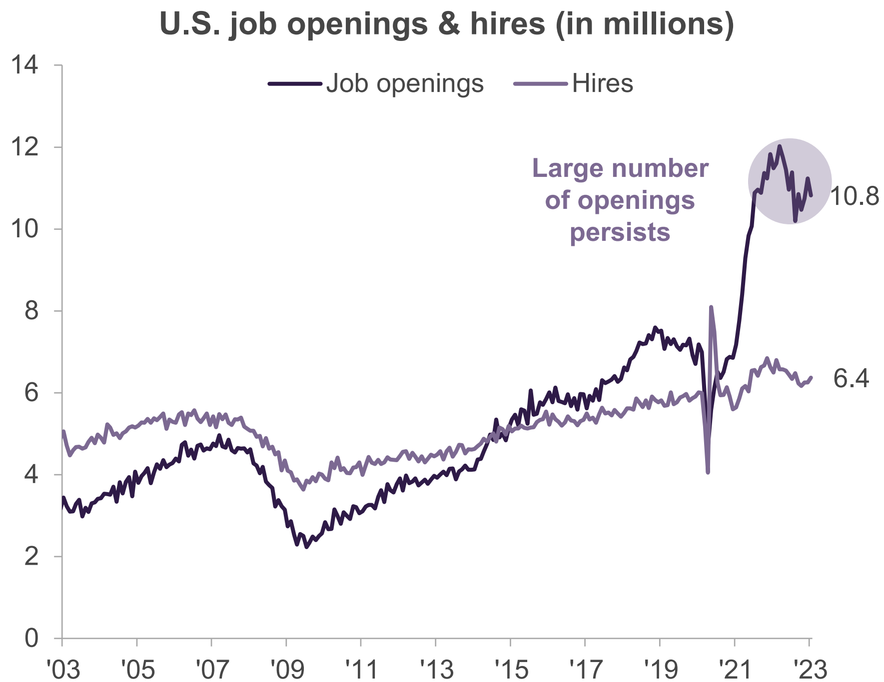
Average hourly earnings (change year-over-year)

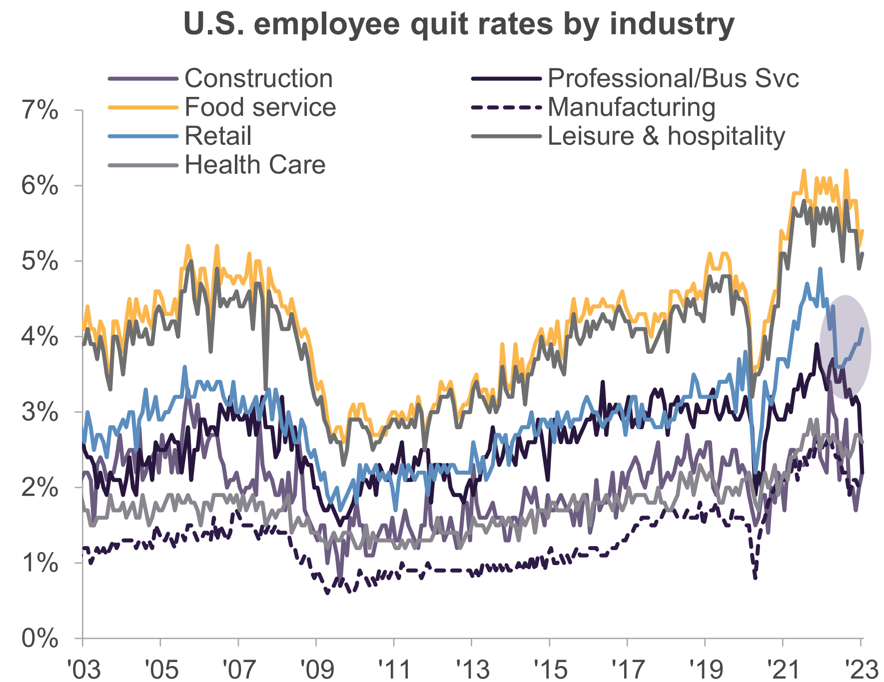


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics. Monthly data through February 2023.

Jobs: Openings remain near 11 million, retail quit rate climbing again

In January, there were 410,000 fewer job openings, or -3.6%, but it remains at 10.8 million, near the all-time high. The number of hires rose by 1.9%. While the employee quit rate for most industries has slipped in since early 2022, the pace of retail employees quitting is climbing and hasn't fallen in nine months.

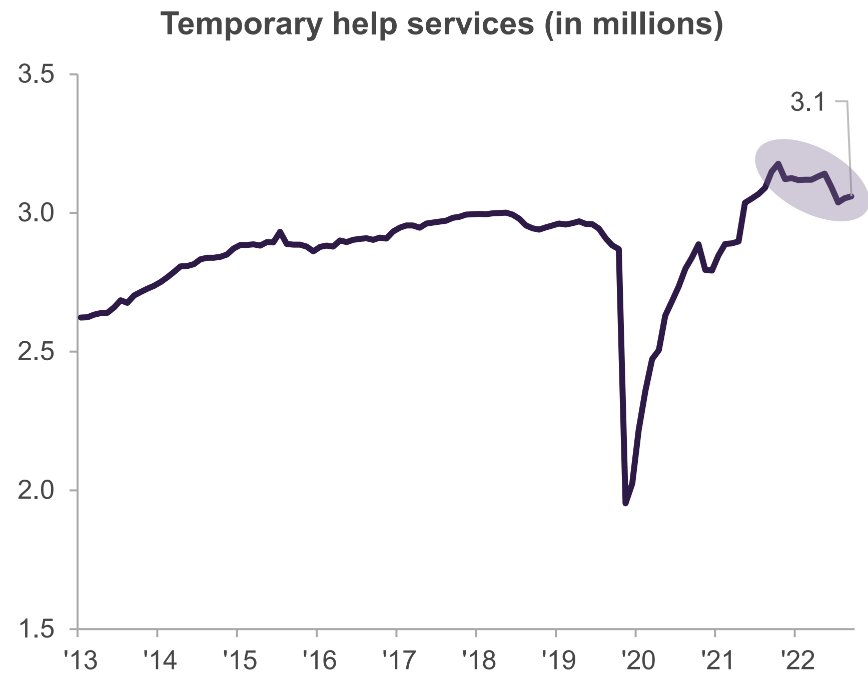




Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through January 2023. The employee quit rate measures voluntary separations.

Temp staffing levels softening

Temp jobs are traditionally very seasonal. The staffing index has declined for four consecutive weeks, slipping to 98.8 in the latest week. To be fair, that is above the 96.9 average during 2021. In a separate report, the number of temp workers have slipped to 3.1 million, from 3.2 million a year ago, which was the all-time high.



Sources: left chart: Truist IAG, Bloomberg, American Staffing Association; weekly data through February 27, 2023. The index tracks weekly changes in temporary and contract employment, with a reference value set at 100 for the week of June 12, 2006. Figures are not seasonally adjusted. Right chart: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through February 2023.

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