Truist Advisory Services, Inc.

Economic data tracker – March Madness and spring break

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Week 11 – March 17, 2023

Trend watch and what's new this week

Wicked winter weather has given way to spring break, which is rippling through much of the activity-based data (slides 5 and 6). For instance, hotel occupancy has jumped to 64.7%, the highest level in six months. Weekly air passenger counts have climbed for five of the past six weeks and are now above 16.5 million for the first time since the Christmas/New Years week of 2019. Dining reservations have been especially strong in recent weeks, as the 7-day average soared to 51.1%, which is a fresh post-pandemic high.

Additionally, this week kicks off the NCAA Men's and Women's Basketball Championship Tournaments, aka March Madness. Aside from the sport, both tourneys trigger travel and entertainment spending in 14 different host cities for the men along with three for the women. This year's Final Four portions will be held in two weeks in Houston and Dallas, respectively. In case you're feeling the "luck of the Irish," just 787 perfect brackets are left from over 20 million entries to popular websites.

Consumer inflation cooling but core prices up in February

On slide 7, we show the Consumer Price Index (CPI), which rose 0.4% in February as energy prices ebbed. The year-over-year pace for CPI slipped to 6.0% from 9.1% in June '22.

On slide 8, core CPI, which excludes food & energy, rose 0.5% month-over-month and increased 5.5% from a year ago. Among the biggest decliners were used vehicles, which fell 2.8%, down for the 11th time in 13 months. However, prices for services increased by 0.6%, propelled by shelter (rents), which rose 0.7% during the month.

On slide 9, we provide 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 still above pre-pandemic levels. Of course, a recession would accelerate the cooling of prices.

Wholesale prices see second drop in three months

On slide 10, the monthly pace of wholesale prices, as measured by the Producer Price Index (PPI), fell 0.1% in February, as food and energy dropped during the month. It was the second drop in wholesale prices in three months. The year-over-year pace slipped to 4.6% from the peak of 11.7% in March '22. Core CPI, which excludes food & energy, was flat, while the annual change continued to slide, up 4.4% from a year ago.

Private rental data shows prices plateaued

On slide 11, we show rents from private rental sources for new leases. Rents spiked during 2021, which continued into 2022, growing 1.0% per month on average through August. However, rents have cooled considerably since then and appear to have plateaued. Rental prices in February rose 0.3% month-over-month to snap a four-month decline, but remain below the average since 2015 of 0.4%.

TRUIST Wealth

Economic commentary – Our take and the bottom line

February retail sales dinged by autos and gasoline

Retail & food service sales in February fell 0.4% following an upwardly revised jump of 3.2% during January (slide 12). It was largely due to a sharp drop in auto and gasoline sales. Excluding both autos and gasoline, retail sales were flat compared to January. Still, it was the fourth decline in the past six months.

New housing activity showing signs of life

On slide 13, we illustrate some of the new housing components, including new starts and permits. The latter is considered a leading economic indicator. Single-family starts and permits both rose in the same month for the first time since February 2022. Moreover, two home builder surveys – prospective buyer traffic and builder confidence – both rose for the third straight month. Though both remain severely depressed compared to normal conditions, they demonstrate a stabilization in activity. Separately, construction hiring increased in 85% of metro areas, or 306 of 358, from a year ago.

Our take

As evident in the prior section, there are continued cross currents in the data. To be fair, though, the majority are now decidedly negative compared with just a few months ago, when the data was mostly positive sprinkled with some gloominess.

Yet, this week's new challenge was a pair of bank failures, the first since October 2020. Contagion concerns and market skittishness sparked a powerful flight into U.S. Treasuries, driving yields sharply lower.

Credit conditions had been tightening for months, along with financial conditions. This latest episode will likely accelerate both and pull forward the onset of a recession. That said, timing a recession can be a fool's errand. Economic growth has ratcheted lower, which will likely persist. More importantly, many businesses have long been behaving as if a recession began in 2022, replete with broad belt tightening measures.

Accordingly, the Federal Reserve (Fed) now faces a difficult decision at its meeting next week. It must decide whether to prioritize financial stability or its fight against inflation, which is cooling but not fast enough. Frankly, it's probably a coin toss between a quarter-point hike (0.25%) or a pause to reassess conditions with plenty of valid reasons supporting either course of action.

Whether or not the Fed raises rates by 0.25% or not, we believe the Fed's overall rate hike cycle is effectively over. For the second time in as many weeks, market expectations for the Fed funds target have been dramatically reset; this time, lower. Markets now anticipate rates will peak below 4.9% in next couple months and fall below 4% by year-end (down sharply from 5.3% less than two weeks ago). However, inflation will need to continue carving a clear path lower before the Fed will begin cutting rates in our opinion.

Bottom line

We foresee a recession in the coming 12 months, most likely in the back half of 2023, though the timing is dicey. 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[+]	▲	3/11: 192K	3/18: 200K	Dropped 9.4% WoW and 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: 4.75% – 5.00%	Expectations for a March rate hike dropped sharply after SVB and Signature, though a 0.25% raise remains likely due to inflation trends.
	10-year U.S. Treasury yield	▼	3.40%[‡]	Flat/down	Rates collapsed in the aftermath of the FDIC rescue of SVB and Signature depositors. We expect more volatility.
	10-year AAA GO muni yield	▼	2.39[‡]	Flat/down	Down sharply WoW as muni yields followed Treasury yields lower.
	30-year fixed mortgage rate	▼	7.00%[‡]	Flat/down	It has barely budged, staying near 7%, which is roughly the highest level since late 2000. Higher rates hurt affordability.
Inflation	Consumer prices (CPI)[x]	▼	Feb: 0.4%	Mar: N/A	Inline with expectations though cooler than 0.5% in Jan. The year-over-year pace slipped to 6.0% from 9.1% in June.
	Core CPI	▼	Feb: 0.5%	Mar: N/A	YoY rose 5.5%. Shelter, which lags, continues to grind higher.
	Producer prices (PPI)	▼	Feb: -0.1%	Mar: N/A	YoY cooled to 4.6%, the coolest reading in two years, from 5.7%.
	Core PPI	▼	Feb: 0.0%	Mar: N/A	Has clearly peaked as YoY rose 4.4%, 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: 4.20M	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	▼	Feb: 1.450M	Mar: N/A	Jump 9.8% MoM, snapped 5-mo down streak, multi family up 24.1%.
	New permits+	▼	Feb: 1.524M	Mar: N/A	Soared 13.8% MoM, multi family up 24% and single family rose, too.
Business	Durable goods orders+	▲	Jan F: -4.5%	Feb P: 1.4%	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	▲	Jan: -0.1%	Feb: N/A	Held steady for a second straight month.
Consumer	Personal income	▲	Jan: 0.6%	Feb: 0.1%	Remains solid, buoyed by continued wage growth.
	Personal spending	▲	Jan: 1.8%	Feb: 0.3%	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	▲	Mar P: 63.4	Mar F: 63.4	Slumped, halting 3-mo up streak. But short-term inflation expectations cooled to 3.8%, which was a 23-mo low, from 4.1%.

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

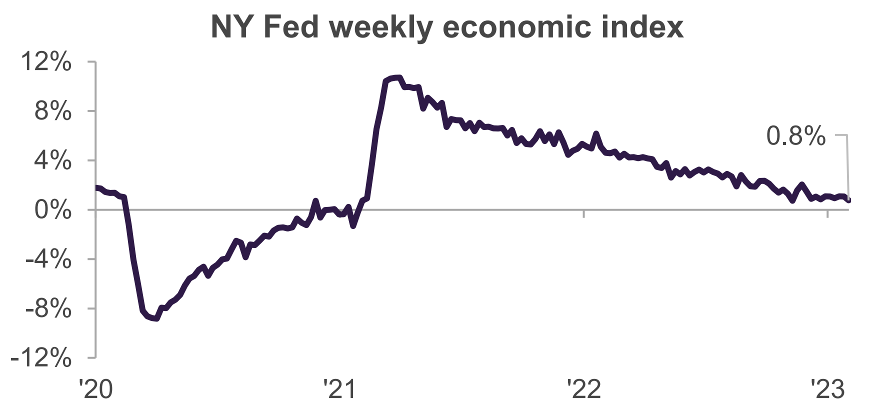
U.S. activity-based data matrix

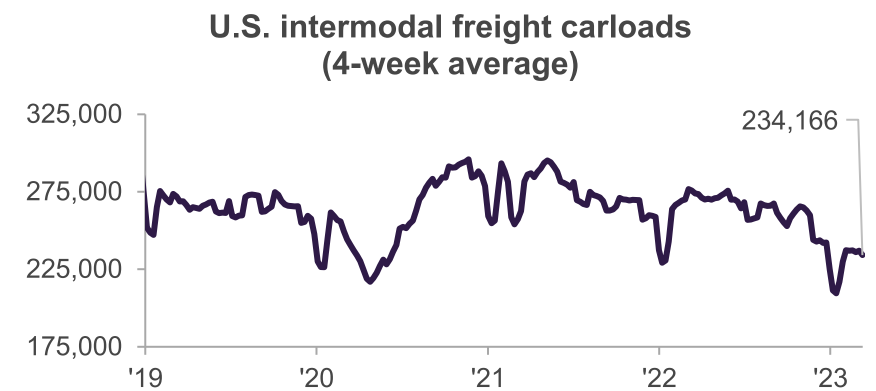
Indicator	Relative trend	What we're watching
Back to office	⇆	Held steady at 50.1 (pre-pandemic indexed to 100). Top cities were Austin (66), Houston (62), and Dallas (52); bottom were San Jose (40) and Philadelphia (42). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts jumped 6.8% WoW to 16.5 million, which is now 2.5% above the 2019 average of 16.1M. Passenger counts are now -1.4% from the same week in March '19 and are up 11.4% from March '22.
OpenTable restaurant bookings	▲	Soar to 51.1% compared to pre-pandemic levels as all states were positive. Top positive states were led by Rhode Island (+352%) and Connecticut (+327%); bottom were Hawaii (+28%) and South Carolina (+34%). Top cities were Boston (+328%) and LA (+257%); bottom were Honolulu (+24%) and Minneapolis (+31%).
Hotel occupancy	▲	Jumped to 64.7% from 62.8% in the prior week. The average daily rate rose WoW to $158.20, up 14.1% from the same week in March '19, and revenue per available room rose WoW to $102.38, up 7.8% from March '19.
Freight (rail/truck/ship)	▼	Rail carloads fell 3.3% the most recent week and fell 2.0% MoM in February. Container traffic at 3 top U.S. ports (LA, LB, SAV) fell 3.3% MoM in February, though it is typically one of the weakest months of the year. The Cass Freight Index rebounding 3.8% MoM in February, snapping 5-month slide.
Staffing index	▼	Dipped to 98.5, stretching the WoW 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 rose 0.3% in February, snapping a four-month slide. The rental growth rate clearly peaked during the second half of 2021.

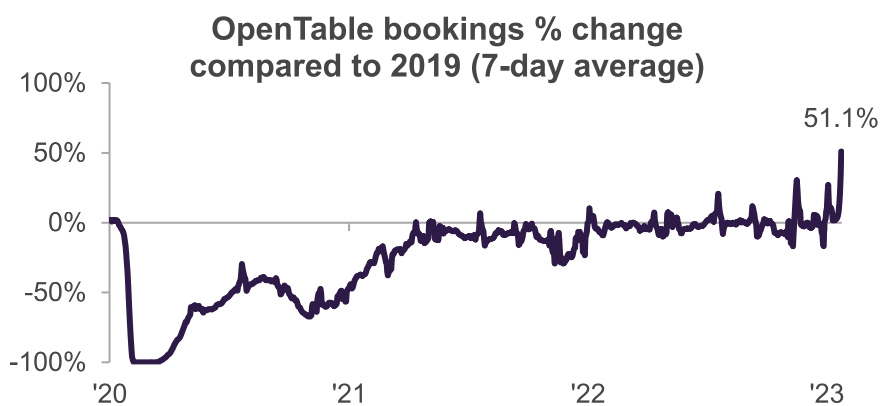
Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

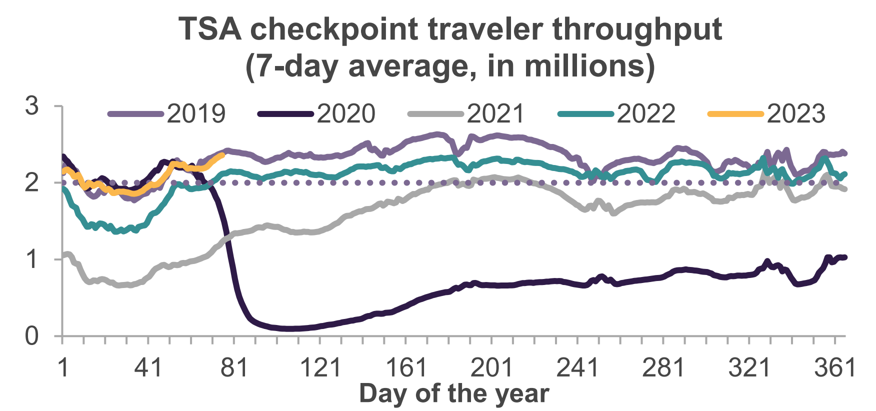
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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





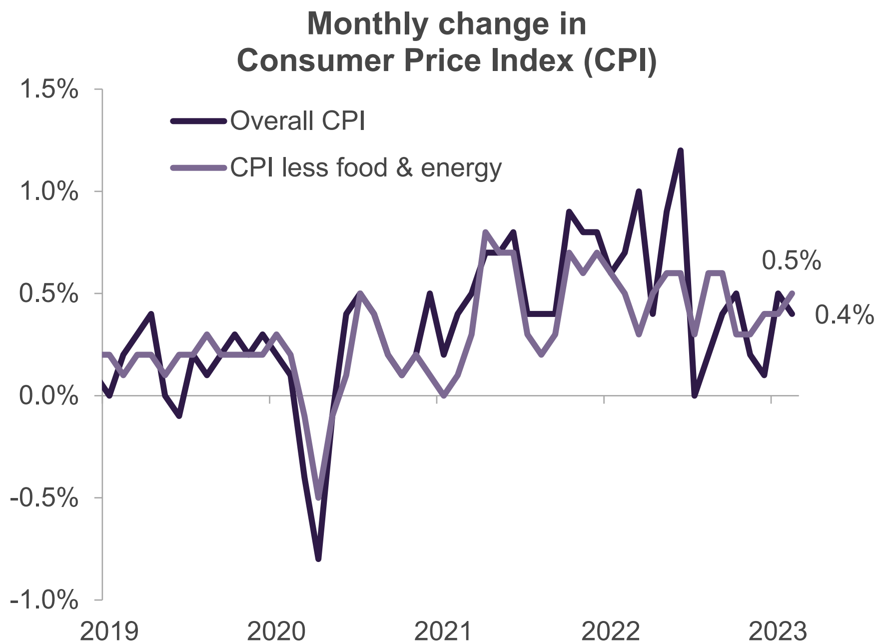


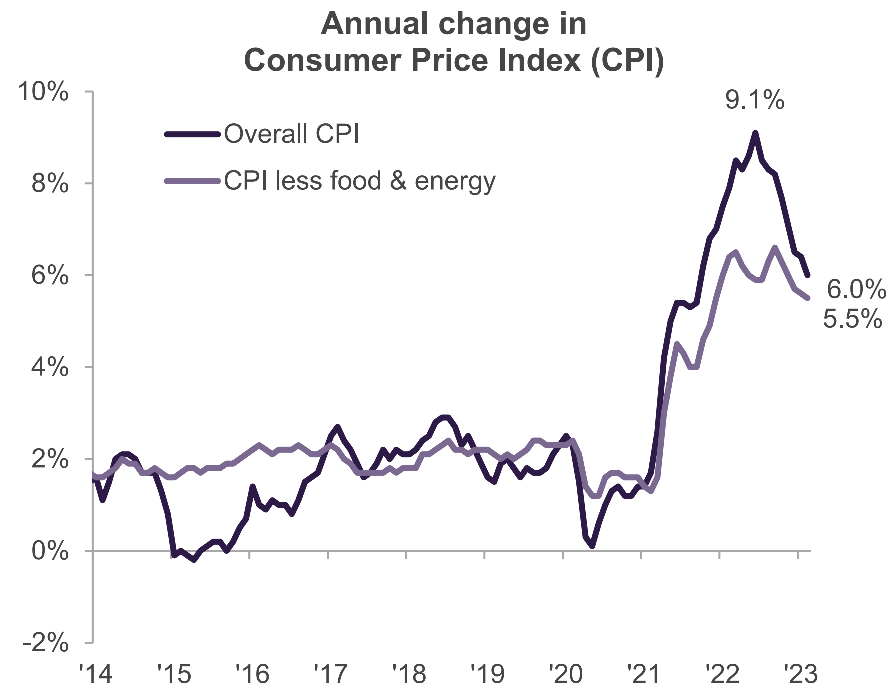


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through March 4, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through March 10. Bottom left: Bloomberg, OpenTable 7-day average through March 12. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through March 16.

Consumer prices still cooling but pace of core prices rose again in February

The Consumer Price Index (CPI) rose 0.5% in February, while the year-over-year pace slipped to 6.0% from 9.1% in June and was the eighth consecutive decline. Core CPI, which excludes food & energy, rose 0.5% month over month, though the year-over-year pace slipped to 5.5% from a year ago.



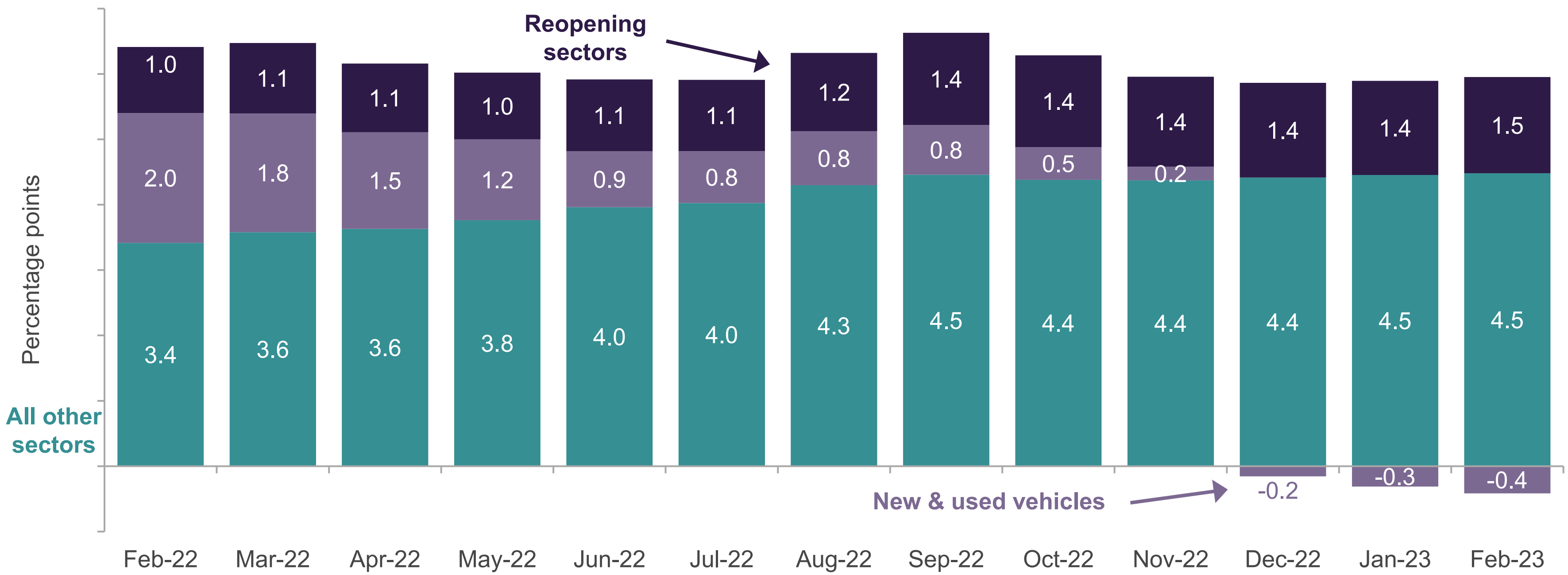


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through February 2023.

Core inflation remains elevated, but vehicle prices continue to drag

The core Consumer Price Index, which excludes food & energy, rose 0.5% month over month in February and increased 5.5% from a year ago, down from 6.6% in September. Among the biggest decliners were used vehicles, which fell 2.8%, down for the 11th time in 13 months. However, prices for services increased 0.6%, propelled by shelter (rents), which rose 0.7% during the month.

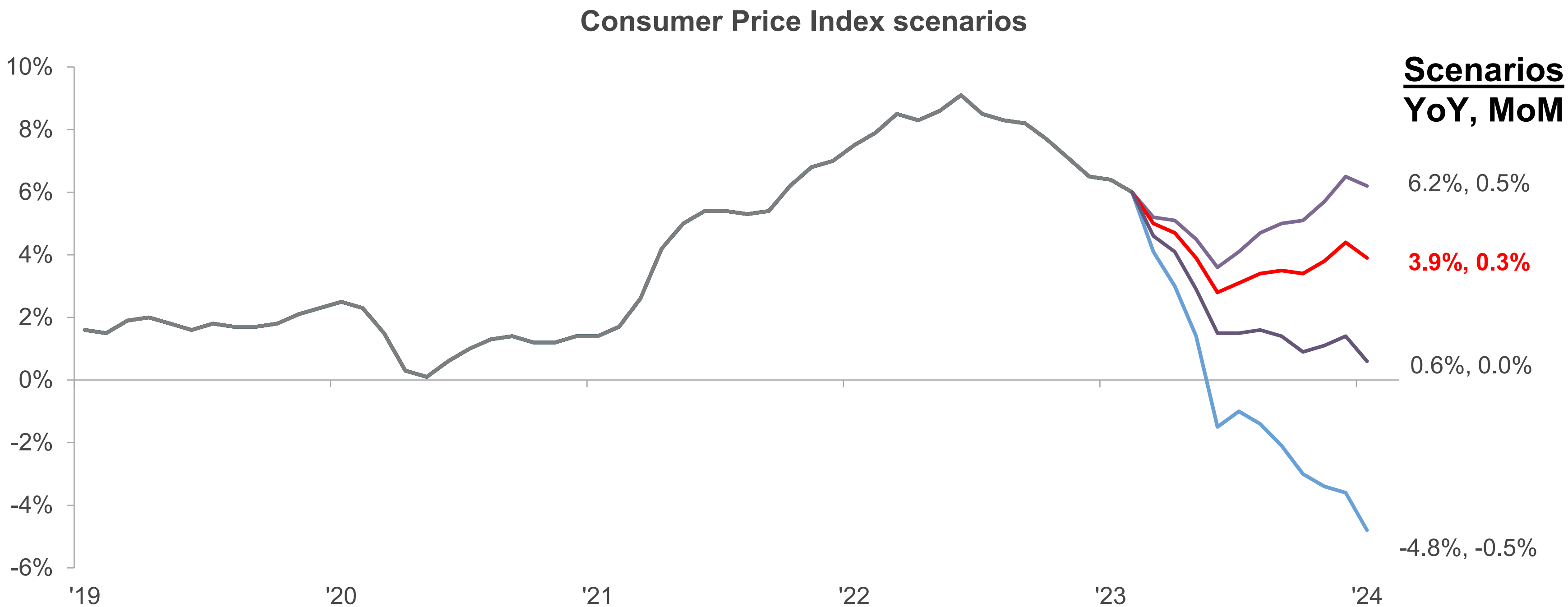
Contributors to core Consumer Price Index (year-over-year change)



Data source: Truist IAG, Haver, Bureau of Labor Statistics; monthly data through February 2023. Core consumer price index excludes food and energy. Vehicles includes new vehicles, used cars and light 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%

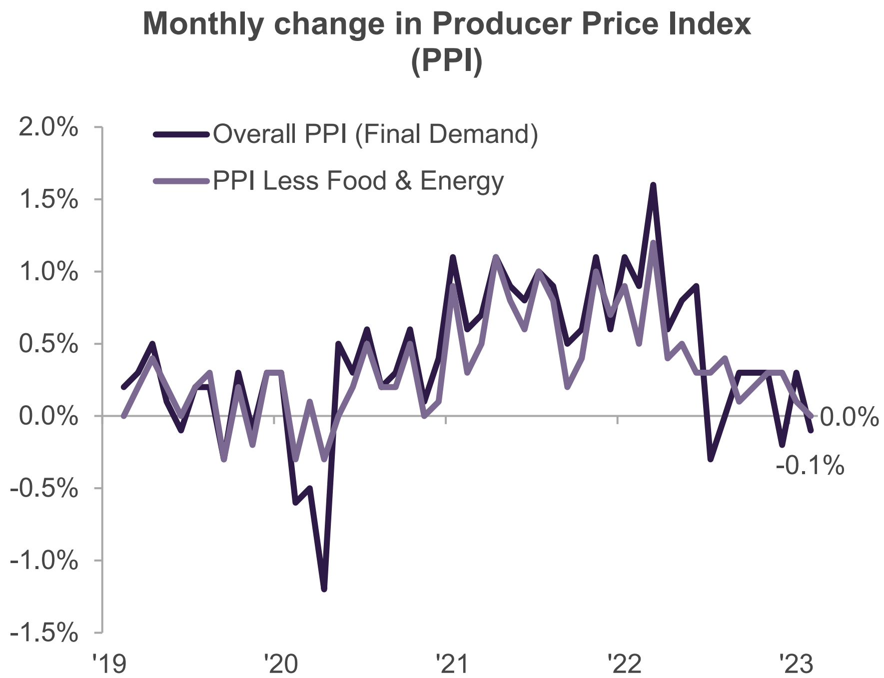
The year-over-year (YoY) Consumer Price Index (CPI) slipped to 6.0% in February, down considerably from 9.1% in June '22. The month-over-month (MoM) pace rose 0.4%, modestly cooler than in January. Below are several scenarios of how it might unfold over the coming year. For instance, if the pace of CPI was unchanged (0%) MoM in the coming months, it would equate to a 0.6% YoY rate in January '24. Or, if the MoM pace grew at 0.5% per month, it would be at 6.2% YoY. We expect 0.275% per month during 2023, which would be 3.9% YoY.

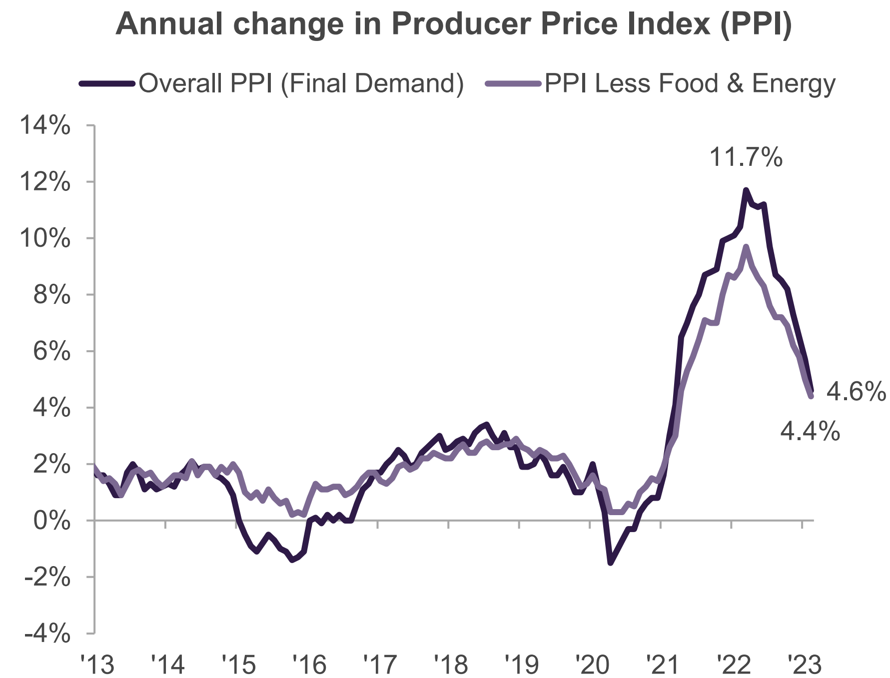


Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics; actual monthly data through February 2023; calculated scenarios and Truist IAG forecast (0.275%) through January 2024.

Wholesale prices continued to cool, second drop in three months

The monthly pace of wholesale prices, as measured by the Producer Price Index (PPI), fell 0.1% in February, as food and energy dropped during the month. It was second drop in wholesale prices in three months. The year-over-year pace slipped to 4.6% from the peak of 11.7% in March '22. Core CPI, which excludes food & energy, were flat (0.0%), while the annual change continued to slide, up 4.4% from a year ago.

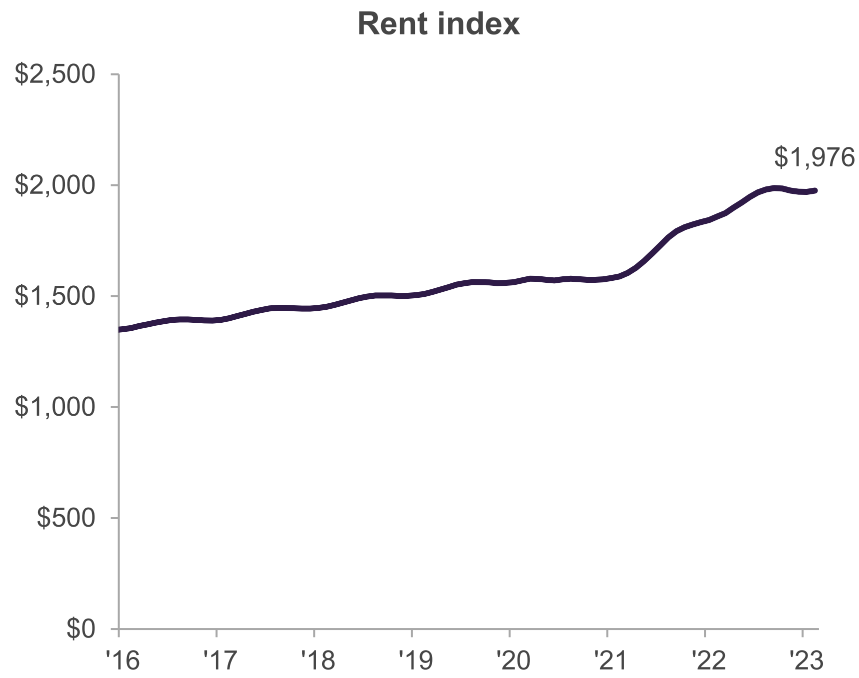


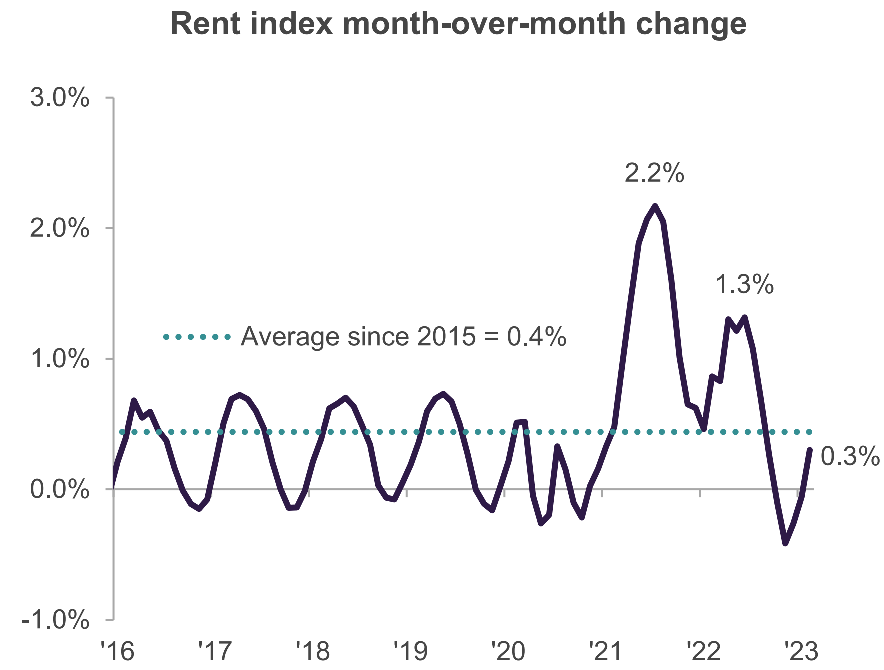


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through January 2023.

Rental prices rose in February, though appear to have plateaued

Rents spiked during 2021, including a jump of 2.2% during July ’21. That continued in 2022, growing 1.0% per month on average through August, but has cooled considerably since then and appear to have plateaued. Rental prices in February rose 0.3% month over month, snapping a four-month decline.



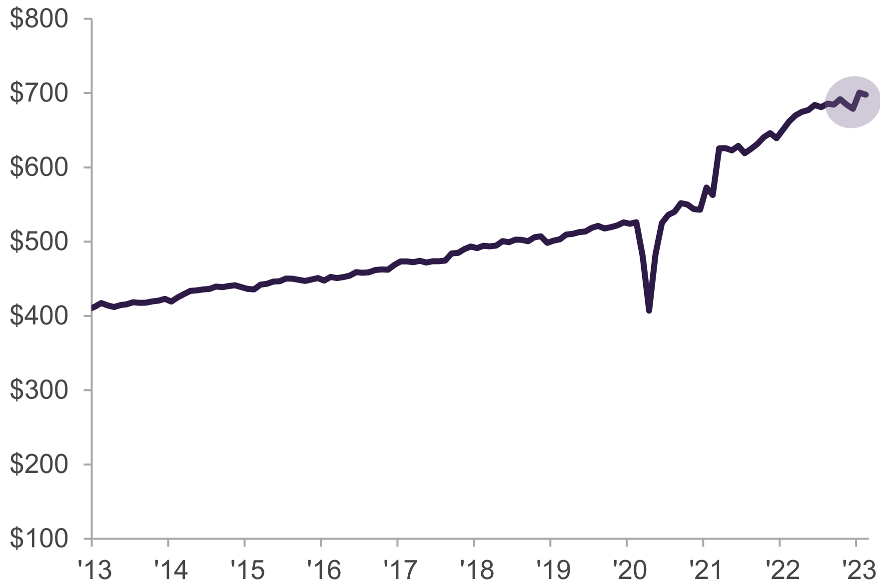


Source: Truist IAG, Bloomberg, Zillow; monthly data through February 2023.

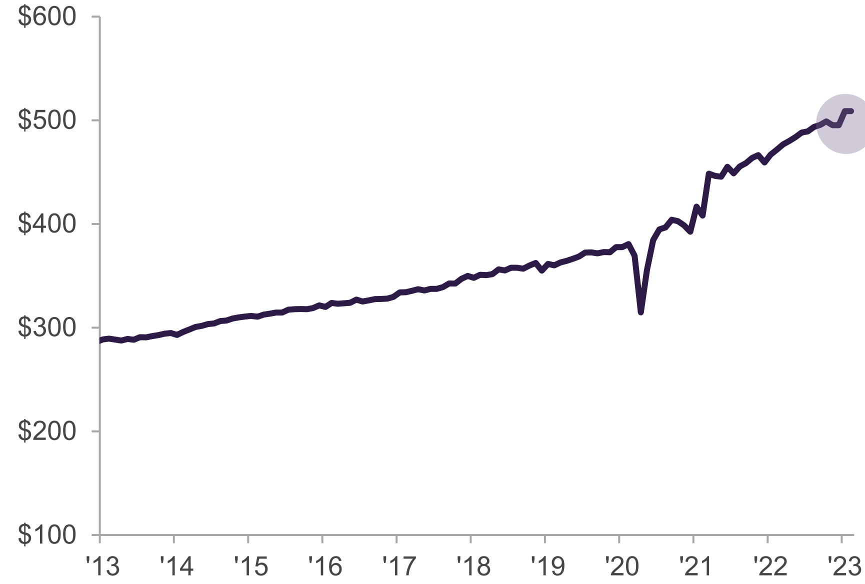
Retail sales dip in February, remain solid ex-autos & gasoline

Retail & food service sales in February fell 0.4% to $697.9 billion, which is just below the all-time high set in January. Auto sales were a big driver, down 1.8%, along with gasoline sales, which dropped 0.6% during the month. Excluding both autos and gasoline, retail sales were flat compared to January.

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

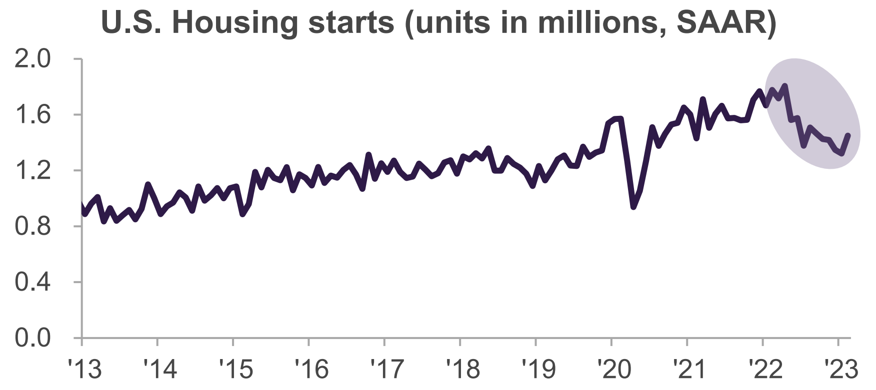


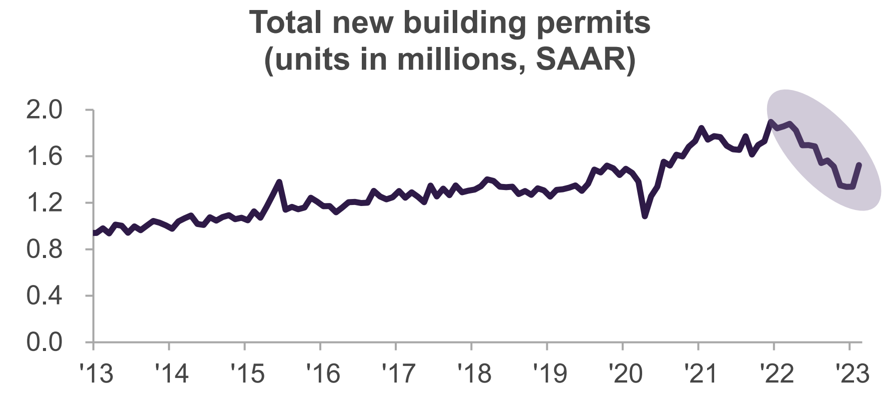
U.S. retail sales ex-autos & gasoline (in billions)

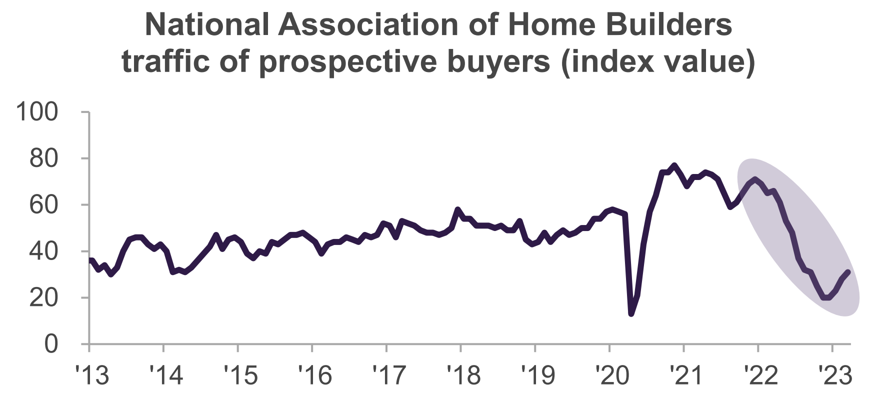


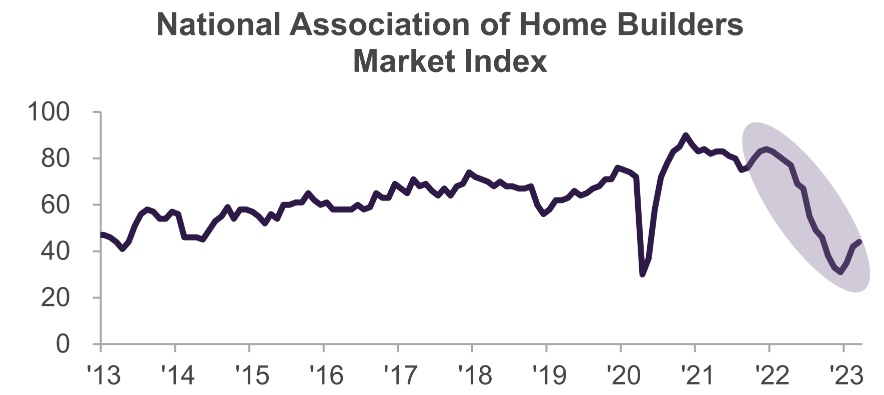
Source: Truist IAG, Bloomberg, U.S. Census Bureau; monthly data through February 2023.

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









Sources: Truist IAG, Bloomberg. Seasonally adjusted annualized rate (SAAR).

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