Truist Advisory Services, Inc.

Economic data tracker – Fed hikes amid mixed data

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Trend watch and what's new this week

Spring break activity continues to boost much of the activity-based data (slides 5 and 6). Hotel occupancy has jumped to 67.6%, the highest level since November. Weekly air passenger counts stayed above 16.5 million, the highest since the Christmas/New Years week of 2019, for the second straight week. Dining reservations have been especially strong in recent weeks, as the 7-day average soared to 129%, which is literally off the charts. We expect these strong trends will normalize in the next three weeks.

The Fed hiked by another quarter point

At its March rate-setting meeting, the Federal Reserve (Fed) increased its target range for the federal funds rate by a quarter point (0.25%) to a range of 4.75% to 5.00% (slide 7). With this week's move, the Fed has pushed the target rate up 4.75% in the past year from essentially zero.

Uptick in housing data likely flash in the pan

The overwhelming amount of housing metrics have been weak for much of 2022. Yet, a couple of the recent indicators released this week were mixed. New homes sales (slide 8) rose for the third month in a row in February, while prices rose for the second time in three months.

On slide 9, existing home sales increased for the first time in a year. Prices also rose, snapping a seven-month slide. Although other data sources indicate that prices have softened in certain cities, overall prices have been supported by limited inventories of new and existing homes for sale.

We attribute the recent improvement in housing trends to the slide in mortgage rates nationally during the November to January period. Unfortunately, rates have surged in the past six weeks. Of course, higher rates and prices hurt housing affordability (slide 10).

U.S. surveys improve in March

On slide 11, the preliminary March readings for S&P Global's U.S. Purchasing Managers Index (PMI) indices for manufacturing and services both rebounded to multi-month highs, though manufacturing is still modestly contracting.

New orders for durable goods mixed, too

On slide 12, new orders for durable goods—big-ticket items such as equipment, machinery, electronics, and office furniture—fell 1.0% in February, although on a dollar basis it's 24.6% above the December 2019 level. The weakness was largely confined to transportation, which fell 2.8%. But new orders for core capital goods, which excludes the volatile aircraft and defense components, rose 0.2%, just below the all-time high set in August 2022.

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Economic commentary – Our take and the bottom line

Our take

In the spirit of data dependence, the Fed's actions followed inflation data. While the pace clearly peaked in 2022 and has cooled, inflation remains too hot for anyone's comfort.

During the press conference following the Fed's rate setting meeting, Fed Chair Powell threw cold water on the notion that the Fed will be cutting rates in 2023 as aggressively as markets had expected. Accordingly, stocks sold off. Meanwhile, yields fell, especially for shorter duration bonds.

Chair Powell also acknowledged that recent tightening of lending standards within the banking industry were like de facto rate hikes, essentially doing some of the work for them.

We maintain our view that Fed policy is being guided by scar tissue—from prematurely loosening policy in the past. More importantly, the Fed is hamstrung by inflation. Cutting rates to support the economy appears unlikely in the near term, especially with still-solid employment trends. While deeper rate cuts are plausible in the event of a sharper recession, we maintain our view that the coming economic slowdown will be relatively mild. Hence, we believe that the Fed rate tightening cycle is effectively over, though wouldn't rule out that the Fed could do one more hike rate if inflation persists.

Nonetheless, the events of the past few weeks have changed our economic outlook for the coming months. The economic impact of the recent sharp interest rate gyrations and large swings in deposits—in search of either higher rates or safety—is less credit and less liquidity. That translates into less economic activity, otherwise known as a recession, which is likely being pulled forward.

Bottom line

The recent addition of tightening of credit conditions broadly is unwelcomed. A recession was already our base case due to dramatically higher interest rates. We also maintain our view that, while it has clearly peaked, elevated inflation remains public enemy number one and will dictate the Fed's future actions.

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[+]	▲	3/18: 191K	3/25: 196K	Dropped 9.4% WoW and remain 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	⇆	4.75% – 5.00%	5/3: 4.75% – 5.00%	At the March meeting, the Fed followed through with another 0.25% rate increase, as promised, based on inflation trends.
	10-year U.S. Treasury yield	▼	3.37%[‡]	Flat/down	Rates continue to gyrate in the aftermath of the FDIC rescue of SVB and Signature depositors. We anticipate more volatility.
	10-year AAA GO muni yield	▼	2.31[‡]	Flat/down	Yields fell WoW but the move was more muted than for Treasuries.
	30-year fixed mortgage rate	▼	6.79%[‡]	Flat/down	Rates are heading lower after staying above 7%, which was 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	▼	Feb: 4.58M	Mar: N/A	Jumped 14.5% MoM, snapping an ugly 12-month decline streak.
Housing	New home sales	▼	Feb: 640K	Mar: N/A	Rose 1.1% MoM, up for third straight month, while prices rose.
Housing	New housing starts	▼	Feb: 1.450M	Mar: N/A	Jumped 9.8% MoM, snapped 5-mo down streak, multi family up 24.1%.
Housing	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.
Business	ISM Manufacturing Index	▼	Feb: 47.7	Mar: 47.3	Activity contracted for the fourth month in a row. Prices paid component increased but remains well below year ago levels.
Business	ISM Services Index	▲	Feb: 55.1	Mar: 54.3	Expanded in January and February after contracting in December. Prices paid component dropped for the 9th time in 10 months.
Business	Business inventoriesˣ	▲	Jan: -0.1%	Feb: N/A	Held steady for a second straight month.
Consumer	Personal income	▲	Jan: 0.6%	Feb: 0.2%	Remains solid, buoyed by continued wage growth.
Consumer	Personal spending	▲	Jan: 1.8%	Feb: 0.3%	Rebounded in January after stumbling in November and December.
Consumer	Advance retail sales	⇆	Feb: -0.4%	Mar: N/A	Sales dipped in February but remain solid ex-autos & gasoline.
Consumer	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

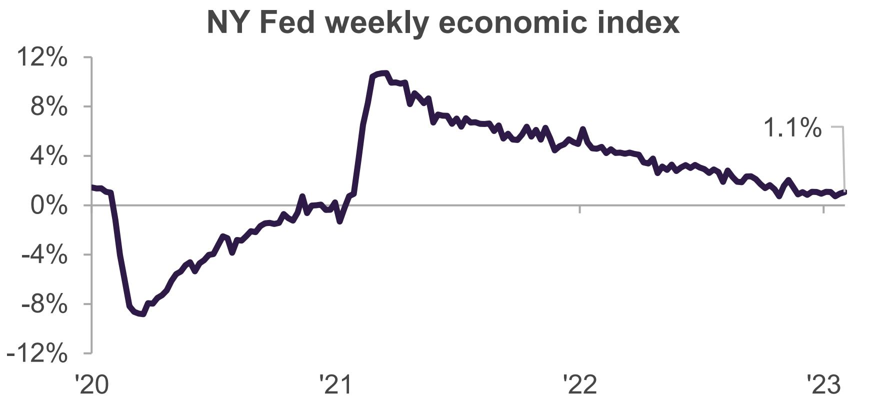
U.S. activity-based data matrix

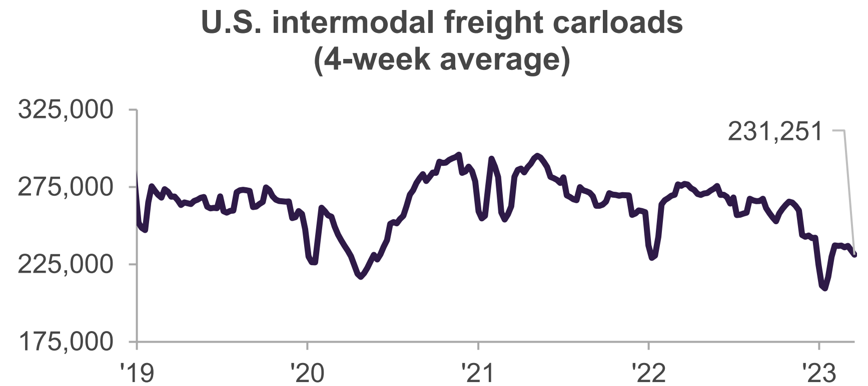
Indicator	Relative trend	What we're watching
Back to office	⇆	Slipped to 47.3 (pre-pandemic indexed to 100). Top cities were Houston (56), Austin (55), and Chicago (51); bottom were San Jose (38) and San Francisco (42). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts edged up 0.1% WoW to 16.5 million, which is now 2.3% above the 2019 average of 16.1M. Passenger counts are now -2.0% from the same week in March '19 and are up 9.7% from March '22.
OpenTable restaurant bookings	▲	Continued to soar, jumping to 129.5% compared to pre-pandemic levels. 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 67.6% from 64.7% in the prior week. The average daily rate rose WoW to $167.04, up 23.9% from the same week in March '19, and revenue per available room rose WoW to $112.89, up 20.8% from March '19.
Freight (rail/truck/ship)	▼	Rail carloads fell 1.1% the most recent week and fell 2.0% MoM in February. Container traffic at the top 5 U.S. ports (LA, LB, NY/NJ, SAV, SeaTac) dropped 13.1% MoM in February, though it is typically one of the weakest months of the year. The Cass Freight Index rebounded 3.8% MoM in February, snapping 5-month slide.
Staffing index	▼	Dipped to 98.4, stretching the WoW decline streak to six. 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.

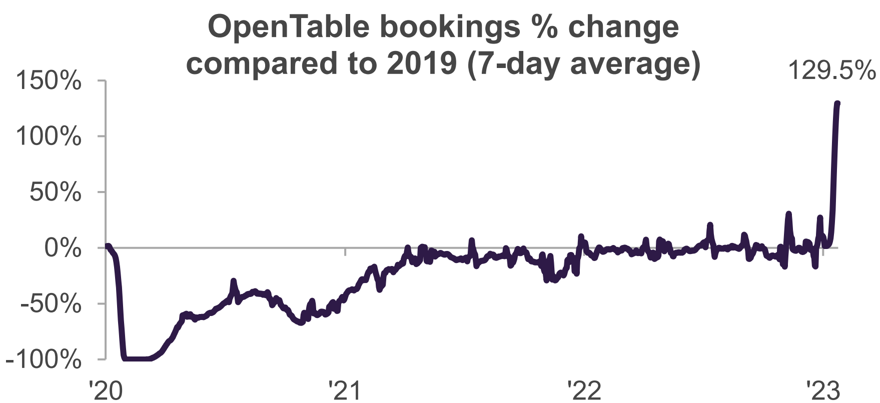
Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

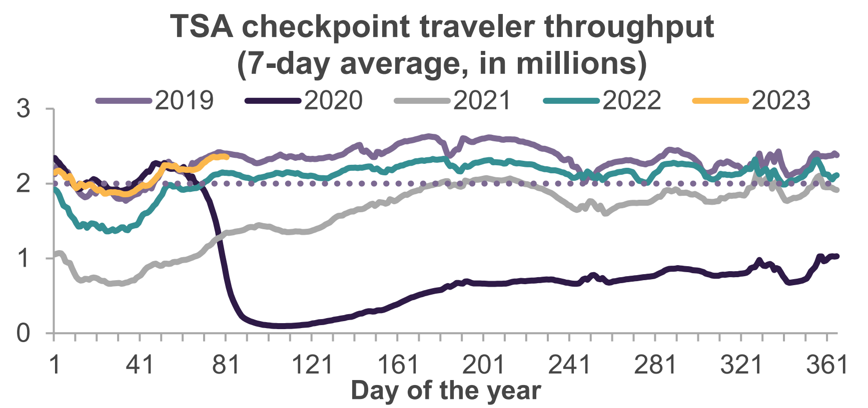
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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





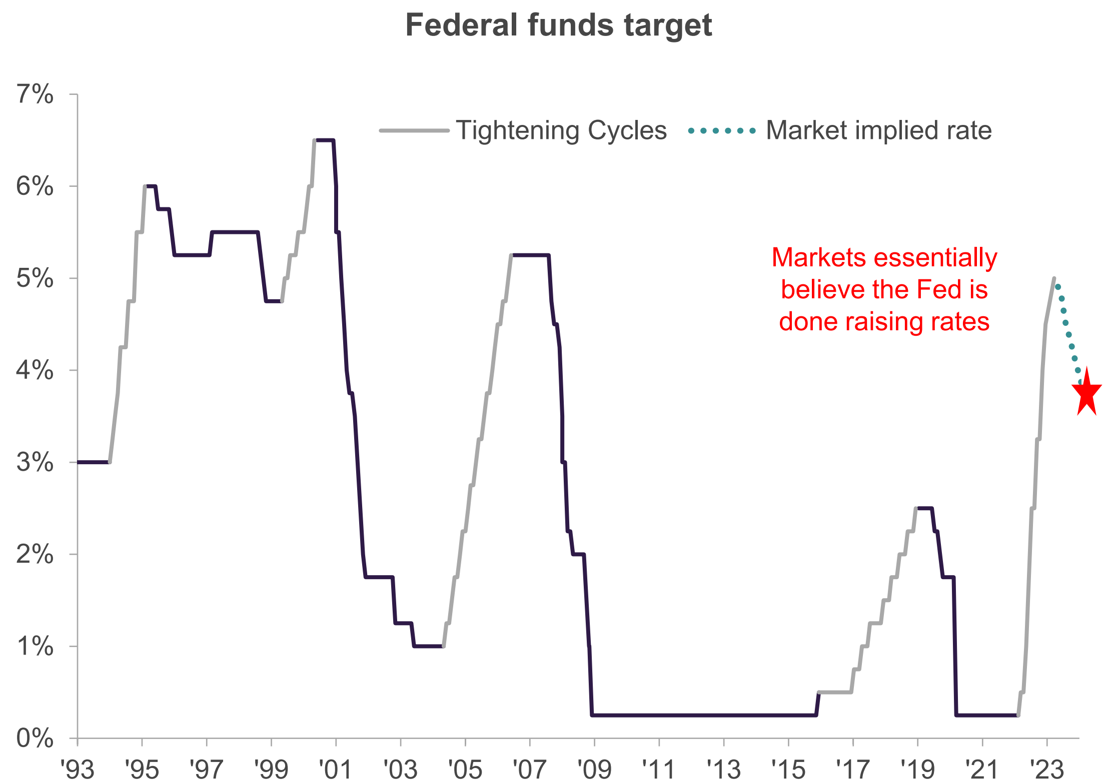




Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through March 18, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through March 10. Bottom left: Bloomberg, OpenTable 7-day average through March 18. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through March 22.

Fed hikes another quarter point and remains hawkish in inflation battle

At its March rate-setting meeting, the Federal Open Market Committee (FOMC) unanimously agreed to increase its target range for the federal funds rate by a quarter point (0.25%) to a range of 4.75% to 5.00%. With this week's move, the Fed has pushed the target rate up 4.75% in the past year from essentially zero.

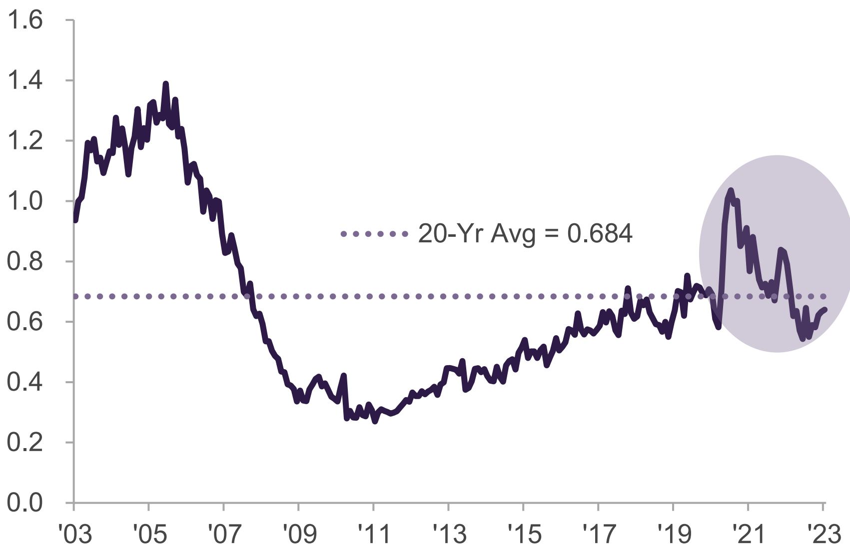


Sources: Truist IAG, Federal Reserve Board, Bloomberg; upper bound shown after December 2008. Market implied rate as of March 23, 2022

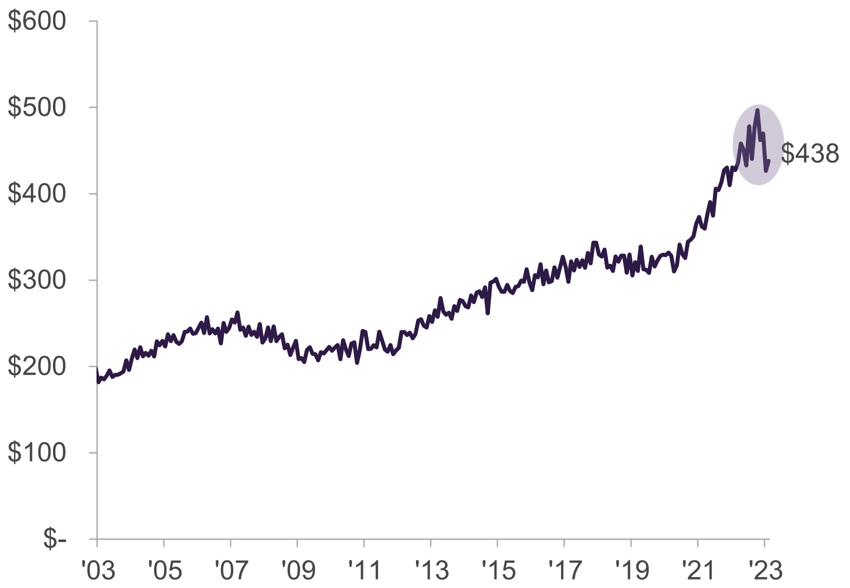
New home sales up for third straight month, while prices rose

New homes sales rose 1.1% to an annualized rate of 640,000 in February, though remain below the 20-year average and are 7.0% below the December 2019 level. Meanwhile, prices rose 2.7%, which is 33.0% above the December 2019 level. Although other data sources indicate that prices have softened in certain cities, overall prices have been supported by limited inventories of new and existing homes for sale.

U.S. new single-family home sales (SAAR, units in millions)



Median price of new single-family homes (in $thousands)

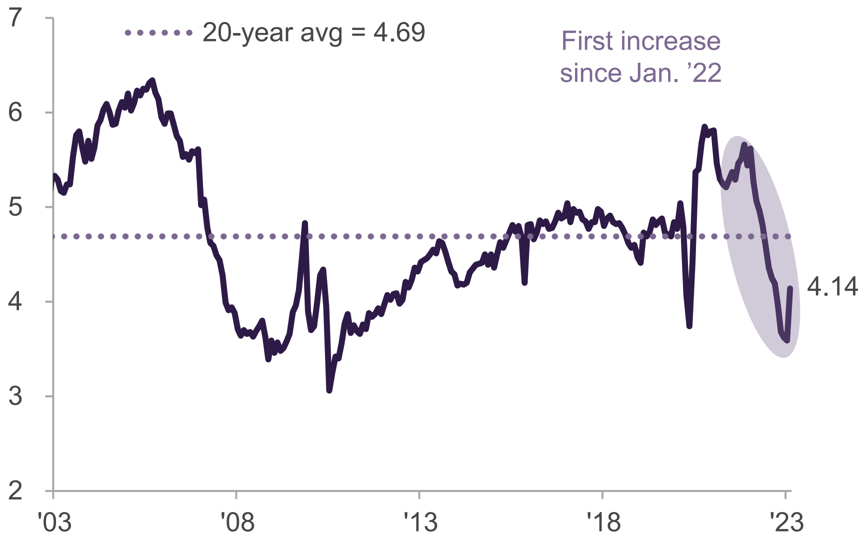


Sources: Truist IAG, Bloomberg, U.S. Census Bureau. Figures shown are seasonally-adjust annualized rate (SAAR); monthly data through February 2023.

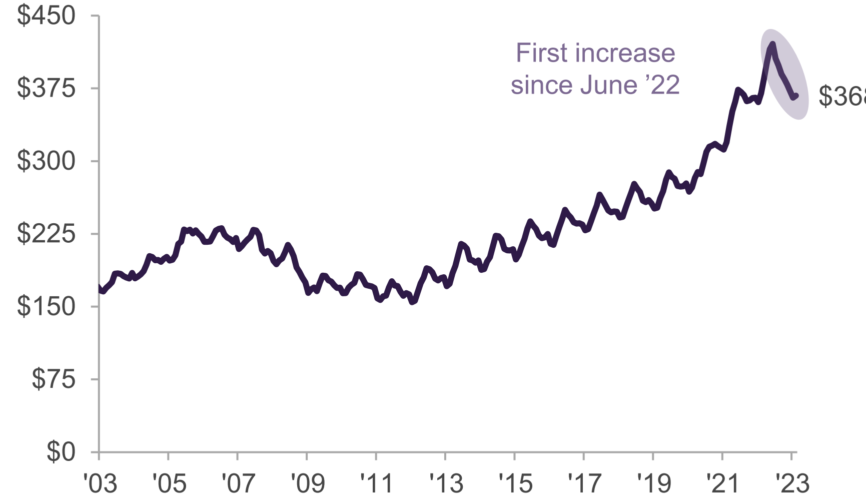
Existing home sales up for first time in a year, prices snap 7-month slide

Existing home sales jumped 15.3% to an annualized rate of 4.14 million in February, which was the first rise since January 2022 and remains 14.5% below the December 2019 level. Meanwhile, prices rose 0.6% to $368,500, which is 32.7% above the December 2019 level. There's a wide variation based on the location, with prices softening in markets that had the largest post-pandemic increases, especially in the West.

Existing single-family home sales (units in millions, SAAR)



Median sales price of existing single-family homes (in $thousands)



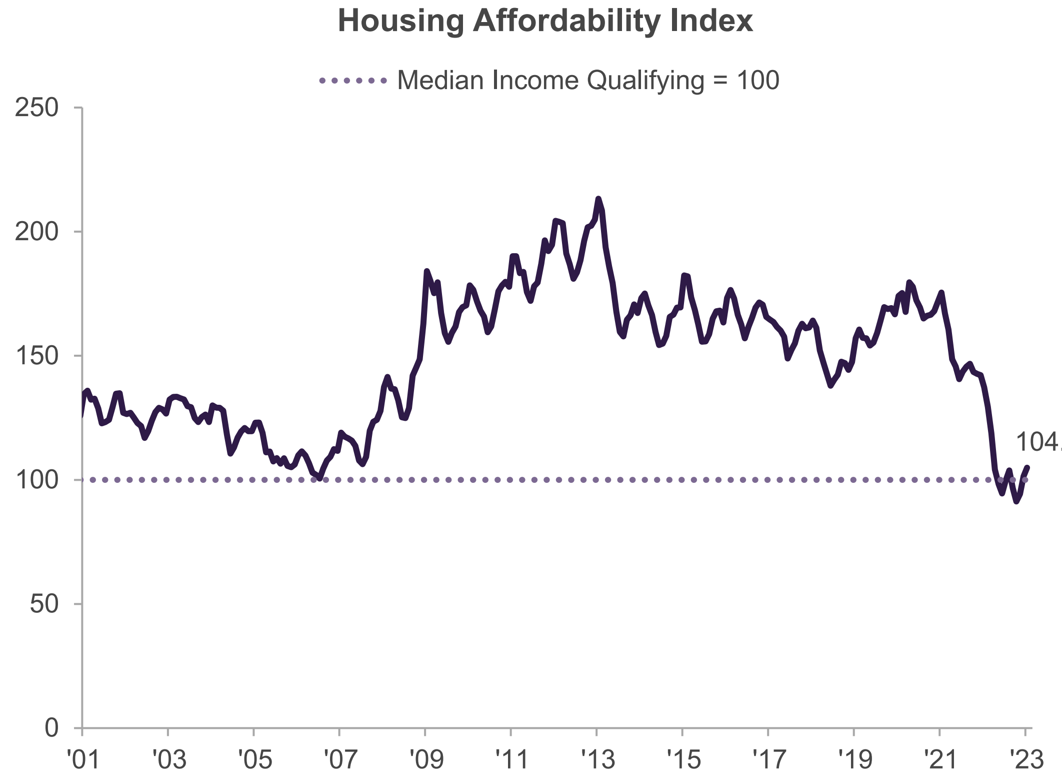
Sources: Truist IAG, Bloomberg, National Association of Realtors. Figures shown are seasonally-adjust annualized rate (SAAR); monthly data through February 2023.

Housing affordability remains challenged, likely continues

The affordability of single-family homes dropped sharply during 2022, impaired by both higher mortgage rates and home prices.

While incomes have risen since the pandemic, home prices have escalated. New and existing home prices are both up more than 30% compared to December 2019. Furthermore, mortgage rates have jumped to their highest level in 20 years.

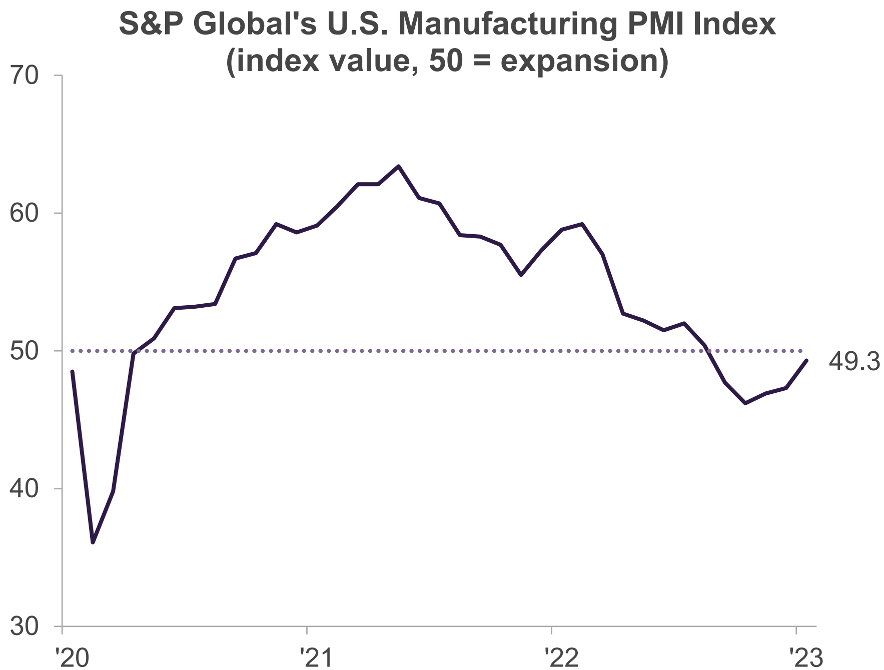
While rates have stabilized recently, home prices will largely remain supported by limited inventories of new and existing homes for sale.

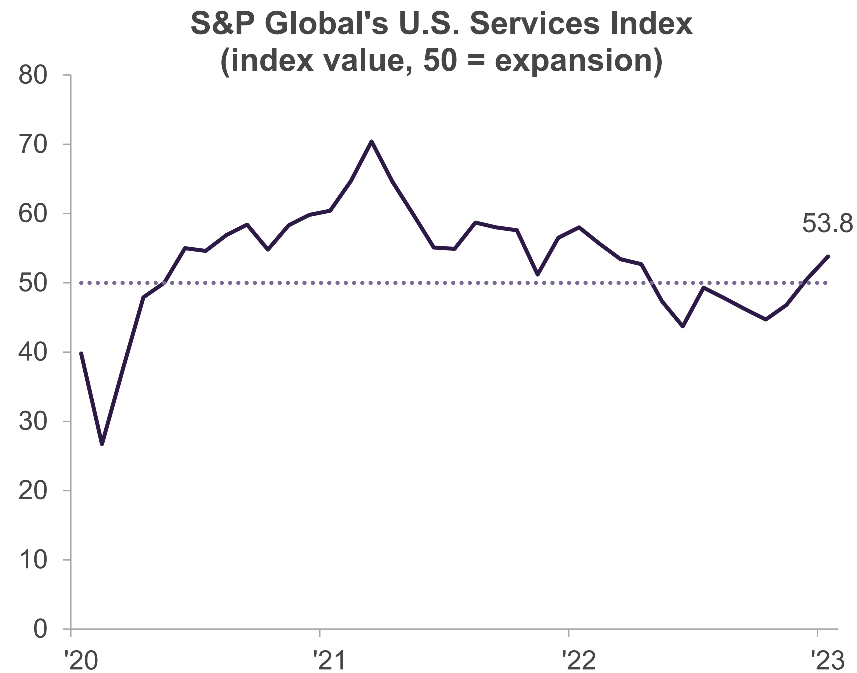


Sources: Truist IAG, Haver, NAR Composite Housing Affordability Index; monthly data through January 2023. 100 on the index is defined as the point where median-income families can qualify to purchase a median-priced existing single-family home (assuming 20% down payment and 25% of gross income devoted to mortgage principal and interest payments.

U.S. manufacturing & services surveys rebound in March

S&P Global's U.S. Manufacturing PMI Index rose to 49.3 in March. Readings below 50 indicate shrinking activity. Still, it was the third straight month-over-month increase. Similarly, the U.S. Services PMI Index rose to 53.8, which was its highest reading in 11 months and third consecutive monthly increase.





Data Source: Truist IAG, Bloomberg, S&P Global. Monthly data through March 2023 (preliminary).

Core capital goods up in February

New orders for durable goods—big-ticket items such as equipment, machinery, electronics, and office furniture—fell 1.0% in February to $268.4 billion, which is 24.6% above the December 2019 level. The weakness was largely confined to transportation, which fell 2.8%. But new orders for core capital goods, which excludes the volatile aircraft and defense components, rose 0.2% to $75.2 billion, just below the all-time high of $75.4 billions set in August 2022.

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

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