Truist Advisory Services, Inc.

Economic data tracker – Economic data generally cooling

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Trend watch and what's new this week

The activity-based data continues to hold up better than expected (slides 5 and 6). Hotel occupancy rebounded to 66.2% in the latest week, which is seasonally strong, and is tracking better than the prior three years (2020 – 2022). Similarly, weekly air passenger counts climbed to 16.4 million, staying above 16.3 million for four consecutive weeks for the first time since August 2019. Moreover, rail traffic rose 0.5% for March after dropping in February.

Manufacturing contracted for fifth month

Two separate gauges showed continued weakness within manufacturing. The Institute for Supply Management (ISM) Manufacturing Index dropped to a reading of 46.3 in March, the fifth straight reading below 50, which signifies a decrease in manufacturing activity (slide 7). Yet, the prices paid component flipped to 49.2, meaning prices decreased compared to January. Similarly, the final March reading of S&P Global's U.S. Manufacturing Index also contracted for the fifth consecutive month.

Services indices expanded again in March

On slide 8, the ISM Services Index had a reading of 51.2 in March, expanding for the third straight month after contracting to 49.2 in December. The prices paid component continued its sharp decline, down for the 10th time in 11 months (May '22 through March).

Meanwhile, the final March reading of S&P Global's U.S. Services Index rose to 52.6, expanding for a second month after an ugly seven-month contraction streak from July '22 to January '23.

Job openings dropping, but still elevated

On slide 9, the number of job openings in February fell to the lowest level since April '21, which was the 7th decline in the past 12 months. Hiring also ebbed, slipping to 6.2 million. The so-called quit rate ticked up in February but is down from the cycle peak of 3% in 2022. All three indicators – openings, hiring, and the quit rate – remain above pre-pandemic levels.

Job cuts up in March; mostly tech, financials, and health care

On slide 10, the number of job cuts rose in March, but is down from the most-recent peak in January. Technology, financials, and health care account for 72% of the announced cuts out of 32 industries.

It's important to note that job cut announcements aren't a great leading indicator of either recession or of an increase in the unemployment rate. Aside from the pandemic recession, it lagged both as well as had big jumps in non-recession years ('02, '03, '11, and '15).

Economic commentary – Our take and the bottom line

Our take

Most of the economic data released this past week showed continued cooling. Two manufacturing surveys continued to contract in March, their fifth straight month, while two services surveys expanded. Their respective inflation components cooled.

Similarly, on the labor front: job openings, hiring, and the quit rate all cooled though February. The cooling trend for each, coupled with the inflation components within the manufacturing and services surveys, bolsters the argument for the Federal Reserve (Fed) to "pause“ their rate hikes.

Inflation has been moving in the right direction, but it remains uncomfortably high and well above the Fed's 2% target, meaning the Fed will rightly remain focused on curbing inflation, aka price stability. As the past two years have illustrated, once the inflation toothpaste is out of the tube, it's extremely difficult to regain control. Historically, it has taken years and required a recession to do so.

Yet, there are four key data points being released between now and the Fed meeting on May 3rd. One of those, the March jobs report, will be released tomorrow. Two more – the Consumer Price Index and the Producer Price Index – will be reported next week. The last is another inflation gauge, the price index for personal consumption expenditures, which comes out the last week of April.

The Fed will likely closely scrutinize credit conditions, including how much banks are borrowing from the Fed's credit facilities such as the discount window. It does appear that much of the liquidity concerns have started to subside in the past few weeks. Additionally, we believe that the Fed will pay close attention to the banks' first quarter earnings reports, which will kickoff late next week.

Lastly, 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. Ultimately, this likely means that the Fed keeps rates higher for longer than markets currently expect.

Bottom line

Credit conditions remain tight broadly, which is unwelcomed. A recession was already our base case due to dramatically higher interest rates. We maintain our view that, while it has clearly peaked, elevated inflation remains public enemy number one and will dictate the Fed's future actions. We also believe that the Fed will keep interest rates higher for longer.

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▲	4Q P: 2.6%	1Q P: 1.5%[†]	Revised down by 0.1 percentage points from the 2.7% “preliminary estimate”, including a modest downward revision to consumer spending. Tracking estimates for 1Q 23 have steadily slipped.
Jobs	Unemployment rate[X]	▲	Feb: 3.6%	Mar: 3.6%	Rose 0.2% from the cycle low, which was the lowest since May ’69.
	Monthly jobs (nonfarm)	▲	Feb: 311K	Mar: 235K	Another upside surprise, but wages have clearly cooled, which is a positive for the inflation debate.
	Weekly jobless claims[+]	▲	4/1: 228K	4/8: N/A	Fell WoW, but sizable upward revision to the prior week.
	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	▼	3.28%[‡]	Flat/down	Rates fell sharply as investors assess recession probabilities along with the Fed’s chance for hiking rates. We expect more volatility.
	10-year AAA GO muni yield	▼	2.12[‡]	Flat/down	Muni yields fell to their lowest level in over a year.
	30-year fixed mortgage rate	▼	6.73%[‡]	Flat/down	Continued to drift lower, though not nearly as much as broader rates declined. Still, rates remain elevated, which hurts affordability.
Inflation	Consumer prices (CPI)[X]	▼	Feb: 0.4%	Mar: 0.2%	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: 0.4%	YoY rose 5.5%. Shelter, which lags, continues to grind higher.
	Producer prices (PPI)	▼	Feb: -0.1%	Mar: 0.0%	YoY cooled to 4.6%, the coolest reading in two years, from 5.7%.
	Core PPI	▼	Feb: 0.0%	Mar: 0.3%	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 [†]FRB-ATL GDPNOW (4/5/2023)

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.
	New home sales	▼	Feb: 640K	Mar: N/A	Rose 1.1% MoM, up for third straight month, while prices rose.
	New housing starts	▼	Feb: 1.450M	Mar: N/A	Jumped 9.8% MoM, snapped 5-mo down streak, multifamily up 24.1%.
	New permits^{+}	▼	Feb: 1.524M	Mar: N/A	Soared 13.8% MoM, multifamily 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	▼	Mar: 46.3	Apr: N/A	Activity contracted for the fifth month in a row, weakening further. Prices paid component also contracted.
	ISM Services Index	▲	Mar: 51.2	Apr: N/A	Expanded for a third straight month after contracting in December. Prices paid component dropped for the 10th time in 11 months.
	Business inventories^{X}	▲	Jan: -0.1%	Feb: 0.3%	Held steady for a second straight month.
Consumer	Personal income	▲	Feb: 0.3%	Mar: N/A	Continued wage growth, though the pace ratcheted downward.
	Personal spending	▲	Feb: 0.2%	Mar: N/A	Sizable upward revision to January, taking it to up 2.0% MoM.
	Advance retail sales	⇆	Feb: -0.4%	Mar: 0.2%	Slipped modestly after massive upside surprise in January.
	Consumer sentiment	▲	Mar F: 62.0	Apr P: 62.3	Slumped, halting 3-mo up streak. But short-term inflation expectations cooled to 3.6%, which was a 23-mo low, from 4.1%.

▲Good ▼ Bad ⇆ Neutral $^{+}$Leading indicator ^{X}Lagging indicator ‡Intraday quote Bloomberg consensus shown

U.S. activity-based data matrix

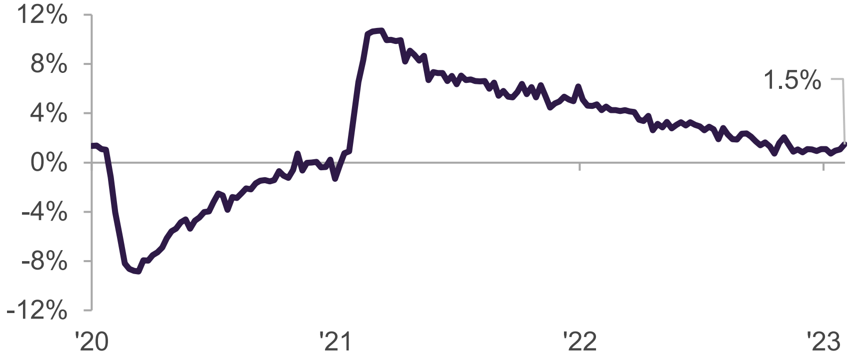
Indicator	Relative trend	What we're watching
Back to office	⇆	Rose to 49.0, which was a three-week high (pre-pandemic indexed to 100). Top cities were Austin (65), Houston (61), and Dallas (54); bottom were San Jose (37) and San Francisco (42). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts rose 0.7% WoW to 16.4 million, which is now 1.9% above the 2019 average of 16.1M. Passenger counts are up 3.2% from the same week in April '19 and are up 13.4% from April '22.
OpenTable restaurant bookings		This is temporarily unavailable as OpenTable is refreshing the index.
Hotel occupancy	▲	Jumped to 66.2% from 64.9% in the prior week. The average daily rate rose WoW to $158.40, up 19.9% from the same week in April '19, and revenue per available room rose WoW to $104.78, up 15.7% from April '19.
Freight (rail/truck/ship)	▼	Rail carloads edged down 0.5% last week but rose 0.5% MoM in March thanks to an 8.3% jump in vehicle shipments. Container traffic at the top 5 U.S. ports (LA, LB, NY/NJ, SAV, SeaTac) fell 13.1% MoM in Feb., though it is typically a weak month. The Cass Freight Index rebounded 3.8% MoM in February, snapping 5-month slide.
Staffing index	▼	Rose to 98.7, snapping a seven-week slide and reaching the highest level four weeks. 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

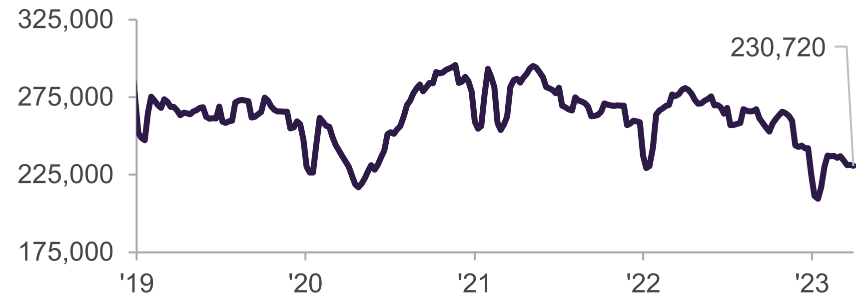
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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

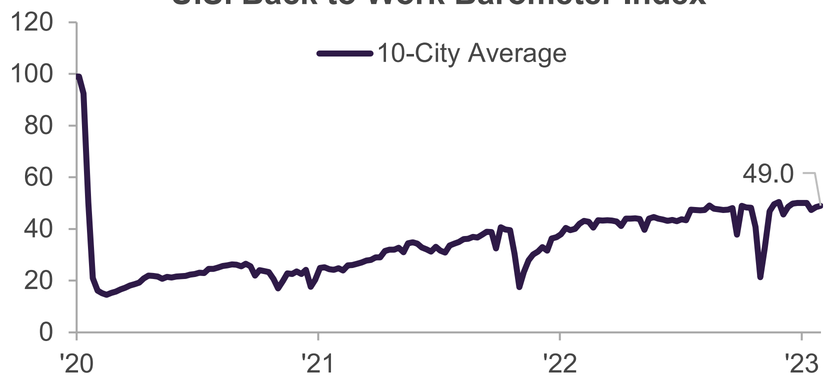
NY Fed weekly economic index



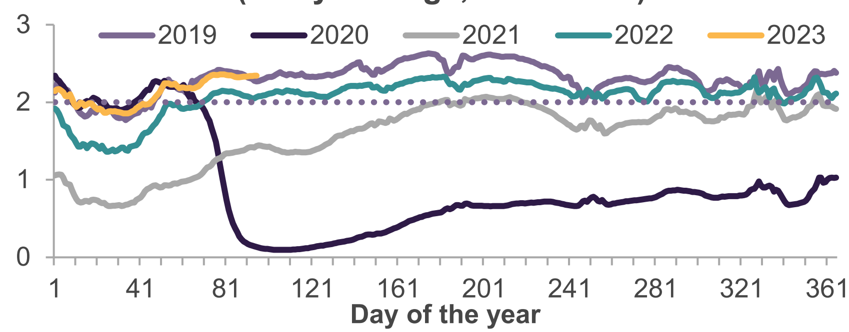
U.S. intermodal freight carloads (4-week average)



U.S. Back to Work Barometer Index



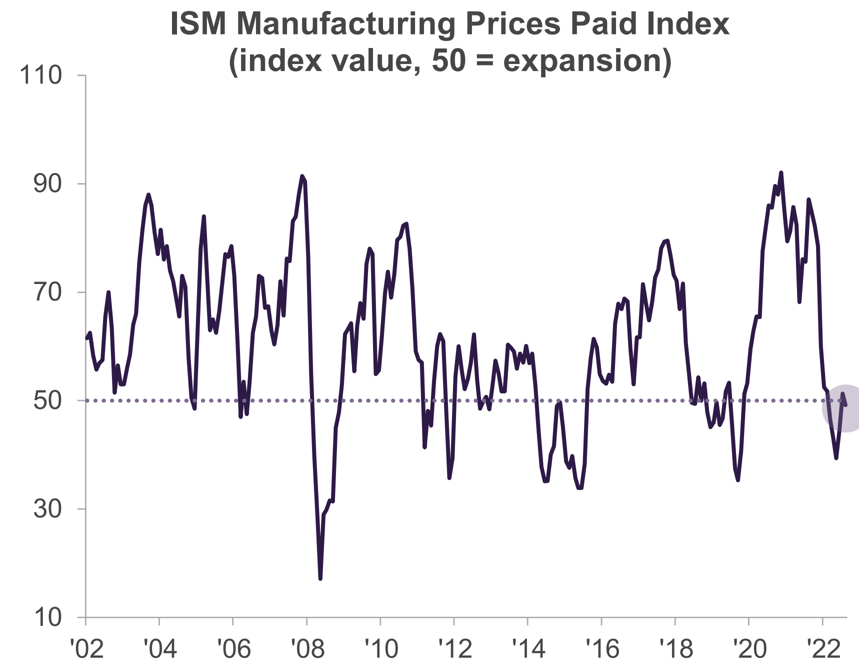
TSA checkpoint traveler throughput (7-day average, in millions)



Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through March 25, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through March 31. Bottom left: Bloomberg, Kastle Systems averaged weekly through March 29. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through April 5.

ISM Manufacturing sank deeper in March, but prices ebbed

The Institute for Supply Management (ISM) Manufacturing Index dropped to a reading of 46.3 in March, the fifth straight reading below 50, which signifies a decrease in manufacturing activity. Yet, the prices paid component flipped to 49.2, meaning prices decreased compared to January.



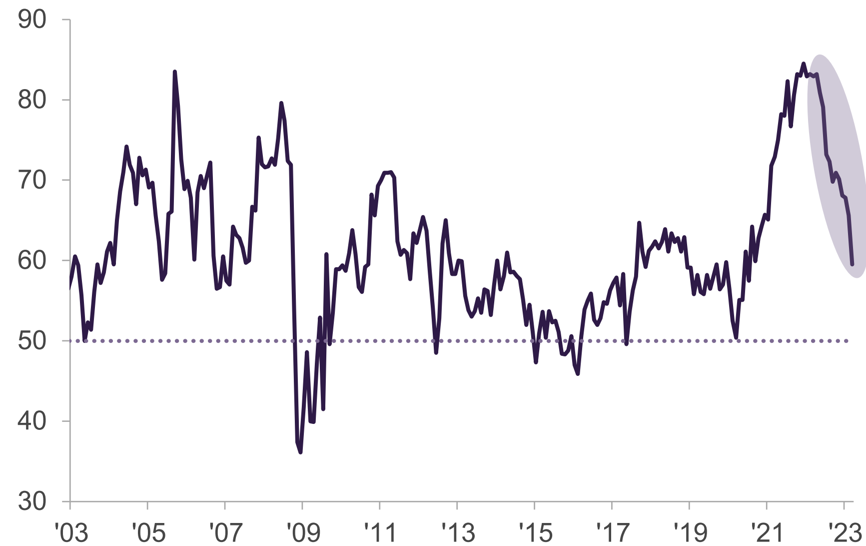
Sources: Truist IAG, Bloomberg, Institute for Supply Management (ISM); monthly data through March 2023.

ISM Services expands again in March, but weakened, while price dropped

The Institute for Supply Management (ISM) Services Index had a reading of 51.2 in March, expanding for the third straight month after contracting to 49.2 in December. Meanwhile, the prices paid component continued its sharp decline, down for the 10th time in 11 months (May ’22 through March).

ISM Services Index (index value, 50 = expansion)

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

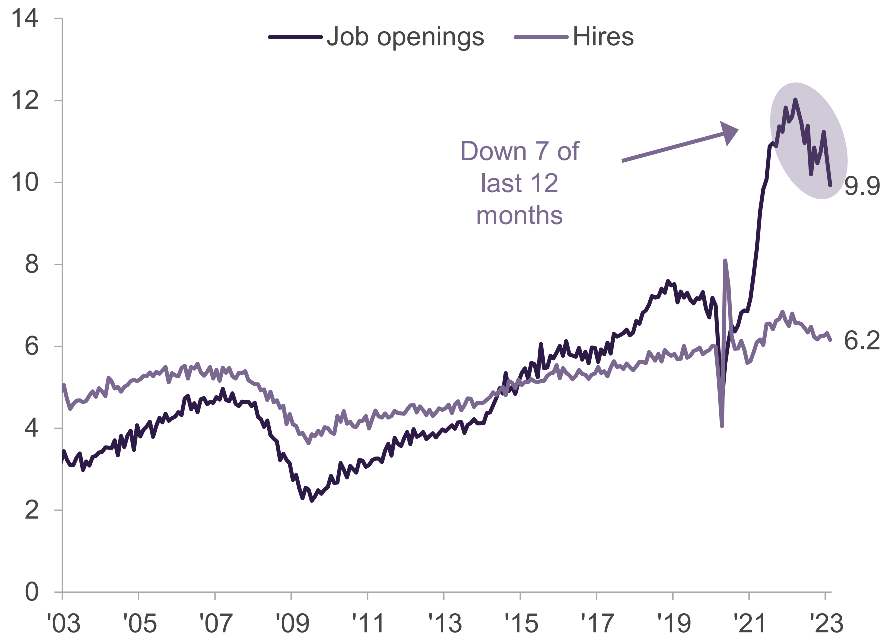


Sources: Truist IAG, Bloomberg, Institute for Supply Management (ISM); monthly data through March 2023.

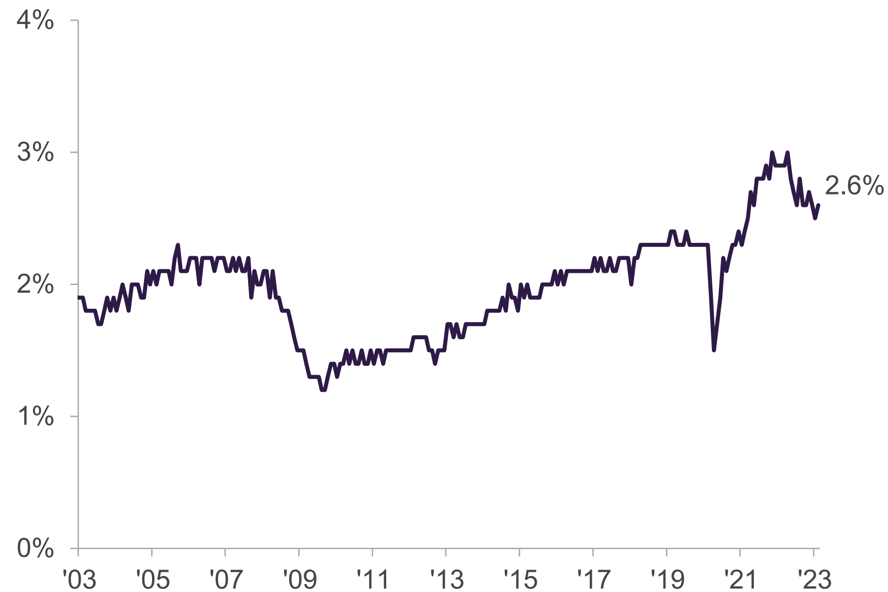
Job openings dropping, but still elevated

The number of job openings fell 6% in February to 9.9 million, the lowest level since April '21. It was also the 7th decline in the past 12 months. Hiring also ebbed, slipping to 6.2 million. The so-called quit rate – officially known as the percentage of employees voluntarily quitting – ticked up in February but is down from the cycle peak of 3% in 2022. All three indicators – openings, hiring, and the quit rate – remain above pre-pandemic levels.

U.S. job openings & hires (in millions)



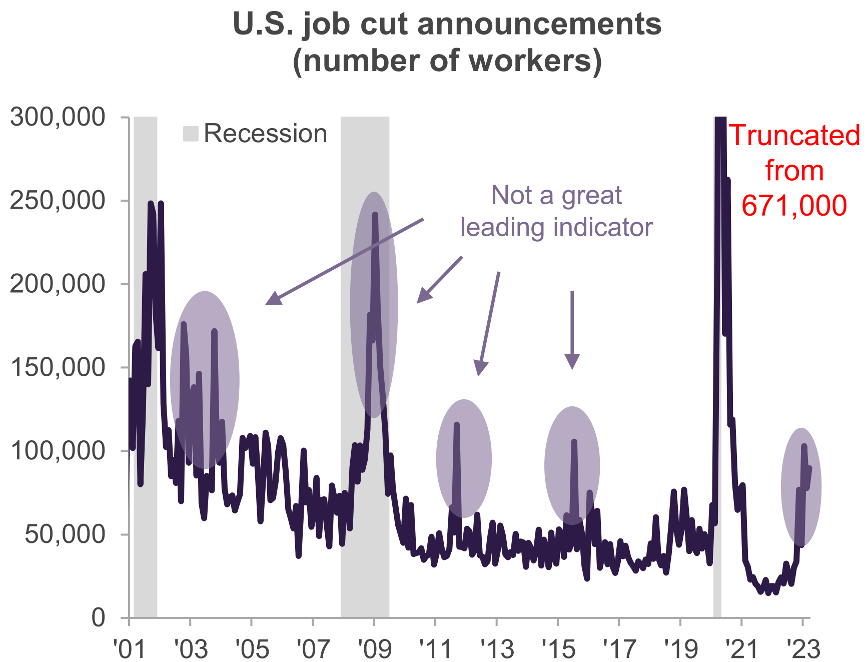
Percentage of employees voluntarily quitting (all industries)

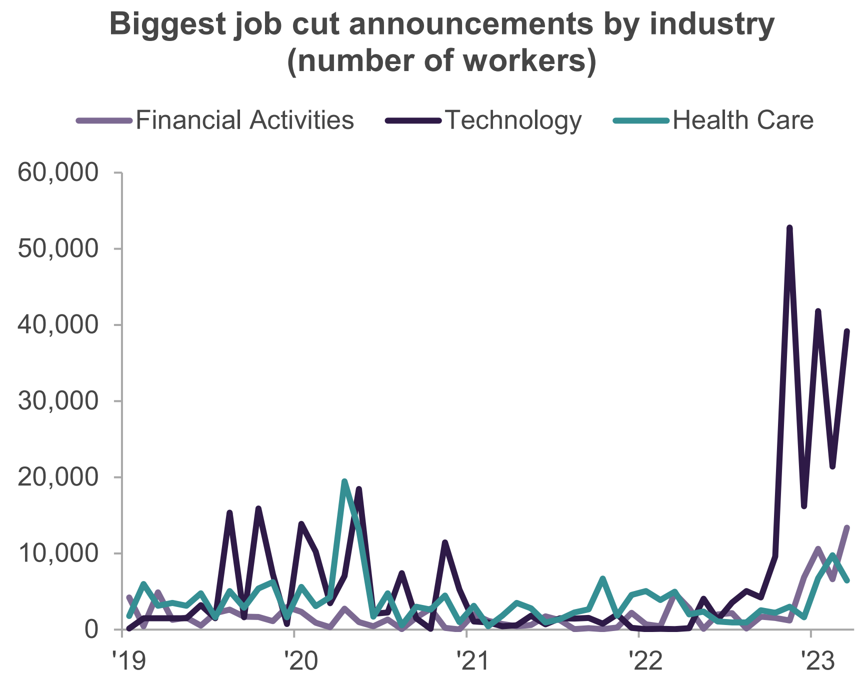


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through February 2023.

Job cuts up in March, but below January; mostly tech, financials, health care

Companies slashing payrolls have certainly increased during the past six months. The number of job cuts rose to 89,703 in March, though that's down from the most-recent peak of nearly 103,000 in January. It's important to note that job cut announcements aren't a great leading indicator of either recession or of an increase in the unemployment rate. Aside from the pandemic recession, it lagged both as well as had big jumps in non-recession years ('02, '03, '11, and '15). Technology, financials, and health care account for 72% of the announced cuts out of 32 industries.





Data source: Truist IAG, Bloomberg, Challenger Gray and Christmas. Monthly data through March 2023.

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