Economic data tracker – Inflation generally cooling

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Trend watch and what's new this week

The activity-based data largely seemed to tread water this past week, likely due to the spring holidays (slides 5 and 6). One notable weak spot was hotel occupancy, which dropped sharply to 61.3% due to both Easter and Passover holidays.

However, weekly air passenger counts slipped modestly to 16.2 million, but stayed above 16 million for fifth consecutive weeks for the first time since August 2019. The first quarter daily average of 2.114 million passengers was above the 2.107 million pace during first three months of 2019. Furthermore, Delta Airlines reported record advanced paid bookings for this summer.

Consumer inflation cooling but core prices stay firm

On slide 7, the Consumer Price Index (CPI) rose 0.1% in March. The year-over-year pace dropped an outsize 1% during the month, to 5.0% from 6.0% in February. That's down considerably from 9.1% in June.

On slide 8, core CPI, which excludes food & energy, rose 0.4% month over month, while the year-over-year pace increased to 5.6% from a year ago. Among the biggest decliners were used vehicles, which fell for the ninth straight 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 this time next year. 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.

Big drop in wholesale prices in March due to gasoline

On slide 10, wholesale prices, as measured by the Producer Price Index (PPI), dropped 0.5% in March. That's the biggest monthly decline since the pandemic for wholesale prices, which have only increased once in the past four months. Energy plunged 6.4% during the month. The year-over-year pace cooled to 2.7%, dramatically lower than 11.7% in March '22. Core PPI, which excludes food & energy, slipped 0.1% month over month, while the annual change continued to cool, up 3.4% 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 0.9% per month on average through September. Since then, rents have cooled considerably and appear to have plateaued. Rental prices in March rose 0.5% month over month, the second monthly increase after a four-month slide (from October to January).

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Economic commentary – Our take and the bottom line

Retail sales slump in March for the fourth time in five months

On slide 12, retail & food service sales in March fell 1.0%, though remain just 1.2% below the all-time high set in January. Soft gasoline and auto sales were a big downward driver. Excluding both autos and gasoline, retail sales fell 0.3% in March, also hovering near the all-time high.

Consumer confidence up, but inflation expectations up, too

Consumer confidence, as measured by the University of Michigan Consumer Sentiment Survey, rebounded to a reading of 63.5 in April after stumbling to 62.0 in March (slide 13). However, one-year inflation expectations surged to 4.6%, up a full percentage point compared to March due to the recent climb in gasoline prices. Yet, longer-term inflation expectations appear to be well-anchored, staying at 2.9% for the fifth month in a row.

Temporary staffing soft, but much stronger than prior trend

On slide 14, we highlight temporary staffing, which has been weak of late. It typically rebounds during the first quarter after the big seasonal year-end drop. It averaged 98.7 during the first quarter of this year compared to 102.4 in 1Q2022. That said, 1Q2023 was considerably stronger than the pre-pandemic 5-year average of 92.3.

Big 4 continue to look solid

On slide 15, we updated the four primary indicators used to date a U.S. recession. The so-called Big 4 suggest the economy is slowing, though not yet in a recession. That is especially true after we received solid industrial production and capacity utilization figures for March, coupled with upward revisions to the prior months.

Our take

It was a busier than normal data release week, making this week's Economic Data Tracker a sort of "chart-a-palooza." Without rehashing each report, on balance, most were more positive in terms of their economic implications than the prior few months. For instance, the March inflation readings generally cooled, including the rental prices, which have been propping up core inflation.

However, we'd note that just because some data is coming in weaker than in 2022, doesn't necessarily mean it's weak. Case in point is the temporary staffing trends we highlight on slide 14. Similarly, retail sales have ticked down but remain near their all-time high. That said, if the weakness continues and overall economic growth in 2023 is weaker than 2022, it will appear to be a recession from a gross domestic product (GDP) standpoint.

Ultimately, inflation has been moving in the right direction, but it remains uncomfortably high and well above the Federal Reserve's (Fed) 2% target. That means the Fed will 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. Thus, while there's plenty of reasons for the Fed to "pause" their rate hikes, we suspect that they will likely raise rates by another quarter point (0.25%) at the May 3rd meeting to ensure that inflation is defeated.

Bottom line

A recession remains our base case due to dramatically higher interest rates and now tighter credit conditions. 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: 2.5%	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]	▲	Mar: 3.5%	Apr: 3.5%	Ticked down 0.1% MoM, near the lowest level since May ’69.
Jobs	Monthly jobs (nonfarm)	▲	Mar: 236K	Apr: N/A	Stronger than expected, but wages have clearly cooled, which is a positive for the inflation debate.
Jobs	Weekly jobless claims[+]	▲	4/8: 238K	4/15: 238K	Up last week after dropping during the two prior weeks.
Jobs	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: 5.25% – 4.75%	As promised, the Fed raised rates 0.25% at the March meeting to help fight inflation. Another 0.25% hike in May has a 70% chance.
Interest rates	10-year U.S. Treasury yield	▼	3.52%[‡]	Flat/down	Rates jumped roughly a quarter point (0.25%) from last week as investors assess recession probabilities. We expect more volatility.
Interest rates	10-year AAA GO muni yield	▼	2.09[‡]	Flat/down	Muni yields actually fell to their lowest level in over a year.
Interest rates	30-year fixed mortgage rate	▼	6.80%[‡]	Flat/down	Pushed higher, though not nearly as much as broader rates increased. Mortgage rates remain elevated, which hurts affordability.
Inflation	Consumer prices (CPI)[X]	▼	Mar: 0.1%	Apr: N/A	Food was unchanged MoM, while energy declined 3.5%. The YoY pace cooled to 5.0% with an outsize 1% drop during the month.
Inflation	Core CPI	▼	Mar: 0.4%	Apr: N/A	YoY rose 5.5%. Shelter, which lags, continues to grind higher.
Inflation	Producer prices (PPI)	⇆	Mar: -0.5%	Apr: N/A	Has only increased once in the past 4 months. YoY cooled to 2.7%.
Inflation	Core PPI	⇆	Mar: -0.1%	Apr: N/A	First MoM decline since the pandemic. YoY cooled 3.4%.

▲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: 4.50M	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 a third straight month, while prices rose.
	New housing starts	▼	Feb: 1.450M	Mar: 1.405M	Jumped 9.8% MoM, snapped 5-mo down streak, multifamily up 24.1%.
	New permits+	▼	Feb: 1.550M	Mar: 1.455M	Soared 13.8% MoM, multifamily up 24% and single family rose too.
Business	Durable goods orders+	▲	Feb F: -1.0%	Mar P: 0.3%	Commercial aircraft orders fell sharply (again), but core capital goods orders (ex-air & defense) ticked down 0.1% MoM, near 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 inventoriesX	▲	Feb: 0.2%	Mar: N/A	Rose modestly, but January was revised downward to -0.2%.
Consumer	Personal income	▲	Feb: 0.3%	Mar: N/A	Continued wage growth, though the pace ratcheted downward.
	Personal spending	▲	Feb: 0.2%	Mar: 0.0%	Sizable upward revision to January, taking it to up 2.0% MoM.
	Advance retail sales	▼	Mar: -0.4%	Apr: N/A	Fell for fourth time in five months, but still near all-time high.
	Consumer sentiment	▲	Apr P: 63.5	Apr F: 63.5	Rebounded after stumbling in March. But short-term inflation expectations jumped to 4.6% from 3.6% due to gasoline prices.

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

U.S. activity-based data matrix

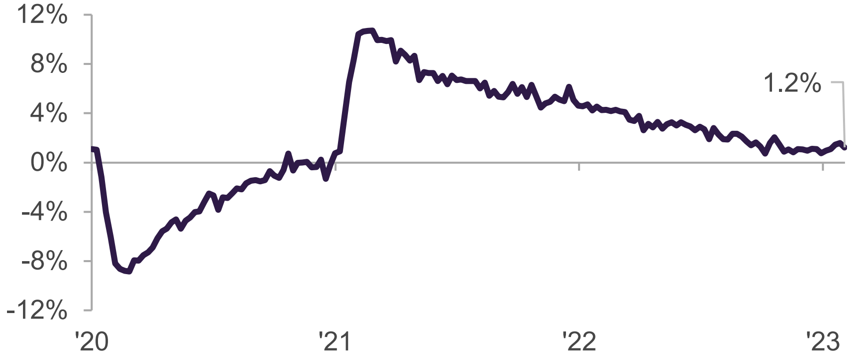
Indicator	Relative trend	What we're watching
Back to office	⇆	Ebbed slightly to 48.5 during the holiday week (pre-pandemic indexed to 100). Top cities were Austin (64), Houston (61), and Dallas (54); bottom were San Jose (37) and San Francisco (42). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts fell 1.7% WoW to 16.2 million, which was 0.4% above the 2019 average of 16.1M. Passenger counts were -1.3% from the same week in April '19 but up 8.7% from April '22.
OpenTable restaurant bookings		This is temporarily unavailable as OpenTable is refreshing the index.
Hotel occupancy	▲	Slumped to 61.3% due to both Easter and Passover holidays. The average daily rate fell WoW to $153.30, down 7.4% from a year ago, and revenue per available room fell WoW to $94.00, down 6.7% from April '22.
Freight (rail/truck/ship)	▼	Rail carloads dropped 3.4% during the holiday week but rose 0.5% MoM in March thanks to an 8.3% jump in vehicle shipments. Container traffic at the Port of LA, the largest U.S. port, surged 27.8% in March. The Cass Freight Index rebounded 3.8% MoM in February, snapping a 5-month slide.
Staffing index	▼	Fell modestly to 98.0 from 98.7 during the prior week. 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 0.5% in March, the second monthly increase after a four-month slide (from October to January). 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

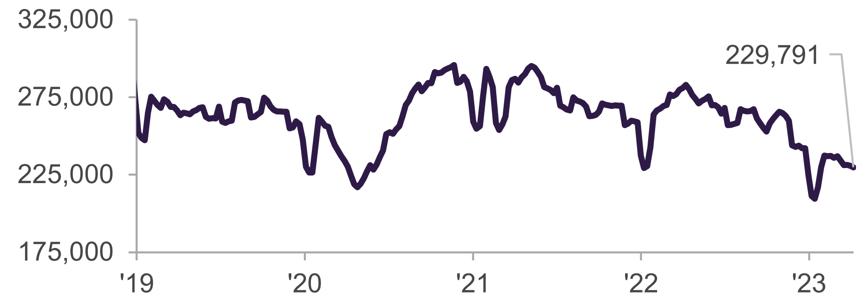
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

Activity-based trends slipped to start 2023, but firming through early April

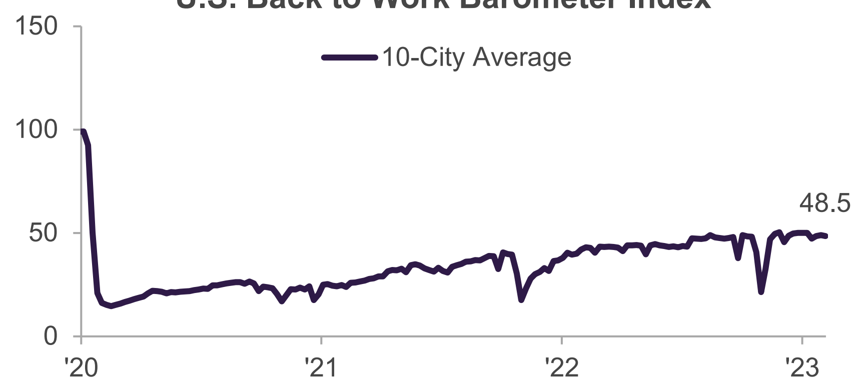
NY Fed weekly economic index



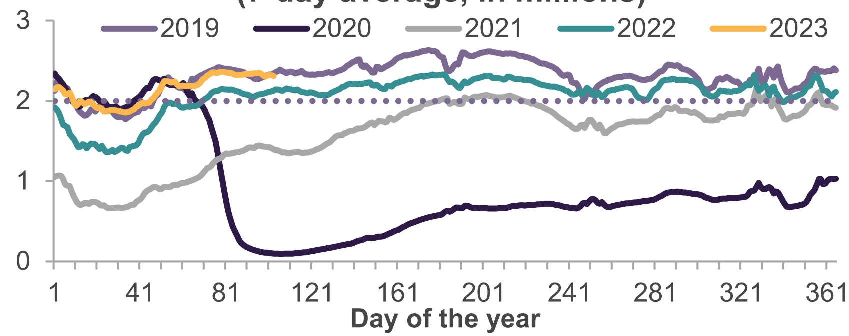
U.S. intermodal freight carloads (4-week average)



U.S. Back to Work Barometer Index



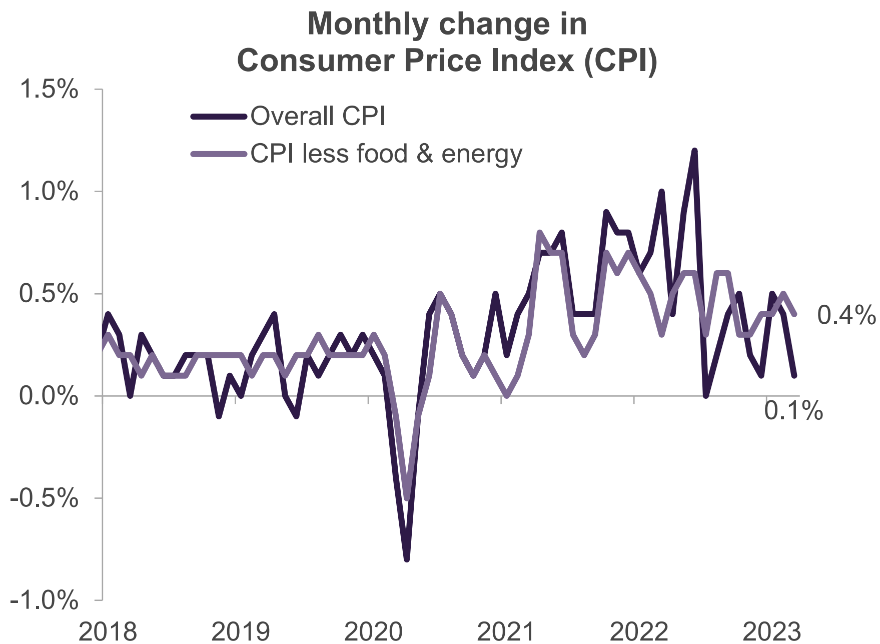
TSA checkpoint traveler throughput (7-day average, in millions)

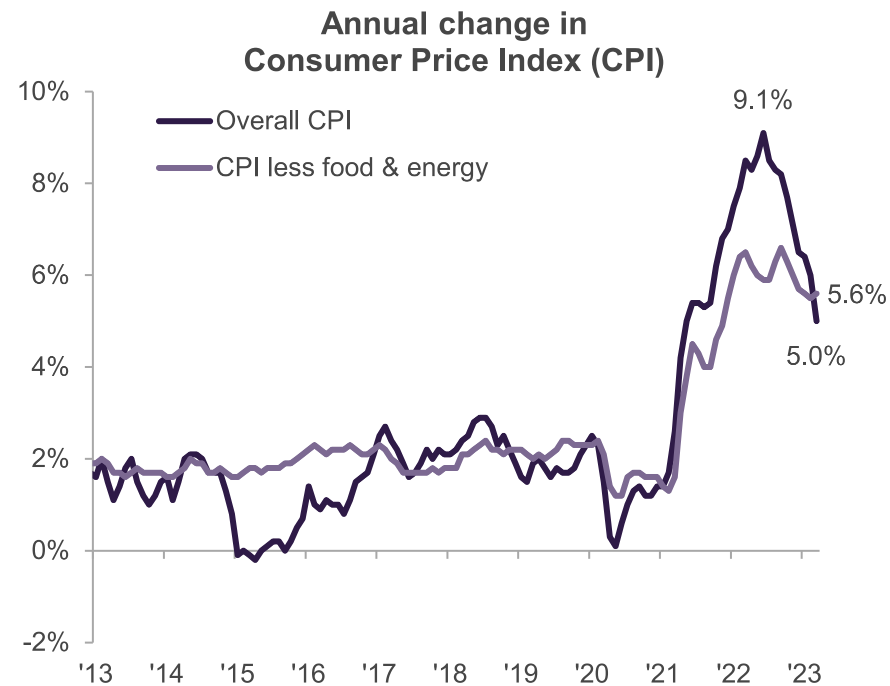


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through April 8, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through April 7. Bottom left: Bloomberg, Kastle Systems averaged weekly through April 5. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through April 13.

Consumer prices still cooling but pace of core prices remained firm in March

The Consumer Price Index (CPI) edged up 0.1% in March. The year-over-year pace dropped an outsize 1% during the month, to 5.0% from 6.0% in February. That's down considerably from 9.1% in June and was the eighth consecutive decline. Core CPI, which excludes food & energy, rose 0.4% month over month, though the year-over-year pace increased to 5.6% from a year ago.

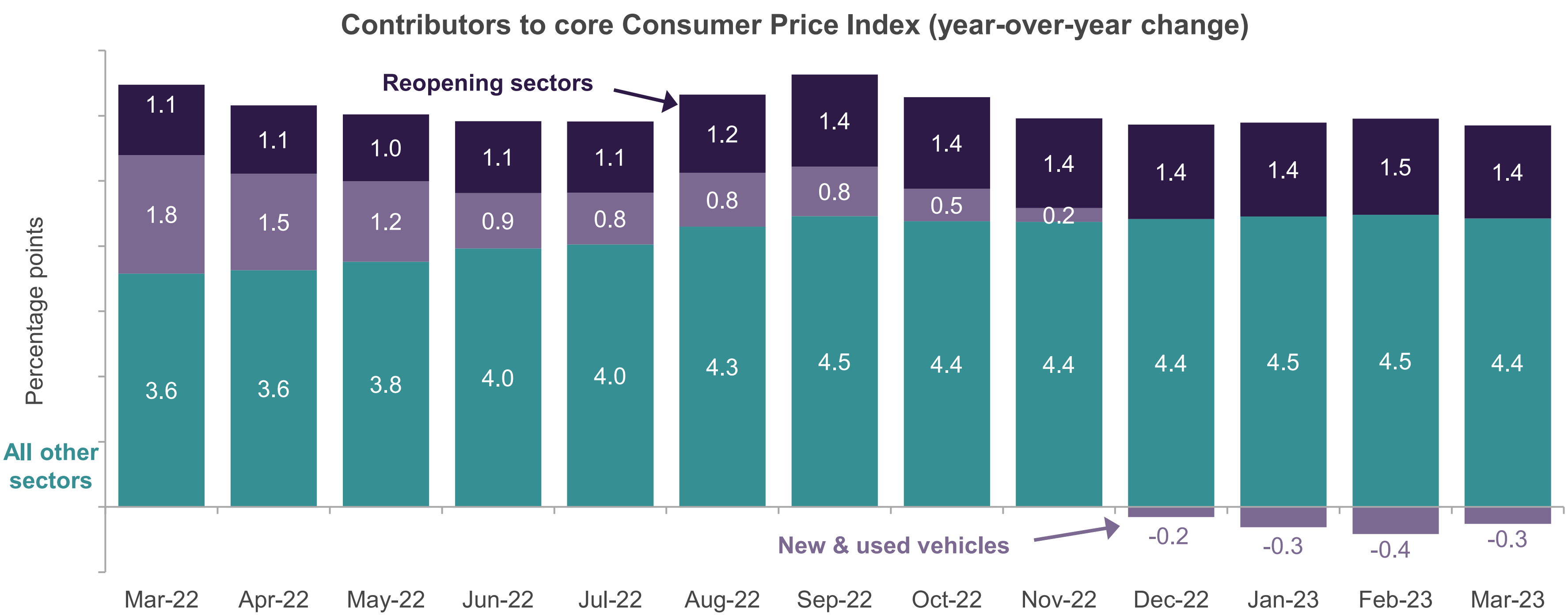




Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through March 2023.

Core inflation is sticky, but vehicle prices remain a drag

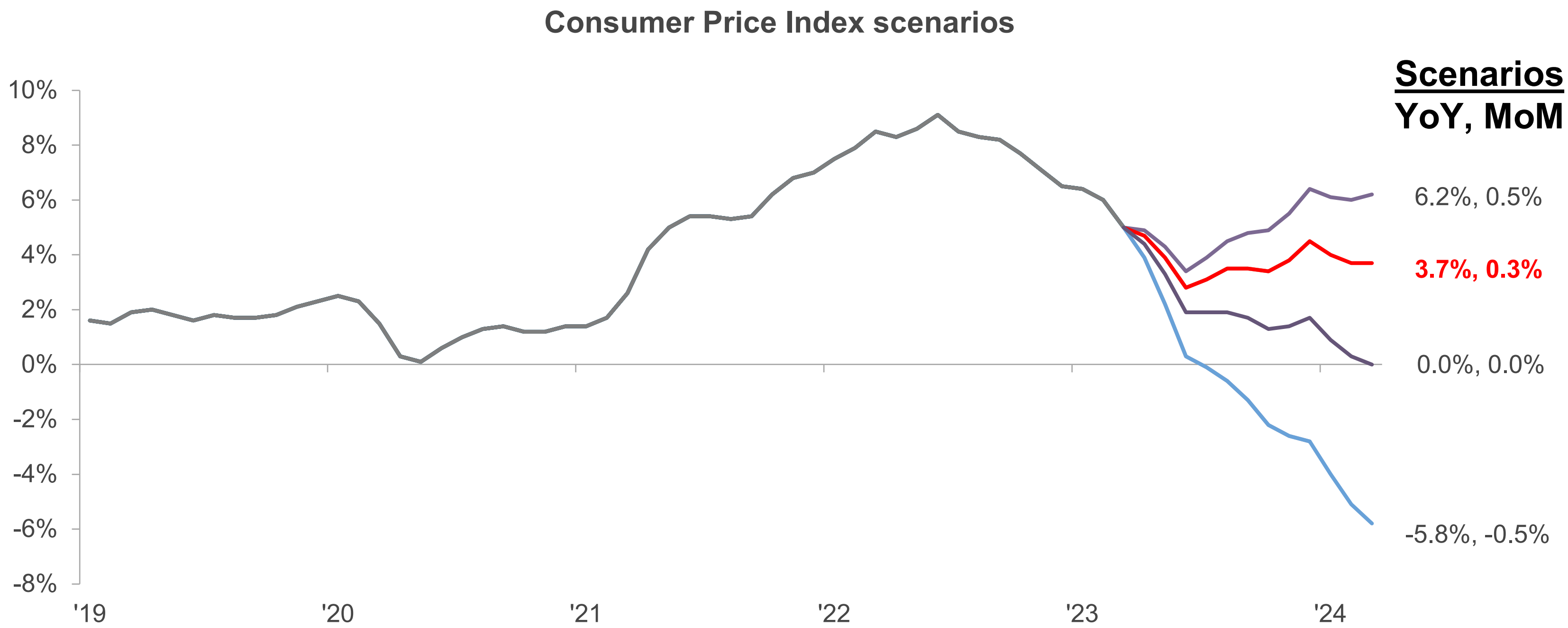
The Core Consumer Price Index, which excludes food & energy, rose 0.4% month over month and increased 5.6% from a year ago, down from 6.6% in September. Among the biggest decliners were used vehicles, which fell 0.9%, down for the ninth straight month. Prices for services rose 0.3%, the smallest increase in 18 months.



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

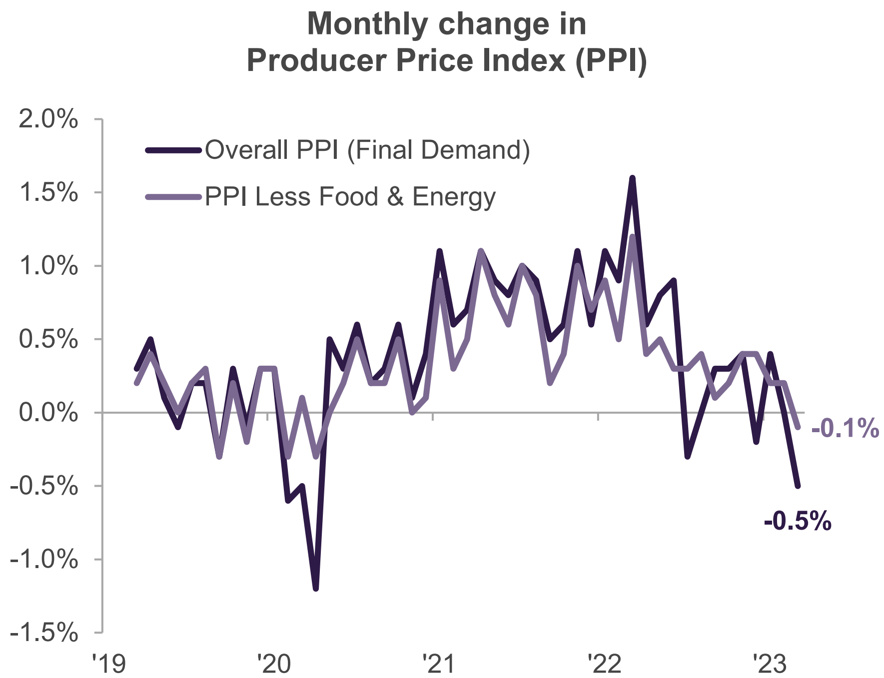
The year-over-year (YoY) Consumer Price Index (CPI) slipped to 6.4% in March, down considerably from 9.1% in June. The month-over-month (MoM) pace rose 0.5%, a bit hotter than in December. Below are several scenarios of how it might unfold over the coming year. For instance, if the pace of CPI was unchanged (0%) MoM for the rest of the year, it would equate to a 0.8% YoY rate in December '23. 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 3.7% a year from now.

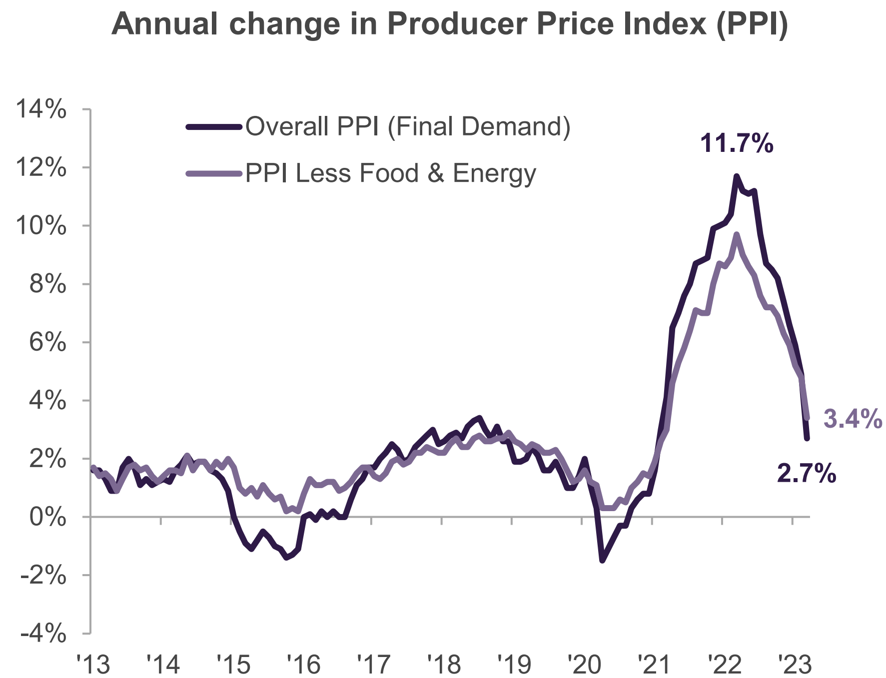


Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics; actual monthly data through March 2023; calculated scenarios and Truist IAG forecast (0.275%) through March 2024.

Big drop in wholesale prices in March due to gasoline

The monthly pace of wholesale prices, as measured by the Producer Price Index (PPI), dropped 0.5% in March as energy plunged 6.4% during the month. The year-over-year pace cooled to 2.7%, dramatically lower than 11.7% in March ’22. Core PPI, which excludes food & energy, slipped 0.1% month over month, while the annual change continued to slide, up 3.4% from a year ago.



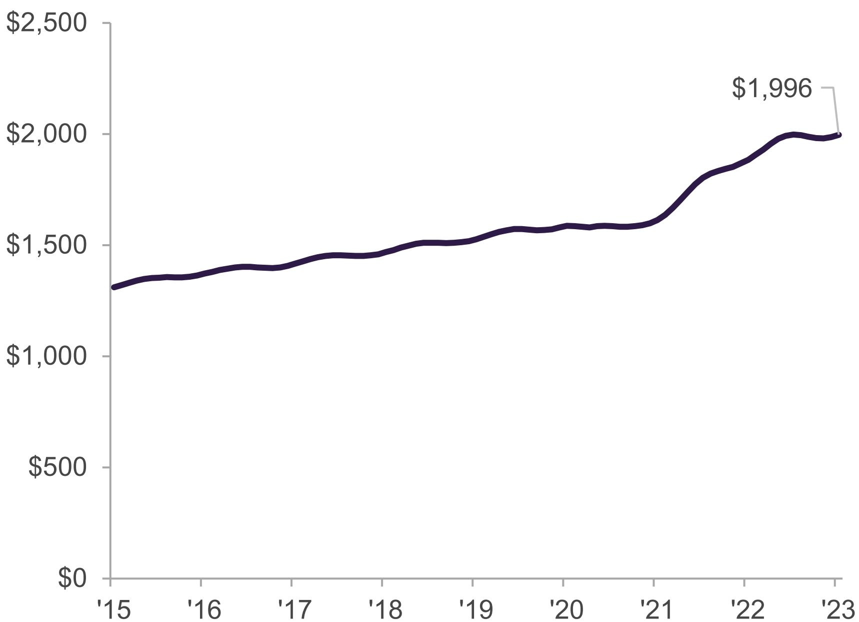


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through March 2023.

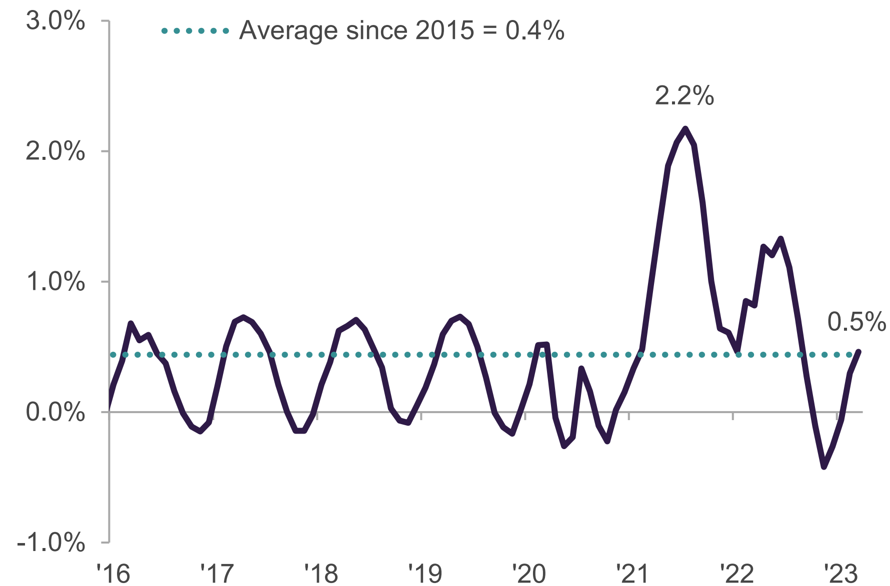
Rental prices have stabilized, up modestly in March

Rents spiked during 2021, including a jump of 2.2% during July ’21. That continued in 2022, growing 0.9% per month on average through September, but rents have cooled considerably since then. Rental prices in March rose 0.5% month over month, the second monthly increase after a four-month slide (from October ’22 to January ’23).

Rent index



Rent index month-over-month change

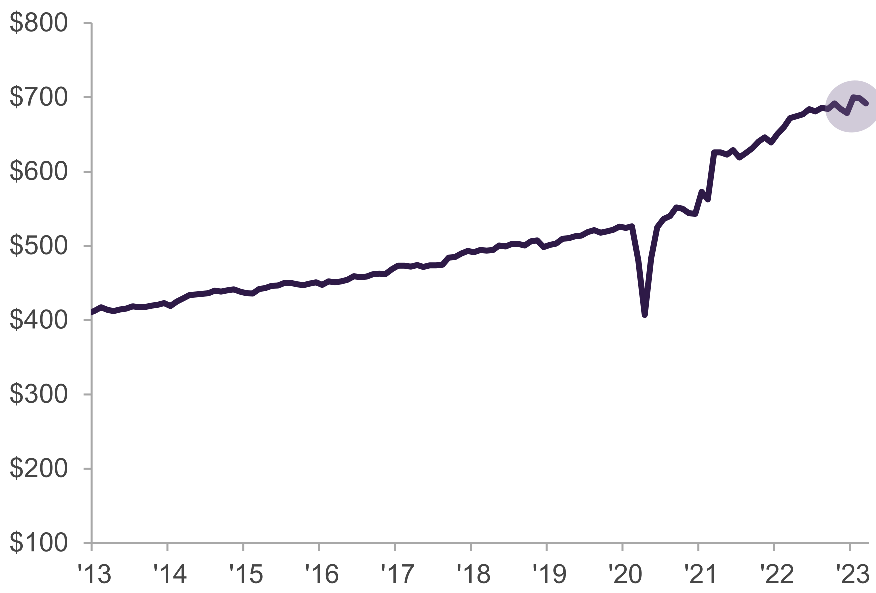


Source: Truist IAG, Bloomberg, Zillow; monthly data through March 2023.

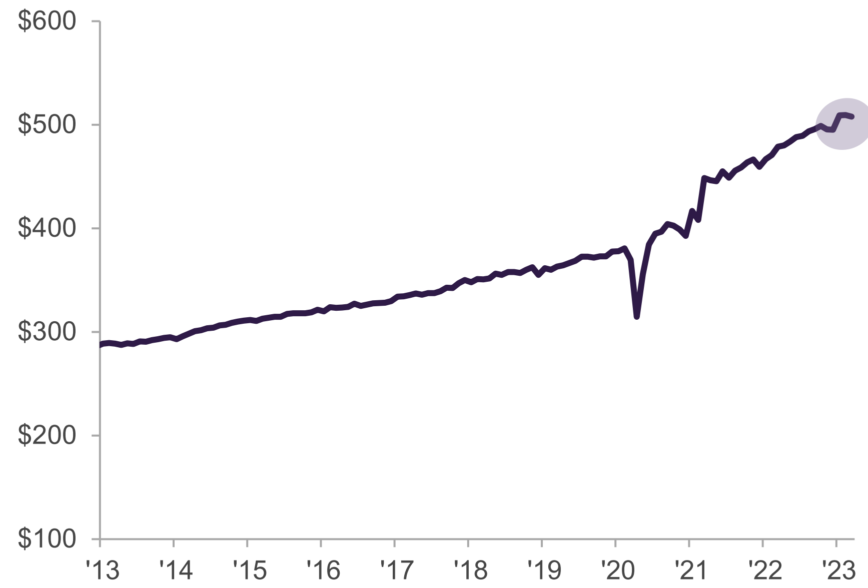
Retail sales down for fourth time in five months, but still near all-time high

Retail & food service sales in March fell 1.0% to $691.7 billion, which is just 1.2% below the all-time high set in January. Gasoline sales, down 5.5%, were a big driver along with auto sales, which dropped 1.7% during the month. Excluding both autos and gasoline, retail sales fell 0.3% in March, also hovering near the all-time high.

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



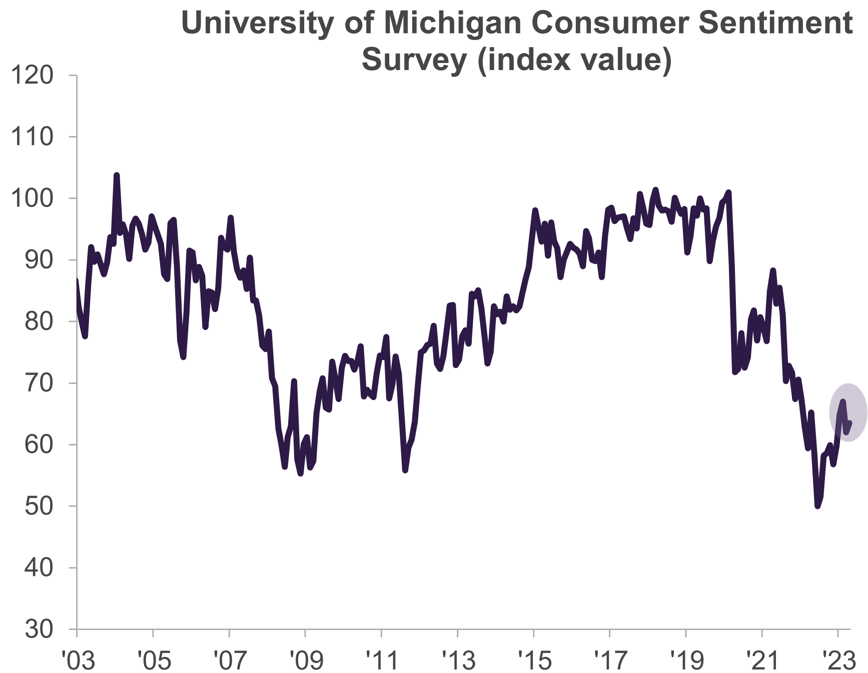
U.S. retail sales ex-autos & gasoline (in $billions)

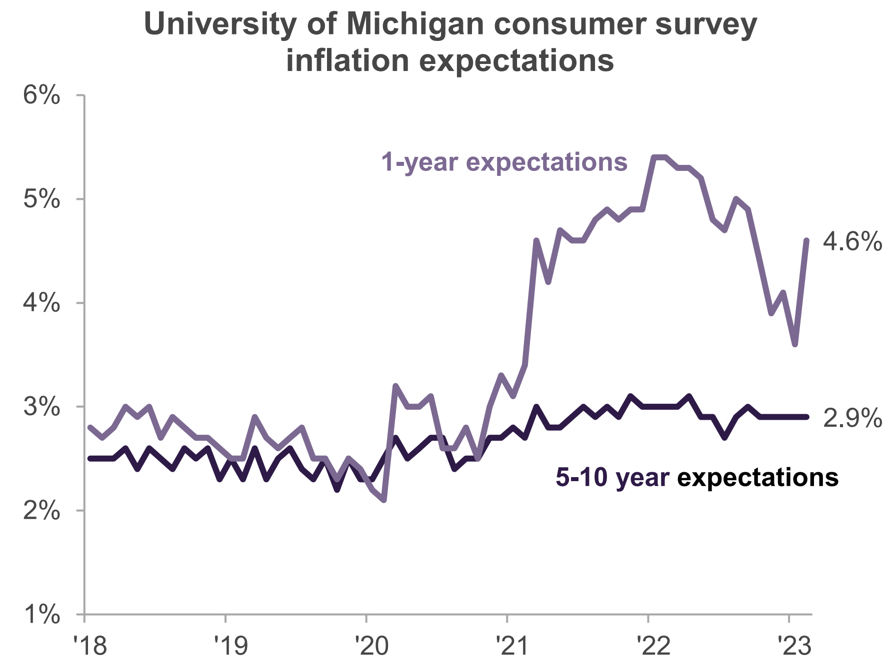


Source: Truist IAG, Bloomberg, U.S. Census Bureau; monthly data through March 2023.

Consumer confidence brightens in April, but inflation expectations up, too

The University of Michigan Monthly Consumer Sentiment Survey rebounded to a reading of 63.5 in April after stumbling to 62.0 in March. However, one-year inflation expectations surged to 4.6%, up a full percentage point compared to March due to the recent climb in gasoline prices. Yet, longer-term inflation expectations appear to be well-anchored, staying at 2.9% for the fifth month in a row.

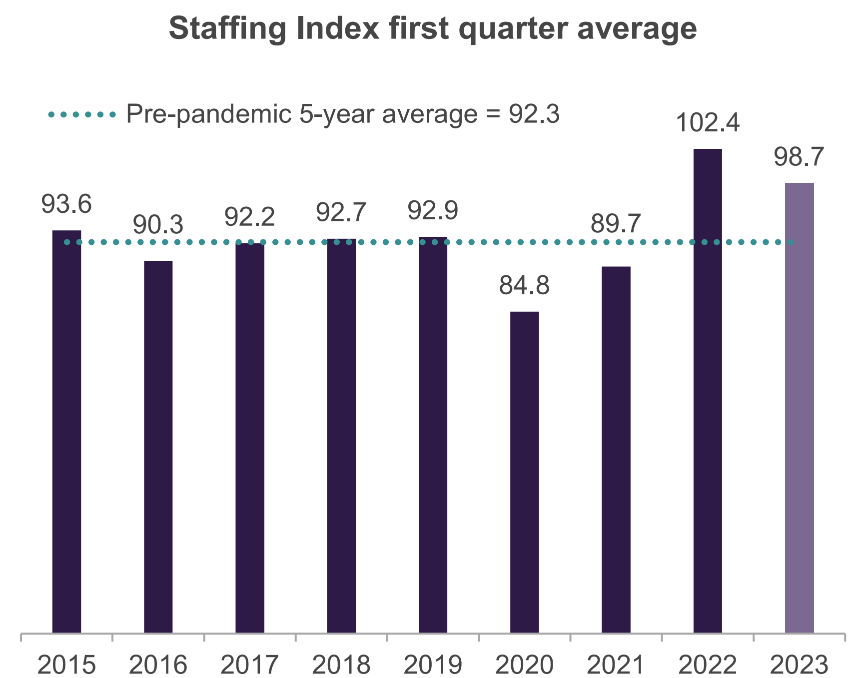




Sources: Truist IAG, Bloomberg, University of Michigan; preliminary monthly data through April 2023.

Temporary staffing softened in 1Q2023, but much stronger than prior trend

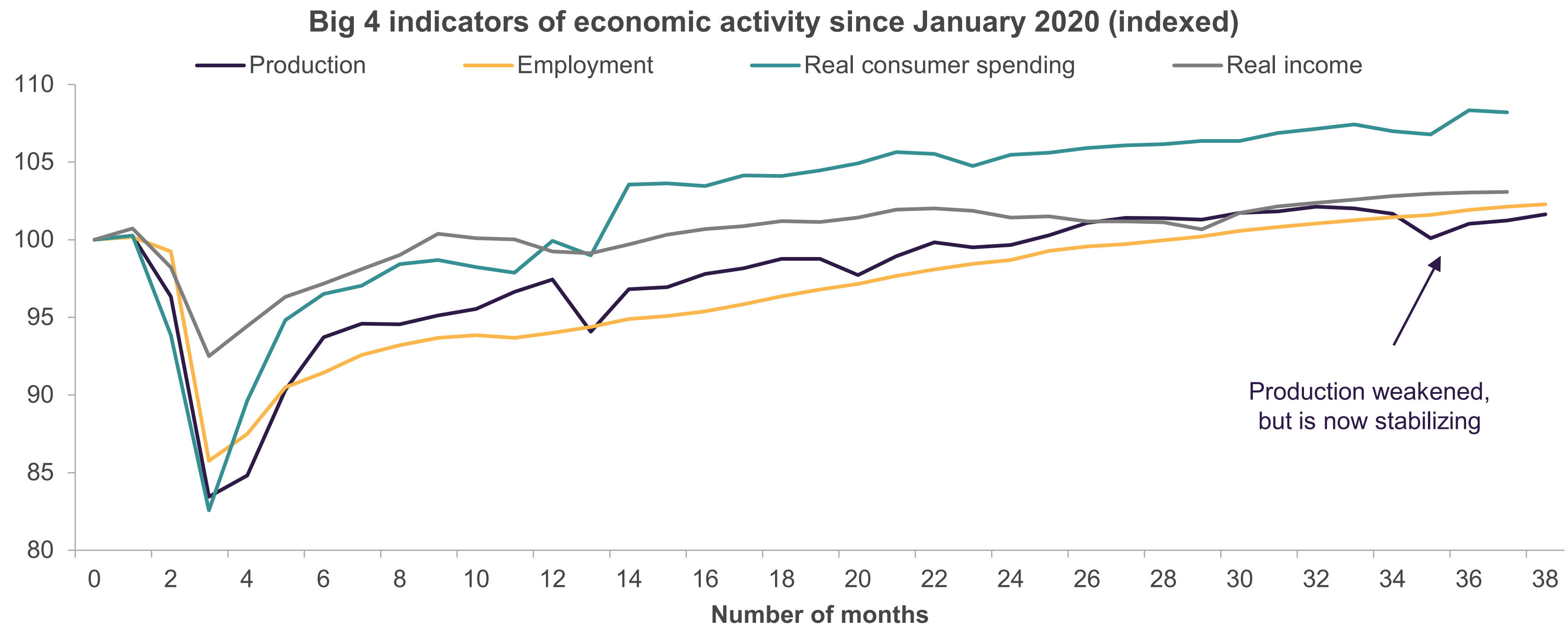
Temporary staffing has been weak of late. It typically rebounds during the first quarter after the big seasonal year-end drop. It averaged 98.7 during the first quarter of this year compared to 102.4 in 1Q2022. That said, 1Q2023 was considerably stronger than the pre-pandemic 5-year average of 92.3.



Sources: Truist IAG, Bloomberg, American Staffing Association; weekly data through April 3, 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.

The four primary indicators used to date a U.S. recession suggest the economy is slowing, though not yet in a recession

The National Bureau of Economic Research (NBER) Business Cycle Dating Committee is the official arbiter of the business cycle. It calls a recession based on many factors, including four primary indicators – industrial production, nonfarm payrolls, real personal consumption expenditures, and real personal income excluding transfer receipts. These indicators, which are considered coincidental rather than leading, currently suggest the U.S. is not yet in a recession.



Data source: Truist IAG, Bloomberg. Employment and production data through March 2023, real consumer spending and real income through February 2023.

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