Truist Advisory Services, Inc.

Economic data tracker – Jobless claims flag trouble ahead

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Trend watch and what's new this week

Most of the activity-based data rebounded during the past week following the spring holidays (slides 5 and 6), including rail traffic and hotel occupancy.

Air passenger traffic remains remarkably strong, continuing to track closely with 2019. The weekly count surged to 16.5 million, now staying above 16 million for six consecutive weeks for the first time since the summer of 2019. Furthermore, air travel bookings (paid fares) rose 3% through March to $5.4 billion, the highest since May 2019.

Jobless claims steadily climbing, flagging trouble ahead

Historically, jobless claims have been one of the most consistent recession flags. Initial jobless claims, which measures new claims, are up nearly 35% from their lows (slide 7). Similarly, continuing claims, which measure the number of people continuing to getting jobless benefits, has steadily climbed above 1.8 million, which was the pre-pandemic 3-year average. Continuing claims peaked at 23 million during the pandemic recession but peaked at 6.5 million in the aftermath of the Great Financial Crisis in 2009.

Existing home sales down 14 of the past 16 months

On slide 8, existing home sales slumped 2.4% in March. Yet, with continued limited supply, home prices rose for a second straight month, up 3.2% to $380,000, which is 32.7% above the December 2019 level. There's a wide variation based on location, with prices softening in markets that had the largest post-pandemic increases, especially in the West.

New housing activity showing signs of life

On slide 8, we updated several of the new housing metrics. Single-family permits increased for a second month in a row after 11 straight declines. Housing starts also rose for a second straight month and third time in four months. Both were dramatically impacted by the sharp increase in mortgage rates, which rose more than 3 percentage points during 2022.

Also on slide 8, new buyer traffic held steady in March, up from extremely depressed levels. That helped the NAHB Market Index, which is the builder sentiment survey, edge up slightly.

U.S. surveys improve in April as manufacturing expands

On slide 10, 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. More importantly, manufacturing expanded after contracting for the past five months.

Economic commentary – Our take and the bottom line

Our take

While most of the incoming data released during this past week was negative, it does appear that, on balance, there were some positives in terms of their economic implications. Most notably, the April new housing figures are showing signs of life.

Yet, we are most concerned about the rising new and continuing claims for unemployment benefits (slide 7). As we have noted here, the cooling trend in the labor market has materialized, including fewer job openings, and fewer workers quitting voluntarily. Last week, we highlighted weakening temporary staffing trends. Moreover, wages and hours worked have cooled of late, which reduces incomes and will eventually decrease spending. Credit quality has been somewhat stable but is deteriorating, heading back to pre-pandemic levels.

This is all a fancy way of saying, “the recession storm clouds are gathering.” Yet, as we mentioned, just because some data is coming in weaker than in 2022, that doesn’t necessarily mean it’s weak. Those temporary staffing trends are down from very strong 2022 levels but remain above the pre-pandemic 3-year average. Similarly, retail sales have ticked down but are hovering near their all-time high.

Still, 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.

All of this will factor into the Federal Reserve’s (Fed) decision making. Inflation has been moving in the right direction, but it remains uncomfortably high and well above the Fed’s 2% target. That means the Fed will remain focused on curbing inflation, aka price stability, especially amidst overall solid activity, albeit lower than 2022 levels. 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

The recent headwind of stricter credit standards broadly to already-tightening financial conditions and persistent inflation are reasons why a U.S. recession is more likely in 2023, perhaps pulling forward toward mid-year. 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: 2.0%	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.
	Monthly jobs (nonfarm)	▲	Mar: 236K	Apr: N/A	Stronger than expected, but wages have clearly cooled, which is a positive for the inflation debate.
	Weekly jobless claims[+]	⇆	4/15: 245K	4/22: 250K	Up for a second straight week, while continuing claims climb.
	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 90% chance.
	10-year U.S. Treasury yield	▼	3.55%[‡]	Flat/up	Rates edged up slightly from a week ago as investors assess the chances of a recession and Fed rate hikes. We expect more volatility.
	10-year AAA GO muni yield	▼	2.09[‡]	Flat/up	Muni yields actually fell to their lowest level in over a year.
	30-year fixed mortgage rate	▼	6.88%[‡]	Flat/up	Up a few ticks from last week, though not nearly as much as broader rates. 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 outsized 1% drop during the month.
	Core CPI	▼	Mar: 0.4%	Apr: N/A	YoY rose 5.5%. Shelter, which lags, continues to grind higher.
	Producer prices (PPI)	⇆	Mar: -0.5%	Apr: N/A	Has only increased once in the past 4 months. YoY cooled to 2.7%.
	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	▼	Mar: 4.50M	Apr: N/A	Fell 2.4% MoM, single family down 14 of the past 16 months.
Housing	New home sales	▼	Feb: 640K	Mar: 632K	Rose 1.1% MoM, up for a third straight month, while prices rose.
Housing	New housing starts	▼	Mar: 1.420M	Apr: N/A	Down 0.8% MoM as multifamily dropped 6.7% during March.
Housing	New permits[+]	▼	Mar: 1.413M	Apr: N/A	Fell 8.8% MoM with multifamily -24.3% but single family up 4.1%.
Business	Durable goods orders[+]	▲	Feb F: -1.0%	Mar P: 0.7%	Commercial aircraft orders fell sharply (again), but core capital goods orders (ex-air & defense) ticked down 0.1% MoM, near all-time high.
Business	ISM Manufacturing Index	▼	Mar: 46.3	Apr: 46.7	Activity contracted for the fifth month in a row, weakening further. Prices paid component also contracted.
Business	ISM Services Index	▲	Mar: 51.2	Apr: 52.1	Expanded for a third straight month after contracting in December. Prices paid component dropped for the 10th time in 11 months.
Business	Business inventories[X]	▲	Feb: 0.2%	Mar: N/A	Rose modestly, but January was revised downward to -0.2%.
Consumer	Personal income	▲	Feb: 0.3%	Mar: 0.2%	Continued wage growth, though the pace ratcheted downward.
Consumer	Personal spending	▲	Feb: 0.2%	Mar: -0.1%	Sizable upward revision to January, taking it to up 2.0% MoM.
Consumer	Advance retail sales	▼	Mar: -0.4%	Apr: N/A	Fell for the fourth time in five months, but still near all-time high.
Consumer	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 [X]Lagging indicator [‡]Intraday quote Bloomberg consensus shown

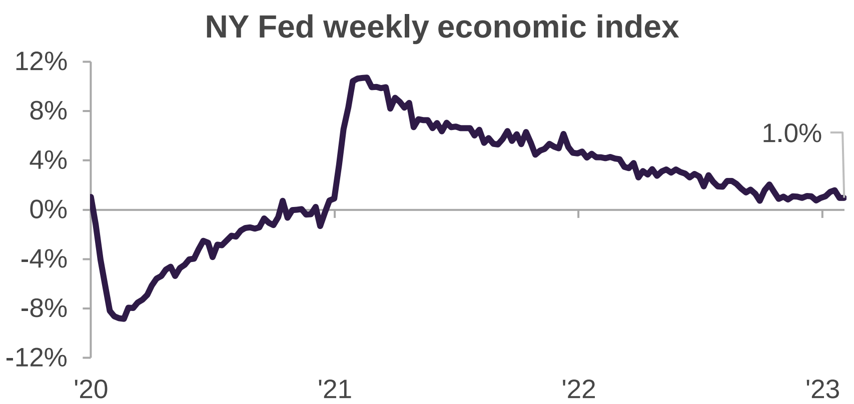
U.S. activity-based data matrix

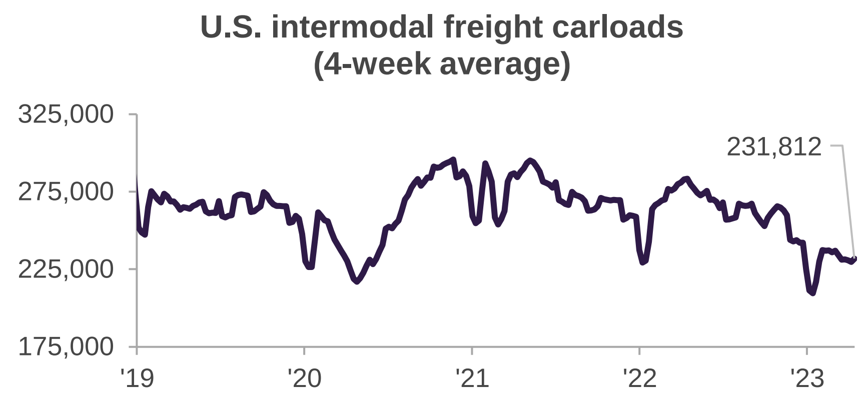
Indicator	Relative trend	What we're watching
Back to office	⇆	Fell to 46.3 during the post-holiday week (pre-pandemic indexed to 100). Top cities were Austin (60), Houston (56), and Dallas (50); bottom were San Jose (36) and Philadelphia (40). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts rose 2.0% WoW to 16.2 million, which was 2.5% above the 2019 average of 16.1M. Passenger counts were basically flat (-0.3%) from the same week in April '19 but up 9.6% from April '22.
OpenTable restaurant bookings	▲	Fell 8% compared to 2022 levels, though improved from -7% during the prior week.
Hotel occupancy	▲	Rebounded to 64.2% from 61.3% in the prior week. The average daily rate rose WoW to $155.33, up 3.7% from a year ago, and revenue per available room rose WoW to $99.67, up 8.6% from April '22.
Freight (rail/truck/ship)	▼	Rail carloads rebounded 3.4% following the holiday week and rose 0.5% MoM in March thanks to an 8.3% jump in vehicle shipments. Container traffic at 4 top U.S. ports (LA, LB, SAV, SEATAC) surged 11.1% in March. But the Cass Freight Index slumped 1.0% MoM in March; it's been down 6 of the past 7 months.
Staffing index	▼	Slipped to 96.8 during the Easter/Passover/Ramadan holiday week from 98.0 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.

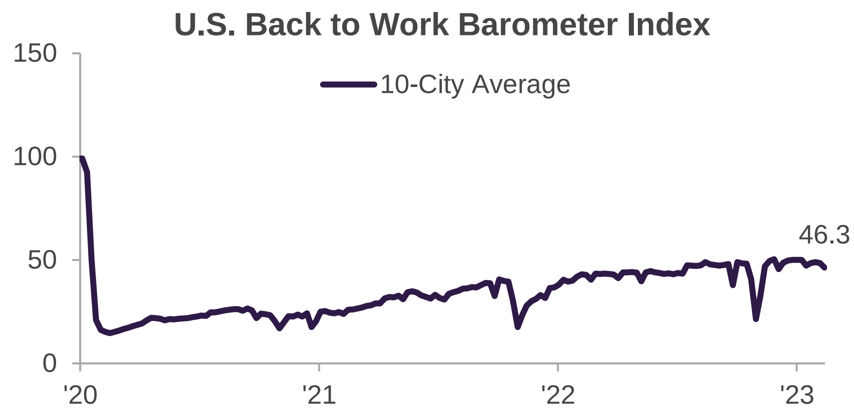
Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

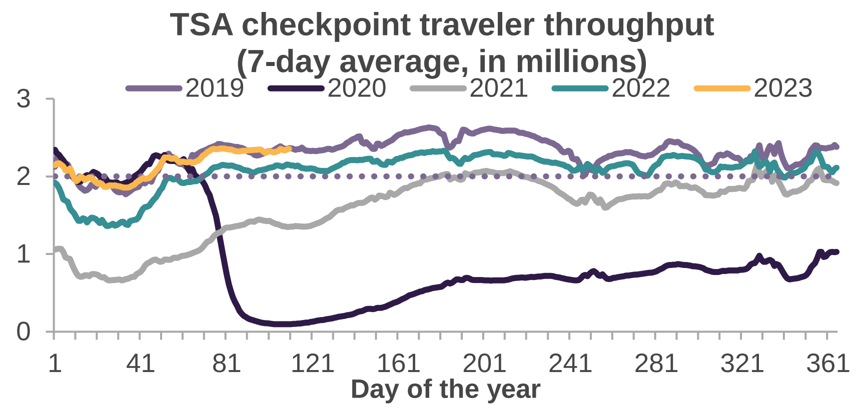
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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





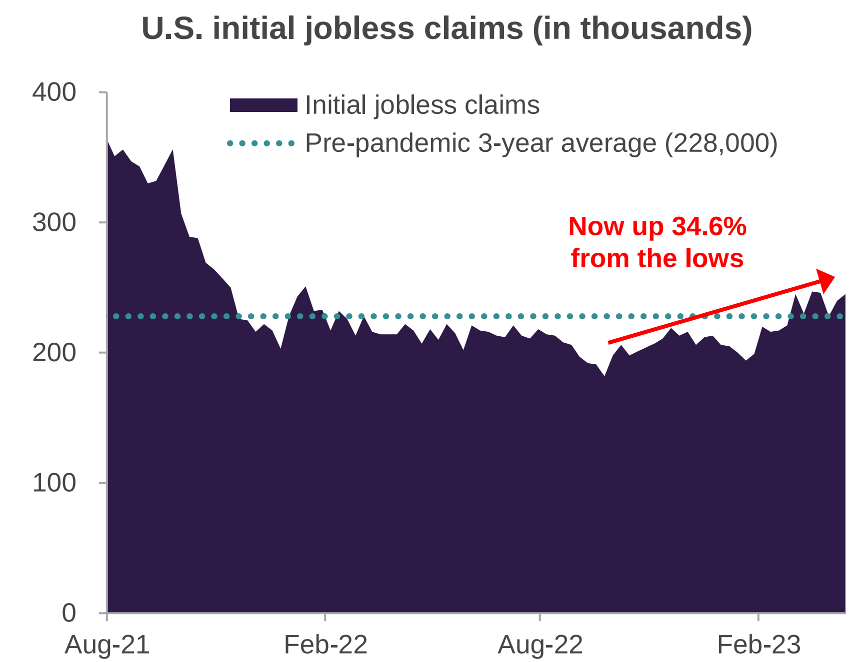


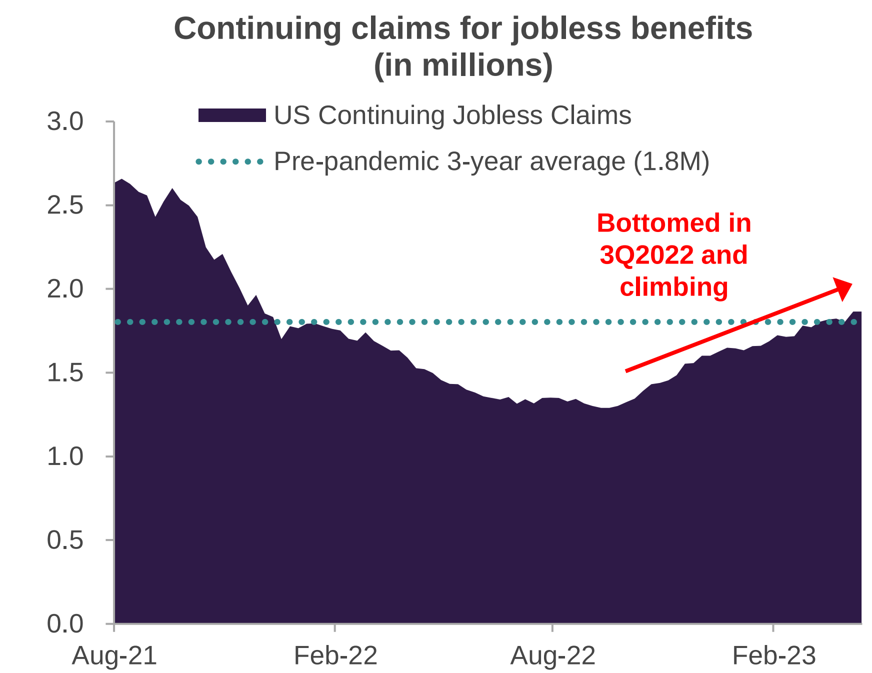


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through April 15, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through April 14. Bottom left: Bloomberg, Kastle Systems averaged weekly through April 12. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through April 20.

Jobless claims steadily climbing, flagging trouble ahead

Jobless claims are one of the most consistent recession flags. Initial jobless claims, which measures new claims, are up nearly 35% from their lows. Similarly, continuing claims, which measure the number of people continuing to getting jobless benefits, has steadily climbed above 1.8 million, which was the pre-pandemic 3-year average. During the pandemic, continuing claims peaked at 23 million, but peaked at 6.5 million in the aftermath of the Great Financial Crisis in 2009.



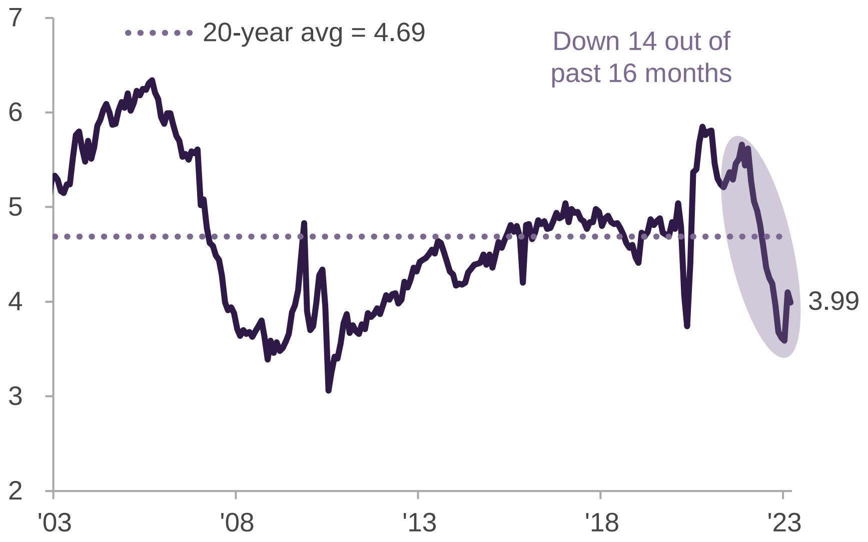


Sources: Truist IAG, Bloomberg, Department of Labor. Initial claims weekly data through April 15, 2023, continuing claims through April 8, 2023.

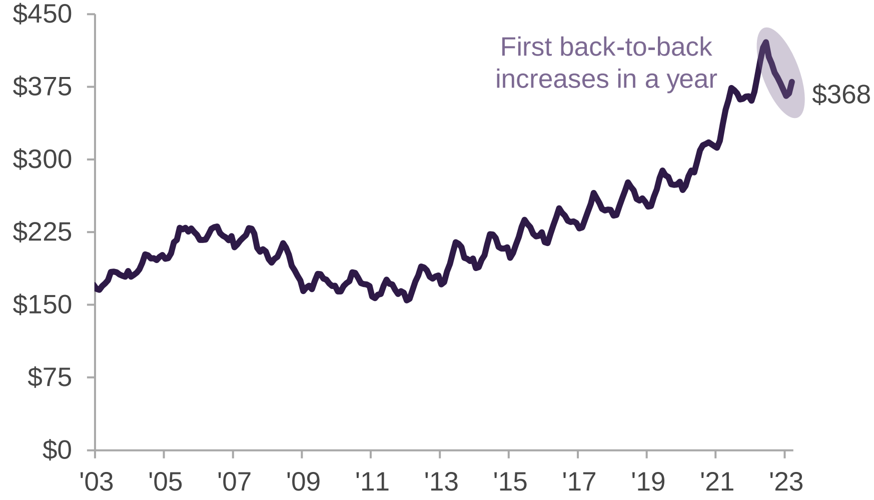
Existing home sales down for the 14th time in 16 months

Existing single-family home sales slumped 2.7% to an annualized rate of 3.99 million in March, which remains 17.6% below the December 2019 level. Meanwhile, prices rose for a second straight month, up 3.2% to $380,000, which is 32.7% above the December 2019 level. There's a wide variation based on 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)



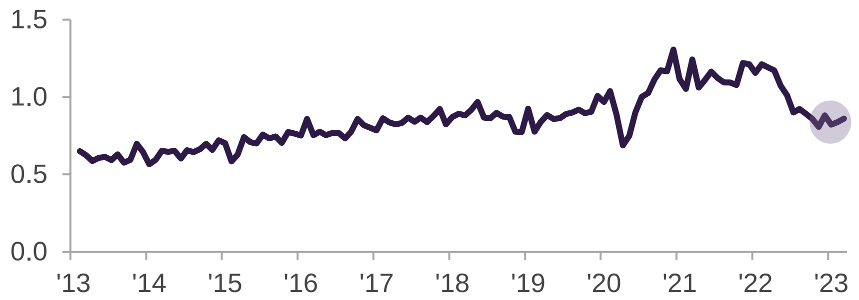
Median sales price of existing single-family homes (in $thousands)



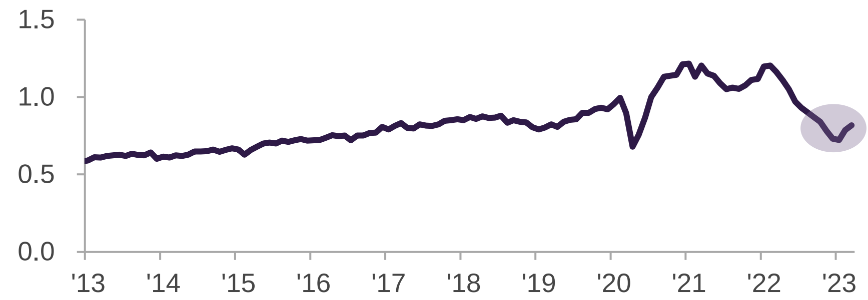
Sources: Truist IAG, Bloomberg, National Association of Realtors. Figures shown are seasonally-adjust annualized rate (SAAR); monthly data through March 2023.

New housing activity was crushed in ’22 by higher mortgage rates, but is showing signs of life

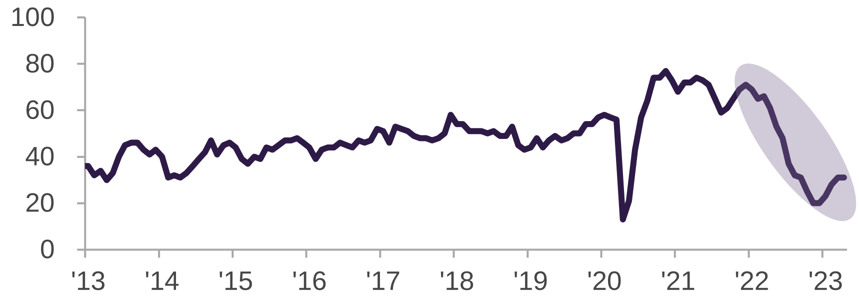
Single-family housing starts (units in millions, SAAR)



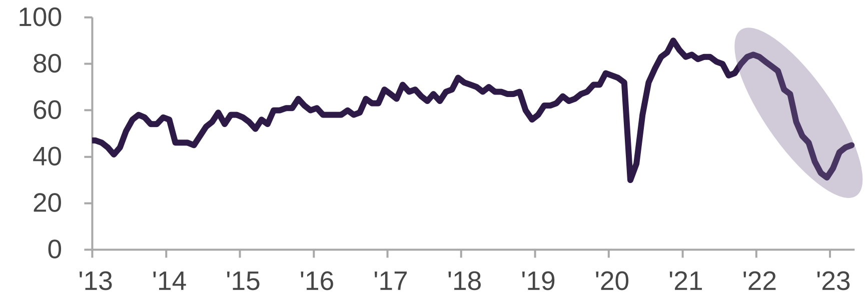
New single-family building permits (units in millions, SAAR)



National Association of Home Builders traffic of prospective buyers (index value)



National Association of Home Builders Market Index

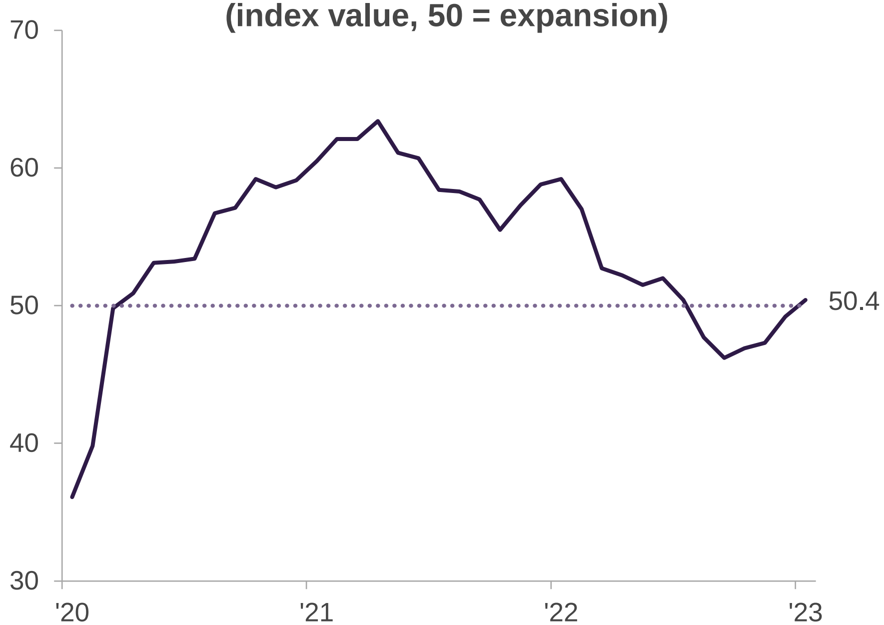


Sources: Truist IAG, Bloomberg. Seasonally adjusted annualized rate (SAAR); monthly data through March 2023.

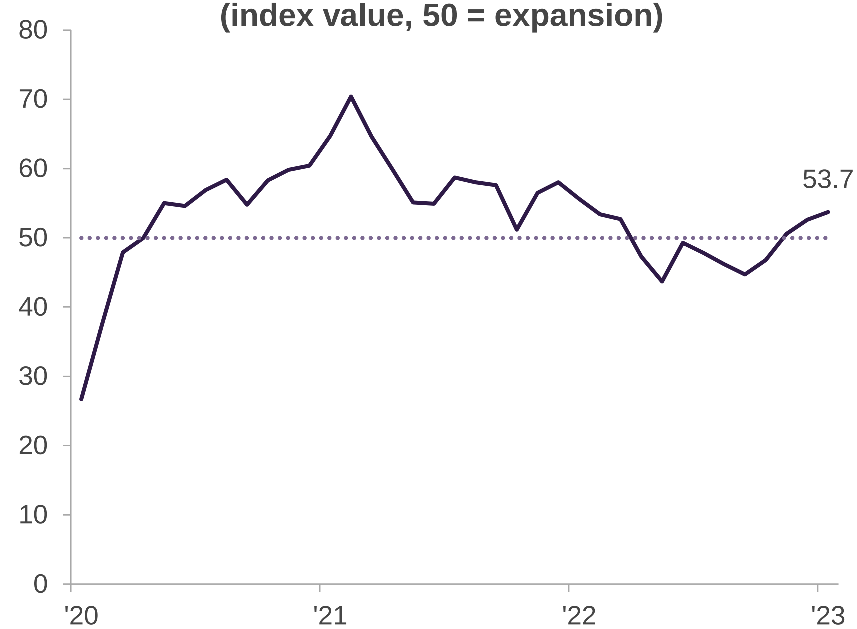
U.S. manufacturing & services surveys continued to rebound in April

S&P Global's U.S. Manufacturing PMI Index swung to 50.4, expanding for the first time in five months. Similarly, the U.S. Services PMI Index rose to 53.7, which was its highest reading in 12 months and fourth consecutive monthly increase.

S&P Global's U.S. Manufacturing PMI Index (index value, 50 = expansion)



S&P Global's U.S. Services Index (index value, 50 = expansion)



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

Disclosures

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