Truist Advisory Services, Inc.

Economic data tracker – 1Q23 growth softer than expected

Michael Skordeles, AIF®
Head of U.S. economics

Week 17 – April 28, 2023

Trend watch and what's new this week

Air passenger traffic remains remarkably strong and is well beyond spring break. The weekly count was 16.3 million, staying above 16 million for the seventh straight week for the first time since the summer of 2019. It continues to track very closely with 2019 (slide 6), with year-to-date total passengers running 0.2% above four years ago.

The rest of the activity-based data (slides 5 and 6) has also improved in the weeks following the spring holidays, including hotel occupancy, temporary staffing, and rail traffic.

First quarter growth

On slide 7, we dig a little deeper into first quarter gross domestic product (GDP), which rose 1.1% on an annualized basis. That was despite the big drag from business inventories, which carved 2.26 percentage points off the first quarter growth rate. However, consumer spending surged 3.7%, it's fast pace in seven quarters and added 2.48 percentage points. Nonetheless, the overall pace of 1.1% missed the consensus expectation of 2.0% and was dramatically slower than the fourth quarter growth of 2.6%.

Lack of supply driving new housing uptick

New housing metrics continue to show signs of life after being pummeled during most of 2022, declining in 8 of the 12 months. New homes sales (slide 8) jumped in March and rose for the third time in four months. Prices also for the rose for the third time in four months.

New orders for durable goods mixed as core orders sputter

On slide 9, new orders for durable goods—big-ticket items such as equipment, machinery, electronics, and office furniture—rose 3.2% in March. That was largely due to a 78% spike in commercial aircraft orders. But new orders for core capital goods, which excludes the volatile aircraft and defense components, fell 0.4%. That's the fifth decline in the past seven months.

The Fed's favorite gauge show inflation remains sticky

The Federal Reserves' (Fed) favorite inflation gauge—the price index of core personal consumption expenditures—rose in August (slide 10). While it has been moving in the right direction and is down from its February high of 5.4%, it ticked higher month-over-month in March and rose 4.6% on a year-over-year basis. It remains uncomfortably high and well above the Fed's 2% target, meaning there's still a case for rate hikes to continue based on persistent inflation.

We also received real personal income and spending figures for March. Both of those are part of the so-called "big 4" indicators of economic activity used to determine a recession (slide 11). While the pace has slowed for all four, reflecting the sluggishness of the economy, the big 4 don't indicate the U.S. is currently in a recession. That said, none of these are forward-looking indicators.

Economic commentary – Our take and the bottom line

Our take

The crosscurrents continue as most of the incoming data released during this past week had positives and negatives. Within the first quarter GDP report, for instance, consumer spending accelerated to its fast pace in seven quarters. Even the inventory drawdown, which was the big drag on overall growth, has positive implications insofar as lean inventories mean that any pickup in demand will require restocking.

Case in point has been new housing, where activity continues to improve due to extremely limited supply. Despite much higher mortgage rates and prices that are roughly 30% higher than pre-pandemic levels, the lack of supply is spurring a resurgence in housing activity.

Yet another inflation gauge – this time personal consumption expenditures (PCE) – indicates that inflation has been moving in the right direction but 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, especially amidst overall solid activity, albeit lower than 2022 levels.

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)	▲	1Q P: 1.1%	1Q A: 1.1%	Came in at roughly half of 2.0% consensus. Consumer spending accelerated to its fastest pace in 7 quarters, but business inventories sliced off an outsized 2.3 percentage points from 1Q 23 growth.
Jobs	Unemployment rate[X]	▲	Mar: 3.5%	Apr: 3.6%	Ticked down 0.1% MoM, near the lowest level since May ’69.
	Monthly jobs (nonfarm)	▲	Mar: 236K	Apr: 175K	Stronger than expected, but wages have clearly cooled, which is a positive for the inflation debate.
	Weekly jobless claims[+]	⇆	4/22: 230K	4/29: 240K	Fell 6.5% WoW, snapping a two-week increase streak.
	Nonfarm productivity	▲	4Q F: 1.7%	1Q P: -1.4%	Revised downward from 3.0%. Also, unit labor costs revised to 3.2% from 1.1%, compared to 6.9% in 3Q 22 and 6.6% in 2Q 22.
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	▼	3.44%‡	Flat/up	Down from a week ago as investors digest earnings and the chances of a recession and Fed rate hikes. We expect more volatility.
	10-year AAA GO muni yield	▼	2.35%‡	Flat/up	Muni yields flattish WoW but down from a year ago levels.
	30-year fixed mortgage rate	▼	6.90%‡	Flat/up	Largely unchanged from last week. Mortgage rates remain elevated, which hurts affordability.
Inflation	Consumer prices (CPI)[X]	▼	Mar: 0.1%	Apr: 0.4%	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: 0.3%	YoY rose 5.5%. Shelter, which lags, continues to grind higher.
	Producer prices (PPI)	⇆	Mar: -0.5%	Apr: 0.3%	Has only increased once in the past 4 months. YoY cooled to 2.7%.
	Core PPI	⇆	Mar: -0.1%	Apr: 0.2%	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.
	New home sales	⇆	Mar: 683K	Apr: N/A	Jumped 9.6% MoM, up for a third time in 4 months, while prices rose.
	New housing starts	▼	Mar: 1.420M	Apr: N/A	Down 0.8% MoM as multifamily dropped 6.7% during March.
	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+	▲	Mar P: 3.2%	Mar F: 3.2%	Commercial aircraft orders spiked 78%, but core capital goods orders (ex-air & defense) have declined in 5 of the past 7 months.
	ISM Manufacturing Index	▼	Mar: 46.3	Apr: 46.8	Activity contracted for the fifth month in a row, weakening further. Prices paid component also contracted.
	ISM Services Index	▲	Mar: 51.2	Apr: 51.8	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	▲	Mar: 0.3%	Apr: N/A	Continued wage growth, though the pace ratcheted downward.
	Personal spending	▲	Mar: 0.0%	Apr: N/A	Better than expected, but February was revised downward to -0.2%.
	Advance retail sales	▼	Mar: -0.6%	Apr: N/A	Fell for the fourth time in five months, but still near all-time high.
	Consumer sentiment	▲	Apr F: 63.5	May P: N/A	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

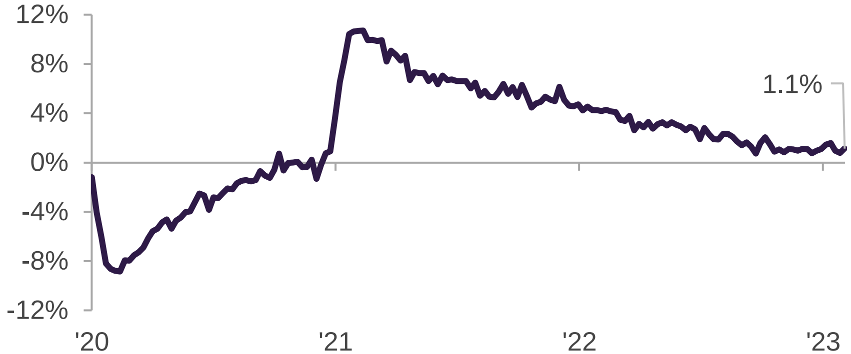
Indicator	Relative trend	What we're watching
Back to office	⇆	Rose to 49.6, the highest level in 6 weeks (pre-pandemic indexed to 100). Top cities were Austin (63), Houston (61), and Dallas (54); bottom were San Jose (39) and Philadelphia (43). The trend is steadily improving and is now about half of 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 -0.7% from the same week in April '19 but up 10.8% from April '22.
OpenTable restaurant bookings	▲	Fell 5% compared to 2022 levels, though improved from -10% during the prior week.
Hotel occupancy	▲	Jumped to 67.2%, which is a 5-week high. The average daily rate rose WoW to $155.76, up 2.3% from a year ago, and revenue per available room rose WoW to $104.64, up 6.6% from April '22.
Freight (rail/truck/ship)	▼	Rail carloads rose 2.6% last week and 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) 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	▼	Rose modestly to 96.9 from 96.8, snapping a two-week down streak around the spring holidays. 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

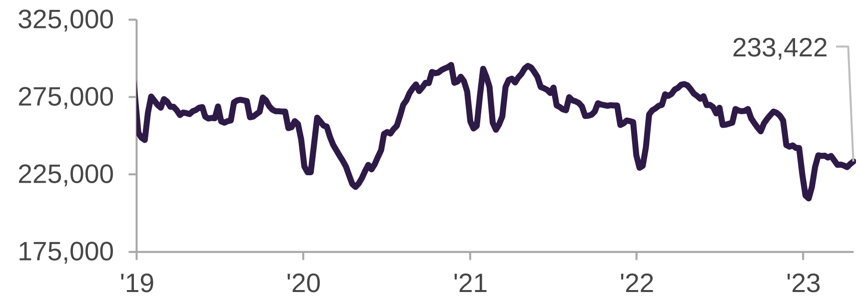
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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

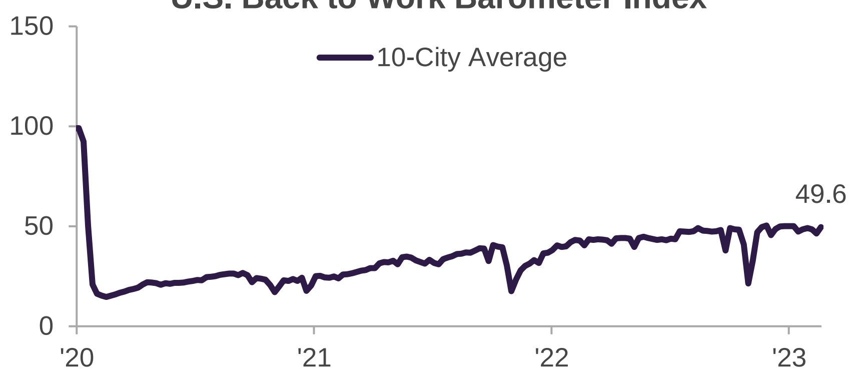
NY Fed weekly economic index



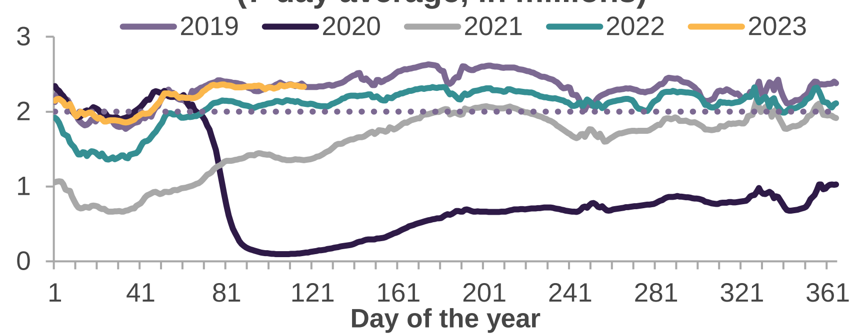
U.S. intermodal freight carloads (4-week average)



U.S. Back to Work Barometer Index



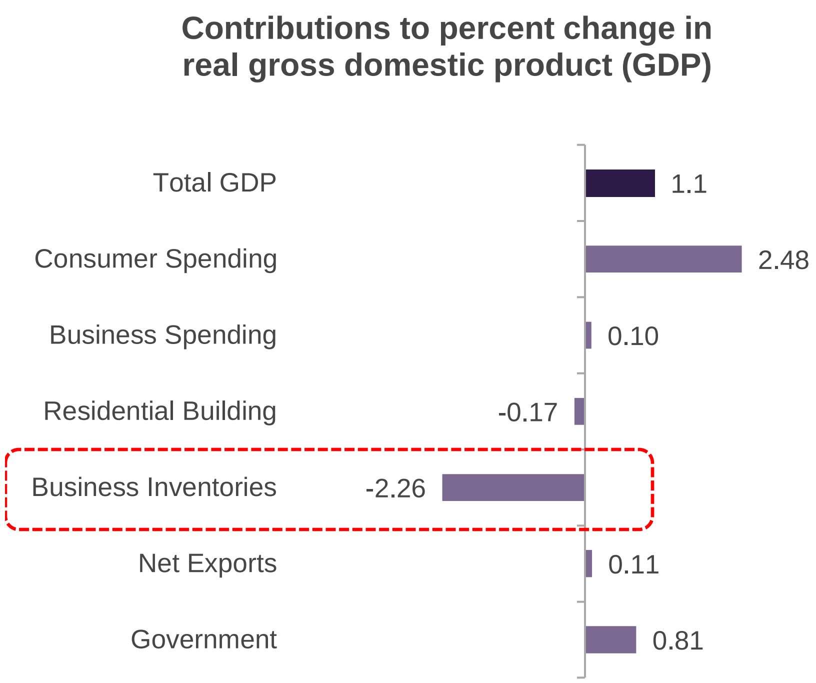
TSA checkpoint traveler throughput (7-day average, in millions)

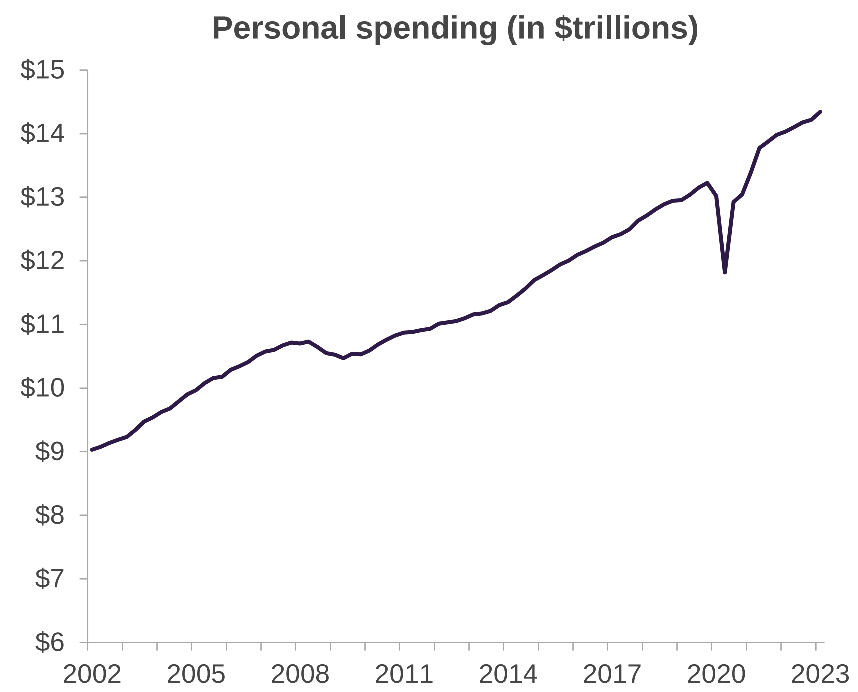


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through April 22, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through April 21. Bottom left: Bloomberg, Kastle Systems averaged weekly through April 19. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through April 27.

1st Quarter U.S. growth punched by inventory drawdown

Real GDP rose 1.1% on an annualized basis in the first quarter. It was dragged down 2.26 percentage points by business inventories and a modest decline in residential housing. However, consumer spending surged 3.7%, it's fastest pace in seven quarters, adding 2.48 percentage points to the first quarter growth rate.



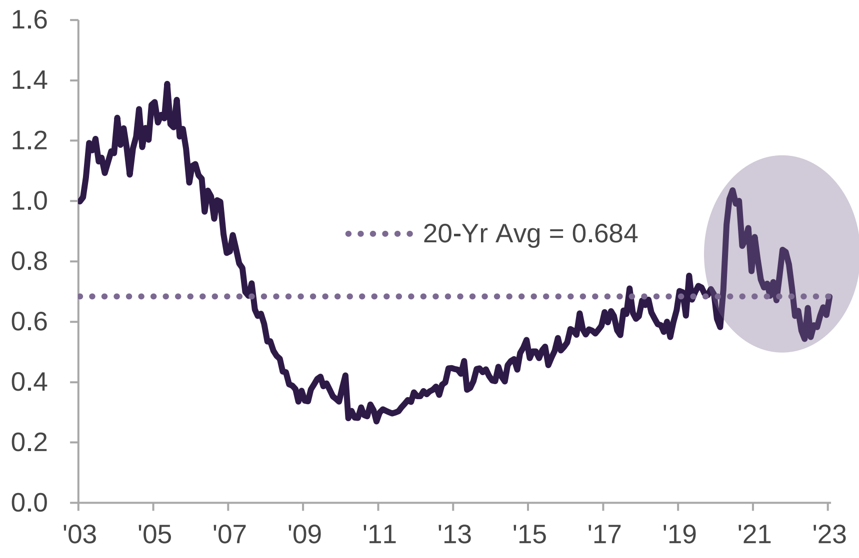


Sources: Truist IAG, Bureau of Economic Analysis. Left chart figures shown are inflation-adjusted (real) chained (2012) dollars on a seasonally adjusted annual rate.

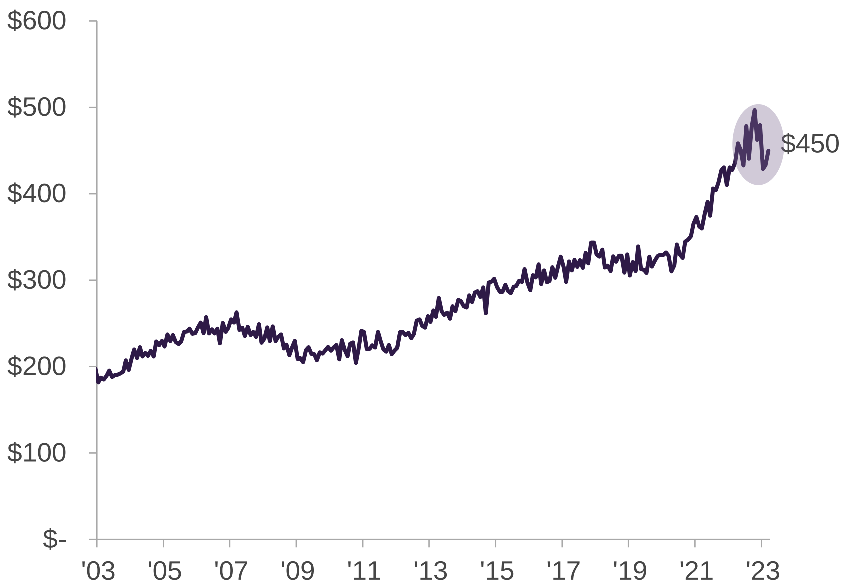
New home sales rose for third time in four months and prices up, too

New homes sales jumped 9.6% to an annualized rate of 683,000 in March, roughly in-line with the 20-year average, though are down 0.7% from the December 2019 level. Meanwhile, prices rose 3.8%, which is 36.5% above the December 2019 level. 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)



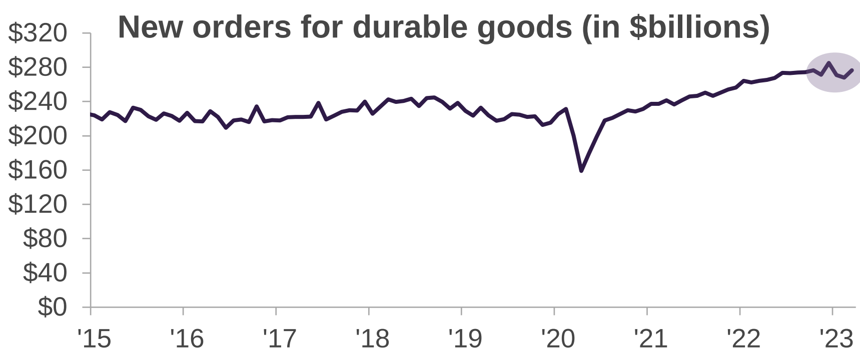
Median price of new single-family homes (in $thousands)



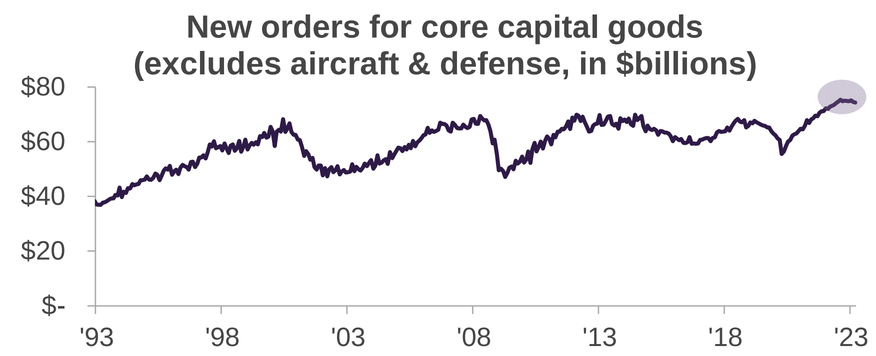
Sources: Truist IAG, Bloomberg, U.S. Census Bureau. Figures shown are seasonally-adjust annualized rate (SAAR); monthly data through March 2023.

Core capital goods orders sputtering

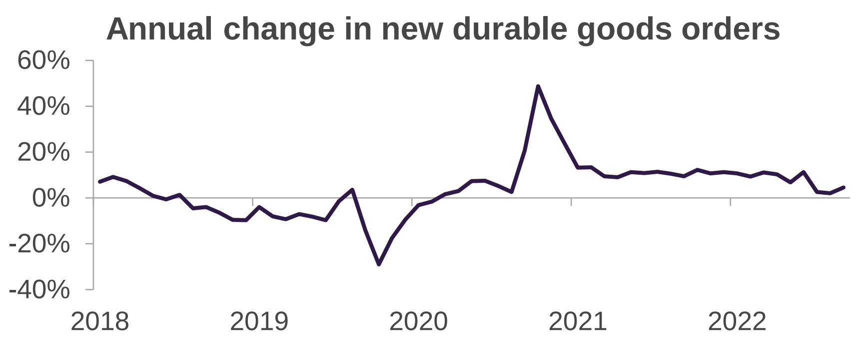
Hovering near cycle high thanks to commercial aircraft orders



Appears to be stalling



The year-over-year pace has cooled considerably in 2023



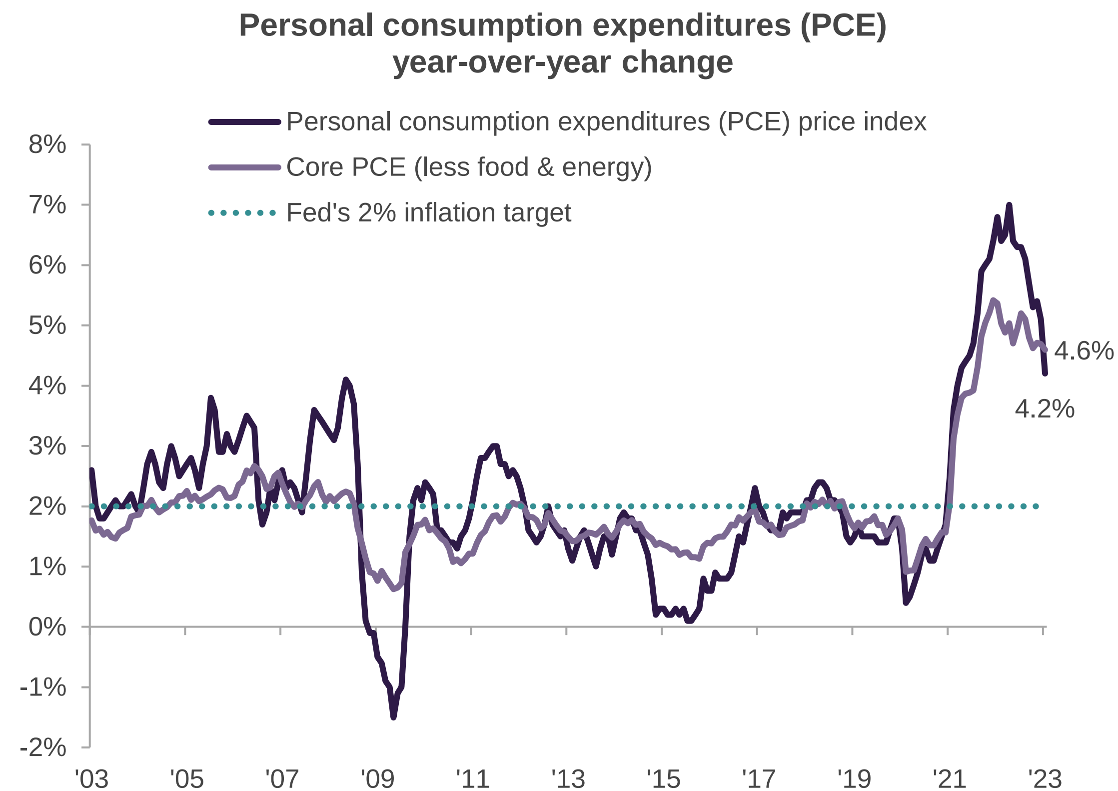
Down in 5 of the past 7 months

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

The Fed's favorite inflation gauge down from its peak, but still too high

Core PCE is the Fed's favored inflation gauge. While it has been moving in the right direction and is down from its February high of 5.4%, it ticked higher in March, up 4.6% on a year-over-year basis.

It remains uncomfortably high and well above the Fed's 2% target, meaning there's still a case for rate hikes to continue based on persistent inflation.

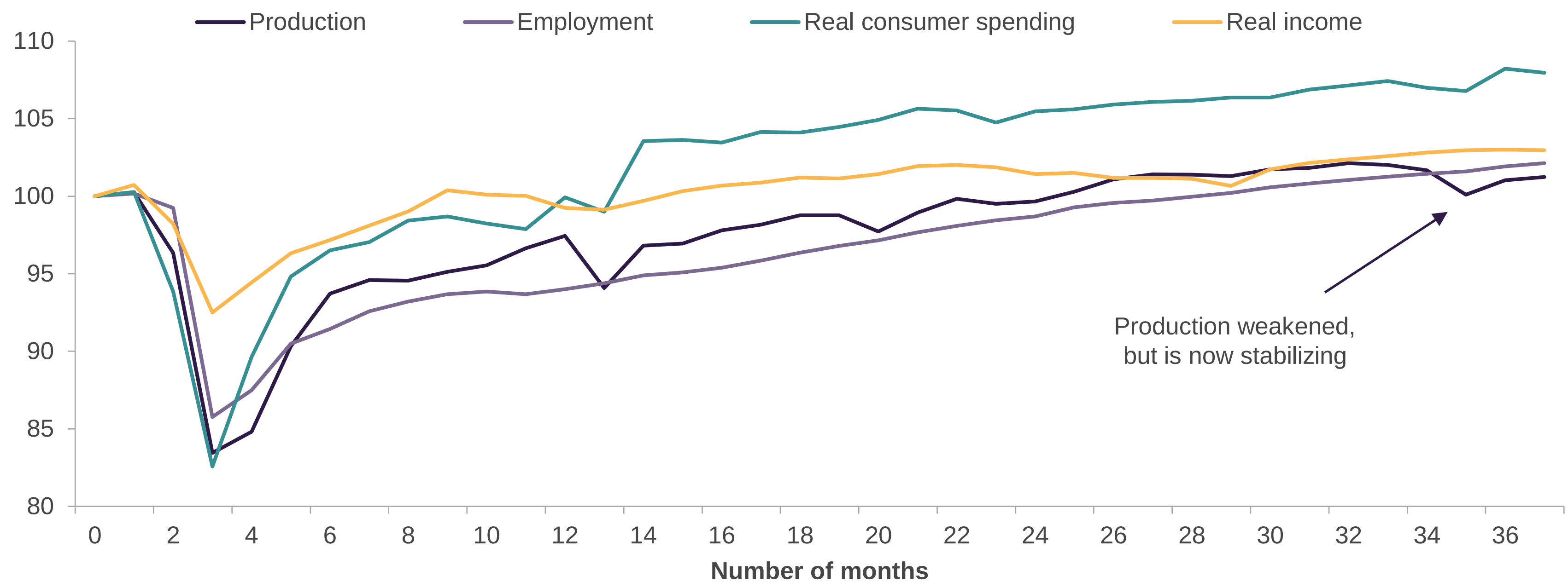


Sources: Truist IAG, Bloomberg, Bureau of Economic Analysis; monthly data through March 2023.

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.

Big 4 indicators of economic activity since January 2020 (indexed)



Data source: Truist IAG, Bloomberg.

Disclosures

Advisory managed account programs entail risks, including possible loss of principal and may not be suitable for all investors. Please speak to your advisor to request a firm brochure which includes program details, including risks, fees and expenses.

Truist Wealth is a name used by Truist Financial Corporation. Banking products and services, including loans, deposit accounts, trust and investment management services provided by Truist Bank, Member FDIC. Securities, brokerage accounts, insurance/annuities offered by Truist Investment Services, Inc. member FINRA, SIPC, and a licensed insurance agency where applicable. Life insurance products offered by referral to Truist Insurance Holdings, Inc. and affiliates. Investment advisory services offered by Truist Advisory Services, Inc., Sterling Capital Management, LLC, and affiliated SEC registered investment advisers. Sterling Capital Funds advised by Sterling Capital Management, LLC. While this information is believed to be accurate, Truist Financial Corporation, including its affiliates, does not guarantee the accuracy, completeness or timeliness of, or otherwise endorse these analyses or market data.

The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Truist Financial Corporation makes no representation or guarantee as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. The information contained herein does not purport to be a complete analysis of any security, company, or industry involved. This material is not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions and information expressed herein are subject to change without notice. TIS and/or its affiliates, including your Advisor, may have issued materials that are inconsistent with or may reach different conclusions than those represented in this commentary, and all opinions and information are believed to be reflective of judgments and opinions as of the date that material was originally published. TIS is under no obligation to ensure that other materials are brought to the attention of any recipient of this commentary.

Comments regarding tax implications are informational only. Truist and its representatives do not provide tax or legal advice. You should consult your individual tax or legal professional before taking any action that may have tax or legal consequences.

Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance.

TIS/TAS shall accept no liability for any loss arising from the use of this material, nor shall TIS/TAS treat any recipient of this material as a customer or client simply by virtue of the receipt of this material.

The information herein is for persons residing in the United States of America only and is not intended for any person in any other jurisdiction.

The information contained in this material is produced and copyrighted by Truist Financial Corporation and any unauthorized use, duplication, redistribution or disclosure is prohibited by law.

TIS/TAS's officers, employees, agents and/or affiliates may have positions in securities, options, rights, or warrants mentioned or discussed in this material.

CN2023-5654638.1 EXP04-2024