Economic data tracker – Fed hikes rates again

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Trend watch and what's new this week

The streak of weekly air passengers above 16 million stretched to eight, which is the longest span since the summer of 2019. Passenger traffic continues to track very closely with 2019 (slide 6), with the year-to-date total passengers running 0.1% above four years ago. The test will come as May progresses, when weekly counts should be climbing above 17 million around Memorial Day on their way to consistently topping 18 million during June and July.

The rest of the activity-based data (slides 5 and 6) has mostly improved in recent weeks. Rail traffic increased for the past three weeks, up 5% for the month of April to a six-month high. It was boosted by motor vehicle carloads, which jumped 4.4% in April to a 26-month high. (Finished vehicles are shipped via rail from the manufacturing plant to a point nearest their domestic destination or to a port for export, or vice versa from a port for imported vehicles.)

Is affluent spending starting to crack?

Attending a Broadway show is purely discretionary spending and, given an average ticket price of $125, is typically for affluent patrons. Season-to-date Broadway attendance is up 92.1% compared to last year, according to The Broadway League, through Week #49 (4/30/2023). Attendance for the '22-'23 Broadway season, which has just three weeks left, should top 12.2 million.

However, Broadway attendance appears to have softened in the past six weeks. Prior to Week #43 (3/19/2023), the '22-'23 season attendance was tracking closely with '16-'17 and '17-'18 seasons, when attendance exceeded 13.3 million.

Fed hikes rates for 10th time

The Federal Reserve's (Fed) rate-setting committee unanimously agreed to increase its target range for the federal funds rate by a quarter point (0.25%) to a range of 5.00% to 5.25% at its May meeting (slide 7). This was the tenth consecutive meeting with a rate hike, pushing the target rate up 5% in the past 15 months from essentially zero. The disconnect is that the Fed says it will keep rates higher, but markets expect rates will be cut to 4.1% by year-end 2023.

Manufacturing contracted for sixth straight month

Two separate manufacturing gauges showed mixed results. The Institute for Supply Management (ISM) Manufacturing Index ticked upward to a reading of 47.1 in April, the sixth straight reading below 50, which signifies a decrease in manufacturing activity (slide 8). Yet, the prices paid component surged to 53.2, which was the highest reading since July '22.

However, the final April reading of S&P Global's U.S. Manufacturing Index expanded, halting a five-month contraction in activity. That said, a reading of 50.2 can hardly be categorized as strong.

Economic commentary – Our take and the bottom line

Services indices expanded again in April

On slide 9, the ISM Services Index had a reading of 51.9 in April, expanding for the fourth month in a row after briefly contracting in December. Meanwhile, the prices paid component rose modestly, the first uptick in five months after declining in 10 of the prior 12 months.

Meanwhile, the final April reading of S&P Global's U.S. Services Index rose to 53.6, expanding for a third straight month after an ugly seven-month contraction streak from July '22 to January '23.

Job openings dropping, but still elevated

On slide 10, the number of job openings dropped 3.9% in March to 9.6 million, the lowest level since April '21. It was also the 8th decline in the past 12 months. Hiring also declined, slipping to 6.1 million. The so-called quit rate – officially known as the percentage of employees voluntarily quitting – ebbed to 2.5%, down from the cycle peak of 3% in 2022. All three indicators – openings, hiring, and the quit rate – remain above pre-pandemic levels.

Our take

The gale of crosscurrents in the economic data continued, though it generally appeared to contain more negatives than positives.

As far as monetary policy, the Fed largely stuck to the proverbial script, delivering the expected quarter-point rate hike. 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. Thus, while we believe this week's rate hike likely marks the end of the Fed's hiking cycle, we can't completely rule out a June hike if inflation doesn't continue cooling.

More importantly, we maintain our view that Fed policy is being guided by scar tissue—from prematurely loosening policy in the past. While rate cuts are plausible in the event of a sharper recession, we maintain our view that the coming economic slowdown will be relatively mild.

Bottom line

A recession remains our base case as dramatically higher interest rates and now tighter credit conditions place additional stress on consumers and businesses going forward. 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: 183K	Stronger than expected, but wages have clearly cooled, which is a positive for the inflation debate.
	Weekly jobless claims[+]	⇆	4/29: 242K	5/6: 245K	Rose 5.7% WoW, but the prior week was revised downward to -6.9%.
	Nonfarm productivity	⇆	1Q P: -2.7%	1Q F: -2.7%	Weaker than expected. Fourth quarter was revised downward to 1.6% from 1.7%. Also, unit labor costs jumped 6.3% from 3.3%.
Interest rates	Federal funds rate	▼	5.00% – 5.25%	6/14: 5.00% – 5.25%	As expected, the Fed raised rates 0.25% at the May meeting to help fight inflation. Market now expects the Fed to pause the rate hikes.
	10-year U.S. Treasury yield	▼	3.34%‡	Flat/down	Down sharply from a week ago as investors digest the latest Fed rate hike and debate the debt ceiling issue. We expect more volatility.
	10-year AAA GO muni yield	▼	2.31%‡	Flat//down	Only down modestly WoW but down considerably from last year.
	30-year fixed mortgage rate	▼	6.79%‡	Flat//down	Fell to their lowest level in roughly four weeks. Still, mortgage rates remain at their highest level since '01, 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: 4.44M	Apr: 4.30M	Fell 2.4% MoM, single family down 14 of the past 16 months.
Housing	New home sales	⇆	Mar: 683K	Apr: N/A	Jumped 9.6% MoM, up for a third time in 4 months, while prices rose.
Housing	New housing starts	▼	Mar: 1.420M	Apr: 1.420M	Down 0.8% MoM as multifamily dropped 6.7% during March.
Housing	New permits⁺	▼	Mar: 1.430M	Apr: 1.440M	Fell 7.7% MoM with multifamily -24.3% but single family up 4.1%.
Business	Durable goods orders⁺	▲	Mar F: 3.2%	Apr P: N/A	Commercial aircraft orders spiked 78%, but core capital goods orders (ex-air & defense) have declined in 5 of the past 7 months.
Business	ISM Manufacturing Index	▼	Apr: 47.1	May: N/A	Ticked up MoM but activity contracted for the sixth month in a row. Prices paid component rose to its highest reading since July '22.
Business	ISM Services Index	▲	Apr: 51.9	May: N/A	Expanded for a fourth straight month after contracting in December. Prices paid component edged up but fell in 10 of the prior 12 months.
Business	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.
Consumer	Personal spending	▲	Mar: 0.0%	Apr: N/A	Better than expected, but February was revised downward to -0.2%.
Consumer	Advance retail sales	▼	Mar: -0.6%	Apr: 0.3%	Fell for the fourth time in five months, but still near all-time high.
Consumer	Consumer sentiment	▲	Apr F: 63.5	May P:63.0	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

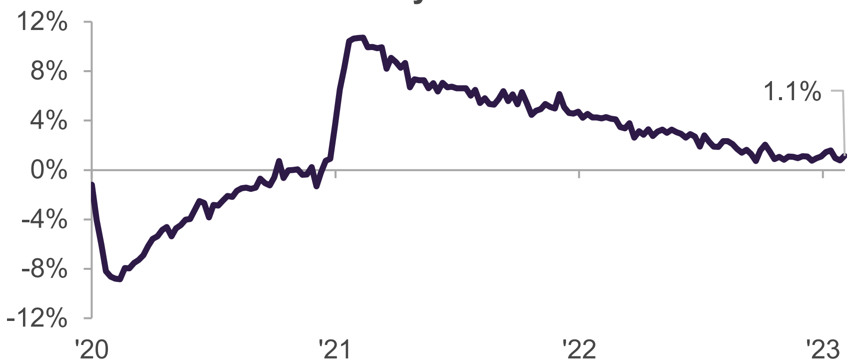
Indicator	Relative trend	What we're watching
Back to office	⇆	Edged up to 49.8, which was a 7-week high (pre-pandemic indexed to 100). Top cities were Austin (62), Houston (61), and Dallas (52); bottom were San Jose (40) and Philadelphia (43). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts slipped 1.7% WoW to 16.0 million, which was -0.4% from the 2019 average of 16.1M. Passenger counts were -1.6% from the same week in April '19 but up 10.1% above April '22.
OpenTable restaurant bookings	▲	Improved to -3% compared to 2022 levels, though improved from -9% during the week of April 22, 2023.
Hotel occupancy	▲	Slipped to 66.2%, which is a 5-week high. The average daily rate rose WoW to $155.76, up 0.1% 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 0.3% last week and jumped 5.0% MoM in April to a six-month high. 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	▼	Rebounded to 98.0, up for a second straight week and matched a four-week high, from 96.9 in 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

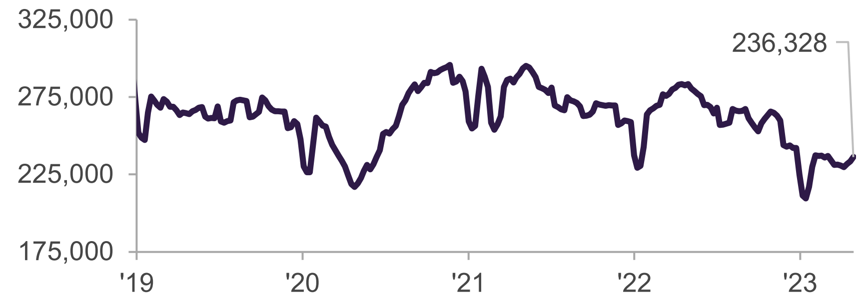
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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

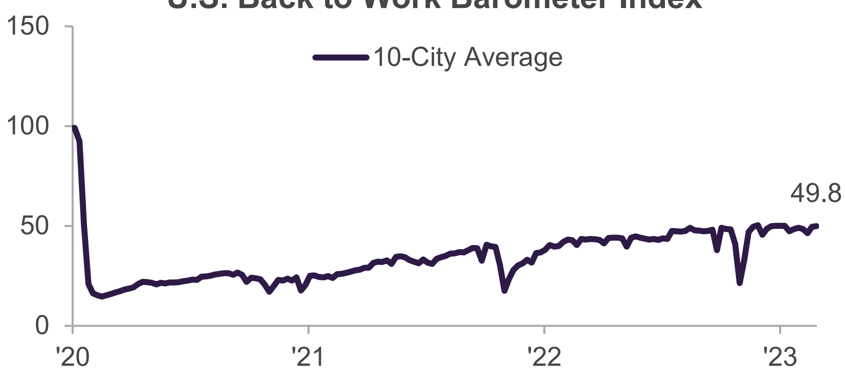
NY Fed weekly economic index



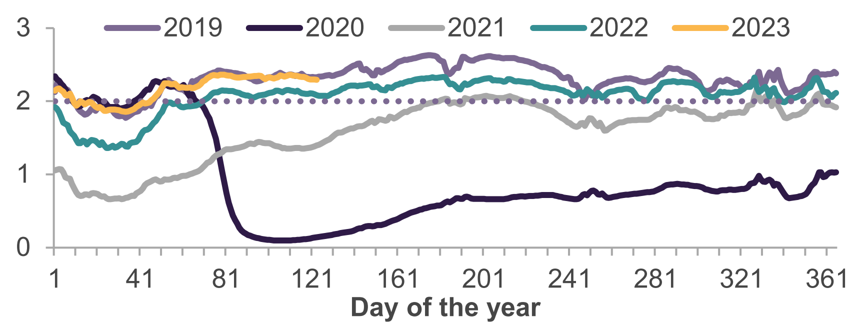
U.S. intermodal freight carloads (4-week average)



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 28. Bottom left: Bloomberg, Kastle Systems averaged weekly through April 26. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through May 3.

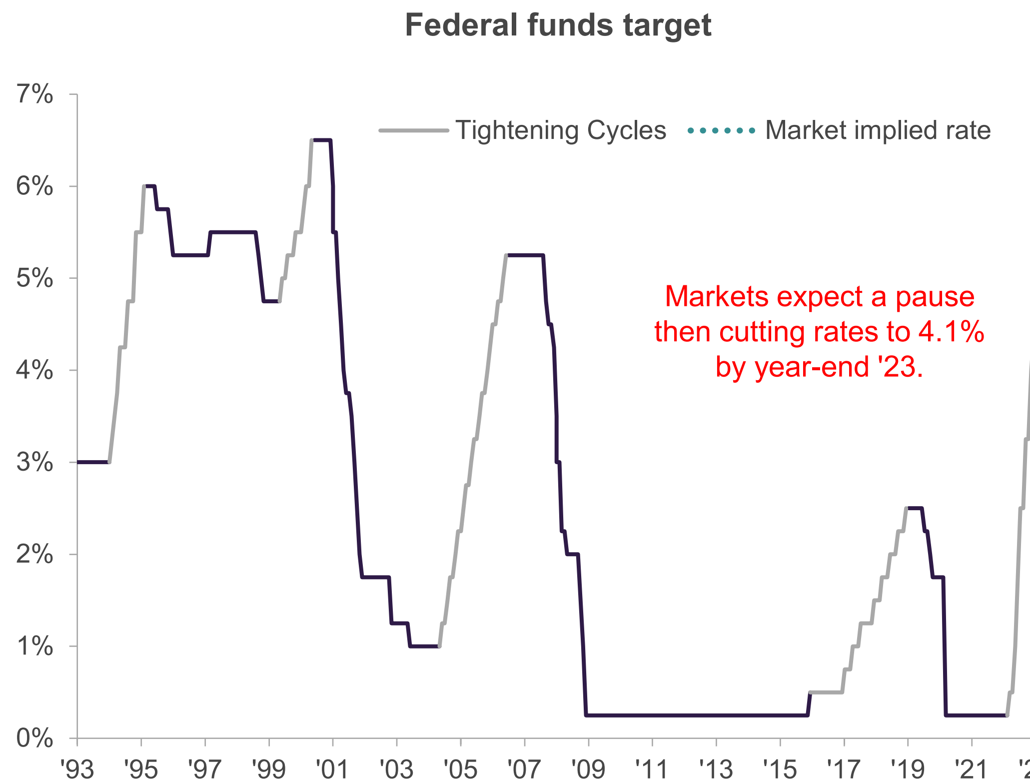
TRUIST

Wealth

Fed hikes another quarter point, but acknowledged a potential pause

The Federal Reserve's (Fed) rate-setting committee unanimously agreed to increase its target range for the federal funds rate by a quarter point (0.25%) to a range of 5.00% to 5.25% at its May meeting. This was the tenth consecutive meeting with a rate hike, pushing the target rate up 5% in the past 15 months from essentially zero.

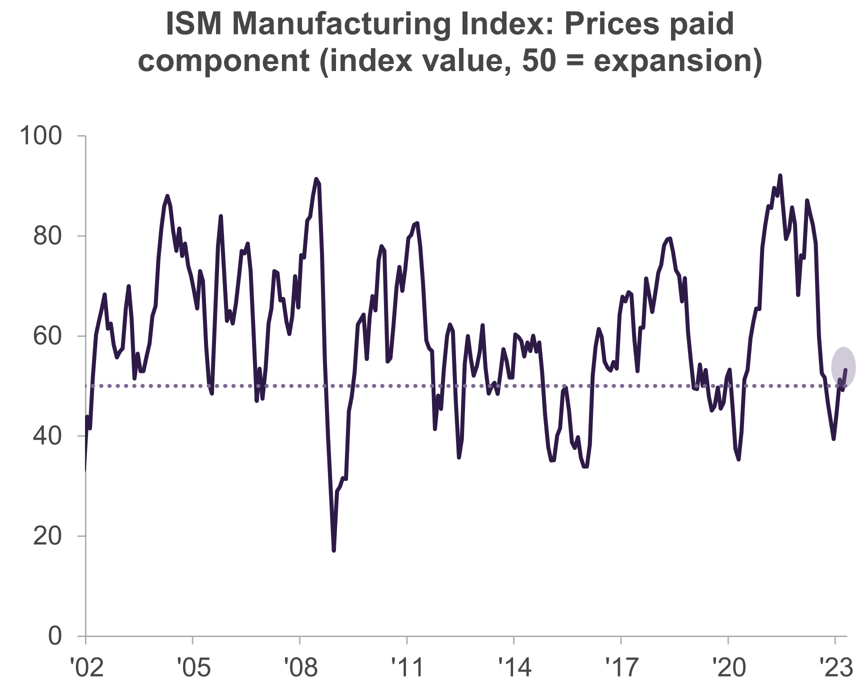
The disconnect is that the Fed says it will keep rates higher, but markets expect rates will be cut to 4.1% by year-end 2023.



Sources: Truist IAG, Federal Reserve Board; market implied rate intraday as of May 4, 2022.

ISM Manufacturing contracted for 6th month in April, yet prices rose

The Institute for Supply Management (ISM) Manufacturing Index ticked upward to a reading of 47.1 in April, the sixth straight reading below 50, which signifies a decrease in manufacturing activity. Yet, the prices paid component surged to 53.2, meaning prices increased compared to March. It was the highest reading since July ‘22.

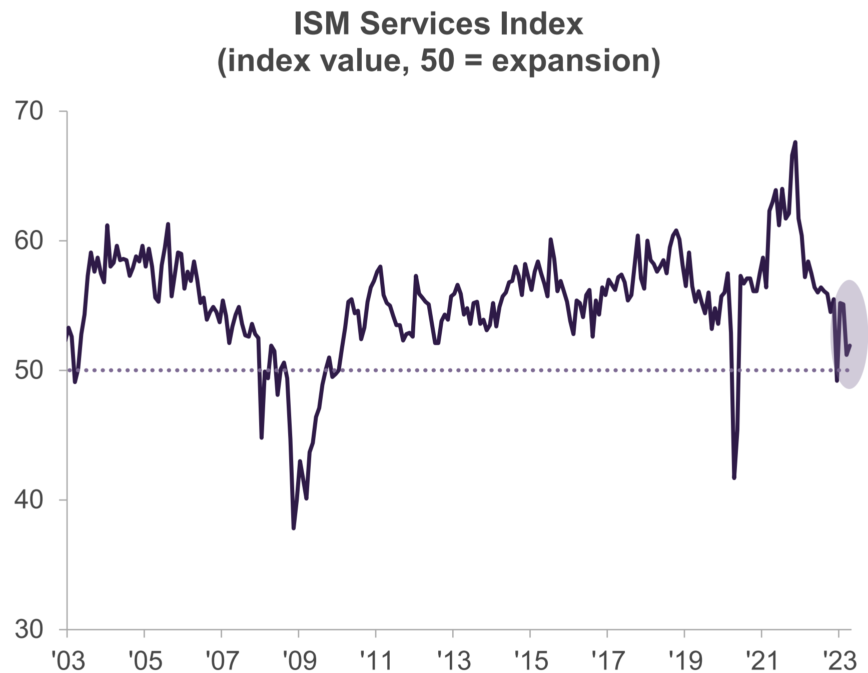


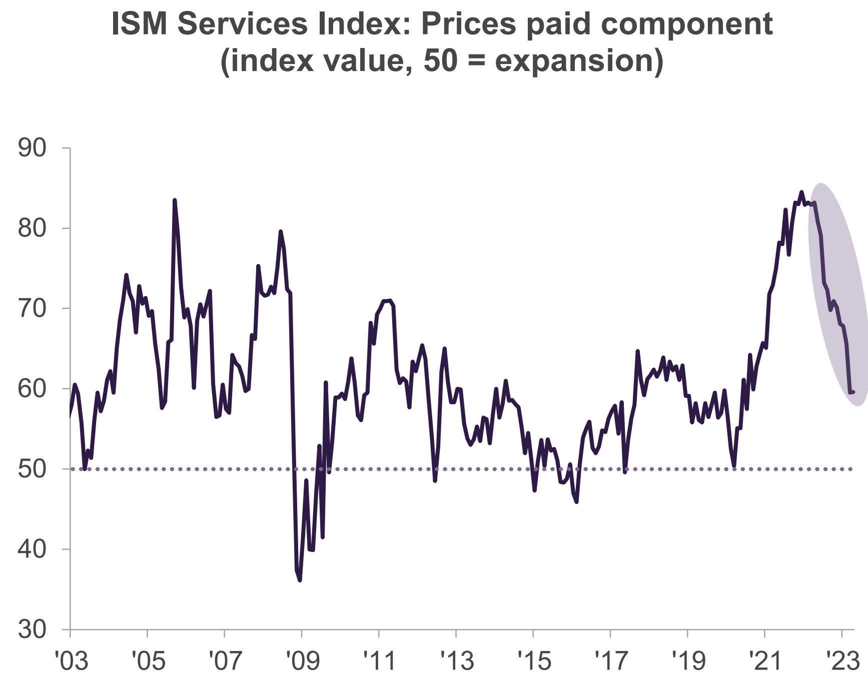
Sources: Truist IAG, Bloomberg, Institute for Supply Management (ISM); monthly data through April 2023.

Truist Advisory Services, Inc.

ISM Services expands again in April, but prices ticked up, too

The Institute for Supply Management (ISM) Services Index had a reading of 51.9 in April, expanding for the fourth month in a row after briefly contracting in December. Meanwhile, the prices paid component rose modestly, the first uptick in five months after declining in 10 of the prior 12 months.





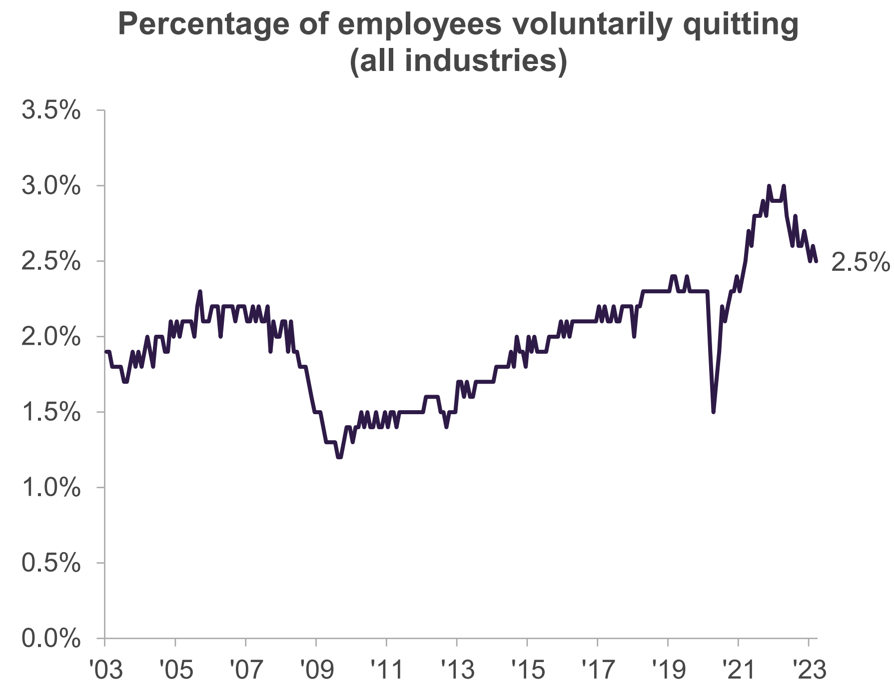
Sources: Truist IAG, Bloomberg, Institute for Supply Management (ISM); monthly data through April 2023.

TRUIST

Wealth

Job openings, hiring, and quit rate dropping, but still elevated

The number of job openings fell 3.9% in March to 9.6 million, the lowest level since April '21. It was also the 8th decline in the past 12 months. Hiring also declined, slipping to 6.1 million. The so-called quit rate – officially known as the percentage of employees voluntarily quitting – ebbed to 2.5%, down from the cycle peak of 3% in 2022. All three indicators – openings, hiring, and the quit rate – remain above pre-pandemic levels.

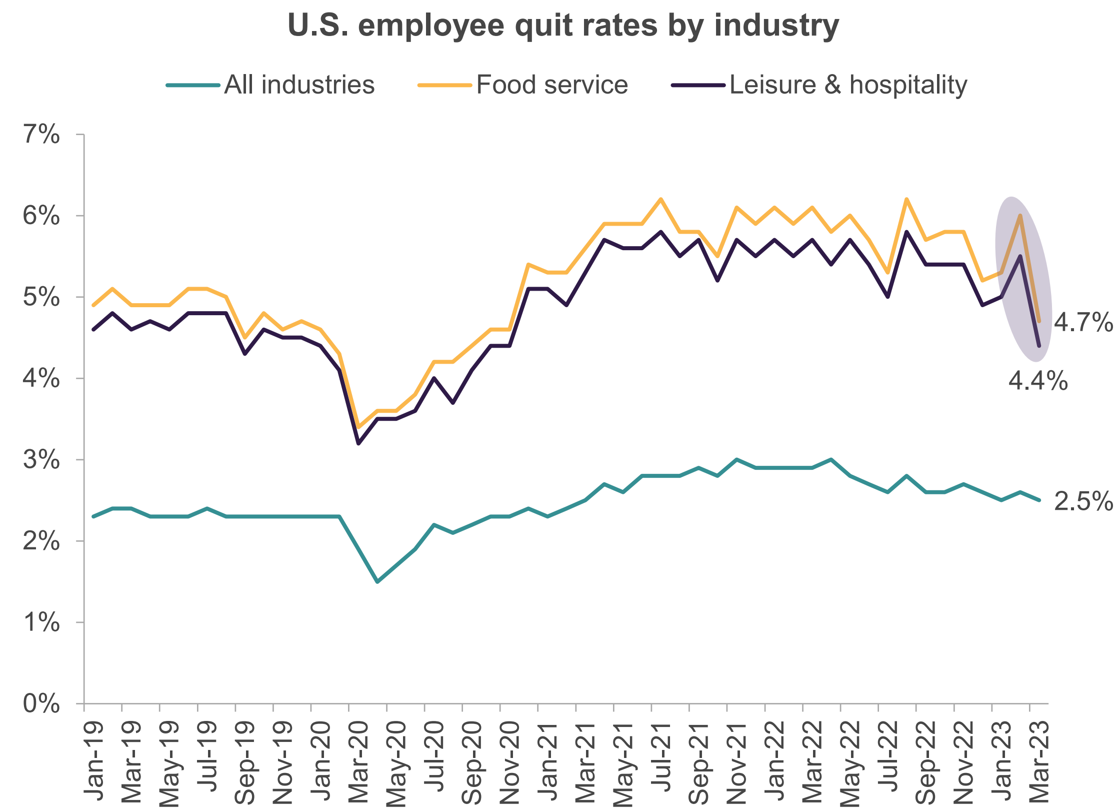


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through March 2023.

Another sign of cooling labor market: food service workers aren't quitting

The so-called quit rate – officially known as the percentage of employees voluntarily quitting – ebbed to 2.5% for all employees, down from the cycle peak of 3% in 2022. However, the quit rate for food service workers and the broader leisure & hospitality industry dropped sharply in March to 4.7% and 4.3%, respectively. That's considerably lower than the peak of 6.2% for food service hit during 2021 and 2022.

Workers don't typically quit without having a new job lined up or the confidence that they can easily find another job.



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

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