Economic data tracker – More mixed signals within housing

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Trend watch and what's new this week

Weekly air passengers topped 16.8 million, the highest weekly sum since 2019 as air travel continues to defy high prices, sour sentiment generally, and weak trends elsewhere. That stretches the number of weeks above 16 million to 10 straight, the longest span since the summer of 2019.

The rest of the activity-based data (slides 5 and 6) mostly improved in recent weeks as well. For instance, the staffing index continues to rebound after softness during the early spring months.

On slide 7, we show a key freight metric, unit volumes of shipping containers, which notched their first back-to-back gains since the autumn of 2021. Yet, volumes remain well below the long-term trend.

Existing home sales down 16 of the past 17 months

On slide 8, existing single-family home sales dropped 3.5% to an annualized rate of 3.85 million in April, which is 20.5% below the December 2019 level. Yet, with continued limited supply, home prices rose for the third consecutive month, up 3.6% to $393,300 in April. That's 42% 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 stabilization

On slide 9, we updated several of the new housing metrics. Total new building permits fell for a second month, though single-family permits increased for a third straight month after not increasing for 12 months prior. Housing starts rose in April, but the March figures were revised substantially lower. Both were dramatically impacted by the sharp increase in mortgage rates, which rose more than 3 percentage points during 2022.

Also on slide 9, new home buyer traffic ticked higher in April, up from extremely depressed levels. That helped the NAHB Market Index, which is the builder sentiment survey, increase for the fifth consecutive month.

Retail sales up in April, snapping two-month skid

On slide 10, retail & food service sales in April rose 0.4% MoM to $686.1 billion, which is just 0.9% below the all-time high set in January. Gasoline sales, down 0.8%, were a big driver, while auto sales rose 0.4% during the month. Excluding both autos and gasoline, retail sales rose 0.6% in April, hovering near the all-time high.

Big 4 indicators continue to look solid

On slide 11, 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 figures for April, which rose to a five-month high.

Economic commentary – Our take and the bottom line

Our take

Alas, crosscurrents in the incoming economic data continue, though tilted negative. The latest examples were within the housing data. On the positive side, new home buyer traffic appears to have bottomed from extreme levels during 2022. That is likely feeding the rise in single-family permits for the past three months. Conversely, existing home sales have dropped for 16 of the past 17 months, an ugly streak in any circumstance.

As we have noted, a recession isn't inevitable, nor is the economy collapsing. That said, it would be unprecedented to avoid a recession with weakening leading indicators, higher interest rates, and tighter financial and credit conditions.

Moreover, the "will they/won't they" debate is raging as to whether the Federal Reserve will hike rates again at their June meeting. Inflation remains a headwind for the economy, which has hamstrung the Fed's ability to change monetary policy. While the April data shows that it has clearly peaked, elevated inflation remains public enemy number one and will continue to dictate the Fed's future actions.

This is especially true given the continued strength in the labor market. Although monthly job growth has stepped down compared to very strong results in 2021 and 2022, the U.S. has averaged 277,800 new job openings for the past six months. That's over 100,000 per month more than the pre-pandemic 3-year average of 177,000. Furthermore, the unemployment rate dipped to 3.4% in April and matched the cycle low. Indeed, these are backward-looking indicators. Still, the forward-looking indicators, such as weekly jobless claims, are weakening but not weak.

Therefore, we reiterate our view that Fed policy is being guided by scar tissue—from prematurely loosening policy in the past. Furthermore, we believe the market's expectations for rate cuts this summer are misplaced. Rate cuts are plausible in the coming year, particularly in the event of a sharper recession, but not that soon.

Lastly, we maintain our view that the coming economic slowdown will be relatively mild compared to the Great Financial Crisis and Pandemic recessions. Accordingly, we anticipate a continued gradual weakening of the economy rather than a sudden downshift.

Bottom line

A recession remains our base case as dramatically higher interest rates and 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]	▲	Apr: 3.4%	May: 3.5%	Revisited the cycle low, which is also the lowest level since May '69.
	Monthly jobs (nonfarm)	▲	Apr: 253K	May: 178K	Averaging 277,800 for the past six months. That's over 100,000 per month more than the pre-pandemic 3-year average of 177,000.
	Weekly jobless claims[+]	⇆	5/13: 242K	5/20: 250K	Outsized drop of 22K due to downward revisions in Massachusetts.
	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 expects the Fed to pause the rate hikes.
	10-year U.S. Treasury yield	▼	3.69%‡	Flat/up	Jumped as another Fed rate hike looms along with the debate the debt ceiling issue. We expect more volatility.
	10-year AAA GO muni yield	▼	2.41%‡	Flat//up	Jumped considerably from last week along with other yields.
	30-year fixed mortgage rate	▼	6.99%‡	Flat/Up	Spiked to a two-month high. Still, mortgage rates remain near their highest level since '01, which hurts affordability.
Inflation	Consumer prices (CPI)[X]	▼	Apr: 0.4%	May: N/A	The YoY pace cooled to 4.9%. Food was unchanged MoM for a second straight month, but energy rose 0.6% MoM.
	Core CPI	▼	Apr: 0.4%	May: N/A	YoY rose 5.5%. Shelter, which lags, continues to grind higher.
	Producer prices (PPI)	⇆	Apr: 0.2%	May: N/A	Wholesale food prices down for 4th time in 5 months. YoY rose 2.3%.
	Core PPI	⇆	Apr: 0.2%	May: N/A	YoY cooled 3.2%. Services prices ticked higher in April.

▲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	▼	Apr: 4.28M	May: N/A	Fell 3.4% MoM with single family down 16 of the past 17 months.
Housing	New home sales	⇆	Mar: 683K	Apr: 663K	Jumped 9.6% MoM, up for a third time in 4 months, while prices rose.
Housing	New housing starts	▼	Apr: 1.401M	May: N/A	Rose 2.2% MoM but March was revised downward to -4.5%.
Housing	New permits[+]	▼	Apr: 1.416M	May: N/A	Fell 1.5% MoM but single-family increased for a third straight month.
Business	Durable goods orders[+]	▲	Mar F: 3.2%	Apr P: -1.0%	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: 47.0	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 inventories[X]	▲	Mar: -0.1%	Apr: N/A	Fell modestly and has moderated over the past few months.
Consumer	Personal income	▲	Mar: 0.3%	Apr: 0.4%	Continued wage growth, though the pace ratcheted downward.
Consumer	Personal spending	▲	Mar: 0.0%	Apr: 0.4%	Better than expected, but February was revised downward to -0.2%.
Consumer	Advance retail sales	⇆	Apr: 0.4%	May: N/A	Rebounded after two down months in March and February.
Consumer	Consumer sentiment	▼	May P:57.7	May F:58.0	Debt ceiling and recession woes pushed it down to 6-month low. One-year inflation expectations pulled back.

▲Good ▼ Bad ⇆ Neutral [+]Leading indicator [X]Lagging indicator [‡]Intraday quote Bloomberg consensus shown

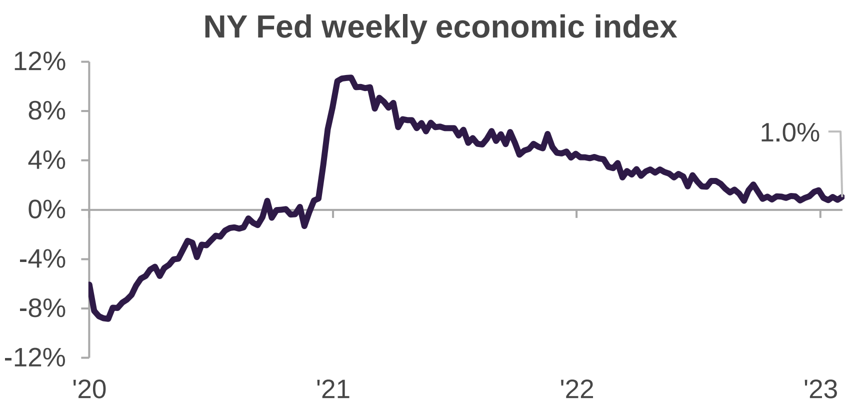
U.S. activity-based data matrix

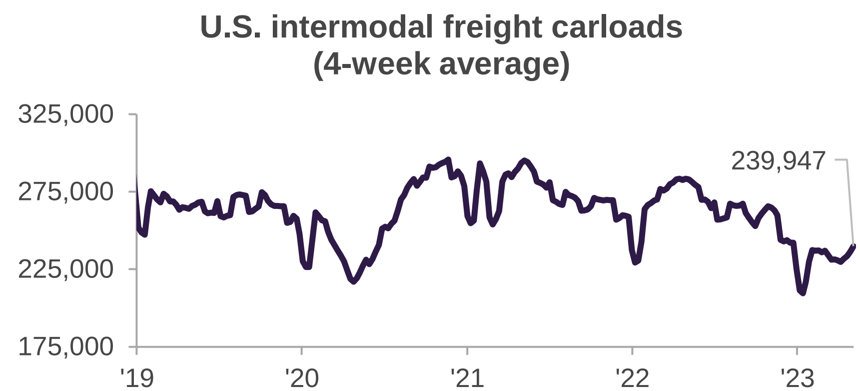
Indicator	Relative trend	What we're watching
Back to office	⇆	Ebbed slightly to 49.9, which was an 8-week high (pre-pandemic indexed to 100). Top cities were Austin (61), Houston (60), and Dallas (53); bottom were San Jose (38) and Philadelphia (42). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts jumped 1.8% WoW to 16.8 million, which was 4.4% from the 2019 average of 16.1M. Passenger counts were 1.9% from the same week in May '19 but 8.7% above May '22.
OpenTable restaurant bookings	▲	Fell to -11.7% for the week of May 8th compared to 2022 levels. Top positive states were led by Rhode Island (+9%) and Kansas (+3%); bottom were Ohio (-17%), Alabama and New Mexico (both -16%). Top cities were New Orleans (+2%) and Las Angeles (+0%); bottom were Portland and Raleigh (both -20%).
Hotel occupancy	▲	Slipped to 65.1%, the third WoW decline. The average daily rate rose WoW to $154.90, up 3.4% from the same week in last year, and revenue per available room fell WoW to $100.81, up 1.3% from May '22.
Freight (rail/truck/ship)	⇆	Rail carloads rose 0.7% last week and jumped 5.0% MoM in April to a six-month high. Container traffic in April surged 8.1% at the 4 top U.S. ports (LA, LB, SAV, SEATAC), up back-to-back for the first time since '21 and a 6-month high. The Cass Freight Index dropped 1.0% MoM in April; it's been down 9 of the past 11 months.
Staffing index	⇆	Jumped to 99.6, which was an 11-week high and up for the fourth straight 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 0.6% MoM in April, which is below the pre-pandemic 5-year average of 0.7% for April. The rental growth rate clearly peaked during the second half of 2021.

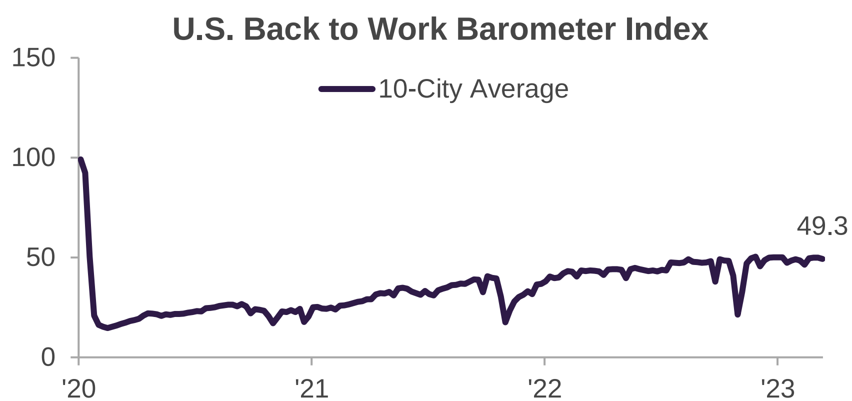
Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

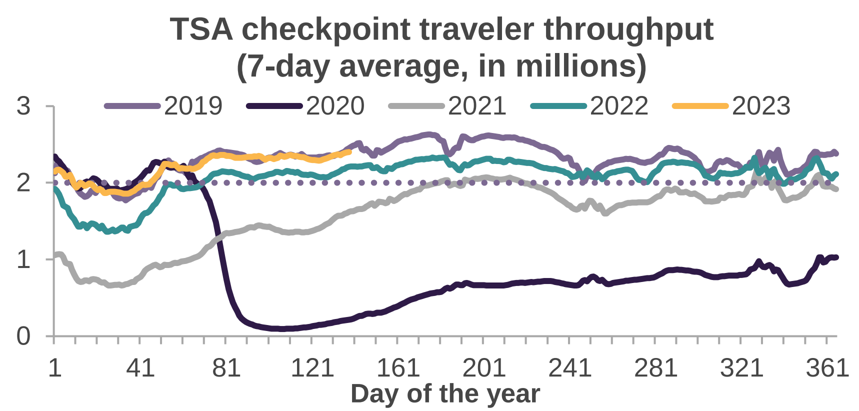
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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









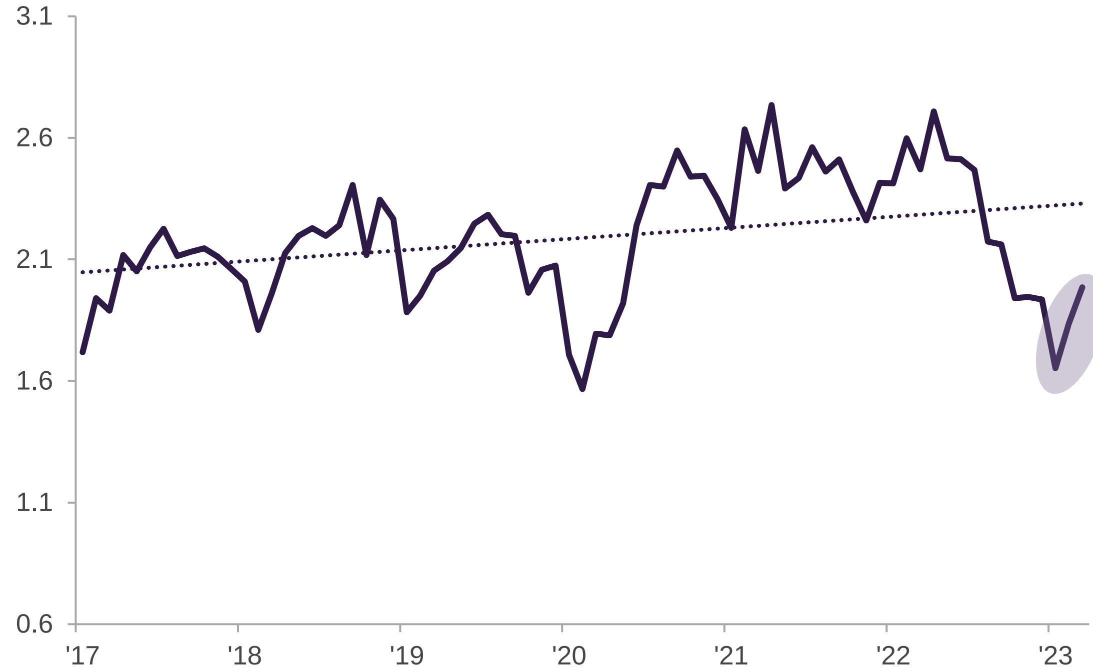
Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through May 6, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through May 5. Bottom left: Bloomberg, Kastle Systems averaged weekly through May 10. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through May 18.

U.S. shipping volumes notch back-to-back gains, but remain well below long-term trend

Unit volumes of shipping containers rose 8.1% month over month in April at the top U.S. ports, which includes four of the top five ports (the Port of NY/NJ hasn't reported yet). That's on top of an 11% jump in March – the first back-to-back gains since the autumn of 2021. The rebound is likely related to China's reopening, which has included restarting many factories.

Still, shipping volumes remain well-below the long-term uptrend. Year-to-date volumes are down 25% from a year ago and down 9.1% from the same period in 2019.

Total unit volumes at top U.S. ports (Los Angeles, Long Beach, Savannah, SEATAC, in millions)

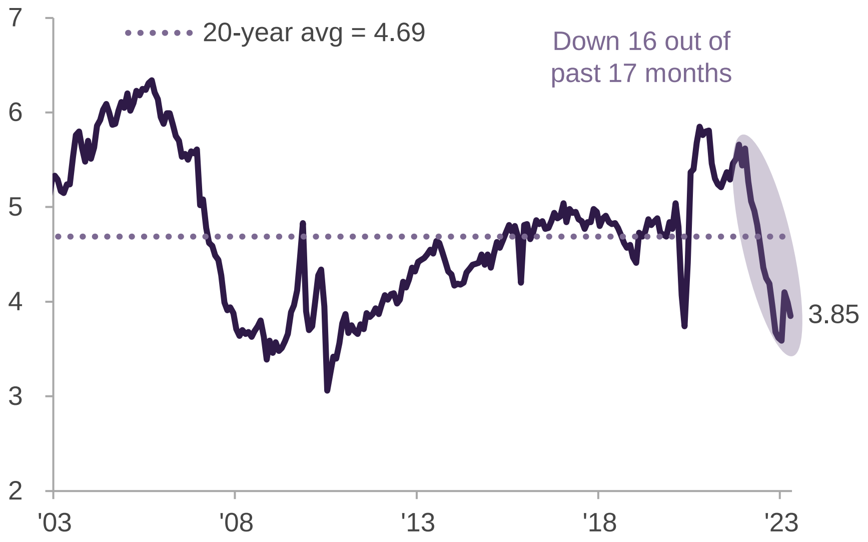


Sources: Truist IAG, Bloomberg; monthly data through April 2023. Containers defined as twenty-foot equivalent units (TEU).

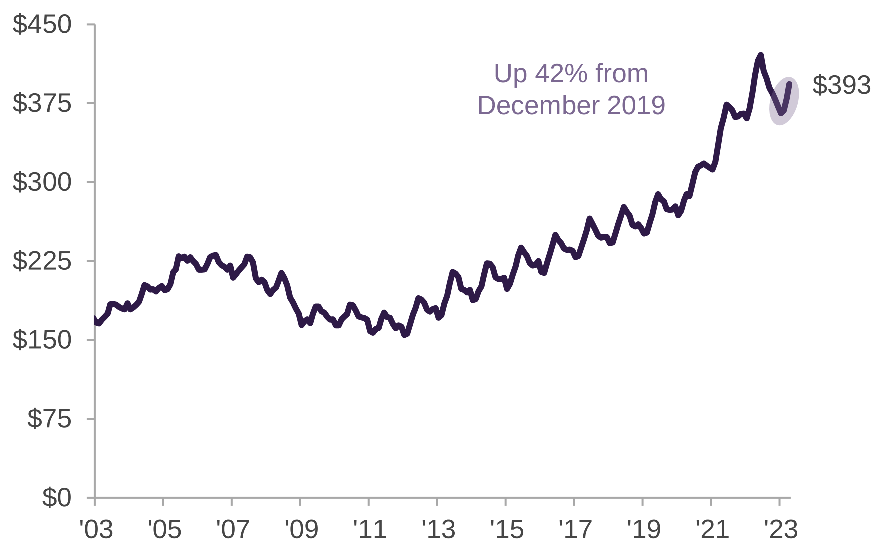
Existing home sales down for the 16th time in 17 months, but prices up again

Existing single-family home sales dropped 3.5% to an annualized rate of 3.85 million in April, which is 20.5% below the December 2019 level. Meanwhile, prices rose for the third consecutive month, up 3.6% to $393,300, which is 42% above the December 2019 level. That's due to very limited supply. 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)



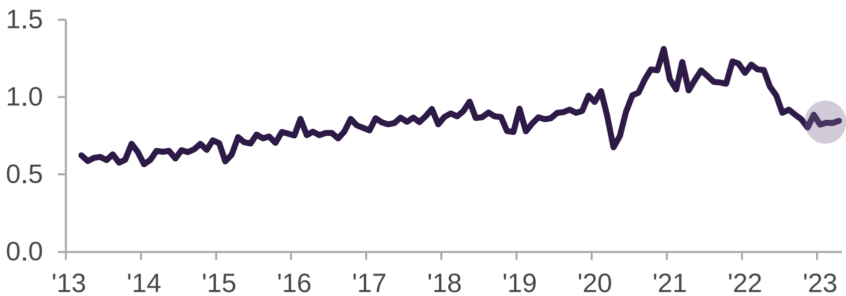
Median sales price of existing single-family homes (in $thousands)



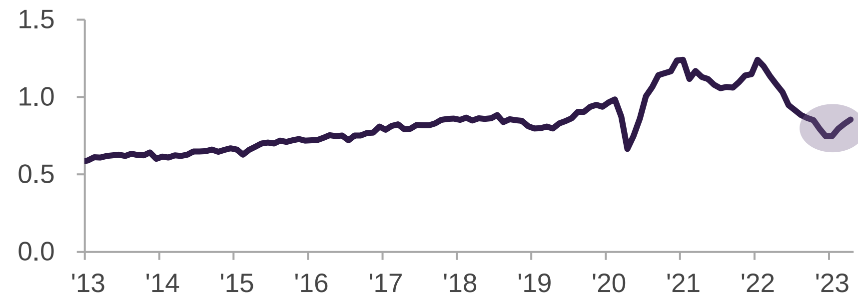
Sources: Truist IAG, Bloomberg, National Association of Realtors. Figures shown are seasonally-adjust annualized rate (SAAR); monthly data through March 2023.

New housing activity was crushed in ’22 by higher mortgage rates, appears to be stabilizing

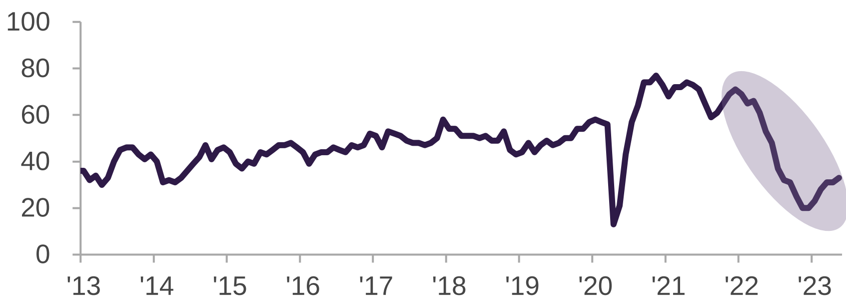
Single-family housing starts (units in millions, SAAR)



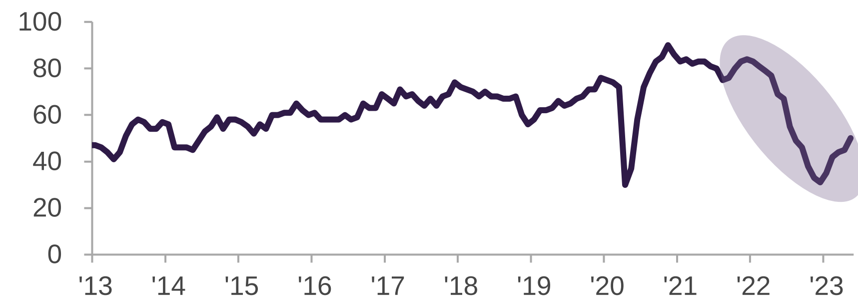
New single-family building permits (units in millions, SAAR)



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



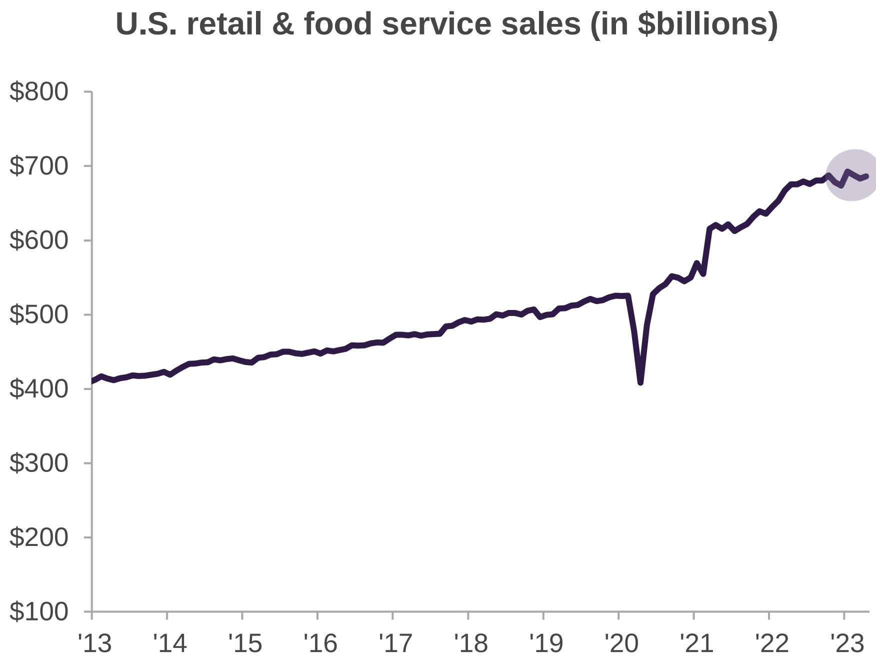
National Association of Home Builders Market Index

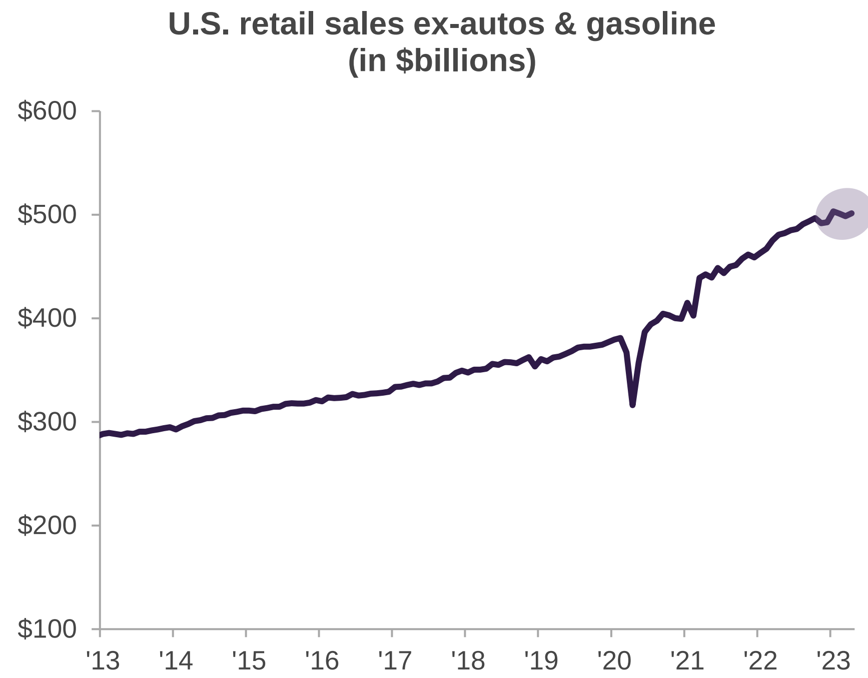


Sources: Truist IAG, Bloomberg. Seasonally adjusted annualized rate (SAAR); monthly data through April 2023.

Retail sales up in April, snapping two-month skid, hovering near all-time high

Retail & food service sales in April rose 0.4% MoM to $686.1 billion, which is just 0.9% below the all-time high set in January. Gasoline sales, down 0.8%, were a big driver, while auto sales rose 0.4% during the month. Excluding both autos and gasoline, retail sales rose 0.6% in April, hovering near the all-time high.

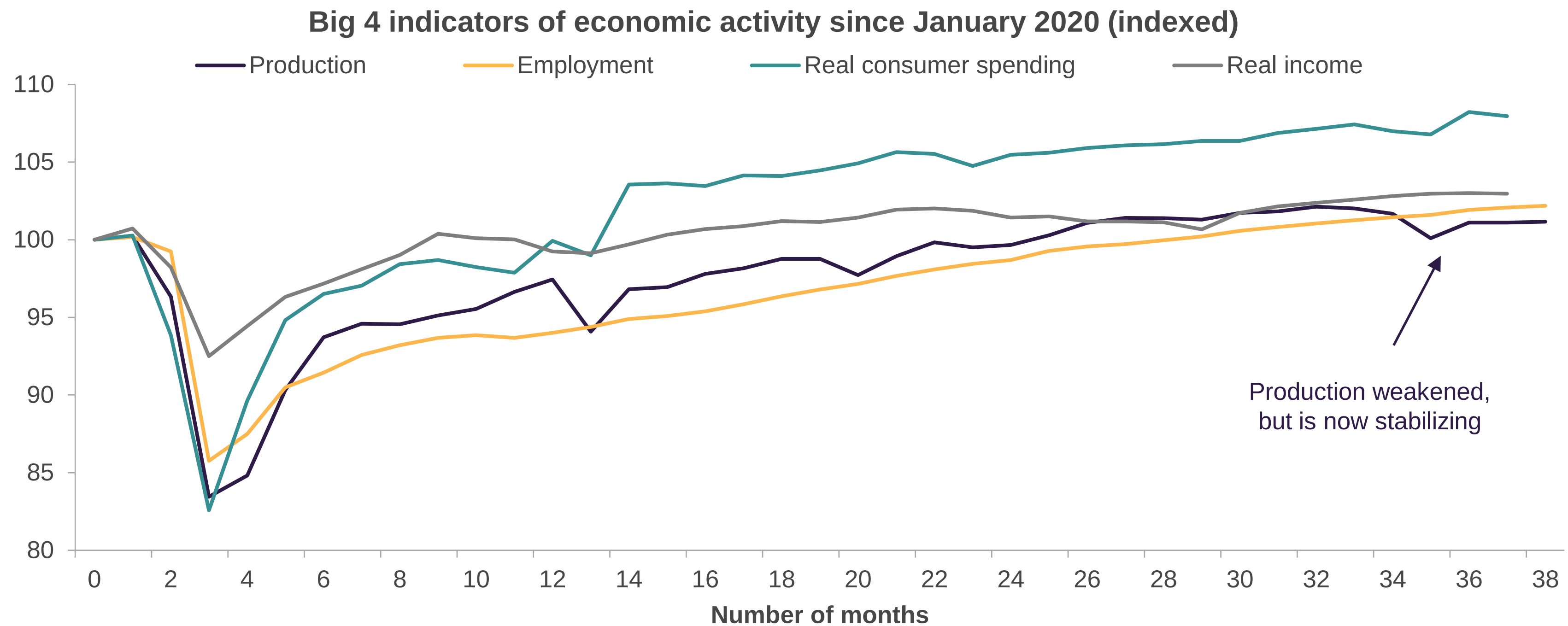




Source: Truist IAG, Bloomberg, U.S. Census Bureau; monthly data through April 2023.

Big 4 U.S. recession indicators suggest “not yet”, but economy is sluggish

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 April 2023, real consumer spending and real income through March 2023.

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