

# Economic data tracker – Air passenger traffic tops 17.4 million

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## Trend watch and what's new this week

Right on cue, weekly air passengers climbed above 17.4 million for the first time since August 2019. That stretched the number of weeks above 16 million to 11 straight, the longest span since the summer of '19. The year-to-date passenger total is running just -0.02% behind 2019.

Most of the remaining activity-based data improved in recent weeks (slides 5 and 6). For instance, rail carloads increased for the second straight week, while hotel occupancy jumped to 67.5%, which was a nine-week high.

## First quarter growth revised upward

On slide 7, we dig a little deeper into first quarter gross domestic product (GDP), which rose 1.3% on an annualized basis compared to the initially reported 1.1% pace. The biggest change was an upward revision to business inventories, which shrank less than previously estimated. Business and consumer spending were also revised upward modestly.

## Lack of supply driving new housing uptick

New homes sales (slide 8) rose 4.0% in April to an annualized rate of 683,000, roughly in-line with the 20-year average, though are down 1.4% from the December 2019 level. Sales were likely helped by prices, which dropped 7.7% in April. Still, prices remain 27.7% above the December 2019 level. Overall prices have been supported by limited

inventories of new and existing homes for sale.

## New orders for durable goods up as core orders sputter

On slide 9, new orders for durable goods—big-ticket items such as equipment, machinery, electronics, and office furniture—rose 1.1% in April, along with upward revisions to the March data. New orders for core capital goods, which exclude the volatile aircraft and defense components, also rose in April but have declined in four of the past eight months.

## The Fed's favorite gauge show inflation remains sticky

The Federal Reserve's (Fed) favorite inflation gauge—the price index of core personal consumption expenditures (Core PCE)—rose in April (slide 10). While it has been moving in the right direction and is down from its March '22 high of 5.4%, it ticked higher in April to 4.7% from a year ago. That 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.

Speaking of inflation, the one-year inflation expectations within the University of Michigan Consumer Sentiment Index dropped sharply to 4.2% from the preliminary reading of 4.5%. The overall Consumer Sentiment Index rose to 59.2 from the preliminary reading of 57.7, though remains below the most recent high of 67.0 this past February.

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# Economic commentary – Our take and the bottom line

## Services rebounded in May, but manufacturing slumped

On slide 11, the preliminary May readings for S&P Global U.S. Purchasing Managers Index (PMI) for services rose to 55.1, which was its highest reading in 13 months and fourth consecutive monthly increase. But the U.S. manufacturing index swung to 48.5, contracting for the sixth time in seven months.

## Big 4 indicators continue to look solid

On slide 12, we updated the four primary indicators used to date a U.S. recession. We received real personal income and spending figures for April. Both are part of the so-called “big 4” indicators of economic activity used to determine a recession. While the pace has moderated for all four measures, 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.

## Our take

In the intro we said, “right on cue,” because topping 17 million passengers in the U.S. mirrors pre-pandemic summertime numbers. Furthermore, cruise lines are reporting that many sailings are above 100% occupancy, which means more than the standard two people per cabin.

Overall consumer spending has begun to flicker. Yet, it is markedly split by income level, whereby stronger higher-end spending is masking weaker outlays by the masses. Retail sales fell three of the past five months but are hovering near all-time highs (in dollar terms). Similarly, travel-related spending remains solid, including advanced paid bookings for this summer, especially for international travel.

Credit quality has deteriorated further, though the largest deterioration has been chiefly with subprime income borrowers, and revolving credit

balances continue to climb.

The shift in spending from goods back towards services has continued, as evident by the aforementioned air and cruise passengers. Supply is still an issue in parts of the economy, particularly housing and autos, which has helped stabilize activity in both.

While most data are coming in below ’22 levels, it isn’t necessarily weak compared to pre-pandemic levels and trends. The economy isn’t collapsing nor is a recession necessarily inevitable. It is possible that the U.S. could skirt a recession. That said, it would be unprecedented to avoid a recession with weakening leading indicators, higher interest rates, and tighter financial and credit conditions. Accordingly, a recession remains our base case in ’23.

Lastly, we maintain our view that the coming economic slowdown will be relatively mild compared to the Great Financial Crisis and Pandemic recessions. 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 A: 1.3%	1Q F: 1.3%	Revised up from the initially reported 1.1% pace. The biggest change was upward revisions to business inventories, which shrank less than previously estimated, and business and consumer spending.
	Unemployment rate <sup>x</sup>	▲	Apr: 3.4%	May: 3.5%	Revisited the cycle low, which is also the lowest level since May '69.
Jobs	Monthly jobs (nonfarm)	▲	Apr: 253K	May: 195K	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 <sup>+</sup>	↔	5/20: 229K	5/27: 235K	Rose 1.8% WoW, but large -7.0% revision to the prior week.
	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: 5.25% – 5.50%	As expected, the Fed raised rates 0.25% at the May meeting to help fight inflation. Market now expects another quarter point hike in June.
	10-year U.S. Treasury yield	▼	3.81% <sup>‡</sup>	Flat/up	Grinding higher as market prices in another Fed rate hike along with the debt ceiling issue. We expect more volatility.
	10-year AAA GO muni yield	▼	2.69% <sup>‡</sup>	Flat/up	Spiked to the highest level since November 2022.
	30-year fixed mortgage rate	▼	7.15% <sup>‡</sup>	Flat/Up	Jumped to the highest level since Nov. '22, putting mortgage rates near their highest level since '01, which hurts affordability.
Inflation	Consumer prices (CPI) <sup>x</sup>	▼	Apr: 0.4%	May: 0.3%	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: 0.4%	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 4 <sup>th</sup> 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 <sup>+</sup>Leading indicator <sup>x</sup>Lagging indicator <sup>‡</sup>Intraday quote Bloomberg consensus shown

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# 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.
	New home sales	▲	Apr: 663K	Apr: 663K	Jumped 9.6% MoM, up for a third time in 4 months, while prices rose.
	New housing starts	▼	Apr: 1.401M	May: N/A	Rose 2.2% MoM but March was revised downward to -4.5%.
	New permits <sup>+</sup>	▼	Apr: 1.416M	May: N/A	Fell 1.5% MoM but single-family increased for a third straight month.
Business	Durable goods orders <sup>+</sup>	▲	Apr P: 1.1%	Apr F: 1.1%	Core capital goods orders (ex-air & defense) rose 1.4% MoM, the most in 16 months, but have declined in 4 of the past 8 months.
	ISM Manufacturing Index	▼	Apr: 47.1	May: 47.1	Ticked up MoM but activity contracted for the sixth month in a row. Prices paid component rose to its highest reading since July '22.
	ISM Services Index	▲	Apr: 51.9	May: 52.5	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 inventories <sup>x</sup>	▲	Mar: -0.1%	Apr: N/A	Fell modestly and has moderated over the past few months.
Consumer	Personal income	▲	Apr: 0.4%	May: N/A	Wage growth continues to climb, up for 15 consecutive months.
	Personal spending	▲	Apr: 0.8%	May: N/A	Better than expected, most in three months and March revised up.
	Retail & food sales	↔	Apr: 0.4%	May: N/A	Rebounded after two down months in March and February.
	Consumer sentiment	▼	May F: 59.2	Jun P: N/A	Rose from the preliminary reading of 57.7. One-year inflation expectations dropped sharply to 4.2% from 4.5%.

▲ Good ▼ Bad ↔ Neutral <sup>+</sup>Leading indicator <sup>x</sup>Lagging indicator <sup>‡</sup>Intraday quote Bloomberg consensus shown

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# U.S. activity-based data matrix

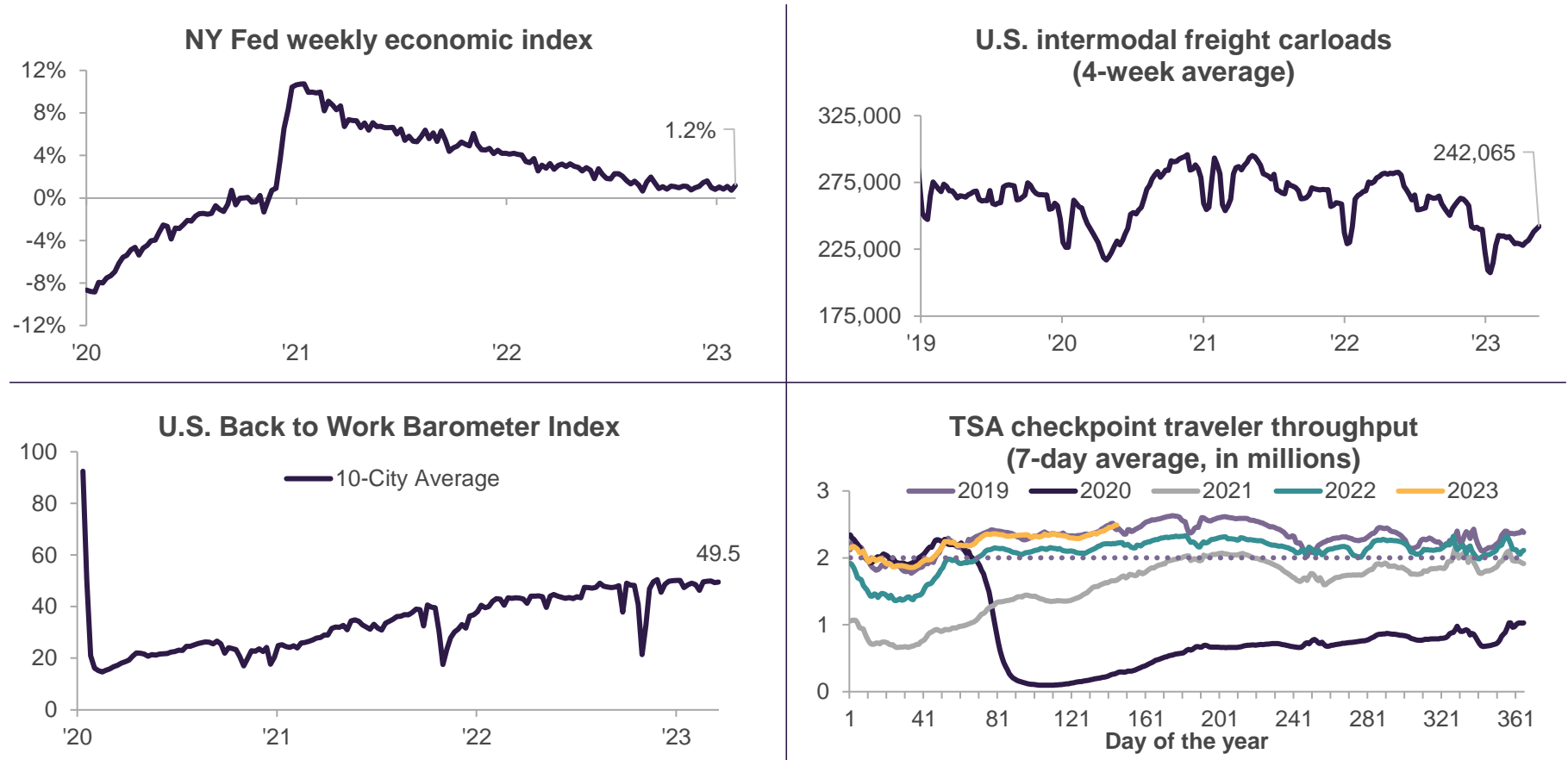
Indicator	Relative trend	What we're watching
Back to office	↔	Rose modestly to 49.5 (pre-pandemic indexed to 100). Top cities were Houston (61), Austin (60), and Dallas (54); bottom were San Jose (39) and Philadelphia (42). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts jumped 3.7% WoW to 16.8 million, which was 8.3% from the 2019 average of 16.1M. Passenger counts were 2.8% from the same week in May '19 and 12.2% above May '22.
OpenTable restaurant bookings	↔	Improved to -3% compared to 2022 levels from -4% for the week of May 17 <sup>th</sup> . Top positive states were led by Maryland (+11%), Delaware and Washington (both +8%); bottom were Florida (-12%) and Colorado (-8%). Top cities were Baltimore (+28%) and Cincinnati (+11%); bottom were Fort Lauderdale (-20%) and Miami (-12%).
Hotel occupancy	▲	Jumped to 67.5%, which was a 9-week high. The average daily rate rose WoW to \$158.53, up 3.6% from the same week in last year, and revenue per available room rose WoW to \$106.98, up 2.1% from May '22.
Freight (rail/truck/ship)	↔	Rail carloads rose 0.9% last week and jumped 5.0% MoM in April to a six-month high. Container traffic in April surged 7.9% at the top 5 U.S. ports (LA, LB, NY/NJ, SAV, SEATAC), up back-to-back months for the first time since '21. The Cass Freight Index dropped 1.0% MoM in April; it's been down 9 of the past 11 months.
Staffing index	↔	Ticked down to 99.2 after hitting an 11-week high 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 0.6% 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.

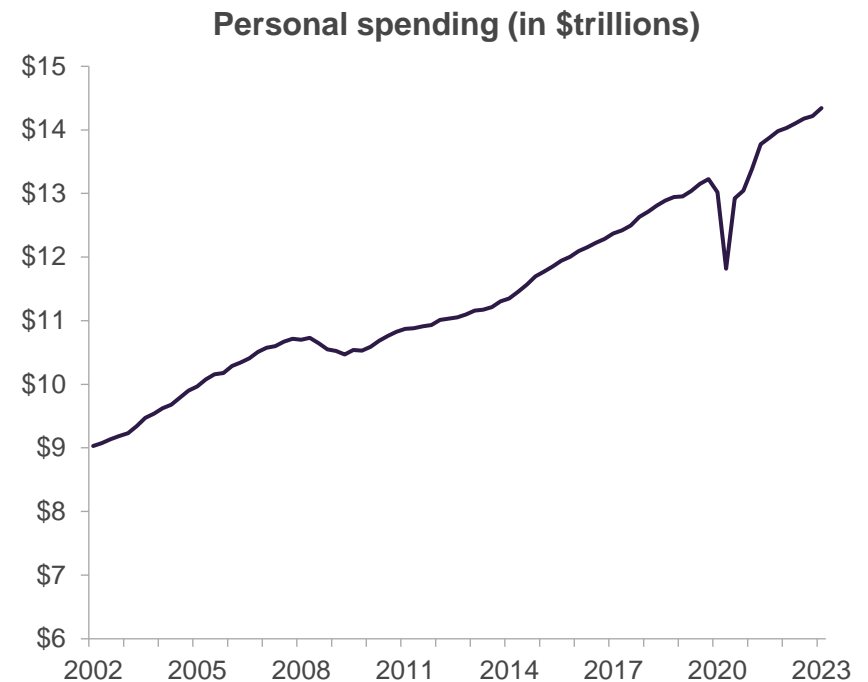
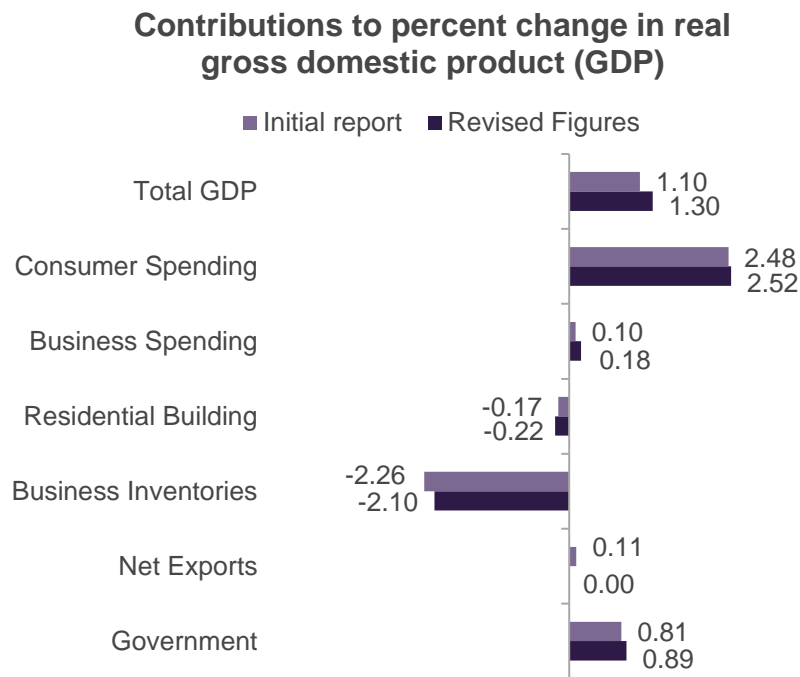
# Activity-based trends slipped to start 2023, but firming through mid-May



Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through May 20, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through May 19. Bottom left: Bloomberg, Kastle Systems averaged weekly through May 17. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through May 25.

# First quarter U.S. growth revised upward thanks to inventories and spending

Real GDP rose 1.3% on an annualized basis in the first quarter, up from the initially reported 1.1% pace. The biggest change was an upward revision to business inventories, which shrank less than previously estimated. Business and consumer spending were also revised upward modestly.



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

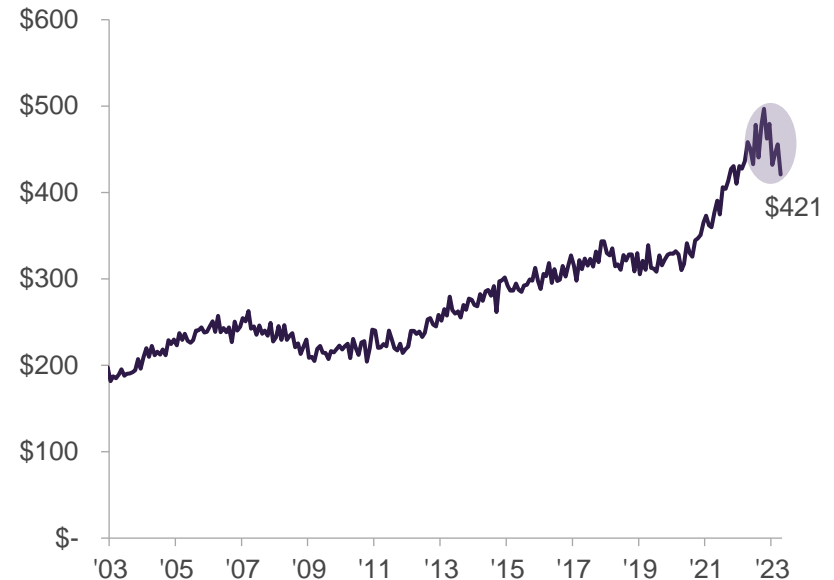
# New home sales up for 6 of the past 7 months but prices down

New homes sales rose 4.0% in April to an annualized rate of 683,000, roughly in-line with the 20-year average, though are down 1.4% from the December 2019 level. Sales were likely helped by prices, which dropped 7.7% in April. Still, prices remain 27.7% 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-adjusted annualized rate (SAAR); monthly data through April 2023.

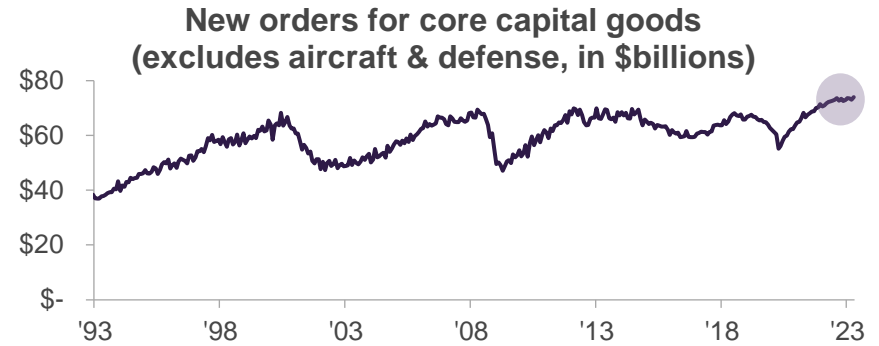


# Core capital goods orders sputtering, but not collapsing

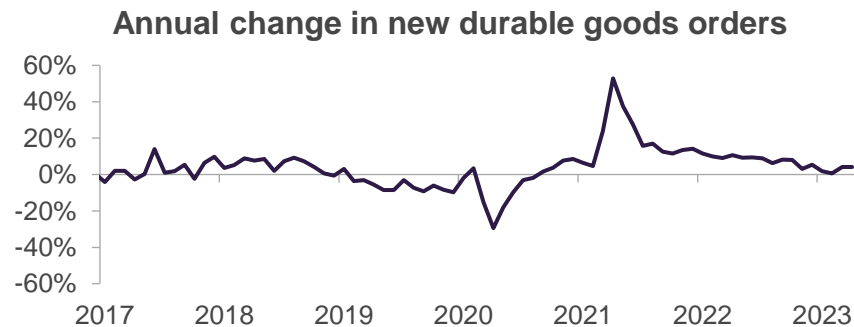
Hovering near cycle high thanks to commercial aircraft orders



Just hit a fresh all-time high



The year-over-year pace has cooled considerably in 2023, but is still positive



Down in 4 of the past 8 months

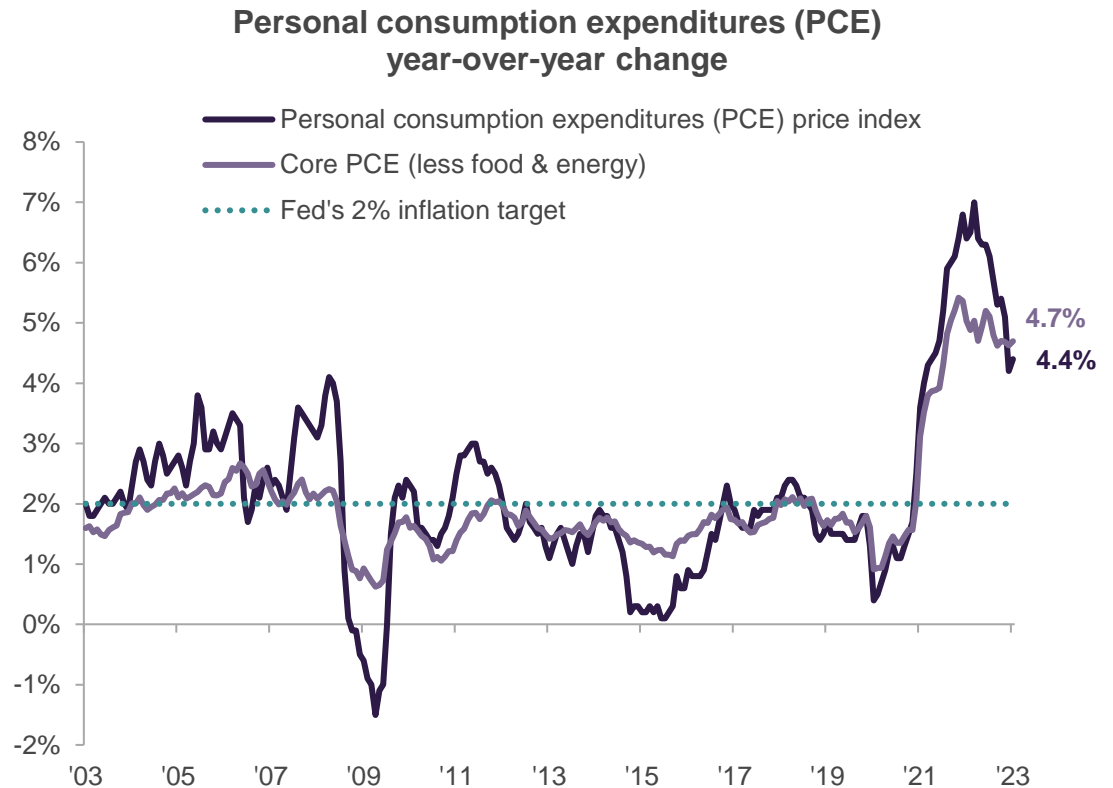


Sources: Truist IAG, Bloomberg, U.S. Census Bureau; monthly data through April 2023.

# The Fed's favorite inflation gauge is 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 March '22 high of 5.4%, it ticked higher in April to 4.7% from a year ago.

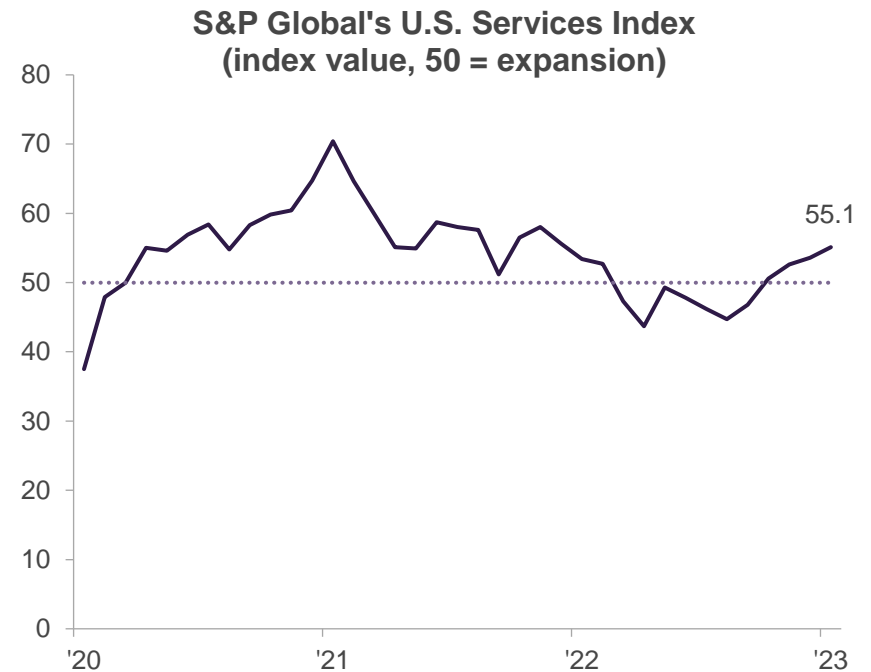
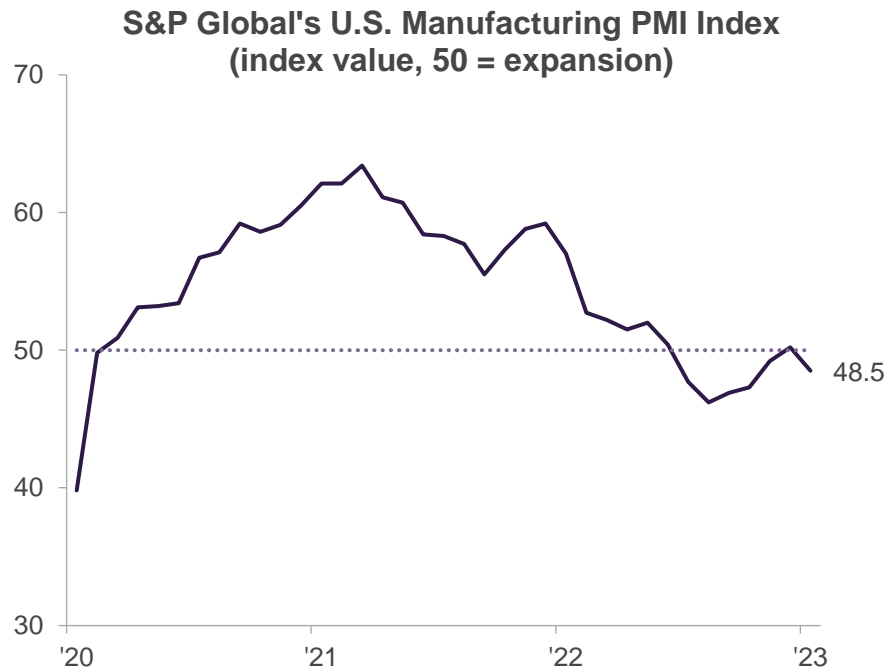
That remains uncomfortably high and well above the Fed's 2% target, meaning there's still a case for rate hikes to continue based on persistent inflation.



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

# U.S. services continued to rebound in May, but manufacturing slumped

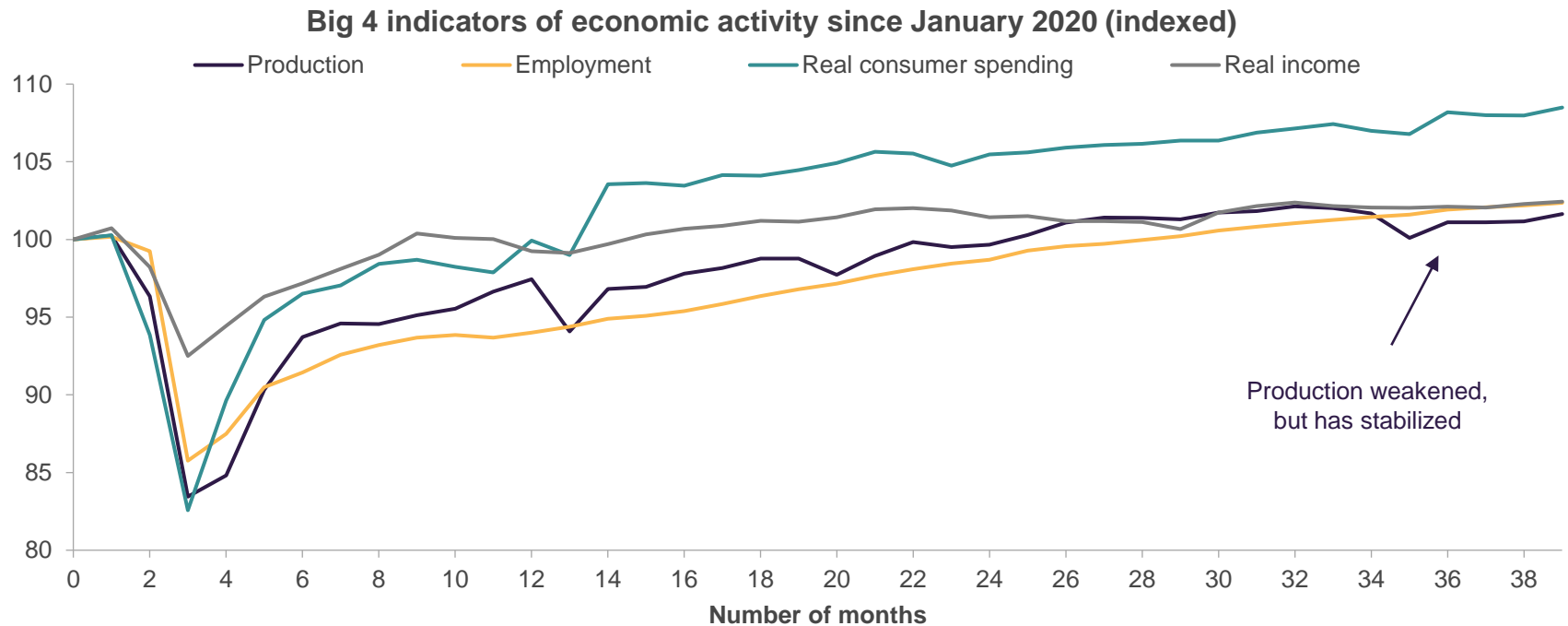
S&P Global's U.S. Manufacturing PMI Index swung to 48.5, contracting for the sixth time in seven months. Yet, the U.S. Services PMI Index rose to 55.1, which was its highest reading in 13 months and fourth consecutive monthly increase.



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

# 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. Monthly data through April 2023.

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