Economic data tracker – Cooling trend continues

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Note: *This publication will be on hiatus next week (Week 24), returning for the Week 25 edition.*

Trend watch and what's new this week

Weekly air passengers dipped to 17.0 million, which isn't unusual during the week following Memorial Day holiday. That's three straight weeks above 17 million and 13 consecutive weeks above 16 million, both of which are the longest streaks since the summer of '19. The year-to-date passenger total is running 0.1% ahead of 2019.

Meanwhile, the holiday-shortened week rippled through most of the remaining activity-based data (slides 5 and 6). For instance, hotel occupancy fell 5 percentage points to 61.6% last week, as business travel drops around the holiday.

Services indices expansion cooled in May

On slide 7, the ISM Services Index fell to a reading of 50.3 in May, narrowly expanding for the fourth month in a row after briefly contracting in December. Meanwhile, the prices paid component dropped to 56.2, the lowest reading since the pandemic, and has declined in 10 of the past 12 months. Although "good" from an inflationary standpoint, the sharp decline in prices likely indicates some weakness in demand.

Meanwhile, the final May reading of S&P Global's U.S. Services Index rose to 54.9, expanding for a fourth straight month after an ugly seven-month contraction streak from July '22 to January '23.

Consumers appear to be burning through stimulus/savings

Consumer savings skyrocketed in 2020 and 2021 thanks to three rounds of pandemic relief stimulus checks. However, the amount put into savings has steadily declined since August 2021, when the spike in inflation really began to gouge consumers. At $67 billion in April, that's about 60% the pre-pandemic trend.

This is especially troublesome, in our opinion, given the additional headwind of restarting student loan repayments for roughly 45 million Americans (roughly 17% of the population) later this year as a result of the recent federal debt deal. The average student loan payment is estimated to be roughly $500 per month, which would likely be spent on something else.

Economic commentary – Our take and the bottom line

Our take

The cooling trend in economic data has continued. Yet, as we have repeatedly noted, while most data is 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. There are crosscurrents within most reports. That was certainly the case with the May jobs report, which showed strong jobs growth, averaging more than 300,000 over the past six months, which is significantly above the pre-pandemic average of 177,000. But it was coupled with a rise in the unemployment rate to 3.7%, along with a downtick in average hourly earnings and hours worked.

The latest weekly jobless claims jumped 12% WoW to highest level since October 2021 and are up 29% from their September ’22. However, continuing claims – the number of people who continue to receive unemployment benefit – have been grinding lower; continuing claims haven’t increased for 13 weeks.

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, 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 mild recession remains our base case as dramatically higher interest rates and tighter credit conditions place additional stress on consumers and businesses going forward. This now includes restarting student loan payments later this year as a result of the recent federal debt deal. 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.
Jobs	Unemployment rate[X]	▲	May: 3.7%	Jun: N/A	Up 0.3 in May to 3.7% from the cycle low of 3.4%.
	Monthly jobs (nonfarm)	▲	May: 339K	Jun: N/A	Pushed up the 6-month average to 301,500. That's nearly 125,000 per month more than the pre-pandemic 3-year average of 177,000.
	Weekly jobless claims[+]	⇆	6/3: 261K	6/10: N/A	Jumped 12% WoW to highest level since October 2021.
	Nonfarm productivity	⇆	1Q F: -2.4%	2Q A: N/A	Revised upward from the initial reading of -2.7%, while unit labor costs were lowered to 4.2% from 6.3%.
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 unsure of another quarter point hike in June.
	10-year U.S. Treasury yield	▼	3.68%[‡]	Flat/up	Dropped more than 20 basis points from last week before climbing again after the strong May jobs report. We expect more volatility.
	10-year AAA GO muni yield	▼	2.57%[‡]	Flat/down	Drifting lower but didn't respond to strong economic data last Friday.
	30-year fixed mortgage rate	▼	6.98%[‡]	Flat/down	Back below 7% for the first time in two weeks. Still near their highest level since '01, which hurts housing affordability.
Inflation	Consumer prices (CPI)[X]	▼	Apr: 0.4%	May: 0.2%	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: -0.1%	Wholesale food prices down for 4^{th} time in 5 months. YoY rose 2.3%.
	Core PPI	⇆	Apr: 0.2%	May: 0.2%	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	▲	Apr: 663K	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+	▲	Apr F: 1.1%	May: N/	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.
Business	ISM Manufacturing Index	▼	May: 46.9	Jun: N/A	Activity contracted for the 7th month in a row. Prices paid component was the lowest reading since December '22.
Business	ISM Services Index	▲	May: 50.3	Jun: N/A	Narrowly missed contracting in December. Prices paid component edged up but fell in 10 of the prior 12 months.
Business	Business inventoriesX	▲	Mar: -0.1%	Apr: 0.2%	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.
Consumer	Personal spending	▲	Apr: 0.8%	May: N/A	Better than expected, most in three months and March revised up.
Consumer	Retail & food sales	⇆	Apr: 0.4%	May: 0.0%	Rebounded after two down months in March and February.
Consumer	Consumer sentiment	▼	May F: 59.2	Jun P: 60.0	Rose from the preliminary reading of 57.7. One-year inflation expectations dropped sharply to 4.2% from 4.5%.

▲Good ▼ Bad ⇆ Neutral +Leading indicator XLagging indicator ‡Intraday quote Bloomberg consensus shown

U.S. activity-based data matrix

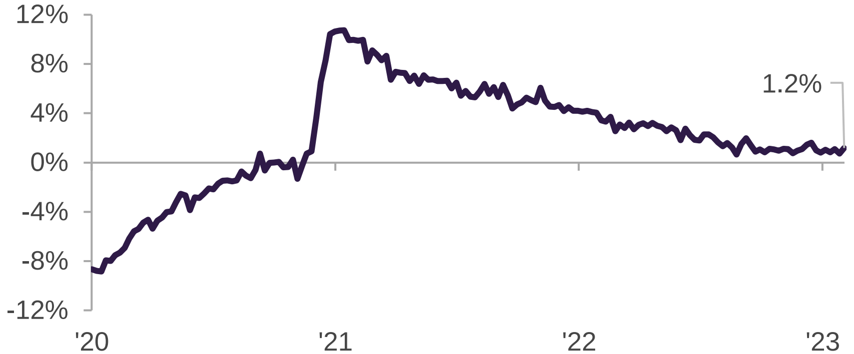
Indicator	Relative trend	What we're watching
Back to office	⇆	Ebbed to 47.6 (pre-pandemic indexed to 100). Top cities were Houston (58), Austin (56), and Dallas (52); bottom were San Jose (37) and Philadelphia (42). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts dipped 0.3% WoW to 17.0 million, which is typical. Passenger counts were -1.7% from the same week in June '19 but 11.4% above June '22. Year to date is running 0.1% ahead of the same period in 2019.
OpenTable restaurant bookings	⇆	Held steady at -3% compared to 2022 levels. Top positive states were led by Massachusetts (+17%), Rhode Island and Kentucky (both +7%); bottom were Utah (-17%) and Oregon (-13%). Top cities were Boston (+25%) and Cleveland (+11%); bottom were Portland (-27%) and Fort Lauderdale (-20%).
Hotel occupancy	▲	Dropped to 61.6% during the holiday week. The average daily rate fell WoW to $150.25, up 1.3% from the same week in '22, and revenue per available room dropped WoW to $92.55, down 1.0% from May '22.
Freight (rail/truck/ship)	⇆	Rail carloads dropped 8.4% during Memorial Day holiday week but rose 0.8% MoM in May to a 7-month high. Container traffic in April surged 7.9% at the top 5 U.S. ports (LA, LB, NY/NJ, SAV, SEATAC), up in back-to-back months for the first time since '21. The Cass Freight Index fell 1.0% MoM in April, down 9 of the past 11 months.
Staffing index	⇆	Slipped to 99.5 during the week of the Memorial Day holiday after hitting a 13-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

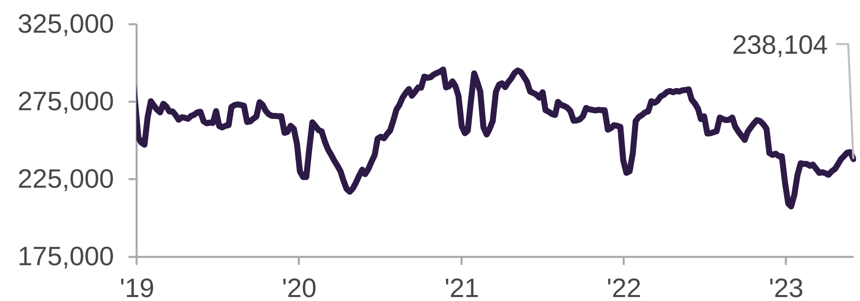
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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

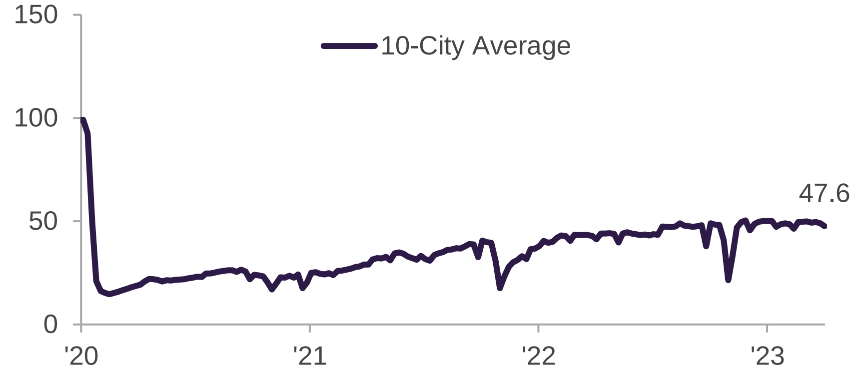
NY Fed weekly economic index



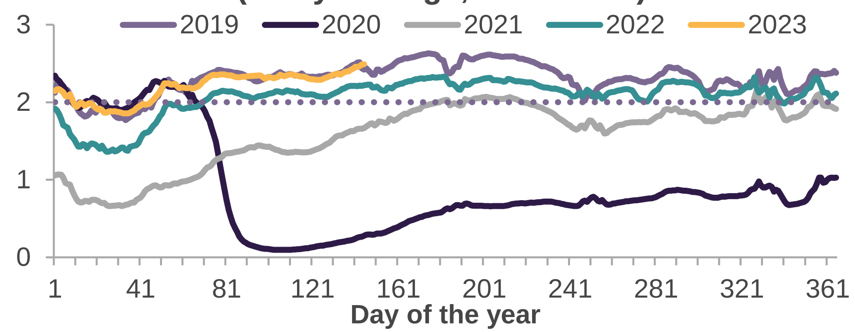
U.S. intermodal freight carloads (4-week average)



U.S. Back to Work Barometer Index



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

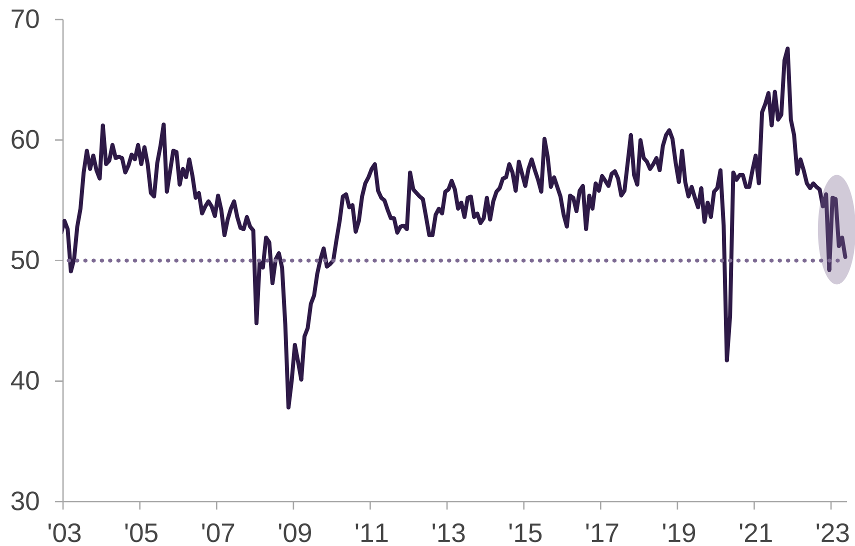


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through May 31, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through June 2. Bottom left: Bloomberg, Kastle Systems averaged weekly through May 24. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through May 25.

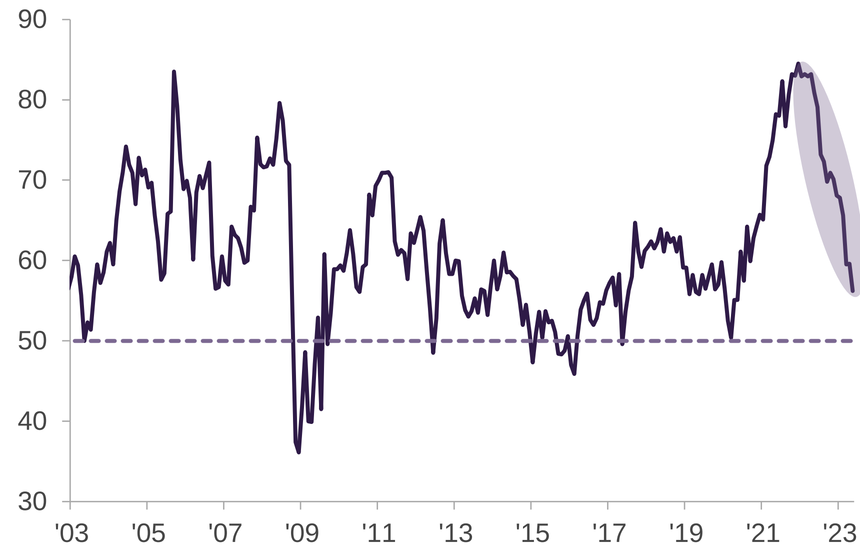
ISM Services narrowly expands in May, but prices continue to soften

The Institute for Supply Management (ISM) Services Index fell to a reading of 50.3 in May, narrowly expanding for the fourth month in a row after briefly contracting in December. Meanwhile, the prices paid component dropped to 56.2, the lowest reading since the pandemic, and has declined in 10 of the past 12 months.

ISM Services Index
(index value, 50 = expansion)



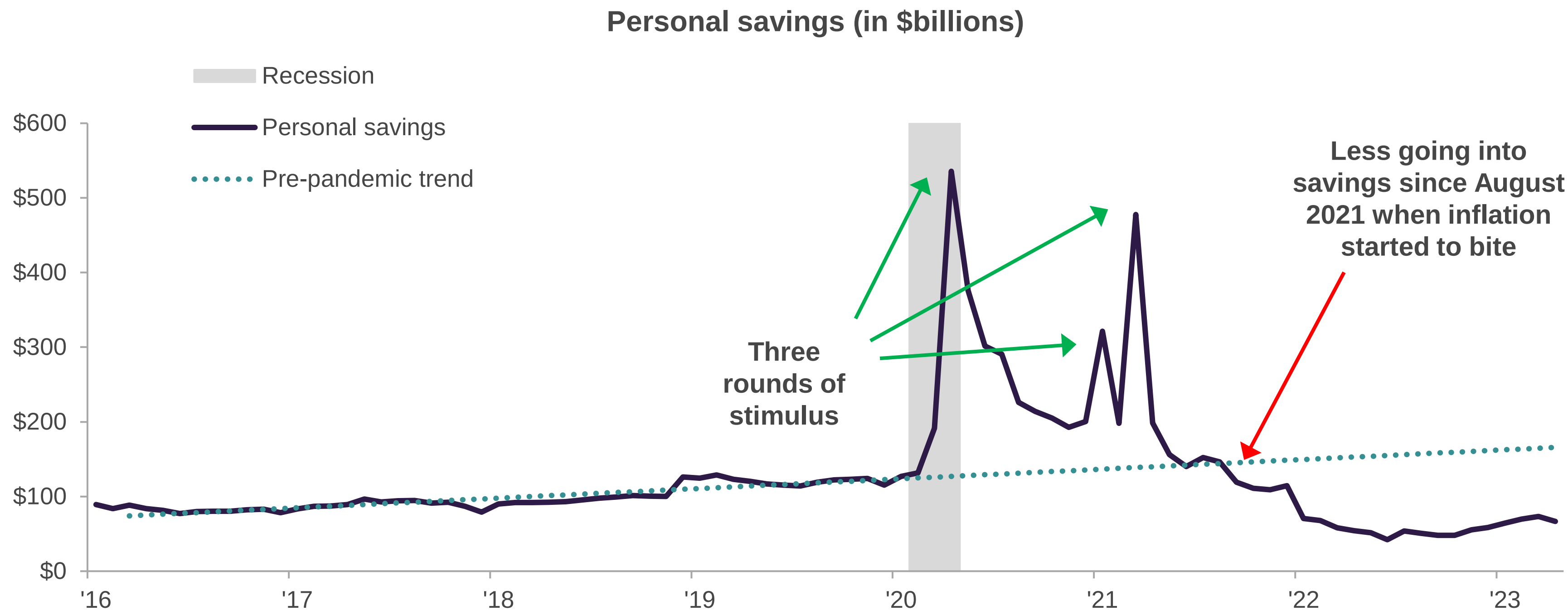
ISM Services Index: Prices paid component
(index value, 50 = expansion)



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

Consumers are burning through stimulus & savings due to inflation

Consumer savings skyrocketed in 2020 and 2021 thanks to three rounds of pandemic relief stimulus checks. However, the amount put into savings has steadily declined since August 2021, when the spike in inflation really began to gouge consumers. At $67 billion in April, that's about 60% the pre-pandemic trend.



Sources: Truist IAG, Bureau of Economic Analysis, Bloomberg. De-annualized monthly data through April 2023. Pre-pandemic 48-month trend from March 2016 through February 2020.

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