Truist Advisory Services, Inc.

# Economic data tracker – Summer travel heating up

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**Week 26 – July 3, 2023**

Note: *The next edition (Week 27) will be published on July 7th. We hope you enjoy the Independence Day holiday!*

## Trend watch and what's new this week

There's more evidence that summer travel is heating up. Hotel occupancy jumped to 71.4% last week, up 4.6 percentage points in the past month to the highest level since July '22 (slide 7). This appears to be a fairly typical summer surge.

Similarly, weekly air passengers are at 18.3 million, the third consecutive week above 18M and 18 straight weeks above 16M, the longest streak since the summer of '19. The year-to-date passenger total is tracking very closely with 2019. Also, dining reservations are -2.7% below last year's very strong figures. Meanwhile, most of the remaining activity-based data (slides 5 and 6) are also seeing typical seasonal increases.

## First quarter growth revised up, but real incomes slipping

On slide 8, real gross domestic product (GDP) rose 2.0% on an annualized basis in the first quarter, revised upward from 1.3% in the prior report. Most of the improvement was from net exports as U.S. exports of goods and services were revised higher, along with better consumer spending and less drag from residential building. Those more than offset downward revisions to business and government spending.

On slide 9, we show real gross domestic income (GDI), which is an alternate measure of the health of the economy. GDI has fallen for the past two quarters, the first such occurrence without a recession in the past 70 years.

## Manufacturing contracted for 8th straight month

Two separate gauges showed manufacturing continues to struggle. The Institute for Supply Management (ISM) Manufacturing Index fell to a reading of 46.0 in June. That's the eighth straight reading below 50, which signifies a decrease in manufacturing activity, and the weakest reading since May '20. The prices paid component dropped to 41.8, meaning prices decreased compared to May. It was the lowest level since December '22.

The final April reading of S&P Global's U.S. Manufacturing Index also showed a contraction in activity with a reading of 46.3. That's the seventh contraction in eight months.

## Consumer confidence up, inflation worries drop sharply

On slide 11, the University of Michigan Monthly Consumer Sentiment Survey rebounded to a reading of 64.4 in June after slumping to 57.7 in May with the debt ceiling worries. More importantly, one-year inflation expectations dropped sharply, to 3.3% from 4.2% as gasoline prices moderated. Longer-term expectations appear well-anchored as the 5–10-year inflation expectations slipped to 3.0% from 3.1% in May.

# Economic commentary – Our take and the bottom line

## Our take

Consumer confidence has improved as the debt ceiling debacle was resolved. Similarly, stocks just registered it's best first half performance since 2019.

However, incoming economic data has remained lackluster. While the economy isn't collapsing, the economic data isn't strengthening either. In fact, the latest manufacturing data weakened considerably.

It is possible that the U.S. could skirt a recession. It's becoming increasingly plausible that we may only see one negative quarter of gross domestic product (GDP). That said, it would be unprecedented to avoid a recession with weakening leading indicators, higher interest rates, and tighter financial and credit conditions.

Additionally, it appears that incomes are flattening, which isn't a good sign. That is related to the recent dip in hours worked, including again in May; we'll get the June figures on Friday. Incomes are directly related to and support spending; thus, sagging incomes eventually translates into softer spending, which – if it persists – tends to lead to layoffs.

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. But there's a little more wiggle room that the U.S. could skirt a recession.

# Econ-at-a-Glance

| | Economic indicator | Trend | Last | Next – consensus | Comments |
|---|---|---|---|---|---|
| Overall | Gross domestic product (GDP) | ▲ | 1Q F: 2.0% | 2Q A: 2.2%[†] | Revised up from the previously reported 1.3% pace. The biggest change was net exports swung to a positive, along with better consumer spending and less drag from residential building |
| Jobs | Unemployment rate[X] | ▲ | May: 3.7% | Jun: 3.6% | Up 0.3 in May to 3.7% from the cycle low of 3.4%. |
| Jobs | Monthly jobs (nonfarm) | ▲ | May: 339K | Jun: 225K | 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. |
| Jobs | Weekly jobless claims[+] | ⇆ | 6/24: 239K | 7/1: 245K | Had the biggest WoW decline since '21 during Juneteenth week. |
| Jobs | Nonfarm productivity | ⇆ | 1Q F: -2.1% | 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% | 7/26: 5.25% – 5.50% | The Fed held rates steady for the first time since early 2022. But market expects another quarter point hike in late July. |
| Interest rates | 10-year U.S. Treasury yield | ▼ | 3.84%[‡] | Flat/up | Jumped with stronger economic data and increased chances of a Fed rate hike in July. We expect more volatility.. |
| Interest rates | 10-year AAA GO muni yield | ▼ | 2.54%[‡] | Flat/down | Has held fairly steady for the past two weeks. |
| Interest rates | 30-year fixed mortgage rate | ▼ | 7.15%[‡] | Flat/up | Continued to tick upward after a brief spell below 7%. It's near the highest level since '01, which hurts housing affordability. |
| Inflation | Consumer prices (CPI)[X] | ▼ | May: 0.1% | Jun: 0.2% | The YoY pace cooled to 4.0% from 4.9%. |
| Inflation | Core CPI | ▼ | May: 0.4% | Jun: 0.3% | YoY rose 5.2%, cooling for the third straight month. |
| Inflation | Producer prices (PPI) | ⇆ | May: -0.3% | Jun: 0.2% | The YoY pace rose 1.1%, cooler than the 2.3% pace in April. |
| Inflation | Core PPI | ⇆ | May: 0.2% | Jun: 0.1% | YoY cooled 2.8%. Services prices fell after ticked higher in April. |

▲Good ▼ Bad ⇆ Neutral [+]Leading indicator [X]Lagging indicator [‡]Intraday quote Bloomberg consensus shown [†]FRB-ATL GDPNOW (6/30/2023)

# Econ-at-a-Glance

| | Economic indicator | Trend | Last | Next – consensus | Comments |
|---|---|---|---|---|---|
| Housing | Existing home sales | ▼ | May: 4.30M | Jun: N/A | Increased 0.2% in May, while April was revised upward to -3.2%. |
| | New home sales | ▲ | May: 763K | Jun: N/A | Jumped 12.2% MoM, while prices also rose. |
| | New housing starts | ⇆ | May: 1.631M | Jun: N/A | Rose 2.2% MoM but March was revised downward to -4.5%. |
| | New permits+ | ⇆ | May: 1.491M | Jun: N/A | Increased 5.2% MoM. |
| Business | Durable goods orders+ | ▲ | May P: 1.7% | May F: 1.7% | Core capital goods orders (ex-air & defense) rose 1.7% MoM. |
| | ISM Manufacturing Index | ▼ | Jun: 46.0 | Jul: N/A | Activity contracted for the 8th month in a row. Prices paid component was the lowest reading since December '22. |
| | ISM Services Index | ▲ | May: 50.3 | Jun: 51.3 | Narrowly missed contracting in December. Prices paid component edged up but fell in 10 of the prior 12 months. |
| | Business inventoriesX | ▲ | Apr: 0.2% | May: N/A | Rose modestly and has moderated over the past few months. |
| Consumer | Personal income | ▲ | May: 0.4% | Jun: N/A | Surprised to the upside, up for 15 consecutive months. |
| | Personal spending | ▲ | May: 0.1% | Jun: N/A | Better than expected, most in three months and March revised up. |
| | Retail & food sales | ⇆ | May: 0.3% | Jun: N/A | Rebounded again after two down months in March and February. |
| | Consumer sentiment | ▼ | Jun F: 64.4 | Jul P: N/A | Rebounded but still depressed compared to 2022. One-year inflation expectations dropped sharply, down to 3.3% from 4.2% previously. |

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

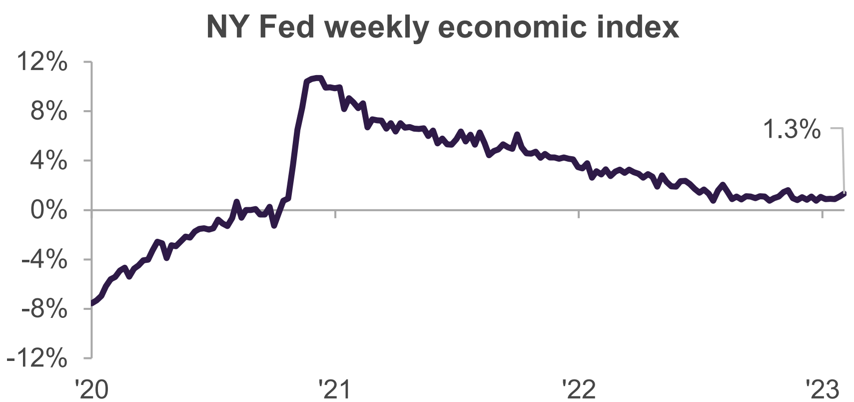
# U.S. activity-based data matrix

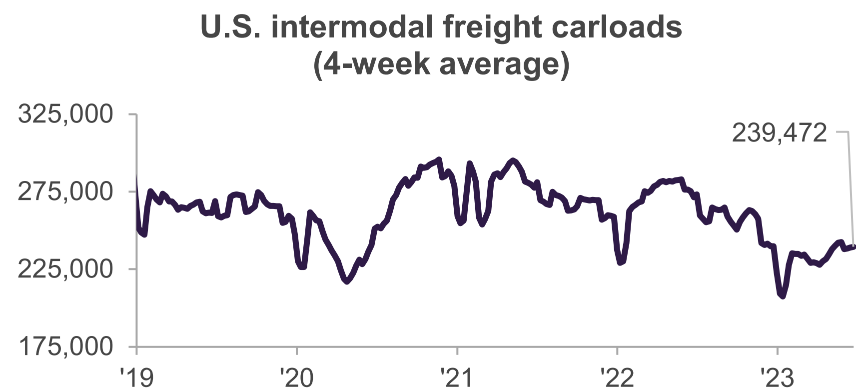
| Indicator | Relative trend | What we're watching |
|---|---|---|
| Back to office | ⇆ | Ticked up to 48.5 (pre-pandemic indexed to 100). Top cities were Houston (61), Austin (58), and Dallas (54); bottom were San Jose (38) and Philadelphia (41). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth. |
| TSA air passenger throughput | ▲ | Weekly counts fell 0.1% WoW to 18.3 million, still the highest since July '19. It is up 6.8% from the same week in June '19 and 12.6% above June '22. Year to date is up 0.03% from the same period in 2019. |
| OpenTable restaurant bookings | ⇆ | Rose to -2.7% compared to 2022 levels. Top positive states were led by New Mexico (+9%) and Washington (+7%); bottom were Connecticut (-9%), Minnesota and Illinois (both -6%). Top cities were Cincinnati (+16%) and Phoenix (+9%); bottom were Minneapolis (-20%), Chicago (-14%), and Indianapolis (-12%). |
| Hotel occupancy | ▲ | Jumped to 71.4%, the highest since July '22. The average daily rate rose WoW to $159.00, up 0.9% from the same week in '22, and revenue per available room slipped modestly WoW to $113.58, -0.1% from June '22. |
| Freight (rail/truck/ship) | ⇆ | Rail carloads slipped 1.6% during the latest week but rose 0.5% MoM in June to an 8-month high. Container traffic in May rose 8.8% at the top 5 U.S. ports (LA, LB, NY/NJ, SAV, SEATAC), the third straight monthly rise. The Cass Freight Index rose 1.9% MoM in May, snapping a two-month down streak. |
| Staffing index | ⇆ | Rose to 99.7, which was a four-week high and the second straight weekly increase. 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 increased 0.6% MoM in May and rose 4.8% YoY, which is below the annual average of 5.7% since 2015. The rental growth rate clearly peaked during the second half of 2021. |

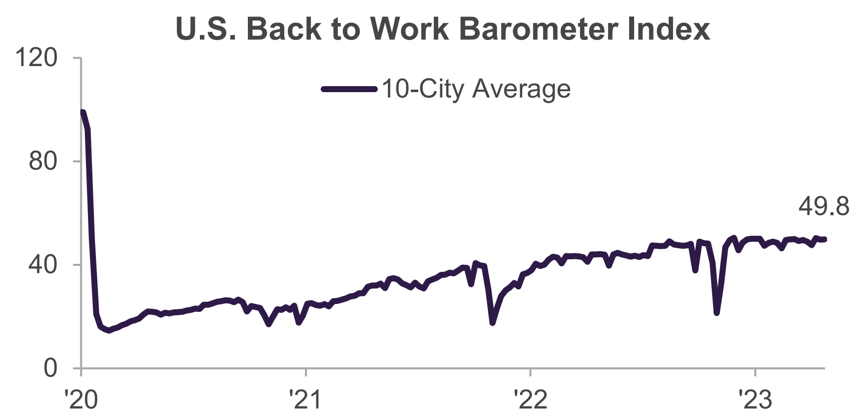
Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

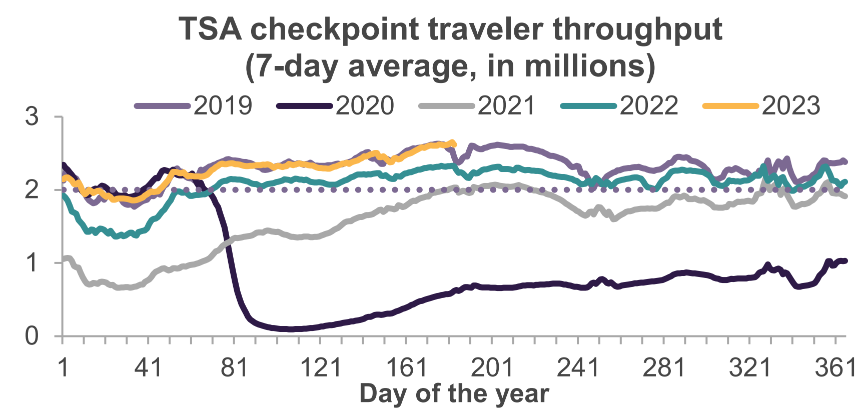
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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



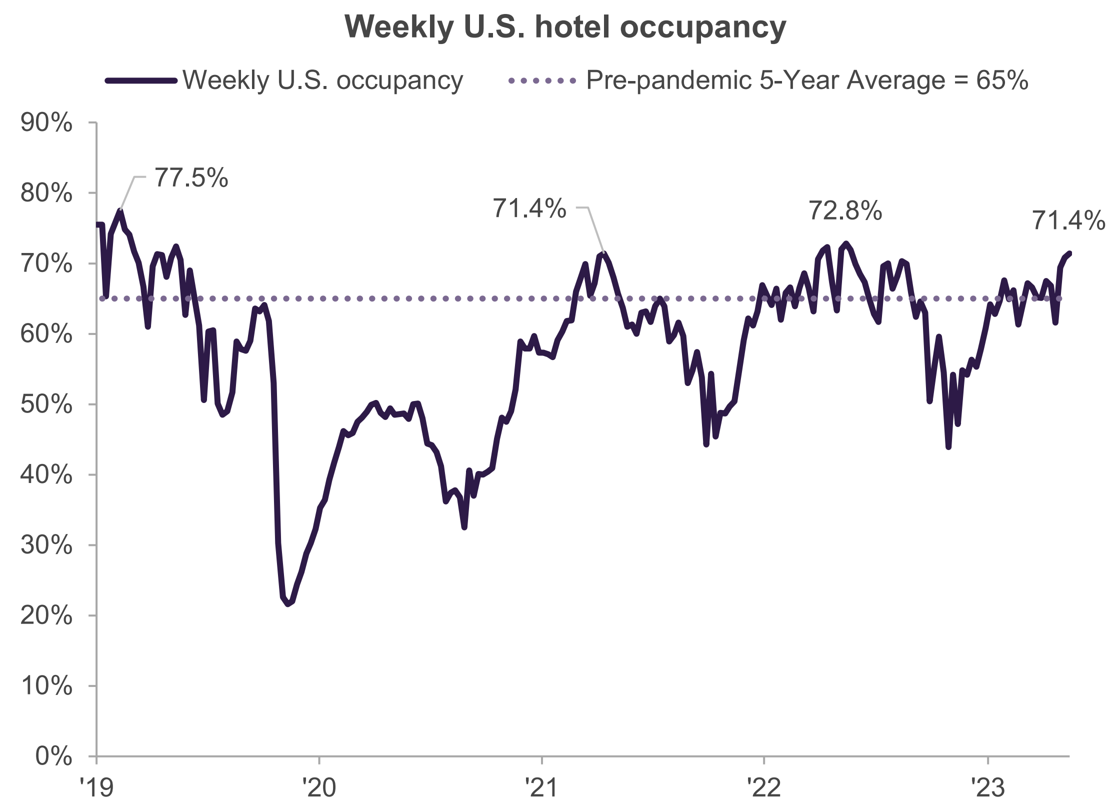




Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through June 23, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through June 23. Bottom left: Bloomberg, Kastle Systems averaged weekly through June 21. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through July 2.

# Hotels seeing a typical summer traveler surge

Hotel occupancy jumped to 71.4% nationally for the week of June 24. It's up 4.6 percentage points in the past month, which is fairly typical as summer vacations kick into high gear once schools break.

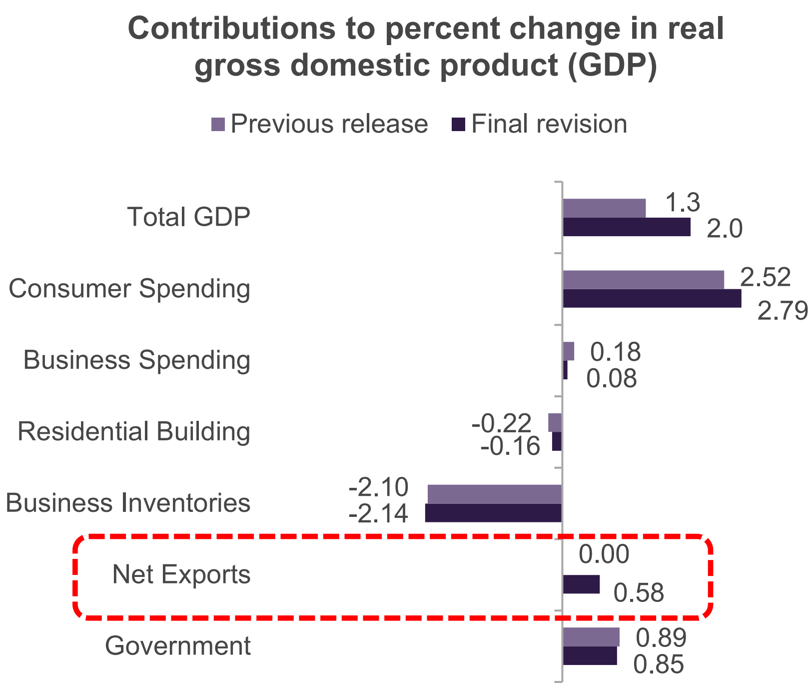
Similarly, average daily rates and revenue per available room are rising. Nonetheless, the overall trend has closely tracked 2019 since the second half of 2022.

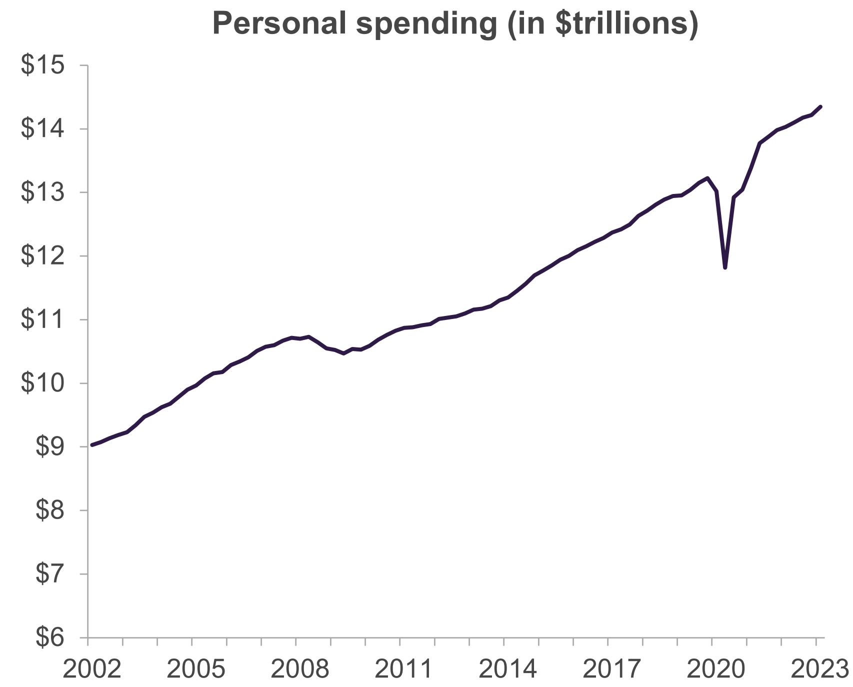



Sources: Truist IAG, STR; weekly data through June 24, 2023.

# 1st Quarter U.S. growth revised upward thanks to more exports

Real GDP rose 2.0% on an annualized basis in the first quarter, revised upward from 1.3%. Most of the improvement was from net exports as U.S. exports of goods and services were revised higher, along with better consumer spending and less drag from residential building. Those more than offset downward revisions to business and government spending.

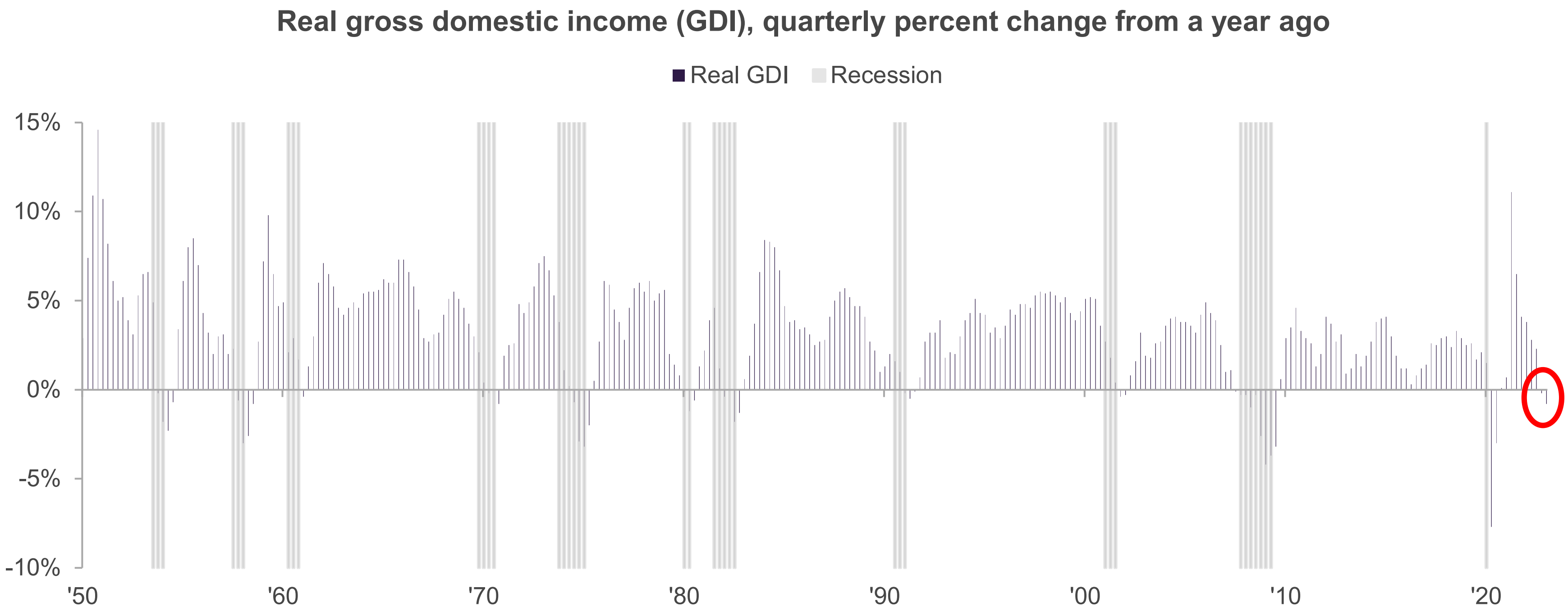



Sources: Truist IAG, Bureau of Economic Analysis. Left chart figures shown are inflation-adjusted (real) chained (2012) dollars on a seasonally adjusted annual rate.

# Real gross domestic incomes drop for second straight quarter

Real gross domestic income (GDI) – an alternate measure of the economy– is the total income that all sectors of an economy generate, including wages, profits, and taxes. GDI is important insofar as income essentially funds spending for consumers and businesses. It has fallen for the past two quarters, the first such occurrence without a recession in the past 70 years.

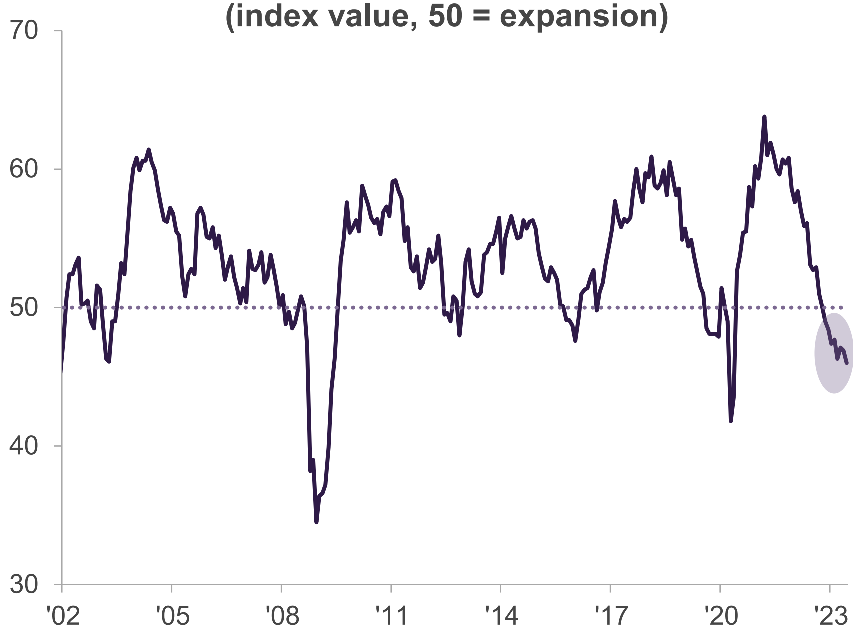



Sources: Truist IAG, Bloomberg, Bureau of Economic Analysis, Roth Capital Partners. Real gross domestic income is inflation-adjusted (real) chained (2012) dollars on a seasonally adjusted annual rate.

# ISM Manufacturing contracted for 8th month in June and prices dropped

The Institute for Supply Management (ISM) Manufacturing Index fell to a reading of 46.0 in June, the eighth straight reading below 50, which signifies a decrease in manufacturing activity, and the weakest reading since May ’20. The prices paid component dropped to 41.8, meaning prices decreased compared to May. It was the lowest level since December ‘22.

**ISM Manufacturing Index (index value, 50 = expansion)**



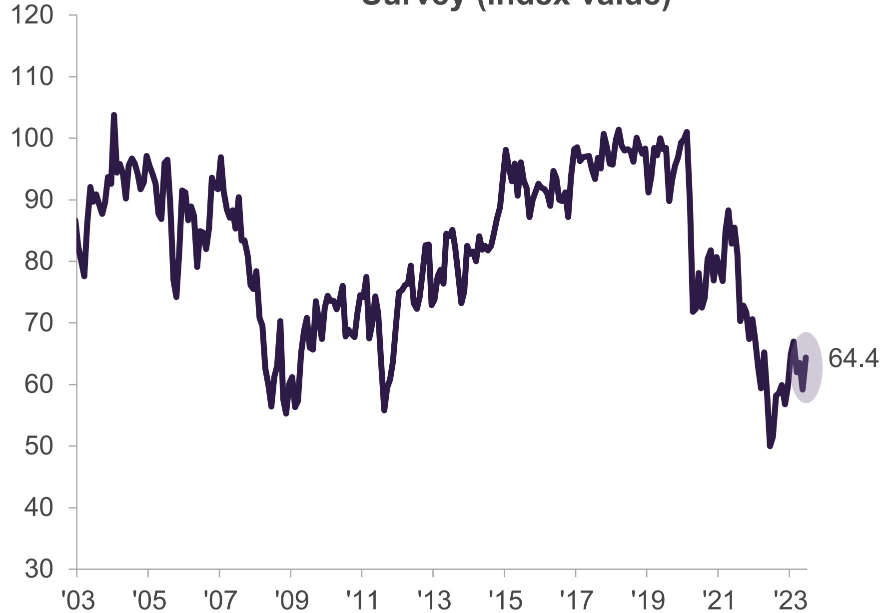

**ISM Manufacturing Index: Prices paid component (index value, 50 = expansion)**


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

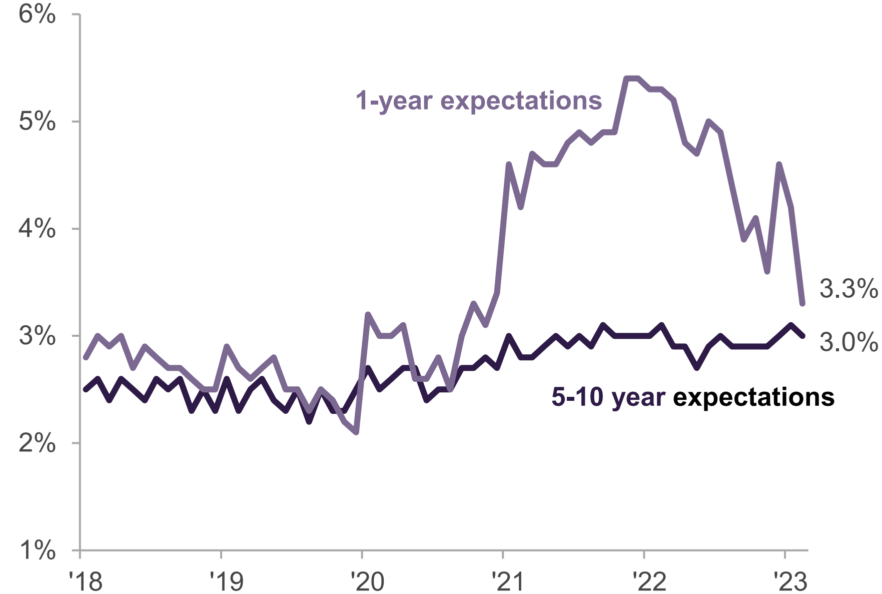
# Consumer confidence rebounds, while inflation expectations drop sharply

The University of Michigan Monthly Consumer Sentiment Survey rebounded to a reading of 64.4 in June after slumping to 57.7 in May with the debt ceiling worries. More importantly, one-year inflation expectations dropped sharply, to 3.3% from 4.2% as gasoline prices moderated. Longer-term expectations appear well-anchored as the 5–10-year inflation expectations slipped to 3.0% from 3.1% in May.

**University of Michigan Consumer Sentiment Survey (index value)**




**University of Michigan consumer survey inflation expectations**




Sources: Truist IAG, Bloomberg, University of Michigan; preliminary monthly data through May 2023.

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