Economic data tracker – More solid data and Fed hiked again

Michael Skordeles, AIF®
Head of U.S. economics

Week 30 – July 28, 2023

Trend watch and what's new this week

Travel activity remains solid, closely tracking 2019 (slides 5 and 6). For instance, hotel occupancy continued to rebound, hitting 72.9%, which is the highest level since August 2019. Similarly, year-to-date air passenger counts are running modestly ahead of 2019.

However, container traffic in June fell 4.8% at the 4 top U.S. ports (LA, Long Beach, Savannah, SEATAC), and is down 23% year-to-date compared to 2022 and -6.1% compared to '19.

Fed hikes another quarter point but vague on future moves

The Federal Reserve (Fed) increased its target range for the federal funds rate by a quarter point (0.25%) to a range of 5.25% to 5.50%. This was the 11th increase, taking the target rate up 5.25% in the past 17 months from essentially zero. Chair Jerome Powell's tone was definitively neutral during the post-meeting press conference, walking a tightrope between hawkishness and dovishness. He deftly weaved positive and negative points into his responses to questions with the goal of creating maximum policy flexibility for upcoming policy decisions. If he was trying to be vague about future moves – either a hike, a pause, or an eventual rate cut – mission accomplished.

The Fed's favorite gauge showed inflation remains sticky

On slide 7, the Fed's favorite inflation gauge—the price index of core personal consumption expenditures (core PCE)—rose 0.2% in June and increased 4.1% from a year ago. It's moving in the right direction and is down from its March '22 high of 5.4%. Still, that remains uncomfortably high and well above the Fed's 2% target, and likely contributed to the case for the July rate hike.

2nd quarter growth shows resilient consumers, businesses

On slide 8, we show the composition of second quarter gross domestic product (GDP), which grew 1.3% on an annualized basis. The biggest contributor in the second quarter was consumer spending, though the pace slowed compared to the first quarter, followed by business spending. Consumer spending, which accounts for nearly three-quarters of the U.S. economy, hit a fresh all-time high on a dollar basis. Conversely, residential building and net exports were modestly negative.

Weather impacted new home sales in June

On slide 9, new homes sales fell 2.5% in June to an annualized rate of 697,000, roughly in-line with the 20-year average and the December 2019 level. June sales may have been hampered by flooding in some areas of the Midwest, where sales dropped 28% for the month. Still, sales have increased in seven of the past nine months. Overall prices ticked down 0.5% in June yet remain 26% above the December 2019 level, supported by limited inventories of new and existing homes for sale.

Economic commentary – Our take and the bottom line

Durable goods and core capital goods orders hit new highs

On slide 10, new orders for durable goods—big-ticket items such as equipment, machinery, electronics, and office furniture—jumped 4.7% in June, along with upward revisions to the May data. That isn't just a cycle high – it's an all-time high, taking out the July 2014 high when Boeing booked orders for 324 planes for the rollout of the 737 MAX 200 plane. New orders for core capital goods, which exclude the volatile aircraft and defense components, also hit a fresh all-time high in June.

Services softer in July, while manufacturing still slumping

On slide 11, the preliminary July readings for S&P Global U.S. Purchasing Managers Index (PMI) for services slipped to 52.4 in July from 54.4 in June, though this was the sixth straight month of expansion. The U.S. manufacturing index improved to 49.0 but contracted for the eighth time in nine months.

Our take

The U.S. economy remains in a bit of a paradox. The good news is that the economy generally and consumers specifically remain more resilient than everyone expected, ourselves included.

As we have mentioned recently, the economy's strength has increased the probability that the U.S. could skirt a recession – a so-called soft landing – has increased to roughly 40%.

Still, our base case remains for a recession, which is informed by both the slow down in the leading economic indicators along with persistent inflation, specifically the strength in the labor market. While inflation has has clearly peaked and is moving lower, it remains much hotter than anyone is (or should be) comfortable with. The Fed remains concerned about the labor market and wages.

Accordingly, the stronger the economy remains, the greater the likelihood that the Fed will need to continue hiking rates to tame inflation, which in turn increases the prospects of a policy mistake. In other words, overtightening rates such that it causes a recession (aka a hard landing) accompanied with job losses.

Bottom line

A shallow recession remains our base case as dramatically higher interest rates and tighter credit conditions ratchet up 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. Yet, a recession isn't inevitable.

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▲	2Q A: 2.4%	2Q P: 2.4%	Handily beat the consensus of 1.8%. The biggest contributors were consumer spending, though the pace slowed compared to 1Q23, and business spending. Residential building and net exports were drags.
Jobs	Unemployment rate[X]	▲	Jun: 3.6%	Jul: 3.6%	Down 0.1% in June to 3.6%, hovering near the cycle low of 3.4%.
	Monthly jobs (nonfarm)	▲	Jun: 209K	Jul: 190K	Missed expectations for first time in 15 months, but prior to the pandemic, June's job growth would have been considered quite solid.
	Weekly jobless claims[+]	▲	7/22: 221K	7/29: 230K	Down in four of the last five weeks.
	Nonfarm productivity	⇆	1Q F: -2.1%	2Q A: 1.2%	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	▼	5.25% – 5.50%	9/20: 5.25% – 5.50%	As widely expected, the Fed hiked by another quarter point at the July meeting. Given vague guidance, markets split on the next move.
	10-year U.S. Treasury yield	▼	3.96%‡	Flat	Up with stronger economic data and the Fed's July rate hike, likely meaning more hikes ahead. We expect more volatility.
	10-year AAA GO muni yield	▼	2.50%‡	Flat/up	Down sharply after holding fairly steady during the prior week.
	30-year fixed mortgage rate	▼	7.34%‡	Up	Roes 0.2% in the past week. It's near the highest level since '01. Higher rates hurt housing affordability.
Inflation	Consumer prices (CPI)[X]	▼	Jun: 0.2%	Jul: 0.2%	The YoY pace cooled to 3.0% from 4.9% in April.
	Core CPI	▼	Jun: 0.2%	Jul: 0.2%	It rose 4.8% YoY, cooling for the third straight month.
	Producer prices (PPI)	⇆	Jun: 0.1%	Jul: 0.2%	The YoY pace collapsed to 0.1% in '23.
	Core PPI	⇆	Jun: 0.1%	Jul: N/A	YoY cooled 2.4%. Services prices fell after ticking 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	▼	Jun: 4.16M	Jul: N/A	Dropped 3.3% in June and down in three of the past four months.
	New home sales	▲	Jun: 697K	Jul: N/A	Fell 2.5% MoM but have increased for 7 of the past 9 months.
	New housing starts	⇆	Jun: 1.434M	Jul: N/A	Dropped 8.0% MoM, pushed down by flooding in parts of the U.S.
	New permits⁺	⇆	Jun: 1.441M	Jul: N/A	Down 3.7% MoM but single-family permits rose 2.2%.
Business	Durable goods orders⁺	▲	Jun P: 4.7%	Jun F: 4.7%	Both headline orders and core capital goods orders (ex-air & defense) hit fresh all-time highs in June.
	ISM Manufacturing Index	▼	Jun: 46.0	Jul: 46.6	Activity contracted for the 8th month in a row. Prices paid component was the lowest reading since December '22.
	ISM Services Index	▲	Jun: 53.9	Jul: 53.0	Expanded for the sixth month in a row after briefly contracting in December. The prices paid component fell for 12th time in 14 months.
	Business inventories^{X}	▲	May: 0.2%	Jun: N/A	Rose modestly for the third time in four months.
Consumer	Personal income	▲	Jun: 0.3%	Jul: N/A	Missed the consensus of 0.5%, but May was revised upward to 0.5%.
	Personal spending	▲	Jun: 0.5%	Jul: N/A	Better than expected and May revised upward.
	Retail & food sales	⇆	Jun: 0.2%	Jul: N/A	It is just 0.4% below the all-time high set in January '23.
	Consumer sentiment	▲	Jul F: 71.6	Aug P: N/A	Jumped to 22-month high, while long-term (5-10-year) inflation expectations were lowered to 3.0%, the same pace as June.

▲Good ▼ Bad ⇆ Neutral ⁺Leading indicator ^{X}Lagging indicator ‡Intraday quote Bloomberg consensus shown

U.S. activity-based data matrix

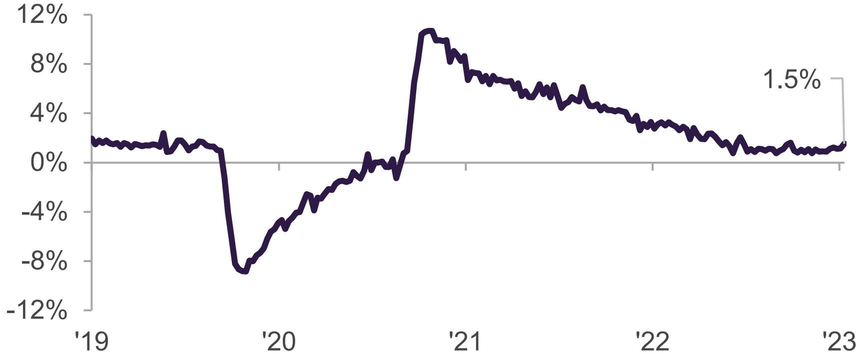
Indicator	Relative trend	What we're watching
Back to office	⇆	Back above 50.2, the highest since early June (pre-pandemic indexed to 100). Top cities were Houston (61), Austin (58), and Chicago (55); bottom were San Jose (41) and Philadelphia (41). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts dipped 1.0% WoW to 18.2 million, though the prior was a record. It is down 0.1% from the same week in July '19 but up 13.7% above July '22. Year to date is up 0.1% compared to the same period in 2019.
OpenTable restaurant bookings	⇆	Sagged WoW to -4% from -3% in the prior week (compared to 2022 levels). Top positive states were led by Minnesota (+6%) and Delaware (+4%); bottom were Michigan and Utah (both -10%). Top cities were Cincinnati (+23%) and Minneapolis (+16%); bottom were Miami (-20%) and Orlando (-17%).
Hotel occupancy	▲	Rose to 72.9%, the highest since August 2019. The average daily rate rose WoW to $161.65, up 1.5% from the same week in '22, and revenue per available room rose WoW to $117.91, up 2.0% from July '22.
Freight (rail/truck/ship)	▼	Container traffic in June fell 4.8% at the 4 top U.S. ports (LA, LB, SAV, SEATAC). Rail traffic moderated -0.9% after a 17.2% increase during the prior week; traffic rose 2.2% in June. The Cass Freight Index fell 1.6% in June, the 10th decline in 13 months.
Staffing index	⇆	Soared to 100.7, a 22-week high dating back to the middle of February. The '19 average was 94.2. 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 June and rose 4.1% 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

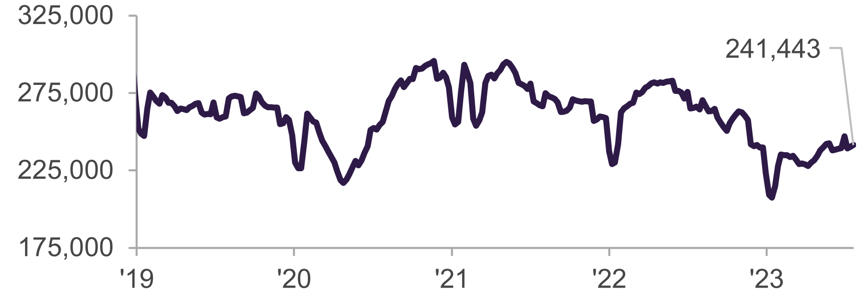
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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

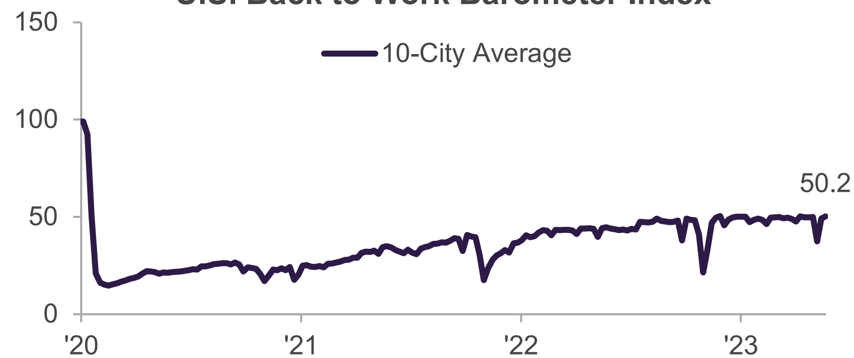
NY Fed weekly economic index



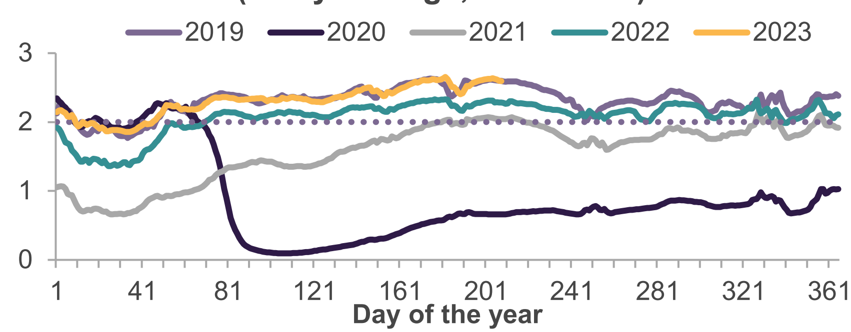
U.S. intermodal freight carloads (4-week average)



U.S. Back to Work Barometer Index



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



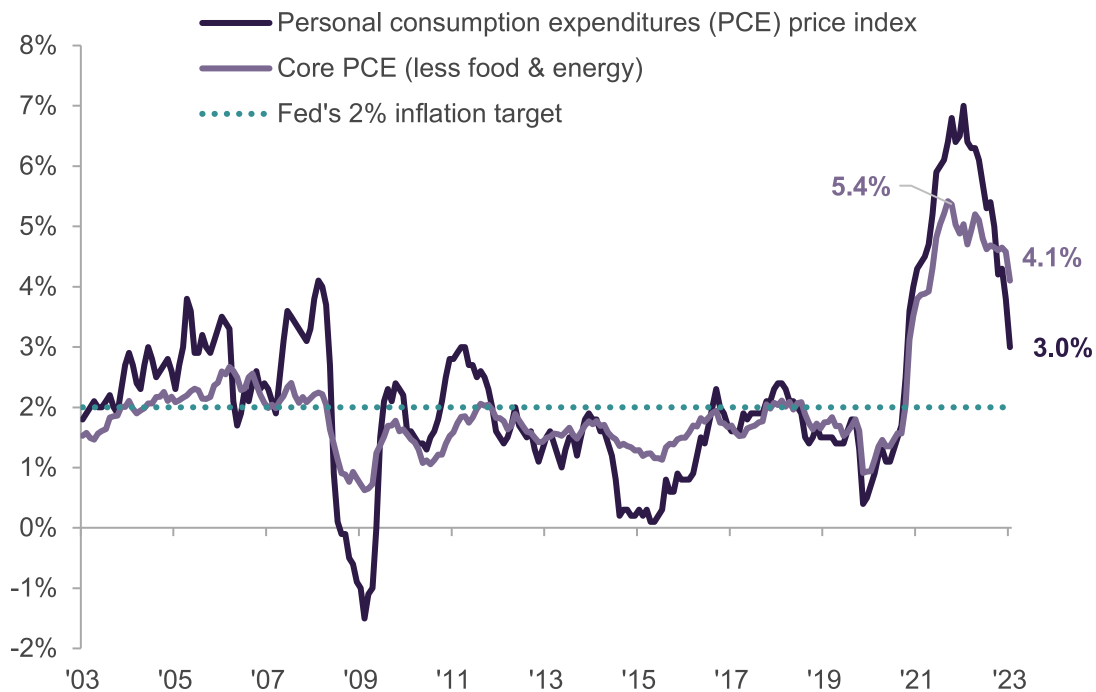
Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through July 15, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through July 21. Bottom left: Bloomberg, Kastle Systems averaged weekly through July 20. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through July 27.

The Fed’s favorite inflation gauge is down from its peak, but still too high

Core PCE is the Fed’s favored inflation gauge. It rose 0.2% in June and increased 4.1% from a year ago. It’s moving in the right direction and is down from its March ’22 high of 5.4%.

Still, that remains uncomfortably high and well above the Fed’s 2% target, and likely contributed to the case for the July rate hike.

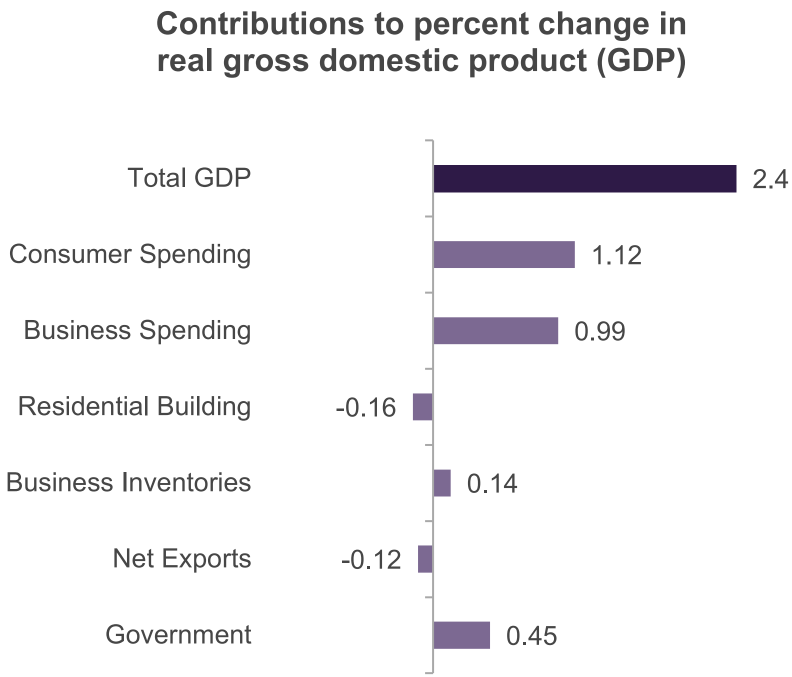
Personal consumption expenditures (PCE) year-over-year change

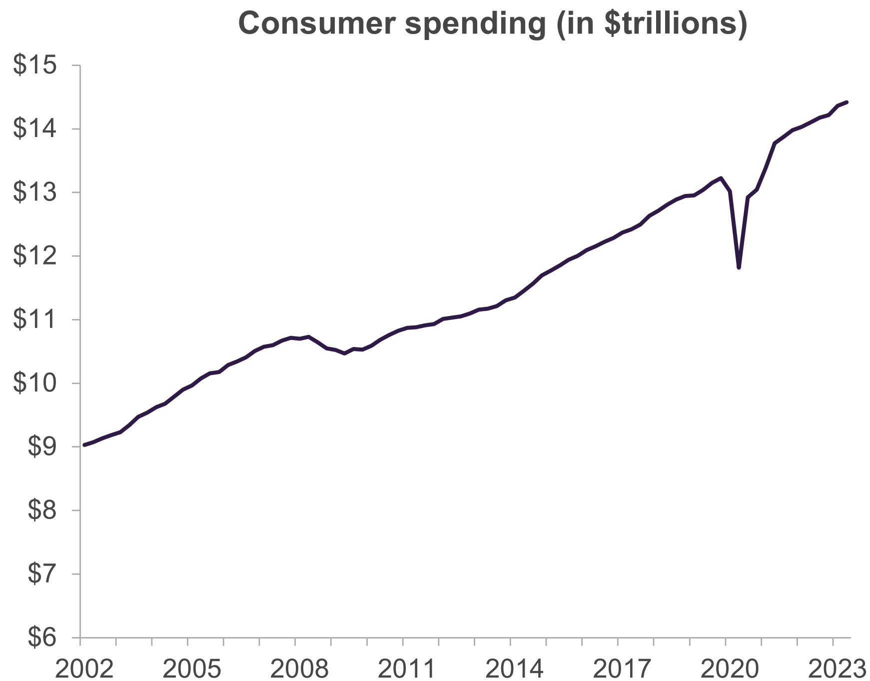


Sources: Truist IAG, Bloomberg, Bureau of Economic Analysis; monthly data through June 2023.

Second quarter U.S. growth shows resilient consumers and businesses

Real GDP rose 2.4% on an annualized basis in the second quarter. The biggest contributor in the second quarter was consumer spending, though the pace slowed compared to the first quarter, followed by business spending. Consumer spending, which accounts for nearly three-quarters of the U.S. economy, hit a fresh all-time high on a dollar basis. Conversely, residential building and net exports were modestly negative.



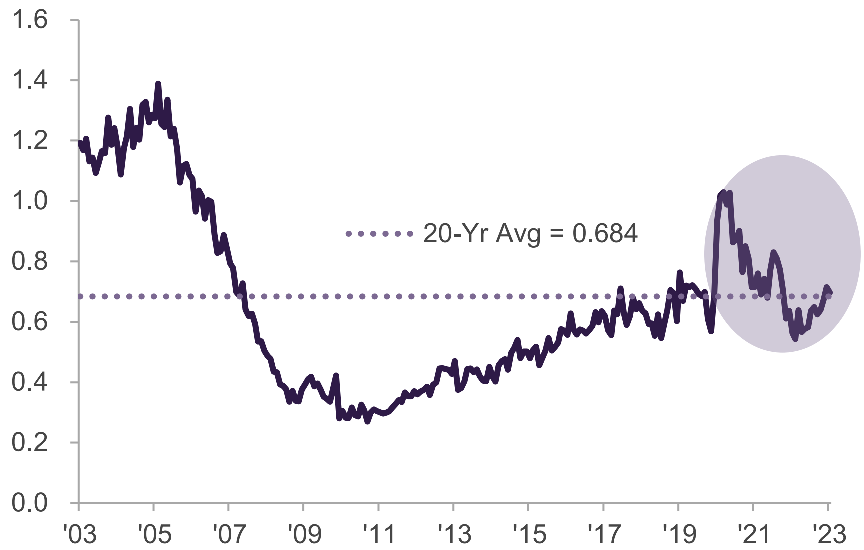


Sources: Truist IAG, Bureau of Economic Analysis. Left chart figures shown are inflation-adjusted (real) chained (2012) dollars on a seasonally adjusted annual rate.

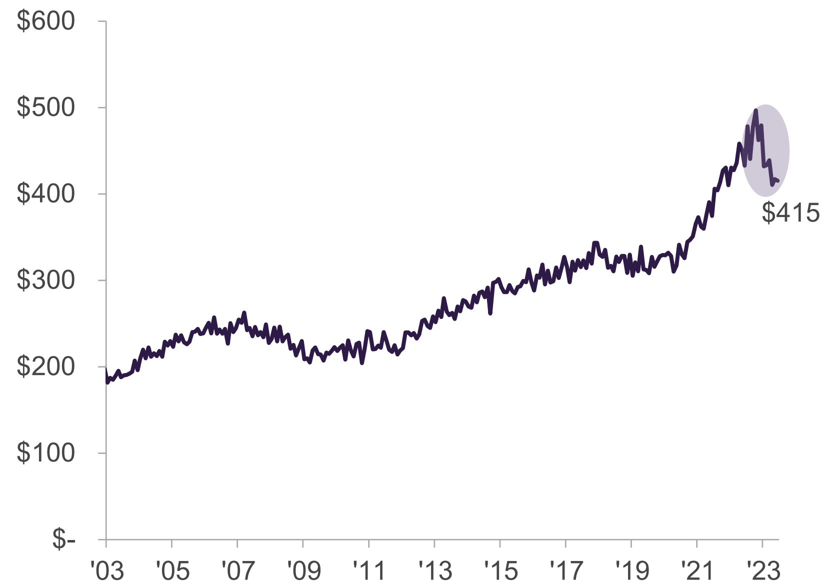
New home sales dipped in June, but up for 7 of the past 9 months

New homes sales fell 2.5% in June to an annualized rate of 697,000, roughly in-line with the 20-year average and the December 2019 level. June sales may have been hampered by flooding in some areas of the Midwest, where sales dropped 28% for the month. Overall prices ticked down 0.5% in June yet remain 26% above the December 2019 level, supported by limited inventories of new and existing homes for sale.

U.S. new single-family home sales (SAAR, units in millions)



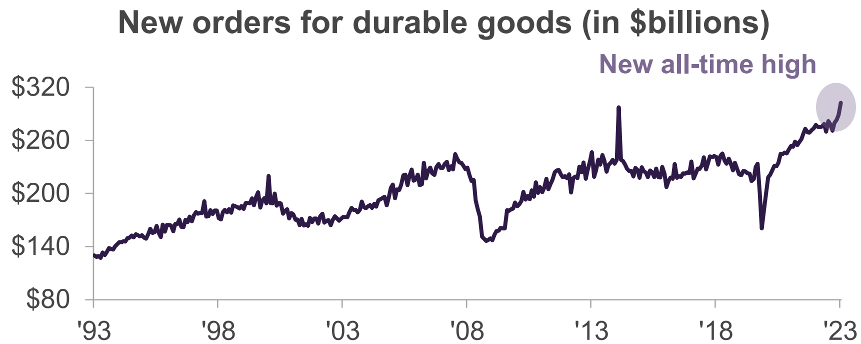
Median price of new single-family homes (in $thousands)



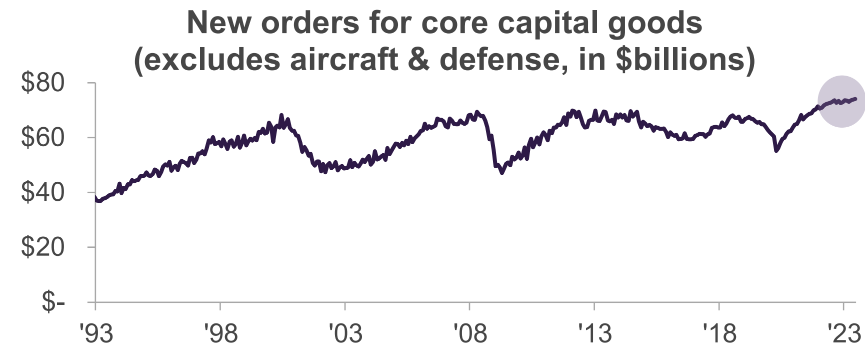
Sources: Truist IAG, Bloomberg, U.S. Census Bureau. Figures shown are seasonally-adjust annualized rate (SAAR); monthly data through June 2023.

Durable goods and core capital goods orders hit fresh all-time highs

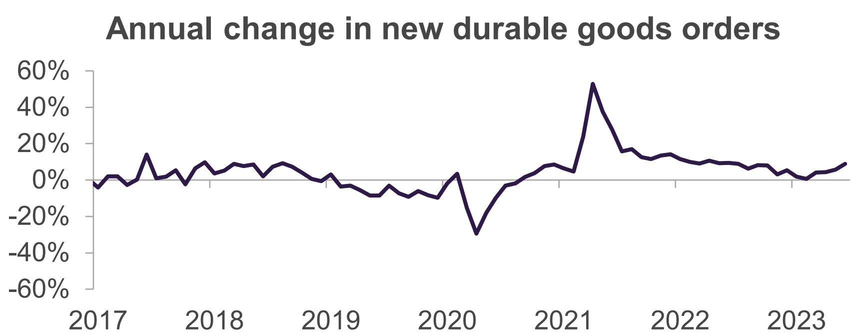
Big surge in transportation orders, including commercial aircraft



Just hit a fresh all-time high



The year-over-year pace appears to be modestly reaccelerating

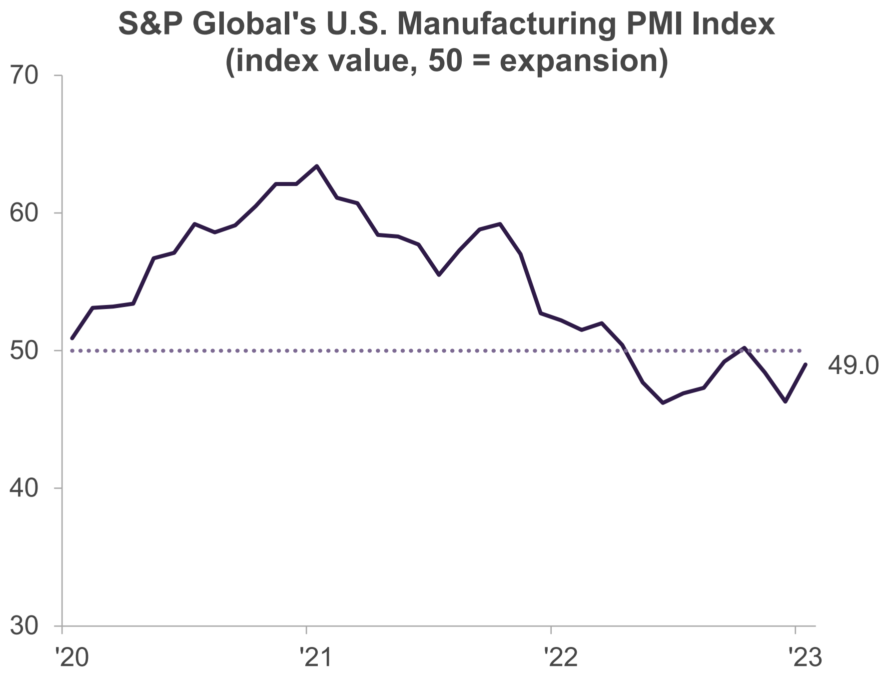


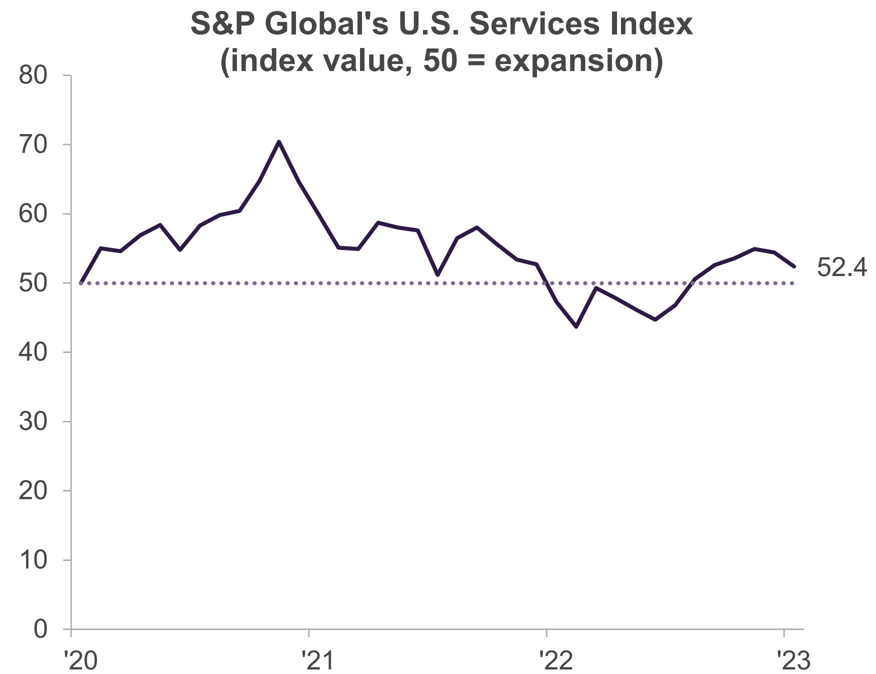
Up three months in a row after dropping in 4 of 7 months

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

U.S. services softer in July, but manufacturing continues to slump

S&P Global's U.S. Manufacturing Purchasing Managers Index (PMI) improved to 49.0 but contracted for the eighth time in nine months. The U.S. Services Index slipped to 52.4 in July from 54.4 in June; still, it was the sixth straight month of expansion.





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

Disclosures

Advisory managed account programs entail risks, including possible loss of principal and may not be suitable for all investors. Please speak to your advisor to request a firm brochure which includes program details, including risks, fees and expenses.

Truist Wealth is a name used by Truist Financial Corporation. Banking products and services, including loans, deposit accounts, trust and investment management services provided by Truist Bank, Member FDIC. Securities, brokerage accounts, insurance/annuities offered by Truist Investment Services, Inc. member FINRA, SIPC, and a licensed insurance agency where applicable. Life insurance products offered by referral to Truist Insurance Holdings, Inc. and affiliates. Investment advisory services offered by Truist Advisory Services, Inc., Sterling Capital Management, LLC, and affiliated SEC registered investment advisers. Sterling Capital Funds advised by Sterling Capital Management, LLC. While this information is believed to be accurate, Truist Financial Corporation, including its affiliates, does not guarantee the accuracy, completeness or timeliness of, or otherwise endorse these analyses or market data.

The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Truist Financial Corporation makes no representation or guarantee as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. The information contained herein does not purport to be a complete analysis of any security, company, or industry involved. This material is not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions and information expressed herein are subject to change without notice. TIS and/or its affiliates, including your Advisor, may have issued materials that are inconsistent with or may reach different conclusions than those represented in this commentary, and all opinions and information are believed to be reflective of judgments and opinions as of the date that material was originally published. TIS is under no obligation to ensure that other materials are brought to the attention of any recipient of this commentary.

Comments regarding tax implications are informational only. Truist and its representatives do not provide tax or legal advice. You should consult your individual tax or legal professional before taking any action that may have tax or legal consequences.

Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance.

TIS/TAS shall accept no liability for any loss arising from the use of this material, nor shall TIS/TAS treat any recipient of this material as a customer or client simply by virtue of the receipt of this material.

The information herein is for persons residing in the United States of America only and is not intended for any person in any other jurisdiction.

TIS/TAS's officers, employees, agents and/or affiliates may have positions in securities, options, rights, or warrants mentioned or discussed in this material.

CN2023-5844039.1 EXP07-2024