Economic data tracker – Incoming housing data mixed

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

Week 29 – July 21, 2023

Trend watch and what's new this week

Activity has rebounded following the 4th of July holiday, rippling though the activity-based data (slides 5 and 6). Most are tracking with historical patterns. For example, hotel occupancy rebounded sharply to 72.0% from a holiday-depressed 61.8% during the week of July 4th. Rail traffic spiked 17.2% last week to 478,153 carloads, the second most in 2023 and narrowly missing the most by just 0.4%. And the weekly count of air passengers hit 18.35 million, a fresh new post-pandemic high.

Existing home sales down 17 of the past 19 months

On slide 7, existing single-family home sales dropped 3.4% to an annualized rate of 3.72 million in June, which is 20.5% below the December 2019 level. Yet, prices rose for the fifth consecutive month, up 3.6% in June to $416,000, which is 50.2% above the December 2019 level. That's due to very limited supply. There's a wide variation based on location, with prices softening in a few markets in the West that had the largest post-pandemic increases, but generally climbing elsewhere.

New housing activity showing signs of stabilization

On slide 8, we updated several of the new housing metrics. Total new building permits fell 3.7% in June, but single-family permits rose 2.2% and haven't fallen in '23. Meanwhile, floods in parts of the U.S. pushed down housing starts, which dropped 8.0% in June, and the May figures were revised substantially lower.

Also on slide 8, new home buyer traffic increased for the sixth time in seven months in July. That helped the NAHB Market Index, which is the builder sentiment survey, increase for the seventh consecutive month.

Retail sales up in June, near all-time high, but slower pace

On slide 9, retail & food service sales in June rose 0.2% MoM to $689.5 billion, which is just 0.4% below the all-time high set in January. Auto sales, which rose 0.3%, were a big driver, while gasoline sales fell 1.4% during the month. Excluding both autos and gasoline, retail sales notched a fresh all-time high after increasing 0.3% in June.

Big 4 indicators solid but production stumbling

On slide 10, 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. Industrial production figures for June fell to a five-month low and declined for the second straight month. The capacity utilization rate – the percentage used in production vs. idle – fell to 78.9%, which was the second consecutive MoM decline and matched the 21-month low.

Economic commentary – Our take and the bottom line

Our take

The sentiment pendulum on any topic – from recession, rates, and inflation to earnings and stocks – tends to swing from one extreme to the other. Though the oscillating can be dizzying and frustrating, it can be healthy insofar as it shakes up complacency.

Once again, the consensus on the recession appears to have swung strongly – with many now believing that there definitely isn't a recession in the offing. That's a complete flip from six months ago, when the overwhelming view was centered on "how deep" the coming recession would be. In both cases, we'd say, "not so fast."

We acknowledge that resilience in the economy has increased the probability that the U.S. could skirt a recession – a so-called soft landing. At the beginning of this year, we said a soft landing had less than a 10% chance. Now, that chance is essentially 40% – dramatically higher but still not our base case. In essence, there are a wider range of outcomes due to many crosscurrents, which is among the reasons why we said "stay flexible" in the '23 outlook.

To be clear, there are many interpretations of a soft landing. Our view is a soft landing could be a quarter or two of negative gross domestic product (GDP) but without job loss or a meaningful rise in the unemployment rate (an increase of greater than 0.5%). That's what occurred in the first half of 2022. Or several other scenarios, including a so-called rolling sector recession – whereby industries contract but are not synched up – allowing the overall economy to skirt. For instance, housing crashed in '22, but transportation slowed earlier this year and manufacturing is contracting now, etc.

At this point, the fourth quarter of this year will likely post negative GDP, if for no other reason than the restarting of student loan payments. Inflation has clearly peaked and is moving lower but remains much hotter than anyone is (or should be) comfortable with. The Federal Reserve (Fed) remains concerned about the labor market and, more specifically, wages. We believe the Fed will hike rates by a quarter point (0.25%) next week.

The latest issues are related to labor with three strikes – the Hollywood writers, now the actors, and the growing threat of the Teamsters-UPS strike. Before you scoff at the relevance of the writers and actors striking – it directly impacts roughly 175,000 workers and supports billons in economic activity. The looming Teamsters-UPS strike is a much bigger issue since UPS transports roughly 6% of GDP. Combined, these three strikes represent more than half million workers. (We are writing a note covering the strikes that should be published in the next few days.)

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)	▲	1Q F: 2.0%	2Q A: 1.8%	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]	▲	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: 175K	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[+]	▲	7/15: 228K	7/22: 235K	Initial claims have fallen during three of the past four weeks and down 2.1% since Memorial Day, while continuing claims are -0.1%.
	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 the market expects another quarter point hike at next week's meeting.
	10-year U.S. Treasury yield	▼	3.82%‡	Flat/down	Virtually unchanged after a sizable decline last week on the increased chances of a July Fed rate hike. We expect more volatility.
	10-year AAA GO muni yield	▼	2.47%‡	Flat/down	Down sharply after holding fairly steady during the prior week.
	30-year fixed mortgage rate	▼	7.15%‡	Flat/down	It's basically flat in the past week. Still, 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: N/A	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 three of the past four months.
	New home sales	▲	May: 763K	Jun: 725K	Jumped 12.2% MoM, while prices also rose.
	New housing starts	⇆	Jun: 1.480M	Jul: N/A	Dropped 8.0% MoM, pushed down by flooding in parts of the U.S.
	New permits+	⇆	Jun: 1.499M	Jul: N/A	Down 3.7% MoM but single-family permits rose 2.2%.
Business	Durable goods orders+	▲	May F: 1.8%	Jun P: 0.9%	Core capital goods orders (ex-air & defense) rose 0.7% MoM.
	ISM Manufacturing Index	▼	Jun: 46.0	Jul: 47.1	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: N/A	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 inventoriesX	▲	May: 0.2%	Jun: N/A	Rose modestly for the third time in four months.
Consumer	Personal income	▲	May: 0.4%	Jun: 0.5%	Surprised to the upside, up for 15 consecutive months.
	Personal spending	▲	May: 0.1%	Jun: 0.4%	Better than expected, most in three months and March revised up.
	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 P: 72.6	Jul F: 72.6	Jumped to 22-month high, but long-term (5-10-year) inflation expectations tick higher to 3.1%, matching the high since 2011.

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

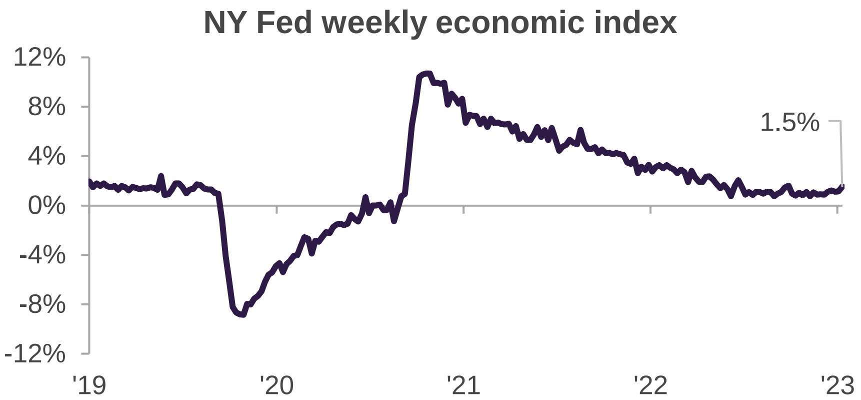
U.S. activity-based data matrix

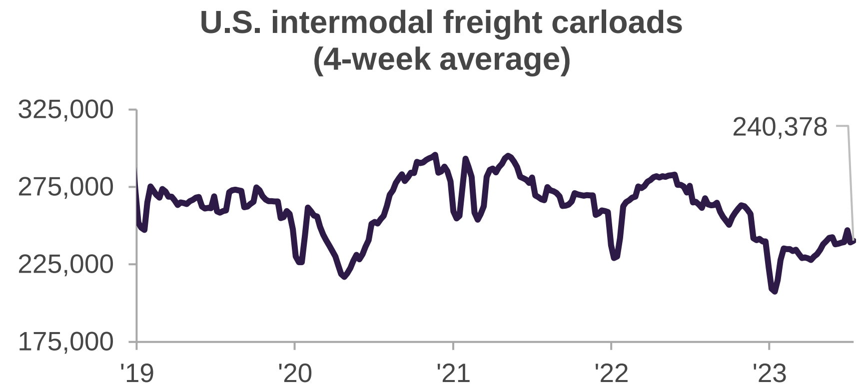
Indicator	Relative trend	What we're watching
Back to office	⇆	Rebounded to 49.1 from 37.5 during the holiday week (pre-pandemic indexed to 100). Top cities were Houston (60), Austin (57), and Dallas (54); bottom were San Jose (39) and Philadelphia (41). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts jumped 2.9% WoW to 18.4 million, a fresh new post-pandemic high. It is up 0.7% from the same week in July '19 and up 13.7% above July '22. Year to date is up 0.6% compared to the same period in 2019.
OpenTable restaurant bookings	⇆	Improved slightly WoW to -3% from -3.7% in the prior week compared to 2022 levels. Top positive states were led by Nebraska (+9%) and New Mexico (+8%); bottom were Utah (-10%) and Hawaii (-8%). Top cities were Phoenix (+18%), Louisville and Indy (both +9%); bottom were Milwaukee (-14%) and Minneapolis (-13%).
Hotel occupancy	▲	Rebounded sharply to 72.0% from 61.8% in the prior week. The average daily rate rose WoW to $159.98, up 1.5% from the same week in '22, and revenue per available room rose WoW to $115.18, up 1.6% from July '22.
Freight (rail/truck/ship)	▼	Rail traffic spiked 17.2% last week to the 2nd highest level in '23 and rose 2.2% in June. Container traffic in June fell 7% at the top 2 U.S. ports (LA, LB). The Cass Freight Index fell 1.6% in June, the 10th decline in 13 months.
Staffing index	▼	Down sharply to 93.6 due to the July 4th holiday; still, it's been running roughly 6% below '22 since late February. 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.

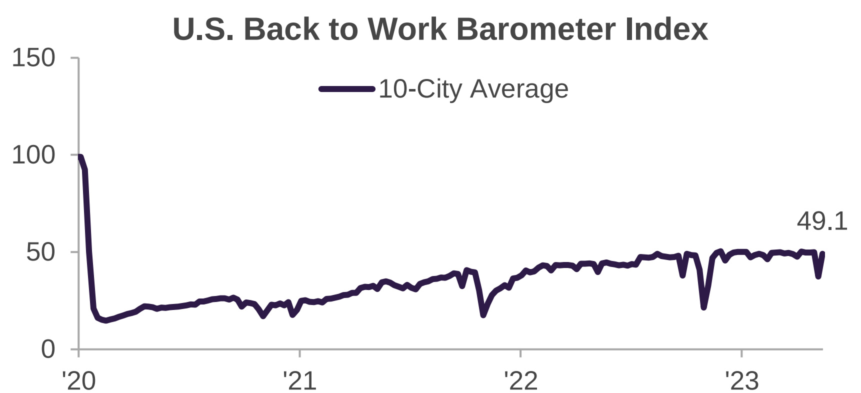
Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

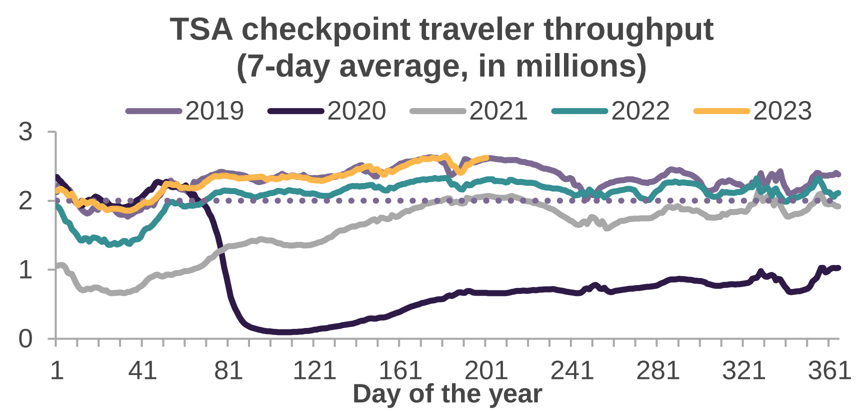
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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









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 14. Bottom left: Bloomberg, Kastle Systems averaged weekly through July 12. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through July 20.

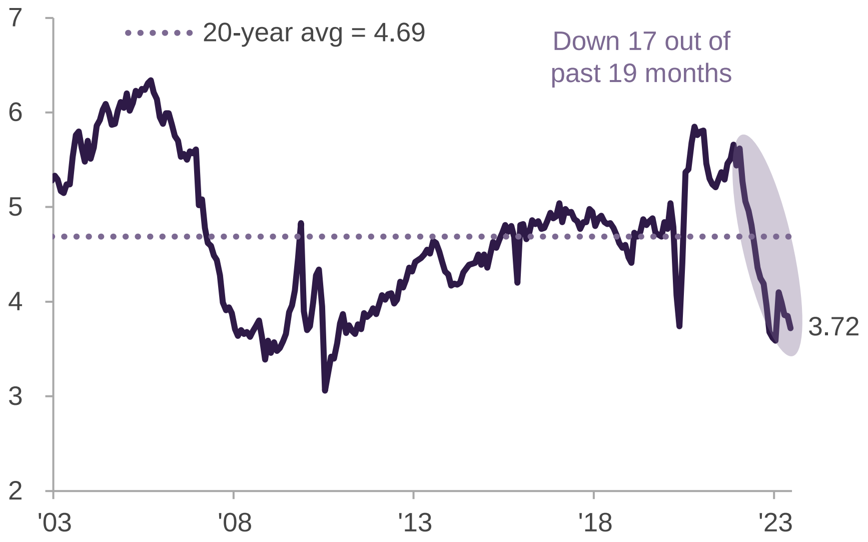
TRUIST

Wealth

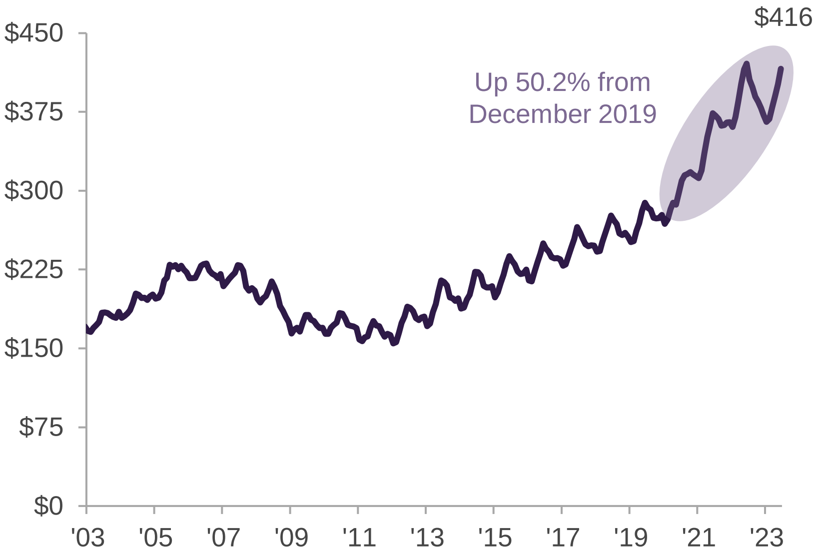
Existing home sales down for the 17th time in 19 months, but prices up again

Existing single-family home sales dropped 3.4% to an annualized rate of 3.72 million in June, which is 20.5% below the December 2019 level. Meanwhile, prices rose for the fifth consecutive month, up 3.6% in June to $416,000, which is 50.2% above the December 2019 level. That's due to very limited supply. There's a wide variation based on location, with prices softening in a few markets in the West that had the largest post-pandemic increases, but generally climbing everywhere else.

Existing single-family home sales (units in millions, SAAR)

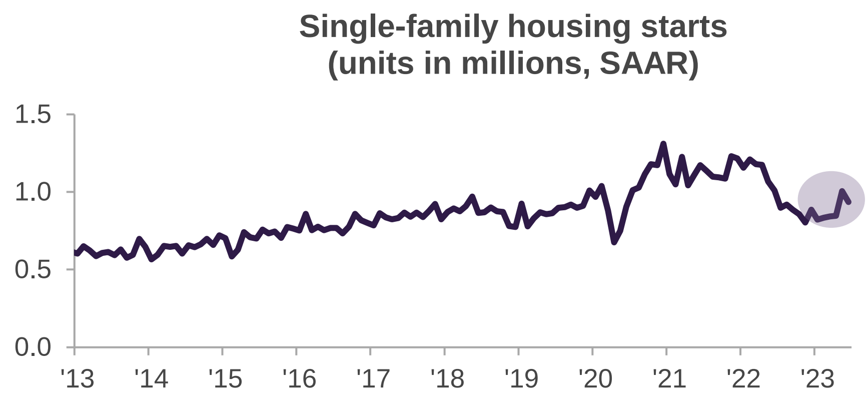


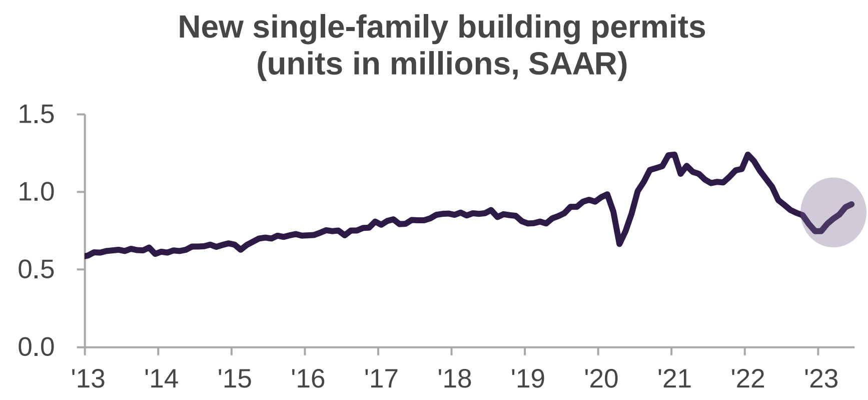
Median sales price of existing single-family homes (in $thousands)

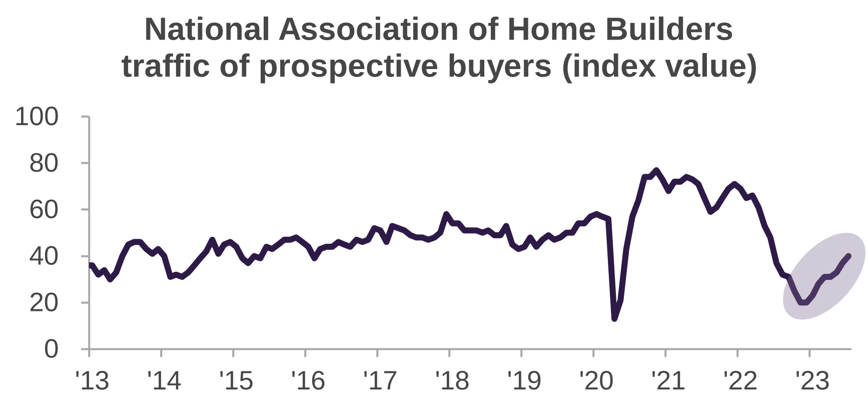


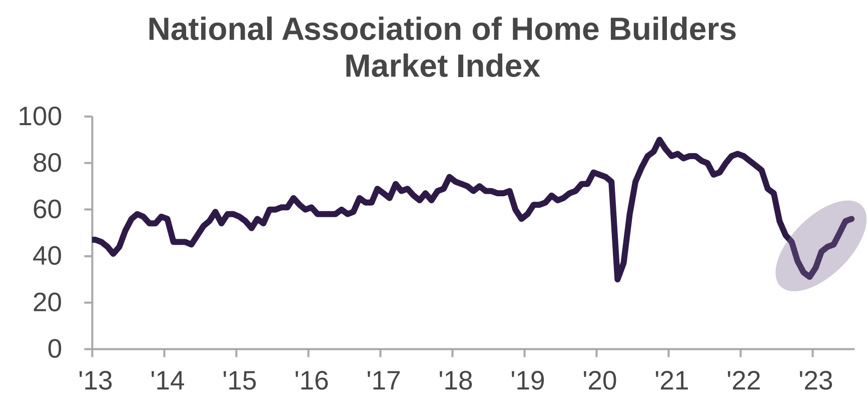
Sources: Truist IAG, Bloomberg, National Association of Realtors. Figures shown are seasonally-adjust annualized rate (SAAR); monthly data through June 2023.

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







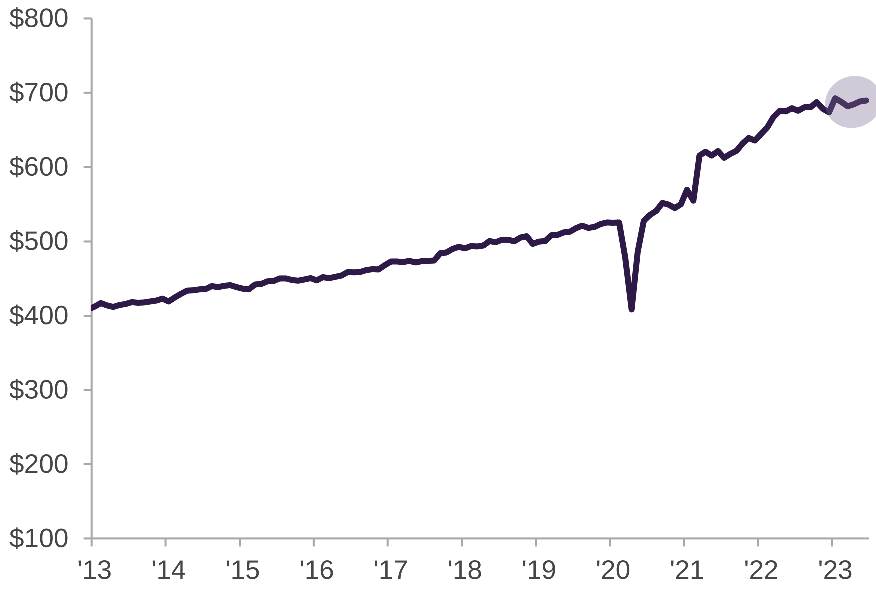


Sources: Truist IAG, Bloomberg. Seasonally adjusted annualized rate (SAAR); monthly data for starts and permits through June 2023 and through July 2023 for buyer traffic and market index.

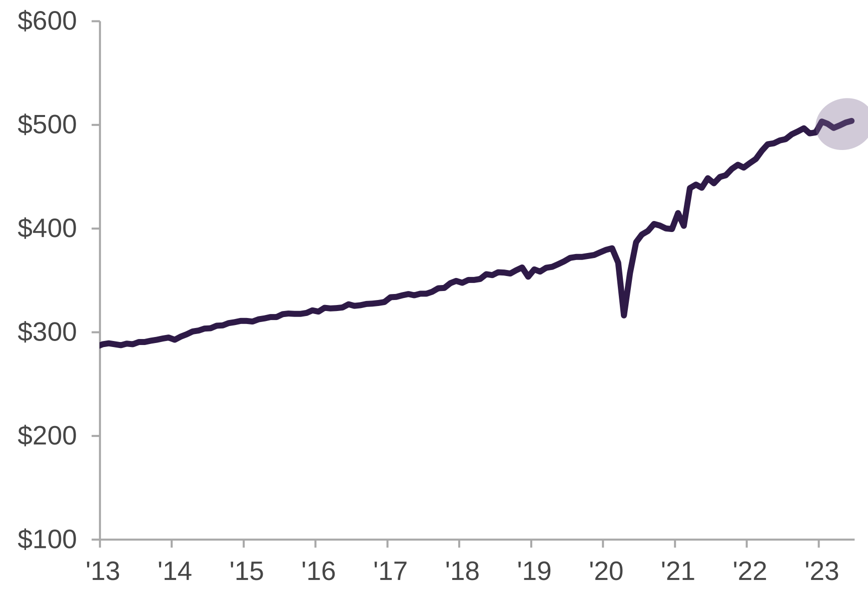
Retail sales up in June, hovering near all-time high, but pace has slowed

Retail & food service sales in June rose 0.2% MoM to $689.5 billion, which is just 0.4% below the all-time high set in January. Auto sales, which rose 0.3%, were a big driver, while gasoline sales fell 1.4% during the month. Excluding both autos and gasoline, retail sales notched a fresh all-time high after increasing 0.3% in June.

U.S. retail & food service sales (in $billions)



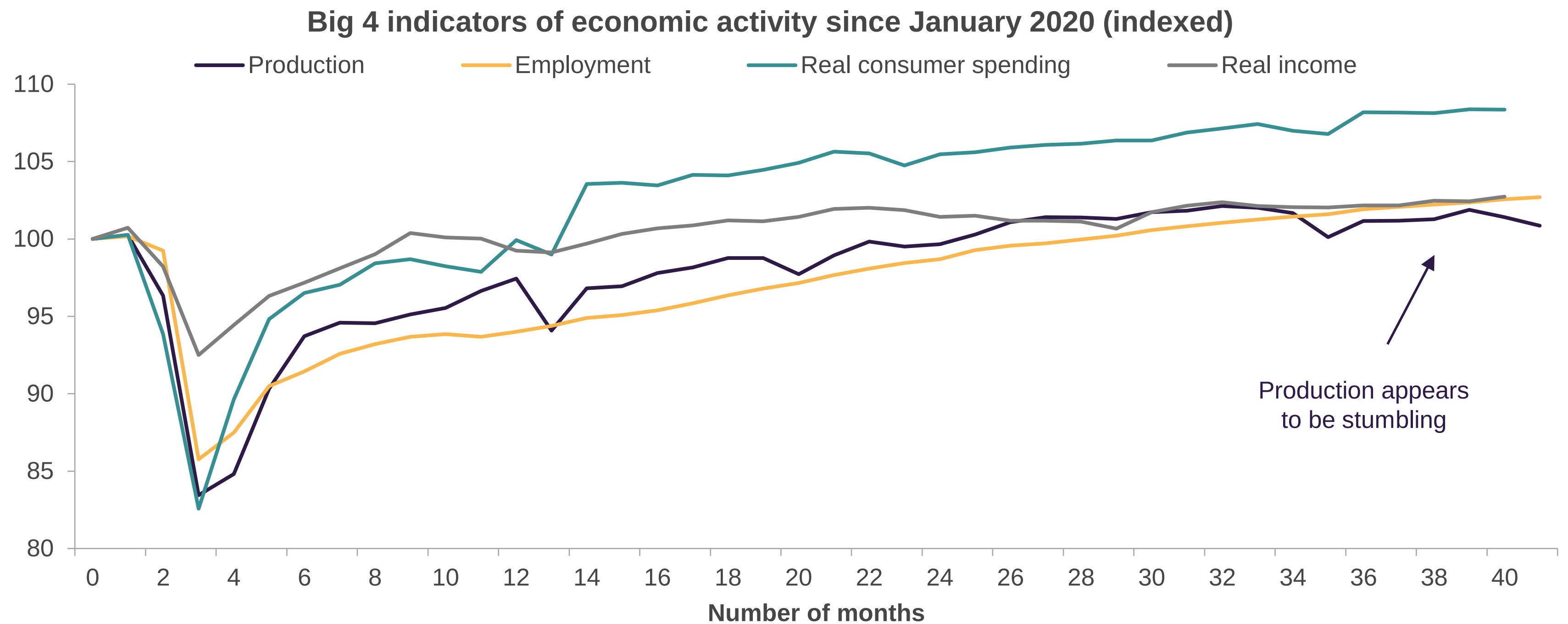
U.S. retail sales ex-autos & gasoline (in $billions)



Source: Truist IAG, Bloomberg, U.S. Census Bureau; monthly data through June 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 June 2023, real consumer spending and real income through May 2023.

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.

The information contained in this material is produced and copyrighted by Truist Financial Corporation and any unauthorized use, duplication, redistribution or disclosure is prohibited by law.

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

CN2023-5827217.1 EXP07-2024