Economic data tracker – Job growth solid in June

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

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Trend watch and what's new this week

The activity-based data (slides 5 and 6) took a bit of a breather around the 4th of July holiday, which tracks with historical patterns. Still, nearly all measures are experiencing typical pre-pandemic seasonal increases.

As an aside, it's fascinating how we can now see the impact of concerts and sporting events ripple through the economic data. For example, a two-day stop in Minneapolis for Taylor Swift's Eras Tour pushed hotel occupancy in the Twin Cities up 9% year-over-year during the last week of June. Or Beyoncé's Renaissance World Tour two-day stop in Stockholm in May elevated inflation for the *entire country* of Sweden. Nearly 100,000 "Bey Hive" fans buzzed about the nation's capital, staying in hotels, eating in restaurants, and buying clothing. Unfortunately, we don't have data to see if ABBA never did that.

Solid job growth again in June, unemployment rate dipped

U.S. payrolls in June added 209,000, below the consensus expectations of 230,000 – the first miss in roughly a year and a half. Three of the 10 major industry groups didn't add workers during the month (slide 7). Meanwhile, the unemployment rate ticked down to 3.6% in June.

Still, adding 100,000 new jobs per month is more than the pre-pandemic 3-year average of 177,000 (slide 8). Again, weaker than '22 doesn't necessarily mean weak.

Also, the annual pace of average hourly earnings continued to cool but is running well-above pre-pandemic levels (slide 9).

Supplementary employment data mixed, but above prior levels

On slide 10, the number of job openings fell 4.8% in May to 9.8 million, the 9th decline in the past 14 months. Hiring rose 1.8% to 6.2 million. The so-called quit rate – officially known as the percentage of employees voluntarily quitting – ticked upward to 2.6%, down from the cycle peak of 3% in 2022. All three indicators – openings, hiring, and the quit rate – remain above pre-pandemic levels.

Services indices expanded again in June

On slide 11, the Institute for Supply Management (ISM) Services Index had a reading of 53.9 in June, expanding for the sixth month in a row after briefly contracting in December. Meanwhile, the prices paid component dropped to 54.1, the lowest reading since April '20 and the 12th decline in 14 months.

Meanwhile, the final June reading of S&P Global's U.S. Services Index rose to 54.4, expanding for the fifth consecutive month after an ugly seven-month contraction streak from July '22 to January '23.

Economic commentary – Our take and the bottom line

Our take

June brought yet another solid jobs report. While it is cooler than the very strong pace of the past few years, it isn't slow. The six-month average is 278,200 – literally 100,000 above the pre-pandemic 3-year average of 177,000. The unemployment rate is hovering near a 50-year low. Wages are still growing at nearly double the pre-pandemic 10-year average.

That strength is reinforced by a raft of other labor figures, such as weekly jobless claims and the so-called quit rate. We're also hearing of fewer layoffs. The Challenger job cut announcements dropped to 40,709 in June, the lowest in eight months.

We acknowledge that these figures don't seem to comport with the news headlines nor the constant drumbeat of recession worries. We, too, are concerned that many of the leading indicators are pointing downward and that some of the broader economic data has been lackluster.

While the economy isn't collapsing, most of the incoming economic data isn't strengthening either. In fact, the latest manufacturing data weakened considerably and has been contracting

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.

Hence, 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.

With respect to the Fed, the broader inflation situation hasn't improved much. While it's clearly cooler than the blistering pace of '21 and '22, it remains well above anyone's comfort level. Based strictly on labor market conditions, we think that another hike is warranted. However, the rate-setting decision isn't just about labor market conditions. For instance, two services sector reports for June (the ISM Services Index and S&P Global's U.S. Services Index) both showed multi-month high readings. Accordingly, we believe the Fed will hike rates by a quarter point (0.25%) in three weeks.

Lastly, there are two key inflation gauges coming ahead of the Fed's meeting on July 26th. June retail sales will also be released as will the housing data, which has improved despite higher mortgage rates. All of these data points (and more) will factor prominently in the "hike/pause" calculation. Another hike isn't a slam dunk, but we believe that the Fed will raise rates in July.

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: 2.1%†	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: N/A	Down 0.1 in June to 3.6%, hovering near the cycle low of 3.4%.
	Monthly jobs (nonfarm)	▲	Jun: 209K	Jul: N/A	Missed expectations for first time in 15-months but June would have historically been considered quite solid prior to the pandemic.
	Weekly jobless claims[+]	⇆	7/1: 248K	7/8: 249K	Have basically been flat since early March.
	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.
	10-year U.S. Treasury yield	▼	4.04%‡	Flat/up	Spike to a 4-month high on stronger economic data and increased chances of a Fed rate hike in July. We expect more volatility.
	10-year AAA GO muni yield	▼	2.54%‡	Flat/down	Up this past week after holding fairly steady for the prior two weeks.
	30-year fixed mortgage rate	▼	7.31%‡	Flat/up	Quickly jumped to a 10-month high and is near the highest level since ’01. Higher mortgage rates hurt housing affordability.
Inflation	Consumer prices (CPI)[X]	▼	May: 0.1%	Jun: 0.3%	The YoY pace cooled to 4.0% from 4.9%.
	Core CPI	▼	May: 0.4%	Jun: 0.3%	YoY rose 5.2%, cooling for the third straight month.
	Producer prices (PPI)	⇆	May: -0.3%	Jun: 0.2%	The YoY pace rose 1.1%, cooler than the 2.3% pace in April.
	Core PPI	⇆	May: 0.2%	Jun: 0.2%	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 (7/6/2023)

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Housing	Existing home sales	⇆	May: 4.30M	Jun: 4.28M	Increased 0.2% in May, while April was revised upward to -3.2%.
Housing	New home sales	▲	May: 763K	Jun: N/A	Jumped 12.2% MoM, while prices also rose.
Housing	New housing starts	⇆	May: 1.631M	Jun: 1.440M	Jumped 21.7% MoM but March was revised downward to -4.5%.
Housing	New permits[+]	⇆	May: 1.496M	Jun: 1.460M	Upwardly revised to an increase of 5.6% MoM.
Business	Durable goods orders[+]	▲	May F: 1.8%	Jun P: N/A	Core capital goods orders (ex-air & defense) rose 0.7% MoM.
Business	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.
Business	ISM Services Index	▲	Jun: 53.9	Jul: N/A	Expanded for sixth month in a row after briefly contracting in December. The prices paid component fell for 12 time in 14 months.
Business	Business inventories[X]	▲	Apr: 0.2%	May: 0.2%	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.
Consumer	Personal spending	▲	May: 0.1%	Jun: N/A	Better than expected, most in three months and March revised up.
Consumer	Retail & food sales	⇆	May: 0.3%	Jun: 0.4%	Rebounded again after two down months in March and February.
Consumer	Consumer sentiment	▼	Jun F: 64.4	Jul P: 65.5	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 [X]Lagging indicator [‡]Intraday quote Bloomberg consensus shown

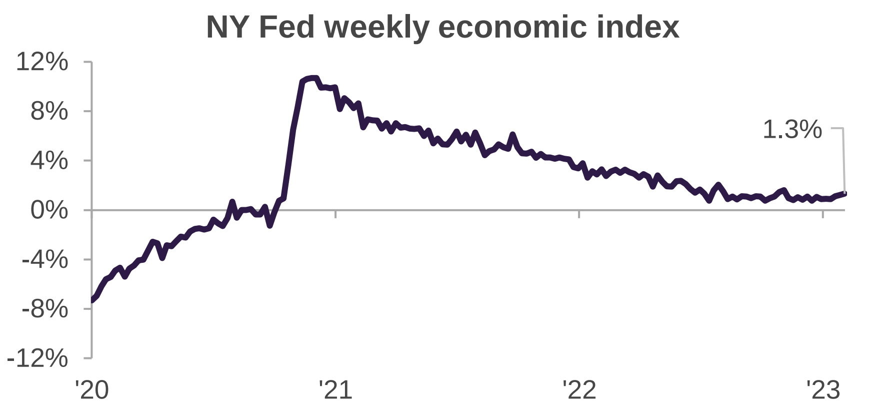
U.S. activity-based data matrix

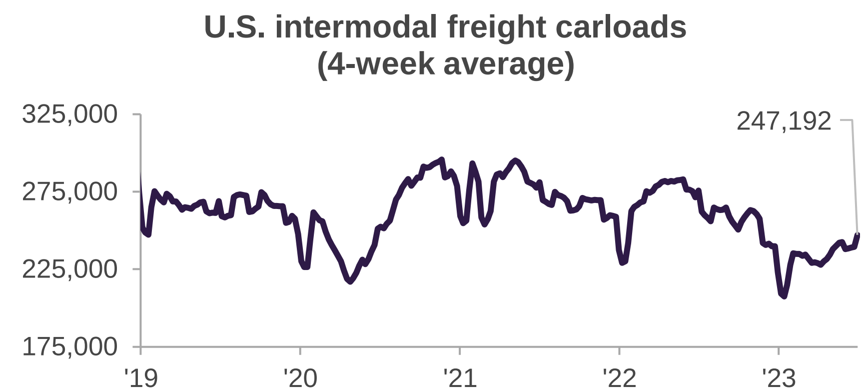
Indicator	Relative trend	What we're watching
Back to office	⇆	Ticked up to 49.8 (pre-pandemic indexed to 100). Top cities were Houston (61), Austin (59), and Dallas (54); bottom were San Jose (39) and Philadelphia (41). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts dropped 5.6% WoW to 17.3 million, which is typical after the 4th of July. It is up 1.5% from the same week in July '19 and 11% above July '22. Year to date is up 0.2% from the same period in 2019.
OpenTable restaurant bookings	▲	Jumped +2.4% compared to 2022 levels, the first positive YoY reading since May. Top positive states were led by South Carolina (+2%) and Rhode Island (-2%); bottom were Georgia and Illinois (both -19%). Top cities were Cleveland (+10%) and Naples (+9%); bottom were Raleigh (-30%), Minneapolis and Atlanta (both -29%).
Hotel occupancy	▲	Slipped slightly to 69.9%. The average daily rate fell WoW to $156.27, up 1.5% from the same week in '22, and revenue per available room fell modestly WoW to $109.18, up 5.7% from July '22.
Freight (rail/truck/ship)	⇆	Rail carloads increased 1.1% and jumped 2.2% 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	⇆	Unchanged at 99.7, hovering at a five-week high. 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.

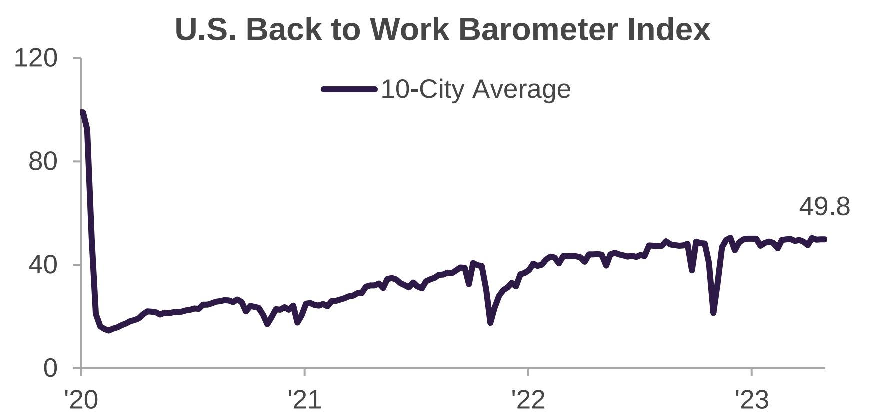
Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

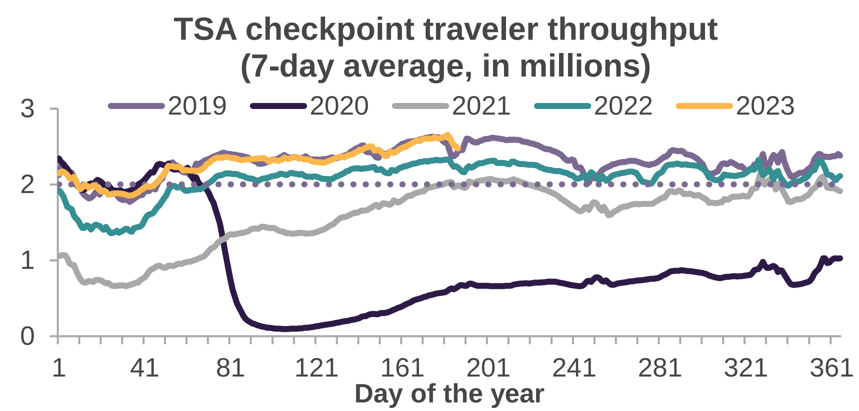
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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





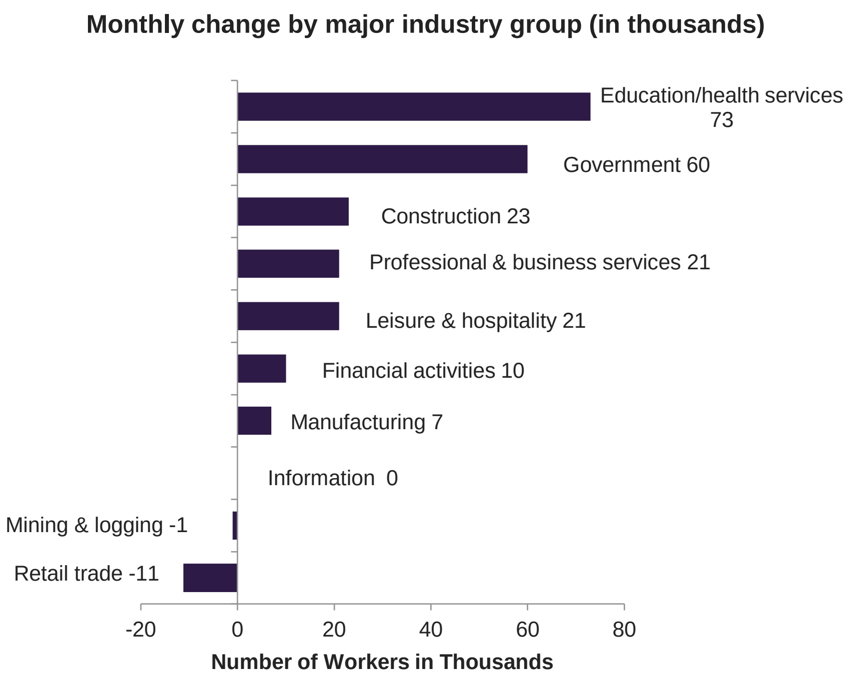


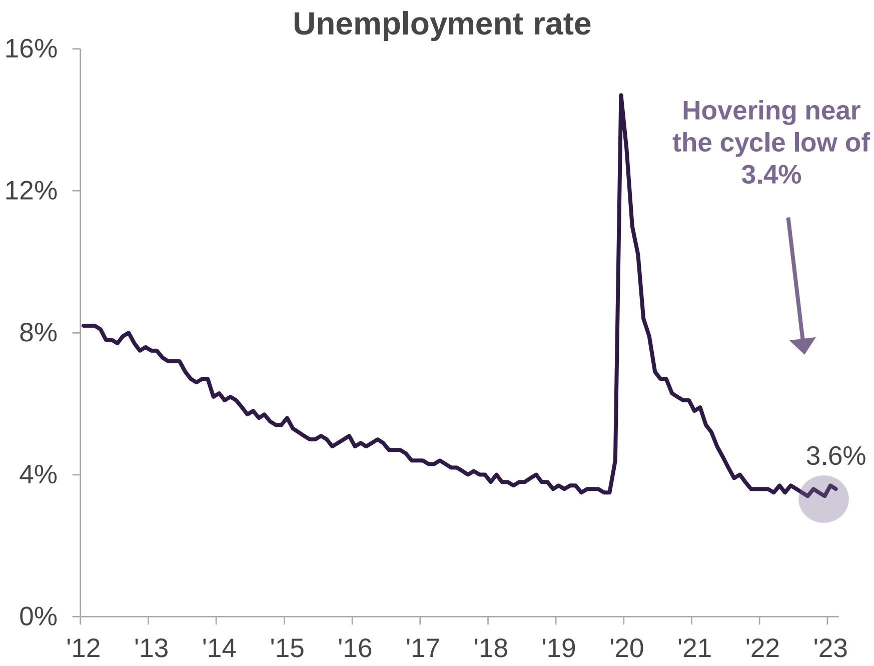


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through July 1, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through June 23. Bottom left: Bloomberg, Kastle Systems averaged weekly through June 28. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through July 6.

Job growth remained solid in June

U.S. payrolls in June added 209,000, below the consensus expectations of 230,000 – the first miss in roughly a year and a half. It has averaged 278,200 new job openings for the past six months. That’s 100,000 per month *more* than the pre-pandemic 3-year average of 177,000. Meanwhile, the unemployment rate ticked down to 3.6% in June.



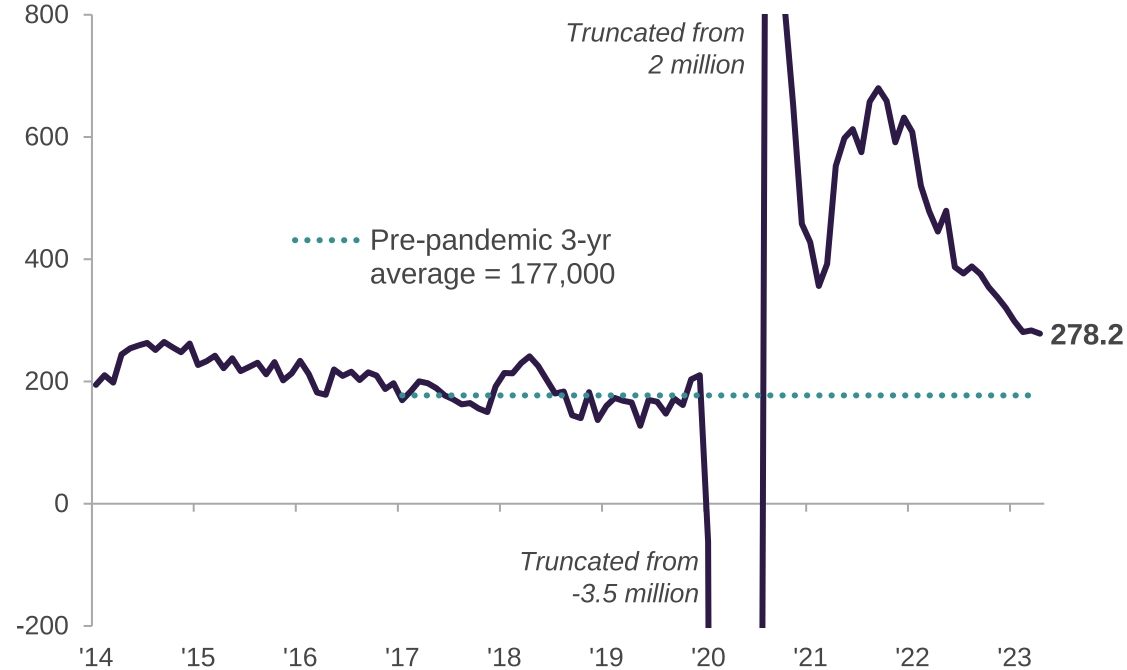


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics. Monthly data through June 2023.

Employment still relatively strong, which keeps a July rate hike in play

While job growth has declined compared to very strong 2021 and 2022 results, the U.S. has averaged 278,200 new job openings for the past six months. That's 100,000 per month *more* than the pre-pandemic 3-year average of 177,000.

U.S. monthly job growth (6-month average, in thousands)



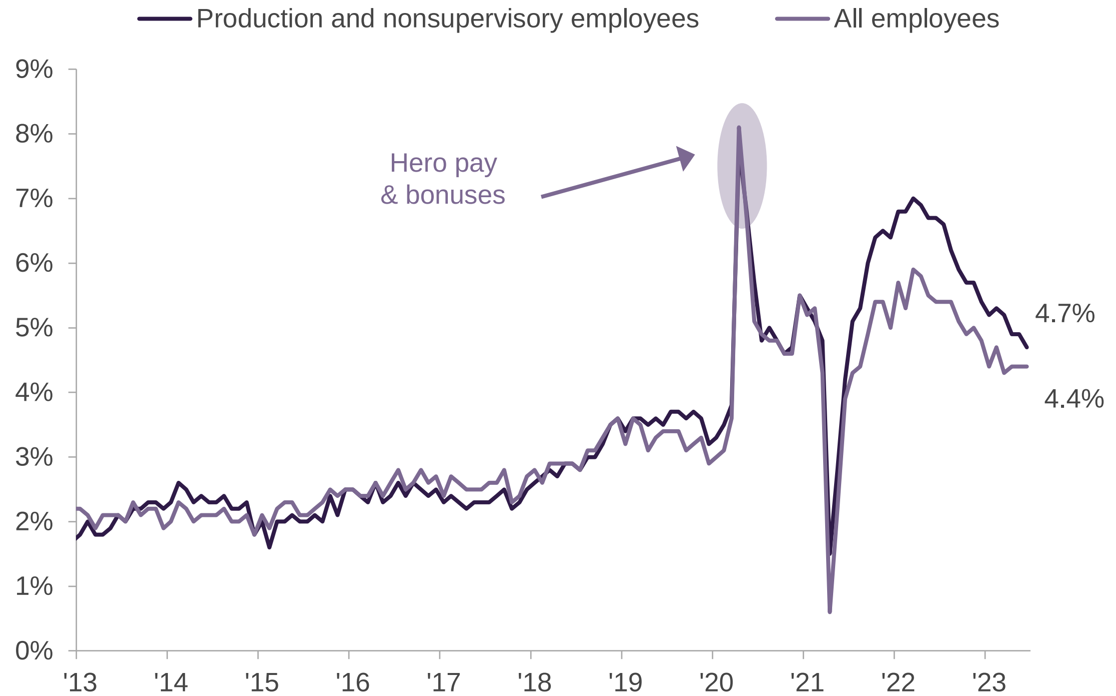
Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics. Monthly data through June 2023

Wages cooling, but still running well-above pre-pandemic levels

Average hourly earnings rose 0.4% month over month in June, which is slightly higher than previously reported (as May and April were revised higher). The annual pace increased 4.4% from a year ago as it continued to steadily decline from the 2022 peak of 5.9%. Despite the recent cooling, it remains well above the pre-pandemic 10-year average of 2.4%.

The pace of average hourly earnings for rank & file workers—officially known as production & nonsupervisory employees—also rose 0.4% during June. It rose 4.7% on a year-over-year basis, significantly above its pre-pandemic rate of 3.2%. This is important since production & nonsupervisory employees are the bulk of all employees and where most of the dramatic post-pandemic wage gains have been concentrated

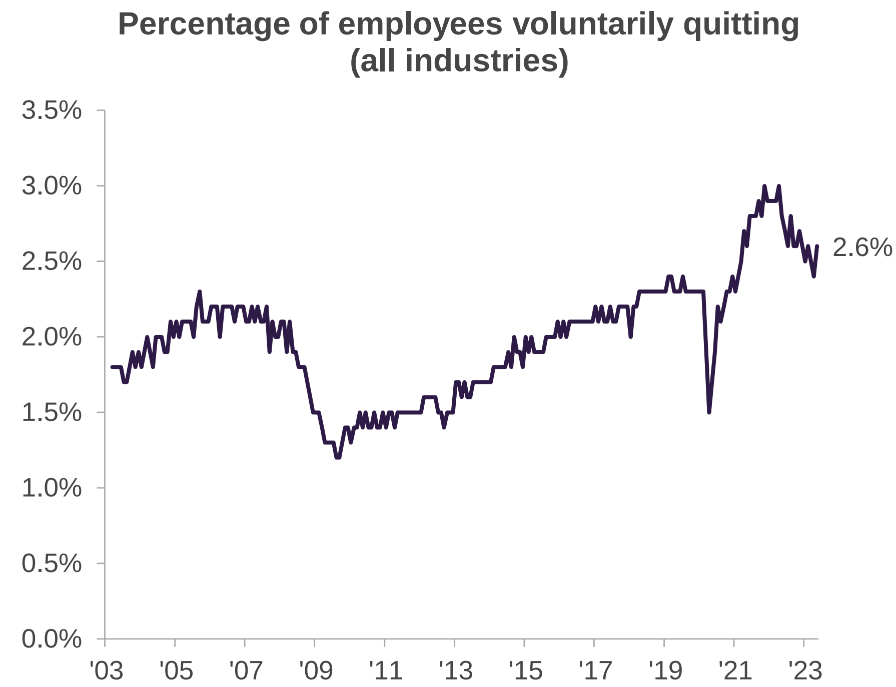
Average hourly earnings (change year-over-year)



Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics. Monthly data through June 2023.

Job openings fell, but hiring and quit rate up – all three remain elevated

The number of job openings fell 4.8% in May to 9.8 million, the 9th decline in the past 14 months. Hiring rose 1.8% to 6.2 million. The so-called quit rate – officially known as the percentage of employees voluntarily quitting – ticked upward to 2.6%, down from the cycle peak of 3% in 2022. All three indicators – openings, hiring, and the quit rate – remain above pre-pandemic levels.

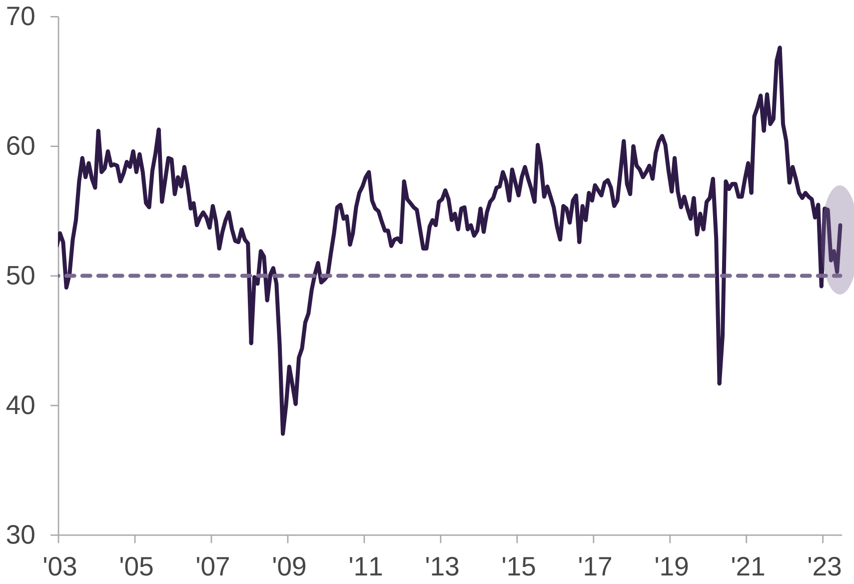


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through May 2023.

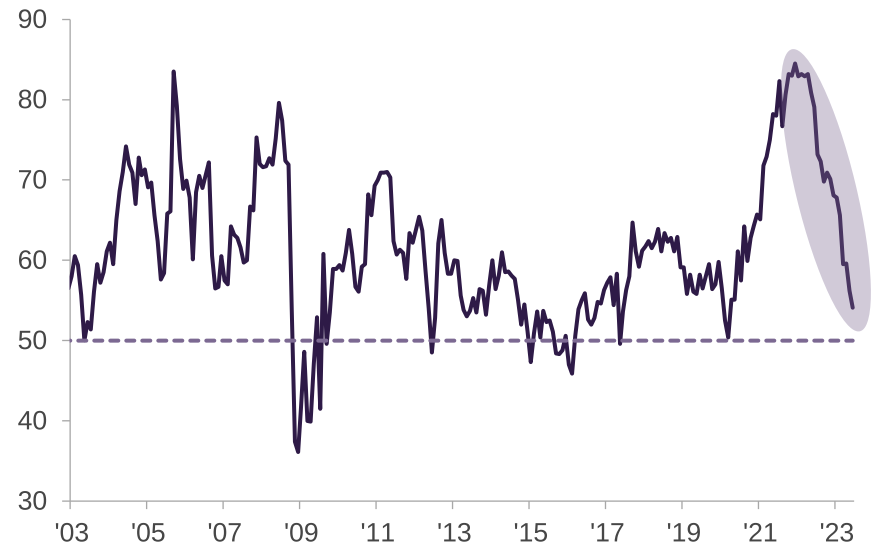
ISM Services jumped in June, but prices continue sharp decline

The Institute for Supply Management (ISM) Services Index had a reading of 53.9 in June, expanding for the sixth month in a row after briefly contracting in December. Meanwhile, the prices paid component dropped to 54.1, the lowest reading since April '20 and the 12th decline in 14 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 June 2023.

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