

Economic data tracker – Mixed inflation data in July

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Week 32 – August 11, 2023

Trend watch and what's new this week

Summer travel activity remains solid, but is beginning to fade, which is typical historically (slides 5 and 6). For instance, the weekly air traveler count has slipped for three weeks in row, but the year-to-date tally is running slightly ahead of 2019. Similarly, hotel occupancy and restaurant bookings have dipped. That said, restaurant bookings in Honolulu have surged as people have fled catastrophic wildfires in Maui.

Consumer inflation moderating but core prices still elevated

On slide 7, the Consumer Price Index (CPI) rose 0.2% in July, maintaining the same pace as June. The year-over-year pace ticked upward to 3.2%, snapping a streak of twelve consecutive declines.

On slide 8, core CPI, which excludes food & energy, also rose 0.2% month-over-month – holding steady for a second straight month and matching the slowest pace in 29 months. It increased 4.7% from a year ago, down from the peak of 6.6% in September '22. Used vehicles, which have dropped 5.6% from a year ago, remain among the biggest decliners. Prices for services rose 0.3%, holding fairly steady for the past five months. Although shelter has cooled, it remains well above the pre-pandemic pace.

Wholesale prices reaccelerating after Spring collapse

On slide 9, wholesale prices, as measured by the Producer Price Index

(PPI), reaccelerated to 0.3% in July, the fastest pace in six months. The year-over-year pace rose 0.8%, though is dramatically lower than 11.7% in March '22. Core PPI, which excludes food & energy, also rose 0.3% month over month, the fastest pace in eight months, while the annual change continued to slide, up 2.4% from a year ago. Services prices rose 0.5%, the most in 11 months.

Private rental data shows prices have stabilized

On slide 10, we show rents from private rental sources for new leases. Rents spiked during 2021, including a jump of 2.0% during July '21. That continued in 2022, growing 0.9% per month on average through September '22, but rents have cooled considerably since then. Rental prices in July rose 0.5% month over month, which is cooler than the 0.6% increase in June and roughly in-line with the pre-pandemic 5-year average jump of 0.4% in July.

Consumer confidence jumped, but inflation expectations up, too

On slide 11, the University of Michigan Monthly Consumer Sentiment Survey slipped modestly to a reading of 71.2 in August from 71.6 in July. However, longer-term (5–10-year) inflation expectations dipped to 2.9%, the level lowest in five months. One-year inflation expectations also edged lower to 3.3%.

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Economic commentary – Our take and the bottom line

Our take

We have repeatedly discussed crosscurrents even within the same report. The July consumer and wholesale inflation data were quite simply more examples as both showed cooling and reacceleration. The consistent trend has been that goods prices are generally waning, while prices for services are reaccelerating.

Indeed, these crosscurrents complicate the Federal Reserve's (Fed) attempts to stabilize prices. The overall cooling trends of economic data may provide another opportunity for the Fed to skip hiking interest rates, much as it did in June. However, the resilience of the overall economy – especially for services prices as well as wages – will likely require further rate hikes to tame inflation.

This is why we are beginning to view a soft landing scenario as self-defeating – the stronger the economy remains ultimately translates into higher interest rates for longer as the Fed battles persistent inflation.

Furthermore, a soft landing scenario undercuts the need for rate cuts, which futures-based market expectations see happening as soon as the March '24 Fed meeting. At the very least, the Fed will need to maintain rates higher for longer lest inflation reaccelerate.

Alas, this is why we maintain our view that a recession, accompanied by eventual job losses, is likely. Frankly, it would be unprecedented to avoid a recession with weakening leading indicators, higher interest rates, and tighter financial and credit conditions. Additionally, we are concerned about restarting student loan payments for 46 million people in the next few months. In our opinion, that's going to take a LOT of wind out of the economy. And we didn't even get into the discussion of what parts of the economy will buckle under higher interest rates for an extended period. For example, commercial real estate appears particularly vulnerable.

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.
	Unemployment rate ^x	▲	Jul: 3.5%	Aug: N/A	Down 0.1% again in July, hovering near the cycle low of 3.4%.
Jobs	Monthly jobs (nonfarm)	▲	Jul: 187K	Aug: N/A	While it is cooler than the very strong pace of the past few years, job growth isn't slow by any measure.
	Weekly jobless claims ⁺	↔	8/5: 248K	8/12: 239K	Jumped 9.3% WoW, the largest increase in 9 weeks.
	Nonfarm productivity	↔	2Q A: 3.7%	2Q F: 1.2%	It was the fastest productivity increase in 11 quarters, dating back to 3Q20, while unit labor costs cooled to 1.6% from 3.3% in 1Q23.
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	▼	4.15%‡	Flat/down	It was a very volatile week as rates jerked from 4.17%, down to 4% and back again within the week. We expect more volatility.
	10-year AAA GO muni yield	▼	2.70%‡	Flat	Held fairly steady in the past few weeks, actually down a few ticks.
	30-year fixed mortgage rate	▼	7.46%‡	Flat/up	Inched higher in the past week. It's near the highest level since October '00. Higher rates hurt housing affordability.
Inflation	Consumer prices (CPI) ^x	▼	Jul: 0.2%	Aug: N/A	The YoY pace ticked higher to 3.2% but is down from 5.0% in March.
	Core CPI	▼	Jul: 0.2%	Aug: N/A	Up 4.7% YoY, cooling for the fourth consecutive month.
	Producer prices (PPI)	↔	Jul: 0.3%	Aug: N/A	The YoY pace jumped 0.8% after dropping to 0.2% in June.
	Core PPI	↔	Jul: 0.3%	Aug: N/A	Rose at its fastest pace in 8 months as services reaccelerated.

▲ Good ▼ Bad ↔ Neutral ⁺Leading indicator ^xLagging indicator [‡]Intraday quote Bloomberg consensus shown

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Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Housing	Existing home sales	▼	Jun: 4.16M	Jul: 4.15M	Dropped 3.3% in June and down in three of the past four months.
	New home sales	▲	Jun: 697K	Jul: 725K	Fell 2.5% MoM but have increased for 7 of the past 9 months.
	New housing starts	↔	Jun: 1.434M	Jul: 1.450M	Dropped 8.0% MoM, pushed down by flooding in parts of the U.S.
	New permits ⁺	↔	Jun: 1.441M	Jul: 1.468M	Down 3.7% MoM but single-family permits rose 2.2%.
Business	Durable goods orders ⁺	▲	Jun F: 4.6%	Jul P: -2.8%	Both headline orders and core capital goods orders (ex-air & defense) hit fresh all-time highs in June.
	ISM Manufacturing Index	▼	Jul: 46.4	Aug: N/A	Activity contracted for the 9th month in a row. Prices paid component ticked upward, snapping two-month decline streak.
	ISM Services Index	▲	Jul: 52.7	Aug: N/A	Expanded for the sixth month in a row after briefly contracting in December. The prices paid component rose to a three-month high.
	Business inventories ^x	▲	May: 0.2%	Jun: 0.1%	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: 0.4%	It is just 0.4% below the all-time high set in January '23.
	Consumer sentiment	▲	Aug P: 71.2	Aug F: 71.2	Edged lower after hitting a 22-month high in July, while one-year and long-term (5-10-year) inflation expectations both slipped.

▲ Good ▼ Bad ↔ Neutral ⁺Leading indicator ^xLagging indicator [‡]Intraday quote Bloomberg consensus shown

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U.S. activity-based data matrix

Indicator	Relative trend	What we're watching
Back to office	↔	Fell to 48.6 from 49.2 during the prior week (pre-pandemic indexed to 100). Top cities were Houston (60), Austin (58), and Dallas (53); bottom were San Jose (39) and Philadelphia (40). 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 1.7% WoW to 17.8 million. It is up 0.4% from the same week in August '19 and up 12.8% above August '22. Year to date is up 0.1% compared to the same period in 2019.
OpenTable restaurant bookings	↔	Fell WoW to -4.1% from -3.3% in the prior week (compared to 2022 levels). Top positive states were led by New Mexico (+5%), Minnesota and Hawaii (both +3%); bottom were New Jersey (-13%) and Connecticut (-12%). Top cities were Minneapolis (+33%) and Honolulu (+8%); bottom were Miami (-26%) and Boston (-16%).
Hotel occupancy	▲	Dipped to 68.9% from 72.2% in the prior week. The average daily rate fell WoW to \$158.10, up 2.2% from the same week in '22, and revenue per available room fell sharply WoW to \$108.97, up 1.2% from Aug. '22.
Freight (rail/truck/ship)	▼	Rail traffic dropped 2.4% WoW after hitting the highest level since mid-December in the prior week; traffic rose 0.7% MoM in July. Container traffic in Savannah surged 17.2% in July; in June, it fell 5.2% at the 5 top U.S. ports (LA, LB, NYNJ, SAV, SEATAC). The Cass Freight Index fell 1.6% in June, the 10 th decline in 13 months.
Staffing index	↕	Jumped to 101.9, the highest level since early 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 0.5% MoM in July and rose 3.6% YoY, which is below the annual average of 5.7% since 2015. The rental growth rate clearly peaked during the second half of 2021.

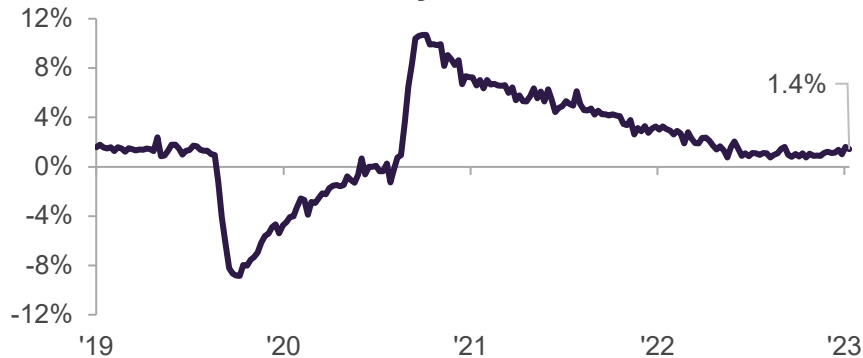
Trend relative to whether it is favorable for economic growth:

▲ Positive ▼ Negative ↔ Neutral / Mixed

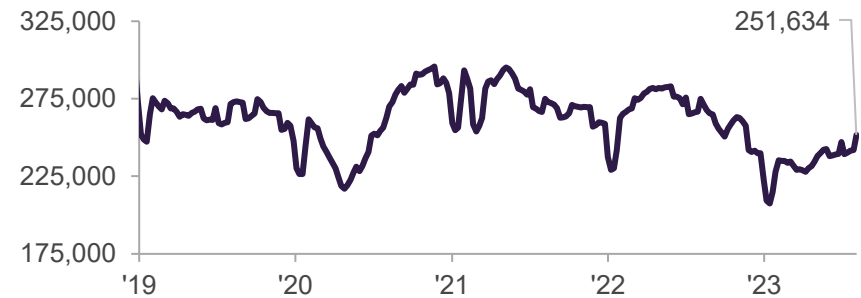
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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

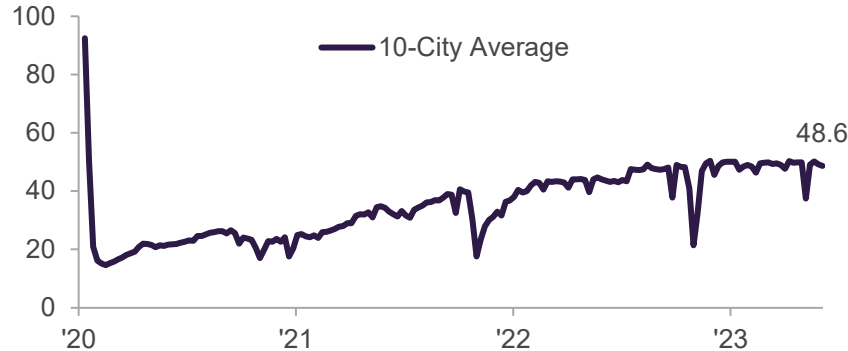
NY Fed weekly economic index



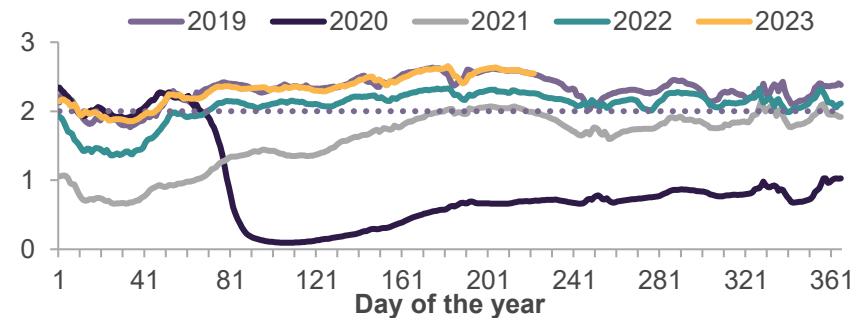
**U.S. intermodal freight carloads
(4-week average)**



U.S. Back to Work Barometer Index



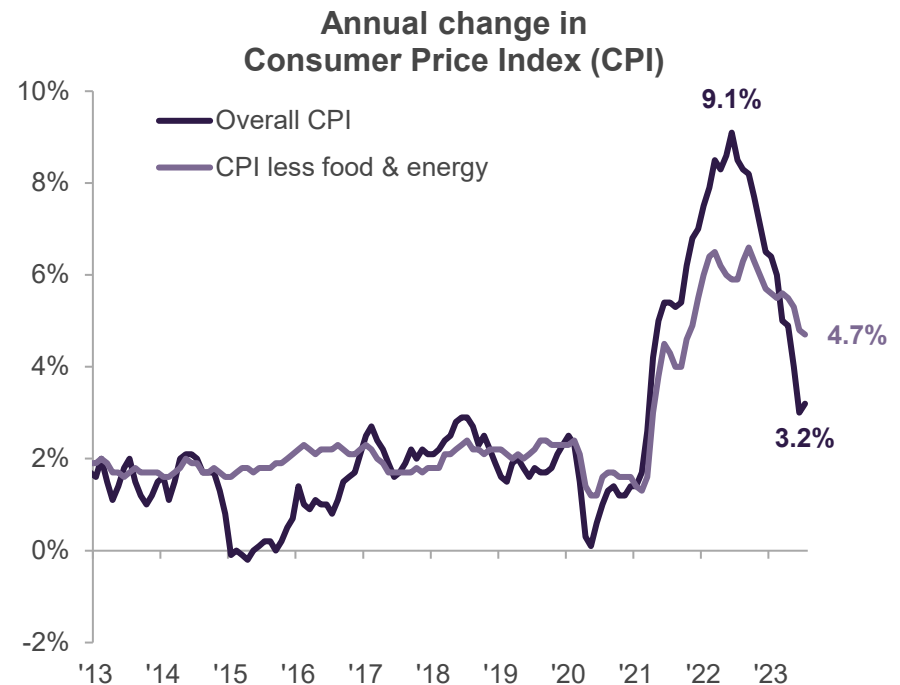
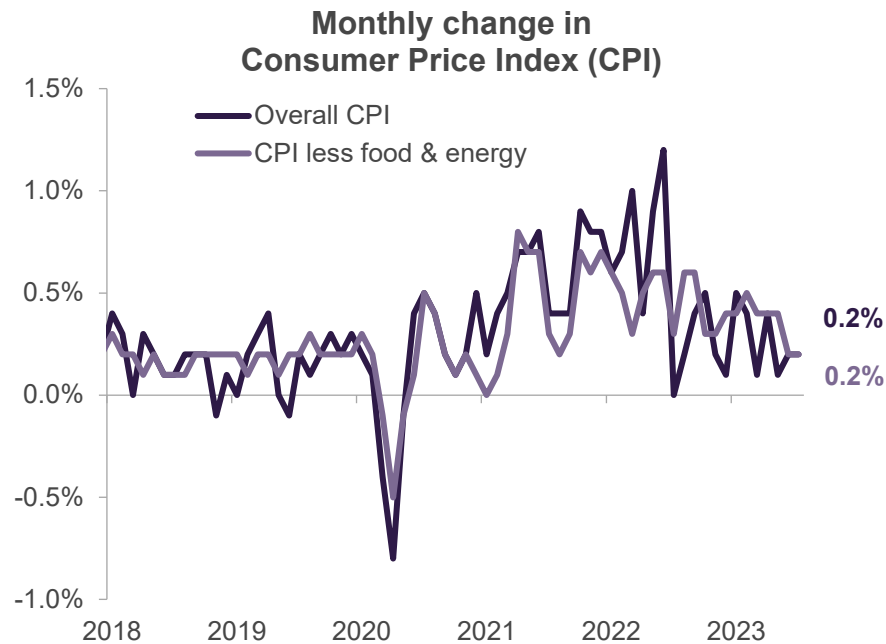
**TSA checkpoint traveler throughput
(7-day average, in millions)**



Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through August 5, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through August 4. Bottom left: Bloomberg, Kastle Systems averaged weekly through August 2. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through August 10.

Consumer prices moderating but pace of core prices remained firm in July

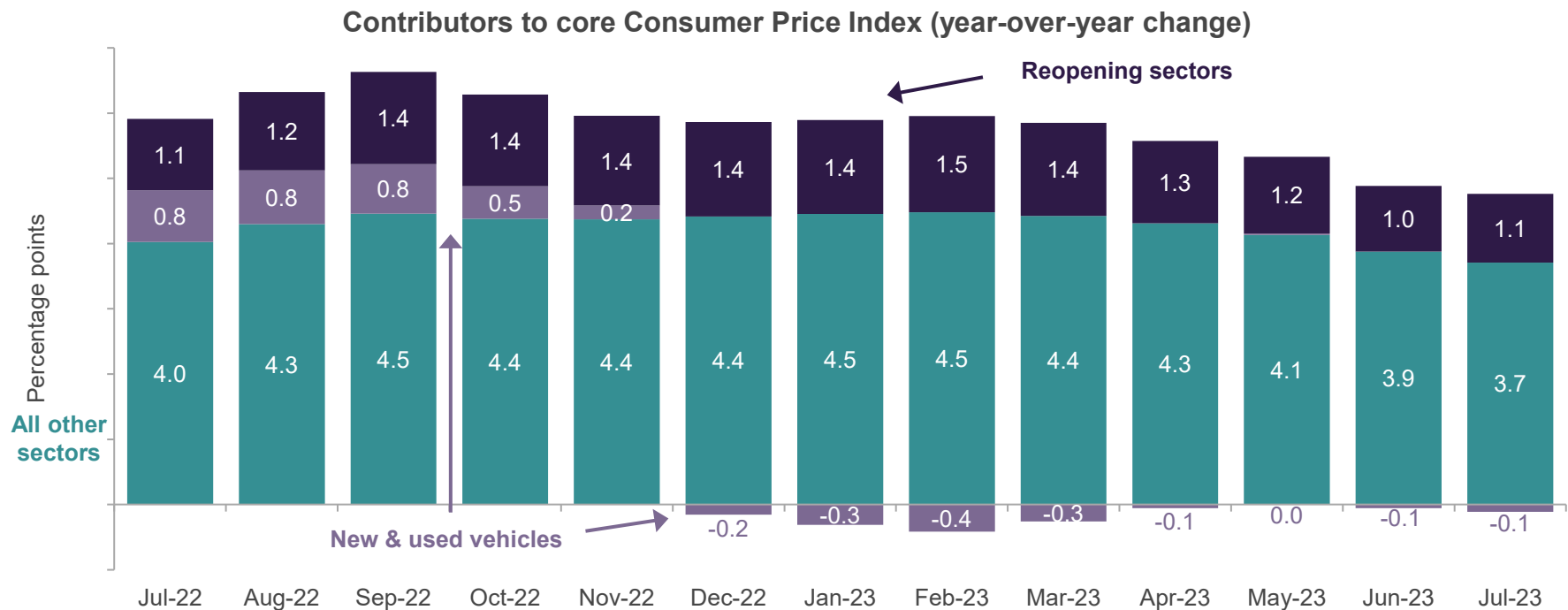
The Consumer Price Index (CPI) rose 0.2% in July, maintaining the same pace as June. The year-over-year pace ticked upward to 3.2%, snapping a streak of twelve consecutive declines. Core CPI, which excludes food & energy, also rose 0.2% month over month, while the year-over-year pace cooled to 4.7%.



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

Core inflation is sticky due to shelter and services

The core Consumer Price Index, which excludes food & energy, rose 0.2% month over month – holding steady for a second straight month and matching the slowest pace in 29 months. It increased 4.7% from a year ago, down from the peak of 6.6% in September '22. Used vehicles, which have dropped 5.6% from a year ago, remain among the biggest decliners. Prices for services rose 0.3%, holding fairly steady for the past five months. Although shelter has cooled, it remains well above the pre-pandemic pace.

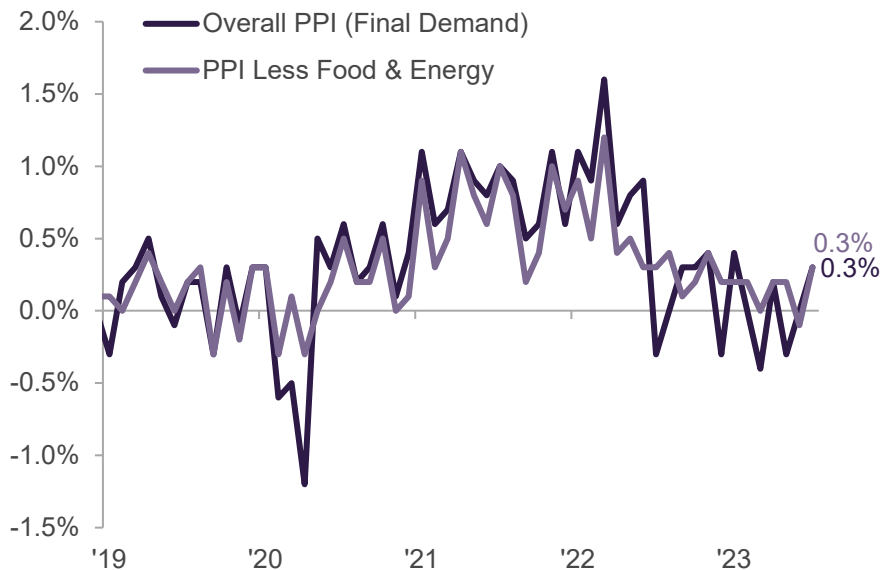


Data source: Truist IAG, Haver, Bureau of Labor Statistics; monthly data through June 2023. Core consumer price index excludes food and energy. Vehicles includes new vehicles, used cars and trucks. Reopening sectors includes transportation services, recreation services, recreation commodities, and apparel. All other components, includes shelter and medical care. Total may vary due to rounding.

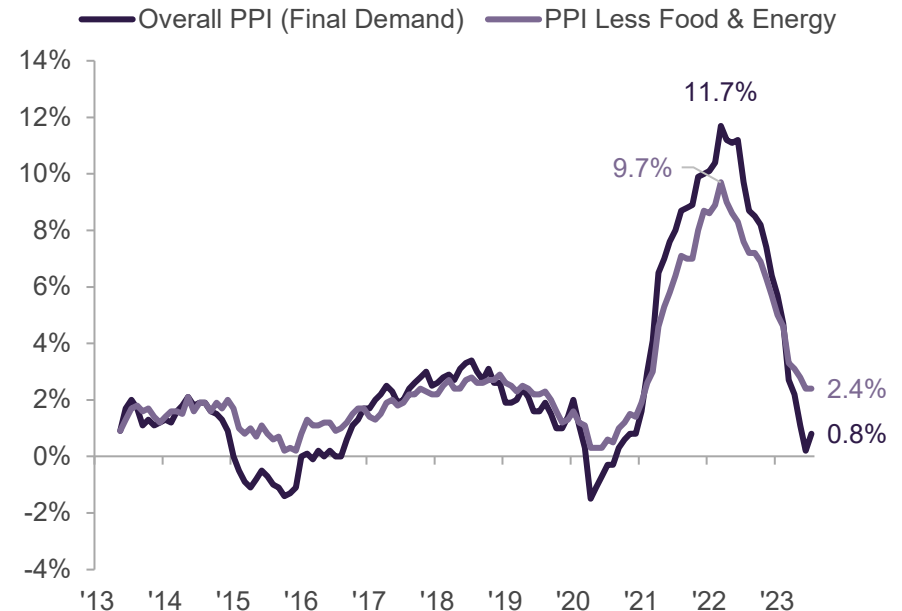
Wholesale prices reaccelerating after Spring collapse

The monthly pace of wholesale prices, as measured by the Producer Price Index (PPI), reaccelerated to 0.3% in July, the fastest pace in six months. The year-over-year pace rose 0.8%, though is dramatically lower than 11.7% in March '22. Core PPI, which excludes food & energy, also rose 0.3% month over month, the fastest pace in eight months, while the annual change continued to slide, up 2.4% from a year ago. Services prices rose 0.5%, the most in 11 months.

**Monthly change
in Producer Price Index (PPI)**



Annual change in Producer Price Index (PPI)

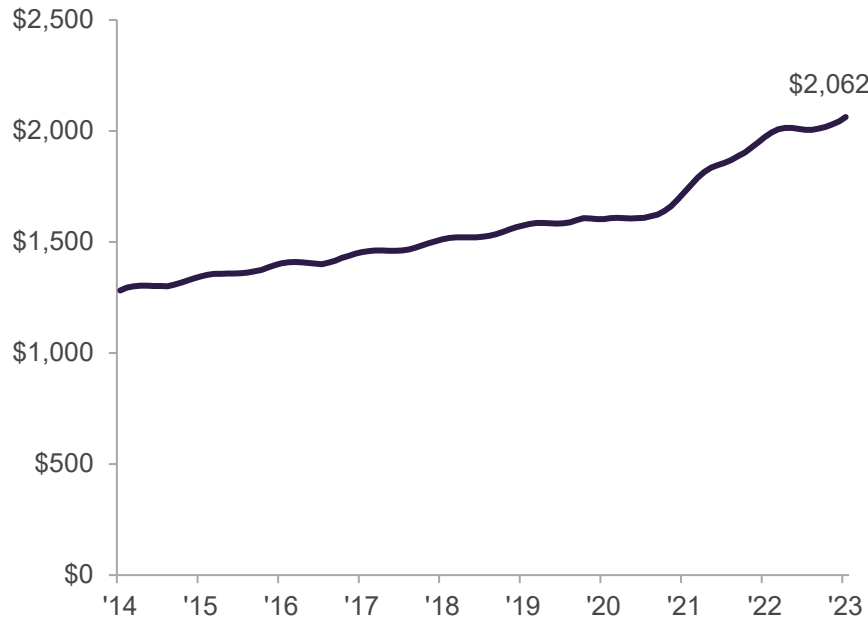


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through July 2023.

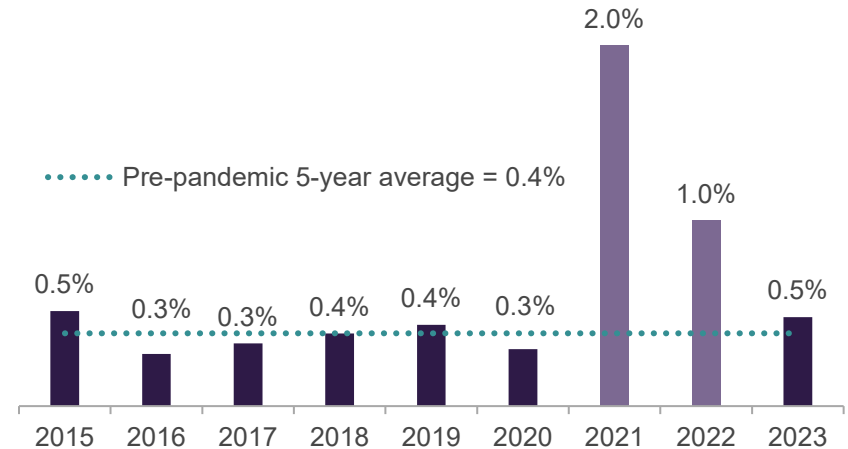
Rental prices have stabilized, July increase closer to prior trend

Rents spiked during 2021, including a jump of 2.0% during July '21. That continued in 2022, growing 0.9% per month on average through September '22, but rents have cooled considerably since then. Rental prices in July rose 0.5% month over month, which is cooler than the 0.6% increase in June and roughly in-line with the pre-pandemic 5-year average jump of 0.4% in July.

Rent index



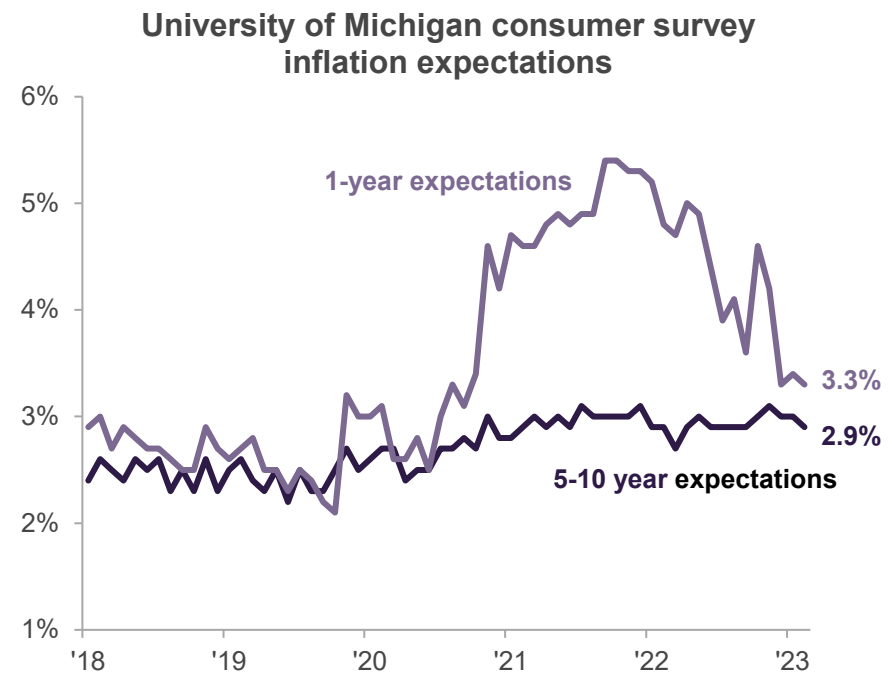
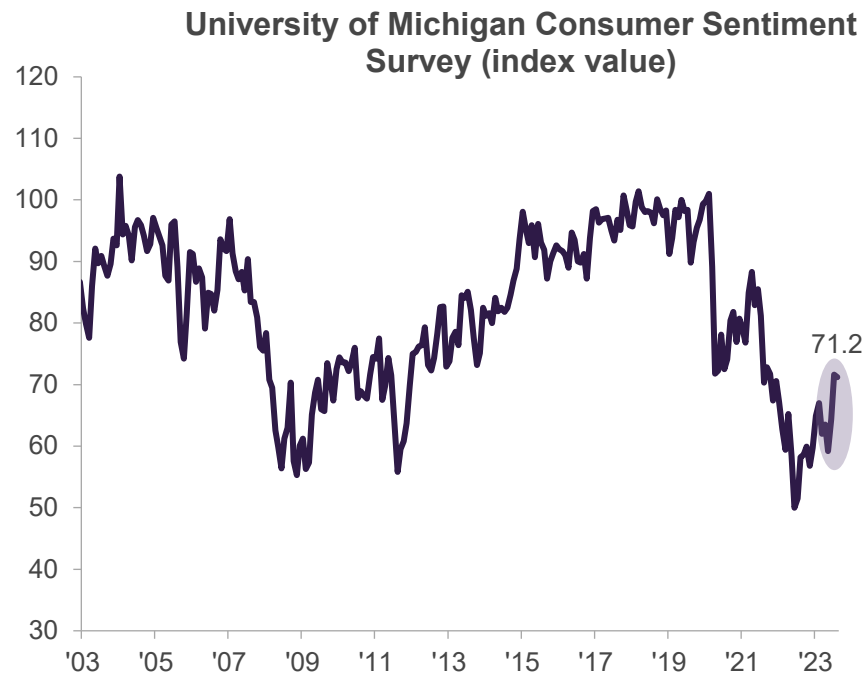
**July rent increase by year
(month-over-month change)**



Source: Truist IAG, Bloomberg, Zillow; monthly data through July 2023.

Consumer confidence stalled, but inflation expectations ticked downward too

The University of Michigan Monthly Consumer Sentiment Survey slipped modestly to a reading of 71.2 in August from 71.6 in July. However, longer-term inflation (5–10-year) expectations dipped to 2.9%, the lowest in five months. One-year inflation expectations also edged lower to 3.3%.



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

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