Truist Advisory Services, Inc.

Economic data tracker – Data surprising to the upside

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Trend watch and what's new this week

Summer travel is winding down, following historical patterns (slides 5 and 6). For instance, the weekly air traveler count has slipped for the fourth week in row. In 2019, counts fell for six weeks after peaking in late July before rebounding during the week of Labor Day; in 2021 and 2022 it was eight and five, respectively. Thus, we expect to see two or three more weekly declines until Labor Day. Yet, the year-to-date tally continues to hug the 2019 pattern. Meanwhile, most of the other economic data continued to beat expectations, including retail sales, industrial production, and the housing data.

New housing activity continues to show signs of stabilization

On slide 7, we updated several of the new housing metrics. Total new building permits edged up 0.1% in July, but single-family permits rose 0.6% and haven't fallen in '23. Meanwhile, housing starts rose 3.9%, rebounding sharply after dropping 11.7% in June due to wetter than normal weather through much of the U.S. and widespread flooding in some areas.

Also on slide 7, new home buyer traffic dropped in August, the first decline in 8 months. Similarly, the NAHB Market Index, which is the builder sentiment survey, fell in August, its first decline in 7 months.

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

On slide 8, retail & food service sales in July jumped 0.7% MoM to $696.4 billion, setting a fresh all-time high. Online sales jumped 1.9% during the month, boosted by Prime Day, along with back-to-school spending on items such as clothing. Gasoline sales also rose, up 0.4%, snapping an 8-month decline streak. Excluding both autos and gasoline, retail sales jumped in 1.0% in July, also reaching a new all-time high.

Big 4 indicators solid but production stumbling

On slide 9, 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 improved in July after falling to a six-month low in June.

The capacity utilization rate – the percentage used in production vs. idle – also rebounded in July, to 79.3%, and snapped a two-month decline streak. Both industrial production and capacity utilization were boosted by auto production, which jumped 8.7% in July. Yet, both remain below consistently stronger readings in 2022.

Leading economic indicators still falling

On slide 10, the Index of Leading Economic Indicators (LEI) fell to a 37-month low (June '20) and hasn't increased in 17 months. It remains negative on a year-over-year basis, though it improved to -7.5% in July. Historically, when it has dropped more than 2.5% year over year, it has coincided with the start of a recession.

Economic commentary – Our take and the bottom line

Our take

We are encouraged by some of the stronger-than-expected July data, including retail sales, auto sales, housing starts, construction spending, and industrial production.

The Atlanta Federal Reserve's GDPNow, which is a tracking estimate based on incoming data, has jumped to project 5.8% growth in the third quarter. But, as much as we love GDPNow, it isn't forward-looking. Basically it's telling us, "based strictly on the data we've already received – if the third quarter ended right now – we'd have 5.8% growth." However, a quarter isn't three or four weeks long. In fact, we haven't even received one-third of the third quarter data yet. Moreover, GDPNow is very volatile, pushed around by incoming data. Thus, scoring a few runs in the first few innings doesn't mean the team will win the entire game.

Regarding the July strength, most of those better-than-expected figures were one-offs and partly double-counting a few items; most notably, autos and residential construction. For instance, auto production was slow during May and June (for various reasons), which held back auto sales, retail sales (which includes auto sales), and industrial production in those months. That reversed in late June and July.

Similarly, housing starts and construction spending in May and June were impacted by wetter than normal weather through much of the U.S., along with widespread flooding – that also reversed in July and was reflected in both housing starts and construction spending data. However, new building permits – which aren't in GDPNow but are a leading economic indicator – are running -13% below '22.

Furthermore, the leading economic indicators continue to point downward, including an ugly streak of 17 months without an increase. Therefore, we'd reiterate the need for patience and some perspective. Yes, some of the recent economic data has improved, but nearly all of their respective trends, along with the leading indicators, don't paint a pretty picture that aligns with all of the soft and no landing talk.

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]	▲	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.
Jobs	Weekly jobless claims[+]	▲	8/12: 239K	8/19: 240K	Dropped 4.4% WoW, the fourth decline in six weeks.
Jobs	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.
Interest rates	10-year U.S. Treasury yield	▼	4.25%‡	Flat/up	It jumped from 4% just over a week ago, as investors price in "higher for longer" from the Fed. We expect more volatility.
Interest rates	10-year AAA GO muni yield	▼	2.70%‡	Flat	Steadily climbed to the highest level since November '22.
Interest rates	30-year fixed mortgage rate	▼	7.60%‡	Flat/up	It has quickly zoomed up to 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.
Inflation	Core CPI	▼	Jul: 0.2%	Aug: N/A	Up 4.7% YoY, cooling for the fourth consecutive month.
Inflation	Producer prices (PPI)	⇆	Jul: 0.3%	Aug: N/A	The YoY pace jumped 0.8% after dropping to 0.2% in June.
Inflation	Core PPI	⇆	Jul: 0.3%	Aug: N/A	Rose at its fastest pace in 8 months as services reaccelerated.

▲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: 4.15M	Dropped 3.3% in June and down in three of the past four months.
	New home sales	▲	Jun: 697K	Jul: 707K	Fell 2.5% MoM but have increased for 7 of the past 9 months.
	New housing starts	⇆	Jul: 1.452M	Aug: N/A	Rebounded 3.9% MoM, as single-family starts surged 6.7%.
	New permits⁺	⇆	Jul: 1.442M	Aug: N/A	Edged up 0.1% MoM, while single-family permits rose 0.6%.
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 inventoriesˣ	▲	Jun: 0.0%	Jul: N/A	Flat in each of the past two months (May and June).
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	▲	Jul: 0.7%	Aug: N/A	It just hit a fresh the all-time high, surpassing the January '23 level.
	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

TRUIST Wealth

U.S. activity-based data matrix

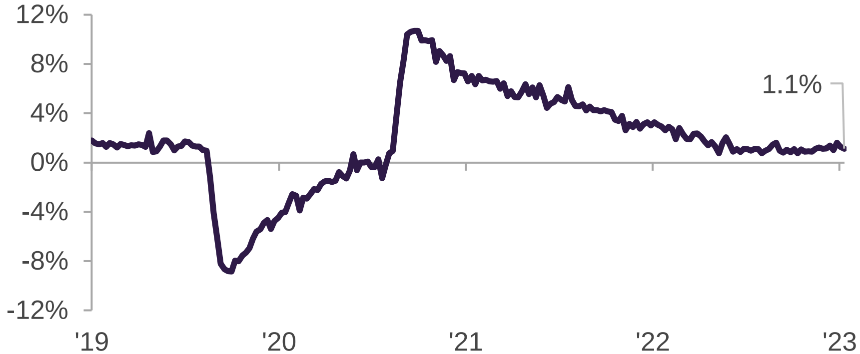
Indicator	Relative trend	What we're watching
Back to office	⇆	Dipped to 47.3, a five-week low (pre-pandemic indexed to 100). Top cities were Houston (59), Austin (57), and Dallas (52); bottom were San Jose (38) and Philadelphia (40). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts dropped 2.8% WoW to 17.3 million. It is up 0.4% from the same week in August '19 and 12.9% above August '22. Year to date is up 0.1% compared to the same period in 2019.
OpenTable restaurant bookings	⇆	Fairly steady WoW at -4.7% (compared to 2022 levels). Top positive states were led by South Carolina and New Mexico (both +5%); bottom were Florida (-11%) and Connecticut (-10%). Top cities were Baltimore (+13%), Columbus (+9%), and Tampa (+6%); bottom were Orlando (-17%) and New Orleans (-16%).
Hotel occupancy	▲	Slipped to 68.3%, the fourth straight WoW decline. The average daily rate fell WoW to $156.47, up 2.0% from the same week in '22, and revenue per available room also fell WoW to $106.89, up 2.0% from Aug. '22.
Freight (rail/truck/ship)	▼	The Cass Freight Index fell 1.2% in July, the 9th decline in 11 months. Rail traffic rose 0.1% WoW and rose 0.7% MoM in July, but traffic is -5% YoY. Container traffic in July rose 3.5% at 5 of the top U.S. ports (LB, SAV, SEATAC, HOU, CHS), but is -18% YoY.
Staffing index	⇆	Edged lower to 101.8 from 101.9 in the prior week, which was the highest level since 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

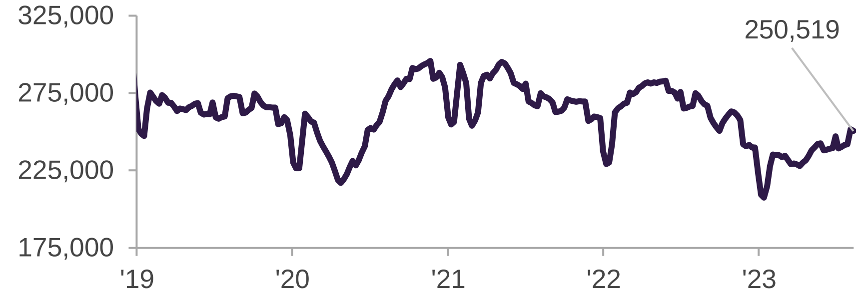
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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

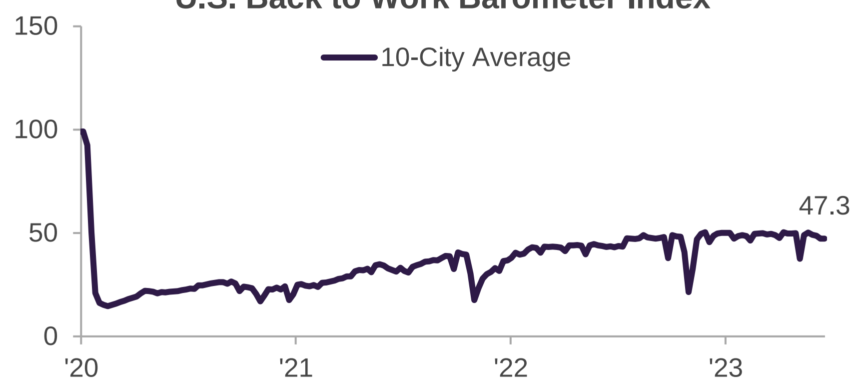
NY Fed weekly economic index



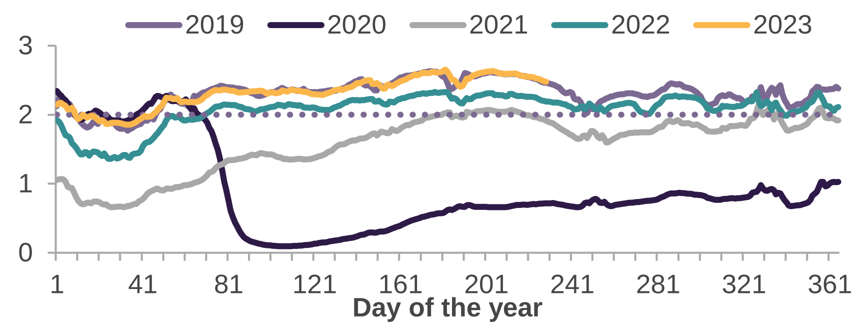
U.S. intermodal freight carloads (4-week average)



U.S. Back to Work Barometer Index



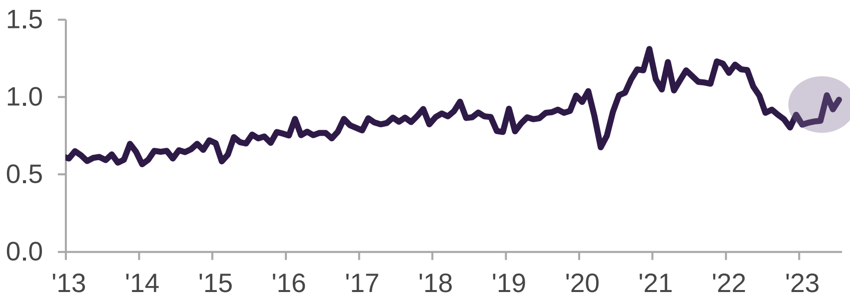
TSA checkpoint traveler throughput (7-day average, in millions)



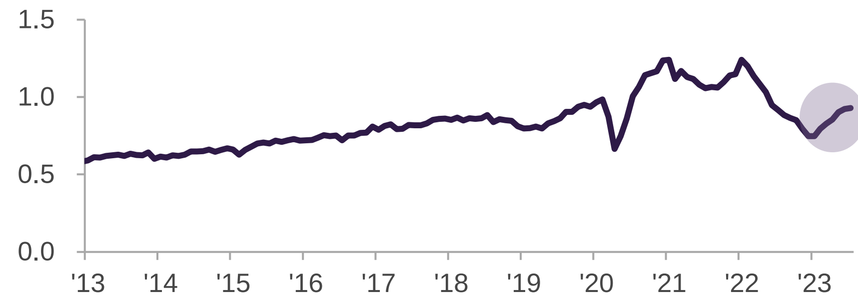
Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through August 12, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through August 11. Bottom left: Bloomberg, Kastle Systems averaged weekly through August 9. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through August 17.

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

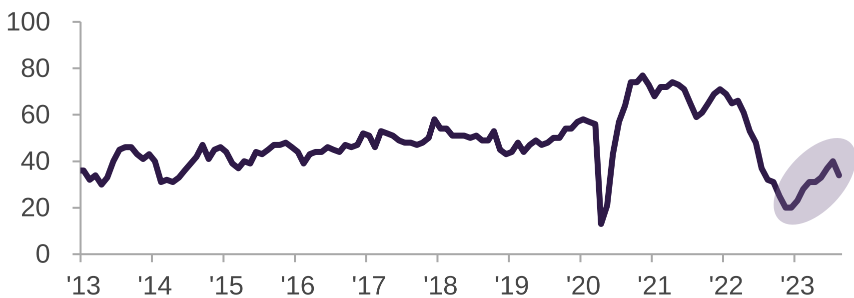
Single-family housing starts (units in millions, SAAR)



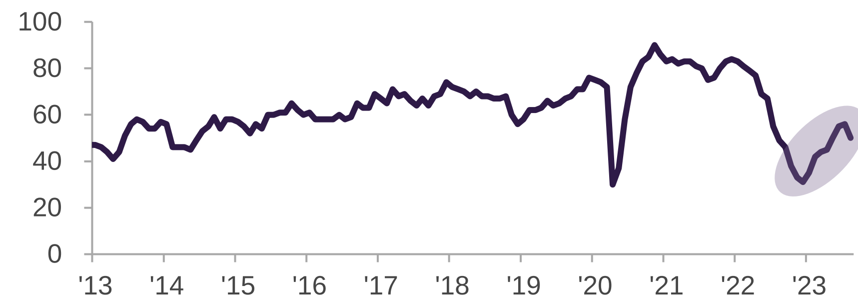
New single-family building permits (units in millions, SAAR)



National Association of Home Builders traffic of prospective buyers (index value)



National Association of Home Builders Market Index

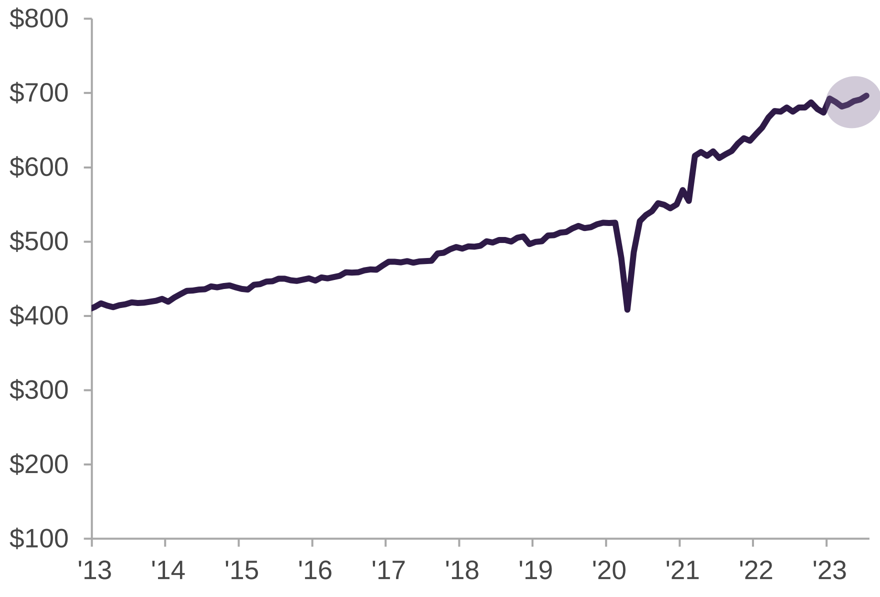


Sources: Truist IAG, Bloomberg. Seasonally adjusted annualized rate (SAAR); monthly data for starts and permits through July 2023 and through August 2023 for buyer traffic and market index.

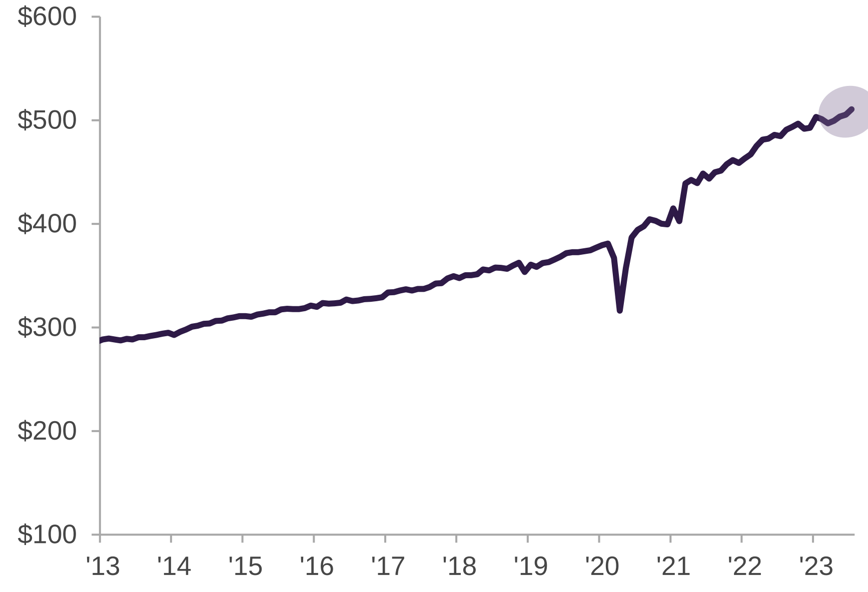
Back-to-school boosted July retail sales, helping make a fresh all-time high

Retail & food service sales in July jumped 0.7% MoM to $696.4 billion, setting a fresh all-time high. Online sales jumped 1.9% during the month, boosted by Prime Day, along with back-to-school spending on items such as clothing. Gasoline sales also rose, up 0.4%, snapping an 8-month decline streak. Excluding both autos and gasoline, retail sales jumped in 1.0% in July, also reaching a new all-time high.

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



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

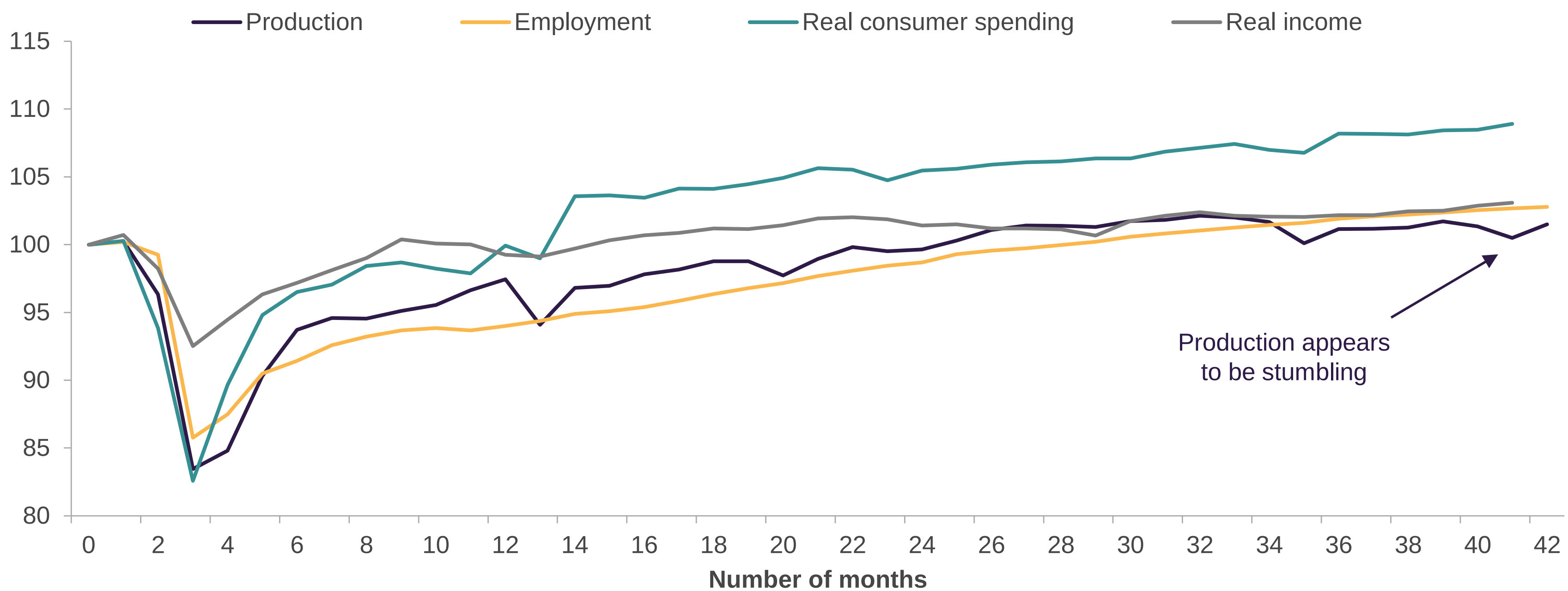


Source: Truist IAG, Bloomberg, U.S. Census Bureau; monthly data through July 2023.

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.

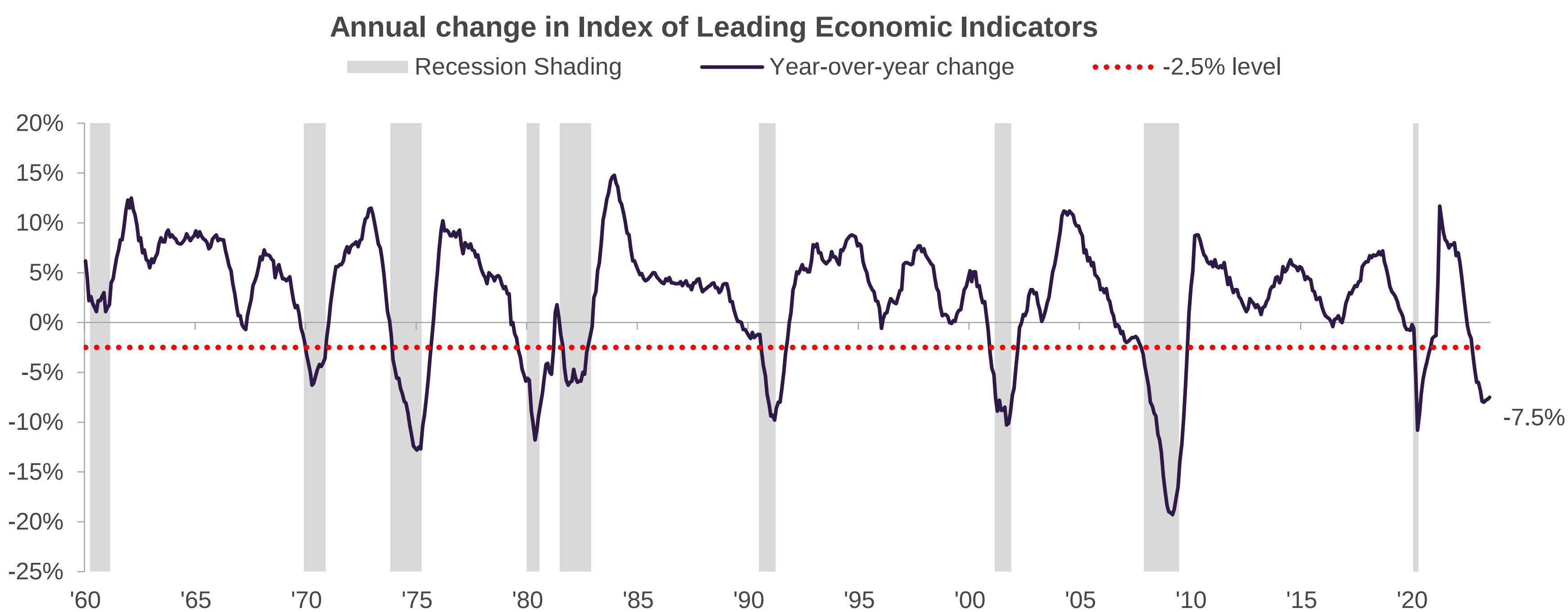
Big 4 indicators of economic activity since January 2020 (indexed)



Data source: Truist IAG, Bloomberg. Employment and production data through July 2023, real consumer spending and real income through June 2023.

Leading indicators are flagging recessionary conditions

The Index of Leading Economic Indicators (LEI), which is a composite of 10 economic indicators that tend to lead turning points in the business cycle, peaked in February. The LEI has hasn't increased in 17 months and remains negative on a year-over-year basis, though it improved to -7.5% in July. Historically, when it has dropped more than 2.5% year over year, it has coincided with the start of a recession.



Data source: Truist IAG, Bloomberg, Conference Board; monthly data through July 2023. Shaded areas represent recessions. The Conference Board's Index of Leading Economic Indicators (LEI) index value 2016 = 100.

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