Economic data tracker – Jobs, jobs, jobs

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

Week 31 – August 4, 2023

Trend watch and what's new this week

Summer travel activity remains solid, closely tracking 2019 (slides 5 and 6). The weekly air traveler count has exceeded 18 million five out the past seven weeks. That matches the 2019 summer total with three more weeks to go before Labor Day. Otherwise, most of the incoming economic data has softened of late, including shipping and freight data.

Solid job growth again in July, unemployment rate dipped

U.S. payrolls in July added 187,000 jobs, narrowly below the consensus expectations of 200,000. That's about 60,000 above the pre-pandemic 3-year average. Three of the 10 major industry groups didn't add workers for a second-straight month (slide 7). Also, the unemployment rate ticked down to 3.5% in July, which is just above the cycle low of 3.4%.

Still, the U.S. has created 222,500 new jobs on average for the past six months. That's 60,000 per month more than the pre-pandemic 3-year average of 177,000 (slide 8). Similarly, the annual pace of average hourly earnings is down from peak levels but is running well-above pre-pandemic levels (slide 9).

Supplementary labor data mixed, but above prior levels

On slide 10, the number of job openings dipped 0.4% in June to 9.6 million, the 10th decline in the past 15 months. Hiring fell 5.2% to 5.9 million. The so-called quit rate – officially known as the percentage of employees voluntarily quitting – continued to trend down, dropping to 2.4% from 2.6%, and down from the cycle peak of 3% in 2022. All three indicators – openings, hiring, and the quit rate – remain above pre-pandemic levels.

Manufacturing contracted for 9th straight month

Two separate gauges showed manufacturing continues to struggle. The Institute for Supply Management (ISM) Manufacturing Index improved to a reading of 46.4 in July, the nineth-straight reading below 50, which signifies a decrease in manufacturing activity (slide 11). The prices paid component increased to 42.6, meaning prices continued to decrease compared to June, but at a slower pace.

Similarly, the final July reading of S&P's Global U.S. Manufacturing Index also showed a contraction in activity with a reading of 49.0. That's the eighth contraction in nine months.

Economic commentary – Our take and the bottom line

Services softer in July, but prices up

On slide 12, the Institute for Supply Management (ISM) Services Index had a reading of 52.7 in July, expanding for the seventh month in a row, but weaker than June's 53.9. Meanwhile, the prices paid component rose to 56.8, which was a three-month high and snapped a two-month decline streak.

Similarly, the final July reading of S&P's Global U.S. Services Index also ebbed in July, slipping to a reading of 52.3, weakening for a second-straight month.

Our take

It's hard to categorize the July jobs report as anything but solid, which may frustrate those looking for considerably more weakness within labor markets. While it is cooler than the very strong pace of the past few years, it isn't slow by any measure. The six-month average is still running 60,000 jobs above the pre-pandemic 3-year average (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 and their monthly pace is quickening, not cooling.

Indeed, it provides more data for those seeking a so-called soft landing of the U.S. economy. Yet, it also undercuts the soft landing thesis – that the economy is resilient enough to avoid a recession.

In our view, a soft landing looks like a negative quarter or two of gross domestic product (GDP), but without job losses. There has never been a recession without job losses, but there have been periods with job losses and no recession (including 2019, 1997, 1996, 1995, 1993, etc.). A soft landing is possible, but not our base case at this point.

While we don't anticipate a sudden collapse in economic activity and don't view the economy as weak currently, most of the incoming economic data isn't strengthening. Regardless, it's certainly not as strong as many of the soft landing bulls are projecting.

It would be unprecedented to avoid a recession with weakening leading indicators, higher interest rates, and tighter financial and credit conditions. Inflation isn't quite behaving like it should, which is to say not cooling broadly enough, and is now being pressured once gain by crude oil prices. Additionally, real gross domestic income (GDI), which is an alternate measure of economic health, has been negative on a year-over-year basis for three-straight quarters, which has never occurred outside recessions in the last seven decades. In fact, the U.S. has never had more than one negative quarter of GDI without a recession. And that's before student loan payments are restarting for 46 million people in the fourth quarter. In our opinion, that's going to take a LOT of wind out of the economy.

Accordingly, 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 Federal Reserve (Fed) attempts to stabilize prices. While it's clearly cooler than the blistering pace of '21 and '22, inflation remains well above anyone's comfort level. At the very least, the Fed will need to maintain rates, though it's still possible additional rate hikes will be needed to curb inflation given continued resilience of the overall 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.
Jobs	Unemployment rate[x]	▲	Jul: 3.5%	Aug: N/A	Down 0.1% again in July, hovering near the cycle low of 3.4%.
	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[+]	▲	7/29: 227K	8/5: 230K	Rose modestly WoW, snapping a three-week decline streak.
	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	▼	4.06%[‡]	Flat/down	Jumped above 4.1% on stronger economic data and Japan's unexpected relaxing of yield curve controls. We expect more volatility.
	10-year AAA GO muni yield	▼	2.74%[‡]	Flat/up	After holding fairly steady in the past few weeks, it jumped 0.25%.
	30-year fixed mortgage rate	▼	7.39%[‡]	Flat/up	Inched higher in the past week. It's near the highest level since November '00. 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: 0.2%	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: 1.450M	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	▼	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: 0.2%	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: 0.3%	It is just 0.4% below the all-time high set in January ‘23.
	Consumer sentiment	▲	Jul F: 71.6	Aug P: 71.7	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

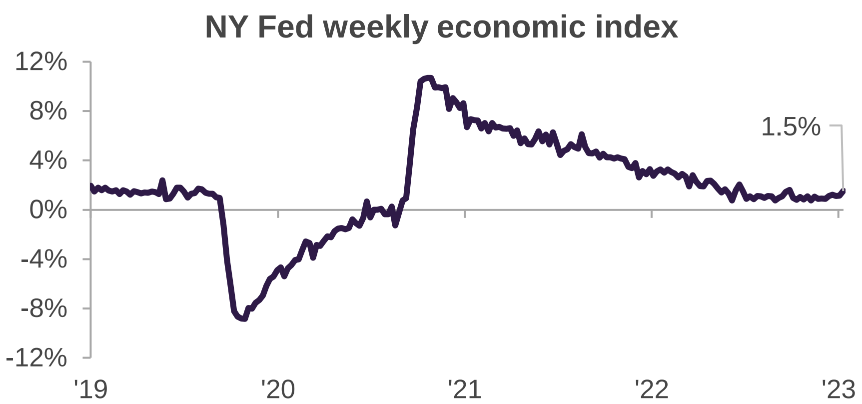
U.S. activity-based data matrix

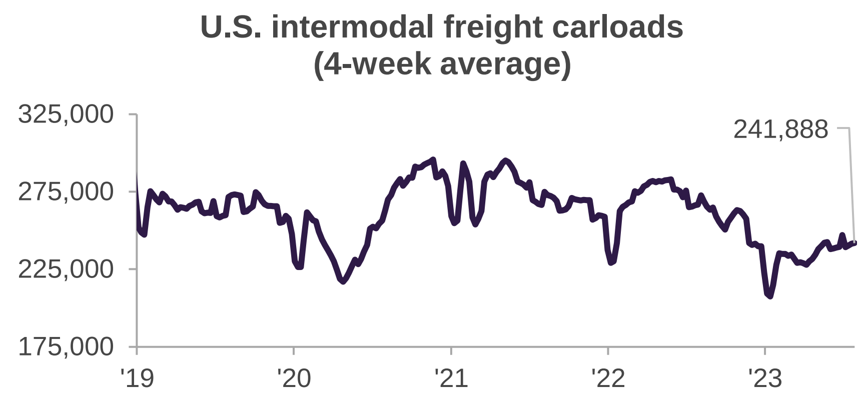
Indicator	Relative trend	What we're watching
Back to office	⇆	Dipped to 49.2 from 50.2 during the prior week (pre-pandemic indexed to 100). Top cities were Houston (61), Austin (55), and Chicago (54); bottom were San Jose (40) and Philadelphia (41). The trend is steadily improving and is now about half 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, which is still solid. It is up 0.1% from the same week in August '19 and up 13.9% above July '22. Year to date is up 0.1% compared to the same period in 2019.
OpenTable restaurant bookings	⇆	Rose WoW to -3.3% from -4% in the prior week (compared to 2022 levels). Top positive states were led by Wisconsin and Illinois (both +7%); bottom were Florida and New Hampshire (both -11%). Top cities were Milwaukee (+25%) and Chicago (+15%); bottom were Raleigh (-20%) and Minneapolis (-18%).
Hotel occupancy	▲	Slipped to 72.2% from 72.9%, the highest since Aug '19. The average daily rate rose WoW to $161.83, up 2.3% from the same week in '22, and revenue per available room fell WoW to $116.91, up 2.0% from Aug. '22.
Freight (rail/truck/ship)	▼	Container traffic in June fell 5.2% at the 5 top U.S. ports (LA, LB, NYNJ, SAV, SEATAC). Rail traffic rose 2.1% WoW to the highest level since mid-December; traffic rose 2.2% MoM in June. The Cass Freight Index fell 1.6% in June, the 10th decline in 13 months.
Staffing index	⇆	Continued to climb, up to 101.3, a 24-week high dating back to 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 0.6% 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.

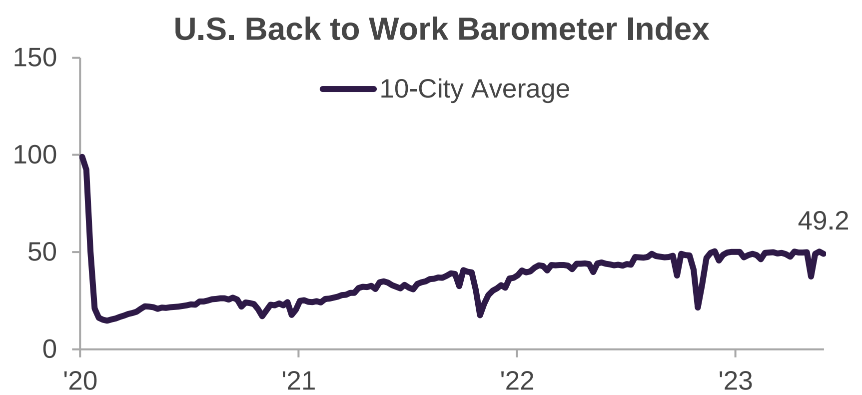
Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

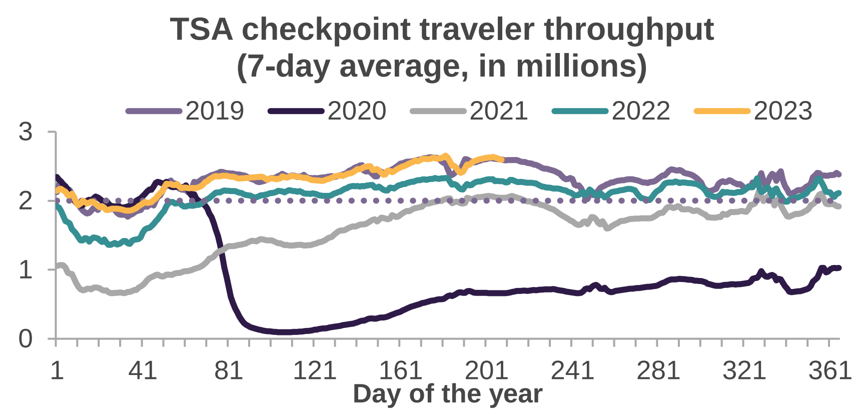
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, STR/CoStar, American Staffing Association, Zillow. Week-over-week and year-over-year change are abbreviated as WoW and YoY, respectively.

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





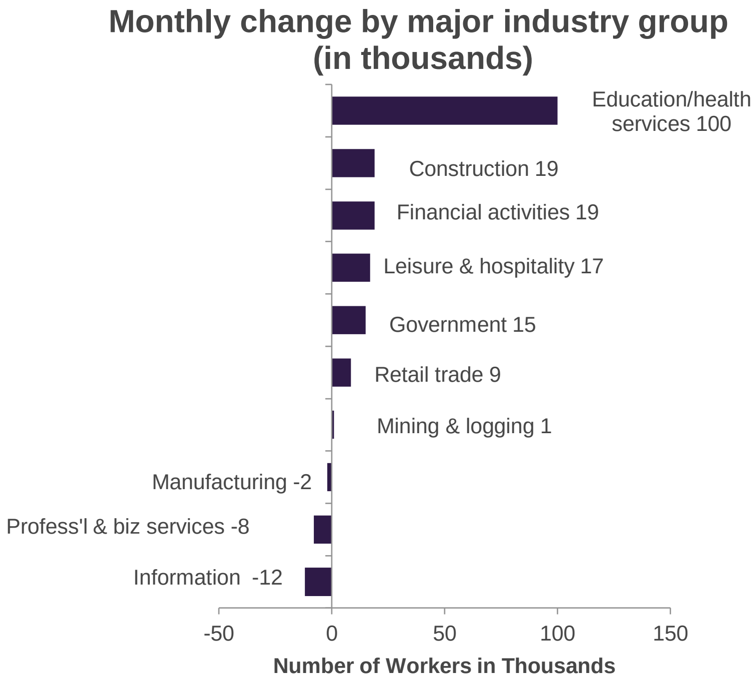


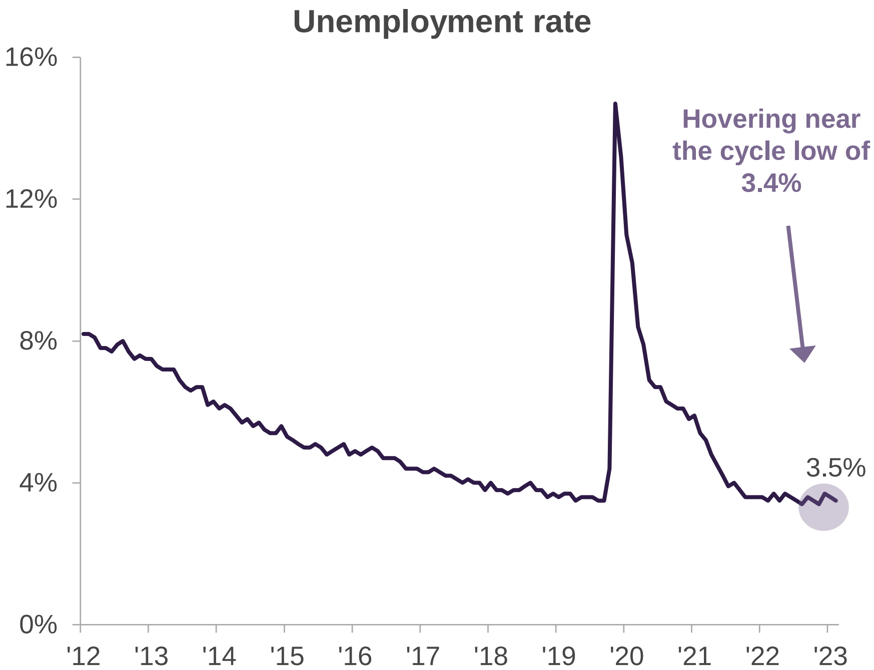


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through July 15, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through July 28. Bottom left: Bloomberg, Kastle Systems averaged weekly through July 26. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through July 27.

Job growth remained solid in July

U.S. payrolls in July added 187,000 jobs, narrowly below the consensus expectations of 200,000. It was coupled with downward revisions to the prior two months, pulling the six-month average down to 222,500. Still, that's about 60,000 above the pre-pandemic 3-year average. Also, the unemployment rate ticked down to 3.5% in July, which is just above the cycle low of 3.4%.





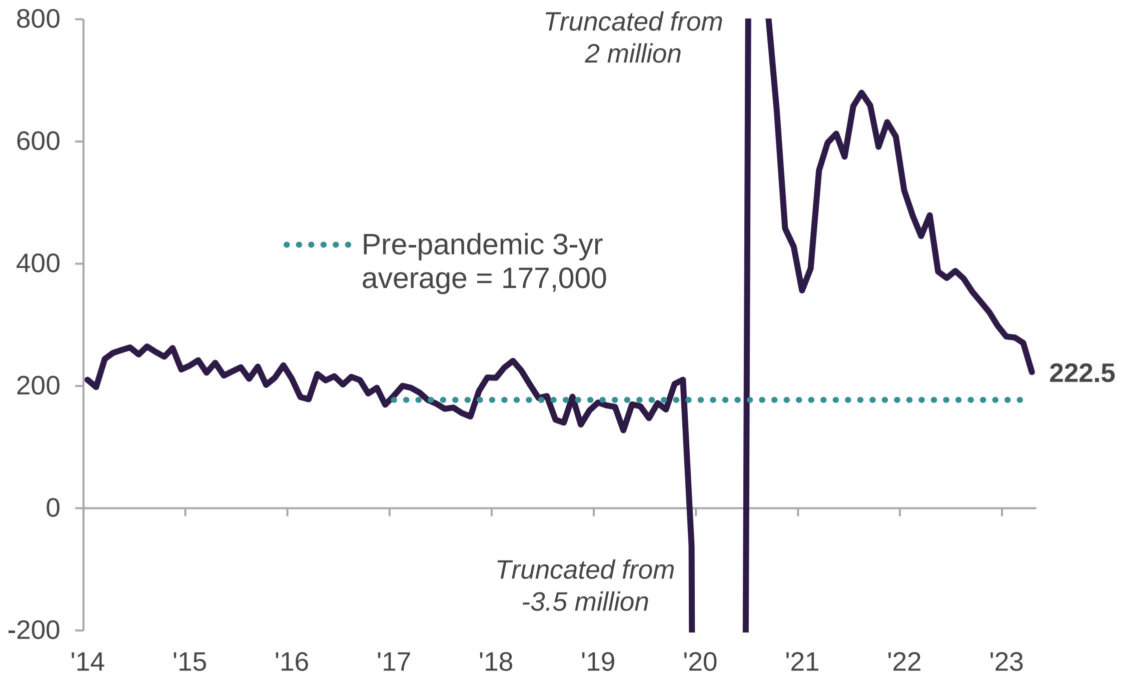
Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics. Monthly data through July 2023.

Employment still relatively strong, which keeps more rate hikes in play

While job growth has declined compared to very strong 2021 and 2022 results, the U.S. has created 222,500 new jobs on average for the past six months. That's 60,000 per month <u>*more*</u> than the pre-pandemic 3-year average of 177,000.

At the very least, the Fed will need to maintain rates, though it's still possible additional rate hikes will be needed to curb inflation given continued resilience of the overall economy.

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

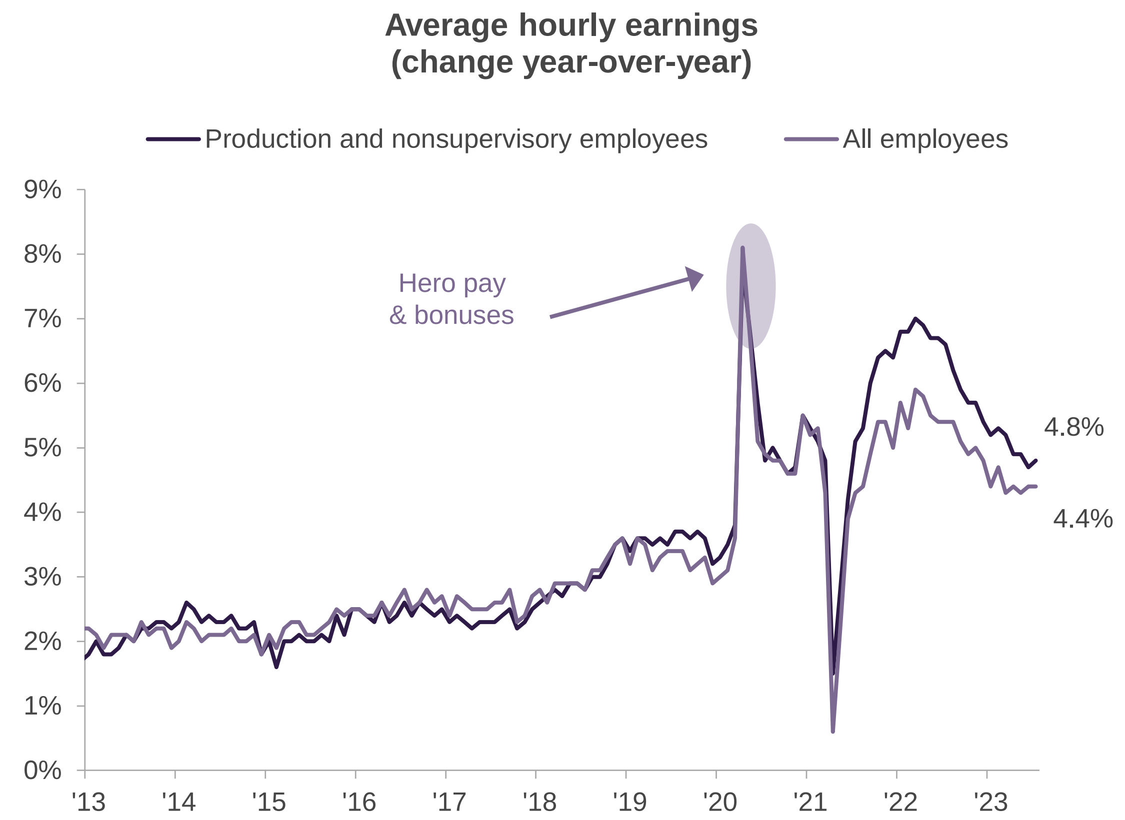


Data source: Truist IAG, Bloomberg, Bureau of Labor Statistics. Monthly data through July 2023

Wages down from their peak, but running well-above pre-pandemic levels

Average hourly earnings rose 0.4% month over month in July. The annual pace increased 4.4% from a year ago, holding steady with June and down from the 2022 peak of 5.9%. Despite the recent cooling, it remains well above the pre-pandemic 10-year average of 2.4%.

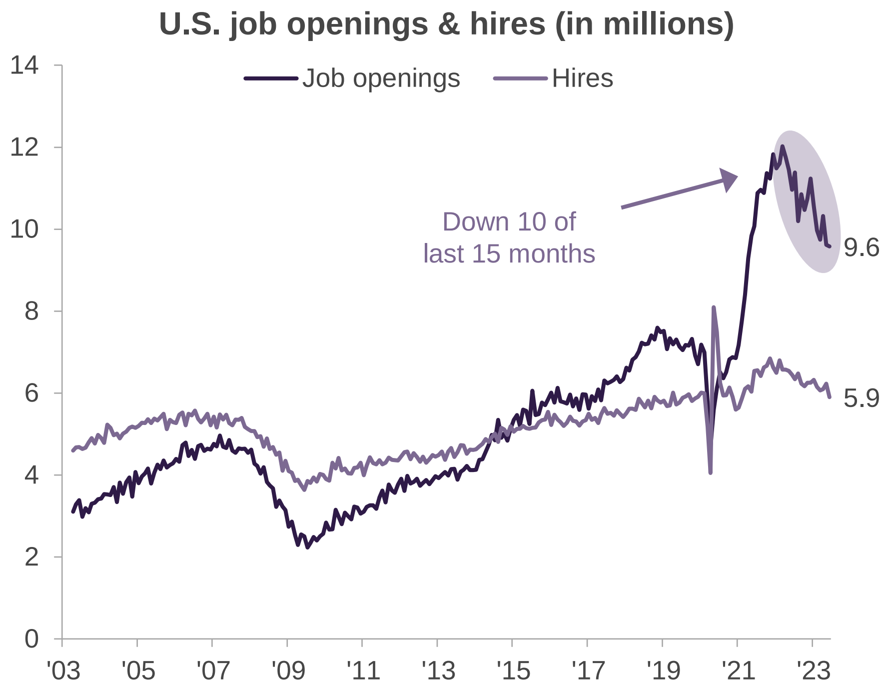
The pace of average hourly earnings for rank & file workers—officially known as production & nonsupervisory employees—rose 0.5% during July, the largest increase in eight months. That bumped the annual pace up to 4.8%, significantly above its pre-pandemic rate of 3.2%. This is important since production & nonsupervisory employees are the bulk of all employees and where most of the dramatic post-pandemic wage gains have been concentrated.

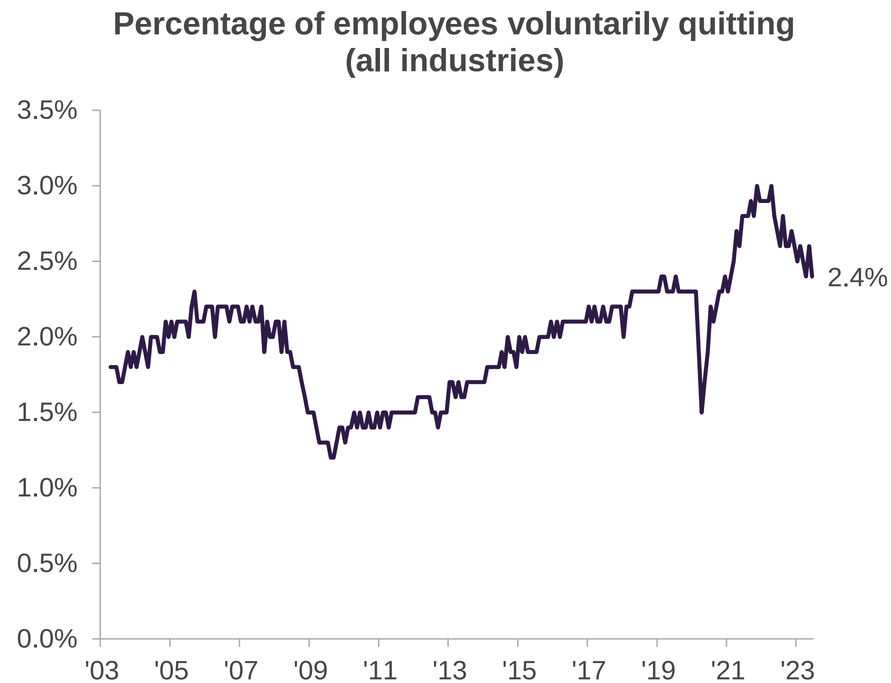


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics. Monthly data through July 2023.

Job openings fell, as did hiring and the quit rate – all three remain elevated

The number of job openings dipped 0.4% in June to 9.6 million, the 10th decline in the past 15 months. Hiring fell 5.2% to 5.9 million. The so-called quit rate – officially known as the percentage of employees voluntarily quitting – continued to trend down, dropping to 2.4% from 2.6%, and down from the cycle peak of 3% in 2022. All three indicators – openings, hiring, and the quit rate – remain above pre-pandemic levels.

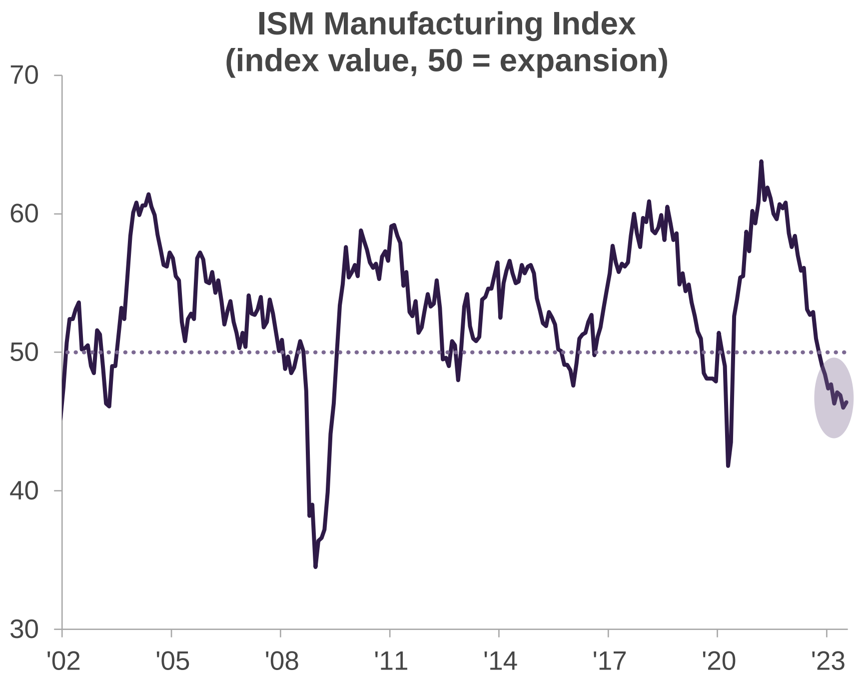


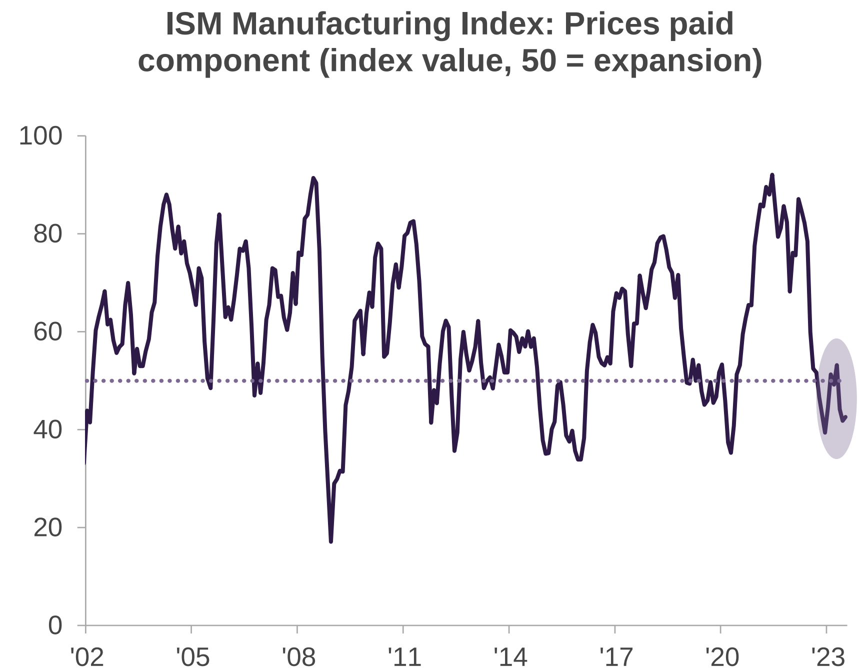


Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through June 2023.

ISM Manufacturing contracted for 9th month in July

The Institute for Supply Management (ISM) Manufacturing Index improved to a reading of 46.4 in July, the nineth-straight reading below 50, which signifies a decrease in manufacturing activity. The prices paid component increased to 42.6, meaning prices continued to decrease compared to June, but at a slower pace.



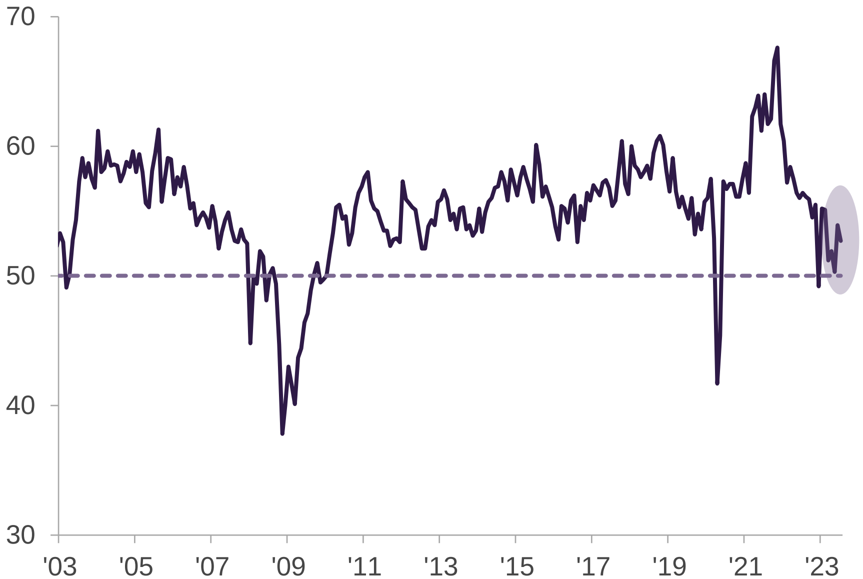


Sources: Truist IAG, Bloomberg, Institute for Supply Management (ISM); monthly data through July 2023.

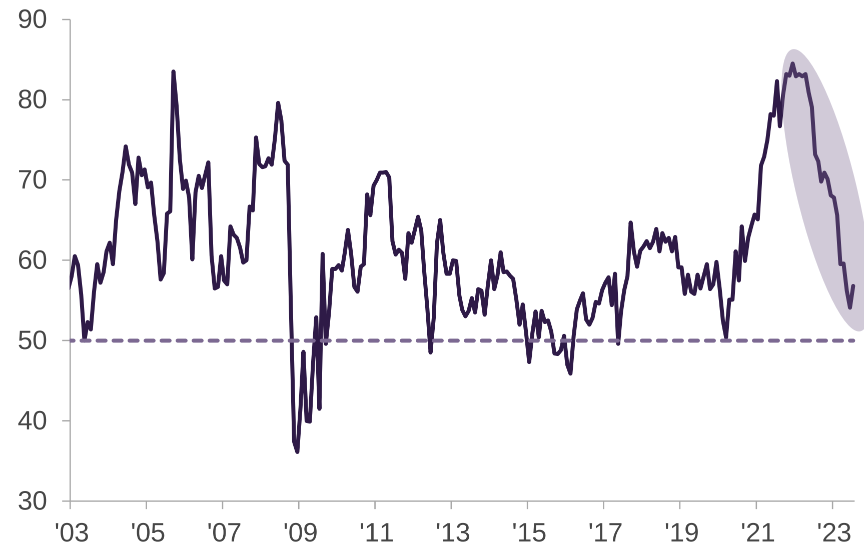
ISM Services cooled in July, but prices rose to a 3-month high

The Institute for Supply Management (ISM) Services Index had a reading of 52.7 in July, expanding for the seventh month in a row after briefly contracting in December ’22. Meanwhile, the prices paid component rose to 56.8, which was a three-month high and snapped a two-month decline streak. Still, it was the 12th time prices declined in 15 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 July 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.

CN2023-5860667.1 EXP08-2024