Truist Advisory Services, Inc.

Economic data tracker – Sputtering data

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Week 36 – September 8, 2023

Trend watch and what's new this week

Air passenger traffic continues to closely track the 2019 pattern. Right on cue, the weekly air traveler count rebounded during the week of Labor Day, snapping a six-week decline streak from the late July peak.

Yet, most of the other activity-based data has softened (slides 5 and 6). While seasonality is certainly a factor, it doesn't explain away all of the weakness, especially for freight volumes, which have been soft for months and are well below last year. We're not jumping to any conclusions that it portends something sinister, but the trends aren't moving in the right direction.

Mixed signals from the services indices

On slide 7, the Institute for Supply Management (ISM) Services Index had a reading of 54.5 in August, expanding for the eighth month in a row after briefly contracting in December '22. Meanwhile, the prices paid component rose to 58.9, which was a four-month high. Still, prices have declined 12 times in the past 16 months.

However, the final August reading of S&P Global's U.S. Services Index slipped to 50.5, weakening for a third month in a row and is barely expanding, as a reading below 50 signifies that activity contracted.

Used car prices edged up in August, but down sharply YoY

On slide 8, we revisit the price index of used vehicles, which rose 0.2% in August. That snapped a streak of four monthly declines. Prices declined 7.7% on a year-over-year basis, which is a far cry from the 54% spike in April '21. Prices peaked in January '22 and have rolled back nearly 18%. Compact and mid-size cars continue to see the biggest price declines on a year-over-year basis.

Gasoline prices are climbing again

On slide 9, we show the nationwide average price for gasoline, which has climbed to $3.81 per gallon. It is likely heading higher due to limited global supply thanks to extended production cuts by Saudi Arabia and Russia. U.S. gasoline remains roughly $1 per gallon, or 34%, above the pre-pandemic level of $2.85, challenging consumers and reigniting inflation, which will likely force the Federal Reserve (Fed) to maintain higher interest rates for longer.

Our take

We have repeatedly discussed crosscurrents, even sometimes within the same report. The August services indices were simply more examples as both showed cooling and reacceleration in prices.

The consistent trend had been that goods prices are generally waning, while prices for services are reaccelerating; however, that, too has turned. Now, some goods prices are increasing, including the aforementioned used vehicle prices. Last week, the price component of the ISM Manufacturing Index rebounded to a four-month high.

Economic commentary – Our take and the bottom line

Our take (continued)

Then we heap on climbing gasoline prices. This complicates the Fed's attempts to stabilize prices. The overall cooling trends of economic data may provide another opportunity for the Fed to skip hiking interest rates in September, much as it did in June. But, the stickiness of 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. It would be unprecedented to avoid a recession with weakening leading indicators, higher interest rates, and tighter financial and credit conditions.

Many of the leading indicators are pointing downward and have been for more than a year. Moreover, most of the incoming economic data has been decelerating, not strengthening. That said, we don't anticipate a sudden collapse in economic activity and don't view the economy as overly weak. Regardless, it's certainly not as strong as many of the soft-landing bulls are projecting.

Additionally, we are concerned about restarting student loan payments for 46 million people in the next month (roughly one million have already voluntarily restarted payments). 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.

Lastly a reminder that most recessions initially look like a soft landing with very few exceptions (like 2020). The economic data cools and conditions look fairly stable until they don't.

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 and the timing remains fluid.

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▲	2Q P: 2.1%	2Q F: 2.1%	Missed the consensus of 2.4%. The biggest detractors were downward revisions to business inventories, business spending, and net exports. Government and consumer spending were revised up.
Jobs	Unemployment rate[x]	▲	Aug: 3.8%	Sep: N/A	Jumped to the highest level since February ’22.
	Monthly jobs (nonfarm)	▲	Aug: 187K	Sep: N/A	Just ahead of the consensus (170,000), but was coupled with sizable downward revisions to the prior two months, knocking the six-month average down to 194,000 from 222,500.
	Weekly jobless claims[+]	▲	9/2: 216K	9/9: 225K	Fell 5.7% WoW, likely impacted by the holiday and Hurricane Idalia.
	Nonfarm productivity	⇆	2Q F: 3.5%	2Q F: 3.4%	Revised down from 3.7%, but still the fastest productivity increase in 11 quarters (3Q20). Unit labor costs cooled to 2.2% from 3.3% in 1Q.
Interest rates	Federal funds rate	▼	5.25% – 5.50%	9/20: 5.25% – 5.50%	Given weakening data and cooler wages, markets now expect a pause in September, but less clarity for the rest of 2023.
	10-year U.S. Treasury yield	▼	4.24%‡	Flat/up	Jumped with faster price growth and jobs data, while investors price in “higher for longer” from the Fed. We expect more volatility.
	10-year AAA GO muni yield	▼	2.91%‡	Flat/up	Ticked up WoW, now at the highest level since November ’22.
	30-year fixed mortgage rate	▼	7.55%‡	Flat/down	Bouncing around but remains near the highest level since October ’00. Higher rates hurt housing affordability.
Inflation	Consumer prices (CPI)[x]	▼	Jul: 0.2%	Aug: 0.6%	The YoY pace ticked higher to 3.2% but is down from 5.0% in March.
	Core CPI	▼	Jul: 0.2%	Aug: 0.2%	Up 4.7% YoY, cooling for the fourth consecutive month.
	Producer prices (PPI)	⇆	Jul: 0.3%	Aug: 0.4%	The YoY pace jumped 0.8% after dropping to 0.2% in June.
	Core PPI	⇆	Jul: 0.3%	Aug: 0.2%	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	▼	Jul: 4.07M	Aug: 4.10	Dropped 2.2% in July and down for the 17th time in 18 months.
Housing	New home sales	▲	Jul: 714K	Aug: N/A	Jumped 4.4% MoM, while price rose 4.8% to $436,700.
Housing	New housing starts	⇆	Jul: 1.452M	Aug: 1.425M	Rebounded 3.9% MoM, as single-family starts surged 6.7%.
Housing	New permits[+]	⇆	Jul: 1.443M	Aug: N/A	Edged up 0.1% MoM, while single-family permits rose 0.6%.
Business	Durable goods orders[+]	▲	Jul P: -5.2%	Jul F: -5.2%	Aircraft orders declined after a massive 71% spike in June. Core capital goods orders (ex-air & defense) edged up 0.1% MoM.
Business	ISM Manufacturing Index	▼	Aug: 47.0	Sep: N/A	Activity contracted for the 10th month in a row. Employment contracted for the third-straight month.
Business	ISM Services Index	▲	Aug: 54.5	Sep: N/A	Expanded for the eighth month in a row after briefly contracting in December. But the prices paid component rose to a 4-month high.
Business	Business inventories[X]	▲	Jun: 0.0%	Jul: 0.1%	Flat in each of the past two months (May and June).
Consumer	Personal income	▲	Jul: 0.2%	Aug: N/A	Missed the consensus and matched the smallest rise in 9 months.
Consumer	Personal spending	▲	Jul: 0.8%	Aug: N/A	Better than expected and June was revised upward.
Consumer	Retail & food sales	▲	Jul: 0.7%	Aug: 0.2%	It just hit a fresh all-time high, surpassing the January '23 level.
Consumer	Consumer sentiment	▲	Aug F: 69.5	Sep P: 69.8	Edged lower after hitting a 21-month high in July, while one-year inflation expectations rose to 3.5%, a three-month high.

▲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	⇆	Edged up to 47.3 from 47.2 in the prior week (pre-pandemic indexed to 100). Top cities were Houston (61), Austin (59), and Dallas (54); bottom were San Jose (36) and New York City (38). 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 rose 0.4% WoW, snapping a 6-week decline streak, to 16.0 million. It is up 9.1% from the same week in Sept.'19 and 6.7% above Sept.'22. Year to date is up 0.3% compared to the same period in 2019.
OpenTable restaurant bookings	⇆	Edged up to -5.9% from -6.0% last week (compared to 2022 levels). Top positive states were led by New Hampshire (+5%) and Rhode Island (0%); bottom were Kansas (-25%) and Utah (-18%). Top cities were Portland (+5%) and Naples (+4%); bottom were Baltimore (-34%) and St. Louis (-27%).
Hotel occupancy	⇆	Slid to 62.7%, the sixth-straight weekly decline. The average daily rate rose slightly WoW to $150.52, up 1.8% from the same week in '22, and revenue per available room fell WoW to $94.38, up 2.0% from Sept.'22.
Freight (rail/truck/ship)	▼	Rail traffic rose 0.9% WoW but dropped 2.8% MoM in August and traffic is -11% YoY. Container traffic in July fell 3.1% at the top 5 U.S. ports (LA, LB, NY/NJ, SAV, SEATAC) and is -19.7% YoY. The Cass Freight Index fell 1.2% in July, the 8th decline in 11 months.
Staffing index	⇆	Popped to 102.0, matching the highest level this year. 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

Data source: 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.

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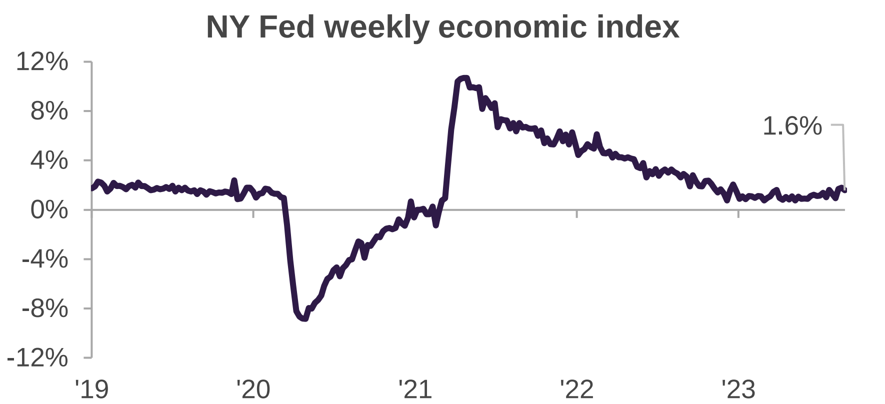
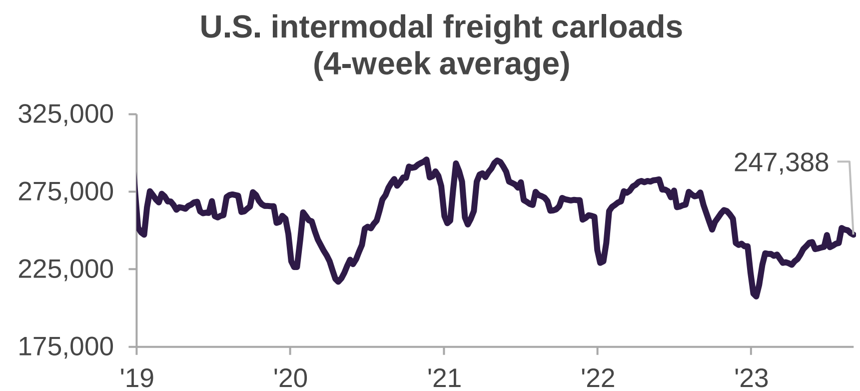
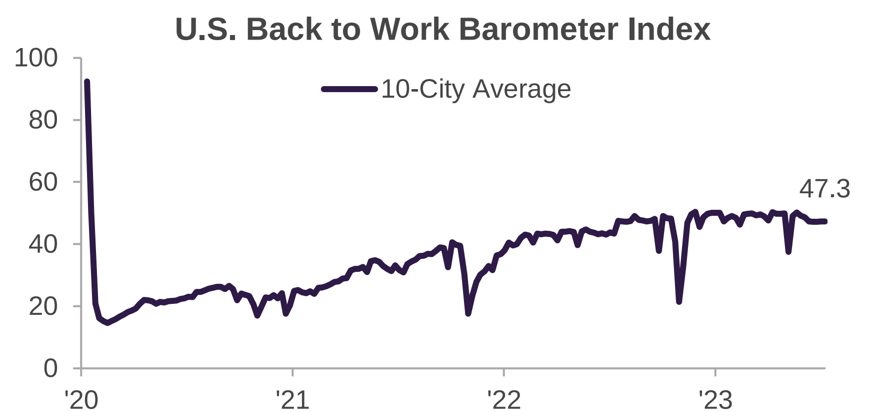
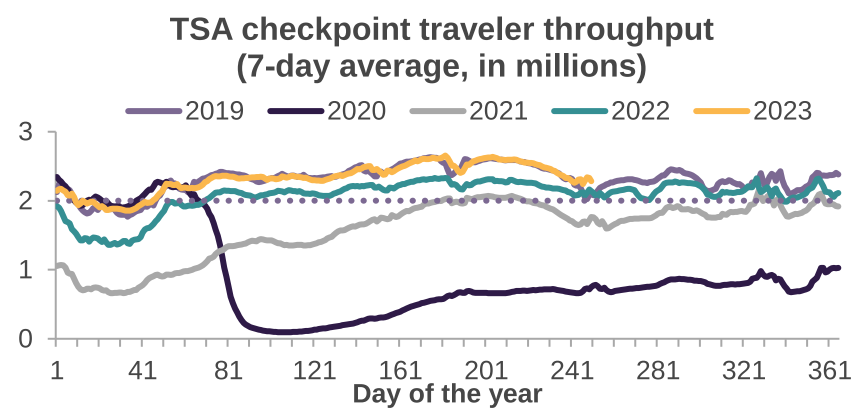
Activity-based trends slipped to start ’23, but firming into early September









Data source: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through September 2, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through September 1. Bottom left: Bloomberg, Kastle Systems averaged weekly through August 30. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through September 7.

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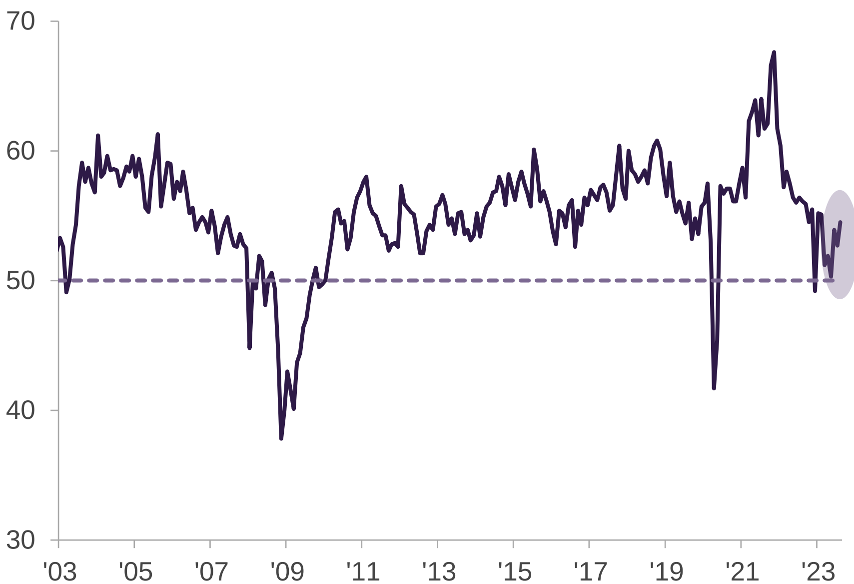
Wealth

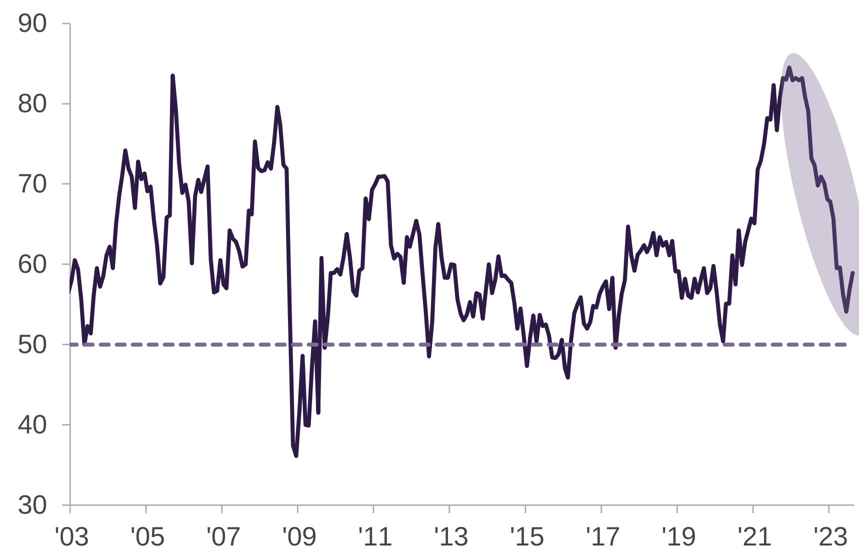
ISM Services popped to 6-month high, but prices rose, too

The Institute for Supply Management (ISM) Services Index had a reading of 54.5 in August, expanding for the eighth month in a row after briefly contracting in December ’22. Meanwhile, the prices paid component rose to 58.9, which was a four-month high. Still, prices have declined 12 times in the past 16 months.

ISM Services Index
(index value, 50 = expansion)



ISM Services Index: Prices paid component
(index value, 50 = expansion)

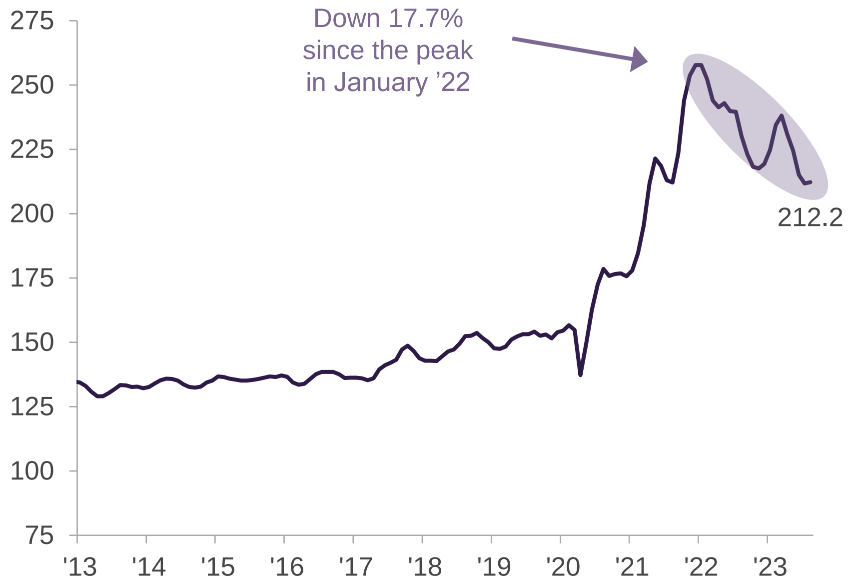


Data source: Truist IAG, Bloomberg, Institute for Supply Management (ISM); monthly data through August 2023.

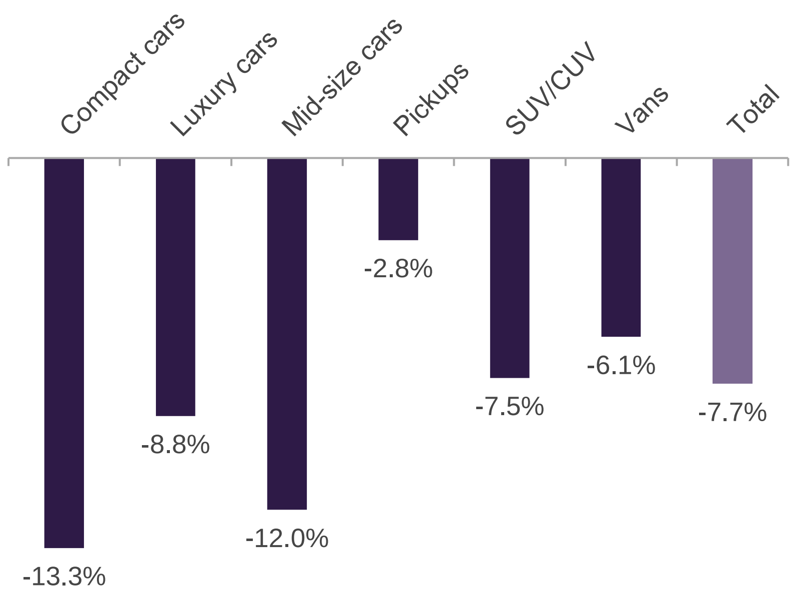
Used car prices edged up in August, though down sharply from a year ago

Used vehicles rose 0.2% in August, snapping a streak of four monthly declines. Prices declined 7.7% on a year-over-year basis, which is a far cry from the 54% spike in April ’21. Prices peaked in January ’22 and have rolled back nearly 18%. Compact and mid-size cars continue to see the biggest price declines on a year-over-year basis.

Manheim Used Vehicle Value Index



Used price change by vehicle class (year over year)



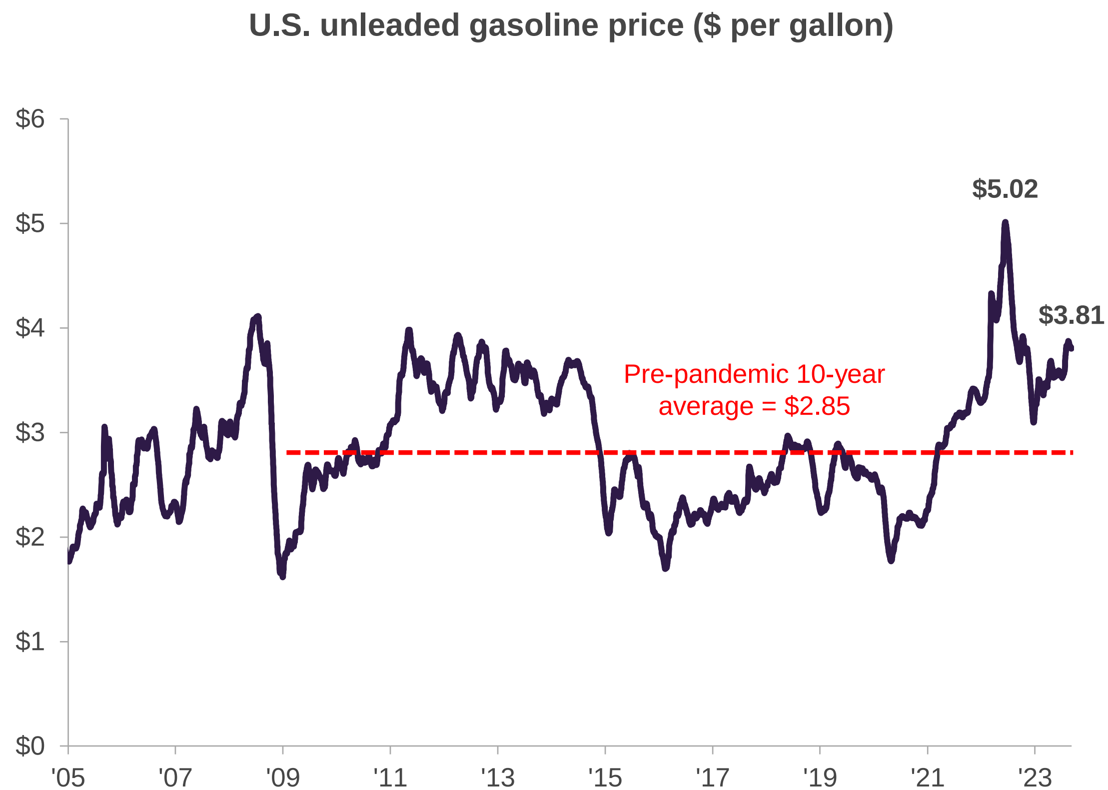
Data source: Truist IAG, Haver, Manheim; figures shown on a mix, mileage, and seasonally adjusted basis. Monthly data through August 2023. Sports Utility Vehicle (SUV) and Crossover Utility Vehicle (CUV).

Elevated crude oil prices challenge consumers and the Fed

The cause of the first half surge in 2022 was the Russia-Ukraine war, which threatened global crude oil supply. The rollback has been driven by a surge in the U.S. and the resilience of crude oil production globally.

But Saudi Arabia and Russia have extended production cuts through year end, limiting global supply. Crude oil has jumped about 25% since the 4th of July.

Accordingly, the nationwide average price for gasoline has climbed to $3.81 per gallon, and is likely heading higher. It remains roughly $1 per gallon, or 34%, above the pre-pandemic level of $2.85, challenging consumers and reigniting inflation, which is forces the Fed to maintain higher interest rates for longer.



Data source: Truist IAG, Bloomberg, NY Mercantile Exchange, American Automobile Association; national average for regular unleaded grade, daily data through September 7, 2023. Pre-pandemic 10-year period from 2009 to 2019.

Disclosures

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CN2023-5938644.1 EXP09-2024