

Economic data tracker – Housing remains an issue for people

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

Week 34 – August 25, 2023

Trend watch and what's new this week

Activity is closely following pre-pandemic historical patterns, which is currently winding down summer travel (slides 5 and 6). It is remarkable how closely air travel has mirrored 2019, albeit with '23 maintaining a slim 0.1% lead year-to-date compared to '19.

More importantly for domestic tourism, international travel to the U.S. is up 21% from a year ago, notching a post-pandemic high of 3.14 million in July (slide 7). And that's before the typical summer peak in August. Most of the rebound has been from Western Europe and Asia. Yet, the number of foreign travelers remains 23% below the August 2019 level.

Existing home sales down 17 of the past 18 months

Existing single-family home sales dropped 1.9% to an annualized rate of 3.65 million in July (slide 8), which is 24.6% below the December 2019 level. Meanwhile, prices fell 0.8% in July to \$412,300, which snapped a five-month up streak but is 48.8% above the December 2019 level. That's due to very limited supply.

New home sales up in July, while price is down from '22

New homes sales rose 4.4% in July and are up 3% from the December 2019 level (slide 9). The median price rose 4.8% to \$436,700. While it's up 32.5% from the December 2019 level, supported by limited inventories of new and existing homes for sale, it's down 8.7% from a year ago.

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“House hostage situation” will likely persist

On slide 10, we show how the issues on the existing side are impacting new home activity. Many existing homeowners appear to be in a "house hostage situation," not wanting to give up their sub-4% mortgage nor pay up the 50% premium for a 'used' house, which may also need upgrades or repairs. Accordingly, fewer are listing their home, imploding existing home inventory, which has now been below 1 million for the longest stretch since 1982. People's behavior is seemingly saying, "if I must go through the hassle, I might as well get a new house or just stay put."

Durable goods and core capital goods orders hit new highs

On slide 11, new orders for durable goods—big-ticket items such as equipment, machinery, electronics, and office furniture—fell 5.2% in July. The month-over-month decline was related to the massive 71% spike in commercial aircraft orders in June. New orders for core capital goods, which exclude the volatile aircraft and defense components, is -0.3% from the all-time high set in May.

Services barely expanding, manufacturing slump continues

On slide 12, the preliminary August readings for S&P Global U.S. Purchasing Managers Index (PMI) for services slipped to 51.0, the third straight monthly decline and the weakest reading in seven months. The U.S. manufacturing fell to 47.0, contracting for the 9th time in 10 months.

Economic commentary – Our take and the bottom line

Revisions modestly lower '22 strong job growth

On slide 13, we show the change in job growth by major industry group following the annual benchmark revisions. The preliminary estimate shows 306,000 fewer jobs were created during the March 2022 to March 2023 period, which was previously reported as 3.6 million total. Still, average job growth was about 300,000 per month over that span, which was well above the pre-pandemic 3-year average of 177,000.

Our take

We are keenly observing the current housing dynamics, which are being pushed by long-term demographics, a lack of housing stock, and ongoing regional migration and pulled by dramatically higher prices and mortgage rates. We have dubbed this the "house hostage situation," whereby many homeowners are essentially trapped in their home by a sub-4% mortgage, not wanting to give up historically low rates, and unwilling to pay up the 50% premium to trade to another home, which is propping up both existing and new prices along with new home activity. Unfortunately, given the difficulty in changing those factors (such as the length of time to build a home, severe undersupply in some areas, etc.), the "house hostage situation" will largely persist for years, not months.

However, all eyes are on the Federal Reserve's (Fed) Jackson Hole Economic Policy Symposium, which covers various monetary policy and economic topics. Chair Jay Powell was among many speakers, though most are academics. In his remarks, he reiterated that more rate hikes are possible, implicitly making the near-term rate cuts that some bond investors were projecting in '24 seem less likely. That jives with our view

that the Fed will keep rates higher for longer.

Powell also adamantly stated that 2% is – and will continue to be – the Fed's inflation target, pushing back on those wanting a more flexible inflation goal. That said, Powell maintained maximum flexibility to do whatever it takes, adjusting as needed as the data evolves.

While some view Powell's remarks as more hawkish, we take Chair Powell at his word that the Fed will "keep at it until the job is done," which he has consistently said for more than a year.

Yet, the tension between stickier inflation, continued solid job growth, and generally slowing incoming economic data will play out within markets, not in the bucolic Jackson Hole backdrop. Interest rates are pushing higher as stocks are largely chopping sideways, trying to adjust to higher rates while digesting earnings reports. It also doesn't help that markets are undertaking this tension during one of the lowest volume periods of the calendar historically, when many people are trying to squeeze in that last week of summer before Labor Day.

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 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: 3.5%	Down 0.1% again in July, hovering near the cycle low of 3.4%.
Jobs	Monthly jobs (nonfarm)	▲	Jul: 187K	Aug: 170K	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 ⁺	▲	8/19: 230K	8/26: 235K	Dropped 4.2% WoW, which was the sixth decline in seven weeks.
	Nonfarm productivity	↔	2Q A: 3.7%	2Q F: 3.7%	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	▼	4.23% [‡]	Flat	Roughly flat WoW but it jumped to 4.33% this week, as investors price in “higher for longer” from the Fed. We expect more volatility.
	10-year AAA GO muni yield	▼	2.90% [‡]	Flat	Up 0.2% WoW to the highest level since November '22.
	30-year fixed mortgage rate	▼	7.57% [‡]	Flat/down	It slipped modestly WoW but remains 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	▼	Jul: 4.07M	Aug: N/A	Dropped 2.2% in July and down for the 17th time in 18 months.
	New home sales	▲	Jul: 714K	Aug: N/A	Jumped 4.4% MoM, while price rose 4.8% to \$436,700.
	New housing starts	↔	Jul: 1.452M	Aug: N/A	Rebounded 3.9% MoM, as single-family starts surged 6.7%.
	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.
	ISM Manufacturing Index	▼	Jul: 46.4	Aug: 47.0	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: 52.7	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	▲	Jun: 0.0%	Jul: N/A	Flat in each of the past two months (May and June).
Consumer	Personal income	▲	Jun: 0.3%	Jul: 0.3%	Missed the consensus of 0.5%, but May was revised upward to 0.5%.
	Personal spending	▲	Jun: 0.5%	Jul: 0.7%	Better than expected and May was revised upward.
	Retail & food sales	▲	Jul: 0.7%	Aug: N/A	It just hit a fresh all-time high, surpassing the January '23 level.
	Consumer sentiment	▲	Aug F: 69.5	Sep P: N/A	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 ^xLagging indicator [‡]Intraday quote Bloomberg consensus shown

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U.S. activity-based data matrix

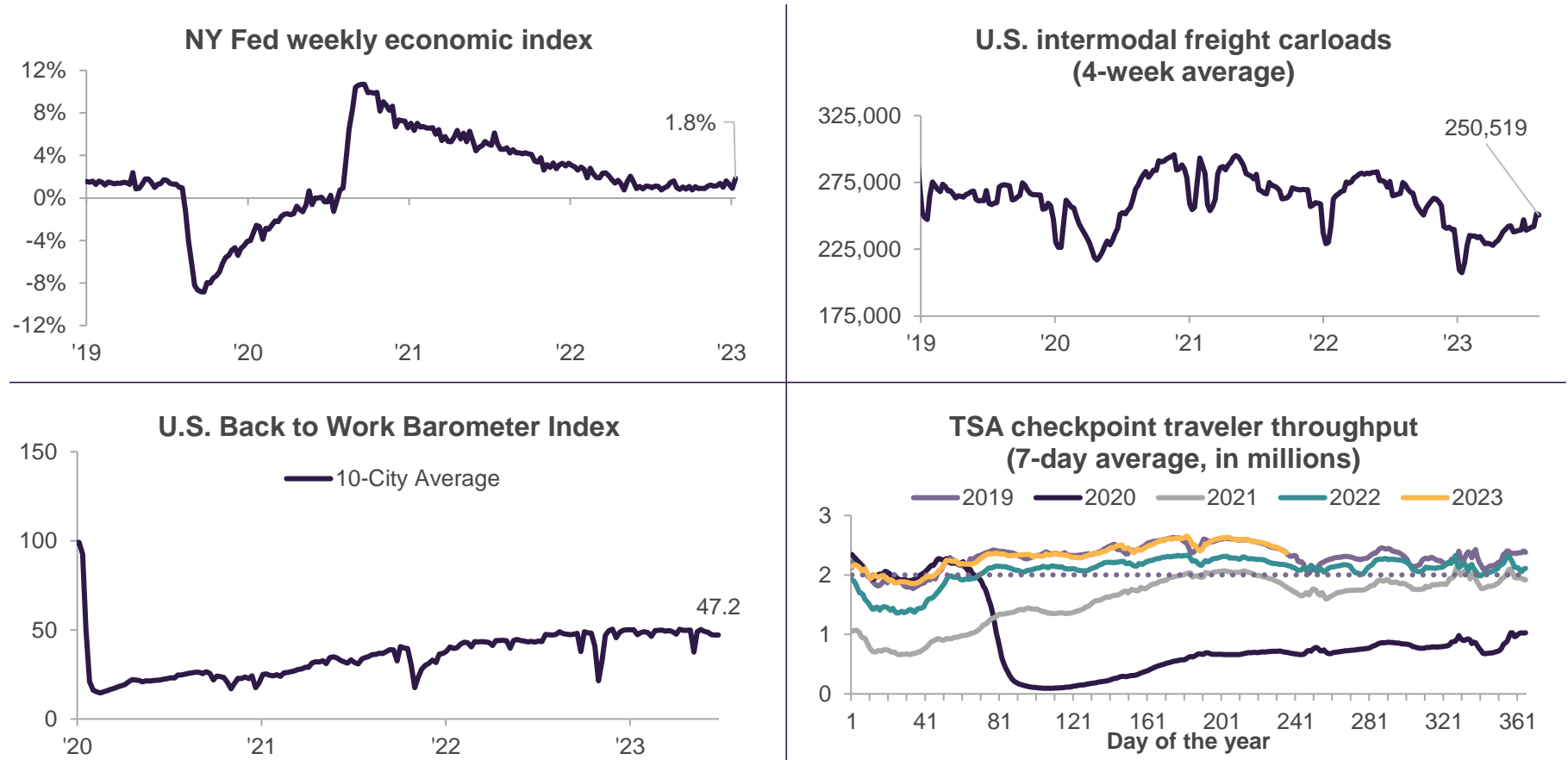
Indicator	Relative trend	What we're watching
Back to office	↔	Fell to 47.2, the fourth straight weekly decline (pre-pandemic indexed to 100). Top cities were Houston (60), Austin (56), and Dallas (54); bottom were San Jose (38) and Philadelphia (39). The trend is steadily improving and is now about half of pre-pandemic levels, which is a modest positive for overall growth.
TSA air passenger throughput	▲	Weekly counts dropped 4.2% WoW to 16.6 million. It is up 0.4% from the same week in August '19 and 9.7% above August '22. Year to date is up 0.1% compared to the same period in 2019.
OpenTable restaurant bookings	↔	Slipped to -5.7% from -4.7% last week (compared to 2022 levels). Top positive states were led by Nebraska and Alabama (both +8%); bottom were Utah (-13%) and Nevada (-12%). Top cities were Minneapolis (+5%), Naples (+4%) and Houston (+3%); bottom were Baltimore (-24%) and Austin (-18%).
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 9 th 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	↕	Ticked up to 101.9 from 101.8 in the prior week, matching 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

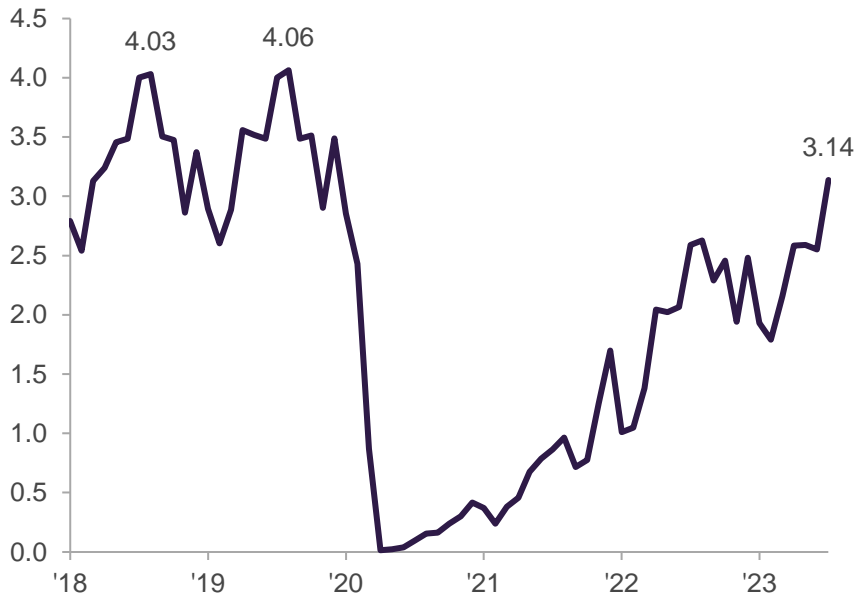


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through August 19, 2023. Top right: (U.S. intermodal freight carloads) Bloomberg, Association of American Railroads Intermodal Trailers U.S. Freight Carloads, 4-week average through August 11. Bottom left: Bloomberg, Kastle Systems averaged weekly through August 16. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through August 24.

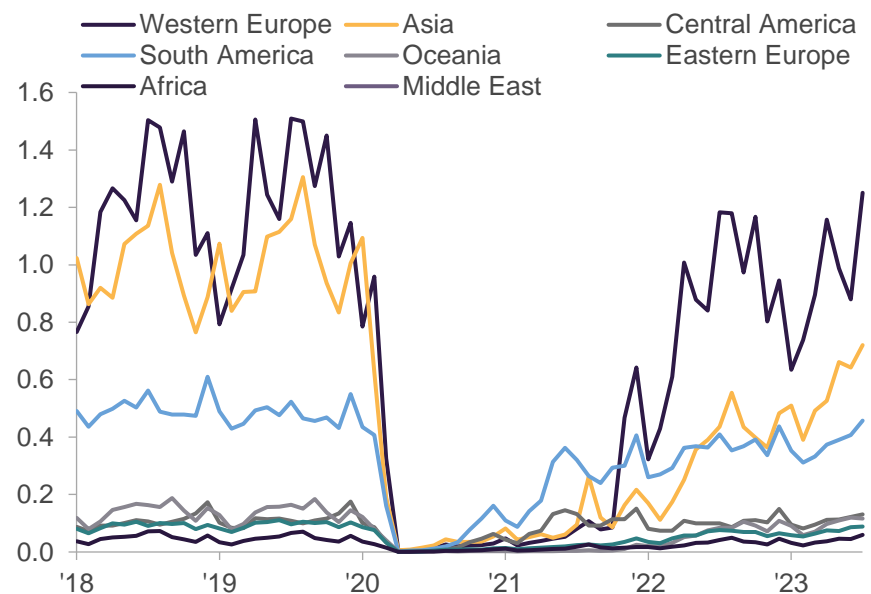
Tourism hits post-pandemic high, mostly from Western Europe and Asia

Tourism from overseas is up 21% from a year ago to a post-pandemic high of 3.14 million in July. And that's before the typical summer peak in August. Most of the rebound has been from Western Europe, Asia and, to a lesser extent, South America. Yet, the number of foreign travelers remains 23% below the August 2019 level and slightly farther from the all-time high of 4.11 million set in August '15.

**U.S. tourism: total arrivals from overseas
(number of persons in millions)**



**U.S. tourism: arrivals by region
(number of persons in millions)**



Sources: Truist IAG, Haver, National Travel and Tourism Office; monthly data through July 2023.

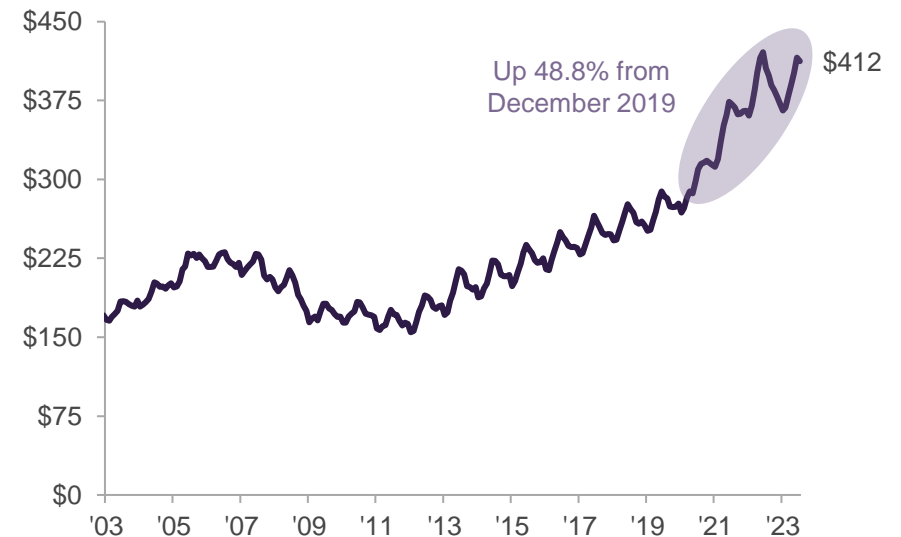
Existing home sales dropped for the 17th time in 18 months, prices dipped

Existing single-family home sales dropped 1.9% to an annualized rate of 3.65 million in July, which is 24.6% below the December 2019 level. Meanwhile, prices fell 0.8% in July to \$412,300, which snapped a five-month up streak but is 48.8% above the December 2019 level. That's due to very limited supply. There's a wide variation based on location, with prices softening in a few markets in the West that had the largest post-pandemic increases, but generally climbing everywhere else.

Existing single-family home sales
(units in millions, SAAR)



Median sales price of existing single-family homes
(in \$thousands)



Sources: Truist IAG, Bloomberg, National Association of Realtors. Figures shown are seasonally-adjust annualized rate (SAAR); monthly data through July 2023.

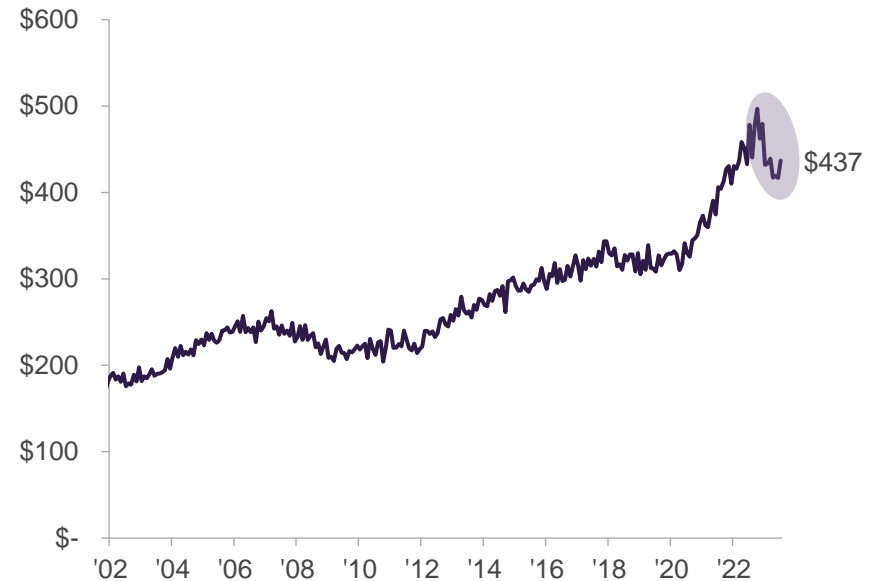
New home sales up in July, while price is down from '22

New homes sales rose 4.4% in July to an annualized rate of 714,000, slightly above the 20-year average and up 3% from the December 2019 level. Price rose 4.8% in July to \$436,700. While it's up 32.5% from the December 2019 level, supported by limited inventories of new and existing homes for sale, price is down 8.7% from a year ago.

**U.S. new single-family home sales
(SAAR, units in millions)**



**Median price of new single-family homes
(in \$thousands)**



Sources: Truist IAG, Bloomberg, U.S. Census Bureau. Figures shown are seasonally-adjusted annualized rate (SAAR); monthly data through July 2023.

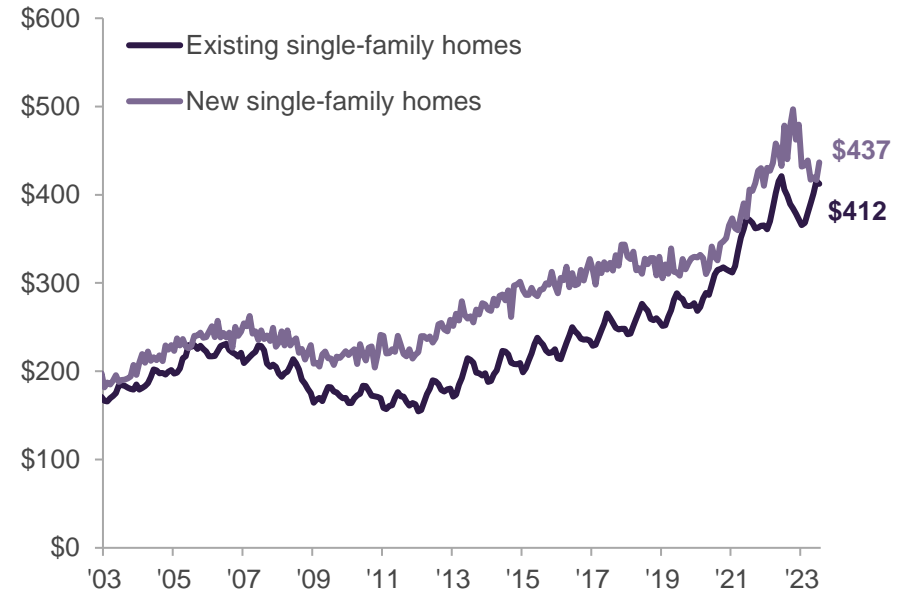
"House hostage situation" on existing side propping up prices on both sides along with new home activity

Many existing homeowners appear to be in a "house hostage" situation, not wanting to give up their sub-4% mortgage nor pay up the 50% premium for a 'used' house, which may also need upgrades or repairs. Accordingly, fewer are listing their home, imploding existing home inventory, which has now been below 1 million for the longest stretch since 1982. People's behavior is seemingly saying, "if I must go through the hassle, I might as well get a new house or just stay put."

Inventory of existing single-family homes for sale (units in millions)



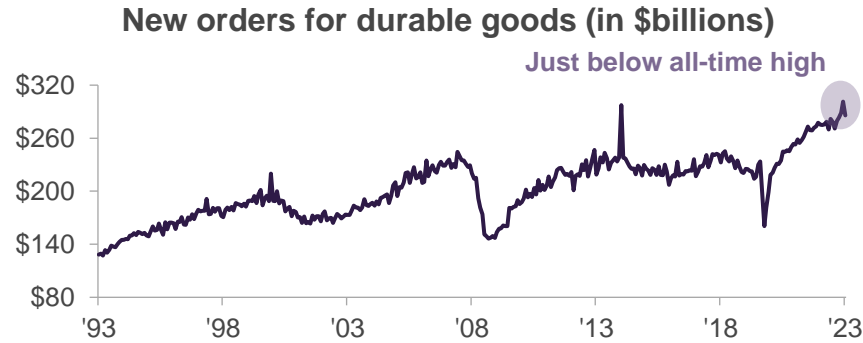
Single-family home price: New vs. existing (in \$thousands)



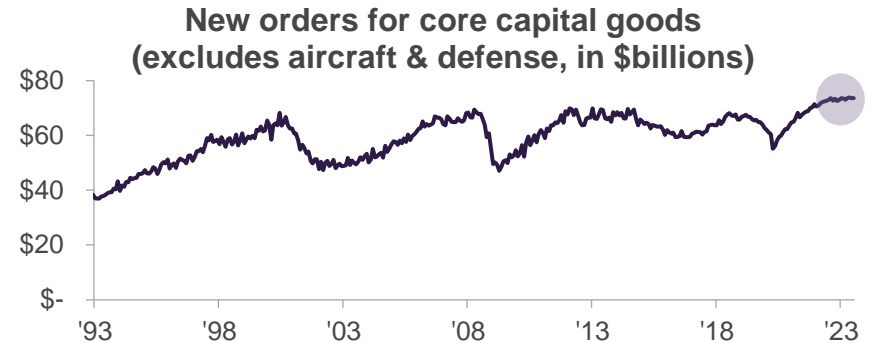
Data Sources: Truist IAG, Bloomberg, U.S. Census Bureau, National Association of Realtors. Figures shown are seasonally-adjusted annualized rate (SAAR); monthly data through July 2023.

Durable goods and core capital goods orders pullback in July

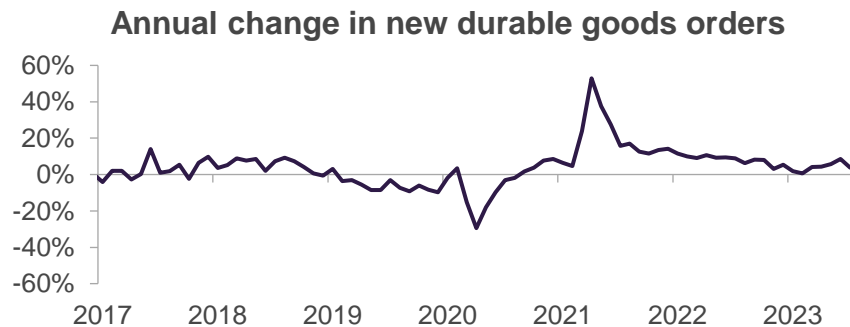
Declined in July after a big surge in commercial aircraft orders in June



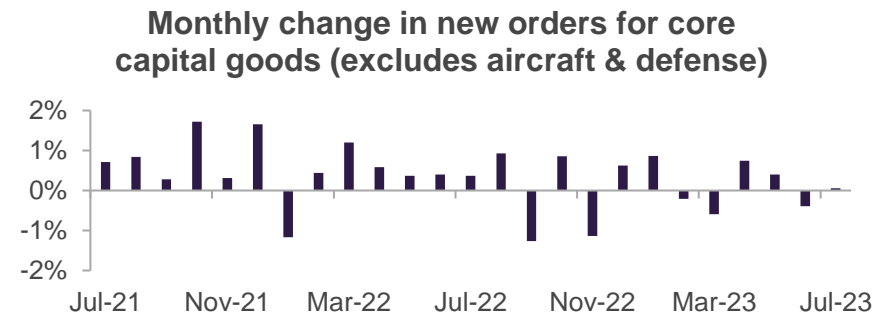
Just below the all-time high set in May '23



The year-over-year pace has cooled



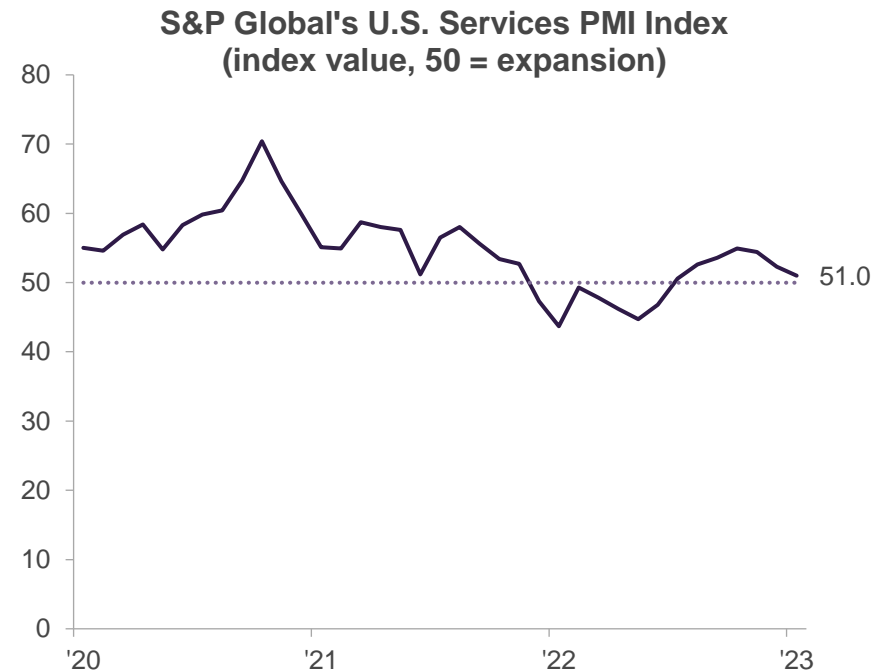
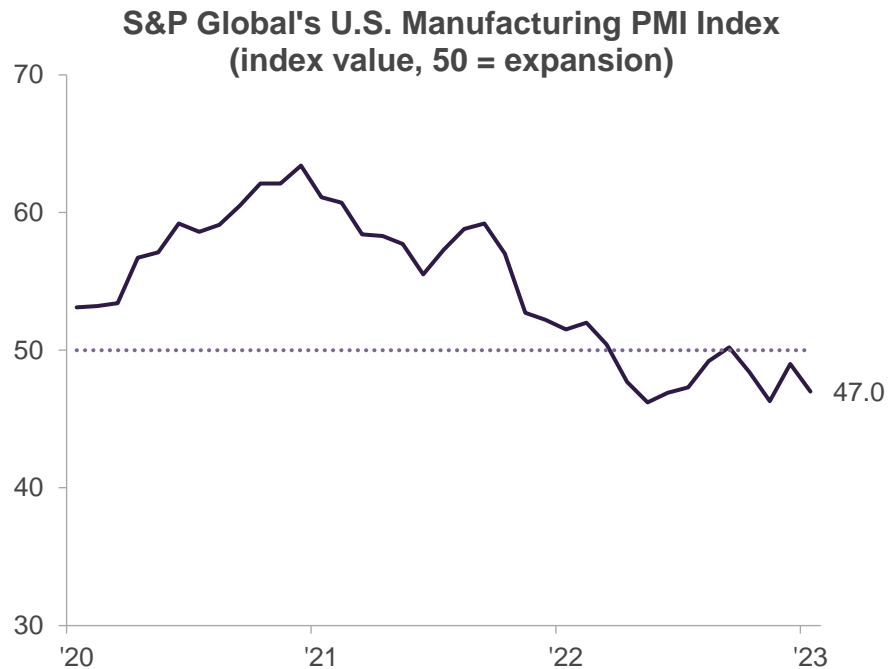
Up in July, but has dropped in 3 of past 6 months



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

U.S. services barely in expansion, while manufacturing slump continues

S&P Global's U.S. Manufacturing Purchasing Managers Index (PMI) in August fell to 47.0, contracting for the ninth time in 10 months. The U.S. Services Index slipped to 51.0, the third straight monthly decline and the weakest reading in seven months.

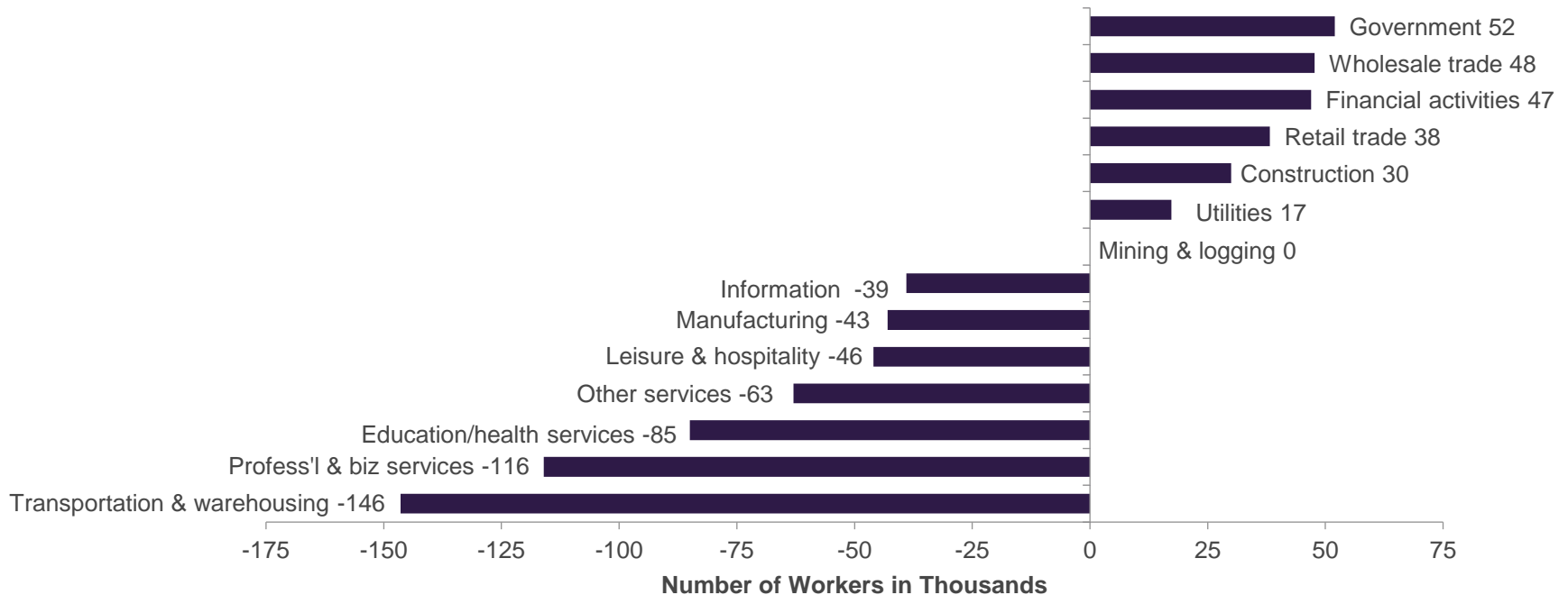


Data Source: Truist IAG, Bloomberg, S&P Global. Monthly data through August 2023 (preliminary).

Job growth revised down by 306K

Every year the monthly job figures are double-checked against tax records, officially known as the annual benchmark revisions. The preliminary estimate shows 306K fewer jobs were created during the March 2022 to March 2023 period, which was previously reported as 3.6 million. Still, average job growth was about 300,000 per month over that span, which was well above the pre-pandemic 3-year average of 177,000.

March '22 to March '23 revisions by major industry group (in thousands)



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

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