Truist Advisory Services, Inc.

Economic data tracker – More mixed signals

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Trend watch and what's new this week

Given roughly six months with a minimal rate of COVID-19 related hospitalizations and over four months of persistently low death rate, we are turning the page on U.S. COVID-19. While we will continue to monitor the data and report significant changes or trends, **we will no longer include COVID-19 charts every week.**

The activity-based data (slides 5 and 6) have continued to strengthen. Restaurant bookings dipped after a strong rebound last week. Meanwhile, hotel occupancy continued to climb, hitting 72.3% nationally this past week, hits highest level since August 2019.

Similarly, air passenger counts rose for the fourth straight week, matching the longest streak this year and is the longest since 10-week span during the spring and summer of 2021. Counts are running 9% below the same week in June 2019, which is quite remarkable. Staffing also increased WoW.

Mixed signals within manufacturing

Three separate manufacturing gauges showed differing views. The Institute for Supply Management (ISM) Manufacturing Index fell sharply in June (slide 7). Within the components, new orders contracted, but price paid fell (improved) to a five-month low.

Also, S&P Global's U.S. Manufacturing Index fell sharply in June, its largest monthly decline since the pandemic. Similarly, the new orders component contracted for the first time since the pandemic.

Although the ISM and S&P Global indices both cooled, each indicates that manufacturing activity expanded in June. Also, two manufacturing surveys from regional Federal Reserve Banks declined sharply in June.

On slide 8, new orders for durable goods in May had the largest increase in four months. Moreover, new orders for core capital goods jumped to a fresh new all-time high.

Other data improving

Pending home sales rose in May, snapping a six-month decline streak. Also, personal income and personal spending rose in May.

On slide 9, the Fed's favorite inflation gauge slipped for third month in a row, though remains elevated.

Trucking volumes continued to climb in June, hitting a fresh all-time high, going back 30 years. It suggests that supply chains are normalizing, and that demand remains solid.

Our take

Just like the 2021 economic rebound was unprecedented, we have entered a period that will feel dramatically different compared to the past cycles. Demand is coming down from the unsustainably strong period, but in many cases remains well-above pre-pandemic levels. Frankly, it feels unusual, which may explain why so many people believe we are

Economic Commentary – Our take and the bottom line

Our take (continued)

are already in a recession. Specifically, sharp declines in activity are typically associated with a recession, but businesses are still generally busier than the pre-pandemic period and continuing to hire, and consumers are buying and doing things. Thus, it may feel like a recession, but it technically isn't because production is still humming along, and employment remains strong.

Also, there's a unique dichotomy compared to prior cycles. For instance, the U.S. both is largely energy independent and less dependent on external demand than any point in our history. Yet, as we saw in the aftermath of the pandemic, supply chains are global and vulnerable to many factors, including production disruptions, shipping bottlenecks, and escalating shipping costs.

Still, we are concerned about the accumulating evidence of a slowing economy, including now within manufacturing. That said, there are some differences and nuance between the ISM and S&P Global surveys. For instance, the ISM survey is larger and has more international exposure, while the S&P Global survey is more domestically-focused and includes smaller companies.

Additionally, the overall economy can continue to expand despite these manufacturing gauges contract as happened most recently in 2012, 2013, 2016, and 2019. Nonetheless, both surveys showed a pullback in new orders, which is not a good sign.

Bottom line

Intensifying inflationary pressures and dramatically-higher interest rates pile additional stress on consumers and businesses going forward. Specifically, tightening financial conditions will crimp growth going forward. That makes for a very narrow path for the U.S. to achieve a soft-ish economic landing. While the risks of U.S. recession in the coming 12 months are a greater possibility (above 50%), a recession isn't necessarily inevitable.

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Overall	Gross domestic product (GDP)	▲	1Q F: -1.6%	2Q A: -2.1%†	Revised downward by 0.1 from -1.5%. Inflation, imports, and inventories punched down real GDP in the first quarter.
Jobs	Unemployment rate[X]	▲	May: 3.6%	Jun: 3.6%	Held steady since March; hard to argue U.S. isn't at full employment.
Jobs	Monthly jobs (nonfarm)	▲	May: 390K	Jun: 250K	Another strong month. The six-month average is 505K.
Jobs	Weekly jobless claims[+]	▲	6/25: 231K	7/2: 230K	Remained roughly flat WoW, hovering near a 50-year low.
Jobs	Nonfarm productivity	▲	1Q F: -7.3%	2Q P: N/A	Revised modestly upward from -7.5%. The big decline as supply chain snags persist, and unit labor costs soared 12.6% in 1Q22.
Interest rates	Federal funds rate	▲	1.50% – 1.75%	7/27: 2.25% – 2.50%	Fed hiked an aggressive 0.75% rates on June 15 to counter spiraling inflation expectations. Market expects another 0.75% in July.
Interest rates	10-year U.S. Treasury yield	▼	2.88%‡	Flat/down	A roughly quarter-point (0.25%) WoW decline, which is very sharp, as econ data has begun to weaken. We expect rate more volatility.
Interest rates	10-year AAA GO muni yield	▼	2.80%‡	Flat/down	Down from 2.9% two weeks ago, not down as much as other yields.
Interest rates	30-year fixed mortgage rate	▼	5.74%‡	Flat/down	Declined WoW but still near the highest level since 2009. Higher mortgage rates hurt housing affordability.
Inflation	Consumer prices (CPI)[X]	▼	May: 1.0%	Jun: 1.0%	Energy jumped 3.9% MoM, including gasoline up 4.1%. Overall CPI increased 8.6% YoY, the most since 1981.
Inflation	Core CPI	▼	May: 0.6%	Jun: 0.5%	It held steady with the 0.6% April pace.
Inflation	Producer prices (PPI)	▼	May: 0.8%	Jun: 0.8%	Heated up again, while up 10.8% YoY (rose 11.5% in March)
Inflation	Core PPI	▼	May: 0.5%	Jun: N/A	Energy up 5.0% MoM. Overall up 8.3% YoY (rose 9.6% in March).

▲Good ▼ Bad ⇆ Neutral [+]Leading indicator [X]Lagging indicator ‡Intraday quote Bloomberg consensus shown †FRB-ATL GDPNOW (7/1/2022)

Econ-at-a-Glance

	Economic indicator	Trend	Last	Next – consensus	Comments
Housing	Existing home sales	▼	May: 5.41M	Jun: N/A	Fell 3.4% MoM, the fourth straight monthly decline.
	New home sales	▼	May: 696K	Jun: N/A	Up 10.7% MoM, halting a four-month slide, but prices dipped 1.3%.
	New housing starts	▼	May: 1.549M	Jun: N/A	Dropped 14.4% MoM, though April revised upward to 5.5%.
	New permits+	▼	May: 1.695M	Jun: N/A	Down 7.0% MoM, was both single and multifamily were weak.
Business	Durable goods orders+	▲	May P: 0.7%	May F: 0.7%	Hit a new all-time high. Core capital goods orders (ex-air & defense) rose 0.5% MoM, most in 3 months and also a fresh all-time high.
	ISM manufacturing	▲	Jun: 53.0	Jul: N/A	Down sharply MoM, but was the 25th month of expansion, which began in June 2020. New orders contracted for first time since '20.
	ISM services/non-manufacturing	▲	May: 55.9	Jun: 54.5	The pace fell for the second straight month but remains roughly at the pre-pandemic 3-year average and continues to expand.
	Business inventoriesX	▲	Apr: 1.2%	May: 1.0%	Inventories have rebounded sharply in the past 6 months.
Consumer	Personal income	▲	May: 0.4%	Jun: N/A	Fourth straight strong month, buoyed by wage & income growth.
	Personal spending	▲	May: 0.2%	Jun: N/A	Fifth straight increase, though it throttled down considerably.
	Advance retail sales	▲	May: -0.3%	Jun: 0.9%	Autos fell 3.5%. Excluding autos and gasoline, sales hit new high.
	Consumer sentiment	▼	Jun F: 50.0	Jul P: 50.0	Crashed to the lowest level since '78 due to hotter inflation and sky-high gasoline prices, though long-term inflation expectations ebbed.

▲Good ▼ Bad ⇆ Neutral +Leading indicator XLagging indicator ‡Intraday quote Bloomberg consensus shown

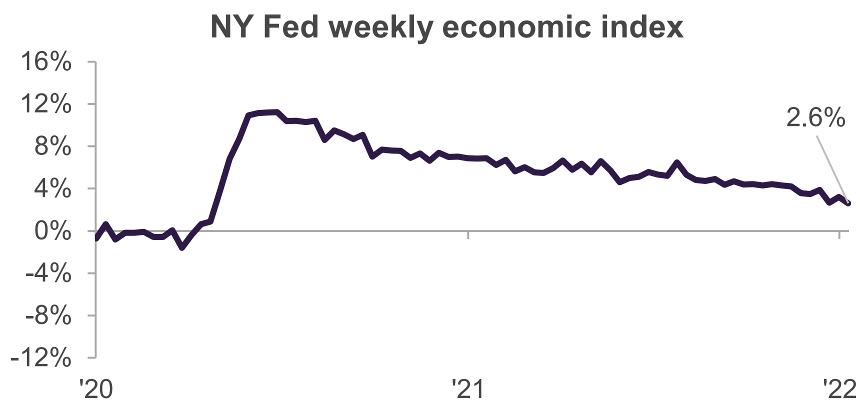
U.S. activity-based data matrix

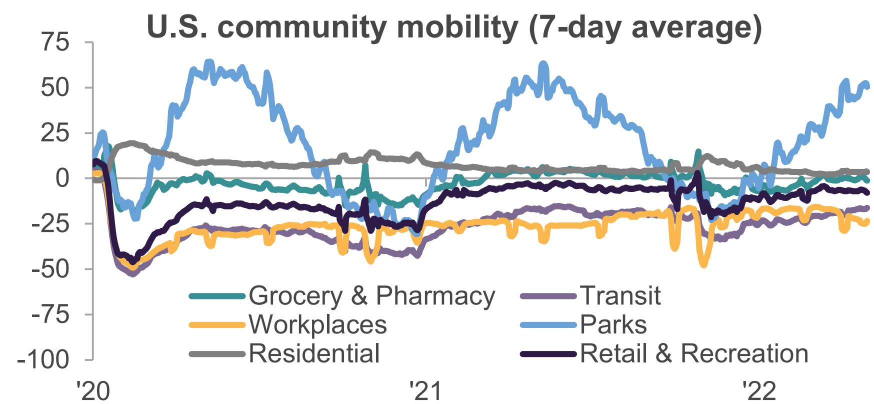
Indicator	Relative trend	What we're watching
Back to office	▼	Rose to 44.2 (pre-pandemic indexed to 100), the third straightly weekly increase. Top cities are Austin (59), Houston (56), and Dallas (51); bottom are San Jose (35) and San Francisco (36). While the trend has steadily improved, it remains less than half of pre-pandemic levels, which is not conducive for overall growth.
TSA air passenger throughput	▲	Weekly passengers rose 0.6% WoW, topping 16.3 million, 1.1% above the 2019 weekly average of 16.1M. Passenger counts are 8.8% below the same week in June '19 but are up 15.4% from June '21.
OpenTable restaurant bookings	▲	Slumped to -1.4% compared to pre-pandemic levels. Top positive states were led by Connecticut (+42%) and Nebraska (+39%); bottom were New Mexico (-23%) and Oregon (-21%). Top cities were Charlotte (+35%), Austin (+30%), and Las Vegas (+23%); bottom were Seattle (-46%) and Portland (-43%).
Google mobility	▲	Parks have plateaued at +50% for the past few weeks. 7-day averages relative to 2020: Residential +4%, Grocery/Pharmacy -1%, Transit -16%, Workplaces -23%, Retail/Restaurant/Recreation -8%.
Hotel occupancy	▲	Occupancy jumped to 72.3%, the highest since Aug. '19. The average daily rate rose to $157.05, up 17.1% from the same week in June '19, while revenue per available room rose to $113.55, or up 12.3% from June '19.
Freight (rail/truck/ship)	▲	Rail carloads fell 1.6% WoW and decreased 6.1% in June. Container traffic at top U.S. ports jumped 9.6% MoM in May. Truck loading rose 0.4% MoM in June, a fresh all-time high.
Staffing index	▲	Jumped to 106.3, the highest since May. It remains well-above the 2019 average of 93.6. The low for this cycle was 59.6 set in April 2020.
Apartment rental prices	⇆	Rent index rose 7.9% MoM in May, and up 15.9% YoY, but down from up 17.2% in February. While prices are significantly above pre-pandemic levels, rental growth clearly peaked during the second half of 2021.

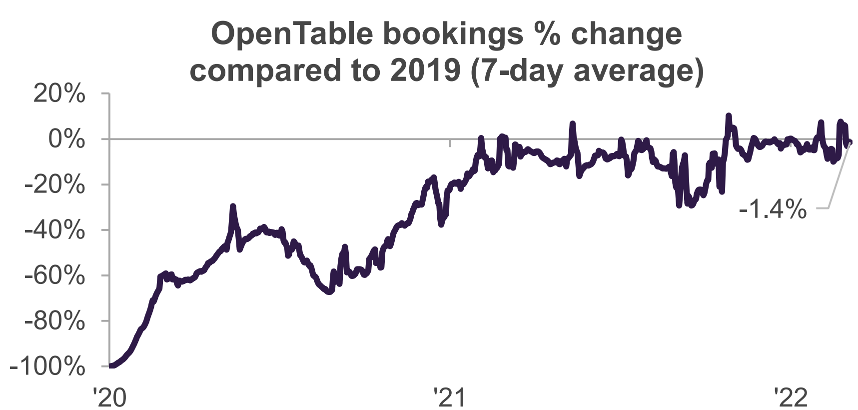
Trend relative to whether it is favorable for economic growth:
▲Positive ▼Negative ⇆Neutral / Mixed

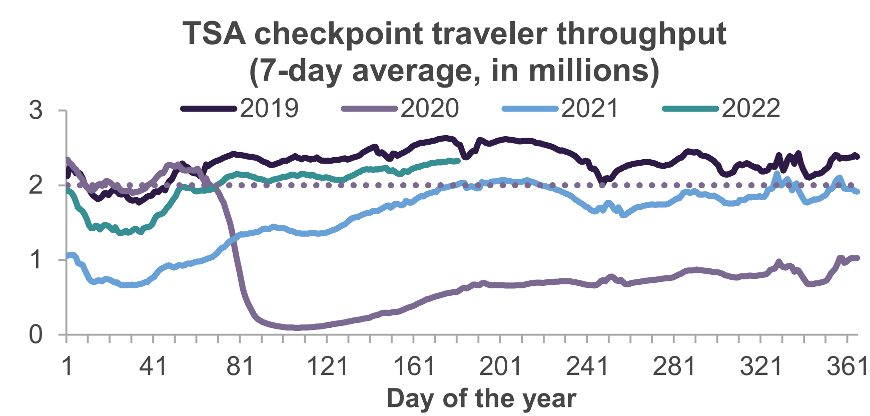
Sources: Truist IAG, Bloomberg, Kastle Back to Work Barometer, Transportation Security Administration, OpenTable, Google COVID-19 Community Mobility Report, STR/CoStar, American Staffing Association, Zillow. Week-over-weak and year-over-year change are abbreviated as WoW and YoY, respectively.

Activity-based trends remain solid into late June





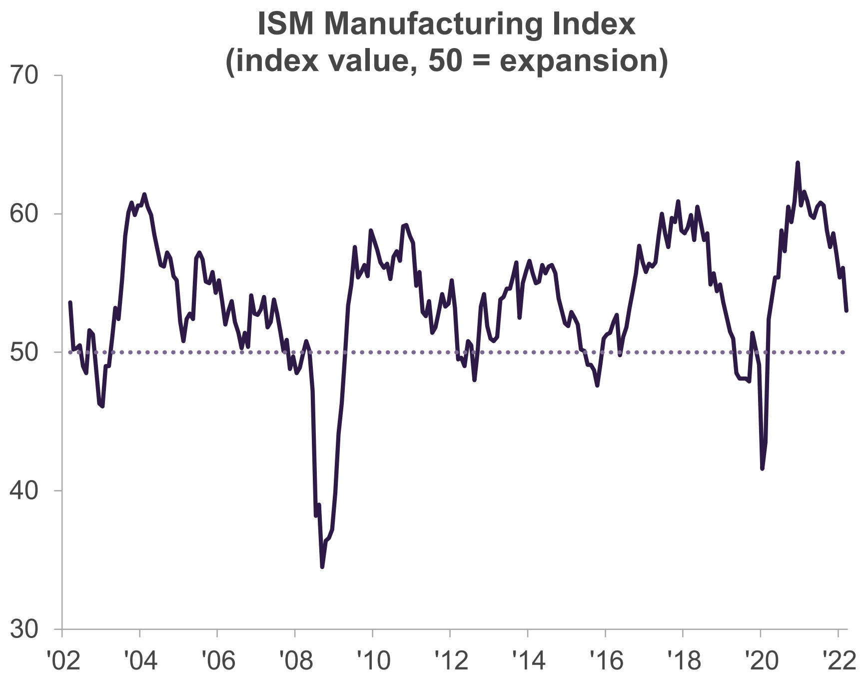


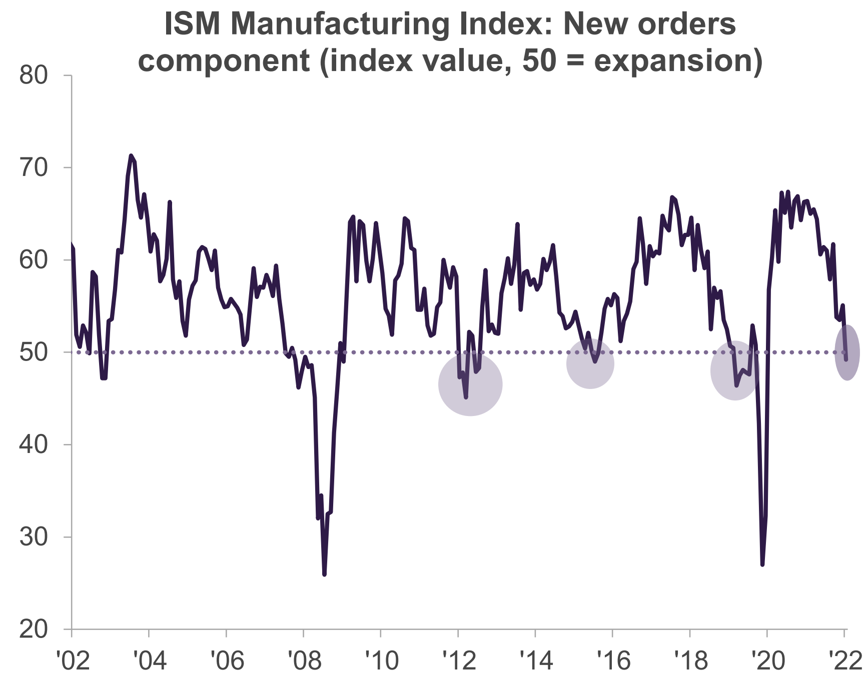


Sources: Truist IAG and the following additional sources respectively: Top left: Bloomberg, NY Federal Reserve Weekly Economic Index through June 25, 2022. Top right: (U.S. Community Mobility) Google COVID-19 Community Mobility Reports 7-day average through June 27. Bottom left: Bloomberg, OpenTable 7-day average through June 30. Bottom right: Bloomberg, Transportation Security Administration (TSA) 7-day average through June 30.

ISM Manufacturing down sharply in June, new orders contracted

Institute for Supply Management (ISM) Manufacturing Index fell to a reading of 53.0 in June from 56.1 in May. It was the 25th consecutive month of expansion. However, the new orders component contracted, falling to a reading of 49.2. Note that overall economy can continue to expand when both the ISM Manufacturing Index or the new orders components contract as happened most recently in 2012, 2013, 2016, and 2019.

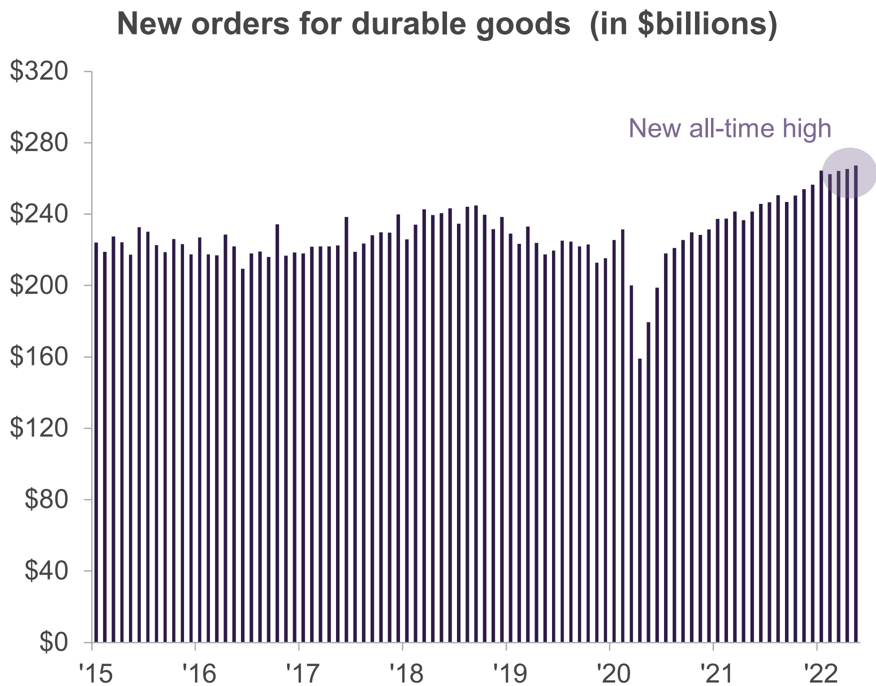




Sources: Truist IAG, Bloomberg, Institute for Supply Management (ISM)

New orders for durables up again in May, core new orders at all-time high

New orders for durable goods rose 0.7% in May – the largest increase in 4 months – to $267.2 billion. Durable goods typically last for longer than three years, such as bus, airplane, or computer equipment. New Orders for core capital goods jumped to $73.5 billion, a fresh new all-time high. Examples of core capital goods include machinery, equipment, and tools.

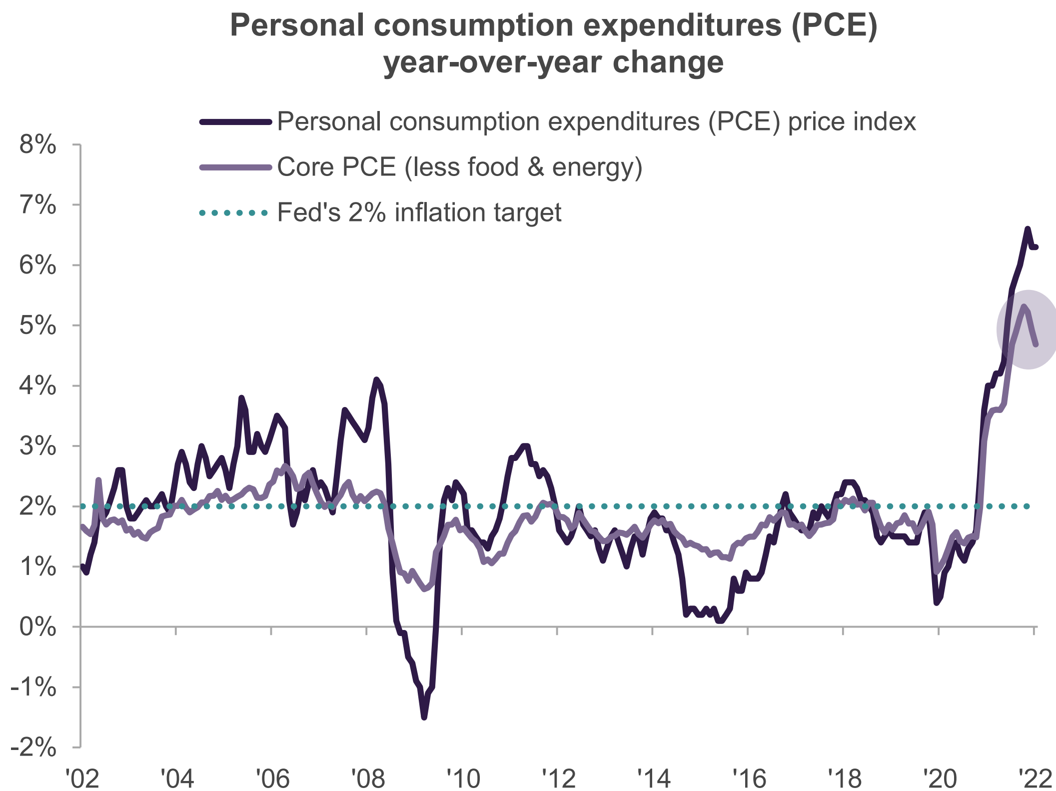


Sources: Truist IAG, Bloomberg, U.S. Census Bureau; figures shown in nominal dollars. Monthly data through May 2022.

The Fed’s favorite inflation gauge slipped for third month in a row, but remains elevated

The price index of personal consumption expenditures (PCE) rose 6.3% from a year ago. Core PCE, which excludes the food and energy components, increased 4.7% year over year, down from the peak of 5.3% in February.

Core PCE is the Federal Reserve’s (Fed) favored inflation gauge. Still, it remains well above the Fed’s 2% target, suggesting that the Fed will keep hiking rates until it falls further.



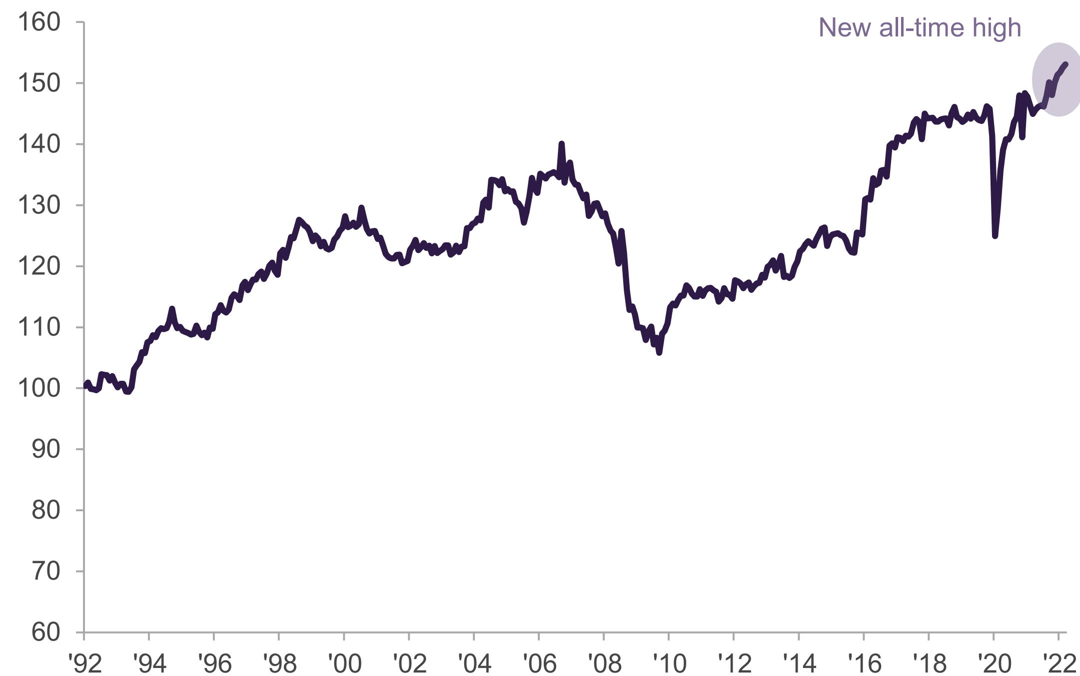
Sources: Truist IAG, Bloomberg, Bureau of Economic Analysis; monthly data through May 2022.

Trucking volumes continued to climb in June

The FTR Truck Loading Index rose 0.4% in June and is up 5.6% from a year ago.

That was a fresh all-time high, going back 30 years. It suggests that supply chains are normalizing, and that demand remains solid.

Truck loading index (index value)



Sources: Truist IAG, Bloomberg, FTR Truck Loading Index; monthly data through June 2022.

Disclosures

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