ECONOMIC PREVIEW

REGIONS

Week of June 8, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 9-10 FOMC meeting):* Target Range Mid-point: 0.000 to 0.125 percent Median Target Range Mid-point: 0.125 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	The much better than expected May employment report is telling us something, we're just not sure what. Total nonfarm employment rose by 2.509 million jobs in May, whereas the most benign forecast in the survey we participate in called for payrolls to decline by 2.0 million jobs. While it is true that states began to take steps to ease restrictions that had been in place since mid-March, that did not begin to happen until after the May establishment survey period and, at least for the nation as a whole, the steps taken were somewhat limited. Perhaps a more plausible explanation is that firms in the Paycheck Protection Program began calling previously furloughed workers back – keep in mind that while such workers would have been paid, they need not have been working to be counted as employed in the establishment survey. The unemployment rate fell to 13.3 percent, though BLS reports this is understated by roughly three percentage points due to reporting errors, and that the broader U6 measure stands at 21.2 percent is a truer reflection of how much slack remains in the labor market. The worst of the short but violent downturn associated with the COVID-19 and the efforts to stem its spread is behind us. That said, however encouraging the May employment report may be, it is but a small down payment applied towards making up for the loss of 22.060 million jobs over March and April. The labor market still has a long way to go, as does the broader economy. To that point, the May employment report changes nothing for the FOMC, and there can be little doubt the Committee sees their job as far from being done. Though the Committee is not expected to take any additional policy steps at this week's meeting, they will likely discuss possible next steps, most notably yield curve control. While Chairman Powell may shed some light on these discussions in his post-meeting press conference, we'll likely have to wait for the minutes of this week's meeting (due on July 1) to get a fuller sense of whether, or when, the Committee may be inclined to take this step. Also, this week's meeting brings the release of the latest round of FOMC economic and financial projections. Recall the Committee did not release projections in March, which made perfect sense at the time. That said, that so many of us were so wrong on our forecasts of the May employment report has to make one wonder if there is ever actually a good time to release an economic forecast . . .
May Consumer Price Index Wednesday, 6/10 Range: -0.4 to 0.1 percent Median: 0.0 percent	Apr = -0.8%	Unchanged, which would leave the total CPI up by 0.3 percent year-on-year. After falling steadily through April, not seasonally adjusted retail gasoline prices reversed course in May, rising steadily through the month. On a monthly average basis, this leaves unadjusted prices little changed, but on a seasonally adjusted basis prices will be lower, meaning gasoline will be a modest drag on the headline CPI. Food prices, however, will act as a counter. Recall that April saw the largest monthly increase in prices for food consumed at home since February 1974, and our forecast anticipates a further increase in May, albeit not as large as April's increase. Our forecast anticipates further declines in lodging costs, prices of new and used motor vehicles, and apparel, while higher rents and medical care costs will provide an offset. Recall that prices of recreational services rose in April, supported by a curiously large increase in prices for sporting events. Well, curious only in the sense that there were no actual sporting events in April. While we assume April's price increase will have been reversed in May, there were no sporting events in May so there is no telling what the CPI data will show. One reason we point this out is that our forecasts of the total and the core CPI are literally rounding errors away from showing declines of 0.1 percent, and a big enough swing in the price of something that basically didn't exist in May could be the difference. Yeah, that's pretty much as silly as it sounds. Either way, with gasoline prices pushing higher and the resumption of economic activity, June will likely see a sizable increase in the CPI.
May Consumer Price Index: Core Wednesday, 6/10 Range: -0.2 to 0.1 percent Median: 0.0 percent	Apr = -0.4%	Unchanged, which would yield a year-on-year increase of 1.3 percent.
May PPI: Final Demand Thursday, 6/11 Range: -0.6 to 0.1 percent Median: 0.0 percent	Apr = -1.3%	Up by 0.1 percent, for a year-on-year decline of 1.1 percent.
May PPI: Core Thursday, 6/11 Range: -0.5 to 0.2 percent Median: -0.1 percent	Apr = -0.3%	Down by 0.1 percent, which would translate into a year-on-year increase of 0.3 percent.

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