ECONOMIC PREVIEW

REGIONS

Week of July 27, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 28-29 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%	In what may prove to be the ultimate "oh by the way" moment in recorded history, at 8:30 EST on July 30 the BEA will issue the first estimate of Q2 2020 GDP (see below). Sure, actually seeing the number in print (or flashing across a computer screen) may cause a modest stir but, by and large, the report on Q2 GDP is already old news, as it was clear by the end of March that there would be an epic contraction in real GDP in Q2. To be sure, when such forecasts first began to appear, they were jolting – we can assure you, they were just as jolting to those of us making the forecasts – and the markets responded in kind. Yet, thanks in large measure to extraordinarily aggressive fiscal and monetary policy responses, by mid-April the focus had shifted away from the magnitude of the contraction in Q2 toward what the subsequent recovery over 2H 2020 would look like. As we write this in late-July, however, there still isn't a lot of clarity on that point, thanks in large measure to the recent upturn in COVID-19 cases, the effects of which are visible in many of the higher frequency indicators of consumer sentiment, consumer spending, and labor market conditions that we and others track. The FOMC meets this week amidst mounting uncertainty and concern over the course of the economy. There will be no updated economic projections issued in conjunction with this week's meeting, but the Committee's assessment of economic conditions in the post-meeting statement will be anything but upbeat. While potential additions to an already considerably expanded policy tool kit are under discussion, there is still a way to go before any new measures are actually added. Still, having nothing new to do is not the same as having nothing to do, and the emphasis at this week's meeting will likely be on assessing how the current array of policy measures is performing. Potential new policy tools and potential changes to forward guidance will likely be the main areas of questions for Chairman Powell in his post-meeting press conference.
June Durable Goods Orders Monday, 7/27 Range: 3.0 to 15.0 percent Median: 7.0 percent	May = +15.7%	<u>Up</u> by 5.6 percent. Civilian aircraft should be a meaningful drag on top-line orders. Boeing booked only a single order in June but reported 60 cancellations, so our forecast anticipates the dollar volume of orders being negative for the third time in the past four months; that June is typically a strong month for orders could yield an even larger negative number in the seasonally adjusted data than our forecast anticipates. The obvious caveat here is that one simply never knows with the durable goods data, particularly this component. Sure, this amounts to little more than noise, but that noise can easily move the needle on total orders. Still, on the whole we look for a fairly solid report, with broad based gains across the remaining categories. Our forecast anticipates a sizable increase in motor vehicle orders given how well demand has held up and how low inventories have fallen. We also look for a nice increase in core capital goods orders (see below). But, even if our forecast is on the mark, it would still leave the dollar volume of orders well below February's level, and gains will be harder to come by in the months ahead, particularly if business investment underperforms the broader economy, as our baseline forecast anticipates will be the case.
June Durable Goods Orders: Ex-Trnsp. Monday, 7/27 Range: 0.7 to 12.6 percent Median: 3.6 percent	May = +3.7%	We look for <u>ex-transportation</u> orders to be <u>up</u> by 3.7 percent, and for <u>core capital goods</u> orders to be <u>up</u> by 3.2 percent.
July Consumer Confidence Tuesday, 7/28 Range: 91.0 to 101.8 Median: 95.0	Jun = 98.1	<u>Down</u> to 95.4, as the upturn in COVID-19 cases over late-June and early-July caused confidence to waver, we think it's just a matter of to what degree. We'll be especially interested in how assessments of labor market conditions may have changed. Though still modestly negative, the "jobs plentiful-jobs hard to find" spread narrowed sharply in June, and changes in this spread have long been a consistently reliable indicator of changes in the unemployment rate. As we've discussed in our weekly summaries, the Census Bureau's *Household Pulse Survey* points to a notable deterioration in labor market conditions over recent weeks. As this is a new, not to mention experimental, data series, there haven't been many chances to pair it up with other indicators, but the Conference Board's July data on consumer confidence will offer such a chance.
June Advance Trade Balance: Goods Wednesday, 7/29 Range: -\$76.5 to -\$69.8 billion Median: -\$75.4 billion	May = -\$74.3 billion	<u>Widening</u> to -\$76.1 billion.
Q2 Real GDP – 1st estimate Thursday, 7/30 Range: 40.0 to 25.5 percent Median: 35.0 percent SAAR	Q1 = -5.0% SAAR	<u>Contracting</u> at an annualized rate of 34.8 percent. A sizable increase in federal government spending will be no match for a huge contraction in private domestic demand, a wider trade deficit, and a decline in state and local government spending.

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Q2 GDP Price Index – 1st estimate Thursday, 7/30 Range: -2.8 to 2.2 percent Median: 0.1 percent SAAR	Q1 = +1.4% SAAR	Up at an annualized rate of 0.2 percent.
Q2 Employment Cost Index Friday, 7/31 Range: 0.3 to 2.0 percent Median: 0.6 percent	Q1 = +0.8%	Up by 0.5 percent, with the wage component up by 0.6 percent and the benefits component up by 0.4 percent. On an over-the-year basis, our forecast would leave the total ECI up by 2.7 percent, with the wage component up by 3.1 percent and the benefits component up by 1.9 percent. If our forecast for wages seems a bit tame in light of what have been notably outsized year-on-year increases in average hourly earnings (up 6.6 percent year-on-year in Q2), keep in mind that, unlike average hourly earnings, the Employment Cost Index is not impacted by shifts in the composition of employment across industry groups, instead measuring changes in compensation costs for the same jobs over time. As such, it is a much more useful gauge of changes in labor costs. This isn't to say the ECI is immune to weakening labor market conditions, it clearly is not, and our forecast for the ECI's wage component in Q2 is below the recent run rate. It will likely take considerable time to regain the upward momentum in compensation growth that had been established prior to the pandemic.
June Personal Income Friday, 7/31 Range: -8.5 to 5.5 percent Median: -0.7 percent	May = -4.2%	Up by 0.9 percent. Our above-consensus forecast assumes sizable increases in private sector wage and salary earnings and nonfarm proprietors' income (a proxy for small business profits), with smaller declines in asset-based income and in transfer payments than those seen in May. We suspect that the wide range of forecasts for June personal income is mainly driven by differing assumptions about transfer payments, and the decline we anticipate is likely on the smaller end of the spectrum. The much more relevant, and pressing, concern is the course of transfer payments in Q3, with the supplemental Unemployment Insurance benefits provided by the CARES ACT set to expire. While it seems likely Congress will agree to extent the supplemental benefits, it seems unlikely the amount will remain at the current $600 per week, which sets the stage for a significant decline in disposable personal income in Q3 even if the labor market continues to improve. For now, a notably high savings rate will provide somewhat of a buffer, though our sense is that the build-up in savings over recent months has been concentrated amongst upper-income households who have sharply curtailed discretionary spending, leaving lower-income households, particularly those displaced from the labor market, reliant on additional income supports.
June Personal Spending Friday, 7/31 Range: 4.0 to 7.5 percent Median: 5.3 percent	May = +8.2%	Up by 6.2 percent. Our forecast anticipates a solid increase in spending on goods in June, albeit smaller than May's increase. Services spending surprised us to the downside in May, but we look for a larger increase in June, particularly given what looks to have been a significant increase in spending related to health care. The upturn in COVID-19 does pose a threat to services spending, but we expect any such effects to be more visible in the July data than in the June data.
June PCE Deflator Friday, 7/31 Range: 0.1 to 0.6 percent Median: 0.5 percent	May = +0.1%	Up by 0.5 percent, which would yield a year-on-year increase of 0.9 percent. We look for the core PCE Deflator to be up by 0.2 percent, which would translate into an over-the-year increase of 1.0 percent.

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