ECONOMIC PREVIEW

REGIONS

Week of August 24, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 15-16 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%	This week brings the Federal Reserve Bank of Kansas City's 44th annual Economic Policy Symposium. Rather than the usual gathering in Jackson Hole, Wyoming, this year's event will be held online, meaning that if you see a moose or a grizzly bear approaching a speaker during their presentation, something has gone horribly wrong. In past years, the Jackson Hole conference has been used by Fed chairs to signal impending shifts in monetary policy, though the minutes to the July FOMC meeting, released last week, suggest Chairman Powell will not signal any sweeping policy changes when he addresses the conference. It is possible that Mr. Powell will preview the conclusions of the review of the FOMC's statement of longer-run goals and policy strategy, which was first adopted in 2012 when the 2.0 percent inflation target was formally established, and it is widely expected the review will result in the FOMC adopting an average inflation target. That, however, would result in no practical changes in either the current stance of monetary policy or market perceptions of the current stance of monetary policy.
August Consumer Confidence Tuesday, 8/25 Range: 90.0 to 96.5 Median: 93.1	Jul = 92.6	Up to 93.8 but, as always, our main interest will be in consumers' assessments of labor market conditions. Prior to the pandemic, the "jobs plentiful-jobs hard to get" spread was hovering around a two-decade high. As would be expected, perceptions of labor market conditions worsened significantly in April, but have since taken a much more constructive tone, to the point that the spread turned positive again in July. This seems at odds with a double-digit unemployment rate and the level of nonfarm employment in July being 12.9 million jobs below that of February. It could be the perception that most pandemic-related job losses are temporary combined with the job gains of the past three months has consumers feeling more upbeat about the labor market than is perhaps warranted, but, either way, this segment of the consumer confidence data will be interesting to watch in the months ahead.
July New Home Sales Tuesday, 8/25 Range: 750,000 to 907,000 units Median: 788,000 units SAAR	Jun = 776,000 units SAAR	Up to an annualized sales rate of 907,000 units. On a not seasonally adjusted basis, we look for new home sales of 78,000 units, which would be the highest monthly total since May 2007. Though that may seem a bit lofty, recall that unadjusted single family starts and permits hit 13-year highs in July, and single family permits are inputs into the Census estimates of new home sales. So, even if our forecast proves too ambitious, it likely that new home sales posted a solid increase in July. Obviously, low mortgage interest rates are helping sustain demand for home purchases, and with already lean inventories of existing homes for sale becoming even more so, prospective buyers are migrating to the new homes segment of the market, particularly first-time buyers. Still, while we do see more upside room for new home sales than we do for existing home sales, which rose significantly in July, we do have some reservations. Builders are already having trouble keeping pace with demand, and materials costs are rising rapidly, which will add to upward pressure on new home prices, meaning affordability will be more sensitive to any given increase in mortgage interest rates. And, with the labor market still in a state of ill repair, it is reasonable to question how long the strength in demand seen over the past few months can be sustained, even absent a meaningful increase in mortgage interest rates. Our sense is that, even if our forecast for July new home sales is on or near the mark, it is likely sales will settle back from July's level then resume rising at a more gradual, and sustainable, pace.
July Durable Goods Orders Wednesday, 8/26 Range: 0.3 to *9.6percent Median: 4.5 percent	Jun = +7.6%	Up by 5.2 percent. Civilian aircraft will once again be a drag on top-line orders, with Boeing reporting no new orders and 43 cancellations in July. As the Census data report orders on a net basis, i.e., new orders less cancellations, the dollar volume of civilian aircraft orders will again be negative in July, though less so than in June when Boeing logged 60 cancellations. Elsewhere in the data, our forecast anticipates broad based increases of a lesser magnitude than those seen in June in most categories. This still allows for a sizable increase in motor vehicle orders, which will provide support for the top-line orders number. Still, with some of the early indicators for the month of August showing the pace of recovery in the factory sector has slowed, it is unclear whether, or to what extent, the budding rebound in durable goods orders will be sustained, particularly orders for core capital goods (see below).
July Durable Goods Orders: Ex-Trnsp. Wed., 8/26 Range: -1.3 to 8.1 percent Median: 1.8 percent	Jun = +3.6%	We look for ex-transportation orders to be up by 2.7 percent and for core capital goods orders to be up by 2.3 percent. While our forecast of July orders would leave total durable goods orders 11.5 percent below February's level, it would leave core capital goods orders within one percent of February's level but, as noted above, the path ahead could be somewhat rocky.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

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Q2 Real GDP – 2nd estimate Thursday, 8/27 Range: 33.6 to 30.3 percent Median: 32.6 percent SAAR	Q2 1st est. = -32.9% SAAR	Contracting at an annualized rate of 32.2 percent.
Q2 GDP Price Index – 2nd estimate Thursday, 8/27 Range: -1.9 to -1.7 percent Median: -1.8 percent SAAR	Q2 1st est. = -1.8% SAAR	Down at an annualized rate of 1.8 percent.
July Advance Trade Balance: Goods Friday, 8/28 Range: -$75.0 to -$69.9 billion Median: -$72.6 billion	Jun = -$70.6 billion	Narrowing to -$68.6 billion.
July Personal Income Friday, 8/28 Range: -2.7 to 1.5 percent Median: -0.5 percent	Jun = -1.1%	Up by 0.6 percent, with another solid increase in aggregate wage and salary earnings accounting for most of the gain. Our forecast anticipates a smaller decline in asset-based income than those of the prior three months. Nonfarm proprietors' income, a proxy for small business profits, poses a risk to our forecast. The increases in May and June were more than accounted for by the manner in which the Paycheck Protection Program is accounted for, and while we expect the PPP to have a smaller impact in the July data, actual small business profits should have been helped along as states reopened their economies. Transfer payments are also a wild card. The drag from the Economic Impact Payments having run off the books should be largely gone, and pandemic-related Unemployment Insurance benefit payments may help offset what should be a small decline in regular UI payouts. Our forecast assumes total transfer payments will be more or less flat, but there is plenty of room for error here. Either way, with the expiration of the $600 per week in supplemental UI benefits, the August data should show a sizable decline in transfer payments. Our forecasts for personal income and spending (see below) imply the personal saving rate fell further in July. Though the saving rate will remain well above its longer-term norm, it seems likely that the pool of personal savings will become increasingly concentrated amongst upper-income households in the months ahead, barring another round of aid payments on par with those provided by the CARES Act.
July Personal Spending Friday, 8/28 Range: -0.3 to 4.5 percent Median: 1.5 percent	Jun = +5.6%	Up by 2.7 percent. As in May and June, we look for a larger increase in spending on goods than on services. Our forecast would leave spending on goods as of July almost seven percent above February's level and spending on services over nine percent below. Given that spending on services accounts for over two-thirds of all consumer spending as measured in the GDP data, this leaves total consumer spending well below the level as of February. It will be quite some time before spending on services returns to the pre-pandemic level, but there are more immediate questions regarding how well all types of spending will hold up given that roughly 30 million households will see considerably lower cash flows beginning in August, even if all states were to opt in to the plan to extend supplemental Unemployment Insurance benefits. Through the magic of annualized percentage changes, real consumer spending will post a huge increase in Q3, but the intra-quarter trajectory of spending will be a much more meaningful indicator. With the recovery in the labor market looking more tentative, consumer confidence and household cash flows could be less supportive of spending as Q3 wears on.
July PCE Deflator Friday, 8/28 Range: 0.2 to 0.6 percent Median: 0.4 percent	Jun = +0.4%	We look for the total PCE Deflator to be up by 0.5 percent, which would yield a year-on-year increase of 1.1 percent. The core PCE Deflator will be up by 0.6 percent, for an over-the-year increase of 1.4 percent.

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