ECONOMIC PREVIEW

REGIONS

Week of April 26, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the April 27-28 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 Q1 GDP data (see below) will kick off a nice run of real GDP growth, driven by further reopening of the economy and considerable amounts of cash on household and corporate balance sheets. We will, to the considerable annoyance of those who will want to extrapolate these next few quarters out into, oh, forever, point out that this run won't reflect a new, permanently higher trend rate of growth. Instead, though it won't be in the blink of an eye, the economy ultimately will settle back into the pattern of growth of around 2.0 percent that we came to know but not necessarily love over the ten-plus years of the prior expansion. It will take faster sustained rates of growth in the labor force and/or productivity to put the economy on a trajectory of faster growth on a sustained basis, and thus far there is no evidence of a structural shift in the growth rate of either of these fundamental drivers. Not to be that economist, but it will be useful to keep these points in mind when processing the GDP growth numbers we and most others expect to see over the next few quarters. This week's FOMC figures to be relatively uneventful, with no changes in the Fed funds rate target range on tap and no updated economic and financial projections. In his post-meting press conference, Chairman Powell will no doubt be asked what the notably robust tone of the March economic data might mean for the path of monetary policy. The likely reply will be that it will take a string of positive data releases to demonstrate "substantial further progress" toward achieving the Committee's goals of full employment and price stability, and Chairman Powell is likely to again stress that it is premature to discuss a timeline for tapering the Fed's asset purchases.
March Durable Goods Orders Monday, 4/26 Range: 0.6 to 7.5 percent Median: 2.4 percent	Feb = -1.2%	<u>Up</u> by 3.7 percent. As was the case with much of the economic data, durable goods orders were weak in February, posting their first monthly decline since April 2020. February's decline largely reflected economic activity having slowed considerably in the wake of unusually harsh winter weather, so in that sense it is reasonable to expect a rebound in the March data. Still, it is likely that the ongoing shortage of semiconductor chips also had a hand in the weak February print, in areas such as motor vehicles, electronics, and appliances. To the extent that was the case, that same drag will plague the March orders data in these categories and will continue to weigh on production despite strong end-market demand. Our forecast anticipates transportation will be a key support for top-line orders growth. Boeing booked 196 new orders and 156 cancellations in March, leaving net orders at 40 aircraft and thus supporting top-line orders. We also look for a rebound, even if only limited, in motor vehicle orders after they plunged by nine percent in February. We look for a healthy, broad based rebound across most of the main categories outside of transportation, thus realigning orders with the solid upward trend in place prior to February's decline. On the whole, the problem in the manufacturing sector is keeping up with demand, rather than the lack of demand.
March Durable Goods Orders: Ex-Trnsp. Monday, 4/26 Range: 0.5 to 3.0 percent Median: 1.6 percent	Feb = -0.9%	We look for <u>ex-transportation</u> orders to be <u>up</u> by 1.6 percent and for <u>core capital goods</u> orders (nondefense capital goods excluding aircraft) to be <u>up</u> by 1.5 percent.
April Consumer Confidence Tuesday, 4/27 Range: 105.0 to 116.0 Median: 112.0	Mar = 109.7	<u>Up</u> to 115.1, building on the strong increase seen in March. The headline index rose by over 21 points in March, and while it is not uncommon for the subsequent month to bring a partial reversal of gains of that magnitude, we do not expect that to be the case here. Between further healing in the labor market, further reopening of the economy, and the third round of Economic Impact Payments, we look for confidence to have increased in April, though our forecast would nonetheless leave the headline index well below pre-pandemic levels. As always, our main interest will be in consumers' assessments of labor market conditions. After marked improvement in March, we look for further improvement in the April data.
March Advance Trade Balance: Goods Wednesday, 4/28 Range: -\$90.1 to -\$84.0 billion Median: -\$87.5 billion	Feb = -\$86.7 billion	<u>Widening</u> to -\$90.1 billion.
Q1 Real GDP – 1st estimate Thursday, 4/29 Range: 5.0 to 10.0 percent Median: 6.6 percent SAAR	Q4 2020 = +4.3% SAAR	<u>Up</u> at an annualized rate of 7.4 percent. Consumer spending, residential and business fixed investment, and government spending will be the main drivers of growth, more than offsetting drags from net exports and inventories.

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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Q1 GDP Price Index – 1st estimate Thursday, 4/29 Range: 2.4 to 3.8 percent Median: 2.7 percent SAAR	Q4 2020 = +2.0% SAAR	Up at an annualized rate of 2.8 percent.
Q1 Employment Cost Index Friday, 4/30 Range: 0.6 to 0.9 percent Median: 0.7 percent	Q4 2020 = +0.7%	Up by 0.7 percent, with wage costs up by 0.7 percent and benefit costs up by 0.6 percent. On an over-the-year basis, our forecast would leave the total ECI up by 2.5 percent, wage costs up by 2.4 percent, and benefit costs up by 2.5 percent. The ECI is the best gauge of trends in labor costs, as it is not subject to the mix issues that can distort the average hourly earnings metric in the monthly employment reports. Over the course of the pandemic, mix issues have artificially boosted average hourly earnings with millions of lower-paying services sector jobs having dropped out of the equation. The flip side of that will be seen in the months ahead as more and more of those jobs return as the economy more fully reopens, which could lead to year-on-year declines in average hourly earnings. The ECI is free of those issues, and it is possible that, even with a considerable degree of slack still in the labor market, the ECI could show wage costs accelerating given that firms across a wide swath of the economy are having an increasingly hard time filling open positions. That could lead to faster growth in total labor costs, whether from higher hourly wages or sign-on bonuses. The one drawback to the ECI is that it comes on only a quarterly frequency, but nonetheless over coming quarters the ECI will be a more reliable gauge of labor costs than average hourly earnings.
March Personal Income Friday, 4/30 Range: 3.0 to 22.5 percent Median: 20.0 percent	Feb = -7.1%	Up by 21.2 percent. No, that's not a misprint on our part and you didn't misread it. Instead, the March personal income data will reflect the third round of Economic Impact Payments, which on an annualized basis (the basis on which the data are reported) could boost transfer payments by up to $3.9 trillion. Some of the payments did slip into April so the precise amount booked in the March data remains to be seen, but that won't change the broader point. The surge in personal income in March comes on top of an already elevated pool of saving in the household sector, and our estimate is that as of March the level of "excess saving" will top $2.4 trillion. This is why we and most others expect to see a spike in consumer spending over the next few months, particularly spending on services as the economy more fully reopens and consumers are more willing and able to engage in activities that were considered normal prior to the pandemic. To be sure, there are a lot of open questions here, but it seems unlikely that the combination of a more fully reopened economy and a substantial pool of excess saving won't lead to a meaningful burst of spending. Though it will get lost in the shuffle, the March data should see a substantial increase in aggregate wage and salary earnings, reflecting the significant increases in the level of employment and average hours worked in March. Continued growth in labor earnings will be increasingly important in the months ahead as this is the single largest block of personal income. Once the surge in transfer payments seen over the last year runs its course, labor earnings will resume their traditional role as the main driver of growth in personal income.
March Personal Spending Friday, 4/30 Range: 1.8 to 10.5 percent Median: 4.1 percent	Feb = -1.0%	Up by 4.3 percent. The data on March retail sales point to a double-digit increase in consumer spending on goods, leaving spending on services as the major unknown here. We do look for a rebound from a weak February print, but a significant decline in utilities outlays will be a meaningful drag on services spending. As noted above, we expect a burst of spending on services in the months ahead, and there is still much ground to recover here. Our forecast would leave consumer spending on goods 22 percent above the pre-pandemic peak while consumer spending on services would still be 4.4 percent below.
March PCE Deflator Friday, 4/30 Range: 0.4 to 0.6 percent Median: 0.5 percent	Feb = +0.2%	Up by 0.5 percent, which would yield a year-on-year increase of 2.3 percent. We expect the core PCE Deflator to be up by 0.3 percent, which would put the year-on-year increase at 1.8 percent.

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