ECONOMIC PREVIEW

REGIONS

Week of May 24, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 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's slate of data releases covers a wide swath of the economy, from housing to consumer spending to manufacturing to trade. The details of the April data on new home sales and durable goods orders will help inform on the extent to which supply side issues are weighing on producers amid robust demand. The data on consumer spending (see Page 2) will show whether, or to what extent, the much-awaited burst of consumer spending on services materialized in April. While of course not providing any definitive answers, this week's data releases will nonetheless help shed light on some of the main questions facing the U.S. economy.
May Consumer Confidence Tuesday, 5/25 Range: 110.0 to 125.0 Median: 119.0	Apr = 121.7	Down to 118.4. After two months of significant increases, we look for confidence to have settled back a bit in May as consumers express concern over rising prices, which would be in line with other measures of consumer sentiment. Many dismiss survey-based measures of expected inflation, on the grounds that "consumers are always expecting inflation that fails to appear," apparently failing to realize that consumers are not being asked to predict the course of the CPI or the PCE Deflator but instead are basing their responses on their own experiences with their own spending basket. As such, it isn't for an outside observer to decide whether consumers' expectations of inflation are reasonable or not, particularly if those expectations can shape spending behavior. As always, our main interest in the Conference Board's survey will be consumers' assessments of labor market conditions. The improvement in April was at odds with the increase in the unemployment rate, but it could be that a more positive view of labor market conditions is helping draw people back into the labor force, as participation rose in April, contributing to the higher jobless rate.
April New Home Sales Tuesday, 5/25 Range: 0.725 to 1.044 million units Median: 0.950 million units SAAR	Mar = 1.021 million units SAAR	Down to an annualized rate of 1.003 million units. Our forecast may seem out of line with the sharp decline in single family housing starts in April but, as we often note, all of our analysis and forecasting of the monthly housing market data is done on the basis of the not seasonally adjusted data. On that basis, the April data on single family permits and starts were much stronger than implied in the seasonally adjusted data. On a not seasonally adjusted basis, we look for 93,000 new home sales in April, down from 97,000 sales in March. Our forecast of unadjusted sales anticipates some payback in the West region after sales were notably low in March, leaving sales strikingly out of alignment with the data on single family starts and permits in the region. It could be that the prior estimate of March sales will be revised higher, so this is one source of downside risk to our forecast. More importantly, we are hearing more and more reports of builders effectively calling time-out, i.e., holding down or holding off sales all together because they simply cannot keep pace with demand, with shortages of labor and materials stretching delivery times further out. This has left many builders facing increasingly large backlogs of unfilled orders, with slow-walking sales one way of managing those backlogs. Moreover, builders are having more and more difficulty pricing homes ahead of time given the rate at which materials prices are rising, and this cost uncertainty could be turning prospective buyers away. One metric that will help shed light on the extent to which builders may be slowing the pace of sales is the share of sales accounted for by units on which construction had not yet started. Such units have accounted for an elevated share of sales over the past several months, which has helped account for growing backlogs of unfilled orders. Whether or not our forecast of April new home sales is on or close to the mark, our top-line take on housing market conditions remains the same – the problem is not on the demand side of the market, the problem is meeting that demand.
Q1 Real GDP – 2nd estimate Thursday, 5/27 Range: 6.3 to 6.9 percent Median: 6.5 percent SAAR	Q1 – 1st est = +6.4% SAAR	Up at an annualized rate of 6.6 percent, with an upward revision to the initial estimate of growth in real consumer spending accounting for most of the upward revision in top-line real GDP growth.
Q1 GDP Price Index – 2nd estimate Thursday, 5/27 Range: 4.0 to 4.2 percent Median: 4.1 percent SAAR	Q1 – 1st est = +4.1% SAAR	Up at an annualized rate of 4.1 percent. The BEA's initial estimate showed the largest quarterly increase in the GDP Price Index since Q2 1990 yet drew remarkably little attention upon the release of the data. Aside from the simple math – nominal GDP grew at an annualized rate of 10.7 percent in Q1 and real GDP growth would have been even faster had the price index not risen as much as it did – the jump in the GDP Price Index suggests inflation pressures were more broad based and materialized sooner than had been anticipated. We thought that would at least merit a mention.

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April Durable Goods Orders Thursday, 5/27 Range: -1.6 to 7.5 percent Median: 0.8 percent	Mar = +0.8%	Up by 1.9 percent. The dollar volume of civilian aircraft orders in March was out of alignment with industry data on unit orders, and our forecast assumes some catching up in the April orders data. If not, our forecast will be too high but, as always, the most relevant metric in the orders data will be core capital goods orders, and we look for another healthy increase in this category (see below).
April Durable Goods Orders: Ex-Trnsp. Thursday, 5/27 Range: -1.0 to 1.6 percent Median: 0.7 percent	Mar = +1.9%	We look for ex-transportation orders to be up by 0.8 percent, with orders for core capital goods (nondefense capital goods excluding aircraft) to be up by 1.2 percent.
April Advance Trade Balance: Goods Friday, 5/28 Range: -\$96.6 to -\$87.0 billion Median: -\$92.0 billion	Mar = -\$90.6 billion	Widening to -\$93.6 billion.
April Personal Income Friday, 5/28 Range: -18.4 to -7.1 percent Median: -14.5 percent	Mar = +21.1%	Down by 13.3 percent. Recall that the third round of Economic Impact Payments (EIP) sent personal income soaring higher in March, but with those payments dropping out of the April data, the result will be a substantial decline in income. Of the roughly \$402.2 billion of EIP funds, however, only about \$337 billion was distributed in March, with a nontrivial share sliding into April and a smaller share slipping into May. It could be that those expecting larger declines in total personal income in April than our forecast anticipates are making different assumptions about the timing. Either way, as the EIP funds drop out of the data, the decline in transfer payments will act as a material drag on total personal income, so disposable personal income excluding transfer payments will be the more relevant gauge of income growth over the next few months. To put the impact of the EIP into perspective, as of March disposable personal income stood 30.1 percent above the level of February 2020, while disposable personal income ex-transfers was only 0.8 percent higher. While elevated unemployment insurance benefit payments will continue to support transfer payments for several more months, the spotlight will fall back on labor earnings as the main driver of income growth. Despite a surprisingly small increase in nonfarm payrolls, we expect the April income data to show another solid increase in private sector wage and salary earnings thanks to increases in average hourly earnings and average weekly hours, particularly in leisure and hospitality services. We also look for sizable increases in nonfarm proprietors' income and rental income. Again, with the distortions from transfer payments continuing to impact headline personal income over the next few months, disposable personal income excluding transfer payments will be the more reliable guide to income growth.
April Personal Spending Friday, 5/28 Range: -1.2 to 1.2 percent Median: 0.5 percent	Mar = +4.2%	Up by 1.2 percent. The retail sales data suggest consumer spending on goods fell in April, but we nonetheless expect a sizable increase in consumer spending on services, not captured in the retail sales data, to push total consumer spending higher. That we expect a meaningful increase in services spending simply reflects people feeling more comfortable moving about amid diminishing restrictions on activity along with a sizable pool of liquidity in the household sector. It could be that we're a bit early, in terms of our expectations for services spending, in which case our forecast for April spending will prove too high. Timing aside, services is where there is the most room for a jump in consumer spending in the months ahead.
April PCE Deflator Friday, 5/28 Range: 0.3 to 0.9 percent Median: 0.6 percent	Mar = +0.5%	Up by 0.6 percent, for a year-on-year increase of 3.5 percent. We look for the Core PCE Deflator to by up by 0.7 percent, which would translate into an over-the-year increase of 3.0 percent. The month/month increases we expect will in large part reflect services prices beginning to "normalize" as pent-up demand is unleashed, as was evident in the CPI data, while base effects will flatter the over-the-year comparisons. Though many will argue there is nothing more to the inflation data, hence the "inflation is transitory" argument, we think there is more to the story than that. Either way, however, it will take several more months to know the answer but, then again, anything is transitory given a sufficiently long time horizon, and by time the "transitory or not" debate has been settled, it will likely seem as though it has been going on forever.