ECONOMIC PREVIEW

REGIONS

Week of June 14, 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 FOMC meeting will bring neither an increase in the Fed funds rate nor a change in the pace of the Fed's monthly asset purchases. There will, however, be plenty to look, and listen, for, particularly given that the Committee will release their latest economic and financial projections, including an updated "dot plot." The post-meeting policy statement and Chairman Powell's press conference will give a nod to the recent upturn in inflation but will reiterate the Committee's view that inflation pressures are transitory. While projections for 2021 should show a slightly faster rate of inflation relative to the April projections, the projections for 2022 and 2023 will almost surely be the usual 2.0 percent. It's a close call as to whether the updated dot plot will imply a funds rate hike in 2023. Recall the past three editions have implied no rate hikes through 2023, but in the April edition seven members saw at least one 25-basis point hike by year-end 2023 and it would take only two additional members coming around to this view to shift the median year-end 2023 dot. The post-meeting policy statement is likely to retain the "substantial further progress" language as the threshold for any change in the pace of the Fed's monthly asset purchases, and Chairman Powell is likely to stress this point in his post-meeting press conference while avoiding any specific timeline for tapering.
May Retail Sales: Total Tuesday, 6/15 Range: -3.5 to 1.0 percent Median: -0.6 percent	Apr = 0.0%	Down by 1.4 percent. The main undercurrents of the May retail sales data are prices, increasingly limited supplies of certain goods, and a potential shift in consumer spending patterns, with unfriendly seasonal adjustment in several categories thrown in for good measure, though not necessarily for good measurement. Unit motor vehicle sales fell by 9.5 percent in May according to the BEA, which will act as a meaningful drag on top-line retail sales even with higher vehicle prices cushioning some of the impact. To that point, keep in mind that the retail sales data are reported in nominal terms, i.e., they are not adjusted for price changes, meaning that higher prices will make sales in many categories look better, or, less bad as the case might be. Gasoline sales, however, could be one exception; while not seasonally adjusted gasoline prices rose in May, that increase was smaller than is typical for the month of May, so the seasonally adjusted CPI data show a decline in gasoline prices, and that could be reflected in the retail sales data. More broadly, the May seasonal factors pose stiff tests for several categories of the retail sales data, which could bias sales reported on a seasonally adjusted basis lower. Finally, though we won't know for sure until the BEA releases the May data on personal income and spending on June 25, it seems likely that consumer spending on services, which is not captured in the retail sales data, rose sharply in May. If so, the question becomes whether that took away from consumer spending on goods, which as of April was 18.6 percent above the pre-pandemic peak. To the extent there was such a shift in spending, it will weigh on May retail sales. Even in the most normal of times, the retail sales data are inherently noisy and the initial estimate of sales in any given month is prone to sizable revision. With that as a starting point, adding even more noise from the factors noted above makes it hard to know what to expect from the May retail sales data, hence the wide range of forecasts.
May Retail Sales: Ex-Auto Tuesday, 6/15 Range: -2.5 to 1.8 percent Median: 0.4 percent	Apr = -0.8%	Down by 0.5 percent.
May Retail Sales: Control Group Tuesday, 6/15 Range: -2.1 to 0.7 percent Median: -0.5 percent	Apr = -1.5%	Down by 0.6 percent.
May Industrial Production Tuesday, 6/15 Range: 0.2 to 1.0 percent Median: 0.6 percent	Apr = +0.5%	Up by 0.8 percent. Manufacturing output should get a boost from motor vehicle production despite the global shortage of semiconductor chips continuing to disrupt both production and sales. In April, payrolls amongst motor vehicle manufacturers fell by 37,700 jobs, as many plants furloughed workers due to production cutbacks, and motor vehicle assemblies fell sharply. Payrolls amongst vehicle producers rose by 24,800 jobs in May, which should lead to an increase in assemblies. Elsewhere in the manufacturing sector, output should increase, but at a slower pace than would be the case in the absence of materials shortages and slowing delivery times. Our forecast also anticipates increases in mining and utilities output.

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May Capacity Utilization Rate Range: 74.6 to 75.5 percent Median: 75.1 percent	Tuesday, 6/15	Apr = 74.6%	Up to 75.3 percent.
May PPI: Final Demand Range: 0.3 to 1.0 percent Median: 0.5 percent	Tuesday, 6/15	Apr = +0.6%	Up by 0.6 percent, which would yield a year-on-year increase of 6.3 percent.
May PPI: Core Range: 0.2 to 1.0 percent Median: 0.5 percent	Tuesday, 6/15	Apr = +0.7%	Up by 0.6 percent, which would translate into a year-on-year increase of 4.8 percent.
April Business Inventories Range: -0.2 to 0.5 percent Median: -0.1 percent	Tuesday, 6/15	Mar = +0.3%	We look for total business inventories to be down by 0.1 percent, and for total business sales to be up by 0.3 percent.
May Building Permits Range: 1.688 to 1.780 million units Median: 1.730 million units SAAR	Wednesday, 6/16	Apr = 1.733 million units SAAR	Down to an annualized rate of 1.688 million units. With lot sales slowing and many builders stopping build-to-order sales and working to clear sizable backlogs of unfilled orders, it would follow that single family permits would begin to ease, which is what our May forecast anticipates. Quite to the contrary, multi-family permits remain curiously elevated in the midst of the biggest backlog of units under construction since the mid-1970s and the ratio of multi-family starts-to-permits remaining notably low. There is the possibility that seasonal adjustment noise may push the headline permits number well above our forecast, and while that would make for a better headline number, it would be totally irrelevant. On a not seasonally adjusted basis, we look for total housing permits of 154,500 units in May, down a bit from over 157,000 in both March and April but still a strong number, though, again, we look for multi-family permits to account for a larger share of total permits in May.
May Housing Starts Range: 1.500 to 1.735 million units Median: 1.640 million units SAAR	Wednesday, 6/16	Apr = 1.569 million units SAAR	Up to an annualized rate of 1.572 million units. Even if single family permits begin to ease as we anticipate, single family starts would for a time be supported by builders working off backlogs of unfilled orders. But, with materials supply constraints becoming more binding, that could hold down starts. More fundamentally, there are some signs that demand is starting to ease from the heady pace seen over the past several months as affordability becomes a growing concern. As noted above, many builders have stopped build-to-order sales and instead are moving toward spec building, holding off on pricing units until construction is well underway as a means of passing on pricing risk to buyers. This too could lead to fewer starts and sales, given the extent to which materials prices remain elevated. On a not seasonally adjusted basis, we look for total housing starts of 142,000 units in May, which would still be a strong number. Without some relief on costs, however, single family starts could tail off rapidly once builders have pared down order backlogs, particularly should mortgage interest rates begin to move higher.
May Leading Economic Index Range: 0.5 to 1.7 percent Median: 1.3 percent	Thursday, 6/17	Apr = +1.6%	Up by 1.3 percent.

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