ECONOMIC PREVIEW

REGIONS

Week of June 21, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 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%	Under the heading of "a little perspective can go a long way," it helps to think about what the FOMC did, and did not, do last week. The FOMC made no changes to the Fed funds rate target range, and they made no change in the pace of the Fed's monthly asset purchases while offering no hints as to when such a change may come about and what it might look like. What they did do was alter their collective view of the potential future path of the funds rate, implying the target range mid-point might increase by 50 basis points during 2023. This fairly modest change to the potential path of policy, however, triggered a reaction so overwrought and out there that it would make the most over-the-top reality TV star blush, with many commentators describing the FOMC's move as "hawkish" and some going as far as "super hawkish." There is actually a distinction between the FOMC being less accommodative and the FOMC being restrictive, even if that distinction seems to have been lost on many of those commenting on the FOMC meeting. Seriously, if this is hawkish, let alone super hawkish, we'll have to invent a whole new vocabulary to describe the FOMC's policy stance should they ever venture all the way back to merely neutral ground.
May Existing Home Sales Tuesday, 6/22 Range: 5.580 to 5.930 million units Median: 5.710 million units SAAR	Apr = 5.850 million units SAAR	<u>Down</u> to an annualized rate of 5.730 million units. On a not seasonally adjusted basis, we look for sales of 561,000 units, which would reflect a 9.4 percent increase from April, a smaller than typical increase for the month of May. That reflects the ongoing drag from lean inventories which has pushed prices higher to the point that, even without a substantial increase in mortgage interest rates, affordability is becoming an increasing constraint on prospective buyers. We do think we're past the bottom on inventories, but that still leaves a long way to go before the market is anywhere near being balanced. Our forecast anticipates inventories rising by 5.2 percent in May, but this would still leave listings down 21.3 percent year-on-year. To our point about pricing, the median existing home sales price was up 19.1 percent year-on-year in April, and a larger increase in May will not surprise us.
Q1 Current Account Balance Wednesday, 6/23 Range: -$210.0 to -$205.0 billion Median: -$207.0 billion	Q4 = -$188.5 billion	<u>Widening</u> to -$204.9 billion, mainly due to a significantly wider trade deficit in Q1.
May New Home Sales Wednesday, 6/23 Range: 0.806 to 0.900 million units Median: 0.875 million units SAAR	Apr = 0.863 million units SAAR	<u>Down</u> to an annualized rate of 0.806 million units. On a not seasonally adjusted basis, we look for sales of 73,000 units, down from 78,000 units in April and 86,000 in March (pending revision). While affordability could be weighing on demand, we think supply side factors are playing a much bigger role in the slowdown in sales. Many builders have either limited build-to-order sales or stopped taking them altogether, which in part reflects builders attempting to work down backlogs of unfilled orders and in part reflects growing constraints on materials supplies and elevated materials prices. In response to high, and uncertain, materials prices, many builders are putting more emphasis on spec building and not pricing the homes until construction is well underway, as a means of passing price risk on to buyers. While falling lumber prices offer some hope for cost relief, prices nonetheless remain well above where they were at the start of 2021, and lower lumber prices do nothing to alleviate shortages of other inputs. As with the market for existing homes, the market for new homes remains far from being balanced.
May Durable Goods Orders Thursday, 6/24 Range: 1.0 to 4.0 percent Median: 3.0 percent	Apr = -1.3%	<u>Up</u> by 3.4 percent. Our forecast anticipates a big lift from transportation goods, as Boeing saw another month of positive net orders and motor vehicle orders should recapture some of the hefty decline seen in April. Of more significance, we expect the run of increases in core capital goods orders to continue (see below), meaning May would mark the 13^{th} consecutive monthly increase. This of course raises the question of how long this run can last, particularly with order-to-delivery timelines being increasingly stretched. We do think there is further upside room for core capital goods orders, meaning business investment in equipment and machinery should remain a support for real GDP growth over coming quarters.
May Durable Goods Orders: Ex-Trnsp. Thursday, 6/24 Range: -0.2 to 1.8 percent Median: 0.8 percent	Apr = +1.0%	We look for <u>ex-transportation</u> orders to be <u>up</u> by 0.9 percent. Our forecast anticipates orders for nondefense capital goods excluding aircraft (i.e., <u>core capital goods orders</u>) to be <u>up</u> by 0.7 percent.

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Q2 Real GDP – 3rd estimate Range: 6.4 to 6.6 percent Median: 6.4 percent SAAR	Thursday, 6/24	Q2 2nd est. = +6.4% SAAR	Up at an annualized rate of 6.4 percent.
Q2 GDP Price Index – 3rd estimate Range: 4.3 to 4.3 percent Median: 4.3 percent SAAR	Thursday, 6/24	Q2 2nd est. = +4.3% SAAR	Up at an annualized rate of 4.3 percent.
May Advance Trade Balance: Goods Range: -\$91.2 to -\$83.5 billion Median: -\$87.8 billion	Thursday, 6/24	Apr = -\$85.2 billion	Widening to -\$91.2 billion as imports bounce back from April's decline, more than offsetting another increase in exports.
May Personal Income Range: -10.2 to -1.7 percent Median: -2.8 percent	Friday, 6/25	Apr = -13.1%	Down by 2.1 percent. The decline in top-line income simply reflects the further unwinding of the third round of Economic Impact Payments. While the bulk of third round payments hit in March, some portion – \$688 billion on an annualized basis – fell into April, and that will drop out of transfer payments in May. Additionally, with more people having dropped from benefit rolls, total unemployment insurance benefit payouts fell further in May, acting as an additional drag on transfer payments. Absent the drag from transfer payments, however, we estimate total personal income would have risen by 0.9 percent in May, bolstered by another solid increase in private sector wage and salary earnings. With further reopening of the economy and people moving about more freely, increased services spending contributed to what we expect to be a healthy increase in nonfarm proprietors' income, a proxy for small business profits, which will be further bolstered by the accounting treatment of the Paycheck Protection Program. We look for the string of solid advances in rental income to have continued in May, though interest income will likely weigh down asset-based income. While a sliver of the third round of Economic Impact Payments fell into May, and hence will be reversed in the June data, the wild gyrations in transfer payments seen over the past fourteen months have largely run their course, though further declines in unemployment insurance benefit payouts will be a persistent drag for several months to come. Labor earnings will resume their traditional role as the main driver of growth in personal income, and given the extent to which wages have risen over the past several months, if the pace of job growth does pick up, labor earnings will be a powerful tailwind for personal income growth, though higher inflation will erode some of these gains.
May Personal Spending Range: -0.4 to 0.9 percent Median: 0.3 percent	Friday, 6/25	Apr = +0.5%	Up by 0.9 percent. Our above-consensus forecast is predicated on a hefty increase in consumer spending on services as the economy more fully reopened and consumers were quick to get back out and about. Admittedly, the risk to our forecast is to the downside, and while we may not have the timing right, it is only a matter of when, not if, the data show meaningfully higher spending on services. Keep in mind that prior to the pandemic, services accounted for over two-thirds of all consumer spending, and our forecast would put the level of spending on services back above its pre-pandemic peak. In contrast, spending on goods crossed that threshold last June and even though our forecast looks for spending on goods to have fallen in May, that would nonetheless leave it more than 16 percent above the pre-pandemic peak. The steep decline in unit motor vehicle sales will be a meaningful drag on spending on consumer durable goods, and the retail sales data point to declines in most categories of consumer goods. These declines would have been worse had it not been for higher goods prices, such that our expected May increase in real consumer spending is less than half our expected increase in nominal consumer spending. We expect a string of strong increases in services spending over coming months, the questions being the magnitude of these increases and the extent to which they come at the expense of spending on goods. Though a considerable pool of "excess saving" in household accounts suggests it isn't necessarily an either/or choice, it's hard to see much more upside in spending on goods given the extent of the increase seen over the past year.
May PCE Deflator Range: 0.4 to 0.6 percent Median: 0.5 percent	Friday, 6/25	Apr = +0.6%	Up by 0.6 percent, which would yield an over-the-year increase of 4.0 percent. We look for the core PCE Deflator to also be up by 0.6 percent, which would yield an over-the-year increase of 3.4 percent.

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