ECONOMIC PREVIEW

REGIONS

Week of July 12, 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%	Imbalances between supply and demand have become increasingly apparent across much of the U.S. economy. Supply has simply been unable to keep pace with demand, which is one factor contributing to the sharp acceleration in inflation. From the outset, many dismissed these imbalances, and the higher prices that came along with them, as transitory and, as such, not a cause for concern. From the outset, our view has been that these imbalances, and the higher prices that came along with them, were likely to persist for longer than many have assumed. Sure, this too shall pass, but the real question is when. That we continue to talk about these imbalances month after month is starting to stretch the definition of transitory. To that point, this week brings the mid-year installment of the Fed's semi-annual *Monetary Policy Report to the Congress* (a/k/a the Humphrey-Hawkins report), with Chairman Powell going before the House Financial Services Committee on Wednesday and before the Senate Banking Committee on Thursday. While unlikely to shed new light on the potential timing of policy changes, Chairman Powell will no doubt stress the collective view of the FOMC that inflation pressures are transitory, and that the Committee's focus remains squarely on labor market conditions.
June Consumer Price Index Tuesday, 7/13 Range: 0.3 to 0.7 percent Median: 0.5 percent	May = +0.6%	Up by 0.6 percent, for a year-on-year increase of 5.0 percent. In addition to the by now usual suspects, i.e., higher prices for non-labor inputs, higher shipping costs, higher labor costs, the normalization of services prices, and their pesky co-conspirator, base effects, higher food and gasoline prices supported the total CPI in June. Core goods (or, consumer goods excluding food and energy) prices posted the two largest monthly increases on record in April and May, and the June data are likely to bring another substantial increase. While motor vehicle prices, particularly for used motor vehicles, are playing a prominent role in these increases, they are by no means the only factor, as prices for other goods such as furniture and appliances are also reflecting short supplies coupled with strong demand. While prices for services benefitting from further reopening of the economy, such as air travel, lodging, car rentals, recreation, and entertainment, posted further increases in June, they are likely to be smaller than the increases seen in the prior two months. Even with these outsized price increases in April and May, core services prices rose at a relatively tame rate, which reflects the drag from medical care costs having basically been flat in those months, though it remains to be seen how much longer this drag will persist. Rent growth has begun to show signs of life of late, and we expect the June data to show the largest monthly increase in primary rents since March 2020. Look for headline CPI inflation to run above 4.0 percent into early-2022.
June Consumer Price Index: Core Tuesday, 7/13 Range: 0.2 to 0.6 percent Median: 0.4 percent	May = +0.7%	Up by 0.5 percent, yielding a year-over-year increase of 4.1 percent, which would be the fastest rate of core CPI inflation since December 1991. Another hefty increase in core goods prices could impact the June retail sales data (see Page 2).
June PPI: Final Demand Wednesday, 7/14 Range: 0.2 to 0.9 percent Median: 0.5 percent	May = +0.8%	Up by 0.7 percent, good for an over-the-year increase of 6.9 percent.
June PPI: Core Wednesday, 7/14 Range: -0.4 to 0.6 percent Median: 0.4 percent	May = +0.7%	Up by 0.6 percent, which would yield a year-on-year increase of 5.2 percent.
June Industrial Production Thursday, 7/15 Range: 0.2 to 1.5 percent Median: 0.6 percent	May = +0.8%	Up by 0.7 percent. A decline in motor vehicle assemblies acted as a meaningful drag on manufacturing output, but we expect this to have been more than offset by sizable increases in output in the mining and utilities sectors. One thing to watch for is manufacturing output excluding motor vehicles; as noted above, motor vehicle production will be a drag on manufacturing output, but will be interesting to see whether, or to what extent, supply chain and labor supply issues are weighing on output growth elsewhere in the factory sector. Even with the increase our forecast anticipates, industrial production will remain short of its pre-pandemic peak.
June Capacity Utilization Rate Thursday, 7/15 Range: 75.3 to 76.0 percent Median: 75.6 percent	May = 75.2%	Up to 75.7 percent.

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

ECONOMIC PREVIEW

REGIONS

Week of July 12, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
June Retail Sales: Total Friday, 7/16 Range: -1.9 to 0.5 percent Median: -0.5 percent	May = -1.3%	Down by 0.3 percent. Once you get by the headline number, the report on June retail sales will look better. The extent to which it is actually better, however, remains to be seen, as price effects and friendly seasonal adjustment factors in many categories will flatter ex-auto and control sales. Motor vehicles will be a significant drag on total retail sales given the 9.8 percent decline in unit sales, a function of notably lean inventories. While higher vehicle prices will cushion the impact on the dollar volume of sales, there will still be a sizable decline. Our forecast anticipates broad based increases across the remaining components though, again, price effects and seasonal adjustment noise are likely to distort the June data. We continue to think consumers will shift discretionary spending away from goods and toward services, though it may be a few months before we can draw any conclusions from the retail sales data.
June Retail Sales: Ex-Auto Friday, 7/16 Range: -0.3 to 1.6 percent Median: 0.4 percent	May = -0.7%	Up by 1.0 percent.
June Retail Sales: Control Group Friday, 7/16 Range: -0.8 to 1.9 percent Median: 0.4 percent	May = -0.7%	Up by 0.9 percent.
May Business Inventories Friday, 7/16 Range: 0.2 to 0.6 percent Median: 0.4 percent	Apr = -0.2%	We look for total business inventories to be up by 0.6 percent, and for total business sales to be down by 0.1 percent.

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