ECONOMIC PREVIEW

REGIONS

Week of July 26, 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%	If the June FOMC meeting was, to borrow Chairman Powell's words, the "talking about talking about (tapering) meeting," then this week's FOMC meeting should be the talking about tapering meeting. The Committee will begin deliberating on three main questions around tapering, the first being the timing, the second being the mix of assets, and the third being the speed. There seems to be growing divergence within the Committee on these questions, and nothing will be settled at this week's meeting. And, Chairman Powell's post-meeting press conference notwithstanding, it may not be until the minutes of this week's meeting are released on August 18 that we have a sense of how far apart Committee members are on the questions highlighted above. We think the Committee will lay out formal guidance on the timing, composition, and pace of tapering at either their September or November meeting.
June New Home Sales Monday, 7/26 Range: 0.734 to 0.836 million units Median: 0.800 million units SAAR	May = 0.769 million units SAAR	Up to an annualized rate of 0.794 million units. On a not seasonally adjusted basis, we look for new home sales of 73,000 units, up from 69,000 in May but nonetheless down 7.6 percent year-on-year. Though we don't typically have a great deal of confidence in our forecasts of new home sales, we have even less in our forecast of June sales. Industry commentary and surveys indicate builders continue to cap sales, remaining more focused on production rather than sales due to elevated and uncertain materials prices and what have been growing backlogs of unfilled orders. While that suggests June new home sales were somewhat soft, the (not seasonally adjusted) June data on single family permits and starts were much stronger than we anticipated, which suggests some upside for June new home sales. To be sure, the data on residential construction and new home sales don't always align in any given month, particularly in times of considerable flux, but we're hesitant to dismiss the construction data out of hand. Still, whether actual sales come in above or below our forecast, the overriding theme of the new homes market remains the same, i.e., builders being unable to keep pace with demand, even as there are some signs that demand is beginning to waver under the weight of lofty prices and uncertain delivery times. The backlog of units permitted but not yet started grew further in June, and while spec inventories rose in May, that reflected more builders moving to "spec-lite" construction, i.e., starting homes but not pricing, or selling, them until construction is well underway as a means of transferring price risk and having a better handle on delivery times. This can be seen in the share of new home sales accounted for by units under construction at the time of sale, which has risen meaningfully over recent months. Builders are clearly playing the long game here, which hasn't always been the case, and even when growth in demand does begin to ease, builders will still have plenty to do.
June Durable Goods Orders Tuesday, 7/27 Range: 0.4 to 9.0 percent Median: 2.0 percent	May = +2.3%	Up by 4.6 percent. Nondefense aircraft should provide a considerable lift to headline orders as Boeing booked 219 orders in June, with 146 net orders (it is net, not gross, orders that feed into the durable goods data). We look for a decline in motor vehicle orders given ongoing supply chain constraints, but on net there should be a sizable increase in orders for transportation goods. While our forecast anticipates healthy increases in ex-transportation orders and core capital goods orders (see below), the risks seem to be to the downside, as supply chain and transportation bottlenecks and lengthening completion times could be weighing on new orders. Recall that after a run of rapid growth, core capital goods orders were basically flat in May. It is not yet clear whether that was merely a pause or the start of a transition to a much more sedate pace of growth; while we think it was the former, we cannot rule out the latter.
June Durable Goods Orders: Ex-Trnsp. Tuesday, 7/27 Range: 0.0 to 2.3 percent Median: 0.7 percent	May = +0.3%	We look for ex-transportation orders to be up by 1.0 percent, with orders for core capital goods (or, nondefense capital goods excluding aircraft and parts) up by 0.8 percent.
July Consumer Confidence Tuesday, 7/27 Range: 120.0 to 130.0 Median: 124.1	Jun = 127.3	Down to 123.2 as concerns over inflation and rising COVID-19 case counts weigh on consumers, though improving views on the labor market should stem any decline in the top-line index. The underlying details on expectations for income growth and on plans for major purchases will bear watching in light of the acceleration in inflation. As always, however, the detail we'll be the most interested in is consumers' assessments of labor market conditions after June saw the "jobs plentiful/jobs hard to get" spread rise to its highest level since July 2000.

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June Advance Trade Balance: Goods Wednesday, 7/28 Range: -$90.6 to -$86.6 billion Median: -$88.0 billion	May = -$88.1 billion	Widening to -$89.4 billion.
Q2 Real GDP – 1st estimate Thursday, 7/29 Range: 6.0 to 11.9 percent Median: 8.5 percent SAAR	Q1 = +6.4% SAAR	Up at an annualized rate of 6.9 percent. As is the case each year, the BEA's initial estimate of Q2 GDP incorporates benchmark revisions to recent historical data. In light of the significant disruptions and distortions in economic activity stemming from the pandemic and the efforts to stem its spread, it will be interesting to see whether, or to what extent, the revised data change the view of what the economy went through in 2020. As for Q2 2021, consumer spending and business investment in machinery, equipment, and intellectual property products will be the main drivers of growth, with trade more or less neutral, and residential fixed investment and nonfarm inventories acting as drags, and our forecast anticipates less of a kick from government spending than is generally expected.
Q2 GDP Price Index – 1st estimate Thursday, 7/29 Range: 4.6 to 6.5 percent Median: 5.4 percent SAAR	Q1 = +4.3% SAAR	Up at an annualized rate of 5.4 percent.
Q2 Employment Cost Index Friday, 7/30 Range: 0.7 to 1.1 percent Median: 0.9 percent	Q1 = +0.9%	Up by 1.0 percent, with wages up by 1.2 percent and benefit costs up by 0.5 percent. Our forecast would leave the total ECI up 3.1 percent year-on-year, with wages up 3.5 percent – which would be the largest such increase since Q1 2007 – and benefit costs up 2.4 percent. The Employment Cost Index is the best measure of changes in total labor costs, one reason being that it is free of the mix issues which tend to bias the more widely followed average hourly earnings metric. Either way, however, growth in labor costs has accelerated sharply as firms scramble to fill open jobs, and growth is likely to accelerate further in the months ahead.
June Personal Income Friday, 7/30 Range: -2.1 to 0.5 percent Median: -0.5 percent	May = -2.0%	Up by 0.2 percent. One factor in our above-consensus forecast is that the third round of Economic Impact Payments has still not been completely distributed. BEA reported that on an annualized basis, May personal income included $128.6 billion in Economic Impact Payments, and we think it likely that the June data will include between $48 and $60 billion (annualized). Thus, while we expect transfer payments to decline, in part because of a further decline in unemployment insurance benefits, the EIP funds will cushion the decline in transfer payments. We also expect that the accounting for the Paycheck Protection Program provided a boost to June nonfarm proprietors' income, but most of the increase we expect in this category will reflect further reopening of the economy and increased spending on services. As to the main driver of growth in personal income, we look for a smaller increase in aggregate private sector wage and salary earnings than those seen in the prior three months; while job growth and higher average hourly earnings will push aggregate earnings higher, the decline in average weekly hours will act as a meaningful drag on growth. Our forecast also anticipates another hefty increase in rental income. The data on transfer payments, public sector labor earnings, and nonfarm proprietors' income are likely to be quite noisy in the months ahead, meaning that private sector labor earnings – far and away the largest single component of personal income – will be the better guide to underlying trends in personal income growth.
June Personal Spending Friday, 7/30 Range: 0.2 to 2.0 percent Median: 0.7 percent	May = 0.0%	Up by 0.9 percent. While our forecast anticipates a decline in spending on consumer durable goods to negate a solid increase in spending nondurable consumer goods, much of which will reflect price effects, higher services spending should push total consumer spending higher. Accounting for price effects (see below), however, yields a much smaller increase in real consumer spending, and sets a lower base for Q3 spending than many have been anticipating.
June PCE Deflator Friday, 7/30 Range: 0.4 to 0.9 percent Median: 0.6 percent	May = +0.4%	We look for the PCE Deflator to be up by 0.7 percent, which would yield a year-on-year increase of 4.2 percent, the largest such increase since January 1991. We look for the core PCE Deflator to also be up by 0.7 percent, which would translate into a year-on-year increase of 3.8 percent, which would be the largest such increase since February 1991.

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