ECONOMIC PREVIEW

REGIONS

Week of September 13, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 21-22 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%	The latest edition of the Federal Reserve's "Beige Book," which provides anecdotal information on current economic conditions in each of the twelve Fed Districts, is further affirmation of a meaningful deceleration in the pace of economic activity in August. This is in part tied to rising COVID cases, as evidenced in pullbacks in areas such as dining out, travel, and tourism. The Beige Book also acknowledges lingering supply side constraints, noting that other sectors "where growth slowed or activity declined were those constrained by supply disruptions and labor shortages as opposed to softening demand." Inflation is described as "steady at an elevated pace," which seems a kinder, gentler way of acknowledging inflation running at five percent. At the same time, however, the Beige Book notes several Districts indicated that "businesses anticipate significant hikes in their selling prices in the months ahead." Transitory is of course in the eye of the beholder, but with global supply chain and logistics bottlenecks looking set to last well into 2022, inflation will likely remain "steady at an elevated pace" far enough out to make transitory start to feel like an awful long time.
August Consumer Price Index Tuesday, 9/14 Range: 0.2 to 0.5 percent Median: 0.4 percent	Jul = +0.5%	Up by 0.3 percent, which would translate into a year-on-year increase of 5.3 percent. Our below-consensus forecast reflects what we think will be many crosscurrents in the details of the August data. On a seasonally adjusted basis, retail gasoline prices will be up by almost three percent, accounting for one-third of the increase we expect in the total CPI. We look for a larger increase in rents than that seen in July, which will support both the headline and core CPI. Beyond that, ongoing supply/demand imbalances and what was a COVID-related pullback in economic activity in August will be apparent in the CPI data. Short supplies led to a dramatic decline in new motor vehicle sales in August but, with demand still strong, new vehicle prices are likely to have logged another sizable increase. There has been some migration in demand away from the market for new vehicles to the market for used vehicles, but we nonetheless expect falling prices for used vehicles on the wholesale level to have translated into a decline on the retail level in August. Recall that the July CPI data showed used vehicle prices virtually flatlining after a few months of outsized increases. While our forecast anticipates another hefty increase in prices for food consumed at home (think grocery store prices), we expect a smaller increase in prices for food consumed away from home (think restaurant prices) than those seen over the past few months, reflecting the retreat from dining out in August. Other areas in which we expect the COVID-related pullback in economic activity to be reflected in the August data are air fares, lodging rates, rental car prices, and prices for entertainment/recreation venues, all of which should act as drags on both the total and core CPI. Aside from motor vehicles, short supplies amid strong demand has pushed prices for consumer durable goods sharply higher, which has contributed to sharply higher core goods (i.e., consumer goods excluding food and energy) inflation. After year-on-year increases of better than 8.0 percent in both June and July, we expect only modest deceleration in core goods inflation in the August data. If the CPI moves in line with our below-consensus forecast, some will no doubt be tempted to take that as proof that inflation pressures were indeed transitory. Aside from it being somewhat awkward making that argument with headline CPI inflation remaining at or above five percent through year-end, we also think that higher costs for inputs, shipping, and labor will sustain inflation well above the FOMC's 2.0 percent target rate for some time to come.
August Consumer Price Index: Core Tuesday, 9/14 Range: 0.0 to 0.4 percent Median: 0.3 percent	Jul = +0.3%	Up by 0.2 percent, which would yield an over-the-year increase of 4.1 percent.
August Industrial Production Wednesday, 9/15 Range: -0.3 to 1.0 percent Median: 0.4 percent	Jul = +0.9%	Up by 0.6 percent. Our forecast anticipates output increasing in each of the three broad sectors – manufacturing, mining, and utilities. Note that the impact of Hurricane Ida on output in the mining and utilities sectors will not be seen in the August data but will be evident in the September data.
August Capacity Utilization Rate Wednesday, 9/15 Range: 75.9 to 76.9 percent Median: 76.4 percent	Jul = 76.1%	Up to 76.5 percent.

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August Retail Sales: Total Thursday, 9/16 Range: -3.3 to 0.0 percent Median: -0.8 percent	Jul = -1.1%	<u>Down</u> by 1.4 percent. To the extent the spike in COVID cases led consumers to pull back on spending in August, the biggest impact will have been on services spending, which is not captured in the retail sales data, the one notable exception being sales at restaurants and bars. While spending on goods may not have been impacted nearly as much by COVID-related pullbacks, retail sales still likely fell sharply in August. The biggest factor behind our below-consensus forecast is a sharp decline in motor vehicle sales. Unit sales of new motor vehicles slowed sharply over the second half of August, dragging the annualized sales rate for the month down to 13.057 million units which, with the exception of the early phases of the pandemic in 2020, is the lowest monthly sales rate in a decade. Keep in mind, however, that in the retail sales data measure the dollar volume of sales, not unit sales, so higher prices for new vehicles will cushion some of the blow from lower unit sales. Also, higher supplies figure to have pushed sales of used vehicles higher, further mitigating the impact of the sharp decline in new vehicle sales. The decline in new motor vehicle sales is much more a supply side story than a demand side story, and while the most pronounced instance, this is not the only instance in which spending on consumer durable goods is being held back by short supplies. Another factor working against August retail sales is what will be very unfriendly seasonal adjustment factors. In any given year, August is typically a strong month for retail sales, thanks in large measure to back-to-school spending. Our sense, however, is that the increase in unadjusted sales this August was not as large as is typically the case and, if so, that miss will be amplified in the seasonally adjusted data. Still, there are a couple of factors working in favor of August retail sales. One is higher prices; the retail sales data are reported on a nominal basis, meaning they are not adjusted for price changes so, as with new motor vehicles, higher prices across most categories will support the dollar volume of total retail sales. Additionally, even if COVID concerns kept some consumers out of stores as August progressed, the extent to which shopping for goods can be conducted online would have provided an offset to lower in-store traffic, and our forecast anticipates a meaningful rebound in sales by nonstore retailers after a steep decline in July.
August Retail Sales: Ex-Auto Thursday, 9/16 Range: -1.9 to 0.6 percent Median: -0.1 percent	Jul = -0.4%	<u>Up</u> by 0.3 percent.
August Retail Sales: Control Group Thursday, 9/16 Range: -2.3 to 0.6 percent Median: -0.1 percent	Jul = -1.0%	<u>Up</u> by 0.1 percent.
July Business Inventories Thursday, 9/16 Range: 0.4 to 0.6 percent Median: 0.5 percent	Jul = +0.8%	We look for total <u>business inventories</u> to be <u>up</u> by 0.6 percent and for total <u>business sales</u> to be <u>up</u> by 0.9 percent.

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