ECONOMIC PREVIEW

REGIONS

Week of October 25, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 2-3 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 ECB meeting (Thursday, 10/28) will provide somewhat of a preview of next week's FOMC meeting (November 2-3). Amid elevated inflation and rising market-based measures of expected inflation, ECB President Lagarde will push back against market expectations of the timing of the initial rate hike being pulled forward by stressing that inflation pressures are transitory. How forcefully she will push back and how successful she will be remain to be seen. Next week's FOMC meeting is likely to see Chairman Powell follow the same script, with the difference being he will almost surely announce plans for tapering the Fed's monthly asset purchases.
October Consumer Confidence Tuesday, 10/26 Range: 101.0 to 112.1 Median: 108.0	Sep = 109.3	<u>Down</u> to 107.8
September New Home Sales Tuesday, 10/26 Range: 710,000 to 787,000 units Median: 759,000 units SAAR	Aug = 740,000 units SAAR	<u>Up</u> to an annualized rate of 787,000 units. On a not seasonally adjusted basis, we look for sales of 63,000 units, up from 62,000 sales in August. Our forecast for sales in the South region is lower than it otherwise would be given that the September data on housing permits and starts indicate that Hurricane Ida weighed on housing market activity in the region. That said, September also saw builders further relax the self-imposed caps on sales put in place this summer though, while industry data show an uptick in orders in September, there is no guarantee that will translate into higher sales in the Census data on new home sales. If we are correct in expecting a modest increase in sales on a not seasonally adjusted basis, that increase will be amplified by seasonal adjustment given that September is typically a weak month for new home sales. Moreover, even if our forecast of the headline sales number is on or near the mark, that would still leave sale down almost 20 percent year-on-year. More fundamentally, new home sales remain constrained by shortages of labor and materials and delivery times are being stretched, and any increases in sales over coming months are likely to come at only a gradual pace. While lumber prices have come off the boil, prices for other materials have continued rising, so buyers have seen no relief on the pricing front which, with mortgage interest rates heading higher, will likely weigh on demand. While some have speculated that the prospect of further increases in rates may induce some prospective buyers to take the plunge rather than risk rates moving even higher, we're not sure if, or perhaps when, builders would be able to accommodate any such rate-induced spike in demand given that order books are already swollen and delivery dates are already so stretched.
September Durable Goods Orders Wednesday, 10/27 Range: -4.0 to 1.0 percent Median: -1.1 percent	Aug = +1.8%	<u>Down</u> by 1.9 percent. Transportation orders will be a drag on total orders, with the real question being how much of a drag. While Boeing reported a sharp decline in gross aircraft orders in September, net orders (which account for cancellations) were little changed, falling from 23 in August to 22 in September, and it is net orders that figure into the durable goods data. That said, the dollar volume of aircraft orders reported in the August data seemed curiously large, and our forecast is premised on there being some payback in the September data. Which of course is the ongoing frustration with the data on durable goods orders, i.e., that one inherently volatile line item, civilian aircraft orders, can have an outsized impact on the headline number. Closer to earth, we look for another sizable decline in motor vehicle orders, reflecting production bottlenecks that have sharply curtailed quantities of finished vehicles for sale. As always, the most important number in the data on durable goods orders will be core capital goods orders (see below), a harbinger of business investment spending as reported in the GDP data. Core capital goods orders have been somewhat uneven over the past few months, raising the question of whether this is simply a reflection of supply-side constraints or whether growth in business investment is starting to run out of steam. Our sense is that it is the former, not the latter, but, either way, it is too soon to know the answer.
Sep. Durable Goods Orders: Ex-Trnsp. Wednesday, 10/27 Range: -0.5 to 1.5 percent Median: 0.4 percent	Aug = +0.3%	We look for <u>ex-transportation</u> orders to be <u>up</u> by 0.5 percent and for <u>core capital goods</u> (nondefense capital goods excluding aircraft) orders to be <u>up</u> by 0.4 percent.
Sep. Advance Trade Balance: Goods Wednesday, 10/27 Range: -$91.0 to -$84.0 billion Median: -$88.4 billion	Aug = -$87.6 billion	<u>Widening</u> to -$88.9 billion.

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Q3 Real GDP – 1st estimate Thursday, 10/28 Range: -0.1 to 5.0 percent Median: 2.8 percent SAAR	Q2 = +6.7% SAAR	Up at an annualized rate of 1.9 percent. At the start of the quarter, there were lofty expectations for Q3 GDP growth, but those expectations faded fast as the quarter wore on. Between the spike in COVID cases that intensified over August and persisted into September and supply chain/logistics bottlenecks becoming more entrenched, consumer spending, residential and business fixed investment, trade, and inventories all ended up falling short of what we and most others expected as Q3 began. The net result will be a rate of GDP growth which would have fit right in during the pre-pandemic expansion but which at present will feel disappointingly slow. Though some see the sharp deceleration in growth in Q3 as a step down the road to stagflation, we don't agree. With COVID case counts subsiding, there are signs that services spending has picked back up, and there are also signs that the pace of job growth has picked up. Moreover, with households sitting on a sizable pile of excess savings, corporations sitting on a sizable pile of cash, growing backlogs of unfilled orders in the manufacturing and housing sectors, and inventories badly in need of being replenished, it seems more likely that growth will accelerate than stagnate, even if that acceleration comes gradually rather than all at once.
Q3 GDP Price Index – 1st estimate Thursday, 10/28 Range: 4.4 to 7.5 percent Median: 5.3 percent SAAR	Q2 = +6.1% SAAR	Up at an annualized rate of 5.1 percent.
Q3 Employment Cost Index Friday, 10/29 Range: 0.7 to 1.1 percent Median: 0.9 percent	Q2 = +0.7%	Up by 0.9 percent, with wage costs up 1.0 percent and benefit costs up 0.6 percent. On an over-the-year basis, our forecast would leave the total index up 3.2 percent, with wage costs up 3.7 percent – which would be the largest such increase since Q4 2001 – and benefit costs up 2.2 percent. The Employment Cost Index is the most reliable gauge of changes in labor costs, as it measures changes in compensation for the same jobs over time and, as such, is not subject to the mix issues that can bias the more widely followed series on average hourly earnings. Either way, however, the bottom line is the same, i.e., demand for labor remains notably strong but labor supply constraints are curbing hiring while fueling faster wage growth than would otherwise be the case.
September Personal Income Friday, 10/29 Range: -1.3 to 1.0 percent Median: -0.2 percent	Aug = +0.2%	Down by 0.7 percent. Despite a disappointingly small increase in private sector payrolls in September, the two-tenths of an hour increase in the average length of the workweek and another solid increase in average hourly earnings will yield a significant increase in aggregate private sector labor earnings. That increase, however, will prove no match for a sizable decline in transfer payments. Recall that the supplemental unemployment insurance benefits expired on September 5th for those states which had not already withdrawn from the program. Combined with natural run-off from the benefit rolls, this led to a sharp decline in total unemployment insurance payouts in September. At the same time, delays in expanded Child Care Tax Credits mean total payouts from this program were smaller in September than in August, as was also the case with Economic Impact Payments. This all adds up to a substantial decline in transfer payments in September that will drag down total personal income. In addition, we look for a larger decline in nonfarm proprietors' income (a proxy for small business profits) in September than that seen in August, which stems from the accounting treatment of loans made under the Paycheck Protection Program. We have been warning that the normalization of transfer payments would inject considerable volatility into the data on personal income in the months ahead, but the focus should remain squarely on private sector labor earnings, the largest single component of personal income, which have posted notably rapid growth over the past several months. The September personal income data are a good illustration of our point.

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September Personal Spending Range: 0.1 to 1.0 percent Median: 0.6 percent	Friday, 10/29	Aug = +0.8%	Up by 0.5 percent. Contrary to the oddly large increase in sales revenue at motor vehicle dealers in the September retail sales data, we expect the BEA measure of consumer spending to show a decline in motor vehicle sales revenue that is more in line with the steep decline in unit sales of new vehicles. Declining motor vehicle sales are part of a broad based decline in spending on consumer durable goods, reflecting supply constraints that are holding down quantities sold while contributing to sharply higher prices. We also expect a smaller increase in services spending in September than that seen in August as elevated COVID case counts impacted spending patterns while milder temperatures held down utilities outlays. Keep in mind that higher prices, particularly goods prices, are contributing to growth in nominal consumer spending, but on an inflation adjusted basis total consumer spending was likely up by no more than one-tenth of one percent in September.
September PCE Deflator Range: 0.2 to 0.4 percent Median: 0.3 percent	Friday, 10/29	Aug = +0.4%	We look for the PCE Deflator to be up by 0.4 percent, which would yield a year-on-year increase of 4.5 percent. Our forecast anticipates the core PCE Deflator will be up by 0.2 percent, which would translate into a year-on-year increase of 3.7 percent.

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