ECONOMIC PREVIEW

REGIONS

Week of May 16, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 14-15 FOMC meeting):* Target Range Mid-point: 1.375 to 1.625 percent Median Target Range Mid-point: 1.375 percent	Range: 0.75% to 1.00% Midpoint: 0.875%	At a time when concerns over growth are becoming more pronounced and the FOMC is on a mission to "do a job on demand," the April data on retail sales and residential construction are unlikely to answer many questions. The impact of higher rates will be much more pronounced in the May housing market data than in the April data.
April Retail Sales: Total Tuesday, 5/17 Range: 0.4 to 2.0 percent Median: 1.0 percent	Mar = +0.7%	<u>Up</u> by 1.2 percent. There are several factors that have to be accounted for in making a forecast of April retail sales, not all of which pushed sales in the same direction because, really, where would the fun be in that. Higher prices for necessities are weighing on discretionary spending for many households, while the rotation in spending patterns – away from goods, toward services – is underway (services are not captured in the retail sales data). Higher prices are, well, inflating measured retail sales, which are not adjusted for price changes, while higher financing costs are weighing on spending on consumer durable goods, and, oh by the way, this year's late Easter holiday likely impacted the timing of spending between March and April, thus making proper seasonal adjustment a trickier proposition. As if all of that wasn't enough, motor vehicles and gasoline will be at odds in the April data. Between a jump in unit sales and higher prices (for new vehicles), motor vehicles should be a firm support for top-line retail sales. At the same time, gasoline will be a drag on top-line sales, in part reflecting lower prices and in part reflecting unfavorable seasonal adjustment. All of which goes to illustrate the distinction between making a forecast and having any, let alone a high degree of, confidence in that forecast. Our forecast would, if on or close to the mark, set the stage for growth in consumer spending on goods to be slower in Q2 than was the case in Q1, though faster growth in consumer spending on services will fill some of that gap.
April Retail Sales: Ex-Auto Tuesday, 5/17 Range: -0.5 to 1.0 percent Median: 0.4 percent	Mar = +1.4%	<u>Up</u> by 0.6 percent.
April Retail Sales: Control Group Tuesday, 5/17 Range: -0.9 to 1.3 percent Median: 0.7 percent	Mar = +0.7%	<u>Up</u> by 0.9 percent.
April Industrial Production Tuesday, 5/17 Range: -0.3 to 1.1 percent Median: 0.5 percent	Mar = +0.9%	<u>Up</u> by 0.8 percent.
April Capacity Utilization Rate Tuesday, 5/17 Range: 74.4 to 79.1 percent Median: 78.6 percent	Mar = 78.3%	<u>Up</u> to 78.8 percent.
March Business Inventories Tuesday, 5/17 Range: 1.0 to 2.1 percent Median: 1.9 percent	Mar = +1.5%	We look for total <u>business inventories</u> to be <u>up</u> by 1.9 percent and for total <u>business sales</u> to be <u>up</u> by 1.6 percent.
April Building Permits Wednesday, 5/18 Range: 1.745 to 1.880 million units Median: 1.820 million units SAAR	Mar = 1.870 million units SAAR	<u>Down</u> to an annualized rate of 1.823 million units. We were taken by surprise at the strength of the March data (not seasonally adjusted) on housing permits and starts, and the question now is whether that will carry into the April data. In the multi-family segment, it seems clear that the answer is "no," at least to the extent anything in the always volatile but never dull multi-family segment can be clear. For instance, the unadjusted March data showed large spikes in multi-family permits in the Northeast and South regions which brought permits to levels unlikely to have been sustained in April, and our forecast anticipates a significant decline in multi-family permits. The not seasonally adjusted data also showed a jump in single family permits, which was surprising in light of builders having been limiting sales in the face of sizable order backlogs. To some extent, rising mortgage interest rates may have induced prospective buyers to act sooner than they otherwise would have, and we expect that to have continued in April. As such, our forecast anticipates a further increase in single family permits but, by all accounts, the May data should show a marked slowdown as 5.0 percent seems to have been a tipping point for demand, with many builders reporting traffic has tailed off over recent weeks. On a not seasonally adjusted basis, we look for total housing permits of 159,700 units in April.

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April Housing Starts Wednesday, 5/18 Range: 1.651 to 1.815 million units Median: 1.760 million units SAAR	Mar = 1.793 million units SAAR	Down to an annualized rate of 1.651 million units. As with permit issuance, the not seasonally adjusted data on March housing starts were surprisingly strong. For instance, the unadjusted March data show the highest monthly total of multi-family starts on record in the Northeast region, which seems more than a little suspect, even allowing for the surge in multi-family permits in the region in December 2021 which was largely tied to expiring tax incentives in the Philadelphia metro area. While we figured those units would be started gradually over the course of several months, the March data make it seem as though they were all started at once. As such, we're more than a little skeptical of the March multi-family starts number, and barring that being revised substantially lower, we expect some payback in the April data. As was also the case with permits, the unadjusted data showed a jump in single family starts in March and we look for that gain to have been extended in April. We have for some time expected single family starts to hold up better than single family permits, reflecting builders working down sizable orders backlogs, and the jump in single family permit issuance in March will have given starts an extra kick, particularly with signs of at least some relief on the supply chain front. Under the heading "timing is everything," however, that relief on the supply front comes just as higher mortgage rates appear to have taken some of the steam out of demand. If indeed demand for single family home purchases has cooled a bit on mortgage rates having risen above 5.0 percent, we would expect to see that first in the permits data, while builders working down order backlogs will, at least for a time, check any decline in single family starts. On a not seasonally adjusted basis, we look for total housing starts of 147,300 units in April.
April Existing Home Sales Thursday, 5/19 Range: 5.440 to 5.800 million units Median: 5.650 million units SAAR	Mar = 5.770 million units SAAR	Down to an annualized rate of 5.670 million units. On a not seasonally adjusted basis, we look for sales of 486,000 units, which would be a 6.6 percent increase from March sales of 456,000 units. But, as that would be smaller than the typical April increase, it would not be looked upon kindly by the seasonal adjustment process, hence the decline we expect to see in the headline (i.e., seasonally adjusted, annualized) sales number. In addition to examining the not seasonally adjusted data to help put the headline sales number in proper context, it will also help to keep in mind that existing home sales are booked at closing. As such, April sales (closings) will largely reflect sales contracts signed over the late-February through mid-March period, and while mortgage rates rose modestly over this span, that increase was not nearly as significant as that seen over subsequent weeks. So, while higher mortgage rates may have held down existing home sales in April, we think lean inventories will have been a bigger drag, even with our expectation that inventories rose sharply in April. Our forecast would leave listings down 5.2 percent year-on-year, which would be the smallest such decline since October 2019. Once again under the heading of "timing is everything," any such relief on the supply front would come just as demand is softening as higher mortgage interest rates combine with a prolonged period of heady price appreciation to further curtail affordability. To the extent this is the case, there will be further downward pressure on existing home sales in the months ahead as the months supply metric rises rapidly.
April Leading Economic Index Thursday, 5/19 Range: -0.4 to 0.5 percent Median: 0.0 percent	Mar = +0.3%	Down by 0.3 percent.