ECONOMIC PREVIEW

REGIONS

Week of June 27, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 26-27 FOMC meeting):* Target Range Mid-point: 1.875 to 2.375 percent Median Target Range Mid-point: 2.375 percent	Range: 1.50% to 1.75% Midpoint: 1.625%	In a busy week for data releases, we'll be most keenly focused on Monday's release of the data on May durable goods orders and the new orders component of the June ISM Manufacturing Index (released on Friday). While working down order backlogs will keep factories busy for some time to come, the orders data will provide a more timely indication of the extent to which the economy is slowing under the weight of elevated inflation and rising interest rates.
May Durable Goods Orders Monday, 6/27 Range: -1.3 to 1.8 percent Median: 0.2 percent	Apr = +0.5%	Down by 0.5 percent. More timely indicators, such as PMI surveys conducted by S&P, show a marked weakening in new manufacturing orders in June, and while the Census Bureau's May data on factory orders may not reflect that, it seems only a matter of time. As such, while we expect the May data to show modest gains in ex-transportation and core capital goods orders, we consider the risks to our forecasts to be to the downside. With only nine net orders in May, down slightly from April, civilian aircraft should be a drag on top-line orders (it is net orders, not gross orders, that feed into the data on durable goods orders). We also look for another decline in motor vehicle orders as supply chain constraints continue to bedevil domestic producers. Aside from transportation, our forecast anticipates modestly higher orders, and we'll be particularly interested in orders for industrial machinery and, more broadly, core capital goods, the latter being a useful guide to patterns in business investment as reported in the GDP data. Business investment has been a key support for real GDP growth over recent quarters, but the combination of slowing economic growth, wavering business confidence, and margin pressures could lead firms to put cap ex plans on hold until the path forward is more clear.
May Durable Goods Orders: Ex-Trnsp. Monday, 6/27 Range: -0.5 to 0.8 percent Median: 0.3 percent	Apr = +0.4%	We look for ex-transportation orders to be up by 0.4 percent and for core capital goods orders (nondefense capital goods excluding aircraft & parts) to be up by 0.3 percent.
May Advance Trade Balance: Goods Tuesday, 6/28 Range: -\$112.0 to -\$100.4 billion Median: -\$105.4 billion	Apr = -\$106.7 billion	Widening to -\$109.2 billion.
June Consumer Confidence Tuesday, 6/28 Range: 95.0 to 104.0 Median: 100.0	May = 106.4	Down to 101.9, as elevated inflation, particularly food and energy, weighs on consumers, with the University of Michigan survey on consumer sentiment, which hit an all-time low in June, setting a dour tone. It is worth noting, however, that the Conference Board's survey of consumer confidence is more weighted toward labor market conditions, which should temper the degree of any decline in June. That said, the "jobs plentiful/jobs hard to get" spread, which as recently as March stood at an all-time high, has narrowed over recent months, making the June reading of considerable interest. This metric has a reliable track record of front-running turns in the business cycle, so further narrowing would be a worrying sign.
Q1 GDP – 3rd estimate Wednesday, 6/29 Range: -2.0 to -1.1 percent Median: -1.5 percent SAAR	Q1 2nd est.= -1.5% SAAR	Down at an annualized rate of 1.3 percent.
Q1 GDP Price Index – 3rd estimate Wednesday, 6/29 Range: 8.1 to 8.1 percent Median: 8.1 percent SAAR	Q1 2nd est.= +8.1% SAAR	Up at an annualized rate of 8.1 percent.
May Personal Income Thursday, 6/30 Range: 0.1 to 0.5 percent Median: 0.5 percent	Apr = +0.4%	Up by 0.4 percent. Another solid increase in private sector wage and salary earnings will underpin growth in total personal income, and our forecast would leave private sector labor earnings up by double-digits on a year-on-year basis for a 14th straight month. This is worth keeping in mind when looking at over-the-year comparisons of disposable (after-tax) income, which are skewed by the extent to which sizable transfer payments pushed up income over the first several months of 2021. At the same time, however, our forecast anticipates a second straight monthly decline in proprietors' income, both farm and nonfarm. Nonfarm proprietors' income, a proxy for small business profits, has come under increasing pressure as in many cases small businesses do not have the same latitude to pass along higher input costs in the form of higher prices as do larger corporations. If proprietors' income held up better in May than we anticipate, our forecast of total personal income will be too low.

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 June 27, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
May Personal Spending Thursday, 6/30 Range: 0.1 to 0.9 percent Median: 0.4 percent	Apr = +0.9%	Up by 0.5 percent. Our forecast anticipates a decline in total spending on goods thanks to a hefty decline in spending on consumer durable goods. Unit motor vehicle sales fell sharply in May, which was more a (lack of) supply story than a demand story, while the May retail sales data point to sharp declines in spending on other types of consumer durables, such as furniture, appliances, and electronics. While our forecast does anticipate an increase in spending on nondurable goods, this is mainly a reflection of gasoline sales being bolstered by higher prices, an increase which will be washed away in the data on real, or, inflation adjusted, spending. We look for another healthy increase in consumer spending on services, which will push total consumer spending higher. Services spending has been growing rapidly over recent months, reflecting higher spending on things such as travel, tourism, dining out, recreation, and entertainment, and while to some extent the nominal data reflect the impact of sharply higher prices, real spending on services continues to grow at a steady rate. While our forecast anticipates growth in services spending will pave the way for a solid increase in real consumer spending in the Q2 GDP data, we do not expect this growth to be sustained, with growth in services spending likely to moderate sharply over the course of Q3. This in turn will contribute to a pronounced slowdown in the pace of real GDP growth over 2H 2022.
May PCE Deflator Thursday, 6/30 Range: 0.5 to 0.8 percent Median: 0.7 percent	Apr = +0.2%	Up by 0.7 percent, which would translate into a year-on-year increase of 6.4 percent. We look for the Core PCE Deflator to be up by 0.4 percent, which would yield an over-the-year increase of 4.8 percent. In general, inflation as measured by the PCE Deflator tends to run below inflation as measured by the Consumer Price Index (CPI), as the PCE Deflator is a much broader measure and the CPI is a fixed-weight measure of the cost of a fixed basket of goods. Still, the gap between the two measures has widened considerably over recent months, and our forecast would leave PCE inflation 209 basis points below CPI inflation, the widest gap since October 1981. Additionally, if our forecast of Core PCE inflation is on or near the mark, May would be the third straight month in which Core PCE inflation has decelerated. To be sure, both headline and core inflation as measured by the PCE Deflator, the FOMC's preferred measure of inflation, remain far above the FOMC's 2.0 percent target rate. But, if we are correct that core inflation will continue to decelerate while food and energy prices continue to prop up headline inflation at a time when real GDP growth is slowing sharply, that will set up an interesting, though most uncomfortable, dilemma for the FOMC.
June ISM Manufacturing Index Friday, 7/1 Range: 52.0 to 56.0 percent Median: 54.7 percent	May = 56.1%	Down to 53.8 percent. As noted in our *Page 1* discussion on durable goods orders, the S&P survey of purchasing managers shows new orders declined in June, and while that doesn't necessarily translate into a decline in the ISM's gauge of new orders, it is reasonable to at least expect a pronounced slowdown in orders growth. While that would act as a drag on the headline index, firms working down orders backlogs should sustain growth in production and employment, at least for now. One metric we routinely point to when discussing the ISM data is the breadth of growth in new orders and overall manufacturing activity. Orders growth has become less broad based over recent months, and while this has yet to translate into overall growth becoming more narrowly based, it is something we'll be watching carefully. It is likely that the ISM's June data will show input price pressures remain intense, and we'll also be watching the supplier delivery times index for any signs of relief from the supply chain constraints that have for some time weighed on the factory sector.
May Construction Spending Friday, 7/1 Range: -0.5 to 1.0 percent Median: 0.4 percent	Mar = +0.21%	Up by 0.3 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