# ECONOMIC PREVIEW

REGIONS

Week of July 11, 2022

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint**<br>*(After the July 26-27 FOMC meeting):*<br>Target Range Mid-point: 2.125 to 2.375 percent<br>Median Target Range Mid-point: 2.375 percent | Range:<br>1.50% to 1.75%<br>Midpoint:<br>1.625% | While we're tempted to say that the June CPI data (see below) will seal the deal for a 75-basis point Fed funds rate hike at the July FOMC meeting, the Committee's last-minute pivot in June is a caution against doing so. While some have pointed to recent declines in energy and commodity prices as grounds for a less aggressive 50-basis point funds rate hike in July, we don't think the Committee will be at all swayed by these declines, nor will they be impressed by what has been a gentle deceleration in core inflation. With no thoughts of a pause until the funds rate has been pushed above its neutral value, there's no reason for the FOMC to let up at their July meeting.<br><br>As for this week's slate of data, the June reading on the Consumer Price Index will bring the highest rate of CPI inflation since December 1981 but the details should show further deceleration in core goods inflation. June retail sales (see Page 2) will be flattered by higher gasoline prices, but many goods retailers will have to suffer the indignity of discounting in order to clear unwanted inventory accumulations, though that may be more apparent in the July data than it will be in the June data. |
| **June Consumer Price Index** Wednesday, 7/13<br>Range: 0.6 to 1.3 percent<br>Median: 1.1 percent | May = +1.0% | Up by 1.2 percent, which would yield an over-the-year increase of 8.9 percent. Despite having backed off a bit late in the month, not seasonally adjusted gasoline prices were up by around eleven percent on a monthly average basis in June, whereas the seasonal adjustment factor used in the CPI anticipates a 1.1 percent decline. This will leave gasoline prices up nearly twelve percent on a seasonally adjusted basis, which alone will add about half a point to the monthly change in the headline index. At the same time, we look for another sizable increase in food prices to bolster the headline index. Given the strength of demand, lodging rates and air fares should also post hefty gains while both primary and owners' equivalent rents should post gains in line with the six-tenths of a point increases seen in May, and persistently lean inventories should feed into another sizable increase in new vehicle prices, all of which will support the core CPI (see below). The decline in retail gasoline prices seen over the back half of June have carried into July, and thus far prices are on track to be down over five percent on a seasonally adjusted basis for July as a whole, which will contribute to a much smaller increase in the headline CPI. That doesn't feel like much consolation, however, given the lofty level from which gasoline prices started to fall, but one takes what one can get these days. |
| **June Consumer Price Index: Core** Wednesday, 7/13<br>Range: 0.4 to 0.8 percent<br>Median: 0.5 percent | May = +0.6% | Up by 0.5 percent, which would yield a year-on-year increase of 5.7 percent. As noted above, rents, air fares, lodging rates, and new vehicle prices will all lend support to the core CPI. We will, however, point to two sources of added uncertainty in our forecast: used vehicle prices and prices for consumer durable goods such as furnishings and appliances. While limited stocks of new vehicles continue to push some demand into the market for used vehicles, which should be supportive of pricing, there are measures of wholesale prices for used vehicles that show declines in June, though the mapping from there to the CPI data isn't always straightforward. So, while our forecast anticipates a modest increase in used vehicle prices, it could prove too high. As for other types of consumer durable goods, prices for appliances fell sharply in May and prices for electronics were also lower, as were several components of the broad furniture index. While our forecast anticipates declines in the June data, a rapidly cooling housing market and the broader pullback in spending on discretionary goods have triggered discounting that could push prices down more than we expect. Even if our forecast proves to be on the mark, it would still reflect a third straight month of decelerating core inflation, a trend also apparent in the data on the PCE Deflator, the FOMC's preferred gauge of inflation. To be sure, core inflation remains far above the FOMC's desired 2.0 percent rate, but we think that it at least moving in the right direction will ultimately matter in the context of rapidly slowing economic growth. |
| **June PPI: Final Demand** Thursday, 7/14<br>Range: 0.6 to 1.0 percent<br>Median: 0.8 percent | May = +0.8% | Up by 0.9 percent, which would translate into a year-on-year increase of 10.7 percent. |
| **June PPI: Core** Thursday, 7/14<br>Range: 0.3 to 0.9 percent<br>Median: 0.5 percent | May = +0.5% | Up by 0.5 percent, good for a year-on-year increase of 8.2 percent. |

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| **June Retail Sales: Total**<br>Range: -0.2 to 2.2 percent<br>Median: 0.9 percent | Friday, 7/15 | May = -0.3% | Up by 1.1 percent. With prices up around twelve percent in June, gasoline will be a prime support for June retail sales, though two offsets will be lower demand and a punitive seasonal adjustment factor. Motor vehicle sales should be a modest support for top-line retail sales given the increase in unit motor vehicle sales and higher prices for new vehicles, though softer pricing for used vehicles may be a bit of an offset. Our forecast anticipates continued weakness in sales of consumer durable goods such as furniture, appliances, and electronics, reflecting the combination of diminished demand and lower prices. More broadly, to the extent that rising retail inventories have led to discounting, that could weigh on sales at general merchandise stores, though the extent to which there would have been aggressive discounting in June is unclear – we'd expect that to be a bigger factor in the July data. One place we expect higher prices to pad sales (recall the retail sales data are not adjusted for price changes) is grocery store sales, but keep in mind that some portion of food sales has shifted to warehouse/club stores, which report up into the broad general merchandise stores category. Whether purchased in grocery stores or club/warehouse stores, there are signs that food purchased for consumption at home has displaced some restaurant sales, and despite support from higher prices we look for further deceleration in growth of restaurant sales in the June data. |
| **June Retail Sales: Ex-Auto**<br>Range: -0.5 to 1.8 percent<br>Median: 0.7 percent | Friday, 7/15 | May = +0.5% | Up by 1.0 percent. |
| **June Retail Sales: Control Group**<br>Range: -1.8 to 0.7 percent<br>Median: 0.3 percent | Friday, 7/15 | May = 0.0% | Up by 0.6 percent. Sales by nonstore retailers are a wild card in our forecast of June retail sales, potentially accounting for a one-tenth of a point swing across the board in the three measures (total, ex-auto, control). Roughly ninety percent of sales in this broad category are accounted for by online sales, which have been all over the map over recent months. While the rotation in consumer spending away from goods and toward services is a drag on online sales, higher gasoline prices may be keeping more shoppers home and shopping online as opposed to venturing out to physical stores. While our forecast anticipates a moderate increase in sales by nonstore retailers in the June data, thanks in part to favorable seasonal adjustment, the volatility of this category over recent months makes it hard to have much confidence in our call. |
| **June Industrial Production**<br>Range: -0.5 to 0.6 percent<br>Median: 0.1 percent | Friday, 7/15 | May = +0.1% | Unchanged. Motor vehicle production will likely be a drag on manufacturing output, in part thanks to unfriendly seasonal adjustment. Non-auto manufacturing is also likely to be weak as demand has softened of late. Our forecast anticipates gains in mining output and utilities output will combine to negate lower manufacturing output, leaving the headline index unchanged. |
| **June Capacity Utilization Rate**<br>Range: 78.9 to 81.2 percent<br>Median: 80.7 percent | Friday, 7/15 | May = 80.8% | Up to 81.0 percent. |
| **May Business Inventories**<br>Range: 0.9 to 1.5 percent<br>Median: 1.3 percent | Friday, 7/15 | Apr = +1.2% | We look for total business inventories to be up by 1.4 percent, and for total business sales to be up by 0.8 percent. |



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