ECONOMIC PREVIEW

Week of July 25, 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: 2.125 to 2.625 percent Median Target Range Mid-point: 2.375 percent	Range: 1.50% to 1.75% Midpoint: 1.625%	Timing may be everything in life, but in central banking, maybe not so much. The FOMC is widely expected to announce another 75-basis point hike in the Fed funds rate on Wednesday afternoon, and on Thursday morning the BEA will release the initial estimate of Q2 GDP, which we and many others expect to show a second straight quarterly contraction in real GDP (see Page 2). The FOMC, however, remains focused on elevated inflation and several FOMC members have suggested that a recession would be less costly than allowing inflation to roam free. A seventy-five basis point funds rate hike would put the upper end of the Fed funds rate target range up against the Committee's estimate of the "neutral" funds rate, and the Committee will almost surely push beyond that at subsequent meetings. With no new economic and financial projections on tap for this meeting, the post-meeting policy statement will be closely scrutinized. Of interest will be how the extent to which the Committee acknowledges the recent slowdown in the economy and apparent softening in labor market conditions, and also the extent to which the Committee offers forward guidance, which has seemingly fallen out of favor with central bankers of late. In his post-meeting press conference, Chairman Powell will no doubt be queried on the pace of subsequent rate hikes and when the Committee may deem enough is enough if facing a landscape of an economy in not in then teetering on recession while inflation remains well above the FOMC's 2.0 percent target.
July Consumer Confidence Tuesday, 7/26 Range: 90.0 to 101.0 Median: 97.0	Jun = 98.7	Up to 99.1 as lower gasoline prices may lead to a bit of a bounce in the assessment of present conditions. As always, our main focus will be on consumers' assessments of labor market conditions. While the "jobs plentiful/jobs hard to get" spread has narrowed a bit since hitting an all-time high in March, it nonetheless remains notably elevated. We'll be interested in whether, or to what extent, consumers' perceptions have changed in light of signs that labor market conditions have begun to soften. We've always maintained that how consumers feel about their own job and income prospects is a much more useful guide of their willingness to spend than the headline confidence numbers. Additionally, changes in the "jobs plentiful/jobs hard to get" spread have been useful indictors of changes in the unemployment rate.
June New Home Sales Tuesday, 7/26 Range: 500,000 to 680,000 units Median: 660,000 units SAAR	May = 696,000 units SAAR	Down to an annualized rate of 639,000 units. On a not seasonally adjusted basis, we look for new home sales of 56,000 units, an 11.1 percent decline from May. The new home sales data, albeit highly volatile, are a more timely reflection of the effects of higher mortgage interest rates than is the case with existing home sales, as new home sales are booked at the signing of the sales contract rather than at closing. Even so, given that the data do not account for cancellations, the new home sales data are at least somewhat overstated. Builders are seeing some relief on the cost front and, as such, are becoming a bit more flexible on pricing in order to move rising inventories of spec homes. Still, there is likely more room to the downside from here.
June Durable Goods Orders Wednesday, 7/27 Range: -3.0 to 0.9 percent Median: -0.4 percent	May = +0.8%	Down by 0.6 percent. While Boeing logged an increase in net orders for June (gross orders rose more sharply but so too did cancellations, and it is net orders that matter for the data as reported by Census), what was only a slight increase in net orders was likely negated by softer pricing which would lead to a decline in the dollar volume of orders. Elsewhere, while our forecast anticipates a modest increase in core capital goods orders (see below), we don't have a high degree of confidence in that call. Based on the ISM Manufacturing Index and the regional Fed bank surveys, demand for manufactured goods has begun to soften, though the mapping from these and similar surveys to the dollar volume of orders as reported in the Census data is not always clear-cut. In any event, business investment in equipment and machinery has been a support for real GDP over the past several quarters, and the data on core capital goods orders will be the first place to look for signs that this support is fading.
June Durable Goods Orders: Ex-Trnsp. Wednesday, 7/27 Range: -1.0 to 0.7 percent Median: 0.2 percent	May = +0.7%	We look for ex-transportation orders to be up by 0.4 percent and for core capital goods orders (non-defense capital goods excluding aircraft & parts) to also be up by 0.3 percent.
June Advance Trade Balance: Goods Wednesday, 7/27 Range: -$110.0 to -$99.9 billion Median: -$103.0 billion	May = -$104.3 billion	Narrowing to -$102.7 billion.

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Q2 Real GDP – 1st estimate Range: -2.1 to 2.0 percent Median: 0.4 percent SAAR	Thursday, 7/28	Q1 = -1.6% SAAR	Down at an annualized rate of 0.8 percent. Clearly, the U.S. economy has slowed, but whether the GDP data are the best reflection of that is open to interpretation. If our forecast is right, at least directionally, that would mark two consecutive quarterly contractions in real GDP, and while that would conform to a widely used definition of recession, it wouldn't necessarily compel the NBER to declare a recession, though it could be up to a year before we know the answer to that given how deliberative the NBER is in making such calls. In any event, at the time of its release, we argued the Q1 GDP data said more about the quirks of GDP accounting than about the true state of the economy, given that inventories and trade accounted for the decline in real GDP despite an increase in private domestic demand. While trade should be a support for Q2 GDP, a smaller inventory build than seen in Q1 could take as much as two percentage points off the quarterly change in real GDP, which could be enough to yield another contraction given what should be a contraction in real residential fixed investment and slower growth in consumer spending and business investment. Arguing about whether the economy is in recession seems like little more than quibbling over semantics at this point; the economy has slowed and our baseline forecast has it limping along at barely above stall speed over the next several quarters, and with the FOMC not yet finished "doing a job" on demand, the risks to our growth forecast are tilted to the downside, even if real GDP did eke out a modest gain in Q2.
Q2 GDP Price Index – 1st estimate Range: 6.3 to 10.0 percent Median: 7.9 percent SAAR	Thursday, 7/28	Q1 = +8.2% SAAR	Up at an annualized rate of 8.1 percent.
Q2 Employment Cost Index Range: 0.9 to 1.5 percent Median: 1.2 percent	Friday, 7/29	Q1 = +1.4	Up by 1.0 percent, with wage costs up 1.0 percent and benefits costs up 0.8 percent. On a year-on-year basis, our forecast would leave the total ECI up 4.6 percent, with wage costs up 4.8 percent and benefit costs up 4.3 percent. The ECI is considered the most reliable measure of growth in total labor compensation costs, as it accounts for both wage costs and benefit costs and is free of the mix issues that often bias the average hourly earnings metric in the monthly employment reports since the ECI tracks comp costs for the same positions over time. The 1.4 percent increase in the ECI in Q1 2022 was the largest quarterly increase in the life of the data as it is now constituted, but the surprising element of that was the 1.8 percent increase in benefit costs, the largest quarterly increase since 2004. At that time, rapid growth in benefit costs was a matter of course, but the Q1 increase was far above the recent run rate. Our below-consensus forecast anticipates a more trend-like increase in benefit costs, but if the Q1 increase was the start of a period of faster growth in benefit costs, our forecast for the total ECI will be too low. We do expect the Q2 ECI data to show some moderation in wage costs, but even if we're a quarter too soon on that call, recent signs that labor market conditions have softened makes decelerating wage growth a matter of when, not if.
June Personal Income Range: 0.3 to 0.7 percent Median: 0.5 percent	Friday, 7/29	May = +0.5%	Up by 0.4 percent. Another solid increase in private sector wage and salary earnings will underpin growth in total income, and our forecast would yield the fifteenth straight double-digit over-the-year increase in private sector earnings. What should be another sizable increase in rental income should also support top-line income growth. One wild card here is nonfarm proprietors' income, a proxy for small business profits. Prior to an outsized increase in May, nonfarm proprietors' income had been somewhat listless for a number of months, which we had attributed to small businesses struggling to keep pace with rising costs for labor and other inputs. While our forecast anticipates a much more moderate increase than seen in May, this is a category which could swing the monthly change in total personal income by a tenth of a point in either direction, particularly if that initial estimate for May does not withstand revision. With growth in personal income lagging growth in personal spending (see Page 3), the personal saving rate will have declined in June, though this is a very imperfect measure of the degree of liquidity remaining in the household sector.

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June Personal Spending Friday, 7/29 Range: 0.4 to 1.3 percent Median: 0.9 percent	May = +0.2%	Up by 1.1 percent. As reflected in the retail sales data, spending on goods was up sharply in June, with an increase in unit motor vehicle sales supporting growth in spending on consumer durable goods. Still, much of the increase in nominal spending on goods in June reflected higher prices, particularly for gasoline. We expect the June data to show another sizable increase in spending on services such as travel, lodging, dining out, and recreation, reflecting a blend of strong demand and higher prices. While the June data on personal income and spending will be incorporated into the Q2 GDP data released on Thursday, the pattern of monthly changes merits attention, particularly given that the data through May showed real (or, inflation adjusted) spending on goods had declined in five of the past seven months. Higher real spending services has for the most part offset these declines, but that still leaves us with somewhat listless growth in total consumer spending which, if we're correct in expecting services spending to slow as summer ends, will extend into 2023.
June PCE Deflator Friday, 7/29 Range: 0.2 to 1.0 percent Median: 0.9 percent	May = +0.6%	Up by 1.0 percent, which would translate into an over-the-year increase of 6.9 percent. We look for the core PCE Deflator to be up by 0.6 percent, yielding a year-on-year increase of 4.8 percent. Our forecast would reflect the fastest rate of PCE inflation since January 1982, and even if the June data mark the peak rate of inflation, whether measured by the Consumer Price Index or the PCE Deflator, the trip down is likely to be frustratingly slow. We expect inflation as measured by the PCE Deflator, the FOMC's preferred gauge, to remain above the FOMC's 2.0 percent target rate into 2024.

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