ECONOMIC PREVIEW

REGIONS

Week of August 8, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 20-21 FOMC meeting):* Target Range Mid-point: 2.875 to 2.875 percent Median Target Range Mid-point: 2.875 percent	Range: 2.25% to 2.50% Midpoint: 2.375%	So far, so (not so) good. At least if you're the FOMC and you're assessing the degree to which your quest to "do a job on demand" has tamed inflation pressures. Between the Q2 data on the Employment Cost Index and the July employment report, the labor market appears to have not even noticed. This week's inflation data won't exactly be a shining light of progress, unless headline inflation slowing from 9.1 to 8.8 percent can be considered as such. The data thus far bear out San Francisco Fed President Daly's comment that the FOMC is "nowhere near almost done."
Q2 Nonfarm Labor Productivity Tuesday, 8/9 Range: -6.0 to -1.5 percent Median: -4.6 percent SAAR	Q1 = -7.3% SAAR	<u>Down</u> at an annualized rate of 5.9 percent. Real output in the nonfarm business sector fell at an annualized rate of 2.1 percent in Q2, while aggregate hours worked in nonfarm businesses increased at an annualized rate of 3.4 percent and hours worked amongst the self-employed increased at an annualized rate of 13.1 percent. The net result should be another substantial decline in labor productivity, though given that the reported contraction in real business output mainly reflects a slower pace of inventory accumulation, it isn't clear what the productivity data will really be telling us. What would be of more concern if our forecast is on or near the mark is that it would leave the running 8-quarter moving average of changes in productivity, which we see as the best gauge of underlying productivity trends, negative for the first time since Q3 1994. Sure, that was just before the dawn of the "productivity miracle," a ten-year run of average productivity growth of 3.0 percent, but a repeat of that episode seems highly unlikely any time soon. Weak/falling productivity and rapid growth in labor costs (see below) isn't exactly a winning combination and, baring a meaningful pick-up in the pace of economic growth, the only remedy would be either a screeching halt in hiring or outright layoffs.
Q2 Unit Labor Costs Tuesday, 8/9 Range: 6.8 to 12.4 percent Median: 9.5 percent SAAR	Q1 = +12.6% SAAR	<u>Up</u> at an annualized rate of 11.0 percent. To some extent, the sharp increase in labor costs per unit of output is merely the flip side of the steep decline in productivity, which in Q2 reflected little more than the quirks of GDP accounting. That won't mask the faster growth in hourly comp costs we expect the Q2 data to show, making the sharp increase in unit labor costs more than a bookkeeping contrivance.
July Consumer Price Index Wednesday, 8/10 Range: 0.0 to 0.4 percent Median: 0.2 percent	Jun = +1.3%	<u>Up</u> by 0.3 percent, which would translate into a year-on-year increase of 8.8 percent. Falling gasoline prices will be a heavy weight on the monthly change in the total CPI, deducting between three and four-tenths of a point. That, however, will be a cold comfort to the FOMC, as even with a much more modest monthly increase, the over-the-year change in the total CPI will remain well over eight percent.
July Consumer Price Index: Core Wednesday, 8/10 Range: 0.3 to 0.7 percent Median: 0.5 percent	Jun = +0.7%	<u>Up</u> by 0.6 percent, yielding an over-the-year increase of 6.2 percent, up from May's rate of 5.9 percent. If we are correct, core inflation will continue to accelerate in the months ahead, sustained by rent growth and faster growth in medical care costs. The CPI's measure of rent growth lags market based measures, and while the latter have shown some cooling in rent growth, it will be some time before that turns up in the CPI data. Unlike the PCE Deflator, the CPI's measure of medical care costs reflects out of pocket expenditures on the part of consumers, and with many insurance providers holding the line on reimbursement rates, this leaves providers contending with rapidly rising costs no alternative but to raise fees. While it may not be July, at some point this will turn up in the CPI data, which is one reason we've for some time expected medical care costs to be a source of core inflation pressures. One downside risk to our forecast is that prices for non-auto consumer durables could be weaker than we anticipate; after having fallen in May, prices for furniture and appliances rose in June, and discounting could lead to more pronounced July declines than the modest ones we've penciled in. Lower airfares should help hold down transportation costs in the core CPI, as will a more modest increase in new vehicle prices and what should be flattish used vehicles prices.
July PPI: Final Demand Thursday, 8/11 Range: 0.0 to 0.4 percent Median: 0.2 percent	Jun = +1.1%	<u>Up</u> by 0.3 percent, which would yield an over-the-year increase of 10.5 percent.
July PPI: Core Thursday, 8/11 Range: 0.3 to 0.6 percent Median: 0.4 percent	Jun = +0.4%	<u>Up</u> by 0.4 percent, good for an over-the-year increase of 7.7 percent.

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