ECONOMIC PREVIEW

REGIONS

Week of June 12, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 13-14 FOMC meeting):* Target Range Mid-point: 5.125 to 5.375 percent Median Target Range Mid-point: 5.125 percent	Range: 5.00% to 5.25% Midpoint: 5.125%	For as much debate as there is over whether or not the FOMC will push the Fed funds rate higher at this week's meeting, we're not sure how much difference it will make either way. After all, having pushed the funds rate up by five hundred basis points in relatively short order, at least as these things go, an incremental twenty-five basis point hike is unlikely to be the hike that slays inflation or sends the economy tumbling into recession. Either way, inflation clearly remains too high for the FOMC's collective comfort, and regardless of whether or not they raise the funds rate this week, the Committee faces a communications challenge as they look to reinforce the following two points – they are not necessarily done raising the funds rate, and they are a long way from cutting the funds rate. There seems to be almost as much division within the Committee as there is amongst outside observers as to whether further funds rate hikes are warranted. That division will best be seen in the updated "dot plot." Recall that in the March edition seven of the eighteen members saw further rate hikes this year as being appropriate, and with or without a hike at this week's meeting, that number is likely to remain elevated in the updated dot plot.
May Consumer Price Index Tuesday, 6/13 Range: 0.0 to 0.3 percent Median: 0.2 percent	Apr = +0.4%	Unchanged, which would leave the total index up 4.0 percent year-on-year. The sharp deceleration in the over-the-year increase from the 4.9 percent increase in April reflects favorable (i.e., negative) base effects, which will be similarly pronounced in the June data. Recall that last year saw monthly increases of 0.9 percent in May and 1.2 percent in June, which kicked the over-the-year increases into a higher gear. If we're correct, June's over-the-year increase could be just over three percent, and if that makes it seem as though the FOMC can just call it a day and go away, that isn't quite the case. First, the deceleration in the pace of core CPI inflation will not be nearly as pronounced as will be the case with headline inflation, which is a reflection of the extent to which rapidly rising food and gasoline prices drove last year's outsized monthly increases and the extent to which easing food and gasoline prices are now weighing on the headline index. Second, and more importantly, not all of the downward push from these base effects will stick, leaving both headline and core inflation easily above the FOMC's 2.0 percent target heading into 2024 barring a significant economic downturn over 2H 2023. This illustrates the point we made above, i.e., which is that whether they raise the Fed funds rate or not at this week's meeting, the FOMC is not necessarily done raising the funds rate, and that even if they are done raising the funds rate, they are far from cutting the funds rate. As to the May data, the moderate decline in retail gasoline prices is at odds with normal seasonal patterns, to the point that the seasonally adjusted data will show gasoline prices down by around 5.5 percent in May, which will knock two-tenths of a point off the monthly change in the total CPI. We look for a third straight monthly decline in prices for food consumed at from home to check the increase in overall food prices, and while this would put the over-the-year change in prices for food consumed at home at 5.6 percent, the smallest such increase since October 2021, keep in mind it is the cumulative effects of a prolonged period of rapidly rising food prices that are weighing on consumer budgets. Our forecast anticipates moderation in the monthly increases in primary and owners' equivalent rents, which would nonetheless leave the over-the-year changes above 8.0 percent, increases which should begin to diminish in the months ahead. Declines in new vehicle prices and a much smaller advance in prices for used vehicles should weigh on core goods prices, so the key components of the May data will be core services prices outside of housing, which has proven to be the most frustratingly persistent source of inflation pressures despite the (somewhat artificial) drag from medical care services, which will persist through the September data. Our forecast for the core CPI was a close call between 0.3 and 0.4 percent, and core services outside of housing could easily tip the scale toward the larger increase.
May Consumer Price Index: Core Tuesday, 6/13 Range: 0.1 to 0.5 percent Median: 0.4 percent	Apr = +0.4%	Up by 0.3 percent, which would yield a year-on-year increase of 5.2 percent. To our point about base effects being less pronounced in the core CPI, recall April's over-the-year increase was 5.5 percent.
May Producer Price Index Wednesday, 6/14 Range: -0.3 to 0.2 percent Median: -0.1 percent	Apr = +0.2%	Down by 0.2 percent, which would yield a year-on-year increase of 1.4 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

ECONOMIC PREVIEW

Week of June 12, 2023

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
May Producer Price Index: Core Range: 0.0 to 0.3 percent Median: 0.2 percent	Wednesday, 6/14	Apr = +0.2%	Up by 0.1 percent, which would leave the core PPI up 2.9 percent year-on-year.
May Retail Sales: Total Range: -0.6 to 0.3 percent Median: -0.1 percent	Thursday, 6/15	Apr = +0.4%	Down by 0.6 percent. Among the challenges facing the May retail sales data are lower gasoline prices, lower unit motor vehicle sales, lower prices for new vehicles, lower grocery store prices, and tough seasonal adjustment, all of which gets us to a decline in retail sales before even getting into the discussion about whether consumers have either the will or the wherewithal to spend. If our forecast is on or near the mark, that would no doubt trigger an avalanche of stories about the state of U.S. consumers, but we'll note that our forecast would leave not seasonally adjusted sales up by almost six percent from April, a point that would almost surely be ignored in most of the coverage of the data. That does, however, go to our point about how challenging the May seasonal adjustment is – in any given year, the seasonal adjustment factors for May are the toughest of any month, and this year will be no exception to that general rule. As to actual sales, lower pump prices will hold down gasoline station sales and, to a lesser degree, sales at warehouse/club stores (which roll up into the broad general merchandise stores category) which would also be dinged by the lower food prices our forecast anticipates. Unit sales of new vehicles fell sharply in May on a seasonally adjusted basis and if new vehicle prices fell as we anticipate they did, that sets up a meaningful decline in sales revenue at motor vehicle dealers, with any such decline compounded by a tough seasonal adjustment factor. We can make that same point about May seasonal adjustment factors pretty much across the board, with gasoline stations, building materials stores, restaurants joining motor vehicle dealers as the categories with the highest seasonal adjustment bars to clear. Even if our forecasts of the seasonally adjusted data – total, ex-auto, and control group – prove to be too harsh, the May report will likely be soft, at least on the basis of the seasonally adjusted data. Either way, us the real measure of May retail sales will be found in the not seasonally adjusted data, no matter how little attention those data will get elsewhere. It also helps to recall that, with the exception of restaurant sales, the retail sales data do not capture services spending, which accounts for roughly two-thirds of all consumer spending. Discretionary services spending was strong in April and was unlikely to have faded in May, a point which also should be kept in mind when processing the May retail sales data.
May Retail Sales: Ex-Auto Range: -0.5 to 0.4 percent Median: 0.1 percent	Thursday, 6/15	Apr = +0.4%	Down by 0.3 percent.
May Retail Sales: Control Group Range: -0.2 to 0.8 percent Median: 0.2 percent	Thursday, 6/15	Apr = +0.7%	Down by 0.2 percent.
May Industrial Production Range: -0.5 to 0.8 percent Median: 0.1 percent	Thursday, 6/15	Apr = +0.5%	Down by 0.2 percent. April's seemingly healthy increase in industrial production was anything but. Not only did April's increase come on the heels of a downward revision which left the headline index unchanged in March, but April's increase was entirely accounted for by higher motor vehicle production. The data from the May employment report on aggregate hours suggest manufacturing output may have declined slightly in May. Moreover, declining rig counts make it unlikely that the solid increase in mining output reported in the April data will have been repeated in May. We've noted that, outside of transportation equipment, there has been little support for the manufacturing sector, and it is reasonable to question how much longer this support, particularly from motor vehicle production, will hold up.
May Capacity Utilization Rate Range: 79.3 to 79.9 percent Median: 79.7 percent	Thursday, 6/15	Apr = 79.7%	Down to 79.4 percent.
April Business Inventories Range: 0.0 to 0.3 percent Median: 0.2 percent	Thursday, 6/15	Mar = -0.1%	We look for total business inventories to be up by 0.2 percent and for total business sales to be up by 0.1 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

This Economic Preview may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Preview. The Contents of this Economic Preview reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Preview or with respect to any results arising therefrom. The Contents of this Economic Preview shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.