ECONOMIC PREVIEW

Week of June 26, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 25-26 FOMC meeting):* Target Range Mid-point: 5.125 to 5.375 percent Median Target Range Mid-point: 5.375 percent	Range: 5.00% to 5.25% Midpoint: 5.125%	This week's crowded data docket will help refine the view of Q2 real GDP growth, with reads that impact each component of private domestic demand – consumer spending, business fixed investment, and residential fixed investment. While the latter is perking up, this comes at a time of slowing growth in consumer spending and further softening in business investment. The May data on the PCE Deflator (see Page 2) will show further progress on headline inflation but no progress on core inflation, and it is the latter that continues to trouble the FOMC.
May Durable Goods Orders Tuesday, 6/27 Range: -3.0 to 1.5 percent Median: -0.8 percent	Apr = +1.1%	Down by 1.1 percent. A spike in orders for defense capital goods, particularly aircraft and parts, helped account for the surprising increase in total durable goods orders in April, with favorable seasonal adjustment also playing a part. We look for both to have reversed in the May data, with a sharp decline in orders for defense aircraft neutralizing an increase in orders for nondefense aircraft. At the same time, the 1.3 increase in core capital goods orders reported in the April data was no more than a gift from seasonal adjustment. The not seasonally adjusted data show core capital goods orders fell by 11.8 percent in April, but as this is smaller than the typical April decline, the seasonally adjusted data show a 1.3 percent increase, which came as quite a surprise given the weakness in this key category over the prior several months. So, barring a downward revision to that initial April estimate, we look for payback in the May data, yielding a decline in core capital goods orders (see below). This matters given that core capital goods orders are a harbinger of changes in business investment in equipment and machinery as reported in the GDP data, with this component having acted as a drag on real GDP growth over recent quarters.
May Durable Goods Orders: Ex-Trnsp. Tuesday, 6/27 Range: -1.0 to 0.5 percent Median: 0.0 percent	Apr = -0.3%	We look for ex-transportation orders to be down by 0.1 percent and for core capital goods orders (nondefense capital goods excluding aircraft & parts) to be down by 0.4 percent.
June Consumer Confidence Tuesday, 6/27 Range: 102.0 to 106.1 Median: 103.7	May = 102.3	Up to 104.3. The May survey was completed prior to the deal on the debt ceiling having been struck, and it is possible that the June data will benefit from that deal. Whether that would reflect relief over a "debt ceiling crisis" having been averted or relief from what was an endless barrage of "debt ceiling crisis" headlines is another question entirely. Either way, what stood out to us in the May survey was that consumers' assessments of labor market conditions were less favorable than at any time since April 2021, with far fewer viewing jobs as being "plentiful." We've long used the "jobs plentiful/jobs hard to get" spread as an indicator of not only changes in the unemployment rate but also of changes in overall business cycle conditions. The narrowing in this spread in recent months is consistent with the labor market cooling, but not cracking, but further narrowing would certainly merit attention.
May New Home Sales Tuesday, 6/27 Range: 646,000 to 779,000 units Median: 675,000 units SAAR	Apr = 683,000 units SAAR	Up to an annualized rate of 779,000 units. On a not seasonally adjusted basis, we look for sales of 72,000 units which, admittedly, may be a bit ambitious, particularly as this would reflect the most sales in any month since April 2021 and the 16.1 percent increase would be second to only May 2020 as the largest May increase on record. Still, recall that the May data on housing permits and starts were a huge upside surprise, and we've long used the ratios of sales to permits and sales to starts (not seasonally adjusted) to inform our forecasts of new home sales, which supports strong May sales. That of course comes with no guarantees given how flighty the new home sales data are and given a string of downward revisions to initial estimates of sales over the prior several months. Should that also apply to the initial estimate of April sales, it could be the May sales post a large increase over April but are just lower than we expect. Either way, builder confidence has risen meaningfully, and recent earnings reports have surprised to the upside, underpinned by growth in orders, particularly amongst those builders with in-house financing arms who have been able to offer concessions on mortgage rates. At the same time, higher than desired spec inventories have motivated many builders to be more flexible on other forms of concessions. To be sure, overall sales have been weighed down by higher mortgage rates, but there remains a considerable degree of pent-up demand for home purchases while extraordinarily lean inventories of existing homes for sale have been funneling more prospective buyers to the market for new homes. So, even if our forecast of May new home sales proves too high, sales will continue to trend higher.

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May Advance Trade Balance: Goods Wednesday, 6/28 Range: -\$95.3 to -\$86.0 billion Median: -\$93.5 billion	April = -\$96.8 billion	Narrowing to -\$94.4 billion but still leaving net exports on course to be a meaningful drag on Q2 real GDP growth.
Q1 Real GDP: 3rd estimate Thursday, 6/29 Range: 1.3 to 2.5 percent Median: 1.4 percent SAAR	Q1: 2nd est. = +1.3% SAAR	Up at an annualized rate of 1.3 percent. What should be some shuffling of the details – weaker inventory accumulation, slower growth in real consumer spending, stronger business investment in structures – are likely to yield little, if any, change in the headline growth print.
Q1 GDP Price Index: 3rd estimate Thursday, 6/29 Range: 4.1 to 4.3 percent Median: 4.2 percent SAAR	Q1: 2nd est. = +4.2% SAAR	Up at an annualized rate of 4.2 percent.
May Personal Income Friday, 6/30 Range: 0.1 to 0.5 percent Median: 0.3 percent	Apr = +0.4%	Up by 0.4 percent. Despite a decent increase in average hourly earnings (0.3 percent) and a jump in private sector payrolls (up by 283,000 jobs), we expect only a middling increase in aggregate private sector wage and salary earnings thanks to a decline in average weekly hours that led to a decline in aggregate private sector hours worked despite the jump in payrolls. This was the third decline in aggregate private sector hours worked in the past four months which, in addition to signaling a slowing pace of economic activity, has also been a drag on growth in personal income. Though asset-based income and rental income have more than held their own, it is growth in labor earnings, the largest component of personal income, that for many households is the bigger factor in spending decisions. Another weight on top-line income growth has been nonfarm proprietors' income, a proxy for small business profits, which over the past several months has been growing at a pace far below the pre-pandemic trend rate. Our sense is that this has been a reflection of small businesses facing ongoing cost pressures but lacking the same degree of pricing power as enjoyed by larger corporations and thus being forced to survive on much thinner margins. We expect the May data to show only another meager increase in nonfarm proprietors' income.
May Personal Spending Friday, 6/30 Range: 0.0 to 0.4 percent Median: 0.2 percent	Apr = +0.8%	Up by 0.3 percent. Our forecast anticipates weaker spending on goods, in part because we do not believe the implausibly large increase in revenue at motor vehicle dealers reported in the May retail sales data will be replicated in the BEA's measure of spending. At the same time, we look for another healthy advance in services spending, lifted by discretionary services spending (recall that, with the exception of restaurant sales, the retail sales data to not capture services spending). While spending on discretionary services has held up better than we had expected, reflecting a still significant degree of pent-up demand, we're not sure how much longer this will remain the case. To that point, it is useful to keep in mind that, rather than a gradual deceleration, a pullback in discretionary services spending is more likely to come in the form of a sudden, and sharp, stop. In addition to the impact on growth of total consumer spending, this would also matter given that discretionary services remain a key source of inflation pressures. If our view on discretionary services spending is correct, that would imply a sharper deceleration in services price inflation later in 2023 than many, including the FOMC, are now anticipating.
May PCE Deflator Friday, 6/30 Range: 0.0 to 0.4 percent Median: 0.1 percent	Apr = +0.4%	Up by 0.1 percent, which would yield a year-on-year increase of 3.8 percent. We look for the core PCE Deflator to be up by 0.3 percent, for an over-the-year increase of 4.7 percent. As with the Consumer Price Index (CPI), the total PCE Deflator will benefit from kindly base effects in the May and June data, pushing the over-the-year changes down to close to 3.0 percent in the June data. But, as is also the case with the CPI, there will be far less of a favorable impact on the core PCE Deflator, and our May forecast would leave core PCE inflation running at the average pace seen over the prior six months, with persistent price pressures amongst core services outside of housing the main culprit. As noted above, however, we think these price pressures could dissipate fairly quickly after the summer months.

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