ECONOMIC PREVIEW

REGIONS

Week of June 17, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 30-31 FOMC meeting):* Target Range Mid-point: 5.375 to 5.375 percent Median Target Range Mid-point: 5.375 percent	Range: 5.25% to 5.50% Midpoint: 5.375%	In a busy week for top-tier data releases, Tuesday's release of the May retail sales data and the May data on residential construction (Page 2) and existing home sales (Page 3) merit the most attention. In the cases of retail sales and housing permits and starts, however, we see the potential for seasonal adjustment to wreak havoc on the headline prints. In each case, we expect the details to be more constructive than the headline prints, and the details are all that matter. Always.
May Retail Sales: Total Tuesday, 6/18 Range: -0.1 to 0.5 percent Median: 0.3 percent	Apr = 0.0%	<u>Up</u> by 0.1 percent. Though our forecast may not look like much, we'd say there's more to it than meets the eye. Our forecast would leave not seasonally adjusted sales up 6.8 percent from April, which is larger than the average May increase. At the same time, however, the May seasonal factor will likely be much smaller than that used in May 2023, in keeping with the Census Bureau's realignment of the seasonal factors used to adjust the retail sales data. If we're correct on this point, it means a given level of unadjusted retail sales will translate into a much smaller level of seasonally adjusted sales than would have been the case last May. If this all seems somewhat dizzying, it is, but our view is that one cannot even begin to understand the economic landscape unless they understand why the numbers are what they are, as opposed to just knowing what the numbers are. To that point, we think headline print and the details of the May retail sales data will tell different stories, only one of which will be worth paying attention to. A few other points worth noting. First, we expect gasoline to be a material drag on top-line sales, reflecting a sharp decline in retail gasoline prices on a seasonally adjusted basis. Second, price effects will be more broadly based, as lower prices for core (ex-food, ex-energy) consumer goods excluding used motor vehicles declined in May, with notable weakness amongst furniture, appliances, and apparel. As retail sales are reported on a nominal basis (i.e., not adjusted for price changes), lower goods prices are a drag on retail sales. Third, though unit sales of new motor vehicles rose modestly in May, weak pricing and harsh seasonal adjustment could mean motor vehicle sales are actually a drag on top-line sales, as our forecast anticipates. Fourth, though growth in consumer spending is slowing, that is in line with what we've been anticipating and has for some time been incorporated into our baseline forecast, and nothing suggests consumer spending is about to fall off a cliff. This is not to dismiss growing financial stress amongst lower-income households, but instead is offered as a caution against reading too much into a headline sales print as soft as what we expect. To that point, our forecast would leave real (i.e., adjusted for price changes) control sales up 4.4 percent year-on-year, hardly indicative of broad-based distress amongst consumers and easily faster than the average growth rate seen over the five years prior to the pandemic. There are three ways our forecast could go off the rails – we could be wrong about unadjusted sales, we could be wrong about the May seasonal factor, or revisions to the initial estimate of April sales dramatically shift the starting point for May sales. The first of these is the only thing that would matter to us, the second would be pointless noise, and the third is something we can't do anything about given that we don't have the revisions ahead of time. So, as is the case with each and every data point that comes across the wires (or the screens), we won't have any reaction to what the May retail sales number is until we know why the May retail sales number is what it is.
May Retail Sales: Ex-Auto Tuesday, 6/18 Range: -0.1 to 0.6 percent Median: 0.2 percent	Apr = +0.2%	<u>Up</u> by 0.2 percent.
May Retail Sales: Control Group Tuesday, 6/18 Range: -0.1 to 0.6 percent Median: 0.4 percent	Apr = -0.3%	<u>Up</u> by 0.3 percent. To our above point about seasonal adjustment, our forecast would leave not seasonally adjusted control retail sales up 7.3 percent from April, which would not only be far larger than the typical May increase but, barring 2020 for obvious reasons, would also be the largest May increase since 2018. Yet, if we are correct in anticipating a more punitive May seasonal factor, that hefty gain in unadjusted control sales will be watered down like the bourbon at a seedy dive bar (umm, at least based on what we hear, not having any actual experience in such matters). Our forecast would also put Q2 growth in control retail sales, a direct input into the GDP data on consumer spending on goods, on track to be faster than Q1 growth in both nominal and real terms.

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May Industrial Production Range: 0.1 to 0.7 percent Median: 0.3 percent	Tuesday, 6/18	Apr = 0.0%	Up by 0.3 percent. Manufacturing output should rebound from April's decline and above-average May temperatures should support utilities output, which together should more than offset what will likely be a third straight decline in mining output.
May Capacity Utilization Rate Range: 78.4 to 78.9 percent Median: 78.6 percent	Tuesday, 6/18	Apr = 78.4%	Up to 78.7 percent.
April Business Inventories Range: 0.2 to 0.4 percent Median: 0.3 percent	Tuesday, 6/18	Mar = -0.1%	We look for total business inventories to be up by 0.3 percent and for total business sales to be up by 0.4 percent.
May Building Permits Range: 1.375 to 1.490 million units Median: 1.450 million units SAAR	Thursday, 6/20	Apr = 1.440 million units SAAR	Down to an annual rate of 1.382 million units. On a not seasonally adjusted basis, we look for total permits of 127,400 units, down 3.9 percent from April with both single family and multi-family permits lower. Many builders reported softening buyer interest through most of May, reflecting increasingly binding affordability constraints as mortgage interest rates hovered at just over seven percent during the month. With spec inventories hitting a multi-year high after having increased significantly over recent months, signs of softening demand led to a sense of unease for many builders, which in turn led them to dial down permits and starts in May. This, however, needs to be put in context, something typically lacking in the reactions to the monthly "headline," i.e., seasonally adjusted and annualized, numbers on residential construction and sales. As the unadjusted data show, any scaling back in May will have come off what were strong April numbers; the number of single family permits issued in April was the highest monthly total since May 2022, and our forecast nonetheless anticipates over 90,000 single family permits were issued in May, though we do see some downside risk to that call. As for multi-family permits, while they continue to trend lower, there remains considerable volatility around that trend, as evidenced in the April data when a spike in the South region propped up the overall total. The decline we expect in May would simply put multi-family permits back on that downward trend. So, to put things in context, the decline in not seasonally adjusted housing permits our forecast anticipates for May would come off a strong April number but would be amplified by tough seasonal adjustment that would make the headline permits number seem much weaker, something we would see as being totally irrelevant.
May Housing Starts Range: 1.265 to 1.425 million units Median: 1.375 million units SAAR	Thursday, 6/20	Apr = 1.360 million units SAAR	Down to an annual rate of 1.323 million units. As was the case with the April data, our forecast for the headline May housing starts number is well below the consensus forecast. That both not seasonally adjusted and seasonally adjusted annualized starts were in line with our forecasts in April doesn't mean that will be the case in May, but the points we made in our discussion of our housing permits forecast apply here as well. On a not seasonally adjusted basis, we look for total starts of 122,100 units, down 1.5 percent from April, with single family starts coming down a bit from what in April was the highest monthly total since June 2022. As such, at over 90,000 units, our May forecast would still leave single family starts at a high level even if builders did pull in the reins a bit given signs of softening demand amid elevated inventories of spec homes for sale. While we expect a modest increase in multi-family starts, that would come off notably weak counts over the prior two months which, on net, still leaves multi-family starts on a downward trajectory. The key point here is that seasonal adjustment will be working against the May headline starts number and, as always, it is the unadjusted data that will tell the only story that matters.
Q1 2024 Current Account Balance Range: -$209.9 to -$203.6 billion Median: -$206.8 billion	Thursday, 6/6	Q4 2023 = -$194.8 billion	Widening to -$207.4 billion, mainly reflecting a much wider U.S. trade deficit in Q1.
May Leading Economic Index Range: -0.7 to 0.0 percent Median: -0.4 percent	Friday, 6/21	Apr = -0.6%	Down by 0.5 percent.

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May Existing Home Sales Friday, 6/21 Range: 3.85 to 4.27 million units Median: 4.09 million units SAAR	Apr = 4.14 million units SAAR	Up to an annual rate of 4.22 million units. On a not seasonally adjusted basis, we look for sales of 403,000 units, up 11.9 percent from April, an increase that would be right in line with the typical May increase in the years prior to the pandemic. If that hefty increase seems at odds with pending home sales having plummeted in April, that isn't necessarily the case. Recall that existing home sales are booked at closing, so pending home sales, an index of signed sales contracts that tends to lead closings by 30-45 days, are generally seen as a useful guide to existing home sales in the following month. So, that pending home sales fell by 7.7 percent in April has many expecting a weak May print on existing home sales. What went largely overlooked, however, is that the reported decline in pending home sales in April was far more about, you guessed it, seasonal adjustment than about actual home sales activity. On a not seasonally adjusted basis, pending home sales fell by 0.77 percent in April, which was the smallest April decline in the post-pandemic years. But, the seasonal factor used to arrive at the seasonally adjusted pending home sales reading was the smallest April seasonal factor going back several years, which likely reflects this April having two more business days than last April. To that point, had last April's seasonal factor been applied, the decline in pending home sales this April would have been 1.0 percent, which no one would have batted an eye at. We use pending home sales differently than do many others, in that we take the year-on-year percentage change in pending home sales from the prior month as a guide to the current month's change in unadjusted existing home sales, hence our forecast for May sales being a bit above consensus. Our forecast would leave unadjusted sales down 0.7 percent year-on-year. One support, however loosely one uses that term in this context, for existing home sales is that inventories have been rising steadily over the past several months and rose further in May. Our forecast would leave inventories up over seventeen percent year-on-year, a big number indeed but other measures of inventories show even larger increases. Sure, interest rates remain just as prohibitive for many prospective sellers as they are for many prospective buyers, but inventories are nonetheless rising and many sellers are reducing initial asking prices as needed to facilitate sales, with days on market still relatively short in a market that remains supply constrained. Hardly an ideal set of circumstances, but we see some upside room for sales, however limited.

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