ECONOMIC PREVIEW

REGIONS

Week of July 8, 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%	This week brings the semiannual *Monetary Policy Report to Congress*, with Fed Chair Powell testifying before the Senate Banking Committee on Tuesday and before the House Financial Services Committee on Wednesday. Is widely expected that Chair Powell will acknowledge the progress made thus far on reining in inflation while cautioning that many FOMC members need to see further progress before considering Fed funds rate cuts. Many market participants will, however, be more interested in Chair Powell's take on what have been signs of slowing economic activity and a cooling labor market and how this may factor into deliberations on the path of the funds rate. Even if, as we believe, the neutral Fed funds rate is almost one hundred basis points higher than suggested in the most recent dot plot, that still leaves monetary policy restrictive. As such, Chair Powell will likely face questions over the scope for rate cuts before inflation has fallen all the way to the FOMC's 2.0 percent target, particularly in the face of a rising unemployment rate. Chair Powell will also likely face questions stemming from the CBO's recently updated fiscal projections, and though not commenting on specific taxation/spending policies, Chair Powell will likely express concern that the U.S. is on an unsustainable fiscal path.
June Consumer Price Index Thursday, 7/11 Range: 0.0 to 0.2 percent Median: 0.1 percent	May = 0.0%	Unchanged, which would yield a year-on-year increase of 3.0 percent. As with the May data, lower gasoline prices will be a meaningful drag on the headline CPI. On a seasonally adjusted basis, retail gasoline prices were down by almost four percent in June, which will take over one-tenth of a point off the monthly change in the total CPI. Our forecast anticipates a slightly larger increase in the overall index of food prices than that seen in the May data; we do not expect some of the sizable declines across several categories in the food consumed at home index in the May data to be repeated in the June data and look for another trend-like increase in prices for food consumed away from home. As for the core CPI, declines in prices of both new and used motor vehicles should ensure prices for core (non-food, non-energy) consumer goods decline for the twelfth time in the past thirteen months. There is much more behind this run of weakness than vehicle prices, and it could be that a strong U.S. dollar has offset higher shipping costs to keep downward pressure on prices of imported non-auto goods. One likely exception in the June data will be apparel prices, which we expect to be up modestly on a seasonally adjusted basis. While the unrounded changes may soften a bit, we expect the monthly change in both primary and owners' equivalent rents to print at 0.4 percent which would keep the year-on-year increases above 5.0 percent. Many of the forecasts for the June core CPI we've seen have the monthly change teetering on the line between printing at 0.2 or 0.3 percent. Our forecast, however, is teetering on the line between printing at 0.1 or 0.2 percent. Differing expectations for prices for travel services – air fares, lodging, and rental car rates – are a primary source of disagreement. Recall that the May data showed declines in these categories, declines that in the first two components reflected smaller than normal May increases in the unadjusted data printing as seasonally adjusted declines due to harsh seasonal factors. Though many forecasters expect rebounds in the June data, we do not, given that seasonal adjustment for June will be no less harsh than was the case in the May data. As such, smaller than normal June increases, let alone declines, in unadjusted lodging rates, air fares, and rental car rates would be turned into sharper declines on a seasonally adjusted basis than seen in the May data. If we're wrong on this point, our forecast for the core CPI will be too low. That said, we'd be more surprised to see the core CPI print at 0.3 percent than we would to see it print at 0.1 percent.
June Consumer Price Index: Core Thursday, 7/11 Range: 0.1 to 0.3 percent Median: 0.2 percent	May = +0.2%	Up by 0.1 percent, though the risks to our forecast are to the upside. Still, that the 3.4 percent year-on-year change we expect matches the consensus forecast illustrates that how the monthly change prints will be a matter of rounding.
June Producer Price Index Friday, 7/12 Range: -0.2 to 0.2 percent Median: 0.1 percent	May = -0.2%	Unchanged, which would yield a year-on-year increase of 2.3.
June Producer Price Index: Core Friday, 7/12 Range: 0.0 to 0.3 percent Median: 0.2 percent	May = 0.0%	Up by 0.1 percent, for a year-on-year increase of 2.5 percent.

Regions Financial Corporation, 1900 5th Avenue North, 17h Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com