ECONOMIC PREVIEW

REGIONS

Week of July 15, 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%	Sure, we get the favorable reaction to last week's release of the June CPI data but have to wonder whether some are going a bit overboard, particularly those adding Fed funds rate cuts to their forecasts on that basis. We've noted that seasonal adjustment weighed heavily on prices for travel services in both May and June, thus overstating the softening in the core CPI. At the same time, prices for core consumer goods excluding used motor vehicles showed signs of firming in June, and while perhaps not being additive to the core CPI in the months ahead, they are also unlikely to remain the persistent drag they've been over the past year. Finally, while the long-awaited moderation in rent growth was a primary factor in the soft June CPI print, the FOMC has for some time been looking beyond shelter costs to gauge trends in services price inflation so, in that sense, the moderation in rent growth won't be as meaningful. While the measure of "supercore" services prices eased in June, we'll reiterate our point about the effects of favorable seasonal adjustment and note that those favorable seasonal adjustment effects will begin to fade right around the time when the over-the-year comparisons for the total and core CPI begin to get tougher. We have for some time seen room for the FOMC to begin cutting the funds rate by year-end. We don't, however, see the June CPI data as having added on to that room.
June Retail Sales: Total Tuesday, 7/16 Range: -1.4 to 0.3 percent Median: -0.2 percent	May = +0.1%	<u>Down</u> by 0.6 percent. June has always been an odd month for retail sales, stuck between the Memorial Day holiday and the July 4 holiday along with, at least more recently, aggressive July online promotions. To that point, outside of 2020 there have been only three years in the life of the current series on retail sales, which goes back to 1992, in which not seasonally adjusted retail sales have risen in the month of June, the last being 2005, while 1994 is the only year over this span in which not seasonally adjusted control retail sales have risen in the month of June. While in theory seasonal adjustment would account for this pattern, that there is no clear and consistent pattern in terms of the magnitude of the June declines throws an annoying wrench into the seasonal adjustment works. So, even under the best of circumstances, the June retail sales data can be quite, let's say, challenging. This year hardly qualifies for "under the best of circumstances," at least as far as the June retail sales data go. First, June motor vehicle sales were significantly impaired by a cyberattack on software used by motor vehicle dealers, and even where sales were logged in the pre-historic manner (i.e., paper and pencil), there were likely issues in reporting sales that will impact the retail sales data. We do not, however, have a sense for how this will be reflected in the June retail sales data, particularly given that even under the best of circumstances the retail sales data on motor vehicle dealer sales revenue can be somewhat obtuse. We will note that the cyberattack did impact the June CPI data, resulting in the estimate of new vehicle prices being based on a smaller than normal sample. Second, another month of sharply lower retail gasoline prices will act as a meaningful drag on total and ex-auto sales. Third, though modestly firmer in June, lower prices for core (ex-food, ex-energy) consumer goods have for some time been a drag on retail sales, which are reported in nominal terms (i.e., the data are not adjusted for price changes). Fourth, though seasonal adjustment will, on the whole, be more or less neutral for the June data, there are a few categories – apparel, furniture, electronics/appliances, online retailers – in which friendly seasonal factors could push seasonally adjusted sales above our forecasts. Sure, that's a lot of caveats to process, but the point is that while many reflexively take the retail sales data in any given month as iron-clad testimony on the state of U.S. consumers, the reality is that the retail sales data are seldom of much use in that regard. What we can say with more confidence is that many lower-to-middle income households have been feeling increasing financial stress from the cumulative effects of elevated inflation and high interest rates and, as such, have curbed discretionary spending. This comes as goods spending is still to some extent being displaced by services spending, which is not accounted for in the retail sales data. Moreover, to the extent consumers are feeling less upbeat on labor market conditions, that too will weigh on discretionary spending, including goods spending. Our point is not that these factors won't have a hand in what we expect will be a soft report on June retail sales, but rather that one should take care not to conflate these fundamental factors with what figures to be a high volume of noise in the June retail sales data, as doing so will lead them to faulty conclusions about the state of U.S. consumers.

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June Retail Sales: Ex-Auto Range: -0.3 to 0.3 percent Median: 0.1 percent	Tuesday, 7/16	May = +0.1%	Down by 0.2 percent.
June Retail Sales: Control Group Range: -0.3 to 0.4 percent Median: 0.0 percent	Tuesday, 7/16	May = -0.3%	Unchanged. As noted above, with the obvious exception of 2020, the last time not seasonally adjusted control retail sales increased in June was 1994. The better than three percent decline our forecast anticipates would be a bit larger than the "typical" June decline, owing in part to weaker goods pricing. This would yield a decline in real (inflation-adjusted) control sales for Q2 as a whole, setting the stage for real goods spending to be more or less flat in the Q2 GDP data after having fallen in Q1.
May Business Inventories Range: 0.3 to 0.5 percent Median: 0.4 percent	Tuesday, 7/16	Apr = +0.3%	We look for total business inventories to be up by 0.5 percent and for total business sales to be down by 0.1 percent.
June Building Permits Range: 1.370 to 1.499 million units Median: 1.391 million units SAAR	Wednesday, 7/17	May = 1.399 million units SAAR	Up to an annual rate of 1.409 million units. On a not seasonally adjusted basis, we look for total permit issuance of 126,000 units, down 4.8 percent from May, with declines in both single family and multi-family permits. Though still trending lower, multi-family permits (not seasonally adjusted) have been a bit stronger over recent months than our forecasts have anticipated, and while that could easily be the case with the June data, we think the more relevant point is that the rate at which multi-family permits are converting into multi-family starts continues to fall. As for the single family segment, June was a third straight month with mortgage rates hovering around seven percent, which has clearly taken a toll on new home sales despite builders offering incentives. As a result, spec inventories have risen to a range last seen in the mid-2000s, leaving many builders increasingly uncomfortable. We think that will have led to uncharacteristic June declines in single family permits and starts. We do see some downside risk to our forecast of single family permits, given that the number of single family units already permitted but not yet started has risen to a more than two-year high. That said, we expect the June declines to be fairly mild, and they would be coming off of high levels. Recall that April and May combined for the highest two-month total in single family housing permits in two years despite an unfavorable mortgage rate backdrop, and our forecast would still leave unadjusted single family permits up 14.5 percent on a year-to-date basis through June.
June Housing Starts Range: 1.248 to 1.440 million units Median: 1.300 million units SAAR	Wednesday, 7/17	May = 1.277 million units SAAR	Down to an annual rate of 1.265 million units. On a not seasonally adjusted basis, we look for total starts of 116,600 units, little changed from May's total of 116,900 units, though we do look for a shift in the mix of starts, with fewer single family starts and more multi-family starts. As noted above, flagging sales and rising spec inventories likely led builders to scale back activity in June, and it is also worth noting that completed units have accounted for an increasing share of total new home sales, so elevated spec inventories mean that builders would run less risk of missing sales if they did cut back on starts. Again, though, even if we are correct in expecting a decline in unadjusted single family starts, that decline comes off a high level and would still leave them up 14.6 percent on a year-to-date basis through June. Though we do expect a modest bounce in unadjusted multi-family starts, that comes off of what was, even in the throes of a prolonged downward trend, a notably low total in May. In other words, that downward trend remains well in place.
June Industrial Production Range: 0.0 to 0.8 percent Median: 0.4 percent	Wednesday, 7/17	May = +0.7%	Up by 0.7 percent, mainly reflecting a spike in utilities output, as data from the National Oceanic and Atmospheric Administration show this June to have been the second warmest June on record in their 130 years of data. We look for a modest gain in manufacturing output and lower mining output.
June Capacity Utilization Rate Range: 78.1 to 78.9 percent Median: 78.6 percent	Wednesday, 7/17	May = 78.2%	Up to 78.7 percent.
June Leading Economic Index Range: -0.4 to -0.1 percent Median: -0.4 percent	Thursday, 7/18	May = -0.5%	Down by 0.4 percent.

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