ECONOMIC PREVIEW

REGIONS

Week of July 22, 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%	With the FOMC in their "blackout period" ahead of next week's meeting, a notably crowded data docket will keep market participants occupied. One highlight in this week's slate of data is the BEA's initial estimate of Q2 GDP (see Page 2), but that several of this week's other releases will feed into the estimate of GDP raises the degree of uncertainty around our forecast. Perhaps the most eagerly anticipated of this week's releases will be the report on June personal income and spending, which will include the June read on the PCE Deflator (see Page 3), the FOMC's preferred gauge of inflation. Though we look for the June data to show further progress on inflation, that won't be enough to sway those FOMC members still not convinced that inflation is firmly on a path back – all the way back – to the FOMC's 2.0 percent target, thus ruling out any change in the Fed funds rate at this month's meeting.
June Existing Home Sales Tuesday, 7/23 Range: 3.90 to 4.15 million units Median: 3.99 million units SAAR	May = 4.11 million units SAAR	Down to an annualized rate of 3.94 million units. On a not seasonally adjusted basis, we look for sales of 404,000 units, unchanged from May but down 6.7 percent from last June. Keep in mind, however, that there were two fewer selling days this June than last June, and when we adjust for that our forecast would yield a year-on-year increase in unadjusted sales of 3.1 percent. That the selling days count was so low this year suggests a very generous seasonal adjustment factor, which will help make the headline, i.e., seasonally adjusted and annualized) sales number look a bit less bad – our forecast would leave headline sales down 4.1 percent year-on-year. We of course will be focused on unadjusted sales, and that our forecast anticipates a much weaker than normal June reflects mortgage interest rates having hovered around seven percent over April, May, and June, weighing on sales at a time when inventories have been rising rapidly. The combination of rising inventories and sagging sales is leading to some softness in pricing, with a rising share of sellers having to cut asking prices. To that point, our forecast would leave inventories of existing homes for sale up over twenty percent on a year-on-year basis, which should lead to further softening in pricing. Keep in mind, however, that given the extent of price appreciation seen over the past several years, having to cut their asking price doesn't necessarily mean sellers will be hurting, rather, many will simply realize a smaller gain on the sale of their home than would otherwise have been the case.
June Advance Trade Balance: Goods Wednesday, 7/24 Range: -$102.0 to -$92.4 billion Median: -$98.0 billion	May = -$99.4 billion	Narrowing slightly to -$99.1 billion. A wider trade deficit knocked 0.65 percentage points off Q1 real GDP growth, and trade will have also been a meaningful drag on Q2 growth. The advance June data on trade in goods will give us a better sense of the magnitude of that drag; should the size of the June deficit in the goods account stray much from our forecast, in either direction, that could easily throw our forecast of Q2 real GDP growth (see Page 2) off course.
June New Home Sales Wednesday, 7/24 Range: 600,000 to 659,000 units Median: 640,000 units SAAR	May = 619,000 units SAAR	Down to an annualized rate of 616,000 units. On a not seasonally adjusted basis, we look for sales of 53,000 units, down 5.4 percent from May. Though dipping a bit below in the middle of the month, mortgage interest rates began and ended June above seven percent, where they'd been since April. Rates that high for that long took a toll on new home sales; many builders noted in May that demand had softened, which was reflected in a sharp decline in sales on a not seasonally adjusted basis. That softening carried through June, which saw atypical seasonal weakness in orders, and that is reflected in our forecast of unadjusted sales. That said, the Census data on new home sales are highly volatile, prone to sizable revision, and do not consistently align with what builders report in any given month. As such, we won't be surprised if our forecast of not seasonally adjusted sales proves to be lower than Census reports. The unadjusted June data on single family housing permits and starts were at odds with each other and, as such, don't offer much clarity on June new home sales. June saw a sharp decline in single family permits while single family starts edged higher, marking a third straight month of starts above 92,000 units, which came as a bit of a surprise to us given the steady run-up in spec inventories of new homes for sale over the past several months. It is true that builders have become more aggressive in their use of incentives as sales have lost momentum, but three months of mortgage interest rates around seven percent set a high bar for builders to be able to offset affordability constraints, and we've seen little from builders themselves suggesting they had much success. Again, though, that doesn't mean the Census data will tell a similar story.

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June Durable Goods Orders Thursday, 7/25 Range: -4.0 to 3.8 percent Median: 0.5 percent	May = +0.1%	Down by 3.1 percent. Though it is common for nondefense aircraft orders to impact the top-line orders number, that impact could potentially be much larger than normal in the June data. Boeing booked 14 gross orders and reported three cancellations in June, leaving net orders above May's total (it is net, not gross, orders that feed into the Census Bureau data). At the same time, however, Boeing also made adjustments to their order book that resulted in the year-to-date total of net orders being slashed. If, as we expect, that adjustment is marked against June orders in the Census data, it will sink top-line orders, but if we're wrong on this point, our forecast of total orders will be far too low. Either way, we routinely note that core capital goods orders are easily the most important number in the monthly data on durable goods orders. Core capital goods orders have been bouncing around within a narrow range for the past year-and-a-half, and our forecast (see below) would leave them within this range. Doesn't mean we've given up on the break-out that we've for some time expected, and perhaps some relief on the interest rate front will be a catalyst for that break-out, but we have less conviction in that call than we previously had, and business investment in equipment and machinery will almost surely be less supportive of real GDP growth over the second half of 2024 than we anticipated coming into the year.
June Durable Goods Orders: Ex-Trnsp. Thursday, 7/25 Range: -0.3 to 0.4 percent Median: 0.2 percent	May = -0.1%	We look for ex-transportation orders to be up by 0.3 percent and we look for core capital goods orders (nondefense capital goods excluding aircraft & parts) to be up by 0.3 percent.
Q2 Real GDP: 1st estimate Thursday, 7/25 Range: 1.2 to 2.6 percent Median: 1.9 percent SAAR	Q1 = +1.4% SAAR	Up at an annualized rate of 2.1 percent, with consumer spending and inventory accumulation making the biggest contributions. The June retail sales data pushed our tracking estimate of Q2 growth in real consumer spending higher, which is one factor behind our above-consensus forecast of Q2 real GDP growth. We do not for a moment believe control retail sales were as strong in June as reported, as the 0.9 percent increase was nothing more than overly generous seasonal adjustment. That, however, is neither here nor there, as it is the seasonally adjusted estimate of control retail sales that feeds directly into the GDP data on consumer spending on goods. That said, we'll take the BEA's estimate of Q2 spending on goods with a grain of salt. Several June data releases on this week's calendar – new home sales, advance trade in goods, durable goods orders, personal income/spending – will impact the BEA's initial estimate of Q2 GDP, so we have a lower than normal degree of confidence in our forecast of Q2 real GDP growth. Either way, there are clear signs that the pace of economic activity is slowing, and we think that will be reflected in Q2 growth in real private domestic demand (combined household and business spending) more so than it will be in the estimate of top-line real GDP growth.
Q2 GDP Price Index: 1st estimate Thursday, 7/25 Range: 2.2 to 3.1 percent Median: 2.6 percent SAAR	Q1 = +1.4% SAAR	Up at an annualized rate of 2.6 percent.
June Personal Income Friday, 7/26 Range: 0.2 to 0.6 percent Median: 0.4 percent	May = +0.5%	Up by 0.4 percent. Growth in labor earnings will be the primary support for growth in total personal income, but our forecast anticipates a pronounced shift in the mix of growth in labor earnings. The June employment report showed a much smaller increase in private sector payrolls and a much larger increase in public sector payrolls relative to the May changes, which will translate into a smaller increase in private sector earnings and a larger increase in public sector earnings. The former carries far more weight, given the relative shares of total employment, hence our forecast calls for a smaller gain in overall wage and salary earnings than seen in May. We look for a trend-like increase in asset-based income, but with a bigger contribution from interest income and a smaller contribution from dividend income than seen in May. Growth in nonfarm proprietors' income, a proxy for small business profits, has been notably listless for some time now, and we expect that to have again been the case in June. To the extent they have less pricing power and less negotiating power on the cost side, small business profits have been under more pressure than has been the case with profits of larger corporations, while small businesses tend to have fewer ways around higher financing costs than do larger corporations, all of which has likely weighed on hiring and capital expenditures amongst small businesses.

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June Personal Spending Friday, 7/26 Range: 0.1 to 0.7 percent Median: 0.3 percent	May = +0.2%	Up by 0.2 percent. June spending on consumer durables was weighed down by the sharp decline in motor vehicle sales stemming from the cyberattack on dealer network software (the July/August data will bring payback). The sharp increase in control retail sales, believable or not, will help offset the steep decline in gasoline sales triggered by sharply lower prices, with the net result being a modest increase in spending on nondurable goods. Though the June data should show a jump in utilities outlays, as suggested in the June data on industrial production, falling prices have acted as a meaningful drag on growth in discretionary services spending, and that was again the case in June. The net result should be a modest gain in overall services spending. Though the June data (as well as revisions to prior months) will have been incorporated into the BEA's initial estimate of Q2 GDP, the June spending data are nonetheless worth watching as they will set the jumping off point for Q3 growth in consumer spending.
June PCE Deflator Friday, 7/26 Range: -0.1 to 0.1 percent Median: 0.0 percent	May = 0.0%	Unchanged, which would yield a year-on-year increase of 2.4 percent. We look for the core PCE Deflator to be up by 0.1 percent, yielding a year-on-year increase of 2.5 percent, which would be the smallest such increase since March 2021.

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