ECONOMIC PREVIEW

REGIONS

Week of August 12, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 17-18 FOMC meeting):* Target Range Mid-point: 4.875 to 5.125 percent Median Target Range Mid-point: 5.125 percent	Range: 5.25% to 5.50% Midpoint: 5.375%	Though crowded, we do not expect this week's slate of economic data releases to tell us much, if anything, we don't already know about the state of the U.S. economy. The July CPI data will show inflation continues to decelerate but remains above the FOMC's 2.0 percent target. The trend rate of growth of consumer spending is slowing, but our forecast of July retail sales (see Page2) would nonetheless leave real control sales up by over four percent year-on-year, hardly an alarming sign. A three-month run of mortgage interest rates at seven percent likely took a toll on July construction activity, on top of which Hurricane Beryl likely had a discernible effect on the data for the South region (see Page3). The reactions to this week's releases, however, are likely to be out of proportion to the informative value of the data given how on edge so many analysts and market participants seem to be these days.
July Producer Price Index Tuesday, 8/13 Range: -0.1 to 0.4 percent Median: 0.2 percent	Jun = +0.2%	Up by 0.1 percent, which would yield a year-on-year increase of 2.2 percent.
July Producer Price Index: Core Tuesday, 8/13 Range: 0.0 to 0.3 percent Median: 0.2 percent	Jun = +0.4%	Up by 0.2 percent, yielding a year-on-year increase of 2.7percent.
July Consumer Price Index Wednesday, 8/14 Range: 0.0 to 0.3 percent Median: 0.2 percent	Jun = -0.1%	Up by 0.1 percent, which would translate into a year-on-year increase of 2.9 percent. Our calls on both the headline and core CPI are in each case one-tenth of a point below the consensus calls, but the actual differences are likely much smaller as our unrounded forecasts are right on the 0.1/0.2 percent border. Whether they're on the right side of that border remains to be seen. One difference, based on color provided by other analysts, is that we expect travel-related services – air fares, rental car rates, lodging rates – to once again act as meaningful drags, even if to a lesser extent than seen in the June CPI data. While this may seem at odds with the strong volumes being reported by providers of such services, the reality is that providers have had to increasingly rely on discounting to drive volume at a time of the year that typically sees strong underlying demand. Any such discounting, however, would have been compounded by seasonal adjustment, trained to look for summer price increases, not summer price cuts. This was clearly at play in the June data, with declines in not seasonally adjusted prices magnified by seasonal adjustment. Though the July seasonal factors are not as punitive as were the June factors, this same effect will come into play. Granted, the weights of these components are relatively small, so it could be that our forecast is overstating the degree of any potential drag from these sources. If so, our forecasts of both the headline and core CPI will prove too low. Unlike May and June, when falling prices meant gasoline was a significant drag on the headline CPI, gasoline will have been a neutral factor in July, with prices flat on a seasonally adjusted basis. One question looming over the headline and, to an even greater extent, core CPI is whether the moderation in rents seen in the June data was a one-off or will be repeated in July and subsequent months. Both primary rents and owners' equivalent rents printed at 0.3 percent in the June data, with the unrounded data showing the smallest monthly increases since September 2021. We think, as is reflected in our forecast of the July data, the June data marked the start of a period of more moderate rent growth in the CPI data that has been long in coming, as the CPI data significantly lag market-based measures. Even if our forecasts are too low, the July data will show further moderation in inflation, whether on a year-on-year basis or, for those so inclined, the annualized three-month changes in each index. This, along with signs of a slowing pace of economic activity, gives the FOMC ample room to begin making policy less restrictive than it currently is.
July Consumer Price Index: Core Wednesday, 8/14 Range: 0.1 to 0.3 percent Median: 0.2 percent	Jun = +0.1%	Up by 0.1 percent, yielding a year-on-year increase of 3.2 percent.
July Business Inventories Thursday, 8/15 Range: 0.1 to 0.3 percent Median: 0.3 percent	Jun = +0.5%	We look for total business inventories to be up by 0.3 percent and for total business sales to be down by 0.1 percent.

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July Retail Sales: Total Range: -0.1 to 0.9 percent Median: 0.4 percent	Thursday, 8/15	Jun = 0.0%	Up by 0.7 percent. Owing to the cyberattack on dealer network software that held down unit sales, a decline in motor vehicle dealer revenue was a significant drag on June retail sales. With unit sales having rebounded in July, the corresponding rebound in dealer revenue will be a support for top-line retail sales. In contrast, gasoline will likely be a meaningful drag, though this mainly reflects a punitive July seasonal factor for gasoline station sales magnifying what was weaker than normal demand during the month. Another category which will play a major role in the July results, particularly for control retail sales, will be sales by nonstore retailers – recall that online sales account for the vast majority of this category. Sales by nonstore retailers rose by 1.9 percent in June, and many expect the July data to bring payback despite Amazon Prime Day(s) and aggressive online promotions by other retailers. Though the retail sales data do not always capture the strength of such online promotions, our forecast nonetheless anticipates a healthy increase in sales by nonstore retailers in July, even if meaningfully smaller than the June increase. Given that online sales account for around thirty percent of control retail sales, if we're wrong on this point, our forecast of control sales will prove far too high. We think this to be the perfect place to discuss the role of seasonal adjustment, as ignoring this issue can lead to faulty interpretations of the retail sales data. To that point, the reported 0.9 percent increase in control retail sales in June was nothing more than a gift from seasonal adjustment. Though unadjusted sales typically decline in the month of June, this June saw larger than normal declines in total (down 5.6 percent), ex-auto (down 4.9 percent) and control (down 4.6 percent) retail sales. Moreover, the unadjusted data show sales by nonstore retailers fell by 6.6 percent in June which, as noted above, translated into a 1.9 percent increase in the seasonally adjusted data. So, to a large degree, what one expects from the July data depends on what they are reacting to in the June data – the seasonally adjusted increases or the decreases in the not seasonally adjusted data. To the surprise of none of our regular readers, our forecasts are based on patterns in the not seasonally adjusted data, which we expect to show larger increases than typical for the month of July. As such, even with less favorable seasonal factors, our forecasts of seasonally adjusted sales are above the consensus forecasts across the board, whereas anyone looking for payback from the "strong" June print on control sales will have a much different forecast. Of far more relevance than the month-to-month gyrations we've come to expect from the retail sales data is that the underlying trend rate of growth of consumer spending on goods and services (the latter not captured in the retail sales data) is slowing, as growth in consumer spending becomes realigned with growth in after-tax income after a significant disconnect owing to the pandemic and the policy response to it.
July Retail Sales: Ex-Auto Range: -0.4 to 0.4 percent Median: 0.1 percent	Thursday, 8/15	Jun = +0.4%	Up by 0.4 percent.
July Retail Sales: Control Group Range: -0.6 to 0.5 percent Median: 0.1 percent	Thursday, 8/15	Jun = +0.9%	Up by 0.5 percent.
July Industrial Production Range: -0.9 to 0.3 percent Median: -0.3 percent	Thursday, 8/15	Jun = +0.6%	Down by 0.5 percent. Aggregate private sector hours worked declined in July, a decline entirely accounted for by lower hours in the goods producing industries. While weaker industry conditions can account for the drop in manufacturing hours, the declines in both construction and mining/natural resources reflect the effects of Hurricane Beryl while higher than normal July temperatures helped limit hours worked in construction. We look for the declines in hours worked to be reflected in the industrial production data, with lower output in the manufacturing and mining sectors more than offsetting what should be a further increase in utilities output. One wild card in the manufacturing sector will be motor vehicle production. Historically, early-July marked the annual production shutdowns while assembly lines were retooled for the new model year, but that pattern has been significantly disrupted since the onset of the pandemic meaning that so too has been what used to be fairly straightforward seasonal adjustment. This adds uncertainty around our forecast.

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July Capacity Utilization Rate Thursday, 8/15 Range: 77.9 to 79.1 percent Median: 78.5 percent	Jun = 78.8%	<u>Down</u> to 78.3 percent.
July Building Permits Friday, 8/16 Range: 1.315 to 1.480 million units Median: 1.425 million units SAAR	Jun = 1.454 million units SAAR	<u>Down</u> to an annual rate of 1.315 million units. On a not seasonally adjusted basis, we look for total permit issuance of 117,600 units, down 6.4 percent from June with declines in both single family and multi-family permits. There are a few important points to keep in mind as you process the July data on building permits and housing starts. First, July is typically a month in which unadjusted permits and starts decline as the spring/summer rush begins to unwind. In that sense, the declines in unadjusted permits and starts our forecasts anticipate are not out of line with typical seasonal patterns. The second point to keep in mind is that Hurricane Beryl will likely have had a discernible effect on the July data as it will have impeded activity in Texas. Given that the South region accounts for over one-half of all building permits and starts, any out-of-the ordinary events in that region will have an outsized impact on the national data. The third point to keep in mind is that June saw a large decline in unadjusted single family housing permits, something atypical for the month of June. While a much larger than normal June seasonal factor helped mask that decline in the seasonally adjusted annualized data, it causes us to question whether there will be "payback" in the July seasonal factor, i.e., whether it will be smaller than normal and, if that is the case, if it will make the "headline" permits number look much smaller than is actually the case. This is what our forecast anticipates, but if we're wrong on this point, our forecast of July building permits will be too low. That third factor is, in the grand scheme of things, of no relevance given that, as we routinely note, we attach no importance to the seasonally adjusted and annualized estimates of residential construction and sales, with our sole focus being the not seasonally adjusted data. On that front, even if there is some attempt to compensate for it in the seasonally adjusted annualized data, in terms of the unadjusted data, any impacts from Beryl in the July data will be made up for in the data over coming months. That leaves us with the decline in unadjusted single family permits in June – the largest June decline since 1974 – to account for, in terms of how that could impact the July data. Recall that mortgage interest rates were basically stuck at seven percent over April, May, and June, which took an increasingly harsh toll on new home sales and, in turn, builder sentiment, over that span. While mortgage rates began to drift lower over the course of July, we don't think that will have provided much of a boost to single family permit issuance given that spec inventories of new homes for sale had for many builders risen to uncomfortable levels. While we do look for a further decline in unadjusted single family permits in July, we look for that decline to be smaller than is typical for the month given the outsized decline in June, and we do not expect seasonal adjustment to ride to the rescue to salvage the "headline" permits number. In other words, there are lots of places for our forecast to go wrong but, either way, the real test will be the not seasonally adjusted data.
July Housing Starts Friday, 8/16 Range: 1.269 to 1.410 million units Median: 1.337 million units SAAR	Jun = 1.353 million units SAAR	<u>Down</u> to an annual rate of 1.269 million units. On a not seasonally adjusted basis, we look for total starts of 114,500 units, down 9.2 percent from June with declines in both single family and multi-family starts. As noted above, we expect Hurricane Beryl to have impacted starts in the South region, helping account for a larger drop in unadjusted starts than typically seen in the month of July. It is, however, important to note that while unadjusted single family permits fell sharply in June, unadjusted single family starts actually edged higher. Our sense was that while builders pulled fewer single family permits in response to market conditions, they are still contending with sizable order backlogs, which supported single family starts in June. While we would have otherwise expected some pullback in unadjusted starts in July, in keeping with typical seasonal patterns, we expect Beryl to have compounded the extent of that decline. What remains to be seen is whether, or to what extent that was the case, and whether, or to what extent, there is compensation in the form of favorable seasonal adjustment that will help salvage the headline starts number. Again, though, it will be the not seasonally adjusted data that really matter.

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