ECONOMIC PREVIEW

REGIONS

Week of May 25, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 9-10 FOMC meeting):* Target Range Mid-point: 0.000 to 0.125 percent Median Target Range Mid-point: 0.125 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	A holiday-shortened week nonetheless brings a full docket of top-tier data releases. Most of this week's releases are for the month of April, which will help us quantify the effects of the sudden stop in economic activity in mid-March that carried through April. There are, however, a few more timely indicators, such as the read on May consumer confidence (see below), and Thursday's release of the weekly data on claims for Unemployment Insurance. As states begin to open back up, it would follow that initial claims would begin to fall at a faster pace, and continuing claims will take on greater significance. Additionally, during the week we'll get several of the regional surveys on May factory activity, which will help shape expectations for the May ISM Manufacturing Index to be released on June 1. The general tone of the manufacturing surveys is likely to be "bad, but not as bad as April."
April New Home Sales Tuesday, 5/26 Range: 400,000 to 592,000 units Median: 493,000 units SAAR	Mar = 627,000 units, SAAR	Down to an annualized sales rate of 481,000 units. On a not seasonally adjusted basis, we look for new home sales of 46,000 units, down 24.6 percent from March and down 28.1 percent year-on-year. Still, the weekly data on applications for purchase mortgage loans and various industry reports point to a clear pick-up in activity over the second half of April which has carried over into May. While that pick-up will have only softened the decline in April, it does set up May to be a much better month for new home sales. Though not nearly to the extent as existing home inventories, new home inventories have been on the lean side for some time now, thus acting as a drag on sales. That builders can book a sale before construction has been started acts as somewhat of a relief valve, but that spec inventories have been declining since hitting a cyclical high in early-2019 suggests builders have been pressed to keep pace with demand. With single family starts and completions having dropped off along with sales in April, we could see the months supply metric increase as it did for existing homes, but that would simply be noise in the data as opposed to a sign of supply-side relief.
May Consumer Confidence Tuesday, 5/26 Range: 78.0 to 96.0 Median: 85.0	Apr = 86.9	Up to 89.1 though, admittedly, it seems odd to expect consumer confidence to have increased given how badly economic conditions have deteriorated. That said, we won't be surprised to see the Conference Board's gauge of consumer confidence mimic the University of Michigan's consumer sentiment data, which showed that perceptions of current conditions improved in May even as expectations of future conditions deteriorated further. While it could be a matter of consumers simply feeling less bad, as opposed to actually feeling good, with states beginning to reopen and cash flows buttressed by rebate checks and supplemental Unemployment Insurance benefit payments, it isn't unreasonable to think the assessment of current conditions would have been less dire even if the future looks highly uncertain and perhaps not all that attractive. In any given month, the part of the Conference Board's data that we pay the closest attention to is consumers' assessments of labor market conditions, and we'll be watching for the extent to which these assessments deteriorated further in May.
April Durable Goods Orders Thursday, 5/28 Range: -30.0 to -9.0 percent Median: -17.2 percent	Mar = -15.3%	Down by 26.7 percent. As in the March data, nondefense aircraft will be a material drag on top-line orders. Having booked no new orders, Boeing had 108 cancellations in April, and the data on orders are inclusive of cancellations so, as in March, the reported value of nondefense aircraft orders in April will be negative. Still, as implied by our forecasts for ex-transportation orders and core capital goods orders (see below), there will be far more to the weak headline print on durable goods orders than civilian aircraft, as our forecast anticipates significant declines across the main categories.
April Durable Goods Orders: Ex-Trnsp. Thursday, 5/28 Range: -36.5 to -5.0 percent Median: -15.0 percent	Mar = -0.6%	Down by 20.1 percent. We look for core capital orders to be down by 15.2 percent.
Q1 Real GDP: 2nd estimate Thursday, 5/28 Range: -5.0 to -4.5 percent Median: -4.8 percent SAAR	Q1: 1st est. = -4.8% SAAR	Down at an annualized rate of 4.8 percent, matching the initial estimate. Though we expect revised and more complete source data will lead to some shuffling in the underlying details, we expect the net result will be no change in the headline print.
Q1 GDP Price Index: 2nd estimate Thursday, 5/28 Range: 1.3 to 1.4 percent Median: 1.3 percent SAAR	Q1: 1st est. = +1.3% SAAR	Up at an annualized rate of 1.3 percent.
April Advance Trade: Goods Friday, 5/29 Range: -$67.0 to -$51.0 billion Median: -$62.7 billion	May = -$64.4 billion	Widening to -$66.7 billion. While imports will have fallen sharply, we expect an even larger decline in U.S. exports, reflecting weak global demand for capital goods and motor vehicles.

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April Personal Income Friday, 5/29 Range: -21.5 to 10.6 percent Median: -5.8 percent	Mar = -2.0%	Up by 6.2 percent. We know what you're thinking – over 20 million jobs lost in April and millions more workers reduced to part-time hours, and here we are forecasting an increase in personal income. Surely something has to give. Yes, something does have to give, and that something is the federal government (sure, we realize that whatever the government "gives" ultimately derives from taxation, so for those inclined to send a scolding e-mail every time we use the words "government spending," how about we just skip that this time around in the interest of spiritual harmony and world peace?). Specifically, between the rebate checks sent to individuals and the supplemental Unemployment Insurance benefits paid by the federal government (refer to the above disclaimer) on top of state level payments, our forecast anticipates a huge increase in transfer payments, one that will more than negate the precipitous decline in aggregate labor earnings. The caveat here is that timing issues may push a greater share of these payments into May and a smaller share in April than our forecast anticipates. Timing issues aside, the broader point is that the surge in transfer payments makes it likely that total personal income will rise for Q2 as a whole despite a massive decline in aggregate labor earnings. The flip side, however, is that this sets the stage for a painful decline in personal income in Q3 in the absence of additional aid payments and an extension of the supplemental Unemployment Insurance benefits which, this being an election year, can by no means be ruled out. Either way, given that labor earnings are, Q2 notwithstanding, the most significant component of personal income, there is no way we can have a material and sustained rebound in consumer spending until the labor market heals to a meaningful degree. While few would argue that point, there is considerable disagreement over the speed with which that will happen.
April Personal Spending Friday, 5/29 Range: -22.0 to -5.5 percent Median: -12.0 percent	Mar = -7.5%	Down by 15.2 percent. We look for spending in each of the broad components – durable goods, nondurable goods, and services – to have declined in April. Spending on nondurable consumer goods rose in March, reflecting the surge in sales at grocery stores and warehouse/club stores, but we know from the retail sales data that these increases in March gave way to declines in April. While spending on services declined by 9.5 percent in March, it wasn't until the back half of the month that such spending fell off the table, while the April data will reflect an entire month of diminished services spending. While our forecast anticipates a further decline in spending on consumer durable goods, the decline in April should be less severe than that seen in March. Keep in mind that the nominal spending data do not account for price changes, so sharply lower gasoline prices and lower core goods prices will have acted as a drag on nominal spending. As states begin to open back up, the rebound in services spending will be a good gauge of the extent to which consumer confidence and personal income are rebounding.
April PCE Deflator Friday, 5/29 Range: -0.8 to 0.4 percent Median: -0.6 percent	Mar = -0.3%	Down by 0.7 percent, for a year-on-year increase of 0.3 percent. We look for the core PCE deflator to be down by 0.4 percent, which would yield a year-on-year increase of 1.1 percent.

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