ECONOMIC PREVIEW

REGIONS

Week of June 15, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 28-29 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%	Fed Chairman Powell will appear (online) before the Senate Banking Committee (Tuesday) and the House Financial Services Committee (Wednesday) to deliver the semi-annual Monetary Policy Report to the Congress. Mr. Powell's message in his prepared testimony is unlikely to differ materially from the main themes of his press conference following the June FOMC meeting, i.e., the recovery from the brief but severe recession associated with the COVID-19 virus and the efforts to stem its spread is likely to be slow and it will be some time before the FOMC entertains the thought of raising the Fed funds rate. The week will also include speeches by several other FOMC members, which will help discern whether there is more variance in the views on the economic outlook and the appropriate path of monetary policy than was apparent in the projections issued in conjunction with the June FOMC meeting. As to
May Retail Sales: Total Tuesday, 6/16 Range: 5.0 to 13.0 percent Median: 8.0 percent	Apr = -16.4%	Up by 8.6 percent. By the end of May, all 50 states had taken steps to ease restrictions on economic activity, most of which had been in place since mid-March. Questions as to how consumers would respond largely revolved around cash flows and comfort, i.e., how comfortable consumers would be returning to restaurants and stores. Consumers certainly had the wherewithal to spend in May – recall that the personal saving rate spiked to 33.0 percent in April as a surge in transfer payments pushed personal income higher while personal spending logged a double-digit decline. That labor earnings increased in May further bolstered household cash flows which, when combined with greater freedom to move about, likely unleashed a wave of pent-up demand that will have lifted retail sales. Top-line retail sales should have gotten considerable support from motor vehicle sales – the operative words here being "should have" given that this is, after all, the retail sales data we're talking about. On a seasonally adjusted basis, unit motor vehicle sales were up by 40 percent in May, an increase which, with fleet sales still stuck in park, was driven by sales to consumers. We look for gasoline to contribute to top-line retail sales, as higher demand should offset what, on a seasonally adjusted basis, was a decline in retail pump prices. Our forecast anticipates broad based increases amongst the other main categories. And now for the caveats. Given that most states did not begin to ease restrictions on economic activity until the latter part of the month, it could be that the biggest part of any initial response from consumers gets picked up in the June data on retail sales, not the May data. It could also be that, while there was a notable increase in activity at bars and restaurants, consumers were more hesitant to return to stores, and stores reopened at an uneven pace during May. Still, that could simply be a matter of how, rather than how much, consumers spent, i.e., while our May forecast is less heavy on online sales, it could be that this category sees another sizable increase. There are indications that online motor vehicle sales accounted for a meaningful share of the increase in unit sales seen in May. Also, keep in mind that the retail sales data capture only spending on goods, which makes up only about 30 percent of all consumer spending. Spending on services accounts for the vast majority of total consumer spending, and it was spending on services that took the brunt of the decline in consume spending. It won't be until the BEA's release of the May data on total consumer spending (June 26) that we get a sense of the extent to which spending on services began to rebound. Finally, though there is considerable uncertainty attached to forecasts of May retail sales, even if sales do rebound to the extent our forecast anticipates, that would still leave the level of retail sales well below the level seen in February. That will be a common theme across the top-tier data – what figure to be sizable increases in May/June will still leave the level of activity far below where it was prior to wide swaths of economic activity having been shuttered in mid-March, and the recovery will be more drawn out than implied by any initial burst of activity.
May Retail Sales: Ex-Auto Tuesday, 6/16 Range: 2.8 to 11.5 percent Median: 5.3 percent	Apr = -17.2%	Up by 4.7 percent.
May Retail Sales: Control Group Tuesday, 6/16 Range: 2.4 to 9.5 percent Median: 5.4 percent	Apr = -15.3%	Up by 4.4 percent.
May Industrial Production Tuesday, 6/16 Range: -2.0 to 6.5 percent Median: 2.9 percent	Apr = -11.2%	Up by 4.1 percent.

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May Capacity Utilization Rate Range: 62.9 to 71.0 percent Median: 66.7 percent	Tuesday, 6/16	Apr = 64.9%	Increasing to 67.4 percent.
April Business Inventories Range: -1.5 to 0.2 percent Median: -0.6 percent	Tuesday, 6/16	Mar = -0.2%	We look for total business inventories to be down by 1.3 percent and for total business sales to be down by 15.3 percent.
May Building Permits Range: 1.043 to 1.325 million units Median: 1.250 million units SAAR	Wednesday, 6/17	Apr = 1.066 million units SAAR	Up to an annualized rate of 1.259 million units. Like much of the broader economy, the housing market went on break during April, with permit issuance and new construction starts falling off sharply. By the end of April, however, there were clear signs that housing market activity was bouncing back, much more strongly than was true of the broader economy, and that divergence continued in May. As such, we look for permit issuance to have risen smartly in May; on a not seasonally adjusted basis, we look for total permits of 117,000 units which, while down year-on-year, would nonetheless be the highest monthly permit issuance since October. It is reasonable, however, to question how much of this increase would reflect pent-up demand having been unleashed during May and how much would reflect organic growth. To the extent that it is pent-up demand, then neither permit issuance nor starts will hold at the levels we expect to see in the May data. But, as the economy begins to recover and interest rates remain low, which we expect they will, the housing market could easily outperform the broader economy. It's much too soon to make a definitive call here, but permit issuance, particularly single family permit issuance, over the next few months will be a good guide.
May Housing Starts Range: 0.950 to 1.250 million units Median: 1.100 million units SAAR	Wednesday, 6/17	Apr = 891,000 units SAAR	Up to an annualized rate of 1.122 million units. As with housing permits, we look for housing starts to spring back from April's steep decline, but it will take some time to sort out what portion of this reflects pent-up demand. While single family permit issuance over the next few months will be a good guide, applications for purchase mortgage loans will be as close of a "real time" guide as there is. After having fallen sharply between mid-March and mid-April, the MBA's weekly index of purchase mortgage applications has surged back, with the most recent reading standing just below the eleven-year high hit the week of January 24. We do not expect as robust of a rebound in the multi-family segment, given what remains a sizable backlog of under-construction units. On a not seasonally adjusted basis, we look for total housing starts of 102,800 units in May.
May Leading Economic Index Range: 0.3 to 4.0 percent Median: 2.4 percent	Thursday, 6/18	Apr = -4.4%	Up by 2.7 percent.
Q1 2020 Current Account Balance Range: -\$110.1 to -\$90.0 billion Median: -\$101.9 billion	Friday, 6/19	Q4 2020 = -\$109.8 billion	Narrowing to -\$93.3 billion.

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