ECONOMIC PREVIEW

REGIONS

Week of June 22, 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%	Thursday's report on jobless claims stands out in a crowded week. Despite being far below peak levels, initial claims remain notably elevated, and the decline in continuing claims is stubbornly slow, with the most recent data showing over 29 million people drawing benefits though the regular and pandemic-related programs. It could be that as businesses open back up, they are reassessing their staffing needs but, if the declines in initial and continuing claims don't pick up pace, that will be a sign the recovery in the broader economy is less vigorous than many seem to be anticipating.
May Existing Home Sales Monday, 6/22 Range: 3.180 to 5.207 million units Median: 3.900 million units SAAR	Apr = 4.330 million units SAAR	Down to an annualized sales rate of 3.780 million units, which would be the lowest monthly sales rate since August 2010. To put this number in context, it helps to recall that existing home sales are booked at closing. May closings will largely capture sales contracts signed from late-March through April, and we know that pending home sales (the measure of signed contracts for sales of existing homes) were abysmal in April, with the largest monthly decline since May 2010. This is consistent with patterns seen in applications for purchase mortgage loans, which fell sharply between mid-March and mid-April, but have since strongly rebounded. In that sense, the May data on existing home sales are pretty much old news, but the inventory data will be very much worth watching. As we've been discussing for quite some time now, inventories of existing homes for sale have been extraordinarily lean, which has acted as a material drag on sales and supported stronger price appreciation than would otherwise have been the case. In a "normal" year, April would see the biggest monthly increase in listings as the Spring sales season is going full gas. This year, however, listings declined in April, reflecting the effects of the shutdowns in place across most of the U.S. The question now becomes whether, with restrictions on economic activity having been eased during May, there will be "payback" in existing home inventories. Our sense is there will be little such payback, and while our forecast does anticipate listings rising, it would still leave them down over 20 percent year-on-year. So, while we do expect the June and, to a greater extent, July data to show existing home sales bounce back from May's meager rate, lean inventories will cap the extent of any rebound in sales while helping support house prices. On a not seasonally adjusted basis, we look for existing home sales of 349,000 units in May.
May New Home Sales Tuesday, 6/23 Range: 550,000 to 718,000 units Median: 634,000 units SAAR	Apr = 623,000 units SAAR	Up to an annualized sales rate of 644,000 units. New home sales are booked at the signing of the sales contract, so in that sense are a much more timely indicator of housing market activity than are existing home sales. Of course, timely is one thing, reliable is another; the new home sales data are inherently volatile and the initial estimate of sales in any given month is prone to sizable revision. To that point, the initial estimate of April new home sales was much higher than expected, and out of line with other housing market indicators and various industry reports on new home construction and sales, so we'll see what the revisions bring. As for May sales, our forecast is tempered by the curiously soft May data on single family housing permits and, to a much greater degree, starts – estimates of permits, starts, and sales are based on the same survey data. Our sense is that the Census Bureau's estimate of May new home sales will understate actual new home sales, but any such shortfall will likely be made up for in the June data. Either way, applications for purchase mortgage loans stand at a better than 11-year high and low interest rates are fueling motivated buyers who feel confident about their job and income prospects, but lean inventories are curbing new home sales, even if not to the same extent as with existing home sales. On a not seasonally adjusted basis, we look for 60,000 new home sales in May.
May Durable Goods Orders Thursday, 6/25 Range: -1.1 to 20.0 percent Median: 11.5 percent	Apr = -17.7%	Up by 14.9 percent. Our forecast anticipates a spike in motor vehicle orders which, along with defense aircraft and ships/boats, will more than overcome what should be a modest drag from nondefense aircraft orders. Boeing booked six new orders but had 18 cancellations, so on net the dollar volume of nondefense aircraft orders should be negative, but far less so than in March and April. Elsewhere in the data, we look for somewhat tempered bounces off of what were sizable declines in March and April.
May Durable Goods Orders: Ex-Trnsp. Thursday, 6/25 Range: -3.0 to 7.9 percent Median: 2.3 percent	Apr = -7.7%	We look for ex-transportation orders to be up by 3.3 percent, and for core capital goods orders to be up by 2.6 percent.
May Advance Trade Balance: Goods Thursday, 6/25 Range: -$-75.0 to -$63.5 billion Median: -$67.2 billion	Apr = -$69.7 billion	Narrowing to -$66.8 billion.

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Q1 Real GDP (3rd estimate) Range: -5.2 to -4.9 percent Median: -5.0 percent	Thursday, 6/25	Q2 2nd est. = -5.0% SAAR	Down at an annualized rate of 4.9 percent.
Q1 GDP Price Index (3rd estimate) Range: 1.4 to 1.5 percent Median: 1.4 percent	Thursday, 6/25	Q2 2nd est. = +1.4% SAAR	Up at an annualized rate of 1.4 percent.
May Personal Income Range: -10.0 to 4.5 percent Median: -5.7 percent	Friday, 6/26	Apr = +10.5%	Up by 3.1 percent. A surge in transfer payments, which rose by 89.6 percent, pushed personal income higher in April despite the loss of over 20 million jobs. While most analysts are forecasting a decline in personal income in May, presumably because they expect significantly lower transfer payments, we're not so sure. Our estimates show the supplemental Unemployment Insurance (UI) benefits of $600 per week having made a relatively small contribution to the jump in total UI benefits in April – it took until the end of the month for those added benefits to be implemented in all states. So, while it is true that most of the Economic Impact Payments (EIP) that were part of the CARES Act were paid in April, our forecast anticipates that the remaining share of the EIP and a much larger contribution from the supplemental UI benefits will help push total transfer payments higher in May. At the same time, private sector wage and salary earnings will have risen, given the increase in private sector payrolls and what was a longer average workweek. The downside risk to our forecast is that April transfer payments, and in turn total personal income, will be revised higher, setting up a decline in May. Even if this proves to be the case, it doesn't alter what has been our broader point about personal income – higher transfer payments will push disposable personal income higher for Q2 as a whole, but with the EIP being one-off payments and the supplemental UI benefits set to expire on July 31, the stage is set for a material decline in disposable personal income in Q3, even as the unemployment rate is declining. This "income cliff" combined with what will be the expiration of many, if not most, of the forbearance periods on various forms of consumer debt, could precipitate a deterioration in consumer loan performance by year-end.
May Personal Spending Range: 1.6 to 11.0 percent Median: 8.6 percent	Friday, 6/26	Apr = -13.6%	Up by 10.2 percent. The retail sales data show consumer spending on goods bounced back impressively in May, as would be expected given the boost to household cash flows and the easing of restrictions on economic activity across the U.S. What is less clear, and hence is the wild card in our forecast of total consumer spending in May, is the extent to which spending on household services rebounded after having declined a combined 20.4 percent over March and April. Our forecast anticipates a somewhat subdued rebound in services spending – keep in mind that it is spending on services that will be most impacted by any lingering changes in consumer attitudes in the "post-virus" world, and services account for around 70 percent of consumer spending as measured in the GDP data. It is likely that some portion of what would otherwise have been spending on services was diverted to spending on goods, which could help account for the extent to which sales at home furnishing stores and building materials stores rose so sharply in May. But, those kinds of gains won't be sustained, and consumer spending won't be "back" until we can say the same about services spending.
May PCE Deflator Range: -0.1 to 0.2 percent Median: 0.0 percent	Friday, 6/26	Apr = -0.4%	Unchanged, which would yield a year-on-year increase of 0.5 percent. Our forecast anticipates the core PCE deflator was also unchanged, leaving it up 0.9 percent year-on-year.

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