ECONOMIC PREVIEW

REGIONS

Week of July 13, 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%	Though this week's slate of data releases will show further improvement across the consumer, industrial, and housing market space, the obvious caveat is that much of the data for the month of June was collected prior to the jump in COVID-19 cases that has persisted into July. Thus far, state and local governments have responded with targeted interventions, as opposed to re-imposing the more broad-based restrictions seen in the early phases of the pandemic. Still, some small businesses that had only recently reopened have once again shut down, which will have implications for the labor market. Less clear, however, is whether, or to what extent, the upturn in cases is impacting consumer attitudes and how this in turn will impact consumer spending, particularly for those households facing a steep income cliff at the end of July. Though it is highly likely an additional aid package will clear Congress, there is little consensus as to what the details of any such package would look like. All in all, an already highly uncertain outlook for the U.S. economy over 2H 2020 has become even more so, and the risks to the outlook remain weighted to the downside.
June Consumer Price Index Tuesday, 7/14 Range: 0.1 to 0.6 percent Median: 0.5 percent	May = -0.1%	Up by 0.6 percent, which would yield a year-on-year increase of 0.7 percent. Gasoline alone will add four-tenths of a point to the monthly change in the total CPI; unadjusted retail gasoline prices were up by over 10 percent in June, and that increase will be amplified in the seasonally adjusted data. For the most part, however, inflation pressures remain muted across much of the economy – our forecast of the change in the core CPI is but a rounding error away from printing at 0.1 percent rather than 0.2 percent. Our forecast anticipates a smaller increase in food prices than those seen in April and May. Those increases were mainly driven by steep increases in prices for food consumed at home, reflecting the dramatic change in consumption patterns wrought by the efforts to stem the spread of the COVID-19 virus. Our forecast anticipates a positive contribution from motor vehicle prices for the first time since February. Low inventories coupled with resilient demand should yield higher vehicle prices, with used vehicle prices rebounding strongly in June, though the obvious caveat here is that the CPI series on used motor vehicle prices has a somewhat tenuous relationship with used motor vehicle prices. Our forecast also anticipates another sizable increase in medical care costs, which would leave them up better than 5.0 percent year-on-year.
June Consumer Price Index: Core Tuesday, 7/14 Range: 0.1 to 0.3 percent Median: 0.1 percent	May = -0.1%	Up by 0.2 percent, which would leave the core CPI up 1.1 percent year-on-year.
June Industrial Production Wednesday, 7/15 Range: 1.9 to 5.1 percent Median: 4.0 percent	May = +1.4%	Up by 4.7 percent. Motor vehicle production ramped up sharply in June, which will help push manufacturing output higher, and our forecast anticipates higher utilities output will also add to growth in overall IP. Even if our forecast is on or near the mark, however, both total output and manufacturing output will still be down sharply on an over-the-year basis.
June Capacity Utilization Rate Wednesday, 7/15 Range: 65.3 to 70.0 percent Median: 67.4 percent	May = 64.8%	Up to 68.4 percent.
June Retail Sales: Total Thursday, 7/16 Range: 1.5 to 8.0 percent Median: 5.0 percent	May = +17.7%	Up by 5.3 percent. Retail sales rebounded strongly in May, and we expect to see further increases in the June data. Top-line retail sales will get ample support from gasoline (price effects along with higher demand) and motor vehicles (a solid increase in unit sales along with firmer pricing), but we expect broad based increases in sales. The big question, however, is how sturdy the increases in retail sales will prove to be in the face of the recent upturn in COVID-19 cases. Various sources of tracking data show consumer spending tailed off by the end of June, in part due to several states partially rolling back reopening measures, and higher frequency measures show consumer sentiment backtracked in late-June. From the start, we've noted that, regardless of what policy makers allow or don't allow, consumer confidence will be a key driver of consumer spending, both how much and how consumers spend. To that point, while our forecast anticipates a further increase in June, how restaurant sales hold up in July is still an open question. At the same time, grocery store sales and sales by nonstore retailers should continue to post solid gains. It is also important to note that the retail sales data do not capture services, which account for over two-thirds of all consumer spending. Any pullback in consumer spending in July figures to hit services spending harder than spending on goods.

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June Retail Sales: Ex-Auto Thursday, 7/16 Range: 1.7 to 8.1 percent Median: 5.3 percent	May = +12.4%	Up by 4.9 percent.
June Retail Sales: Control Group Thursday, 7/16 Range: 2.0 to 6.0 percent Median: 4.0 percent	May = +11.0%	Up by 4.7 percent.
May Business Inventories Thursday, 7/16 Range: -2.5 to -0.5 percent Median: -2.3 percent	Apr = -1.3%	We look for total business inventories to be down by 2.3 percent and for total business sales to be up by 8.3 percent.
June Building Permits Friday, 7/17 Range: 1.081 to 1.340 million units Median: 1.300 million units SAAR	May = 1.216 million units SAAR	Up to an annualized rate of 1.288 million units. On a not seasonally adjusted basis, we look for total housing permits of 113,900 units, with single family permits up sharply from May and multi-family permits more or less flat. Applications for purchase mortgage loans rose sharply in June, in keeping with industry reports and commentary from builders indicating robust demand for new single family construction. While our forecasts anticipate sizable June increases in single family permits and starts, the caveat is that the Census data aren't always on the same page as the industry-level data, so our single family forecasts may prove too high. Either way, it is still not entirely clear how durable the rebounds in purchase mortgage applications and new home sales will prove to be. Some see it as nothing more than making up ground lost during March and April, while others point to low mortgage interest rates as sustaining demand amidst improving but still-weak labor market conditions. While we think there is more to it than payback, we do question how much upside there is for home sales – and by extension new single family construction – in the absence of a sturdier and more broad based rebound in the labor market, without which the housing market cannot outperform the broader economy on a sustained basis. We will continue to look to the weekly data on mortgage applications as a timely gauge of demand for home purchases that will in turn help shape our forecasts of single family housing permits and starts and new and existing home sales.
June Housing Starts Friday, 7/17 Range: 1.050 to 1.330 million units Median: 1.175 million units SAAR	May = 0.974 million units SAAR	Up to an annualized rate of 1.191 million units. We look for the not seasonally adjusted data to show 108,800 total housing starts, up from 89,300 total starts in May, with single family starts doing most of the heavy lifting.

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