ECONOMIC PREVIEW

REGIONS

Week of September 14, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 15-16 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%	The FOMC's revised Statement on Longer-Run Goals and Monetary Policy Strategy formalized the shift to a flexible average inflation target. Next on the Committee's to-do list is deciding on whether, and how, to adjust forward guidance and asset purchases to line up with the shift in their inflation strategy. While many are looking to this week's FOMC meeting as the delivery date for any such adjustments, we think it too soon for the Committee to have reached agreement on any meaningful changes in these areas. After all, the shift in inflation strategy did not alter the current stance of monetary policy; the FOMC has for some time stressed that they are not close to raising the Fed funds rate target range, and market expectations are aligned with that view. Still, even without meaningful changes in the forward guidance contained in the post-meeting policy statement, this week's meeting offers the Committee a chance to reiterate its point on the Fed funds rate. This week's meeting includes the release of updated economic and financial projections, and in any given year September is the month in which the Committee's projections roll forward another year, meaning this week's release will show the first projections for 2023. While there will likely be an upgrade to growth and inflation forecasts to reflect the rebound in the economy seen to date, the 2023 projections could be a signaling mechanism, perhaps showing inflation running ahead of 2.0 percent with no changes in the median Fed funds rate target range mid-point. Either way, substantive changes to forward guidance and asset purchases are not likely until either the November or December FOMC meeting.
August Industrial Production Tuesday, 9/15 Range: -0.2 to 2.2 percent Median: 1.0 percent	Jul = +3.0%	Up by 0.6 percent. After having provided a considerable boost in June and July, some of which was seasonal adjustment noise, motor vehicle production should be a modest drag in the August data, which helps account for our below-consensus forecast. Still, the recent growth in core capital goods orders suggests manufacturing output should still have advanced in August even if we are correct in expecting a drag from motor vehicles. Our forecast would leave total IP down over 8 percent year-on-year.
August Capacity Utilization Rate Tuesday, 9/15 Range: 70.3 to 72.5 percent Median: 71.3 percent	Jul = 70.6%	Up to 71.1 percent.
August Retail Sales: Total Wednesday, 9/16 Range: 0.0 to 4.6 percent Median: 1.0 percent	Jul = +1.2%	Up by 1.1 percent. The capricious nature of the retail sales data was on full display in the report on July retail sales. Our forecasts for total, ex-auto, and control retail sales were all well above consensus, yet total retail sales came in well below our forecast while ex-auto and control retail sales were stronger than our forecasts. This reflected a reported decline in sales revenue amongst motor vehicle dealers, despite sizable increases in unit sales and hefty price increases for both new and used vehicles. It won't come as a surprise to see an upward revision to that initial estimate, it won't come as a surprise to not see an upward revision, mainly because while many things in the retail sales data may annoy us, nothing in the retail sales data surprises us. In any event, upward revision to the July estimate or not, revenue amongst motor vehicle dealers should have risen in August, on both volume and pricing. Sales at electronics stores should have risen further, again with both volume and pricing contributing to an increase, in part reflecting the "back to school even if back to school means still at home" shopping season, which we think is what it is called these days. As for the rest of back, or not, to school shopping, our forecast anticipates a decline in apparel store sales, part of which could reflect seasonal adjustment issues. Online sales should post a hefty increase, in part reflecting the new normal for back to school shopping. If our forecast is on or near the mark, it sets the stage for huge annualized increases in consumer spending on goods in Q3, which poses upside risk to our forecast of Q3 real GDP growth. That said, spending on goods accounts for only about one-third of all consumer spending as measured in the GDP data. While spending on goods has returned to pre-pandemic levels, spending on services is nowhere near that mark, and it will be the August data on consumer spending on services (due on October 1) that will be more impactful in refining our forecast of Q3 real GDP growth.
August Retail Sales: Ex-Auto Wednesday, 9/16 Range: -0.4 to 5.5 percent Median: 0.9 percent	Jul = +1.9%	Up by 0.9 percent.
August Retail Sales: Control Group Wednesday, 9/16 Range: -0.9 to 3.4 percent Median: 0.3 percent	Jul = +1.4%	Up by 0.8 percent.

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July Business Inventories Wednesday, 9/16 Range: -0.7 to 0.4 percent Median: 0.2 percent	Jun = -1.1%	We look for total business inventories to be up by 0.1 percent and for total business sales to be up by 3.3 percent.
August Building Permits Thursday, 9/17 Range: 1.450 to 1.580 million units Median: 1.520 million units SAAR	Jul = 1.483 million units SAAR	Up to an annualized rate of 1.527 million units. The July data on housing permits and starts made a mockery of our forecasts, which were above consensus, thanks to a spike in multi-family activity that stood out even for this notoriously volatile series. What stood out even more is that the spike in multi-family starts was confined to the South region, where the 27,200 multi-family starts (not seasonally adjusted) marked the highest monthly total since October 1985. Somewhat lost in the shuffle was the further improvement in single family permits and starts. Our forecasts for the August data anticipate further increases in both single family permits and starts while multi-family activity takes a breather after July's wild ride, though experience dictates we have more confidence in our forecasts of single family activity than of multi-family activity. On a not seasonally adjusted basis, we look for total housing permits of 135,200 units.
August Housing Starts Thursday, 9/17 Range: 1.322 to 1.600 million units Median: 1.475 million units SAAR	Jul = 1.496 million units SAAR	Up to an annualized rate of 1.504 million units. As noted above, the surge in multi-family starts in July took attention away from a solid increase in single family starts. Our forecast for total August housing starts anticipates a "correction" in multi-family starts while single family starts top one million units on an annualized basis. Demand for single family home purchases remains notably strong, thanks in large measure to extraordinarily low mortgage interest rates, and with inventories of existing homes for sale having been so lean for so long, more of that demand is being funneled to the new homes segment of the market. Builders, however, are struggling to keep up with the growth in demand; we've said many times over the past few years that builders could sell more new homes if only they could build more new homes, and that remains the case even as backlogs of unfilled orders (sold but not built) continue to swell. As such, were it not a matter of capacity, single family starts would be even higher, but if things really do even out in the end, this cycle will be characterized by a more gradual approach to the ultimate peak rather than a sharp spike followed by an equally sharp decline. Still, there are some notes of caution worth striking. Lumber prices have risen significantly, and while thus far builders have been able to pass along higher costs in the form of higher prices for finished new homes, there is a limit to their ability to do so, even if we can't precisely peg where that limit is. More generally, builders have been enjoying a high degree of pricing power. Lean inventories of existing homes are supporting faster house price appreciation, which is carrying over into prices for new homes. While low mortgage interest rates are acting as a buffer and helping sustain affordability, the higher house prices go, the thinner that buffer becomes – there are those who think that, with mortgage rates where they are, price does not matter, but we do not agree. Moreover, if mortgage rates do start to increase – however big of an "if" this is – with prices having risen as much as they have, affordability will be more sensitive to a given change in interest rates than has been the case in the past. Still, these are problems for another day, or another month, and in the near term we see further upside room for single family construction and new home sales. On a not seasonally adjusted basis, we look for total housing starts of 131,300 units in August.
Q2 Current Account Balance Friday, 9/18 Range: -\$177.2 to -\$132.3 billion Median: -\$159.0 billion	Q1 = -\$104.2 billion	Widening to -\$164.2 billion on a much wider deficit in the trade account and a smaller surplus in net income/transfers.
August Leading Economic Index Friday, 9/18 Range: 0.5 to 1.7 percent Median: 1.2 percent	Jul = +1.4%	Up by 1.5 percent.

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