# ECONOMIC PREVIEW

REGIONS

Week of May 10, 2021

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint**<br>*(After the June 15-16 FOMC meeting):*<br>Target Range Mid-point: 0.000 to 0.125 percent<br>Median Target Range Mid-point: 0.125 percent | Range:<br>0.00% to 0.25%<br>Midpoint:<br>0.125% | Many are pointing to the surprisingly weak April employment report as validating the FOMC's "go slow" approach to unwinding the considerable degree of monetary accommodation now being provided. The premise is that the April employment report hardly demonstrates the "further significant progress" the FOMC is looking for as a condition of beginning to pull in the policy reins. Indeed, with job growth having slowed considerably in April, quite contrary to expectations, the level of nonfarm employment remains over 8.2 million jobs below the pre-pandemic peak, while there are over 3.4 million fewer people in the labor force than was the case prior to the pandemic, despite participation having risen in April.<br><br>We had a different take on the April employment report, as it is full of signs that labor shortages and supply chain/logistics bottlenecks are weighing on growth while at the same time feeding inflation pressures. To be sure, it would be unwise to draw sweeping conclusions from a single month's data, but labor supply constraints have been looming as an issue for some time and could be intensifying. It is striking that wage pressures are building at this point in the cycle, given how much slack remains in the labor market. While the average hourly earnings metric in the monthly employment is not a reliable guide to overall wage pressures, looking at wage growth on an industry by industry basis gives a better sense, and wage increases were broad based across industry groups in April. Wages for non-supervisory workers in leisure and hospitality services jumped by 2.7 percent in April, easily the largest monthly increase on record, which apparently was the price to pay for a smaller than expected increase of 331,000 jobs in the broad industry group. Labor shortages in other areas, such as health care, can't be remedied by higher wages alone given the skills required to fill these roles. Evidence of materials shortages comes in the data on manufacturing and construction employment, acting to hold down output amid robust demand. More broadly, demand is clearly not the issue at present, particularly with over $2 trillion in excess saving in the household sector. Instead, the ability to meet demand is a growing issue, in terms of supplies of labor and non-labor inputs. Whether these constraints will ease isn't so much the question as when they will ease. That likely won't happen quickly and, in the interim, there will be implications for both growth and inflation. |
| **April Consumer Price Index** Wednesday, 5/12<br>Range: 0.0 to 0.4 percent<br>Median: 0.2 percent | Mar = +0.6% | <u>Up</u> by 0.3 percent, which would yield a year-on-year increase of 3.7 percent. While the tendency will be to dismiss faster headline inflation as nothing more than base effects (i.e., comparing prices this April with those from last April when prices plunged as the economy shut down), we'll note that our forecast would put the annualized 3-month change in the CPI at better than 5.0 percent for a second straight month. Okay, so even though that cannot be attributed to base effects, many would still brush it off as reflecting nothing more than transitory factors. Count us as not quite convinced, as there are growing signs of broadening price pressures. As for the April CPI, gasoline will be a drag with prices down on a seasonally adjusted basis, yet we see other sources of support for the headline CPI. Stiff increases in used vehicle prices, air fares, lodging, recreation services, and household services, along with what we think will be some firming in rents should combine to lift both the total and core CPI. What remains to be seen is the extent to which rising labor costs, rising costs of non-labor inputs, and higher shipping costs will flow through to retail level inflation in the months ahead at a time when services prices will be adapting to stronger demand. Sure, if you wait long enough, anything is transitory, but we're just not as sanguine about inflation pressures as many seem to be. |
| **April Consumer Price Index: Core** Wednesday, 5/12<br>Range: 0.1 to 0.5 percent<br>Median: 0.3 percent | Mar = +0.6% | <u>Up</u> by 0.4 percent, for a year-on-year increase of 2.4 percent. Our forecast would put the annualized 3-month change in the core CPI at 3.3 percent which, again, has nothing at all to do with base effects. |
| **April PPI: Final Demand** Thursday, 5/13<br>Range: 0.2 to 0.7 percent<br>Median: 0.3 percent | Mar = +1.0% | <u>Up</u> by 0.3 percent, which would translate into an over-the-year increase of 5.8 percent. |
| **April PPI: Core** Thursday, 5/13<br>Range: 0.2 to 0.8 percent<br>Median: 0.4 percent | Mar = +0.7% | <u>Up</u> by 0.4 percent, which would yield an over-the-year increase of 3.9 percent. |

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| **April Retail Sales: Total**<br>Range: -1.5 to 3.8 percent<br>Median: 1.0 percent | Friday, 5/14 | Mar = +9.8% | Down by 0.2 percent. Our forecast puts us squarely at odds with the consensus forecast, and in all honesty, we have no idea what to expect from the April retail sales data. In more normal times, the month following an increase as large as that seen in March would bring a hefty decline in retail sales but, for anyone who hasn't been keeping score at home, these are anything but normal times. March's spike in retail sales in part reflected a bounce from sales having held down by harsh winter weather in February, and in part reflected the effects of the third round of Economic Impact Payments. Many of those expecting retail sales to have risen further in April point to the elevated level of saving in the household sector as the catalyst. To be sure, our estimate puts the level of "excess saving" in the household sector at just over $2.2 trillion, on top of which both March and April saw sizable increases in aggregate wage and salary earnings. So, it isn't at all a question of means. What we're not so sure about is how much more spending on goods is there left to do when, as of March, the level of consumer spending on goods was 18.2 percent above the pre-pandemic peak. Keep in mind that the retail sales data do not capture consumer spending on services, which accounts for roughly two-thirds of all consumer spending. Our view is that there is considerable upside room for spending on services, which is where we look for the biggest increase in April (the BEA's report on April consumer spending – including services – comes out on May 28). If we're wrong on this point, then our forecast of April retail sales will be much too low.<br><br>Further complicating matters is that the April seasonal adjustment factors for the individual categories are all over the map, some will be supportive of growth in sales on a seasonally adjusted basis, others not so much. For instance, the seasonal factor used to adjust April sales at motor vehicle dealers is somewhat punitive, which could negate much, if not all, of the increase in unit motor vehicle sales, though price effects will be supportive. The seasonal factor used to adjust April sales at building materials stores is even more punitive, but categories such as apparel, nonstore retailers, and grocery stores will benefit from seasonal adjustment. In short, given the mix of factors that could impact the data, we have little confidence in any forecast of the April retail sales data, ours included, and instead will just say that nothing we see in the report will surprise us. |
| **April Retail Sales: Ex-Auto**<br>Range: -1.9 to 2.2 percent<br>Median: 0.8 percent | Friday, 5/14 | Mar = +8.4% | Down by 0.6 percent. |
| **April Retail Sales: Control Group**<br>Range: -2.5 to 2.2 percent<br>Median: -0.4 percent | Friday, 5/14 | Mar = +6.9% | Down by 0.9 percent. |
| **April Industrial Production**<br>Range: -0.3 to 2.7 percent<br>Median: 1.0 percent | Friday, 5/14 | Mar = +1.4% | Up by 0.3 percent. Our forecast anticipates a 0.4 percent decline in manufacturing output, with motor vehicle production acting as a meaningful drag. Payrolls amongst vehicle producers fell by 27,000 jobs in April as the global shortage of semiconductor chips has led to many plants being idled or run at less than full capacity. Other areas of manufacturing, such as electronics and communications products, could also be impacted. We do anticipate a bounce in utilities output after it fell by better than eleven percent in March and also expect mining output to have also increased. |
| **April Capacity Utilization Rate**<br>Range: 74.3 to 76.8 percent<br>Median: 75.1 percent | Friday, 5/14 | Mar = 74.4% | Up to 74.7 percent. |
| **March Business Inventories**<br>Range: -0.2 to 0.5 percent<br>Median: 0.3 percent | Friday, 5/14 | Feb = +0.5% | We look for total business inventories to be up by 0.3 percent and for total business sales to be up by 5.4 percent. |

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