ECONOMIC UPDATE

REGIONS

May 14, 2021

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April Retail Sales/April Industrial Production

- Total retail sales were <u>unchanged</u> in April, with ex-auto sales <u>down</u> by 0.8 percent and control retail sales <u>down</u> by 1.5 percent
- Total industrial production <u>rose</u> by 0.7 percent in April, with manufacturing output <u>up</u> by 0.4 percent

<u>Retail Sales</u>: Total retail sales were unchanged in April, with ex-auto sales down by 0.8 percent and control retail sales down by 1.5 percent. Our forecast, squarely at odds with the consensus forecast, anticipated a 0.2 percent decline in total retail sales, a 0.6 percent decline in ex-auto sales, and a 0.9 percent decline in control retail sales. The prior estimate of March sales was revised higher, with total retail sales now reported to have risen by 10.7 percent. Our forecast was not an indication that we thought consumer spending was suddenly faltering, but instead reflected our view that April would see a meaningful shift in the composition of consumer spending, with spending on services – not captured in the retail sales data – set to increase significantly while spending on goods began to ease. That we look for spending on services, which accounts for roughly two-thirds of all consumer spending, to increase significantly simply reflects more and more people being vaccinated and feeling more free to move about as the economy more fully reopens, with a vast pool of excess saving in the household sector facilitating increased spending. We'll have a better sense for how spending on services progressed in April on May 28 when the BEA releases their report on April consumer spending, which includes spending on both goods and services.

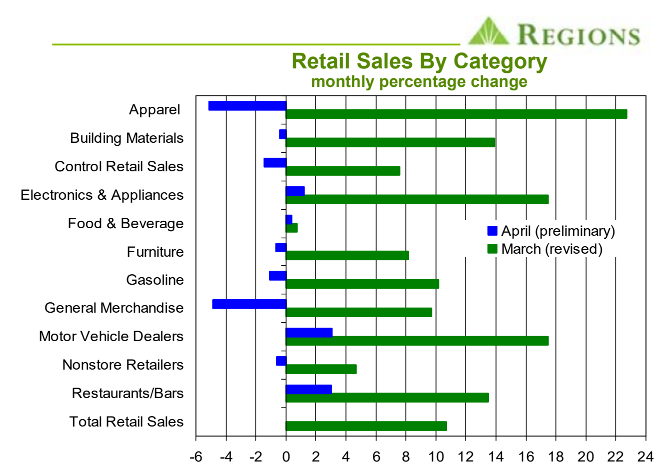
In April, sales declined in 8 of the 13 broad categories for which data are reported. Still, the April declines come off of substantial increases in March, as our first chart below illustrates. Motor vehicle dealers saw sales revenue increase by 3.1 percent on strong unit sales coupled with higher prices, particularly for used motor vehicles. Unit sales will surely suffer in the months ahead given significantly impaired inventories, though higher prices will provide a bit of an offset. Keep in mind that the retail sales data are reported on a nominal basis, i.e., they are not adjusted for price changes. Prices of core goods (consumer goods excluding food and energy) rose by 2.0 percent in April, the largest monthly increase on record, and higher prices will bolster retail sales in the months ahead.

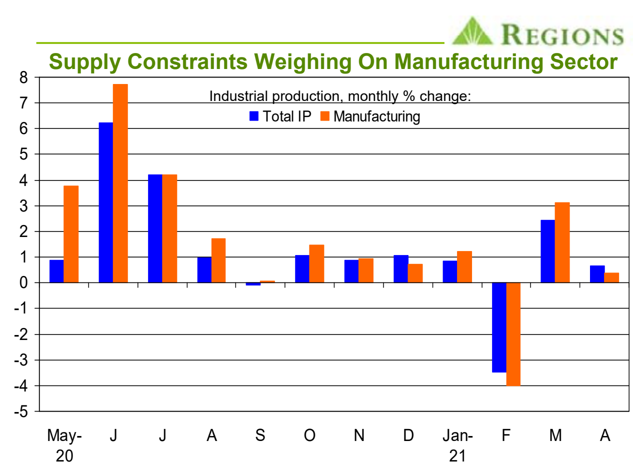
The upward revision to March sales set a higher base for April sales, and even with total retail sales being unchanged in April, that puts nominal Q2 sales up 25.8 percent on an annualized basis, with control retail sales, a direct input into the GDP data on consumer spending, up at a 9.3 percent rate. While May and June may bring some giveback in retail sales, we think this will be part of a shift toward services spending. If so, consumer spending will again provide a substantial boost to Q2 real GDP growth.

<u>Industrial Production</u>: Total output amongst the nation's factories, mines, and utilities rose by 0.7 percent in April, between the 0.3 percent increase we expected and the consensus forecast of a 1.0 percent increase. Our miss is due to manufacturing output rising by 0.4 percent, contrary to the modest decline we expected. Mining output was up by 0.7 percent and utilities output was up by 2.6 percent after having plunged by 9.0 percent in March. The overall capacity utilization rate rose to 74.9 percent in April, with the utilization rate in manufacturing rising to 74.1 percent.

Assemblies of autos and light trucks (which includes SUVs) fell to an annualized rate of 8.674 million units in April, down 5.2 percent from March. This is a smaller decline than we anticipated, though production will likely decline further in the months ahead as the global chip shortage is leading to increasingly large production backlogs at a time when demand remains robust. Excluding motor vehicles, manufacturing output rose by 0.7 percent in April. While the chip shortage may be weighing on output in other industry groups, thus far the impact is not nearly as harsh as is the case with motor vehicle production. It is also worth noting that production of construction supplies fell by 0.9 percent in April amid growing signs that materials shortages are weighing on residential construction. Production of business equipment, a reliable indicator of business investment in equipment and machinery as reported in the GDP data, rose by just 0.2 percent in April, well below the recent trend rate.

After a weather-related slump in February and subsequent rebound in March, the April data are a "cleaner" read on industrial production. The concern is that supply chain/logistics bottlenecks, including the global chip shortage, will be an increasing drag on manufacturing output in the months ahead. While these supply side issues will ultimately resolve, when that will be remains to be seen and, in the interim, this will act as a source of inflation pressure in the broader economy.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com