ECONOMIC PREVIEW

REGIONS

Week of June 7, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 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%	It is, apparently, much easier to shut an economy down than it is to open it back up. An increasingly common theme of the economic data is the growing imbalance between the supply side of the economy and the demand side. The ISM's surveys of the manufacturing and non-manufacturers reveal increasing frustrations over supply chain and logistics bottlenecks, with shortages of inputs and delayed deliveries holding down production. It is also clear that labor supply constraints are holding down the pace of job growth and contributing to meaningful and broad based wage pressures. It's one thing to prop up demand with unprecedented fiscal and monetary policy support, it's quite another thing to get global supply chains up and running at anything even resembling full speed.
April Trade Balance Tuesday, 6/8 Range: -\$76.6 to -\$67.0 billion Median: -\$69.0 billion	Mar = -\$74.4 billion	<u>Narrowing</u> to -\$67.4 billion on a smaller deficit in the goods account.
May Consumer Price Index Thursday, 6/11 Range: 0.3 to 0.6 percent Median: 0.4 percent	Apr = +0.8%	<u>Up</u> by 0.5 percent, which would yield a year-on-year increase of 4.8 percent. Even if not quite as large as our forecast anticipates, the year-on-year increase in the CPI may nonetheless be somewhat jarring. Keep in mind, however, that the CPI bottomed in May 2020, meaning that base effects will be more pronounced in May than in any other month. Last May, prices were still falling as much of the economy was shut down and demand for many services was virtually nonexistent. This May, prices were rising in response to further normalization in economic activity, supply constraints, rising prices for imported goods, rising shipping costs, and rising labor costs. In other words, not exactly a fair comparison, which is why many will dismiss it out of hand. As a way around base effects, we've been more focused on the annualized 3-month change in the CPI; our forecast would yield annualized 3-month changes of 7.9 percent in the total CPI and 7.6 percent in the core CPI. It can be argued that this is where the "normalization" of services prices comes into play, i.e., services prices adjusting to sudden, rapid growth in demand. For instance, air fares rose by 10.1 percent, rental car rates rose by 16.2 percent, and lodging costs rose by 8.8 percent in April. While further increases are likely for May, they are unlikely to be as large, but these "normalization effects" are clearly propping up the annualized 3-month changes in the total and core CPI. So, between base effects and normalization effects, one can craft a plausible story as to why faster inflation is purely transitory and hence nothing to worry about. As we've noted before, we're not so convinced. And, for the record, thinking that inflation pressures may be more persistent than many are now assuming does not make one an inflation alarmist warning of a return of 1970s-style inflation, though you'd never know that listening to some of those in the transitory camp dismiss anyone who doesn't agree with them. The reality is that it will take several more months to have a clear answer to this question, and it would take something far short of 1970s-style inflation to unsettle the financial markets. Thus far, market-based measures of inflation expectations remain fairly contained, but survey-based measures of consumer expectations have risen meaningfully, and we're less dismissive of this than some are inclined to be. It could be that the considerable pool of excess saving in the household sector along with the urge to get back out and about have left consumers more tolerant of price increases than they otherwise would be, but that can change quickly.
May Consumer Price Index: Core Thursday, 6/11 Range: 0.3 to 0.8 percent Median: 0.4 percent	Apr = +0.9%	<u>Up</u> by 0.6 percent, for a year-on-year increase of 3.6 percent. Core goods prices (prices for consumer goods excluding food and energy) rose by 2.0 percent in April, the largest monthly increase on record, helped along by a 10.0 percent increase in prices of used motor vehicles. While we don't expect that large of an increase in the May data, there is still considerable upward pressure on core goods prices as supply constraints are becoming more pressing. We also look for a larger increase in core services prices than the 0.5 percent increase seen in April. The normalization effects noted above will be apparent in the May data, and we look for rent growth to begin firming – rents account for over 40 percent of the core CPI.

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