ECONOMIC PREVIEW

REGIONS

Week of August 16, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 21-22 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 University of Michigan's early-August read shows consumer sentiment plunged to a ten-year low on concerns over the spike in COVID-19 cases and elevated inflation. It could be that the decline in sentiment is an intense but one-off reaction by consumers who had thought (or, hoped) the pandemic was done with, and it remains to be seen whether, or to what extent, the deterioration in sentiment translates into changes in consumer behavior. The July data on retail sales won't settle these questions, but the sentiment data point to lingering downside risks to growth.
July Retail Sales: Total Tuesday, 8/17 Range: -2.3 to 0.4 percent Median: -0.2 percent	Jun = +0.6%	Up by 0.4 percent. Our above-consensus forecast is predicated on price effects and an early start to back-to-school shopping more than offsetting a drag from motor vehicle sales, as evidenced in our calls on ex-auto and control retail sales. A sharp decline in unit sales of new motor vehicles will to some extent be blunted by another sharp increase in new vehicles prices, but not enough to prevent a decline in revenue at motor vehicle dealers. Prices for used motor vehicles behaved in a much more civilized manner in July, which will limit the contribution to total revenue at motor vehicle dealers from sales of used vehicles. We'll note here that, in addition to motor vehicles, supply constraints are also weighing on sales of goods such as appliances and furniture. As such, on an inflation-adjusted basis, we anticipate a meaningful decline in spending on consumer durable goods in Q3. Elsewhere in the data, higher retail pump prices and higher demand will have pushed gasoline station sales higher, though their contribution to top-line retail sales will be somewhat watered down by seasonal adjustment. Higher prices and an early start to back-to-school shopping will bolster July retail sales (the retail sales data are not adjusted for price changes), and this is one area where the effects of the initial distribution of the expanded child tax credits could make a visible impact in the data. To be sure, the risks to our forecast are weighted to the downside, particularly in light of the upturn in COVID-19 cases that began over the latter part of July. There has been some pullback in activities such as dining out, but it isn't clear how much of that will be picked up in the July data. Services spending, not captured in the retail sales data, is likely to have been more impacted than spending on goods. Either way, it could be that we won't see any meaningful effects on consumer spending until the August data.
July Retail Sales: Ex-Auto Tuesday, 8/17 Range: -0.2 to 0.9 percent Median: 0.2 percent	Jun = +1.3%	Up by 0.9 percent.
July Retail Sales: Control Group Tuesday, 8/17 Range: -2.6 to 0.8 percent Median: -0.2 percent	Jun = +1.1%	Up by 0.8 percent.
July Industrial Production Tuesday, 8/17 Range: 0.2 to 1.1 percent Median: 0.5 percent	Jun = +0.4%	Up by 0.7 percent.
July Capacity Utilization Rate Tuesday, 8/17 Range: 75.5 to 76.1 percent Median: 75.7 percent	Jun = 75.4%	Up to 75.8 percent.
June Business Inventories Tuesday, 8/17 Range: 0.1 to 0.8 percent Median: 0.8 percent	May = +0.5%	We look for total business inventories to be up by 0.8 percent, and for total business sales to be up by 1.3 percent.
July Building Permits Wednesday, 8/18 Range: 1.510 to 1.702 million units Median: 1.610 million units SAAR	Jun = 1.594 million units SAAR	Up to an annualized rate of 1.702 million units. On a not seasonally adjusted basis, we look for total housing permits of 147,700 units in July, down from the 154,500 units permitted in June. Permit issuance tends to slow in the month of July, but we look for this July's slowdown to be less pronounced than is typical for the month. If we are correct on this point, the seasonally adjusted data will be made to look stronger, which helps account for our above-consensus forecast. Though down from June, we nonetheless look for single family permits to remain above 100,000 units. One factor weighing on single family permits is that builders have been more focused on working down backlogs of unfilled orders, but with many builders starting to relax sales caps, single family permit issuance should turn higher in the months ahead.

ECONOMIC PREVIEW

REGIONS

Week of August 16, 2021

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
July Housing Starts Range: 1.490 to 1.660 million units Median: 1.601 million units SAAR	Wednesday, 8/18	Jun = 1.643 million units SAAR	Down to an annualized rate of 1.601 million units. On a not seasonally adjusted basis, we look for total starts of 146,600 units, down from 152,600 units in June. As with permit activity, however, starts typically tail off in July, and our forecast is in line with the typical July decline. Of more relevance is that our forecast would leave single family starts above single family permits for a third straight month, which goes to our point about builders being more focused on working off elevated order backlogs than on pushing new sales. That said, industry commentary suggests builders are starting to lift, even if only gently, the voluntary sales caps that have been in place over recent months. Materials costs have eased a bit and builders seem to be gaining some confidence in terms of being able to set prices and delivery dates, while demand remains quite robust across much of the U.S. While this doesn't suggest that single family starts and permits will shoot higher in the months ahead, it does suggest further growth with builders continuing to exercise a good deal of discretion as to the pace of growth in single family construction and sales. As we've noted before, many builders seem to be playing the long game here, which has in the past not always been the case. Our July forecast would leave the running 12-month total of not seasonally adjusted single family starts at 1.135 million units, the highest such total since September 2007. Still, this be well short of the 1.250 million unit pace which we would see as more consistent with normal housing market dynamics, and once you account for the sizable deficit that has accumulated after a multi-year period of far too few single family homes having been constructed, it is going to be a long time before the housing market gets back on even ground.
July Leading Economic Index Range: 0.5 to 1.0 percent Median: 0.7 percent	Thursday, 8/19	Jun = +0.7%	Up by 0.8 percent.

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