ECONOMIC PREVIEW

REGIONS

Week of August 23, 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%	Growing concerns over the toll the Delta variant of the COVID-19 virus might take on the global economy helped trigger declines in equity prices, commodity prices, and crude oil prices last week, while the U.S. dollar strengthened amid increased buying of U.S. Treasury securities. That sets quite the backdrop for this week's Jackson Hole gathering (August 26-28), though we do not expect Chairman Powell to lay out any specifics as to the timing, pace, and composition of the tapering of the Fed's monthly asset purchases during his address. Though many FOMC members seem to prefer sooner rather than later in terms of the timing for tapering, the Delta variant looms as a significant wild card
July Existing Home Sales Monday, 8/23 Range: 5.750 to 6.100 million units Median: 5.830 million units SAAR	Jun = 5.860 million units SAAR	<u>Up</u> slightly, to an annualized rate of 5.870 million units. On a not seasonally adjusted basis, we look for sales of 582,000 units, down from sales of 614,000 units in June, which was the highest monthly total since August 2006. Our forecast would also not compare favorably with July 2020, as it would yield a year-on-year decline of 2.5 percent. Two things to keep in mind, however, are that it was last July that sales rocketed higher after a pronounced decline when the economy was shut down, and that last July had one more sales day than did this July. When adjusting for sales days, our forecast would reflect a year-on-year increase of 2.1 percent. Perhaps the bigger story in the July data will be inventories; after hitting the bottom in February, inventories have since risen significantly, and we expect a much larger increase than is typical for the month of July. Even if we are correct on this point, however, the market will remain badly undersupplied. One way of seeing whether the increase in listings is taking any pressure off the market is the median days on market metric, which has been at an all-time low for the past three months. After the median sales price posted year-on-year increases of better than 20 percent in each of the past two months, our forecast anticipates some moderation in July, not so much because of the increase in listings but instead because from here on out the over-the-year comparisons get more difficult. Recall that it was last July that the pace of price appreciation really kicked into a higher gear. It is reasonable to think that with listings on the rise and the pace of price appreciation easing, the market is on the path back to normal, but it is not reasonable to think the journey will be a quick one.
July New Home Sales Tuesday, 8/24 Range: 646,000 to 755,000 units Median: 700,000 units SAAR	Jun = 676,000 units SAAR	<u>Up</u> to an annualized rate of 722,000 units. On a not seasonally adjusted basis, we look for new home sales of 61,000 units, up slightly from the 60,000 units sold in June. That this small difference in unadjusted sales could yield such a large increase in the headline sales print in part reflects the impact of what will be a friendlier seasonal adjustment factor for July sales, which is yet another reason to focus on the unadjusted data as we always do. New home sales have slowed dramatically over the past few months, which we've contended is more of a supply-side story than it is a demand side story. To be sure, lean inventories, higher prices and long and uncertain delivery times have taken some of the steam out of demand. At the same time, however, builders have intentionally capped sales while focusing on paring down what had become significantly elevated backlogs of unfilled orders. While they have made some progress on this front, constraints on materials have remained a drag on production. Still, builders have begun to relax self-imposed sales caps and we look for sales to turn higher though, with builders maintaining control over the pace, growth is likely to be moderate. While there has been some relief in terms of materials costs, it remains to be seen whether builders will pass that along to buyers in the form of lower prices or whether they will keep it in the form of larger margins. We suspect there isn't a blanket answer to this, with local market conditions, more specifically the intensity of demand, being a key input into the decision. We've been saying for quite some time now that builders could easily sell more homes if only they could build more homes, and we think that remains the case.
July Durable Goods Orders Wednesday, 8/25 Range: -4.6 to 1.9 percent Median: -0.2 percent	Jun = +0.9%	<u>Down</u> by 1.9 percent. A steep decline in civilian aircraft orders will be a meaningful drag on top-line orders, but beyond that our forecast anticipates moderate growth across the other main categories. Orders for computer equipment, communications equipment, and industrial machinery have been on a run of solid growth, consistent with the strength of business investment in the GDP data. What will bear watching is whether, or to what extent, concerns over flagging global economic growth will begin to weigh on business investment once we get past the July data.

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July Durable Goods Orders: Ex-Trnsp. Wednesday, 8/25 Range: -0.1 to 1.5 percent Median: 0.5 percent	Jun = +0.5%	We look for ex-transportation orders to be up by 0.7 percent, and for core capital goods orders (nondefense capital goods excluding aircraft) to be up by 0.5 percent.
Q2 Real GDP – 2nd estimate Thursday, 8/26 Range: 6.5 to 7.3 percent Median: 6.7 percent SAAR	Q2 1st est. = +6.5% SAAR	Up at an annualized rate of 6.5 percent. While the underlying details – consumer spending, business investment, inventories, trade – will change, we think the net result will be no change in the estimate of top-line growth.
Q2 GDP Price Index – 2nd estimate Thursday, 8/26 Range: 6.0 to 6.1 percent Median: 6.0 percent SAAR	Q2 1st est. = +6.0% SAAR	Up at an annualized rate of 6.0 percent.
July Advance Trade Balance: Goods Friday, 8/27 Range: -$93.2 to -$88.2 billion Median: -$90.7 billion	Jun = -$91.2 billion	Widening to -$93.2 billion.
July Personal Income Friday, 8/27 Range: -1.5 to 1.2 percent Median: 0.1 percent	Jun = +0.1%	Up by 1.1 percent. Our forecast, well above the consensus forecast, is predicated upon considerable support from transfer payments. While in theory the Economic Impact Payments have come and gone, in practice funds are still being distributed, and in July that amounted to between $40 and $50 billion on an annualized basis. At the same time, the initial payments from the expanded Child Care Tax Credit were distributed in July, which should come to around $200 billion on an annualized basis. On the whole, transfer payments account for about half of the increase in total personal income our forecast anticipates, and while the BEA data don't necessarily match the data provided by the IRS, in terms of the magnitude and timing of payments, it isn't clear that the consensus forecast adequately accounts for July transfer payments. Elsewhere in the data, our forecast anticipates another hefty increase in private sector wage and salary earnings, reflecting sizable increases in both private sector payrolls and average hourly earnings. The accounting treatment of the Paycheck Protection Program (PPP) should mean that the PPP acts as a drag on farm and nonfarm proprietors' income, with bigger drags on tap in the months ahead. We also look for less support from asset-based income than seen over the prior few months.
July Personal Spending Friday, 8/27 Range: -0.5 to 0.9 percent Median: 0.4 percent	Jun = +1.0%	Up by 0.4 percent. While a weak July retail sales report has raised concerns over the state of U.S. consumers, we think the retail sales data to be far more noise than signal. Here are some points we think are worth keeping in mind. First, the retail sales data do not capture consumer spending on services, which accounts for roughly two-thirds of all consumer spending. Second, spending on goods was bound to ease as the economy reopened and consumers again turned to services such as travel, tourism, dining out, recreation, and entertainment, i.e., spending figured to shift away from goods and toward services. Third, spending on consumer durable goods, such as motor vehicles, appliances, and furniture, has been constrained by limited supplies, with the sharp cutback in motor vehicle production and sales due to the global chip shortage being the prime example. Fourth, the spike in COVID-19 cases due to the spread of the Delta variant has led to some softening in discretionary consumer spending on services, but that did not begin to happen to a meaningful degree until August, hence the July spending data should be little impacted. Where all of this leaves us, at least our forecast, is with growth in services spending pushing total consumer spending higher in July despite what should be a sizable decline in spending on consumer durable goods. Indeed, for Q3 as a whole, we anticipate a significant decline in inflation adjusted spending on consumer durables and much slower growth in total consumer spending than that seen in Q2. What we are watching for are signs that concerns over COVID-19 are taking a toll on consumer confidence and consumer spending, which we'll have a better sense for as the August data come in.
July PCE Deflator Friday, 8/27 Range: 0.3 to 0.5 percent Median: 0.4 percent	Jun = +0.5%	Up by 0.4 percent, which would yield an over-the-year increase of 4.2 percent. We look for the core PCE Deflator to be up by 0.4 percent, which would translate into a year-on-year increase of 3.6 percent.

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