ECONOMIC PREVIEW

REGIONS

Week of November 15, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 14-15 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%	While Anthony Anderson may not ask, we will – will the real U.S. consumer please stand up? On the same day we learned that consumer sentiment, as measured in the University of Michigan's monthly survey, tumbled to a ten-year low in early-November, we also learned that U.S. workers continue to quit their jobs at a record rate. Consumers are clearly rattled by inflation, and the University of Michigan data show a marked deterioration in consumers' perceptions of buying conditions for major purchases, not exactly a good omen for holiday season sales. Yet, consumers remain constructive on labor market conditions, as evidenced by the record-high quits rate reported in the JOLTS data and by the Conference Board's "jobs plentiful-jobs hard to get" spread at a more than 21-year high. To be sure, the data do not align chronologically – the latest JOLTS data are as of September, but consumer sentiment has been steadily sinking as inflation has spiked over the past several months, and all signs point to the labor market remaining a seller's market. The old adage tells us to watch what consumers do, not what they say, making this week's release of the October retail sales data all the more interesting. If, as evidence suggests, consumers did pull holiday season spending forward, sagging sentiment and rising prices could add up to weaker than normal sales during the height of the holiday sales season.
October Retail Sales: Total Tuesday, 11/16 Range: -0.1 to 2.8 percent Median: 1.3 percent	Sep = +0.7%	Up by 2.8 percent. Our above-consensus forecast is predicated on an early start to holiday season shopping, favorable seasonal adjustment, and higher prices. To the extent concerns over shortages of goods prompted consumers to start their holiday shopping earlier this year, unadjusted retail sales will be stronger than is typical for the month of October, and this strength would be amplified by seasonal adjustment. At the same time, further increases in goods prices will boost measured retail sales, which are reported on a nominal basis. Gasoline and motor vehicles will be powerful supports for top-line retail sales; unit motor vehicle sales increased in October and prices for both new and used vehicles rose sharply. Restaurant sales likely posted a healthy advance on higher traffic and higher prices, and we expect a much larger increase in sales by nonstore retailers (a category which includes online sales) than seen in September. To be sure, the risks to our forecast seem tilted to the downside, and while we feel comfortable with the reasoning behind our forecast, experience has taught us that it seldom pays to apply reason to a forecast of the retail sales data. The retail sales data are inherently volatile from one month to the next, with the initial estimate of sales in any given month prone to sizable revision, and there's no reason to think the October data will be any different. That said, if the October data reflect holiday spending having been pulled forward, that sets up weaker than normal sales in November and December. These are months for which the seasonal adjustment factors are geared for substantial increases, raising the possibility that seasonally adjusted retail sales decline in both months, as happened in 2020.
October Retail Sales: Ex-Auto Tuesday, 11/16 Range: -0.3 to 2.5 percent Median: 1.0 percent	Sep = +0.8%	Up by 2.0 percent.
October Retail Sales: Control Group Tuesday, 11/16 Range: -0.3 to 2.5 percent Median: 0.9 percent	Sep = +0.8%	Up by 1.8 percent.
October Industrial Production Tuesday, 11/16 Range: -0.5 to 2.0 percent Median: 0.8 percent	Sep = -1.3%	Up by 1.6 percent. Manufacturing and mining output were held down in September by the after-effects of Hurricane Ida, while utilities output tumbled after August's spike. Our October forecast anticipates rebounds in each of the three sectors, though there is uncertainty around the magnitudes, particularly in manufacturing as supply-side constraints continue to act as a drag on production. One factor that could contribute to growth in manufacturing output is that payrolls amongst motor vehicle producers rose by 27,700 jobs in October, a sign that production may be starting to come back online after months of producers running at limited capacity due to the global chip shortage. While this may have been less of a boost in October than we assume, production should gradually come back online over coming months.
October Capacity Utilization Rate Tuesday, 11/16 Range: 75.0 to 76.7 percent Median: 75.9 percent	Sep = 75.2%	Up to 76.4 percent.

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September Business Inventories Tuesday, 11/16 Range: 0.4 to 0.8 percent Median: 0.6 percent	Aug = +0.6%	We look for total business inventories to be up by 0.8 percent and for total business sales to be up by 0.9 percent. Based on the preliminary data, business inventories posted a healthy advance in September, exceeding what BEA assumed in their initial estimate of Q3 GDP. If the final September data are in line with the preliminary data, this will be a source of upward revision to Q3 real GDP growth.
October Building Permits Wednesday, 11/17 Range: 1.576 to 1.691 million units Median: 1.630 million units SAAR	Sep = 1.586 million units SAAR	Up to an annualized rate of 1.691 million units. On a not seasonally adjusted basis, we look for total permits of 143,100 units, with both single family and multi-family permits higher than in September. Recall that both permits and starts in the South region weakened in September, which at least in part reflected the effects of Hurricane Ida, so we look for some payback in the October data. The basic story in the housing market, however, hasn't changed. Builders remain constrained by shortages of materials and labor amid what remains solid demand, and backlogs of unfilled orders remain substantial. Indeed, the number of single family units which have been permitted but not yet started continues to hover at levels last seen in 2006, which is weighing on new permit issuance. To that point, our October forecast would leave not seasonally adjusted single family permits 16.0 percent below their March peak. The supply-side constraints holding down construction activity show no signs of easing, but when that does begin to happen, we'll see it first in the permit data.
October Housing Starts Wednesday, 11/17 Range: 1.519 to 1.650 million units Median: 1.580 million units SAAR	Sep = 1.555 million units SAAR	Up to an annualized rate of 1.577 million units. On a not seasonally adjusted basis, we look for total starts of 136,600 units, with some payback in the South region from September's decline. Builders remain focused on paring down considerable backlogs of unfilled single family orders, and our forecasts of the not seasonally adjusted data would leave single family starts higher than single family permits for a sixth straight month while leaving single family starts 15.3 percent below their June peak. Though builders have eased the self-imposed sales caps imposed over the summer months, those caps have not been fully lifted as doing so would only add to order backlogs. In addition to holding down permit issuance and starts, supply-side constraints are stretching delivery times, and in addition to the number of single family units permitted but not yet started, we'll also be looking to single family completions for any signs that supply-side constraints are easing.
October Leading Economic Index Thursday, 11/18 Range: 0.5 to 1.0 percent Median: 0.8 percent	Sep = +0.2%	Up by 0.8 percent.

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