ECONOMIC PREVIEW

REGIONS

Week of May 23, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 14-15 FOMC meeting):* Target Range Mid-point: 1.375 to 1.625 percent Median Target Range Mid-point: 1.375 percent	Range: 0.75% to 1.00% Midpoint: 0.875%	The recent spate of retail earnings releases triggered a wave of pessimism over the state of U.S. consumers, which contributed to last week's sell-off in equity markets. One question worth asking is whether the picture painted by the retail earnings releases is a spending story or a cost story. You could argue that, for those holding stocks of retailers, it doesn't matter, because either way it isn't a pretty picture. From our perspective, however, it very much matters, and our sense is that the outlook for U.S. consumers isn't as bleak as some have inferred from the retail earnings releases. Clearly, higher prices for necessities are stressing the budgets of lower-income households but, more broadly, household financial conditions remain sound and a preponderance of fixed-rate debt on household balance sheets will mitigate the effect of higher interest rates. At the same time, weakening discretionary spending on goods is part of the ongoing rotation in consumer spending patterns – away from goods, toward services – that we and many others have been pointing to for some time. To the extent this is the case, it is bad news for retailers but for service providers – travel, tourism, dining out, recreation, entertainment – it is a welcome development This week's report on April personal income and spending (see Page 2) will shed some light on overall consumer spending as, unlike the retail sales data, it captures services spending, which accounts for roughly two-thirds of all consumer spending. Also, while pandemic-related transfer payments are skewing over-the-year comparisons of personal income, growth in disposable personal income excluding transfer payments continues to outpace inflation, reflecting robust growth in aggregate labor earnings.
April New Home Sales Tuesday, 5/24 Range: 700,000 to 765,000 units Median: 750,000 units SAAR	Mar = 763,000 units SAAR	Down to an annualized rate of 737,000 units. On a not seasonally adjusted basis, we look for total sales of 68,000 units, which would be down 5.6 percent from March and down 8.1 percent year-on-year. It isn't unusual for not seasonally adjusted sales to fall in April – the last April increase came in 2016 – but it does seem that the risks to our forecast are to the downside. New home sales are booked at the signing of the sales contract, so the effects of rising mortgage rates are more immediately visible in the new home sales data than in the data on existing home sales, which are booked at closing. While rising mortgage interest rates no doubt steered some prospective buyers away from the market, buyer traffic nonetheless held up fairly well in April, and it could be that some buyers moved sooner than they otherwise would have in hopes of avoiding even higher mortgage rates. If so, the May data will show a more pronounced decline in sales, particularly with some builders noting that they've seen a tipping point on demand and that buyer traffic has slowed thanks to higher rates. While that doesn't mean demand totally dries up, it does mean new home sales will settle into a lower range even though sales have for some time been held down by supply chain constraints which have shown few, if any, signs of letting up. It is also worth noting that, while not accounted for in the Census data on new home sales, order cancellations have been on the rise. Some buyers who signed sales contracts before they had locked in financing rates found higher rates to be more than they could, or were willing to, handle and opted to walk away. Still, it helps to note that cancellations are rising after a lengthy period of notably low levels. While higher mortgage rates are clearly causing some disruptions in the market for both new and existing homes, that's not the same as saying higher mortgage rates are crushing the housing market, which is a distinction that should not be, but often is, overlooked.
April Durable Goods Orders Wednesday, 5/25 Range: -0.9 to 3.0 percent Median: 0.6 percent	Mar = +0.8%	Up by 0.8 percent.
Q1 Real GDP – 2nd estimate Thursday, 5/26 Range: -1.7 to -1.0 percent Median: -1.3 percent SAAR	Q1 1st est. = -1.4% SAAR	Down at an annualized rate of 1.3 percent, with slightly more business investment, consumer spending, and inventory accumulation than incorporated into the BEA's initial estimate, which will more than offset weaker construction outlays.
Q1 GDP Price Index – 2nd estimate Thursday, 5/26 Range: 8.0 to 8.2 percent Median: 8.0 percent SAAR	Q1 1st est. = +8.0% SAAR	Down at an annualized rate of 8.0 percent.
April Advance Trade Balance: Goods Friday, 5/27 Range: -$121.0 to -$100.0 billion Median: -$114.8 billion	Mar = -$-127.1 billion	Narrowing to -$111.6 billion.

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April Personal Income Friday, 5/27 Range: 0.3 to 0.8 percent Median: 0.5 percent	Mar = +0.5%	Up by 0.5 percent. Solid growth in private sector wage and salary earnings continues to underpin growth in total personal income, with rental income and asset-based income chipping in. Our forecast would leave aggregate private sector wage and salary earnings up 11.7 percent year-on-year, which would mark the 13th consecutive month of double-digit over-the-year increases in the largest single component of personal income. Nonfarm proprietors' income bears watching, as this series is a proxy for small business profits, which have come under increasing pressure over recent months thanks to rapidly rising costs. Save for the 0.8 percent increase in February, nonfarm proprietors' income has been either flat or lower in each month since December. Our forecast anticipates a modest increase in April, but even if we're correct small business profits figure to remain under pressure.
April Personal Spending Friday, 5/27 Range: 0.4 to 1.2 percent Median: 0.7 percent	Mar = +1.1%	Up by 1.1 percent. Though gasoline will be a drag on spending on nondurable goods, the data on April retail sales suggest broad based increases in spending on goods, bolstered by a healthy increase in unit motor vehicle sales. At the same time, we look for another sizable increase in spending on services, which is not captured in the retail sales data. Even with elevated inflation and rising interest rates, services spending has been notably strong, reflecting consumers getting back out and about. The obvious caveat, however, is that much of this spending will not be repetitive, and while this recent burst may be sustained into the early summer months, it will at some point fade. We'd draw a parallel to patterns in consumer spending on durable goods, which spiked during the early phases of the pandemic but which is in the process of normalizing. In any event, if our forecast is on or near the mark, with a more restrained increase in the PCE Deflator (see below), real consumer spending got off to a strong start in Q2, but what will almost surely be higher inflation prints in both May and June will weigh on growth in real consumer spending.
April PCE Deflator Friday, 5/27 Range: 0.1 to 0.4 percent Median: 0.2 percent	Mar = +0.9%	Up by 0.2 percent, which would yield a year-on-year increase of 6.2 percent. We look for the Core PCE Deflator to have risen by 0.3 percent, which would translate into a year-on-year increase of 4.9 percent.

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