

ECONOMIC PREVIEW



REGIONS

Week of June 6, 2022

Indicator/Action

Economics Survey:

Last

Actual:

Regions' View:

<p>Fed Funds Rate: Target Range Midpoint <i>(After the June 14-15 FOMC meeting):</i> Target Range Mid-point: 1.375 to 1.625 percent Median Target Range Mid-point: 1.375 percent</p>	<p>Range: 0.75% to 1.00% Midpoint: 0.875%</p>	<p>The May employment report showed the pace of job growth slowing, but to a much lesser degree than we and most others anticipated. Other labor market indicators, such as the JOLTS data showing over eleven million open jobs, and continuing claims for unemployment insurance benefits at levels last seen in the late-1960s, suggest the labor market remains “extremely tight,” as characterized in the minutes to the May FOMC meeting. Though participation rose further in May, particularly amongst females, labor supply is no match for labor demand. As we’ve noted, the mismatch between labor demand and labor supply was evident well before the onset of the pandemic, as opposed to having been caused by the pandemic. To that point, the number of job openings would have to fall by over four million to narrow the supply/demand imbalance in the labor market to its pre-pandemic state, though the actual number is larger given the decline in the labor force participation rate. So, while we expect the pace of job growth to decelerate further in the months ahead, a slower pace of job growth can still be consistent with a notably tight labor market.</p>
<p>April Trade Balance Range: -\$100.0 to -\$85.0 billion Median: -\$89.5 billion</p>	<p>Tuesday, 6/7 Mar = -\$109.8 billion</p>	<p><u>Narrowing</u> to -\$90.2 billion. A surge in imports more than negated a sizable increase in exports, pushing the trade deficit to an all-time high in March. The advance data on trade in goods show further growth in U.S. exports of goods in April while imports gave back roughly half of March’s increase, which will result in a narrower overall trade deficit. As we’ve noted, the trade data have been highly volatile since the onset of the pandemic, and sizable month-to-month swings in exports and imports have reflected a host of factors from disruptions in economic activity abroad that have wreaked havoc on production schedules to labor shortages at home that have contributed to backlogs at U.S. ports. In that sense, the narrowing of the trade deficit in April tells us no more about underlying economic conditions than did the sharp widening in March, which isn’t much, a point which often lost in the shuffle of GDP accounting. Recall that the sharply wider trade deficit knocked 3.23 percentage points off the quarterly change in real GDP in Q1, and the flip side of that will be a smaller trade deficit adding to Q2 real GDP growth, with neither saying much about the state of the U.S. economy.</p>
<p>May Consumer Price Index Range: 0.6 to 0.9 percent Median: 0.7 percent</p>	<p>Friday, 6/10 Apr = +0.3%</p>	<p><u>Up</u> by 0.8 percent, which would yield a year-on-year increase of 8.3 percent, matching that seen in April. Retail gasoline prices were up by almost eight percent in May, which is much larger than the normal May increase. As such, seasonal adjustment will absorb some, but not all, of the increase in unadjusted pump prices in May. At the same time, sharply higher prices for diesel fuel will amplify the increase in the motor fuels component of the CPI. Our estimate has motor fuels adding two-tenths of a point to the monthly change in the headline CPI, but the risks here seem to be to the upside. Our forecast also anticipates another hefty increase in food prices, pushing the over-the-year increase closer to ten percent. While the May data may show further moderation in core goods inflation, that isn’t a given, particularly if we are correct in anticipating the slide in prices for used motor vehicle prices didn’t extend into May. We do expect another sizable increase in prices for new motor vehicles; while many are interpreting the sharp decline in unit sales in May as a sign of consumer distress, we think it has much more to do with inventories that remain near record-low levels despite the recent upturn in motor vehicle assemblies. If we’re correct, that would imply another large increase in prices for new vehicles in May, as our forecast anticipates, but if May’s decline in unit sales was truly a reflection of consumer demand dropping off sharply and suddenly, that would suggest much softer pricing. We also look for further acceleration in core services inflation in May, in part due to rapid growth in demand. Though not to the extent seen in April, air fares rose sharply in May, and we look for further increases in lodging rates and prices for entertainment and recreation, while continued rapid rent growth will also contribute to uncomfortably high core inflation, even if down a bit from April.</p>
<p>May Consumer Price Index: Core Range: 0.4 to 0.7 percent Median: 0.5 percent</p>	<p>Friday, 6/10 Apr = +0.6%</p>	<p><u>Up</u> by 0.5 percent, for an over-the-year increase of 5.9 percent.</p>

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