ECONOMIC PREVIEW

REGIONS

Week of August 15, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 20-21 FOMC meeting):* Target Range Mid-point: 2.875 to 3.125 percent Median Target Range Mid-point: 2.875 percent	Range: 2.25% to 2.50% Midpoint: 2.375%	Wednesday brings the release of the minutes to the July FOMC meeting. Recall that after the Committee raised the Fed funds rate by seventy-five basis points, Chairman Powell stated in his post-meeting press conference that at some point it would be appropriate to slow the pace of funds rate hikes. While we thought that was nothing more than him stating the obvious, the markets took Chairman Powell's comments as a sign of a "dovish pivot." While there may not be much in the minutes to the July meeting that would act as a counter to that sentiment – the July FOMC meeting concluded prior to the release of the Q2 Employment Cost Index which showed a marked acceleration in the growth of labor costs – subsequent comments by FOMC members have aggressively pushed back on the notion of any sort of policy pivot. Whether that message has sunken in remains to be seen.
July Building Permits Tuesday, 8/16 Range: 1.545 to 1.725 million units Median: 1.640 million unis SAAR	Jun = 1.696 million units SAAR	Down to an annualized rate of 1.579 million units. On a not seasonally adjusted basis, we look for total housing permits of 134,700 units, down 14.3 percent from June with both single family and multi-family permits down sharply. Keep in mind, however, that permits typically fall in the month of July, so seasonal adjustment will cushion some of the decline we anticipate in the raw data. This accounts for why our forecast of the seasonally adjusted data has permits down "only" 6.9 percent from June. Part of the decline we expect in the not seasonally adjusted data simply reflects the unwinding of the spike in multi-family permits seen in June. The bigger story, however, will be in the single family segment of the market. Builders are contending with sizable inventories of under construction units which remain unsold, as higher mortgage interest rates have led to a meaningful cooling of demand. As such, many builders are pulling back new starts sharply, and that will be reflected in diminished permit issuance.
July Housing Starts Tuesday, 8/16 Range: 1.434 to 1.600 million units Median: 1.528 million unis SAAR	Jun = 1.559 million units SAAR	Down to an annualized rate of 1.472 million units. On a not seasonally adjusted basis, we look for total starts of 133,600 units, down 6.4 percent from June with a double-digit decline in single family starts more than offsetting a modest increase in multi-family starts. Our forecast would leave unadjusted single family starts down 24.1 percent from April, which saw the second highest number of starts in this cycle, some of which we attributed to a rush to beat even higher mortgage interest rates. To the extent that was the case, that rush has slowed to more of a crawl. As noted above, in the face of growing inventories of unsold units under construction, many builders have pulled back on new spec starts. It could be that our forecast of single family starts is too low, as backlogs of unfilled orders remain substantial, which could mitigate the decline in starts. To that point, with the July data Census will release the Q2 data on construction by design/purpose. The Q1 data showed new single family home sales exceeded starts of single family homes intended for sale, but that disparity will have flipped in the Q2 data given how rapidly sales fell off while the drop in starts won't be reflected until the Q3 data arrive. While mortgage interest rates did drift lower over the course of July, we don't think that will have been much help for single family starts, as builders would likely have steered buyers who were motivated to act toward inventories of units already under construction.
July Industrial Production Tuesday, 8/16 Range: -0.3 to 0.9 percent Median: 0.3 percent	Jun = -0.2%	Up by 0.8 percent. We think motor vehicle output will be flattered by seasonal adjustment, thus boosting overall manufacturing output. To the extent this is the case, there will be payback in the August data. What will be more relevant is the path of manufacturing output excluding motor vehicles, particularly in the key business equipment category, which tends to presage changes in business investment as measured in the GDP data. Output of business equipment was only modestly higher in June, and new orders as reported in the ISM Manufacturing Index have posted back-to-back declines. While this doesn't necessarily mean that growth in business investment has rolled over, it does suggest growth has slowed meaningfully. We also expect the July data to show a sharp increase in utilities output as above-normal temperatures pushed electricity usage higher, while higher output in the mining sector will also boost overall industrial production.
July Capacity Utilization Rate Tuesday, 8/16 Range: 79.8 to 80.5 percent Median: 80.2 percent	Jun = 80.0%	Up to 80.5 percent.

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July Retail Sales: Total Wednesday, 8/17 Range: -0.5 to 0.9 percent Median: 0.1 percent	Jun = +1.0%	Up by 0.2 percent. With retail gasoline prices down by more then seven percent in July, a sharp decline in gasoline station sales will be a heavy weight on total retail sales. Recall that the retail sales data are reported in nominal terms, i.e., they are not adjusted for price changes. Aside from gasoline, lower prices, at least as reported in the CPI data, figure to weigh on sales of apparel, appliances, and electronics, but the flip side of that coin is that sales at grocery stores, furniture stores, and restaurants will have been lifted by higher prices. With higher unit sales and higher prices for new vehicles, motor vehicle sales will be a modest support for top-line retail sales. That Amazon Prime Day(s) fell in the middle of the month should prove a boost to sales in the broad nonstore retailers category, of which roughly 90 percent consists of online sales (online sales are reported with a one-month lag in the retail sales data). That said, in one of the many not-so-endearing quirks of the retail sales data, you'd be hard-pressed to find any evidence of Amazon Prime Day in the historical data – if anything, online sales have tended to be surprisingly weak in the months in which the event has fallen. This year could be an exception; to the extent that elevated inflation has made consumers more price-sensitive, it could be that more of them turned to Prime Day looking for relief, particularly in purchases of household staples not typically associated with the Prime Day frenzy. As we've often noted, the retail sales data do not capture consumer spending on services, which is still holding up as spending on goods continues to ease, so we'd advise tuning out those who insist on treating the retail sales data as a broad referendum on the state of U.S. consumers.
July Retail Sales: Ex-Auto Wednesday, 8/17 Range: -0.5 to 0.6 percent Median: -0.1 percent	Jun = +1.0%	Up by 0.1 percent.
July Retail Sales: Control Group Wednesday, 8/17 Range: 0.0 to 1.0 percent Median: 0.6 percent	Jun = +0.8%	Up by 0.8 percent. Should our forecast be on or near the mark, it would start Q3 control retail sales on a faster pace than seen in Q2, and slower inflation will lead to faster growth in real control sales, which will map into the Q3 GDP data on consumer spending.
June Business Inventories Wednesday, 8/17 Range: 1.0 to 1.5 percent Median: 1.4 percent	May = +1.4%	We look for total business inventories to be up by 1.5 percent and for total business sales to be up by 1.5 percent.
July Leading Economic Index Friday, 8/19 Range: -0.8 to 0.2 percent Median: -0.5 percent	Jun = -0.8%	Down by 0.6 percent.
July Existing Home Sales Friday, 8/19 Range: 4.510 to 5.200 million units Median: 4.860 million unis SAAR	Jun = 5.120 million units SAAR	Down to an annualized rate of 4.980 million units. On a not seasonally adjusted basis, we look for sales of 477,000 units, down 9.3 percent from June and down 18.3 percent year-on-year. The year-on-year decline is a bit overstated by there having been one fewer sales day this July than last, so after adjusting for sales days our forecast would reflect a year-on-year decline of 14.2 percent which, admittedly, doesn't feel much better. Pending home sales, a measure of signed sales contracts on existing homes, fell sharply in June, which foreshadows the type of steep decline we expect in July sales, as existing home sales are booked at closing. Though existing home sales typically decline in the month of July, the decline our forecast anticipates is much larger than the typical July decline, such that even favorable seasonal adjustment won't salvage the headline sales number. Our forecast anticipates a further increase in inventories which will leave them up on a year-on-year basis for a second straight month, but while demand has clearly tailed off, the market remains undersupplied. This will limit the extent to which the pace of price appreciation slows, and we expect another double digit year-on-year increase in the medial sales price. One thing we found of considerable interest in the June data was that median days on market fell to an all-time low of fourteen days amid a growing frequency of sellers cutting asking prices. This suggests that there are still willing buyers out there, even if not as many as there were a few months ago, and those buyers will move quickly when they feel more comfortable on pricing, and a still-high share of cash buyers is cushioning the effects of higher mortgage interest rates.

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