ECONOMIC PREVIEW

REGIONS

Week of August 22, 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%	Fed Chair Powell's address (Friday, 10:00 EST) to the Kansas City Fed's annual Jackson Hole Symposium will be the center of attention this week. Other than noting that another "unusually large increase" (i.e., 75 basis points) hike in the Fed funds rate "could be appropriate," we think it unlikely Chairman Powell will have much to say about the September FOMC meeting. Instead, we expect Chairman Powell to stress the Committee's revolve in reining in inflation and to make it clear that when the Committee does slow the pace of rate hikes, which is inevitable, that will not necessarily indicate either a lower terminal rate or a quick pivot to rate cuts. While that message seems to be taking hold in the financial markets, Chairman Powell will not pass on a prime opportunity to reiterate it.
July New Home Sales Tuesday, 8/23 Range: 500,000 to 605,000 units Median: 575,000 unis SAAR	Jun = 590,000 units SAAR	<u>Down</u> to an annualized rate of 539,000 units. On a not seasonally adjusted basis, we look for sales of 45,000 units, down 8.2 percent from June. While new home sales typically fall in the month of July, the decline we anticipate is much larger than the typical July decline, so we can't expect friendly seasonal adjustment to ride to the rescue of the headline sales number. Even if our below-consensus forecast proves to be too low, it won't change the overall tone of the data. Moreover, whatever the July headline sales number turns out to be, it will be overstating actual sales as the Census data report gross sales and thus do not account for cancellations, which have been on the rise of late. The July inventory data will be most interesting, not only in terms of the number of units for sale but also in terms of the composition of those units. Recall that the June data showed the supply of new homes for sale amounted to 9.3 months of sales, the most since April 2009. But, roughly two-thirds of all new homes for sale are in the form of units under construction, while the share in the form of completed homes, at 8.4 percent in July, continues to bump along just off of record-lows. Recall the shift in tactics by many builders in mid-2021, when they began to start more units which were not released for sale until construction was well underway, which afforded builders more control over delivery dates while shifting price risk on to the buyers. That strategy went swimmingly, until it didn't, as the drop-off in demand in the face of rising mortgage interest rates has left builders sitting on growing inventories of unsold units under construction. It will likely take meaningful concessions on pricing to move these units, which is further complicated by ongoing supply chain issues that, though a bit less severe, continue to slow completions. Should it be on or close to the mark, our forecast would leave new home sales were they were in early 2016, and further declines are likely in the months ahead.
July Durable Goods Orders Wednesday, 8/24 Range: -1.6 to 2.4 percent Median: 0.8 percent	Jun = +2.0%	<u>Up</u> by 1.0 percent. The July headline orders number is shaping up as a battle between civilian and defense aircraft. Recall that in June an unexpected surge in orders for defense aircraft pushed total orders higher – we estimated that defense aircraft accounted for about 1.5 percentage points of the increase in total orders. We expect orders for defense aircraft will have descended down to more normal levels in July at the same time orders for civilian aircraft orders soared. Boeing booked 126 net orders in July, up from 15 in June, and while this will provide a substantial boost to total orders, if we're correct about orders for defense aircraft, the net result will be a much smaller increase in total aircraft orders and, in turn, a much smaller increase in total orders. To be sure, all of this is relatively unimportant in the grand scheme of things and, as always, the most important single line in the orders data will be orders for core capital goods (see below). Core capital goods orders are a leading indicator of business investment in equipment and machinery as reported in the GDP data, and the outlook for business investment has become much more uncertain of late. While core capital goods orders have continued to grow, the pace of growth has slowed, particularly on an inflation-adjusted basis. Were business investment to roll over, there would be adverse implications for current and future real GDP growth.
July Durable Goods Orders: Ex-Trnsp Wednesday, 8/24 Range: -1.6 to 0.5 percent Median: 0.2 percent	Jun = +0.4%	We look for <u>ex-transportation</u> orders to be <u>up</u> by 0.5 percent and for <u>core capital goods</u> orders (nondefense capital goods excluding aircraft & parts) to be <u>up</u> by 0.3 percent.
Q2 Real GDP – 2nd estimate Thursday, 8/25 Range: -1.0 to 0.2 percent Median: -0.7 percent SAAR	Q2 1st est. = -0.9% SAAR	<u>Down</u> at an annualized rate of 0.6 percent.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

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Q2 GDP Price Index – 2nd estimate Range: 8.6 to 8.9 percent Median: 8.7 percent SAAR	Thursday, 8/25	Q2 1st est. = +8.7% SAAR	Up at an annualized rate of 8.8 percent.
July Advance Trade Balance: Goods Range: -\$104.4 to -\$90.0 billion Median: -\$98.5 billion	Friday, 8/26	Jun = -\$98.6 billion	Widening to -\$100.6 billion.
July Personal Income Range: 0.3 to 1.0 percent Median: 0.6 percent	Friday, 8/26	Jun = +0.6%	Up by 0.7 percent. Another hefty increase in private sector wage and salary earnings will underpin growth in total personal income, and our forecast would yield a double-digit increase in private sector earnings for a sixteenth consecutive month. Nonfarm proprietors' income, a proxy for small business profits, has been on a nice roll of late, coinciding with robust growth in consumer spending on services, and we look for the July data to bring another sizable increase in both. Rental income has been notably strong, with three straight monthly advances of at least 2.5 percent, and while we do not expect an increase of that magnitude in the July data, we do nonetheless expect rental income to be a support for top-line income growth.
July Personal Spending Range: 0.2 to 1.1 percent Median: 0.4 percent	Friday, 8/26	Jun = +1.1%	Up by 0.6 percent. As seen in the retail sales data, sharply lower prices mean gasoline will be a drag on spending on goods, and lower prices will also weigh on nominal spending in other goods categories. While the retail sales data showed a decline in sales revenue at motor vehicle dealers in July, the BEA's data on personal spending measure motor vehicle sales differently, so we expect the increase in unit motor vehicle sales in July to act as a support for spending on consumer durable goods. As for services spending, while demand for services such as travel, tourism, recreation, and entertainment remained strong in July, to the extent prices fell in July, as indicated in the CPI data, the increase in nominal services spending in July will be smaller than those seen over the prior few months. Our forecasts for nominal spending and prices (see below) would yield a decent gain in real consumer spending to start off Q3.
July PCE Deflator Range: -0.1 to 0.2 percent Median: 0.0 percent	Friday, 8/26	Jun = +1.0%	We look for the PCE Deflator to be down by 0.1 percent, which would yield a year-on-year increase of 6.2 percent, and for the core PCE Deflator to be up by 0.1 percent, which would translate into a year-on-year increase of 4.6 percent.

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