ECONOMIC PREVIEW

REGIONS

Week of April 24, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the May 2-3 FOMC meeting):* Target Range Mid-point: 4.875 to 5.125 percent Median Target Range Mid-point: 5.125 percent	Range: 4.75% to 5.00% Midpoint: 4.875%	While FOMC members are in the communications blackout period ahead of next week's meeting, there is plenty on this week's heavy slate of data to keep analysts and market participants occupied. Of particular interest will be Friday's release of the Q1 Employment Cost Index (Page 2) and the March data on the PCE Deflator (Page 3), the former being the FOMC's preferred gauge of labor costs and the latter being the FOMC's preferred gauge of inflation. Though growth in labor costs and inflation are both slowing, nothing in this week's releases will dissuade the FOMC from raising the Fed funds rate by another twenty-five basis points next week.
April Consumer Confidence Tuesday, 4/25 Range: 103.0 to 110.1 Median: 104.0	Mar = 104.2	Up to 105.6, though the headline index number could go either way with rising gas prices acting as a counter to diminished concerns over the banking system. As always, we'll be the most interested in consumers' assessments of labor market conditions. The "jobs plentiful/jobs hard to get" spread narrowed a bit in the March survey but nonetheless remains notably elevated. Should consumers begin to lose faith in the labor market, that would be reflected in spending decisions, which in turn would be felt through the broader economy.
March New Home Sales Tuesday, 4/25 Range: 620,000 to 708,000 units Median: 630,000 units SAAR	Feb = 640,000 units SAAR	Up to an annualized rate of 708,000 units. On a not seasonally adjusted basis, we look for total sales of 69,000 units, which would reflect a seventeen percent increase from February, and which would be the highest monthly total since February 2022. To be sure, our forecast of the headline sales number is far above the consensus forecast and it does seem that the risks to our forecast are to the downside, but for anyone who has been keeping track, the unadjusted housing market data – single family permits and starts, new and existing home sales – over the past couple of months have been much firmer than implied in most of the seasonally adjusted data for these same series. For instance, the unadjusted data show single family starts increased by 23.6 percent in March, with single family permits up by 34.9 percent after having risen by 10.6 percent in February. Some of this could simply reflect units already having been sold starting to enter the construction data (new home sales can be booked prior to construction having been started), but we've always used the ratios of sales to single family starts and sales to single family permits as guides for our forecasts of unadjusted new home sales, and these suggest a bounce in sales. While those ratios aren't an infallible guide, that many builders reported strong growth in orders in March also suggests some upside for sales. One support for new home sales is that inventories of existing homes for sale remain extraordinarily lean, which has been pushing prospective buyers into the new homes market at a time when builders have been working to slim down spec inventories. So, our forecast may be too ambitious, but we'll still take the over on the consensus forecast.
March Durable Goods Orders Wednesday, 4/26 Range: -0.5 to 2.0 percent Median: 0.8 percent	Feb = -1.0%	Up by 1.1 percent. An increase in civilian aircraft orders will boost the headline orders number but we expect the details to be somewhat weak with declines in both ex-transportation orders and core capital goods orders (see below). The March data will be challenged by tough seasonal adjustment – on a not seasonally adjusted basis, core capital goods typically post a double-digit increase in the month of March (the last time they failed to do so was 1996), so any shortfall will be treated harshly by seasonal adjustment. To that point, with the manufacturing sector in contraction and firms scaling down planned cap ex, core capital goods orders have been weak over the past several months, and it's looking more and more like last August was a cycle high. We look for March to be the seventh straight month with order volume below that marker. Keep in mind that it is the data on core capital goods shipments that enter into the GDP data, with orders leading shipments. We do expect real business investment in equipment and machinery will have been a drag on Q1 real GDP, as it was in Q4 2022, but the weakness in core capital goods orders over the past several months indicates that drag on real GDP will persist over coming quarters.
March Durable Goods Orders: Ex-Trnsp. Wed., 4/26 Range: -0.8 to 0.2 percent Median: -0.2 percent	Feb = -0.1%	We look for ex-transportation orders to be down by 0.5 percent and for core capital goods orders (nondefense capital goods excluding aircraft & parts) to be down by 0.6 percent.
March Advance Trade Balance: Goods Wednesday, 4/26 Range: -$92.6 to -$88.2 billion Median: -$90.0 billion	Feb = -$91.6 billion	Narrowing to -$88.6 billion.

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Q1 Real GDP – 1st estimate Thursday, 4/27 Range: 0.4 to 3.5 percent Median: 2.0 percent SAAR	Q4 = +2.6% SAAR	Up at an annualized rate of 2.3 percent. Even if, as we expect, real consumer spending fell slightly in March (see below), that would still leave annualized Q1 spending growth at over 4.0 percent, as the outsized increase reported for January will have more than offset modest declines in February and March. That alone would add close to three percentage points to top-line real GDP growth in Q1. While we expect business investment in machinery and equipment to have contracted in Q1, that will be offset by growth in outlays on intellectual property products and structures, leaving business fixed investment as a support for top-line real GDP growth, and government will also add to top-line growth. To the downside, though to a much lesser extent than over the past three quarters, residential fixed investment will be a drag on top-line real GDP growth. That will also be true of inventories, as the build in nonfarm business inventories in Q1 will have been smaller than that seen in Q4 2022. Trade could go either way but, whether to the upside or to the downside, the impact of trade on Q1 growth should be fairly small. Though typically getting very little attention, the BEA does provide data on not seasonally adjusted real GDP. In any given year, not seasonally adjusted real GDP declines in Q1, reflecting the typical lull in activity in January and February. The unadjusted GDP data go back only to 2002, but over that time the average decline in Q1 is 3.7 percent (3.4 percent if we toss out Q1 2020) – these are sequential, not annualized, declines. Mirroring the patterns seen in the high frequency data, i.e., a less pronounced seasonal lull yielding misleadingly "strong" seasonally adjusted January data across the board, we look for the decline in unadjusted real GDP in Q1 to have been smaller than normal, meaning the seasonally adjusted and annualized real GDP growth print will overstate growth. If we're correct on this point, payback will come in the Q2 data, when the bounce in unadjusted real GDP will be smaller than normal and hence will be penalized in the seasonally adjusted data.
Q1 GDP Price Index – 1st estimate Thursday, 4/27 Range: 3.3 to 4.2 percent Median: 3.7 percent SAAR	Q4 = +3.9% SAAR	Up at an annualized rate of 3.7 percent.
Q1 Employment Cost Index Friday, 4/28 Range: 0.8 to 1.2 percent Median: 1.1 percent	Q4 = +1.0%	Up by 1.0 percent, with wage costs up by 1.0 percent and benefit costs up by 1.2 percent. On an over-the-year basis, our forecast would leave the total ECI up by 4.7 percent, with wage costs up 4.8 percent and benefit costs up 4.3 percent. The earnings details from the monthly employment reports show the pace of wage growth slowed in Q1, but to some extent that reflects the mix of job growth, which was powered by lower-wage services jobs while job growth amongst goods producing industries slowed sharply. The ECI, however, is free of any such mix bias, as it measures changes in compensation for the same jobs over time. Still, while we expect the quarterly change in the ECI measure of wage growth to match that seen in Q4 2022, we look for a smaller year-on-year increase.
March Personal Income Friday, 4/28 Range: -0.1 to 0.5 percent Median: 0.2 percent	Feb = +0.3%	Up by 0.2 percent. Our forecast looks for further deceleration in growth of aggregate private sector wage and salary earnings, with a decline in hours worked offsetting a larger increase in average hourly earnings. This is a point that often goes overlooked, i.e., firms manage to total labor costs, not to hourly labor costs, and with firms using hours worked as a means of reducing total labor input, growth in total labor costs is decelerating. Aside from labor earnings, our forecast anticipates transfer payments acting as a drag on March personal income growth, reflecting the expiration of expanded SNAP benefits that were part of the pandemic relief funding.
March Personal Spending Friday, 4/28 Range: -0.7 to 0.3 percent Median: -0.1 percent	Feb = +0.2%	Unchanged. Though much of the "weakness" in March retail sales reflects unfriendly seasonal adjustment, it is the seasonally adjusted estimate of control retail sales, down 0.3 percent, that will carry into the BEA estimate of consumer spending on goods, with added drags from motor vehicles and gasoline. While we do look for a modest increase in consumer spending on services, in part reflecting higher utilities outlays, we'll be more interested in discretionary services spending which, after adjusting for price changes, has fallen in four of the past five months. We have for some time expected pullbacks in discretionary services spending, and if this recent softness persists it should eventually take some steam out of services price inflation.

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March PCE Deflator Friday, 4/28 Range: 0.0 to 0.4 percent Median: 0.1 percent	Feb = +0.3%	Up by 0.1 percent, which would yield a year-on-year increase of 4.1 percent. We look for the core PCE Deflator to be up by 0.3 percent, which would yield a year-on-year increase of 4.6 percent.

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