ECONOMIC PREVIEW

REGIONS

Week of May 15, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 13-14 FOMC meeting):* Target Range Mid-point: 5.125 to 5.375 percent Median Target Range Mid-point: 5.125 percent	Range: 5.00% to 5.25% Midpoint: 5.125%	We look for this week's data releases to bring further signs of a weakening pace of economic activity. That includes the report on April retail sales, for which our above-consensus forecast is more a reflection of friendly seasonal adjustment than a sign of the staying power of U.S. consumers. Even as the pace of growth slows further, there are as of yet no signs of meaningful progress against stubborn core inflation. That combination could make for some uncomfortable FOMC meetings this summer.
April Retail Sales: Total Tuesday, 5/16 Range: -0.1 to 2.0 percent Median: 0.8 percent	Mar = -0.6%	Up by 1.0 percent. A jump in unit sales means motor vehicles will be a support for top-line sales, while a sizable increase in pump prices means gasoline will also bolster top-line sales. Some of the support from higher unit sales of new vehicles, however, will be watered down by softer pricing as dealers have become more aggressive in the use of incentives to counter diminishing affordability. Even outside of vehicles and gasoline, our forecast anticipates solid increases in sales in most of the broad categories for which sales are reported, as evidenced in our forecast for control retail sales (see below). Rather than being a testament to the resilience of U.S. consumers, this has more to do with what for the month of April are friendly seasonal factors used to adjust the raw data. To that point, our forecast would leave total retail sales down by over one percent on a not seasonally adjusted basis, though this is smaller than the typical April decline. Electronics/appliance stores, furniture stores, and nonstore retailers are categories which stand to benefit the most from seasonal adjustment in the April data. One drag on sales will be lower food prices at grocery stores, reflecting what have been declines in prices for food consumed at home in each of the past two months as reported in the Consumer Price Index. While prices for food consumed away from home are still rising, the pace of price increases has moderated, which may pose downside risk to our forecast of restaurant sales. Even if our above-consensus forecast for control retail sales, a direct input into the GDP data on consumer spending on goods, were on the mark, it would leave Q2 nominal control sales up at an annualized rate of just 2.0 percent, which would leave them down after accounting for higher prices. To be sure, that would reflect only one month's data, but we nonetheless look for spending on goods to be a drag on Q2 growth in total consumer spending as measured in the GDP data.
April Retail Sales: Ex-Auto Tuesday, 5/16 Range: 0.0 to 1.6 percent Median: 0.5 percent	Mar = -0.4%	Up by 0.7 percent.
April Retail Sales: Control Group Tuesday, 5/16 Range: -0.6 to 1.3 percent Median: 0.3 percent	Mar = -0.3%	Up by 0.7 percent.
April Industrial Production Tuesday, 5/16 Range: -0.3 to 0.5 percent Median: 0.0 percent	Mar = +0.4%	Down by 0.2 percent. Aside from higher motor vehicle assemblies, there will be scant support for manufacturing output, particularly in the nondurable goods segment where aggregate hours worked fell in April. After a better than eight percent increase in March, our forecast anticipates a sizable decline in utilities output in April which, if we're correct, will be a meaningful drag on total output, and we look for mining to also be a drag on total output. It could be that we have underestimated the extent to which higher motor vehicle assemblies will support manufacturing output, and in turn headline industrial production, but there really isn't a meaningful difference between a modest decline or a modest increase in the headline number. Our primary focus in the April data will be the key business equipment category, a precursor of business investment as reported in the GDP data. Business equipment output fell by 1.0 percent in March, the fourth decline in the past five months, which is consistent with the weakness in core capital goods orders that took hold over the latter part of 2022 though many have only recently taken notice, chalking it up to more stringent lending standards. The reality is that the weakness in business investment in equipment and machinery has been hiding in plain sight for some time now and has for months been an element of our baseline macro forecast. We don't expect the April industrial production data to give us grounds to change our view.
April Capacity Utilization Rate Tuesday, 5/16 Range: 78.7 to 80.1 percent Median: 79.7 percent	Mar = 79.8%	Down to 79.6 percent.

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March Business Inventories Tuesday, 5/16 Range: -0.3 to 0.4 percent Median: 0.0 percent	Feb = +0.2%	We look for total <u>business inventories</u> to be <u>down</u> by 0.1 percent and for total <u>business sales</u> to be <u>down</u> by 1.1 percent.
April Building Permits Wednesday, 5/17 Range: 1.400 to 1.544 million units Median: 1.430 million units SAAR	Mar = 1.430 million units SAAR	<u>Up</u> to an annualized rate of 1.544 million units. On a not seasonally adjusted basis, our forecast anticipates total permit issuance of 134,500 units, up 2.4 percent from March as a further increase in single family permits offsets a modest decline in multi-family permits. To be sure, after monthly increases of 10.6 percent in February and 35.3 percent in March (the biggest March increase since 2011) on a not seasonally adjusted basis, even a modest increase in April may be a reach, hence our seeing the risks to our forecast as tilted to the downside. That said, extraordinarily lean inventories of existing homes for sale and builders being more flexible on incentives have pushed larger shares of prospective buyers into the market for new homes. As such, even if our April forecast for single family activity is too ambitious, we do look for single family permits and starts to grind higher in the months ahead. To put that into context, however, even if our April forecast were to be on the mark, that would still leave single family permits down 15.2 percent year-on-year.
April Housing Starts Wednesday, 5/17 Range: 1.350 to 1.470 million units Median: 1.400 million units SAAR	Mar = 1.420 million units SAAR	<u>Down</u> to an annualized rate of 1.406 million units. On a not seasonally adjusted basis, we look for total starts of 127,700 units, up 7.9 percent from March with both single family and multi-family starts higher. April, however, is a tough seasonal month, particularly for single family starts, which sets the stage for a meaningful drop in single family starts on a seasonally adjusted basis even if we are correct in expecting the unadjusted data to show an increase. Our forecast would nonetheless leave unadjusted single family starts down 29.9 percent year-on-year but, to our point above, we look for single family starts to push gradually higher in the months ahead. It is worth noting that March was the first time in a year that unadjusted single family starts were lower than unadjusted single family permits; that permits were lagging starts reflected builders trying to pare down order backlogs, but with orders having spiked in March permits leapt back above starts. Our April forecast would again have unadjusted permits above unadjusted starts. It is also worth noting that unadjusted single family completions rose smartly in March, easily topping starts and thus further paring down the backlog of single family units under construction. There was no such relief in the multi-family segment, with the under construction backlog rising further in March. At the same time, however, the number of single family units permitted but not yet started rose in March, the first monthly increase since last September, reflecting the hefty increase in single family permits in March. We look for another, albeit more modest, increase in this metric in the April data.
April Leading Economic Index Thursday, 5/18 Range: -1.0 to -0.3 percent Median: -0.6 percent	Mar = -1.2%	<u>Down</u> by 0.7 percent.
April Existing Home Sales Thursday, 5/18 Range: 4.050 to 4.500 million units Median: 4.300 million units SAAR	Mar = 4.440 million units SAAR	<u>Down</u> to an annualized rate of 4.310 million units. On a not seasonally adjusted basis, our forecast anticipates sales of 359,000 units, and while this would be only a modest decline from the 360,000 sales in March any decline at all would be a big story. With 2020 being the obvious exception, 2017 is the only instance of an April decline in unadjusted sales in the life of the current series. While there is no denying the impact of higher mortgage interest rates on the demand side of the market, don't discount the effect of higher mortgage rates on the supply side of the market, particularly in the heart of the spring sales season. Although demand has responded to dips in mortgage rates over the past several months, there hasn't been a corresponding response on the supply side of the market nor should anyone have expected that. One consequence, however, is that house prices have held up better than many had expected would be the case when mortgage interest rates first began rising. We haven't been surprised by this, as we've often noted the extent of pent-up demand for home sales that remains untapped, a reflection of how chronically undersupplied the market has been for the past several years. Even with demand having been knocked down by higher rates, we'd argue the market still remains undersupplied, just less than had been the case, hence the resilience in house prices seen to date.

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