ECONOMIC PREVIEW

REGIONS

Week of May 22, 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%	The April read on the PCE Deflator, the FOMC's preferred gauge of inflation, likely won't get a warm welcome from Committee members (see Page 2). Though having eased a bit, core inflation remains frustratingly persistent, particularly core services. Despite a slowing economy and concerns over potential stress in the banking system, the inflation data could make the June FOMC meeting a closer call than it may seem.
April New Home Sales Tuesday, 5/23 Range: 645,000 to 710,000 units Median: 663,000 units SAAR	Mar = 683,000 units SAAR	Up to an annualized rate of 691,000 units. On a not seasonally adjusted basis, we look for sales of 63,000 units, which would reflect a 4.6 percent decline from March, but a less punishing seasonal factor than in March will flatter the headline sales number. That said, March sales were notably strong, rising 15.8 percent from February, so in that sense it isn't surprising that many builders noted some slowing in April. Our sales forecast is consistent with patterns in the not seasonally adjusted data on single family permits and starts; single family permits spiked in March, which could reflect some of the strength in orders many builders saw in that month, before settling back a bit in April. Single family starts jumped in April, which we think reflects builders beginning work on orders already booked rather than being a hint of stronger sales in April (recall new home sales can be booked prior to construction being started, during the construction process, or after construction is complete). Regardless of whether our April forecast for one of the most inherently volatile series that exists is on or near the mark, the broader story here is that builders have been benefitting from what have long been chronically low inventories of existing homes for sale, and the lack of the typical spring bounce in inventories of existing homes for sale this year may have accelerated the migration to the market for new homes. To be sure, no one is expecting, or at least should be expecting, sustained rapid growth in new home sales, but what is reasonable to expect is that sales will gradually trend higher, even if they don't do so in a straight line, over the next several months. As long as spec inventories are higher than desired, builders will continue to use concessions, including buying down mortgage rates, as a tool to facilitate sales and pare down spec inventories to more comfortable levels.
Q1 Real GDP: 2nd estimate Thursday, 5/25 Range: 0.9 to 1.2 percent Median: 1.1 percent SAAR	Q1: 1st est. = 1.1% SAAR	Up at an annualized rate of 1.1 percent, matching the BEA's initial estimate despite some shuffling in the underlying details.
Q1 GDP Price Index: 2nd estimate Thursday, 5/25 Range: 3.4 to 4.2 percent Median: 4.0 percent SAAR	Q1: 1st est. = 3.7% SAAR	Up at an annualized rate of 4.0 percent.
April Durable Goods Orders Friday, 5/26 Range: -2.5 to 1.2 percent Median: -1.0 percent	Mar = +3.2%	Down by 1.8 percent. A decline in civilian aircraft orders will be a meaningful weight on the headline orders number, but we expect the details of the April data to also be on the weak side, with a further decline in orders for core capital goods (see below). Many seen to have only recently caught on to weakening business investment, chalking it up to banks raising lending standards on C&I loans, but the reality is that both of these patterns were in place over much of 2022. For instance, banks have on net been raising C&I lending standards since Q2 2022, and the change in tone regarding cap ex began to change markedly on Q3 corporate earnings calls, which is also when the Fed's quarterly survey of bank loan officers began to show declining demand for C&I loans. That is also when the ongoing slide in core capital goods orders began, which led us to scale back our forecasts for business spending on equipment and machinery in our GDP forecasts. We look for a further decline in core capital goods orders in April, which would be the sixth in the past eight months. Even were orders to stop falling, it's hard to identify catalysts for meaningful and sustained growth at present given an uninspiring growth outlook, the cumulative effects of a tougher financing environment, and profit margins coming under pressure.
April Durable Goods Orders: Ex-Trnsp. Friday, 5/26 Range: -0.8 to 0.3 percent Median: -0.2 percent	Mar = +0.2%	We look for ex-transportation orders to be down by 0.2 percent and for core capital goods orders (nondefense capital goods excluding aircraft & parts) to be down by 0.2 percent.
April Advance Trade Balance: Goods Friday, 5/26 Range: -$89.0 to -$83.0 billion Median: -$85.6 billion	Mar = -$84.6 billion	Widening to -$86.8 billion.

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April Personal Income Friday, 5/26 Range: 0.2 to 0.6 percent Median: 0.4 percent	Mar = +0.3%	<u>Up</u> by 0.4 percent. Between the jump in average hourly earnings and a solid gain in aggregate hours worked, the April personal income data should show a healthy increase in private sector wage and salary earnings, which will underpin growth in total personal income. Barring an unlikely repeat of the jump in dividend payments booked in March, asset-based income should be a modest drag on top-line income growth. Proprietors' income, both farm and nonfarm, has been notably weak in recent months, and we look for that to have continued in April. That nonfarm proprietors' income, a proxy for small business profits, has weakened likely reflects continued pressures on the cost side of the ledger combined with small businesses generally not having the same degree of pricing power as do large corporations. To the extent that small businesses are facing a tougher bank financing environment, increasing pressure on profit margins is another potential source of financial stress.
April Personal Spending Friday, 5/26 Range: 0.0 to 1.1 percent Median: 0.4 percent	Mar = 0.0%	<u>Up</u> by 0.6 percent. Though a jump in unit sales of new motor vehicles proved to be a dud in the data on April retail sales, we think they will provide a spark in the BEA's series on consumer spending, supporting growth in spending on consumer durable goods despite a weak month for sales at electronics/appliance and furniture stores. Another oddity in the April retail sales data is the reported 0.8 percent decline in gasoline station sales despite retail gasoline prices being up 3.0 percent on a seasonally adjusted basis. This is another place where the BEA's data could vary from the retail sales data. On the whole, however, the solid increase in control retail sales, which feed directly into the BEA's data on consumer spending on goods, suggests a sizable increase in spending on nondurable consumer goods. The real wild card here is services spending which, with the exception of restaurant sales, isn't accounted for in the retail sales data. Our proxy for discretionary services spending has been notably weak, with inflation-adjusted spending having fallen in five of the past six months, a run which we expect will have continued in April.
April PCE Deflator Friday, 5/26 Range: 0.2 to 0.4 percent Median: 0.3 percent	Mar = +0.1%	<u>Up</u> by 0.3 percent, which would yield a year-on-year increase of 4.2 percent. We look for the core PCE Deflator to be up by 0.3 percent, for a year-on-year increase of 4.6 percent. Headline inflation has seen a much more pronounced decline from its recent peak than has been the case with core inflation, reflecting moderation in food and energy price inflation, and it is the persistence of core inflation that is of concern to the FOMC. Pay particular attention to the behavior of core services excluding housing costs, which is proving to be the most persistent component of core inflation, but don't overlook core goods, which had been expected to provide more of an offset against core services price inflation than is proving to be the case.

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