ECONOMIC PREVIEW

REGIONS

Week of July 17, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 25-26 FOMC meeting):* Target Range Mid-point: 5.375 to 5.375 percent Median Target Range Mid-point: 5.375 percent	Range: 5.00% to 5.25% Midpoint: 5.125%	The June CPI data brought some encouraging news on core inflation, showing the smallest monthly increase in over two years. That triggered a sharp decline in yields on U.S. Treasury securities and touched off considerable speculation over whether the elusive "soft landing" is within reach. Aside from the question of what exactly that term means, with "soft landing" being another of these terms that is widely used despite there not being a consistently used definition, we don't know that the June CPI data really change anything. First and foremost, the June CPI data by no means take the FOMC out of play beyond the Fed funds rate hike widely anticipated at this month's meeting. After all, even with the smaller monthly increase in June, core inflation remains far above the FOMC's target and at least some FOMC members continue to see the need for further funds rate hikes to push core inflation closer to that target rate. Moreover, even if at a slowing rate, the reality is that prices are still rising and the cumulative effects of a prolonged period of rapidly rising prices is acting as a stress on household budgets. That should help make the point that, to the extent that below-trend growth is helping ease inflation pressures and that growth will likely slow even further, there's a fine line between sticking a "soft landing" and landing with a pronounced thud. The June CPI data and subsequent easing in yields haven't changed how we see the economy playing out over coming quarters; while we do not have recession as our base case, we do see the economy slowing further. What we're not sure about is why a single, even if encouraging, data point would cause anyone to change their outlook, particularly those who've suddenly embraced the "soft landing" narrative after having argued against that for all of this time.
June Retail Sales: Total Tuesday, 7/18 Range: 0.2 to 0.9 percent Median: 0.5 percent	May = +0.3%	Up by 0.2 percent. Our forecast would leave not seasonally adjusted sales down by around two percent, which is in line with typical June results. Support from a healthy increase in unit sales of motor vehicles will be somewhat watered down by weaker pricing, which will also weigh on revenue from sales of used vehicles, with seasonal adjustment posing an additional hurdle in this category. Gasoline sales will benefit from higher prices but face a tough seasonal factor, which we expect to net out to a modest increase. Weaker pricing, at least to the extent the June CPI data can be trusted, will have also weighed on furniture, electronics, and appliance sales. More broadly, the CPI measure of goods prices excluding food, energy, and used motor vehicles has been flat in each of the past three months, which will have weighed on growth in retail sales given that retail sales are reported in nominal terms. Our forecast would leave control retail sales, a direct input into the GDP data on consumer spending on goods, up at an annualized rate of just 1.4 percent on a nominal basis in Q2, which would translate into a modest decline on a real basis. Though motor vehicle sales are being supported by increased production fulfilling pent-up demand, overall goods spending remains weighed down by the ongoing realignment in consumer spending patterns which has favored services spending over goods spending. That is a useful point to keep in mind when processing the retail sales data which, with the exception of restaurant sales, do not capture services spending.
June Retail Sales: Ex-Auto Tuesday, 7/18 Range: -0.2 to 0.7 percent Median: 0.4 percent	May = +0.1%	Up by 0.1 percent.
June Retail Sales: Control Group Tuesday, 7/18 Range: -0.1 to 0.5 percent Median: 0.3 percent	May = +0.2%	Up by 0.3 percent.
June Industrial Production Tuesday, 7/18 Range: -0.2 to 0.3 percent Median: 0.0 percent	May = -0.2%	Up by 0.1 percent.
June Capacity Utilization Rate Tuesday, 7/18 Range: 79.3 to 79.7 percent Median: 79.5 percent	May = 79.6%	Unchanged at 79.6 percent.
May Business Inventories Tuesday, 7/18 Range: 0.1 to 0.3 percent Median: 0.2 percent	Apr = +0.2%	We look for total business inventories to be up by 0.2 percent, and for total business sales to be up by 0.1 percent.

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June Building Permits Wednesday, 7/19 Range: 1.425 to 1.599 million units Median: 1.490 million units SAAR	May = 1.496 million units SAAR	Up to an annual rate of 1.599 million units. That our forecast for the headline permits number is so far above the consensus forecast is more a matter of our read on how the seasonal adjustment factors will play out which, given how out of whack they were in May, isn't something we have much confidence in. As for the number that actually matters, we look for the not seasonally adjusted data to show total permits of 145,300 units, up 4.1 percent from May with both single family and multi-family permits up. Our forecast would leave single family permits up modestly year-on-year, which would be the first such increase since February 2022, but which could be a bit of a reach as June may have seen a pullback after single family permits jumped by 18.4 percent in May. In contrast, our forecast would leave multi-family permits down by over twenty percent year-on-year as permits continue to pull back after notably rapid growth in 2021 and 2022. We think the pullback in multi-family permits has further to go while we expect further, albeit more gradual, increases in single family permits in the months ahead.
June Housing Starts Wednesday, 7/19 Range: 1.390 to 1.620 million units Median: 1.475 million units SAAR	May = 1.631 million units SAAR	Down to an annual rate of 1.588 million units, which would look much stronger were it not coming on the heels of the surge in starts seen in May. To that point, the first order of business upon the release of the June report will be to see whether, or to what extent, the initial estimate for May is revised lower. After that, we'll go straight to the not seasonally adjusted data for June, which we expect to show total starts of 147,100 units, down 2.7 percent from May with a drop in multi-family starts more than negating what we expect will be another increase in single family starts. As with permits, our forecast would leave single family starts up year-on-year, which would be the first such increase since April 2022. Even if our forecasts for (unadjusted) single family permits and starts prove to be too high, builders are clearly benefitting from extraordinarily lean inventories of existing homes for sale funneling more and more prospective buyers into the market for new homes. While still-elevated inventories of spec homes for sale are helping meet some of this demand, many builders are seeing order backlogs creep higher again, as evidenced by what have increases in the number of single family units permitted but not yet started in each of the past three months at a time when single family completions have flattened out. It is interesting to note that even as mortgage interest rates pushed back over seven percent earlier this month, builders continued to book orders, in part because they were able to offer concessions on rates, but if the more recent decline in longer-term interest rates holds, that will offer some relief on mortgage rates, which could push even more buyers into the market for new homes.
June Leading Economic Index Thursday, 7/20 Range: -0.9 to -0.2 percent Median: -0.6 percent	May = -0.7%	Down by 0.6 percent.
June Existing Home Sales Thursday, 7/20 Range: 4.080 to 4.400 million units Median: 4.210 million units SAAR	May = 4.300 million units SAAR	Down slightly to an annual rate of 4.270 million units. On a not seasonally adjusted basis, we look for sales of 434,000 units, up 6.4 percent from May but, as this is well smaller than the typical June increase, seasonal adjustment will work against the headline sales number. Lean inventories continue to work against sales, and while our forecast anticipates a larger than normal June increase, that would nonetheless leave inventories of existing homes for sale down double-digits year-on-year and would still leave the months supply metric far below the 5.5-6.0 months consistent with a balanced market. That there is, despite higher mortgage interest rates, still a considerable degree of demand can be seen by what remains fierce competition for listings. Median days on market fell to just eighteen days for May sales and a further decline in June won't surprise us. Though down from the peak, cash purchases continue to account for a much higher share of total sales than had been the case prior to the pandemic. We're in a seasonally strong time of the year for house prices, so don't be surprised to see a sequential increase in the median sales prices. While that would still yield a year-on-year decline, part of that reflects the changing sales mix, with higher-end homes accounting for a smaller share of overall sales as lower-priced homes are quickly snapped up upon hitting the market. Conditions in the market for existing homes were far from normal well before the onset of the pandemic, and they're even further away from normal now.

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