ECONOMIC PREVIEW

REGIONS

Week of July 24, 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%	After a somewhat awkward pause, unless it was a skip (see, awkward), in June, a twenty-five basis point hike in the Fed funds rate is all but assured at this week's FOMC meeting. The much bigger question, of course, is whether this will be the final rate hike of the current cycle. Expect Fed Chair Powell to, by design, shed no light on that question whatsoever during his post-meeting press conference. Instead, Chair Powell is likely to stress that, while there has been some progress, core inflation remains frustratingly persistent and far too high for the Committee's comfort. He'll also reiterate the oft-made point that the FOMC will do whatever is necessary to return inflation to their 2.0 percent target rate over time and that the path of the funds rate from here out will remain data dependent. While nothing is set in stone, our sense is that by the time of the next FOMC meeting in September, the economic landscape will look quite a bit different than it looks this week, with growth slowing further and signs of further easing of inflation pressures. As such, the case for further funds rate hikes could be considerably harder to make in September than it will this week. As far as this week's data docket, Thursday brings the release of the BEA's initial estimate of Q2 GDP (see Page 2). Though the headline growth print may not be that different than that of Q1, the details figure to look much different, with a much slower pace of growth in real consumer spending in Q2. Friday will see the release of the Q2 Employment Cost Index (see Page 3), widely considered to be the superior gauge of changes in labor compensation costs. While we look for the Q2 data to show slight moderation in the growth of labor costs, growth will nonetheless remain far faster than the pre-pandemic trend rate. Clearly, growth in labor costs will be something the FOMC remains focused on as they deliberate the path of the Fed funds rate after this week's meeting.
July Consumer Confidence Tuesday, 7/25 Range: 108.0 to 118.1 Median: 112.0	Jun = 109.7	Up to 115.6. The University of Michigan's preliminary read on July consumer sentiment showed jumps in both the current conditions and expectations components, and though not necessarily tracking each other closely, we expect a similar result from the Conference Board's survey. Still, even if our forecast is on track, that would leave an unusually wide gap between consumers' takes on current conditions and expectations of future conditions as the expectations component remains mired at levels commonly seen in and around recessions. As we often note, however, our main interest in the monthly Conference Board survey is in consumers' assessments of labor market conditions. The "jobs plentiful/jobs hard to get" spread remains elevated despite having narrowed over recent months. Not only are changes in this spread a reliable indicator of changes in the unemployment rate, but we also see this spread as a more meaningful gauge of consumers' willingness to spend.
June New Home Sales Wednesday, 7/26 Range: 650,000 to 821,000 units Median: 724,000 units SAAR	May = 763,000 units SAAR	Up to an annual rate of 821,000 units. On a not seasonally adjusted basis, we look for total sales of 73,000 units, matching the initial estimate of May sales. To be sure, that may seem a bit of a reach given the modest pullback in single family starts in June. Keep in mind, however, that new home sales can occur at any stage – prior to construction having been started, during construction, or after construction has been completed. June saw a further increase in single family permits as well as a fifth straight monthly increase in the number of single family units that had been permitted but not yet started. This suggests that units on which construction had not yet been started accounted for an above-trend share of new home sales in June, as was the case in May. Even if, as was the case with our forecast of June single family housing starts, our forecast of June new home sales (not seasonally adjusted) proves too high, both are moving off their recent bottoms as extraordinarily lean inventories of existing homes for sale continue to funnel more and more prospective buyers to the market for new homes. That mortgage interest rates drifted higher in June may pose some downside risk to our forecast, but many builders have been using rate buydowns as an incentive to facilitate sales, thus blunting some of the impact of higher rates on affordability. To be clear, there is a long way between starts and sales of new single family homes bouncing off of low bottoms and a "recovery" in the housing market, but recoveries have to start somewhere. That builders are seeing meaningful pick-ups in activity is, under the circumstances, an encouraging start.

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June Durable Goods Orders Thursday, 7/27 Range: -2.0 to 7.0 percent Median: 0.9 percent	May = +1.8%	Up by 3.6 percent. Boeing saw a surge in orders in June, with net orders topping three hundred units between newly booked orders and the re-booking of some previously cancelled orders. This should provide a considerable boost to top-line orders, though the mapping between industry orders and the Census data isn't always a direct flight. In any event, as we consistently note, we see core capital goods orders as the single most important line item in the monthly report on durable goods orders. That remains the case despite core capital goods orders having confounded us over the past two months with back-to-back increases of 0.7 percent amid other indicators of flagging business investment spending. We look for a much weaker June print (see below) as we continue to think that narrowing profit margins, higher financing costs, and an uninspiring and uncertain growth outlook will weigh on business investment in equipment and machinery.
June Durable Goods Orders: Ex-Trnsp. Thursday, 7/27 Range: -1.1 to 0.5 percent Median: 0.1 percent	May = +0.7%	We look for ex-transportation orders to be up by 0.1 percent and for core capital goods orders (nondefense capital goods excluding aircraft & parts) to be down by 0.1 percent.
Q2 Real GDP – 1st estimate Thursday, 7/27 Range: 0.8 to 3.0 percent Median: 1.7 percent SAAR	Q1 = +2.0% SAAR	Up at an annualized rate of 2.1 percent. While the headline Q2 growth print doesn't figure to look much different from that of Q1, the underlying details will differ starkly. After growing at an annual rate of 4.2 percent in Q1, real consumer spending grew at a rate of just over one percent in Q2. That slowdown, however, should not come as a surprise; as we pointed out upon the release of the third estimate of Q1 GDP, the sharp upward revision to Q1 consumer spending mostly reflected higher outlays on health care, much of which were financed via Medicaid and, as such, said nothing about actual consumer spending. We expect the Q2 data to show markedly slower growth in spending on both goods and services, and we do not expect growth in real consumer spending will stray much over coming quarters from the meager rate posted in Q2. The slower growth in real consumer spending in Q2 will be partly offset by a faster pace of inventory accumulation – recall inventories knocked 2.14 percentage points off real GDP growth in Q1. Somewhat surprisingly, at least to us, business investment in equipment and machinery figures to have contributed to Q2 growth after having acted as a drag in the prior two quarters. Continued rapid growth in outlays for manufacturing facilities led to another solid advance in real business investment in structures in Q2. Though it would be more symbolic than substantive, residential fixed investment likely contributed to real GDP growth in Q2; however modest that contribution may be, it would be notable in that this would mark the first such contribution since Q1 2021, reflecting new single family construction and sales having come off their recent bottoms. Government spending also contributed to Q2 real GDP growth, though a wider trade deficit will have been a drag.
Q2 GDP Price Index – 1st estimate Thursday, 7/27 Range: 2.7 to 3.6 percent Median: 3.0 percent SAAR	Q1 = +4.1% SAAR	Up at an annualized rate of 3.2 percent.
June Advance Trade Balance: Goods Thursday, 7/27 Range: -$95.0 to -$90.0 billion Median: -$91.9 billion	May = -$91.1 billion	Widening slightly to -$91.6 billion.
June Personal Income Friday, 7/28 Range: 0.2 to 0.7 percent Median: 0.5 percent	May = +0.4%	Up by 0.5 percent. Although June saw the smallest monthly increase in private sector payrolls in over two years, our forecast anticipates the largest monthly increase in aggregate private sector labor earnings since last September thanks to the increase in average weekly hours. At the same time, growth in public sector earnings has picked up over recent months, reflecting faster growth in non-education employment amongst state and local governments. Outside of labor earnings and what should have been another solid increase in interest income, however, there was little support for June income growth, with growth in nonfarm proprietors' income, rental income, and dividend remaining on the highly uneven paths seen over recent months. Our forecast would leave total personal income up 5.4 percent year-on-year, with private sector wage and salary earnings up 6.1 percent.

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June Personal Spending Friday, 7/28 Range: 0.2 to 0.6 percent Median: 0.4 percent	May = +0.1%	Up by 0.5 percent. Though the June retail sales data suggest solid gains in spending on both durable and nondurable consumer goods, declining gasoline station sales and softer vehicle pricing will act as drags. Our forecast anticipates a trend-like increase in overall services spending, but we'll be more focused on our proxy for spending on discretionary services. The June retail sales data show restaurant sales (the only component of services spending captured in the retail sales data) were flat in June, which is even more striking given continued increases in prices for restaurant meals, and if the declines in lodging rates and air fares reported in the June CPI data are mirrored in the PCE data, that sets up a weak print on nominal discretionary services spending. The flip side, of course, is that the PCE Deflator (see below) would show some relief from core services inflation excluding housing. We've noted over recent months that much of the growth in discretionary services spending has been a function of higher prices, with growth in real spending underperforming growth in nominal spending by a wide measure. If we start to see growth in nominal spending on discretionary services start to falter during the summer months, that would be a telling sign for overall consumer spending in the months ahead.
June PCE Deflator Friday, 7/28 Range: 0.1 to 0.2 percent Median: 0.2 percent	May = +0.1%	Up by 0.2 percent, yielding a year-on-year increase of 3.0 percent. We look for the core PCE Deflator to also be up by 0.2 percent, which would translate into an over-the-year increase of 4.1 percent.
Q2 Employment Cost Index Friday, 7/28 Range: 1.0 to 1.3 percent Median: 1.1 percent	Q1 = +1.2%	Up by 1.1 percent, with the wages component up by 1.2 percent and the benefits component up 0.9 percent. On a year-on-year basis, our forecast would leave the total ECI up 4.6 percent, the wages component up 4.8 percent, and the benefits component up 4.2 percent. While these year-on-year increases would all be slightly below the Q1 increases, in the case of the wages component that would be a function of base effects as we don't look for any let-up in the quarterly increase. The industry-level splits will bear watching, in part for signs of any easing in growth in comp costs amongst the services providing industries. In each of the past eight quarters, leisure and hospitality services has posted the largest year-on-year wage increases, though health care is closing in on that lead. It will also be interesting to see if the ECI shows growth in comp costs slowing amongst those industry groups in which hiring has softened over recent months, i.e., manufacturing, retail trade, wholesale trade, transportation/warehousing, and information services. The ECI is widely considered to be the superior measure of labor compensation costs, as it tracks changes in total compensation for the same jobs over time, thus freeing it of the mix bias that can, and often does, distort the signal being sent by the average hourly earnings metric in the monthly employment reports. That the ECI comes on a quarterly frequency, however, often leads to it being overlooked in discussions of labor costs. Though we expect the ECI to show some moderation in the growth of labor costs in Q2, growth nonetheless remains significantly faster than the pre-pandemic trend rate. While it is reasonable to expect further moderation in the growth of labor costs as labor market conditions soften over coming quarters, we think it unlikely that growth in labor costs will settle all the way back to that pre-pandemic trend rate.

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