ECONOMIC PREVIEW

REGIONS

Week of August 7, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 19-20 FOMC meeting):* Target Range Mid-point: 5.375 to 5.625 percent Median Target Range Mid-point: 5.375 percent	Range: 5.25% to 5.50% Midpoint: 5.375%	The July employment report, showing nonfarm payrolls rose by 187,000 jobs, is being described by some as a "perfect fit" into the soft landing narrative that has been so warmly embraced over recent weeks. If you stop at the headline job growth number, this may indeed be true, well, assuming there was an actual definition of "soft landing." The details of the data, however, suggest something less benign may be brewing. We've been expressing concerns over the narrowing breadth of job growth and the marked deterioration in aggregate private sector hours worked, and both of those elements are in plain sight in the July data, including the fourth decline in aggregate private sector hours in the past six months. This is, to us, a clear sign of slowing growth in the broader economy. Also seemingly escaping notice of the soft landing crowd was last week's release of the latest Federal Reserve survey of commercial bank lending officers, conducted over the back half of June, which showed lending standards being raised further and loan demand contracting further. To be sure, none of this rules out a "soft landing," but our point is that those now embracing this scenario seem to be oddly complacent over what are still meaningful downside risks to growth.
June Trade Balance Tuesday, 8/8 Range: -$67.9 to -$63.8 billion Median: -$65.0 billion	May = -$69.0 billion	<u>Narrowing</u> to -$64.9 billion.
July Consumer Price Index Thursday, 8/10 Range: 0.1 to 0.5 percent Median: 0.2 percent	Jun = +0.2%	<u>Up</u> by 0.2 percent, yielding a year-on-year increase of 3.3 percent. Gasoline will be a neutral factor for the July, but we do expect a larger increase in food prices than that seen in June, with a softer increase in restaurant prices helping blunt what we expect will be a larger increase in grocery store prices. Core goods prices should be down, perhaps by a good bit depending on how large of a decline in prices for used motor vehicles is picked up in the CPI data, which tends to lag other measures which of late have shown substantial declines. It is worth noting, however, that excluding used motor vehicles, core goods prices have been flat in each of the past three months and even if they changed in July that movement will likely be more than offset by the decline in used vehicle prices. Monthly increases in rents have moderated gently over the past few months, and our forecast anticipates that pattern continuing in the July data. Do not be surprised if the CPI reports further declines in air fares and lodging rates in July. Our sense is that weaker than normal seasonal patterns are contributing to declines in the seasonally adjusted data, and to the extent that is the case the question becomes why that is the case, and we can't help but thinking there has been some fraying in consumer spending on discretionary services. We will point out our forecast would yield a year-on-year increase in the total CPI larger than the 3.0 percent increase seen in June. This would partly reflect the fading of the favorable base effects that pushed headline inflation meaningfully lower in May and June. One way to work around base effects, favorable or unfavorable, is to look at the annualized three-month change in the CPI, which our forecast would put below 2.0 percent with the change in the core CPI at 3.0 percent, both easily the smallest such increases in quite some time. That reflects genuine progress on inflation. The bad news, however, is that headline inflation looks set to accelerate in the months ahead and could jump significantly in the August data which, oh by the way, come out the week prior to the September FOMC meeting. Rapidly rising retail gasoline prices and higher food prices are the main culprits. If we are correct on this point, that would suggest it is too soon to rule out further Fed funds rate hikes.
July Consumer Price Index: Core Thursday, 8/10 Range: 0.1 to 0.4 percent Median: 0.2 percent	Jun = +0.2%	<u>Up</u> by 0.2 percent, which would translate into a year-on-year increase of 4.7 percent.
July Producer Price Index Friday, 8/11 Range: 0.0 to 0.3 percent Median: 0.2 percent	Jun = +0.1%	<u>Up</u> by 0.3 percent, good for a year-on-year increase of 0.9 percent.
July Producer Price Index: Core Friday, 8/11 Range: -0.1 to 0.3 percent Median: 0.2 percent	Jun = +0.1%	<u>Up</u> by 0.1 percent, which would yield a year-on-year increase of 2.2 percent.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com