ECONOMIC PREVIEW

REGIONS

Week of August 14, 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%	Wednesday brings the release of the minutes of the July FOMC meeting. While FOMC members are encouraged by the progress on disinflation seen to date, not all members are convinced this round of rate hikes has run its course. The minutes may shed some light on how firmly those members are holding onto those convictions. It will also be worth noting how Committee members interpret the results of the Fed's latest quarterly survey of commercial bank loan officers, which the FOMC had in hand at the time of their July meeting. Many members have equated ongoing tightening in lending standards as equivalent to one or more Fed funds rate hikes, and with the survey showing lending standards were raised further while loan demand declined further in Q2, that may temper the appetite for further funds rate hikes. That said, headline inflation is set to accelerate. As we discussed in our analysis of the July CPI data, gasoline alone will add over three-tenths of a point to the change in the total CPI in the August data before factoring in what will be faster food price inflation. As such, by time the September FOMC meeting rolls around there could be more support for further rate hikes than will be evidenced in the minutes of the July meeting.
July Retail Sales: Total Tuesday, 8/15 Range: 0.1 to 0.8 percent Median: 0.4 percent	Jun = +0.2%	<u>Up</u> by 0.3 percent. To some extent, the initial estimate of July retail sales will hinge on *Amazon Prime Days(s).* Not so much actual sales, which we know to have set a new high this year as the first day of the two-day event was the single largest sales day ever on Amazon. The question, however, is how much of that will be picked up in the Census Bureau's initial estimate of July retail sales and, if history is any guide, the answer will be not nearly enough of it. Historically, there is a weak link between reported *Prime Day* sales and the initial Census Bureau estimate of sales by nonstore retailers for those months including *Prime Day* (online sales, which account for the bulk of sales in the broader nonstore retailers category, are reported with a one-month lag). Moreover, sales at nonstore retailers were reported to have risen by 1.9 percent in June, setting a high bar for July sales, *Prime Day(s)* notwithstanding. So, while our forecast anticipates another healthy gain in the July data, we can't be confident of that and, given that this is the biggest driver of our forecast of control sales, we can't have a high degree in that call (see below). We'll be more focused on the bigger story in the July data, which we expect to be one of fairly listless spending. Unit motor vehicle sales were basically flat in July, but with weaker pricing for both new and used vehicles, at least based on the July CPI data, and a slightly punitive seasonal adjustment factor, we look for revenue at motor vehicle dealers to be a modest drag on top-line retail sales. Gasoline sales could be a drag on or support for top-line sales but, either way, the effect should be modest. Declines in retail gasoline prices early in the month gave way to rapid increases later in the month, which on a monthly average basis resulted in a modest increase for July, but a tough seasonal adjustment factor could result in a ninth straight monthly decline in gasoline sales as reported in the retail sales data. The one glimpse of services spending offered in the retail sales data is restaurant sales, which were up just 0.07 percent in June despite further price increases. The July CPI data, however, show the smallest monthly increase in prices for food consumed away from home since March 2021, and if that carries into the retail sales data, a punitive seasonal adjustment factor could yield a modest decline in restaurant sales in the July data, which would suggest some fraying in consumer spending on discretionary services. This matters as this has, along with motor vehicle sales, been a key support for overall consumer spending over the past several months. While we've all along anticipated a sharp pullback in discretionary services spending come the end of summer, that pullback may be starting earlier than we've expected. Either way, growth in real total consumer spending will slow further over the back half of 2023, thus providing less support for real GDP growth.
July Retail Sales: Ex-Auto Tuesday, 8/15 Range: 0.1 to 1.0 percent Median: 0.4 percent	Jun = +0.2%	<u>Up</u> by 0.4 percent.
July Retail Sales: Control Group Tuesday, 8/15 Range: 0.0 to 0.7 percent Median: 0.5 percent	Jun = +0.6%	<u>Up</u> by 0.7 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

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June Business Inventories Tuesday, 8/15 Range: 0.0 to 0.3 percent Median: 0.1 percent	May = +0.2%	We look for total business inventories to be unchanged and for total business sales to be down by 0.2 percent.
July Building Permits Wednesday, 8/16 Range: 1.430 to 1.527 million units Median: 1.468 million units SAAR	Jun = 1.441 million units SAAR	Up to an annual rate of 1.470 million units. On a not seasonally adjusted basis, we look for total permits of 126,000 units, down 7.2 percent from June with declines in both single family and multi-family permits. Keep in mind, however, that July has historically been a weak month for residential construction, with declines in both permits and starts the norm on a not seasonally adjusted basis. Our forecast, however, anticipates smaller than normal declines in both single family and multi-family permits, which yields the increase in total permits we expect in the seasonally adjusted data. A further decline in multi-family permits would continue the reckoning that we've for some time been anticipating given the backlog of multi-family units under construction which, at one million units in June, is greater than at any time since August 1973. A decline in single family permits, however, would reflect more of a pause after two strong months of permit issuance. Aside from normal seasonal patterns, that mortgage interest rates rose during July helped blunt the momentum in new home permits, starts, and sales, with many builders reporting a noticeable drop in volumes. At least part of the recent run-up in longer-term interest rates seems structural to us, meaning mortgage rates may linger above seven percent for longer than was the case last fall. If so, the spikes in single family construction and sales seen in May and June will likely give way to another round of declines, but that inventories of existing homes for sale remain so lean will limit the extent of any such declines.
July Housing Starts Wednesday, 8/16 Range: 1.360 to 1.510 million units Median: 1.450 million units SAAR	Jun = 1.434 million units SAAR	Down to an annual rate of 1.430 million units. On a not seasonally adjusted basis, we look for total starts of 130,000 units, down 2.8 percent from June, a decline more than accounted for by lower single family starts. Again, the combination of typical seasonal lulls, higher mortgage interest rates, and a significant increase over the prior two months weighed on single family activity in July, and how long mortgage interest rates remain above seven percent will to a large degree dictate where we go from here. While builders have been using rate buydowns as an incentive to facilitate sales, the higher market rates go the more costly it is for builders to use those buydowns to the degree needed to make a meaningful difference in affordability for prospective buyers, and with rising materials costs already weighing on margins buydowns will at some point be far less feasible for builders. We'll see how that plays out over coming months, but for now we'll also be watching completions and backlogs of units under construction in both the single family and multi-family space. While multi-family completions have ramped up, that hasn't yet made a dent in the under-construction backlog, while single family completions have been highly uneven, which could reflect ongoing difficulties in procuring materials. One wild card in the July data will be the extreme heat seen across much of the U.S., which may have limited the length of time crews were able to be onsite.
July Industrial Production Wednesday, 8/16 Range: -0.5 to 1.0 percent Median: 0.3 percent	Jun = -0.5%	Up by 0.3 percent. Our forecast anticipates sharply higher utilities output in response to the extreme heat seen across much of the U.S. in July, which would more than offset the declines we expect in both manufacturing output and mining output.
July Capacity Utilization Rate Wednesday, 8/16 Range: 78.4 to 79.6 percent Median: 79.1 percent	Jun = 78.9%	Up to 79.1 percent.
July Leading Economic Index Thursday, 8/17 Range: -0.5 to 0.2 percent Median: -0.4 percent	Jun = -0.7%	Down by 0.4 percent.

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