ECONOMIC PREVIEW

REGIONS

Week of September 25, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the October 31-November 1 FOMC meeting):* Target Range Mid-point: 5.375 to 5.375 percent Median Target Range Mid-point: 5.375 percent	Range: 5.25% to 5.50% Midpoint: 5.375%	The docket is full in what could be the last full week of economic data releases for a while, given the toll a partial shutdown of the federal government would take on data collection and reporting. We'll be the most interested in Thursday's release of the third estimate of Q2 GDP, as it will incorporate the results of the BEA's comprehensive revisions to the data from the National Income and Product Accounts (NIPA), from which flow the estimates of GDP, corporate profits, personal income, and total consumer spending, among other series. This round of revisions will cover the GDP data from Q1 2013 through Q1 2023 and the Gross Domestic Income (GDI) data from Q1 1979 through Q1 2023. While the tendency may be to brush the revisions off – so what if the view from the rear view mirror changes – we think them worthy of greater attention. As is our habit, we will discuss them in some detail in the October edition of our *Monthly Economic Outlook*, but for now we'll note that over the past few quarters real GDP growth has surprised to the upside while at the same time real GDI has been notably weak, declining in two of the past three quarters. Historically, when the two series have diverged, the revisions have gone in the direction of real GDI, not real GDP, and if that pattern holds real GDP growth over the past few quarters may be revised lower. We've long expected a marked slowdown in growth over the next few quarters, and that slowdown could be even more pronounced given factors such as the UAW strike and the looming government shutdown. The revised NIPA data will recalibrate the view of the economy's starting point as we head into what figure to be uncertain, and potentially unsettled, times.
September Consumer Confidence Tuesday, 9/26 Range: 103.0 to 108. Median: 105.5	Aug = 106.1	<u>Down</u> to 104.2 at least in part in response to rising gasoline prices. On a national average basis, retail gasoline prices topped $4 per gallon last week, which was likely not fully captured in the Conference Board's September survey (the survey typically cuts off around mid-month). At the same time, fallout from the UAW strike and potential government shutdown could also be weighing on the minds of consumers. As usual, our main focus will be on consumers' assessments of labor market conditions, which dimmed considerably in the August survey when the "jobs plentiful/hard to get" spread narrowed to a point last seen in April 2021. What is noteworthy is that assessments of labor market conditions have soured despite there having been no meaningful pickup in layoffs, with slowing job growth thus far purely a function of a slowing rate of hiring. The "jobs plentiful/hard to get" spread has, over time, been a reliable indicator of changes in the unemployment rate and turns in the business cycle, which is why we pay as much attention to it as we do.
August New Home Sales Tuesday, 9/26 Range: 670,000 to 732,000 units Median: 699,000 units SAAR	Jul = 714,000 units SAAR	<u>Up</u> to an annualized rate of 732,000 units. On a not seasonally adjusted basis, we look for total sales of 58,000 units, down slightly from July, but a more favorable seasonal factor will provide a boost to the headline (i.e., seasonally adjusted and annualized) sales number. The unadjusted data on single family starts and permits, which we typically rely on to help shape our forecasts of unadjusted new home sales, were of little help in August, as starts fell sharply and permits rose sharply, but we put more stock in the permits data. The jump in single family permits in August may seem at odds with higher mortgage interest rates, but in fulfilling remaining demand for home purchases builders continue to benefit from what remain notably lean inventories of existing homes for sale, particularly those builders able to offer rate buydowns as an incentive to facilitate sales. We do, however, wonder how much longer this will remain the case given the most recent round of increases in mortgage rates which has sent them pushing toward 7.50 percent. With spec inventories still higher than most builders are comfortable carrying, it could be they will have to get more aggressive with incentives, including on pricing, to help sustain sales.
August Durable Goods Orders Wednesday, 9/27 Range: -3.2 to 2.0 percent Median: -0.5 percent	Jul = -5.2%	<u>Down</u> by 0.5 percent. Though not nearly to the same extent as in July, nondefense aircraft will be a drag on top-line orders, though we anticipate another solid (pre-strike) increase in orders for motor vehicles and parts to help cushion the blow. As always, the most important line item will be core capital goods orders (see below), which have softened again after a short-lived burst in the spring.
August Durable Goods Orders: Ex-Trnsp. Wed., 9/27 Range: -0.4 to 0.8 percent Median: 0.1 percent	Jul = +0.4%	We look for <u>ex-transportation orders</u> to be <u>up</u> by 0.2 percent and for <u>core capital goods orders</u> (nondefense capital goods excluding aircraft & parts) to also be <u>up</u> by 0.2 percent.

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Q2 Real GDP: 3rd estimate Range: 2.0 to 2.5 percent Median: 2.2 percent	Thursday, 9/28	Q2: 2nd est. = +2.1% SAAR	Up at an annualized rate of 2.4 percent.
Q2 GDP Price Index: 3rd estimate Range: 2.0 to 2.2 percent Median: 2.0 percent	Thursday, 9/28	Q2: 2nd est. = 2.0% SAAR	Up at an annualized rate of 2.0 percent.
August Advance Trade Balance: Goods Range: -$93.5 to -$89.2 billion Median: -$91.4 billion	Friday, 9/29	Jun = -$90.9 billion	Widening to -$91.5 billion.
August Personal Income Range: 0.2 to 0.8 percent Median: 0.4 percent	Friday, 9/29	Jul = +0.2%	Up by 0.5 percent. Our forecast would reflect the largest monthly increase in personal income since January, with the main support coming from private sector wage and salary earnings. Not only did August see a bigger increase in private sector payrolls than that seen in July, but there was also an increase in the length of the workweek, which provided a powerful boost to growth in aggregate earnings. One downside risk to our forecast is that the modest firming in transfer payments we're looking for may not materialize; states paring Medicaid roles has weighed on transfer payments over the past few months, which in turn has been a drag on growth in total personal income. Additionally, the monthly estimates of nonfarm proprietors' income, a proxy for small business profits, have been all over the map for the past several months and have been subject to sizable revision in subsequent months. So, while our forecast anticipates a continuation of the nice run of growth seen over the prior three months, that run may no longer look so nice in the revised data. Moreover, keep in mind that the monthly data on personal income and spending will have been revised as part of the comprehensive revisions to the NIPA data discussed on Page1, lending even more uncertainty to our forecasts of the August numbers.
August Personal Spending Range: 0.2 to 0.9 percent Median: 0.4 percent	Friday, 9/29	Jul = +0.8%	Up by 0.5 percent. As in the retail sales data, price-driven increases in spending on gasoline will boost nominal goods spending, but there will be little support elsewhere across consumer goods. Our forecast anticipates a decline in spending on consumer durable goods, including motor vehicles. While we do expect a solid increase in services spending, we look for a smaller increase than that seen in the July data as discretionary services spending begins to fade. Our forecasts for nominal spending and the PCE Deflator would leave real consumer spending flat in August but given how strong spending was in July that still leaves real consumer spending on course for a sizable increase for Q3 as a whole, though we continue to expect real spending to be basically flat in Q4.
August PCE Deflator Range: 0.2 to 0.6 percent Median: 0.5 percent	Friday, 9/29	Jul = +0.2%	Up by 0.5 percent, which would yield a year-on-year increase of 3.6 percent. We look for the core PCE Deflator to be up by 0.3 percent, yielding a year-on-year increase of 3.9 percent.

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