ECONOMIC PREVIEW

REGIONS

Week of October 16, 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%	This week's full slate of data releases could come with a high volume of noise. September is a seasonally weak month for economic activity, a point which many probably will, but should not, overlook when processing the various releases, while the UAW strike could impact the September industrial production data.
September Retail Sales: Total Tuesday, 10/17 Range: -0.5 to 0.6 percent Median: 0.3 percent	Aug = +0.6%	Up by 0.5 percent. In any given month, the typical reaction to the retail sales report is to take whatever the headline number is and spin that into a narrative of the state of the U.S. consumer who, in any given month, is either down in the dumps, on top of the world, or somewhere in between, depending of course on whatever that headline number is. And, sure, sometimes the retail sales report actually tells you something about the state of the U.S. consumer, but just as often tells you about price changes or seasonal adjustment, if not both. The only way to know that, however, is to actually dig into the details of the data. So, the main point to keep in mind here is that September tends to be a weak month for retail sales, as it marks a lull between back-to-school shopping and the holiday season. To that point, in the life of the current series on retail sales, which goes back to 1992, there has never been a year in which either total or control retail sales have increased in September on a not seasonally adjusted basis. As such, after January and February, seasonal adjustment for the September data is more generous than in any month of the year. If the decline in raw sales this September is smaller than is typical for the month, as our forecast anticipates, the seasonally adjusted data will be made to look better, which is really behind our above-consensus forecast. Motor vehicle sales will be a support for the headline sales number, but we expect gasoline to be a drag despite higher prices, reflecting the extent to which demand dropped off last month. As measured in the CPI data, prices for consumer goods excluding food, energy, and used motor vehicles were down slightly, meaning pricing will have contributed little to growth in retail sales, which are reported in nominal terms. Most of the increases we expect in other categories reflect friendly seasonal adjustment, but if the decline in raw sales this September is simply in line with historical norms, then our forecasts of September sales will be too high across the board. Either way, the September retail sales report is likely to tell us more about seasonal adjustment than about the state of U.S. consumers, whatever the narratives spun around the headline number have to say.
September Retail Sales: Ex-Auto Tuesday, 10/17 Range: -0.8 to 0.6 percent Median: 0.2 percent	Aug = +0.6%	Up by 0.4 percent.
September Retail Sales: Control Group Tuesday, 10/17 Range: -0.5 to 0.4 percent Median: 0.0 percent	Aug = +0.1%	Up by 0.4 percent.
September Industrial Production Tuesday, 10/17 Range: -0.5 to 0.5 percent Median: 0.0 percent	Aug = +0.4%	Up by 0.3 percent. Industrial production is one of the main data series which will be impacted by the UAW strike given the influence of motor vehicle assemblies on output in the manufacturing sector. The question here is whether, or to what extent, the strike will have impacted the September data, and our sense is that any such impacts will be minimal. Recall the strike started mid-month, and rather than all 140,000-plus UAW workers moving from the factory floor to the picket line, the initial wave was fairly modest. Moreover, to the extent inventories of parts allowed for production to continue elsewhere, the drag on assemblies would have been softened. Clearly, the wider the strike spreads, including the ripple effects on parts producers forced to suspend operations, and the longer it lasts, the more pronounced will be the effects throughout the economic data, but the effects on the September data should be somewhat muted. For the duration, the measure of manufacturing output excluding motor vehicles will offer a better view of the state of the factory sector. After several uninspired months, ex-vehicles manufacturing output rose smartly in August, but there is little to suggest this increase will have been sustained. A return of milder weather means utilities output was likely a drag on total industrial production in September, while mining should have provided a solid lift.
September Capacity Utilization Rate Tuesday, 10/17 Range: 79.2 to 80.0 percent Median: 79.6 percent	Aug = 79.7%	Up to 79.9 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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August Business Inventories Tuesday, 10/17 Range: 0.1 to 0.4 percent Median: 0.3 percent	Jul = 0.0%	We look for total business inventories to be up by 0.4 percent and for total business sales to be up by 1.3 percent.
September Building Permits Wednesday, 10/18 Range: 1.400 to 1.520 million units Median: 1.450 million units, SAAR	Aug = 1.541 million units SAAR	Down to an annualized rate of 1.502 million units. On a not seasonally adjusted basis, we look for total permits of 125,700 units, which would be down 11.4 percent from August, in part reflecting typical seasonal weakness in the month of September. Recall that permit issuance surged in August, rising 19.5 percent with single family permits up 13.5 percent and multi-family permits up 30.8 percent (based on the not seasonally adjusted data), so it is natural to expect payback in the September data, particularly in the multi-family segment. While single family construction and sales had benefitted from the dearth of inventories of existing homes for sale over the summer months, the latest run-up in mortgage rates, pushing them toward eight percent, will likely lead to pullbacks in single family activity. As for the surge in multi-family permits in August, what stood out is that the increase came in a month in which multi-family starts collapsed (more on that below). Prior to August, multi-family permit issuance had been trending lower, though by no means in a straight line, so the August jump may prove to be no more than one-off noise. That's how we took it, particularly in the face of what remains a super-sized backlog of multi-family units under construction. The bigger story, however, will be how activity in the single family segment fares given that mortgage rates figure to remain elevated, thus lifting affordability hurdles that much higher given the resiliency of house prices.
September Housing Starts Wednesday, 10/18 Range: 1.155 to 1.486 million units Median: 1.385 million units, SAAR	Aug = 1.283 million units SAAR	Up to an annualized rate of 1.427 million units. On a not seasonally adjusted basis, we look for total housing starts of 123,800 units, an 8.4 percent increase from August solely due to higher multi-family starts. Recall that unadjusted multi-family starts fell by 23.6 percent in August, a decline largely accounted for by the South region seeing the fewest multi-family starts since January 2021, which could have reflected the effects of Hurricane Idalia. But, as the South saw an increase in multi-family permits in August, we took that region's decline in starts as a one-off occurrence, and our forecast anticipates the September data showing a rebound. As for the single family segment, we're looking for the most recent run-up in mortgage interest rates to have weighed on starts. Also watch for the data on completions, units permitted but not yet started, and units under construction. Multi-family completions have been trending higher, but with less progress on the starts front, multi-family units under construction have topped the one million units mark in each of the past four months. There has been some progress in working down the backlog of single family units under construction, but that progress has stalled as completions have wavered.
September Existing Home Sales Thursday, 10/19 Range: 3.750 to 4.700 million units Median: 3.890 million units, SAAR	Aug = 4.040 million units SAAR	Down to an annualized rate of 3.890 million units. In keeping with the general theme of this week's *Preview*, September is typically a weak month for existing home sales. Our forecast anticipates not seasonally adjusted sales of 349,000 units, down 13.0 percent from August, and down 18.5 percent year-on-year. What may be more telling than the sales number is the inventory number, as September marks the start of a period in which inventories typically fall (the NAR inventory data are not seasonally adjusted). We expect a slightly larger than normal September decline which would yield the fourth straight double-digit year-on-year decline in inventories. Those existing homes that do hit the market, however, are not staying there for long, with median time on market before going under contract remaining easily below pre-pandemic norms. With sellers no longer in control, flexibility in pricing is key to facilitating sales, particularly with builders offering rate buydowns and covering closing costs to entice buyers who are, quite understandably, not enthused with mortgage rates as high as they are. Our forecast would leave the running twelve-month total of not seasonally adjusted sales, our measure of the underlying sales trend, at 4.182 million units, the lowest such total since August 2011, and this total figures to fall further in the months ahead.
September Leading Economic Index Thursday, 10/19 Range: -0.7 to -0.1 percent Median: -0.4 percent	Aug = -0.4%	Down by 0.4 percent.

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