ECONOMIC PREVIEW

REGIONS

Week of April 22, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the April 30-May 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%	Last week brought a large dose of Fedspeak, with several FOMC members reinforcing the message that, with the economy looking quite resilient and inflation proving quite uncooperative, there is little rationale for the FOMC to consider Fed funds rate cuts any time soon. That message was perhaps delivered most forcefully by Chair Powell who, in discussing the FOMC's degree of confidence in inflation being firmly on a path back to its 2.0 percent target, noted that "the recent data have clearly not given us greater confidence and instead indicate that it's likely to take longer than expected to achieve that confidence." That of course marks quite a change in tone from Chair Powell, and market participants took notice. We're not so sure that the March data on the core PCE Deflator will do anything to inspire any such confidence (see Page 2). One element of this week's slate of data releases worth noting is Tuesday's release of the annual revisions to the retail sales data. Recall from last week that not only did March retail sales surprise to the upside, but the report on March sales incorporated significant upward revisions to previous estimates of January and February control retail sales. Not only did this came as quite a surprise, but it also changed the tone of Q1 growth in real consumer spending, as control retail sales feed directly into the GDP data on consumer spending on goods. We'll be watching the revisions to the retail sales data to see whether or not the story told by the March retail sales report will stick. If not, then both March personal consumption expenditures and Q1 real GDP growth will fall short of our forecasts. As a side note, BEA has not yet decided whether the revised retail sales data will be incorporated into this week's releases on personal spending and Q1 GDP and won't make that determination until they see the revised retail sales data. Our interpretation of that is unless the revised retail sales data yield significant changes in the recent trajectory of consumer spending, BEA will not incorporate the revisions into this week's releases.
March New Home Sales Tuesday, 4/23 Range: 625,000 to 700,000 units Median: 670,000 units SAAR	Feb = 662,000 units SAAR	Up to an annualized rate of 672,000 units. On a not seasonally adjusted basis, we look for sales of 65,000 units, up 8.3 percent from February. This is a smaller increase than is typical for the month of March, which is in line with commentary from builders reporting a smaller than normal seasonal pick-up in orders. Recall that new home sales are booked at the signing of the sales contract, meaning they are quicker to reflect the effects of changes in mortgage interest rates than are sales of existing homes, which are booked at closing. Mortgage rates were little changed during March, beginning the month just over and ending the month just under seven percent, which likely weighed on sales, though builders offering concessions, including rate buydowns, helped mitigate affordability constraints. We'll also be watching the data on spec inventories, which have turned higher over the past few months and remain meaningfully above pre-pandemic norms. This has mostly been a voluntary build, as builders look to take advantage of the paucity of existing homes for sale, but we wonder how much longer builders will willingly add to spec inventories. The share of new home sales accounted for by completed units has risen sharply over the past several months, and these are the units on which builders will typically offer larger concessions. With unadjusted single family starts having risen in March, which saw the highest monthly total since last July, spec inventories likely rose further. Absent a reversal in mortgage interest rates, which have risen further over recent weeks, we'd expect builders to become more cautious about adding to spec inventories, and if we're correct on this point, single family housing starts will start to tail off.
March Durable Goods Orders Wednesday, 4/24 Range: 0.3 to 5.0 percent Median: 2.5 percent	Feb = +1.3%	Up by 3.9 percent. Civilian aircraft orders will be a meaningful support for top-line orders growth, but our forecast anticipates much more moderate advances across the remaining categories. After a solid advance in February, our forecast anticipates a smaller increase in core capital goods orders (see below) in March, but this would still be noteworthy in that it would mark the first back-to-back increases in this category, an early indicator of the GDP data on business investment in equipment and machinery, in almost a year. Core capital goods orders were up and down over the course of 2023, to the point they ended the year exactly where they started the year, but we continue to expect sustained growth at some point as firms become more focused on sustaining faster labor productivity growth. As such, even the modest advance we expect the March data to show would be a welcome sign of progress.

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

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March Durable Goods Orders: Ex-Trnsp. Wed., 4/24 Range: -0.2 to 0.6 percent Median: 0.2 percent	Feb = +0.3%	We look for ex-transportation orders to be up by 0.4 percent, with orders for core capital goods (nondefense capital goods excluding aircraft & parts) up by 0.3 percent.
Q1 Real GDP Thursday, 4/25 Range: 1.7 to 3.1 percent Median: 2.5 percent SAAR	Q4 = +3.4% SAAR	Up at an annualized rate of 2.9 percent, with growth in consumer spending (our caveat about the revisions to the retail sales data notwithstanding), residential and business fixed investment, and government spending more than offsetting drags from trade and inventories.
Q1 GDP Price Index Thursday, 4/25 Range: 2.3 to 3.3 percent Median: 3.0 percent SAAR	Q4 = +1.6% SAAR	Up at an annualized rate of 3.1 percent.
March Advance Trade Balance: Goods Thursday, 4/25 Range: -$93.0 to -$89.3 billion Median: -$91.1 billion	Feb = -$90.3 billion	Widening to -$92.1 billion.
March Personal Income Friday, 4/26 Range: 0.3 to 0.7 percent Median: 0.5 percent	Feb = +0.3%	Up by 0.7 percent. Another solid increase in private sector payrolls (up by 232,000 jobs) and an increase in average weekly hours yielded an outsized gain in private sector wage and salary earnings, while continued robust hiring amongst state and local governments is sustaining rapid growth in public sector wage and salary earnings. After two months of wild swings tied to Costco's special dividend payment in January, the March data should show a more trend-line increase in dividend income which, along with what we expect will be a bounce in interest income, should support a healthy advance in asset-based income. Our forecast also anticipates another sizable increase in rental income. Though the risks to our forecast of March income growth seem tilted to the downside, the data will show that growth in labor earnings continues to easily outpace inflation, which has been the case over this entire episode of elevated inflation, thus putting a floor under consumer spending.
March Personal Spending Friday, 4/26 Range: 0.4 to 0.8 percent Median: 0.6 percent	Feb = +0.8%	Up by 0.8 percent. Lower unit sales and lower prices mean motor vehicle sales acted as a drag on spending on consumer durable goods, and the March retail sales data suggest that drag was magnified by lower spending on furniture, appliances, and electronics, with lower prices playing a part. Still, the surprisingly large increase in control retail sales coupled with a hefty increase in gasoline expenditures will push spending on nondurable consumer goods meaningfully higher. Our forecast also anticipates another hefty increase in services spending. The caveat here is that the revised retail sales data could show goods spending grew less rapidly than has thus far been reported, which would mean that consumer spending increased by less in March than our forecast anticipated.
March PCE Deflator Friday, 4/26 Range: 0.2 to 0.4 percent Median: 0.3 percent	Feb = +0.3%	Up by 0.3 percent, for a year-on-year increase of 2.6 percent. We look for the core PCE Deflator to be up by 0.2 percent, for a year-on-year increase of 2.7 percent. As was the case with our forecast of the core CPI for March, our forecast for the core PCE Deflator comes down to rounding, as we think it will be a close call between a 0.2 percent increase and the 0.3 percent increase the consensus forecast anticipates. But, even if our forecast for a 0.2 percent increase is on the mark, we're not sure how much comfort market participants would take from that, as that would still push the annualized three-month change in the core PCE Deflator, which some see as a better gauge of inflation momentum, up to 3.9 percent, the fastest rate since last April and the third straight month of acceleration. Not likely to inspire all that much confidence in inflation being firmly on a path back to 2.0 percent.

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