ECONOMIC PREVIEW

REGIONS

Week of May 13, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 11-12 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%	After a well-deserved break last week, there is no easing back into it for the *Preview*, as this week brings a deluge of data. So, to use a phrase any real Pittsburgh Penguins fan would know, buckle up, baby. This week brings reads on retail sales and residential construction (see Page 3), but we'll caution that seasonal adjustment may play tricks on the headline numbers. The main event, for better or worse, will be the report on the April CPI (see Page 2), which we expect will show at least some moderation in core inflation pressures.
April Producer Price Index Tuesday, 5/14 Range: 0.2 to 0.4 percent Median: 0.3 percent	Mar = +0.2%	Up by 0.4 percent. which would yield a year-on-year increase of 2.3 percent.
April Producer Price Index: Core Tuesday, 5/14 Range: 0.2 to 0.3 percent Median: 0.2 percent	Mar = +0.2%	Up by 0.3 percent, which would translate into a year-on-year increase of 2.4 percent.
April Retail Sales: Total Wednesday, 5/15 Range: -0.2 to 0.7 percent Median: 0.4 percent	Mar = +0.7%	Up by 0.4 percent. If you're confused about the state of U.S. consumers, all we can say to you is . . . welcome to the club. After all, for every account of cash-strapped consumers struggling under the weight of elevated inflation and high interest rates, there is an equal and opposite account of solid growth in labor earnings and healthy household balance sheets sustaining spending growth. Luckily, Wednesday brings the release of the report on April retail sales, which will no doubt bring some much needed clarity on the state of U.S. consumers. Yeah, okay, fine, that's not happening – the "much needed clarity" part anyway, as we will indeed get the latest round of retail sales data. We have, over the years, routinely expressed our frustration with the retail sales data, particularly the initial estimate of sales in any given month. To that point, the initial estimate of March sales was much stronger than expected, so the first order of business here will be assessing the revisions to those estimates, though Easter having fallen into March this year may account for some of the strength in March sales. To the extent that was the case, however, that will come at the expense of April sales, but there are several other factors to watch for in the April data. Though higher unit sales of new vehicles would be supportive of revenue growth amongst motor vehicle dealers, softness in pricing – we expect the April CPI to show declines in prices of both new and used vehicles – will act as a drag, on top of which the April seasonal factor for sales at motor vehicle dealers is somewhat punitive. On net, then, we expect motor vehicle dealers to be a drag on top-line retail sales. At the same time, higher prices mean gasoline will have added to top-line sales. If, as we expect, April saw continued weakness in goods prices, particularly consumer durable goods, that will weigh on top-line sales; our forecast has our proxy for spending on consumer durables, teased out of the retail sales data, declining for the third time in the past four months. Perhaps the most noteworthy element of the initial estimates of March sales was the surge in sales by nonstore retailers, which accounted for almost the entire increase in control retail sales (online sales account for over ninety percent of sales by nonstore retailers). While we've plugged in a very modest increase into our forecast of April sales, a meaningful downward revision to that initial March estimate will impact both months' data. Finally, it could be that "eclipse tourism" boosted services spending in April at the expense of goods spending. With the exception of restaurant sales, however, the retail sales data do not account for services spending, but our forecast does anticipate a hefty increase in restaurant sales. The April retail sales data are unlikely to shed much light on, much less settle, the ongoing debate on the state of U.S. consumers. Perhaps much of the confusion stems from the stubborn insistence on discussing "the" U.S. consumer, as in reality there is no such thing. Instead, there are meaningful variances in consumer confidence and consumer spending across the age/income/net worth cohorts, even if those variances are impossible to pull out of the aggregated data. So, both can be true – certain segments of consumers can be struggling while aggregate consumer spending grows at a healthy pace. We'd say that at present, the question is whether, or to what extent, the stresses fueled by cumulative price increases, elevated interest rates, and cooling labor market conditions will broaden their reach across the age/income/net worth cohorts and, in so doing, take a bigger toll on aggregate spending.

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Indicator/Action Economics Survey:		Last Actual:	Regions' View:
April Retail Sales: Ex-Auto Range: -0.4 to 0.7 percent Median: 0.2 percent	Wednesday, 5/15	Mar = +1.1%	Up by 0.5 percent.
April Retail Sales: Control Group Range: -0.3 to 0.5 percent Median: 0.1 percent	Wednesday, 5/15	Mar = +1.1%	Up by 0.3 percent.
April Consumer Price Index Range: 0.3 to 0.4 percent Median: 0.4 percent	Wednesday, 5/15	Mar = +0.4%	Up by 0.4 percent, for a year-on-year increase of 3.4 percent. Higher energy prices will be a meaningful support for the total CPI, with retail gasoline prices up around three percent on a seasonally adjusted basis and another hefty increase in electricity rates. At the same time, we see some upside risk in prices for food consumed away from home, to the extent that fast food chains in California raised menu prices to offset the new $20 per hour minimum wage for the state's restaurant workers. Though geographically isolated, these increases could be large enough to move the broad food away from home category, which makes up about forty percent of the total CPI food index. We look for the April data to show further weakness in goods prices, including declines in prices for both new and used motor vehicles, which will be a drag on the core CPI (see below). Our forecast anticipates a more moderate increase in core services prices than those seen over the prior three months, though the delays in the CPI measures of rents picking up on market rents will continue to bias the read on core services prices upward. One ray of hope on the horizon is that retail gasoline prices have edged lower thus far in May, and even modest declines in May will be amplified by seasonal adjustment. Still, while this should bring some relief to headline inflation, it would do nothing for core inflation that remains uncomfortably high.
April Consumer Price Index: Core Range: 0.2 to 0.4 percent Median: 0.3 percent	Wednesday, 5/15	Mar = +0.4%	Up by 0.2 percent, which would yield a year-on-year increase of 3.6 percent. We'll say the same thing about our below-consensus forecast for the April core CPI that we said about our above-consensus forecast for the March core CPI, which is that it is more perception than reality. Whereas our unrounded forecast of the March core CPI rounded up to show a 0.4 percent increase, our unrounded forecast of the April core CPI rounds down to show a 0.2 percent increase but, in each instance, there are no actual economic implications of our forecasts being different than the consensus forecast. To that point, the 3.6 percent year-on-year increase our forecast yields matches the consensus forecast, despite the differing prints on the monthly change. To be sure, the risk to our forecast is to the upside, and could easily hinge on the CPI print on prices for used motor vehicles. Wholesale prices fell substantially in April, a change amplified by seasonal adjustment. As with the CPI measures of rents, however, the CPI measure of used vehicle prices does not always align with market-based measures, but if this is indeed the difference between the change in the core CPI printing at 0.2 or 0.3 percent, that shows how trivial the difference is. Now, a fourth straight monthly increase of 0.4 percent would be anything but trivial, but we don't see that happening. If, as we expect, core goods prices excluding used vehicles fell modestly and core services prices excluding rents rose at a more moderate pace, that combination should break the run of 0.4 percent increases in the core CPI.
March Business Inventories Range: -0.1 to 0.4 percent Median: 0.0 percent	Wednesday, 5/15	Feb = +0.4%	We look for total business inventories to be down by 0.1 percent and for total business sales to be down by 0.2 percent.
April Industrial Production Range: -0.2 to 0.4 percent Median: 0.2 percent	Thursday, 5/16	Mar = +0.4%	Unchanged. While warmer than normal April weather likely boosted utilities output, our forecast anticipates manufacturing output being flat and mining output being lower, all of which nets out to no change in total industrial output. Some are pointing to higher oil prices as a boost to mining output, but the April employment report shows a sharp drop in hours worked in this sector. Our forecast puts far more emphasis on the latter than the former.
April Capacity Utilization Rate Range: 78.3 to 78.7 percent Median: 78.4 percent	Thursday, 5/16	Mar = 78.4%	Down to 78.3 percent.

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April Building Permits Thursday, 5/16 Range: 1.350 to 1.510 million units Median: 1.487 million units SAAR	Mar = 1.467 million units SAAR	Down to an annual rate of 1.384 million units. On a not seasonally adjusted basis, we look for total permit issuance of 126,100 units, up 1.5 percent from March with an increase in single family permits more than offsetting a modest drop in multi-family permits. As was the case with the March data, we expect the April data to be treated somewhat rudely by seasonal adjustment, which is how to reconcile our forecast of an increase in unadjusted permits with our forecast of a sharp decline in seasonally adjusted and annualized permits. This is just yet another illustration of why our analysis of the data on housing permits, housing starts, and home sales is based solely on the not seasonally adjusted data. If our forecasts of unadjusted and adjusted permits are on or close to the mark, the reaction to the latter probably won't square with the reality of the former. For instance, lost in the reaction to the March headline permits number coming in well below the consensus forecast was the not seasonally adjusted data showing March with the most single family permits in any month since July. Our forecast of the unadjusted data anticipates a further increase in April. To be sure, rising spec inventories of new homes for sale and sizable backlogs of units permitted but not yet started may have tempered single family permit issuance in April, tilting the risks to our forecast to the downside, so in that sense the April starts data will be of more consequence to us. But, affordability concerns/constraints notwithstanding, the pool of prospective buyers hasn't come close to drying up which, with inventories of existing homes for sale rising but still notably low, continues to work in favor of builders. Meanwhile, multi-family permits continue to trend lower, though not in a straight line, and our forecast anticipates that trend being reinforced in the April data.
April Housing Starts Thursday, 5/16 Range: 1.315 to 1.490 million units Median: 1.435 million units SAAR	Mar = 1.321 million units SAAR	Up to an annual rate of 1.369 million units. On a not seasonally adjusted basis, we look for total starts of 124,500 units, up 12.3 percent from March. As with the permits data, the April seasonal factors used to derive the estimates of seasonally adjusted and annualized housing starts tend to be somewhat unflattering. That can be seen in our forecast of single family starts; while we expect an increase in single family starts in the not seasonally adjusted data, we expect that to turn into a decline in the seasonally adjusted annualized data. At the same time, though, we anticipate a sharp increase in unadjusted multi-family starts after March saw the lowest monthly total since April 2020. Recall that February saw a surge in multi-family permit issuance in the Northeast region, which we expected to translate into a meaningful bump in multi-family starts in March. That did not happen, but we have incorporated such a bump in our forecast of the April data, meaning that absent such a bump our forecast for unadjusted multi-family starts will prove to be much too high. But, as it is the trends in the not seasonally adjusted data that matter, the upward trend in single family starts and the downward trend in multi-family starts each have further to run. As always, we'll be watching the data on construction backlogs and completions. Completions were quite volatile in Q1, as January's unusually harsh winter weather left its mark, but while we expect the pace of multi-family completions to continue to trend higher with starts trending lower, it could be that single family completions more or less go sideways if we are correct in anticipating continued increases in single family starts. In other words, rising single family starts and sizable inventories of single family units under construction are translating into increases in finished single family units at a frustratingly slow pace, and we're not sure how much that will change in the near term.
April Leading Economic Index Friday, 5/17 Range: -0.5 to -0.1 percent Median: -0.3 percent	Mar = -0.3%	Down by 0.4 percent.

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