ECONOMIC PREVIEW

REGIONS

Week of May 27, 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%	Thursday brings the release of the BEA's second estimate of Q1 GDP. Recall that the release of the initial estimate, which showed real GDP grew at an annual rate of 1.6 percent while the GDP Price Index rose at a 3.1 percent annual rate, brought the stagflation narrative back to life. If, as we and the consensus expect, Q1 real GDP growth gets marked down in the BEA's second pass, that narrative will be out in full force particularly if, as we expect, the GDP Price Index grew at a slightly faster pace than was first reported. One reason we were not troubled by the soft print on Q1 real GPD growth in the initial estimate was that real private domestic demand was reported to have risen at an annual rate of 3.1 percent while trade and inventories acted as material drags on top-line real GDP growth. Though growth in real private domestic demand will almost surely be marked down, we still expect it to have easily outpaced real GDP growth. Friday's release of the April data on personal income, personal spending, and the PCE Deflator (see Page 2) will be closely scrutinized. We'll be monitoring the spending data to see whether the softness in discretionary services spending seen in Q1 carried into Q2, and market participants will be keenly focused on the PCE Deflator. Though our forecast anticipates a milder increase in the core PCE Deflator than those seen over the first three months of 2024, that still leaves considerable ground for inflation to retrace on the way back to 2.0 percent.
May Consumer Confidence Tuesday, 5/28 Range: 92.0 to 101.1 Median: 96.0	Apr = 97.0	<u>Down</u> to 95.2. We don't have great expectations for the headline index, literally or figuratively, as our forecast would put the expectations component at its lowest point since March 2013. Even if they do want to stop thinking about tomorrow, thinking about today isn't likely to make them feel that much better, as our forecast anticipates a fourth straight monthly decline in the present conditions component. In addition to lingering concerns over inflation, consumers are felling less and less upbeat about labor market conditions, as indicated by the narrowing "jobs plentiful/jobs hard to get" spread. This, rather than the headline index, will be our main focus in the Conference Board's May survey. Not only are perceptions of job and income prospects a factor in consumer spending decisions, but the spread summarizing consumers' assessments labor market conditions has long been a reliable indicator of changes in the unemployment rate. Dimming assessments of labor market conditions, lingering concerns about inflation, and elevated interest rates add up to bad news for consumer spending, making it no coincidence that discretionary spending on both goods and services has softened.
April Advance Trade Balance: Goods Thursday, 5/30 Range: -\$94.0 to -\$89.2 billion Median: -\$92.0 billion	Mar = -\$91.8 billion	<u>Widening</u> to -\$92.6 billion.
Q1 Real GDP: 2nd estimate Thursday, 5/30 Range: 1.0 to 1.6 percent Median: 1.3 percent SAAR	Q1: 1st est. = +1.6% SAAR	<u>Up</u> at an annualized rate of 1.2 percent. Our take of the BEA's initial estimate of Q1 real GDP growth was that the details were much stronger than the headline growth print. Recall that a slower pace of inventory accumulation in the nonfarm business sector and a wider trade deficit acted as material drags on top-line real GDP growth, while real private domestic demand – combined household and business spending – was reported to have grown at a 3.1 percent rate. We expect the BEA's second estimate will again show real private domestic demand grew at a faster pace than did real GDP, but the gap between the two could be narrower this time around. We expect the revised data to show slower growth in residential fixed investment, business fixed investment, and consumer spending. At the same time, the pace of inventory accumulation will likely be shown to have been even slower and the trade deficit will likely be shown to have been even wider than first reported. It is possible that the revised data will show consumer spending on services to have been stronger than initially reported, which would lessen the extent of the downward revisions to real private domestic demand and real GDP, but, if our read of the Census Bureau's *Quarterly Census Survey* is correct, any upward revision to services spending in the Q1 GDP data would be driven by an upward revision to health care outlays, which would leave the slowing pace of growth of discretionary services spending intact.
Q1 GDP Price Index: 2nd estimate Thursday, 5/30 Range: 3.0 to 3.2 percent Median: 3.1 percent SAAR	Q1: 1st est. = +3.1% SAAR	<u>Up</u> at an annualized rate of 3.2 percent.

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April Personal Income Friday, 5/31 Range: 0.0 to 0.5 percent Median: 0.3 percent	Mar = +0.5%	Up by 0.3 percent. In most months, the details on aggregate wage and salary earnings from the monthly employment reports are a reliable guide to changes in private and public sector wage and salary earnings as reported in the monthly data on personal income. We think the April data could be an exception to that general rule. From the time of its release, we've had our doubts as to the reliability of the April employment report, reflecting not only the (by now) usual collection/measurement issues but also what was an early end to the April establishment survey period, which we think biased estimates of job growth and average hourly earnings lower. Any such biases will not necessarily carry over into the BEA's estimate of April labor earnings but, and you just knew one of those was coming, if the decline in average weekly hours worked shown in the April employment report can be trusted, that will have acted as a meaningful drag on growth in private sector earnings as reported in the BEA's data. As such, we anticipate the increase in private sector wage and salary earnings to fall between the 0.03 percent increase shown in the April employment report and the trend rate (average monthly increases of 0.45 percent) in the BEA's data. We also look for a firmer increase in public sector wage and salary earnings than implied by the April employment report, which showed the smallest monthly increase in public sector payrolls since December 2022 (we have our doubts about that). All of this is a long – we prefer "detailed" – way of saying that the estimate of labor earnings, by far the largest component of personal income, is a source of uncertainty in our forecast of April personal income growth. Other details to flag are rental income – we anticipate a sharp slowdown in growth after a series of oddly large increases – and nonfarm proprietors' income – the proxy of small business profits has been soft over recent months, possibly indicating that cost pressures have yet to abate. As a final point, even if aggregate labor earnings were as anemic as implied by the April employment report, that would still leave year-on-year growth easily ahead of inflation, as has been the case over this entire period of elevated inflation.
April Personal Spending Friday, 5/31 Range: 0.0 to 0.6 percent Median: 0.3 percent	Mar = +0.8%	Up by 0.4 percent. Control retail sales, a direct input into the BEA data on consumer spending on goods, were notably weak in April, declining by 0.3 percent. That sets up a weak print on total consumer spending on goods in the BEA's April data, though price effects mean gasoline will act as somewhat of an offset in terms of growth in nominal goods spending. Our main focus, however, will be on services spending, particularly our proxy for discretionary services spending, which was notably soft in Q1. The question, of course, is whether that softness carried into Q2 but, with "eclipse tourism" providing a boost to the April data and record levels of travel over the Memorial Day weekend providing a boost to the May data, discretionary services spending could surprise to the upside in Q2. Then again, with measures of consumer confidence/sentiment flagging, the softness in the Q1 data may well have carried over into Q2. The April data will offer the first clue as to how discretionary services spending will fare for Q2 as a whole.
April PCE Deflator Friday, 5/31 Range: 0.2 to 0.3 percent Median: 0.3 percent	Mar = +0.3%	Up by 0.2 percent, which would translate into a year-on-year increase of 2.6 percent. We look for the core PCE Deflator to be up by 0.2 percent, which would yield a year-on-year increase of 2.7 percent. The PCE Deflator is a much more comprehensive measure of price changes than is the Consumer Price Index (CPI) and is also the FOMC's preferred gauge of inflation. Our forecast would yield the smallest year-on-year increase in the core PCE Deflator since March 2021 and leave it much closer to the elusive 2.0 percent marker than the 3.6 percent increase in core inflation reported in the April CPI data. That said, our forecast would put the annualized three-month increase, which some see as a guide to inflation momentum, in the core PCE Deflator at 3.3 percent, down considerably from an outsized 4.4 percent in March but further away from that 2.0 percent marker. Regardless of how one opts to look at the data, we think the bigger issue is that there are still considerable inflation pressures in the pipeline, in the form of higher costs for non-labor inputs and, in the case of goods prices, higher shipping costs. As such, it is fair to wonder when, if not whether, inflation will fall to the FOMC's 2.0 percent target

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