ECONOMIC PREVIEW

REGIONS

Week of September 16, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 17-18 FOMC meeting):* Target Range Mid-point: 4.875 to 5.125 percent Median Target Range Mid-point: 5.125 percent	Range: 5.25% to 5.50% Midpoint: 5.375%	This week's data docket is crowded and, while having no impact on the FOMC's call on the size of the initial cut in the Fed funds rate, will help refine the Q3 growth outlook. This week's main event is clearly the FOMC meeting, and the main question is whether the FOMC will cut the funds rate by twenty-five or fifty basis points. A plausible case can be made either way, and for many FOMC members that choice may come down to what they see as the rationale for cutting the funds rate – to make policy less restrictive than it currently is, or to help fend off recession, while those Committee members still uneasy over the path of inflation figure to lean toward the smaller cut. Still, one could argue that even if the rationale for cutting is to make policy less restrictive, the larger cut would still be in order given the clear cooling in labor market conditions. Should the FOMC opt for a fifty basis point cut, they will face two communications challenges, the first of which will be trying to convince market participants that they are not acting with a sense of urgency out of concern that the economy is on a path to recession. The second communications challenge will be reining in expectations as to how much the Fed funds rate will ultimately be cut; at the time of this writing, markets are pricing in more than two hundred fifty basis points worth of funds rate cuts by year-end 2025, which seems a bit excessive. The FOMC will use their post-meeting policy statement, Chair Powell's post-meeting press conference, and the updated dot plot to tackle these challenges. The latter may be the most significant; our view is that regardless of whether they open with a twenty-five or fifty basis point cut, what is more relevant is where they see the funds rate going, as implied by the updated dot plot. We think it highly unlikely that the updated Committee forecasts for real GDP growth and the unemployment rate will warrant the magnitude of funds rate cuts priced into the markets.
August Retail Sales: Total Tuesday, 9/17 Range: -0.6 to 0.3 percent Median: -0.2 percent	Jul = +1.0%	Up by 0.1 percent. We devoted a portion of our *Monthly Economic Outlook* for August to a discussion of how seasonal adjustment can distort the signals being sent by the economic data, and the report on August retail sales could be a prime illustration of our point. With Labor Day falling on September 2 this year, August 31 fell on the Saturday before the holiday, meaning more spending related to the Labor Day weekend fell into August this year than would normally be the case. That would include motor vehicle sales, given that Labor Day is a heavily promotional holiday for vehicle sales. We think that contributed to the largest August increase in not seasonally adjusted unit motor vehicle sales, up 11.2 percent, since 2019 which, by the way was the last year in which August 31 fell on the Saturday before Labor Day. Keep in mind, however, that seasonal adjustment accounts for shifting holidays (Easter, Labor Day, Thanksgiving), and the seasonal factors applied to the unadjusted data will be meaningfully more punitive than has been the case for the month of August over recent years. That was also the case with the BEA's estimates of unit motor vehicle sales; as noted above, unadjusted unit sales rose by 11.2 percent in August, but much tougher seasonal adjustment turned that into a 4.5 percent decline in seasonally adjusted, annualized sales. From what we can tell, it is that decline in unit sales that is leading most others to anticipate motor vehicle sales acting as a drag on total retail sales, but it is unadjusted dealer revenue that feed into the Census data and even with a punitive seasonal factor we think the seasonally adjusted data will show motor vehicle sales adding to retail sales. We could easily be wrong on this but, either way, we think the broader point is that the August data aside from motor vehicle sales will likely look weak, and part of that will be tough seasonal adjustment. Another factor weighing on retail sales, not only the August data but over the past several months, is the ongoing decline in goods prices, as the retail sales data are reported in nominal terms, i.e., they are not adjusted to account for changes in prices. Prices for core consumer goods (consumer goods excluding food and energy) have been falling over the past several months, even removing the impact of sharp declines in prices for used motor vehicles, and more recently falling gasoline prices have been an added drag on top-line retail sales. To that point, our forecast would leave real, or, price-adjusted, retail sales up 4.3 percent year-on-year, which is faster than the average growth rate over the five years prior to the pandemic. This is perhaps the best argument we can offer for not simply taking the headline retail sales number as a referendum on the state of U.S. consumers – the details of the data often tell a different story than implied by the headline number.

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August Retail Sales: Ex-Auto Tuesday, 9/17 Range: -0.8 to 0.6 percent Median: 0.2 percent	Jul = +0.4%	Down by 0.1 percent.
August Retail Sales: Control Group Tuesday, 9/17 Range: -0.1 to 0.5 percent Median: 0.3 percent	Jul = +0.3%	Up by 0.1 percent. Our forecast would leave not seasonally adjusted control retail sales – total retail sales excluding motor vehicle, gasoline, building materials, and restaurant sales – up by 2.1 percent from July, a bit smaller than the typical August increase but this would come off an unusually large July increase. In that sense, our forecast of seasonally adjusted control sales would still leave Q3 growth running ahead of Q2 growth, which matters in that control retail sales are a direct input into the GDP data on consumer spending on goods, accounting for about twenty-five percent of total consumer spending as measured in the GDP accounts. As it turns out, the nonstore retailers category, the bulk of which is comprised by online sales and which accounts for just under thirty percent of control retail sales, is the only one of the main sales categories with a positive August seasonal factor, which could reflect the expected hangover effect from Amazon Prime Days and other online promotions during July. As such, if we are correct in anticipating a small increase in sales by nonstore retailers, that should be enough to salvage a modest gain in control retail sales. If we're wrong on this point, however, the August data could easily show a decline in seasonally adjusted control sales.
August Industrial Production Tuesday, 9/17 Range: -0.1 to 0.7 percent Median: 0.1 percent	Jul = -0.6%	Up by 0.4 percent. Though manufacturing payrolls are reported to have fallen by 24,000 jobs in August, aggregate hours worked in manufacturing increased, with a particularly sharp increase amongst producers of durable goods. As such, we look for a modest increase in manufacturing output in the August IP data and expect a bounce back in mining output after disruptions from Hurricane Beryl in July based on the jump in aggregate hours worked in the mining sector in August. One puzzling element of the July IP data was the reported decline in utilities output. Granted, that followed three months of hefty increases, but much of the country saw abnormally high July temperatures while the BEA's July data on personal spending show a sharp increase in household outlays on utilities. It could be that the IP data reflect some impact from Beryl, but that would not account for the magnitude of the July decline, so either that initial July estimate will be revised higher, or the August data will show a rebound in utilities output, the latter of which is incorporated into our forecast.
August Capacity Utilization Rate Tuesday, 9/17 Range: 77.6 to 78.4 percent Median: 77.9 percent	Jul = 77.8%	Up to 78.1 percent.
July Business Inventories Tuesday, 9/17 Range: 0.3 to 0.4 percent Median: 0.3 percent	Jun = +0.3%	We look for total business inventories to be up by 0.3 percent and for total business sales to be up by 1.0 percent.
August Building Permits Wednesday, 9/18 Range: 1.365 to 1.476 million units Median: 1.410 million units SAAR	Jul = 1.406 million units SAAR	Up to an annual rate of 1.476 million units. On a not seasonally adjusted basis, we look for total permits of 129,100 units, up 2.1 percent from July thanks to higher single family permit issuance. Mortgage interest rates fell during August, ending the month at their lowest point since April 2023, but the pick-up in prospective buyer traffic that generated was more a leisurely stroll than a frenzied rush and, as such, didn't provide much relief for builders still concerned with elevated spec inventories. To that point, though we expect a modest increase, our forecast would leave the level of single family permits easily below the levels seen in April and May and down 1.7 percent year-on-year, which would be the first year-on-year decline since May 2023. As for multi-family permits, they have been eerily stable over the past several months which, aside from this perhaps being the first instance in recorded history of the words "multi-family" and "stable" appearing in the same sentence, could be the case for some time yet. Aside from a shrinking but still sizable backlog of multi-family units under construction keeping a lid on multi-family permits and starts for at least a while longer, lower mortgage rates and builders eager to clear spec inventories will drive more traffic to the for-sale segment of the market.

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August Housing Starts Wednesday, 9/18 Range: 1.218 to 1.390 million units Median: 1.311 million units SAAR	Jul = 1.238 million units SAAR	<u>Up</u> to an annual rate of 1.332 million units. On a not seasonally adjusted basis, we look for total starts of 117,700 units, up 4.2 percent from July on a (partial) rebound in single family starts while multi-family starts dip a bit lower. Recall that unadjusted single family starts fell by 15.5 percent in July, largely a function of a 26.1 percent decline in the South region, that region's largest monthly decline since the 2007-09 recession, a decline at least in part reflecting the effects of Hurricane Beryl. While we look for some of that ground to have been made up for in August, our forecast would nonetheless leave unadjusted single family starts below the levels seen over the April-June period. That mortgage interest rates remained stuck right around seven percent over that period took a significant toll on demand, which in turn led to further increases in spec inventories. As such, lower mortgage interest rates have not led to a rush of new single family permits and starts, with builders looking instead to lower rates to help clear spec inventories. Indeed, many builders have targeted incentives, including mortgage rate buydowns, toward units either already completed or under construction, contributing to the tempered responses in permits and starts. While mortgage rates have continued to fall into September, builders remain focused on further paring down spec inventories. As with multi-family permits, we expect multi-family starts to have remained within the fairly narrow range that has prevailed over the past several months. What will be more interesting in the August data is whether multi-family completions sustained the more rapid pace seen over recent months, thus further paring down the backlog of units under construction.
Q2 Current Account Balance Thursday, 9/19 Range: -$270.0 to -$242.9 billion Median: -$260.0 billion	Q1 = -$237.6 billion	<u>Widening</u> to -$256.3 billion, mainly reflecting a much wider trade deficit.
August Leading Economic Index Thursday, 9/19 Range: -0.5 to -0.1 percent Median: -0.3 percent	Jul = -0.6%	<u>Down</u> by 0.2 percent.
August Existing Home Sales Thursday, 9/19 Range: 3.50 to 4.14 million units Median: 3.90 million units SAAR	Jul = 3.95 million units SAAR	<u>Up</u> to an annual rate of 4.14 million units. On a not seasonally adjusted basis, we look for total sales of 394,000 units, up 1.3 percent from July and down 1.8 percent year-on-year. There was, however, one fewer sales day this August than last, and when adjusting for that our forecast would leave sales up 2.7 percent year-on-year. Our forecast of the headline sales number (seasonally adjusted and annualized) would reflect a year-on-year increase of 2.8 percent, which would be the first such increase since July 2021. We look for inventories to have posted another modest advance in August, contrary to typical seasonal patterns, and our forecast would leave inventories up over twenty percent year-on-year. Existing home sales are booked at closing, so will be slower to reflect the effects of falling interest rates than will be the case with new home sales. To that point, August existing home sales will mostly reflect sales contracts signed from late-June through July, a period over which mortgage interest rates were stuck around seven percent, which clearly weighed on demand which, in conjunction with more inventory coming onto the market, meant that growing numbers of sellers have had to cut asking prices. Though perhaps helping on the margins, the reality is that affordability constraints remain pressing for many prospective buyers. The combination of falling mortgage rates and rising inventories of existing homes for sale should bring more potent relief, though builders motivated to pare down spec inventories may still have the upper hand.

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