ECONOMIC PREVIEW

REGIONS

Week of October 14, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 6-7 FOMC meeting):* Target Range Mid-point: 4.625 to 4.875 percent Median Target Range Mid-point: 4.625 percent	Range: 4.75% to 5.00% Midpoint: 4.875%	In any given year, September is a month in which there is a notable lull in the pace of economic activity, and this year is no exception. As we saw in the September employment report, however, overzealous seasonal adjustment can paint a somewhat misleading picture of underlying patterns of activity. We see a good chance that will also be the case with the September data on retail sales and, to a lesser extent, residential construction. If so, however, the October data will bring payback. This is why we continually stress the importance of examining the unadjusted data.
September Retail Sales: Total Thursday, 10/17 Range: 0.0 to 0.7 percent Median: 0.3 percent	Aug = +0.1%	Up by 0.7 percent. If retailers were to pick a theme song for the month of September, they'd be more likely to go with "Wake Me Up When September Ends" than with "See You In September." If that seems at odds with our above-consensus forecast, keep in mind that, in the life of the current series which dates back to 1992, the not seasonally adjusted data show neither total nor control retail sales have ever increased in the month of September – not even in 2020, when nothing was normal. It makes sense, if you think about it, as September was traditionally a lull between the back-to-school shopping that lifted August spending and the holiday shopping season. And, while in recent years more back-to-school spending has been pulled forward into July and more holiday season spending has been pulled forward into October, each reflecting increased online promotions, September remains a slow month for consumer spending. We have no reason to think that this September was any different. Our forecast would leave both total and control sales down by just over seven percent from August, larger September declines than over the past few years but which would have been in the normal range prior to the pandemic. One thing we do expect to be different this year is for the seasonal factors used by Census to estimate seasonally adjusted sales to be much more generous than was the case last September, owing in part to Labor Day falling earlier in the month this year than last. This helps account for our above-consensus forecast of total retail sales though, obviously, if we've misjudged the seasonal factors our forecast will be too high. Either way, our forecast would have had an even larger increase in total retail sales had it not been for the sharp decline in retail gasoline prices during September. We expect this decline will be magnified in the seasonally adjusted data as gasoline is the sole category in which we look for the September seasonal factor to be punitive. The drag we expect from gasoline station sales knocked two-tenths of a point off our forecast of the increase in total retail sales. An increase in unit sales and firmer pricing for both new and used vehicles should, particularly in tandem with favorable seasonal adjustment, mean motor vehicle sales are a strong support for top-line retail sales. Firmer pricing, at least to the extent the September CPI data are any guide, will also be a support for apparel store and furniture store sales, though more broadly pricing should be more neutral. While our forecast anticipates a moderate increase in sales by nonstore retailers, a category dominated by online sales, we have little conviction in that forecast, as the Census data for this category are often hard to interpret, at least for us. Between what have become wider-scale and more ambitious online promotions during July and October, online sales tend to sag in August and September, but we expect seasonal adjustment will prop up September sales. Given that online sales account for just under thirty percent of control retail sales, if our forecast of sales by nonstore retailers is off the mark, in either direction, our forecast of control retail sales will also go astray.
September Retail Sales: Ex-Auto Thursday, 10/17 Range: -0.2 to 0.8 percent Median: 0.1 percent	Aug = +0.1%	Up by 0.5 percent.
September Retail Sales: Control Group Thursday, 10/17 Range: 0.2 to 0.6 percent Median: 0.4 percent	Aug = +0.3%	Up by 0.6 percent. Though somewhat at the mercy of online sales, as noted above, our forecast would nonetheless leave inflation-adjusted control retail sales up by 4.3 percent year-on-year. This would mark a fifth straight month with an over-the-year increase of over four percent, and leaves growth in real control sales above the trend rate in place prior to the onset of the pandemic.
August Business Inventories Thursday, 10/17 Range: 0.2 to 0.3 percent Median: 0.3 percent	Aug = +0.4%	We look for total business inventories to be up by 0.3 percent and for total business sales to be down by 0.2 percent.

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September Industrial Production Range: -0.5 to 0.4 percent Median: -0.1 percent	Thursday, 10/17	Aug = +0.8%	Down by 0.3 percent. Our forecast anticipates declines in each of the three main components – manufacturing, mining, and utilities – the first two of which logged substantial increases in August. We look for a larger than typical September decline in motor vehicle assemblies to weigh on manufacturing output but see few potential offsets to lower vehicle output. Neither do we see much upside for the manufacturing sector until there is more clarity on the course of fiscal, regulatory, and trade policy and the path of interest rates, which pretty much rules out the rest of 2024.
September Capacity Utilization Rate Range: 77.3 to 78.3 percent Median: 77.8 percent	Thursday, 10/17	Aug = 78.0%	Down to 77.7 percent.
September Building Permits Range: 1.425 to 1.494 million units Median: 1.450 million units SAAR	Friday, 10/18	Aug = 1.470 million units SAAR	Up to an annual rate of 1.489 million units. On a not seasonally adjusted basis, we look for total permits of 122,200 units, down 7.4 percent from August with declines in both single family and multi-family permits. September declines, however, are the norm, not the exception as, aside from nothing-was-normal 2020, you'd have to go back to 1997 to find the last September increase in not seasonally adjusted single family permits. With this track record, the seasonal factors are geared for September declines, which will help the headline number, but our focus is squarely on the unadjusted data. There was little impetus for an increase in single family permits in September; though mortgage interest rates fell during the month, elevated spec inventories of new homes for sale and a sizable backlog of single family units permitted but not yet started will have weighed on new permit issuance. That mortgage interest rates have backed up considerably from September's lows will likely weigh on single family permit issuance, at least until builders get a better handle on spec inventories. While we do see signs that a bottom has formed in multi-family permits, still sizable backlogs of units permitted but not yet started and units under construction would seem to work against a vigorous and sustained rebound in the near term, though one can never rule out one-off spikes in the always volatile multi-family segment. If we're correct on these points, total permit issuance – not seasonally adjusted – could be somewhat rangebound in the months ahead.
September Housing Starts Range: 1.290 to 1.460 million units Median: 1.350 million units SAAR	Friday, 10/18	Aug = 1.356 million units SAAR	Up modestly, to an annual rate of 1.358 million units. On a not seasonally adjusted basis, we look for total starts of 116,500 units, down 2.7 percent from August with a decline in single family starts offsetting a modest advance in multi-family starts. As with permits, September declines in single family permits are more the rule than the exception, and the decline our forecast anticipates is in line with the "typical" decline seen in September. Though there were bumps in prospective buyer traffic during the month as mortgage interest rates fell, those bumps were somewhat modest, as lower mortgage rates provided limited relief on the affordability front given still-high new home prices. Moreover, many builders would have been able to accommodate a modest pick-up in traffic with spec inventories of units either completed or already under construction, which would have blunted any increase in single family starts. With mortgage interest rates having risen off their September lows, any increases in single family starts are likely to be somewhat modest until builders have a better handle on spec inventories, which could take longer unless mortgage interest rates reverse course yet again. Much like multi-family permits, we see signs of a bottom forming in multi-family starts, and the modest increase we expect in the September data reflects starts in the Northeast region bouncing off an oddly low August total. Though there has been much progress in paring down the backlog of multi-family units under construction, there is still far to go before that would trigger a sustained wave of new activity, but this is yet another thing to watch for in the September data. Given that it came late in the month, it isn't clear how much impact Hurricane Helene will have had on the September data. We'd expect more of impact on the October data, which will be compounded by the effects of Hurricane Milton. With the South region accounting for over one-half of total housing permits and starts, anything that impacts that region will have an outsized impact on the national data. We saw that with Hurricane Beryl, which in July triggered the largest monthly decline in single family housing starts in the South region since the depths of the 2007-09 recession.