ECONOMIC PREVIEW

REGIONS

Week of July 15, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 30-31 FOMC meeting):* Target Range Midpoint: 2.125 to 2.125 percent Median Target Range Midpoint: 2.125 percent	Range: 2.25% to 2.50% Midpoint: 2.375%	So, July it is, apparently. In last week's Congressional testimony, Fed Chairman Powell sent a strong signal that the FOMC would cut the Fed funds rate at this month's meeting. Chairman Powell totally downplayed some more upbeat economic data of late, particularly the June employment report, and instead focused on the downside risks to the outlook and uncertainty over trade policy, while basically disowning the "low inflation is transitory" argument he had previously employed. Chairman Powell's language is consistent with the notion of an "insurance" cut but, as we discuss in detail in our current *Monthly Economic Outlook*, as insurance goes, a 25-basis point (or even a 50-basis point cut for that matter, as unlikely as that may be) cut in the funds rate this month isn't all that reassuring. After all, a rate cut does nothing to clear up the uncertainty surrounding trade policy, nor does it at all mitigate the downside risks to the economy posed by a worst-case outcome of ongoing, and perhaps future, trade disputes. The premise on which a 25-basis point funds rate cut this month (and perhaps another in September) can best be justified is that a Fed funds rate cut would more closely align the FOMC with where market interest rates are and where foreign central banks are (or will soon be going), the two of course not being unrelated. Still, while Chairman Powell is messaging "insurance," the markets seem to hearing "extended easing cycle" which, at least as we understand it, are not the same. So, even as they deliver what the markets are insisting on, i.e., a July rate cut, the FOMC is setting the stage for a disconnect, a potentially significant disconnect, at some point down the road. It would take way more than uncertainty to get the FOMC where the markets are, it would take significantly worse economic conditions, and that is one road nobody wants to go down.
June Retail Sales: Total Tuesday, 7/16 Range: -0.1 to 0.5 percent Median: 0.2 percent	May = +0.5%	Up by 0.2 percent. We usually start out our comments on retail sales by stressing the importance of the revisions to the prior month's data. But, since Census released their annual revisions to the historical retail sales data after publishing the initial estimate of May retail sales, we'll have to find something other than revisions to open with. You see what we did there, right? In any event, motor vehicles and gasoline should be drags on top-line retail sales for June, but the rest of the data should be decent. Our forecast would leave annualized Q2 growth of total retail sales at just over 7.0 percent, the best showing since Q4 2017. Still-solid labor market conditions are supporting personal income growth and helping sustain consumer confidence, giving consumers the wherewithal and the will to continue doing what they do best, i.e., spend.
June Retail Sales: Ex-Auto Tuesday, 7/16 Range: -0.1 to 0.5 percent Median: 0.1 percent	May = +0.5%	Up by 0.3 percent.
June Retail Sales: Control Group Tuesday, 7/16 Range: -0.2 to 0.5 percent Median: 0.3 percent	May = +0.4%	Up by 0.4 percent. Our forecast would put annualized Q2 growth in control retail sales at 5.8 percent which, as with total retail sales, would be the fastest quarterly growth since Q4 2017. This lays the groundwork for Q2 growth in total consumer spending as reported in the GDP data to be significantly stronger than was the case in Q1. While that may get lost in what will be, thanks to material drags from inventories and net exports, a middling Q2 real GDP growth print, it should at least help calm any fears that U.S. consumers are pulling in the reins.
June Industrial Production Tuesday, 7/16 Range: -0.1 to 0.4 percent Median: 0.2 percent	May = +0.4%	Up by 0.3 percent. Higher motor vehicle assemblies in June should be a modest support for total industrial production, but the combination of rising inventories and slowing sales suggests vehicle production could come under pressure over the back half of 2019. Elsewhere in manufacturing, we expect a soft print on nondurable goods output to offset what should be a nice gain in durable goods output, thus tempering growth in overall manufacturing output. Our forecast anticipates mining will be a modest support for growth in total industrial production.
June Capacity Utilization Rate Tuesday, 7/16 Range: 77.9 to 78.3 percent Median: 78.1 percent	May = 78.1%	Up to 78.2 percent.
May Business Inventories Tuesday, 7/16 Range: 0.3 to 0.4 percent Median: 0.4 percent	Apr = +0.5%	We look for total business inventories to be up by 0.3 percent and for total business sales to be unchanged.

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Indicator/Action Economics Survey:	Last Actual:	Regions' View:
June Housing Permits Wednesday, 7/17 Range: 1.200 to 1.325 million units Median: 1.300 million units SAAR	May = 1.299 million units SAAR	Up to an annualized rate of 1.313 million units. On a not seasonally adjusted basis, we look for 125,100 total housing permits to have been issued in June. Our forecast may prove a bit ambitious, as it anticipates at least some payback in the Midwest region from activity having been held down by severe flooding in the prior two months. If our forecast of 84,000 single family permits is on or near the mark, it would bring the first year-on-year increase in single family permits since last October, and would also end a streak of seven consecutive monthly declines in the running 12-month sum of not seasonally adjusted single family permits. This is significant as it would show the single family segment of the housing market is responding to lower mortgage interest rates, though that is not always readily apparent in the "headline" (i.e., seasonally adjusted and annualized) numbers. Our forecast anticipates a modest decline in multi-family permits that would nonetheless leave them at an elevated level, though the ratio of multi-family starts to multi-family permits remains somewhat low.
June Housing Starts Wednesday, 7/17 Range: 1.230 to 1.291 million units Median: 1.260 million units SAAR	May = 1.269 million units SAAR	Up to an annualized rate of 1.291 million units. On a not seasonally adjusted basis, we look for total housing starts of 121,300 units but, as with our permits forecast, this may be a bit ambitious as it assumes some catching up in the Midwest region. Either way, we also look for a strong showing for single family starts in the South region. Of much more relevance is that anecdotal reports suggest builders' order books were notably strong in June, which of course does not necessarily mean that will translate into the Census Bureau's data on June housing starts, though over time the two will be more closely aligned. The bruising that single family starts took from November through January continues to weigh on the trending data, such as the running 12-month moving sum of not seasonally adjusted starts that we see as the most reliable gauge of underlying trends. That said, single family starts have rebounded smartly since January and we see further room to the upside. To be sure, growth will by no means be robust, but the reality is that there is no time over the course of the current expansion where you could have characterized the single family segment of the housing market as "robust." In the multi-family space, watch the data on completions, given what for some time has been a significant backlog of multi-family units under construction. At some point, this backlog will begin to clear, which in some markets could put significant pressure on rents.
June Leading Economic Index Thursday, 7/18 Range: -0.1 to 0.2 percent Median: 0.1 percent	May = 0.0%	Unchanged.

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