ECONOMIC PREVIEW

REGIONS

Week of August 12, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 17-18 FOMC meeting):* Target Range Midpoint: 1.875 to 2.125 percent Median Target Range Midpoint: 1.875 percent	Range: 2.00% to 2.25% Midpoint: 2.125%	This week's fairly full schedule of economic reports is likely to affirm, not alter, the broader trends seen over the past few months. Consumers continue to do the heavy lifting for the U.S. economy, manufacturing remains in the doldrums, the housing market is still looking to steady itself after being wrong-footed by an affordability shock in late-2018, and inflation pressures remain muted. Still, while this week's slate of releases may not tell us anything new about the U.S. economy, it will, at least for us, provide a welcome diversion from the dizzying volatility in the financial markets.
July Consumer Price Index Tuesday, 8/13 Range: 0.1 to 0.4 percent Median: 0.3 percent	Jun = +0.1%	Up by 0.3 percent, for a year-on-year increase of 1.7 percent. After being a drag in May and June, gasoline will be a support for the CPI in July, adding one-tenth of a point to the change in the total index. Our forecast anticipates trend-like increases in medical care costs and shelter costs. Since the BLS introduced methodological changes, apparel prices and prices for used motor vehicles have been more or less random noise, albeit random noise with the capacity to move the core CPI. So, while we had to plug numbers for these components into our forecast, that doesn't mean we have any confidence in the numbers we plugged in and, trust us, we have none. Be that as it may, while headline CPI inflation is pushing closer to and core CPI inflation is just at the "magic" 2.0 percent threshold, keep in mind that the PCE Deflator is the FOMC's preferred gauge of inflation. Historically, core CPI inflation runs 30-40 basis points ahead of core PCE inflation, so it will be a while before core PCE inflation crosses that 2.0 percent threshold, and longer still before the FOMC actually becomes concerned about it doing so.
July Consumer Price Index: Core Tuesday, 8/13 Range: 0.1 to 0.3 percent Median: 0.2 percent	Jun = +0.3%	Up by 0.1 percent, for a year-on-year increase of 2.0 percent.
July Retail Sales: Total Thursday, 8/15 Range: 0.0 to 0.4 percent Median: 0.3 percent	Jun = +0.4%	Up by 0.4 percent. Oddly enough, our forecast would mark a fourth straight month with a 0.4 percent increase in top-line sales. Such a streak would be drastically at odds with the maddening volatility that has long characterized the retail sales data, which in and of itself tells us we should change our forecast. In any event, price effects mean gasoline will be a support for top-line sales, and our forecast anticipates broad based, but modest, gains across the major categories. Despite a record Amazon Prime day, don't expect to see much of an impact in the report on July retail sales, particularly in the initial estimate. In a quirk of the retail sales data, since Amazon Prime day began, 2015 is the only year in which the reported July increase in online sales was larger than the June increase. But, when all is said, done, and revised, we expect the increase in July control retail sales will be larger than the 0.4 percent increase (what, again with the 0.4 percent?) we anticipate in the initial estimate.
July Retail Sales: Ex-Auto Thursday, 8/15 Range: 0.3 to 0.6 percent Median: 0.5 percent	Jun = +0.4%	Up by 0.5 percent.
July Retail Sales: Control Group Thursday, 8/15 Range: 0.1 to 0.5 percent Median: 0.4 percent	Jun = +0.7%	Up by 0.4 percent. We believe the trend rate of growth in real consumer spending to be faster than the 1.1 percent pace reported in the Q1 GDP data but slower than the 4.3 percent pace reported in the Q2 GDP data, and our forecast would start Q3 growth off squarely in between the two. As long as the labor market remains solid and consumer confidence remains elevated, consumers will be the driving force behind real GDP growth. Though tariffs loom as a downside risk, even assuming tariffs on imports of consumer goods from China go into effect next month, it remains to be seen how much of the tariffs will actually be passed along to consumers in the form of higher prices. We suspect the answer with 25% tariffs, if it comes to that, would be very different than the answer with 10% tariffs, the likely starting point, but at this point we're all just guessing about pretty much all of this.
Q2 Nonfarm Productivity Thursday, 8/15 Range: 1.0 to 2.4 percent Median: 1.5 percent SAAR	Q1 = +3.4% SAAR	Up at an annualized rate of 1.3 percent. Real nonfarm business output grew at an annual rate of 1.9 percent in Q2, and data from the monthly employment reports show the smallest increase in aggregate hours worked since Q2 2012 while hours worked by the self-employed were virtually flat in Q2. This will yield productivity growth that, while slower than Q1 growth, would nonetheless keep the gradual increase in the trend rate of productivity growth seen over the past several quarters intact. But, the improving trend rate of productivity growth won't be sustained for long unless business investment bounces back from the weakness seen over the first half of 2019.

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Q2 Unit Labor Costs Thursday, 8/15 Range: 0.7 to 2.8 percent Median: 1.9 percent SAAR	Q1 = -1.6% SAAR	Up at an annualized rate of 1.6 percent. The improving trend rate of productivity growth combined with what, at least in the context of a sub-4.0 percent jobless rate, remains fairly tame growth in hourly earnings means that growth in unit labor costs remains subdued. Our forecast would put the eight-quarter moving average of growth in unit labor costs at just 0.9 percent.
July Industrial Production Thursday, 8/15 Range: -0.2 to 0.4 percent Median: 0.1 percent	Jun = 0.0%	Up by 0.1 percent. The July employment report shows a sizable decline in aggregate hours worked in manufacturing, which points to sharply lower manufacturing output in the industrial production data – our forecast anticipates a 0.4 percent decline. This will act as a drag on total industrial production, largely offsetting what our forecast anticipates will be a better than 4.0 percent increase in utilities output thanks to notably high temperatures across much of the U.S.
July Capacity Utilization Rate Thursday, 8/15 Range: 77.5 to 78.4 percent Median: 77.8 percent	Jun = 77.9%	Down to 77.8 percent.
June Business Inventories Thursday, 8/15 Range: 0.0 to 0.3 percent Median: 0.1 percent	May = +0.3%	We look for total business inventories to be unchanged and for total business sales to be down by 0.1 percent.
July Building Permits Friday, 8/16 Range: 1.218 to 1.306 million units Median: 1.270 million units SAAR	Jun = 1.232 million units SAAR	Up to an annualized rate of 1.306 million units. The not seasonally adjusted data on single family housing permits have been a bit out of sorts over the past few months. Activity in April and May was stronger than normal for those months, which led to payback in the June data, thus making it tricky to forecast the July data. On a not seasonally adjusted basis, we look for 114,900 total permits to have been issued in July, up from 111,000 in June, with single family permits stronger than normal for the month of July and multi-family permits only slightly higher. Our forecast would leave the running 12-month total of not seasonally adjusted permits at 1.290 million units, with a modest increase in the running 12-month total of single family permits arresting the slide that began in late-2018. We continue to look for single family permits to push higher over coming months while multi-family permits drift lower.
July Housing Starts Friday, 8/16 Range: 1.177 to 1.300 million units Median: 1.260 million units SAAR	Jun = 1.253 million units SAAR	Up to an annualized rate of 1.257 million units. On a not seasonally adjusted basis, we look for total starts of 118,500 units, up from 117,500 total starts in June. The monthly data on single family housing starts have underperformed reports from builders, so it figures that at some point the former will catch up with the latter. Our forecast of unadjusted single family starts would be a step in that direction, as our forecast anticipates stronger single family starts than is typical for the month of July. As long as labor market conditions hold up, consumer confidence remains elevated, and mortgage interest rates remain low, we have few concerns over the demand side of the housing market. At the same time, however, the factors that have for some time constrained supply – labor supply and shortages of buildable lots which in many markets reflect regulatory burdens – have not eased, capping any upside potential for single family starts and sales. Our forecast would leave the running 12-month total of not seasonally adjusted housing starts at 1.233 million units.

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