ECONOMIC PREVIEW

REGIONS

Week of April 13, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the April 28-29 FOMC meeting):* Target Range Mid-point: 0.000 to 0.125 percent Median Target Range Mid-point: 0.125 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	Over the past few weeks, we've made frequent references to timing issues around the economic data for the month of March. Specifically, how much of the abrupt shutdown of a wide swath of the U.S. economy that took place over the back half of the month will actually be captured in the March data. The answer in most of the data we've seen thus far is "not a lot," the glaring exception being the weekly data on initial claims for Unemployment Insurance. There is, however, another issue to be mindful of, which will become increasingly apparent in the weeks ahead. With so many establishments having shut down, collection rates will be abnormally low, leaving potentially large gaps in the survey data that will have to be filled in, thus raising questions about the quality of the data, and potentially exaggerating what already figured to be an unusually high degree of volatility in the month-to-month changes. This was an issue in the March CPI data and the March employment report, and will be an issue in the report on March retail sales. This will be an even bigger issue across a wider range of reports for the month of April. This only adds emphasis to the daily/weekly indicators we and others are tracking more and more closely.
March Retail Sales: Total Wednesday, 4/15 Range: -24.0 to 0.0 percent Median: -8.0 percent	Feb = -0.5%	Down by 9.1 percent. As if the inherent unreliability of the initial estimate of retail sales in any given month isn't enough, the issues regarding the timing and collection of the data noted above add yet more uncertainty into the forecast of March retail sales, as is reflected in the strikingly wide range of estimates. Here is what we know happened during March: after starting out the month strongly, motor vehicle sales collapsed over the back half of the month (the data on motor vehicle sales capture sales over the entire month); retail gasoline prices fell sharply, and this decline was greatly amplified by seasonal adjustment; by the end of the month, much of the physical retail landscape had gone dark; those restaurants which did remain open did so only for take-out/delivery orders, as dine-in service was shut down; shoppers rushed to grocery stores, discount stores, and warehouse/club stores to stock up on, let's say, "essentials," to a degree suggesting they feared being shut out of these stores for a long, long, long time; online sales were much stronger than normal. Each of these factors is reflected in our forecast, which helps account for the relatively modest decline in control retail sales our forecast anticipates (see below). Whether, or to what degree, these effects are captured in the March retail sales data is an open question, but the bigger issue here may be data collection. With so many stores having been shut down, those whose doors remained open will be given a higher weighting in the Census data. That, coupled with how inept the retail sales data are at capturing online sales, could mean measured retail sales will underperform our forecast. Perhaps the main point to keep in mind, however, is that the retail sales data do not capture spending on services, which accounts for roughly two-thirds of consumer spending as measured in the GDP data. Spending on services had largely dried up by the end of March, but it will not be until April 30, when the BEA releases their comprehensive data on total consumer spending, that we have a more complete view of the drop-off in consumer spending in March.
March Retail Sales: Ex-Auto Wednesday, 4/15 Range: -22.6 to 1.0 percent Median: -5.0 percent	Feb = -0.4%	Down by 4.7 percent.
March Retail Sales: Control Group Wednesday, 4/15 Range: -7.3 to 3.1 percent Median: -2.0 percent	Feb = -0.2%	Down by 0.6 percent.
March Industrial Production Wednesday, 4/15 Range: -5.9 to -1.7 percent Median: -4.0 percent	Feb = +0.6%	Down by 3.8 percent. Our forecast could be too aggressive given that it wasn't until the back half of the month that factory activity began shutting down on a widespread basis. But, even if this is the case, that will just set up an even larger decline in the April data.
March Capacity Utilization Rate Wednesday, 4/15 Range: 72.0 to 75.5 percent Median: 74.3 percent	Feb = 77.0%	Down to 75.1 percent.
February Business Inventories Wednesday, 4/15 Range: -0.5 to 0.0 percent Median: -0.4 percent	Jan = -0.1%	We look for total business inventories to be down by 0.4 percent and for total business sales to be down by 0.5 percent.

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March Building Permits Range: 0.950 to 1.477 million units Median: 1.300 million units SAAR	Thursday, 4/16	Feb = 1.452 million units SAAR	Down to an annualized rate of 1.229 million units. Even aside from issues stemming from the coronavirus, we had low expectations for residential construction activity in March. Recall that atypically warm weather pulled a considerable volume of activity forward into January and February, setting up payback in the March data. Any such payback would be amplified in the seasonally adjusted data. In any given year, March sees the largest monthly percentage increases in unadjusted permits and starts, and the seasonal adjustment factors are set accordingly. If, however, the raw data for March are weaker than is typical, seasonal adjustment makes that weakness even more pronounced. That was our starting point in our forecasts of March permits and starts, on top of which came the effects stemming from the coronavirus, such as supply chain disruptions, construction having been shut down in some areas, and a dramatic weakening in overall economic activity. All of these factors acted to hold down residential construction activity in March, particularly over the back half of the month. On a not seasonally adjusted basis, our forecast anticipates total permit issuance of 103,700 units. There is upside risk to this forecast, as permit issuance may have held up longer than what we've incorporated into our forecast, at least until the extent to which economic activity was being shut down and how long that might persist became more clear.
March Housing Starts Range: 1.200 to 1.434 million units Median: 1.320 million units SAAR	Thursday, 4/16	Feb = 1.599 million units SAAR	Down to an annualized rate of 1.262 million units. On a not seasonally adjusted basis, our forecast anticipates total starts of 103,000 units. Starts will be subject to the timing issue discussed above, i.e., how much of any drop-off in starts that may have occurred over the second half of March will be captured in the Census data. The "payback" effects for activity having been pulled forward into January and February will be more pronounced for housing starts than for housing permits, though builders continuing to work through single family order backlogs will in the near term help mitigate any decline in single family starts. It is worth noting that, while construction activity is still allowed across most of the U.S., the demand side of the housing market is being significantly impaired by the fallout from the coronavirus. As such, we expect the April data will show significantly weaker residential construction activity.
March Leading Economic Index Range: -10.0 to -4.0 percent Median: -7.0 percent	Friday, 4/17	Feb = +0.2%	Down by 7.6 percent.

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