ECONOMIC PREVIEW

REGIONS

Week of August 10, 2020

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 15-16 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%	The July employment report was better than expected, and certainly better than feared, at least on the surface. Measured job growth was flattered by seasonal adjustment and, as such, overstated the strength of job growth, and our sense is that the PPP continues to prop up measured job growth. While we do think the labor market is healing, it is nonetheless far from being healthy, and further improvement is likely to come at a highly uneven pace in the months ahead.
July PPI: Final Demand Range: 0.1 to 0.5 percent Median: 0.3 percent	Tuesday, 8/11	Jun = -0.2%	Up by 0.3 percent, which would leave the headline index down 0.7 percent year-on-year.
July PPI: Core Range: 0.0 to 0.3 percent Median: 0.1 percent	Tuesday, 8/11	Jun = -0.3%	Up by 0.1 percent, which would leave the core PPI unchanged on an over-the-year basis.
July Consumer Price Index Range: 0.2 to 0.4 percent Median: 0.3 percent	Wednesday, 8/12	Jun = +0.6%	Up by 0.4 percent, good for an over-the-year increase of 0.8 percent, with higher gasoline prices accounting for roughly half of the monthly increase in the total CPI. Our forecast anticipates a smaller increase in food prices than in June, with restaurant prices flattening out after a hefty increase in June, but our forecast would nonetheless leave food prices up 4.9 percent year-on-year, the largest such increase in over a decade. One downside risk to our forecast is used vehicle prices – the CPI series on used vehicle prices has, at least through the June data, failed to pick up on the stiff price increases reported in other measures. In what perhaps is a triumph of hope over experience, our forecast for the July CPI incorporates a sizable increase in used vehicle prices, but if this does not materialize, the changes in the headline and the core CPI could be one-tenth of a point less than our forecasts. Rents will also bear watching in the July data; after having been a primary support for core inflation over the past several years, rent growth has slowed sharply, to the point that June saw the smallest monthly increase in market rents since October 2010. Between a significant degree of labor market slack and a sizable backlog of under construction multi-family units which will eventually hit the market, a meaningful and sustained re-acceleration in rent growth seems far off. Finally, core goods prices posted their largest monthly increase in almost a year in June, and with consumer spending on goods back above pre-pandemic levels and a weaker U.S. dollar providing a lift for import prices, core goods prices could continue to push higher in the months ahead.
July Consumer Price Index: Core Range: 0.1 to 0.3 percent Median: 0.2 percent	Wednesday, 8/12	Jun = +0.2%	Up by 0.2 percent, which would translate into a year-on-year increase of 1.1 percent.
July Retail Sales: Total Range: 0.0 to 4.5 percent Median: 1.9 percent	Friday, 8/14	Jun = +7.5%	Up by 2.8 percent. In all honesty, we're not quite sure what to expect from the report on July retail sales. Between strong motor vehicle sales and a large jump in gasoline prices, an increase in total retail sales seems pretty much a given but, beyond that, we have more questions than answers. For instance, after significant increases in May and June, was there room for further, albeit far more modest, increases in July? While our forecast assumes this to have been the case, we're also mindful of the spending trackers that show sending flattened out then began to tail off as July wore on. Restaurant sales will be interesting to watch, with the upturn in COVID-19 cases and many state and local governments having imposed new restrictions on them, July was likely a tough month for restaurants/bars. Our forecast anticipates sales for the month being pretty much flat from June's level, though the risk seems to be to the downside. We look for a larger add from motor vehicle sales than most other analysts. On top of another solid increase in unit sales, pricing will be a help, particularly with sales of used vehicles – retail sales measure sales receipts, so higher used car prices are embedded into the retail sales data even if they can't make their way into the CPI data. Even without the support of a delayed Amazon Prime Day, online sales should rebound in July after having declined in June, which could have simply reflected consumers taking advantage of reopening measures to go to stores, so it could be that the mix between online and in-store sales is more heavily weighted toward the former than our forecast anticipates. Finally, in a "normal" year, back to school spending is spread across July and August, but right now it's not clear what "back to school" even means. That could mean any related spending gets pushed to August, and also that we see changes in the composition of back to school spending – such as more on furniture and electronics, and less on clothing and accessories – than in the level of spending.

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Indicator/Action Economics Survey:		Last Actual:	Regions' View:
July Retail Sales: Ex-Auto Range: 0.1 to 3.5 percent Median: 1.3 percent	Friday, 8/14	Jun = +7.3%	Up by 1.3 percent.
July Retail Sales: Control Group Range: -1.5 to 2.5 percent Median: 0.8 percent	Friday, 8/14	Jun = +5.6%	Up by 1.1 percent.
Q2 Nonfarm Labor Productivity Range: -17.0 to 8.0 percent Median: 0.2 percent SAAR	Friday, 8/14	Q1 = -0.9% SAAR	Up at an annualized rate of 6.6 percent. The Q2 data on productivity and unit labor costs may go down amongst the most meaningless numbers ever recorded. We know from the GDP data that real output in the nonfarm business sector declined at an annualized rate of 38.9 percent in Q2. At the same time, aggregate hours worked by private sector workers on nonfarm payrolls fell at a 41.4 percent rate and aggregate hours worked by the self-employed fell at a 52.1 percent rate. The math suggests a jump, however meaningless, in measured labor productivity.
Q2 Unit Labor Costs Range: -6.0 to 21.0 percent Median: 5.6 percent SAAR	Friday, 8/14	Q1 = +5.1% SAAR	Up at an annualized rate of 8.8 percent. With the decline in aggregate hours much larger than the decline in labor compensation (as measured in the NIPA data), unit labor costs should jump despite the increase in measured productivity growth. Again, though, neither number has any real meaning in the context of a tumultuous Q2.
July Industrial Production Range: 1.2 to 4.3 percent Median: 3.0 percent	Friday, 8/14	Jun = +5.4%	Up by 2.7 percent. Motor vehicle production posted another significant increase in July, which will contribute to a hefty increase in manufacturing output, a gain which will likely be bolstered by seasonal adjustment. The key, then, will be ex-auto manufacturing output, which rebounded smartly in May and June. The July payroll employment data, however, suggest a stronger increase in output of nondurable goods than in ex-auto durable goods. Though having been a support for manufacturing output over the past two months, motor vehicle production could act more as a pothole in the road ahead. Though retail motor vehicle sales have held up better than expected, there is cause to question how much further upside there is, at least in the absence of much more meaningful improvement in labor market conditions than has taken place to date. While it is true that what not too long ago were somewhat bloated retail motor vehicle inventories have been pared down considerably, rebuilding them will only go so far. While it is too soon to make a definitive call, it is at least worth noting the possibility of a downturn in motor vehicle production during the fall, which in turn would act as a meaningful drag on overall industrial production. Aside from the manufacturing sector, utilities output should be up big thanks to higher than normal July temperatures across much of the nation, and our forecast anticipates another decline in mining output.
July Capacity Utilization Rate Range: 62.2 to 72.0 percent Median: 70.4 percent	Friday, 8/14	Jun = 68.6%	Up to 70.5 percent.
June Business Inventories Range: -1.3 to 0.4 percent Median: -1.2 percent	Friday, 8/14	Jun = -2.3%	We look for total business inventories to be down by 1.1 percent, and for total business sales to be up by 8.3 percent.

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