

ECONOMIC PREVIEW



REGIONS

Week of September 27, 2021

Indicator/Action

Economics Survey:

Last

Actual:

Regions' View:

Fed Funds Rate: Target Range Midpoint <i>(After the November 2-3 FOMC meeting):</i> 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%	Though it is a couple more weeks before corporate earnings season really ramps up, the trickle of early releases seen to date lays out what we think will be common themes for upcoming releases. Those themes would be rising input costs, shipping delays and surcharges, an ability to hire desired numbers of workers, and sharply higher labor costs, to the point that, even as demand holds up and firms are pushing further price increases, margins are being pressured. The early releases cover a wide swath of the economy, from producers of consumer foods, manufacturers of consumer goods, restaurants, retailers, and shipping companies, which is consistent with the notion that widespread supply chain, logistics, and labor supply issues are feeding broader inflation pressures. We and others have been talking about these issues for quite some time now, and while it is popular in some quarters to dismiss concerns over inflation on the grounds that inflation pressures are transitory, we've yet to see any signs that supply side constraints are set to ease any time soon. Friday's release of the September ISM Manufacturing Index (see Page 2) will offer an additional data point, but the upcoming corporate earnings season will offer more tangible signs of how firms are being impacted by supply side constraints and how they are dealing with them. Commentary on how long firms expect these issues to persist will help us, and others, gauge just how long transitory may turn out to be.
August Durable Goods Orders Range: -3.5 to 1.8 percent Median: 0.7 percent	Monday, 9/27 Jul = -0.1%	Up by 0.8 percent. Transportation orders should be a modest support for top-line orders, with Boeing posting an increase in net orders. Though our forecast assumes another increase in motor vehicle orders, we don't have a high degree of confidence in that call given further cuts in production schedules amid the lingering shortage of semiconductor chips. As always, the main metric to watch is core capital goods orders (see below), which we expect to bounce back after having been flat in July. As core capital goods orders are a leading indicator of business investment in equipment and machinery as reported in the GDP data, a second straight month of soft orders would raise the question of whether what has been a nice run of strong growth in business investment is winding down.
August Durable Goods Orders: Ex-Trnsp. Range: -0.6 to 1.2 percent Median: 0.5 percent	Monday, 9/27 Jul = +0.8%	We look for <u>ex-transportation</u> orders to be <u>up</u> by 0.6 percent and <u>core capital goods</u> orders (or, orders for nondefense capital goods excluding aircraft & parts) to be <u>up</u> by 0.8 percent.
August Advance Trade Balance: Goods Range: -\$92.0 to -\$84.0 billion Median: -\$87.3 billion	Tuesday, 9/28 Jul = -\$86.4 billion	<u>Widening</u> to -\$89.7 billion.
September Consumer Confidence Range: 108.0 to 118.8 Median: 115.0	Tuesday, 9/28 Aug = 113.8	<u>Up</u> to 115.8, making up only a minor share of August's sharp decline. Though COVID case counts have remained elevated and gasoline prices have pushed higher, the Conference Board's survey is more weighted toward labor market conditions, which consumers continue to assess quite favorably. We think the net result will be a modest increase in the headline index.
Q2 Real GDP (3rd estimate) Range: 6.5 to 7.0 percent Median: 6.7 percent SAAR	Wednesday, 9/29 Q2 (2 nd est.) = +6.6% SAAR	<u>Up</u> at an annualized rate of 6.6 percent.
Q2 GDP Price Index (3rd estimate) Range: 6.1 to 6.2 percent Median: 6.1 percent SAAR	Wednesday, 9/29 Q2 (2 nd est.) = +6.1% SAAR	<u>Up</u> at an annualized rate of 6.1 percent.
August Personal Income Range: -1.0 to 0.6 percent Median: 0.2 percent	Friday, 10/1 Jul = +1.1%	<u>Down</u> by 0.2 percent. Our forecast anticipates transfer payments being a drag on total personal income. While around \$36 billion (annualized) worth of Economic Impact Payments were distributed in August, this is down from \$46 billion in July, and along with a larger decline in total unemployment insurance payouts than that seen in July, this will drag total transfer payments down. Our forecast also looks for a decline in nonfarm proprietors' income, thanks in part to a larger deduction related to accounting for the PPP while a pullback in some forms of services spending will have weighed on small business profits. Though we look for further growth in private sector wage and salary earnings, August's increase should be smaller than those booked in the prior five months given the dramatic slowdown in job growth.

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August Personal Spending Range: 0.1 to 1.0 percent Median: 0.6 percent	Friday, 10/1	Jul = +0.3%	<u>Up</u> by 0.3 percent. The August retail sales report, particularly the 2.5 percent increase in control retail sales, points to an increase in consumer spending on goods. While friendly seasonal adjustment made the August retail sales data look much better than was actually the case, it is the estimate of seasonally adjusted control retail sales that flows directly into the BEA's estimate of consumer spending on goods and, whether we buy that or not, our forecast must account for it. Still, the better than ten percent decline in unit sales of new motor vehicles will trigger a sharp decline in spending on consumer durable goods, though higher prices will cushion the impact on total sales revenue. Our forecast anticipates a meaningful deceleration in growth in consumer spending on services, particularly areas such as travel, tourism, dining out, recreation, and entertainment, due to soaring COVID-19 case counts. While higher utilities outlays will provide some support, we nonetheless expect the increase in services spending in August to be less than half the average monthly increase seen over the prior five months. While our forecast for August personal spending is well below the consensus forecast, the consensus forecast would still leave real consumer spending on course for annualized growth of less than 1.0 percent for Q3 after annualized growth of better than 11 percent in each of the first two quarters of 2021.
August PCE Deflator Range: 0.2 to 0.4 percent Median: 0.3 percent	Friday, 10/1	Jul = +0.4%	<u>Up</u> by 0.3 percent, which would yield a year-on-year increase of 4.2 percent. We look for the <u>core PCE Deflator</u> to be <u>up</u> by 0.2 percent, good for an over-the-year increase of 3.5 percent.
September ISM Manufacturing Index Range: 55.5 to 64.5 percent Median: 59.5 percent	Friday, 10/1	Aug = 59.9%	<u>Up</u> to 60.6 percent. Though we look for modest declines in the indexes of production and new orders, we look for the indexes of inventories and employment to post modest advances. If we're correct, the net result would be pretty much of a wash, but we expect a further slowdown in supplier delivery times as storm-related disruptions added to ongoing supply chain and logistics bottlenecks. Keep in mind that slower delivery times add to, as opposed to deducting from, the ISM's headline index. Though it does not factor into the calculation of the headline index, we expect the index of order backlogs to have risen further in September and will look for any signs that input price pressures are easing.
August Construction Spending Range: -0.1 to 0.5 percent Median: 0.3 percent	Friday, 10/1	Jul = +0.3%	<u>Up</u> by 0.3 percent.

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