ECONOMIC PREVIEW

REGIONS

Week of April 25, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the May 3-4 FOMC meeting):* Target Range Mid-point: 0.625 to 0.875 percent Median Target Range Mid-point: 0.875 percent	Range: 0.25% to 0.50% Midpoint: 0.375%	In a final round of comments before the blackout period ahead of their May meeting, several FOMC members all but locked in a 50-basis point hike in the Fed funds rate at the May meeting. And while that and another like-sized hike at the June FOMC meeting were already priced into the markets, you'd have hardly known that based on the reactions to last weeks comments by Committee members. We've always broken this down into two distinct questions: how far will the FOMC go (in raising the funds rate), and how fast will they get where they're going. At this point, no one, including the FOMC, knows the answer to the first question, but FOMC members have decided that, wherever they're going, they're in an increasing hurry to get there, as was made clear in last week's comments. It seems, however, that many market participants have taken "faster" to mean "farther," hence the spike in yields on 2-year U.S. Treasury notes last week. Our view is that the FOMC's first destination is neutral, at which point they'll pause to assess the likely paths of growth and inflation. They may stop there, go a little further, or go a lot further. It seems too soon to have a high degree of conviction as to which one of these it will be, particularly with the running off of the Fed balance sheet likely to commence no later than June.
March Durable Goods Orders Tuesday, 4/26 Range: -2.5 to 3.0 percent Median: 1.0 percent	Feb = -2.1%	Up by 0.8 percent. Boeing booked 38 net orders in March, up from 32 in February (the increase in gross orders was larger, but cancellations increased in March) which, along with an increase in motor vehicle orders, means transportation should add to top-line orders. We'll be more interested in core capital goods orders (see below), which in February posted their first decline in a year. Whether that simply reflects seasonal adjustment issues, not uncommon with this series, or a more fundamental weakening in business investment remains to be seen, but further slippage in core capital goods orders would test our premise that business investment will remain supportive of real GDP growth even amid a more uncertain economic landscape.
March Durable Goods Orders: Ex-Trnsp. Tuesday, 4/26 Range: -0.3 to 1.4 percent Median: 0.6 percent	Feb = -0.6%	We look for ex-transportation orders to be up by 0.6 percent, and for core capital goods orders (non-defense capital goods excluding aircraft & parts) to be up by 0.4 percent.
April Consumer Confidence Tuesday, 4/26 Range: 104.0 to 114.0 Median: 108.5	Mar = 107.2	Up to 110.1, as modest relief on the gasoline price front may have helped lift the assessment of current conditions. Amid the slides in sentiment reported in surveys from the Conference Board and others, two things stand out to us. First is that consumers remain notably upbeat on labor market conditions; the jobs plentiful-jobs hard to get spread in the Conference Board's monthly survey was the widest on record in the March survey. With an unemployment rate below 4.0 percent and over eleven million open jobs, it is no surprise that consumers remain upbeat on labor market conditions. That is likely supporting growth in services spending, which is the second thing that stands out to us. By all accounts, services spending has risen sharply over the past several weeks, which to some extent reflects the release of pent-up demand for things such as travel, dining out, recreation, and entertainment. How long this will be sustained remains to be seen, but as long as consumers remain upbeat on the labor market, that should put a floor under consumer spending, particularly with growth in aggregate labor earnings running at a double-digit pace.
March New Home Sales Tuesday, 4/26 Range: 700,000 to 827,000 units Median: 770,000 units SAAR	Feb = 772,000 units SAAR	Up to an annualized rate of 804,000 units. On a not seasonally adjusted basis, we look for sales of 74,000 units, a 13.9 percent increase from the initial estimate of 65,000 sales in February. We did revise our forecast higher upon the release of the March data on residential construction, with (not seasonally adjusted) single family housing permits and starts coming in stronger than we had anticipated. The jump in starts could have been attributed to builders working down backlogs of unfilled orders, but the even bigger jump in single family permits calls that premise into question. It could be that rapidly rising mortgage interest rates drew out buyers who otherwise may have waited to act, but if that was the case, there will be payback in the months ahead. Even if our forecast of unadjusted sales proves to be on the mark, that would still leave them down 10.8 percent year-on-year, reflecting the extent to which lingering constraints on materials and labor supplies coupled with voluntary sales caps continue to weigh on new home sales. To the extent higher mortgage interest rates do curb demand, that will sap builders of some of their pricing power which, with materials costs still significantly elevated, will in turn pressure margins.

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March Advance Trade Balance: Goods Wednesday, 4/27 Range: -$110,000 to -$91.0 billion Median: -$105.0 billion	Feb = -$106.3 billion	Narrowing to -$104.9 billion.
Q1 Real GDP – 1st estimate Thursday, 4/28 Range: -1.0 to 1.9 percent Median: 1.0 percent SAAR	Q4 2021 = +6.9% SAAR	Up at an annualized rate of 1.1 percent. With many already on edge over the course of the U.S. economy, a soft headline print on the Q1 GDP report is the last thing anyone needs to see at this point. As always, however, the real story won't be the headline number, but instead will lie in the details beneath the headline number. Recall that Q4 2021 saw annualized real GDP growth of 6.9 percent, with a surprisingly large build in business inventories contributing 5.3 percentage points to top-line growth. A smaller build in inventories in Q1 than that seen in Q4 means that inventories will be a substantial drag on top-line real GDP growth, with that drag reinforced by a sharply wider trade deficit. As such, what should be better than four percent annualized growth in private domestic demand (combined business and household spending) will be largely negated, hence the weak headline print we and most others expect. To be sure, there is always a considerable degree of play in the BEA's initial estimate of GDP in any given quarter but, either way, Q1 growth will be significantly slower than was Q4 2021 growth, which may seem like the first step toward the recession that some are now saying is inevitable, and no doubt there will be some who run with the headline Q1 GDP growth number to advance that narrative. That headline number, however, will be less informative than the details beneath it.
Q1 GDP Price Index – 1st estimate Thursday, 4/28 Range: 6.0 to 7.9 percent Median: 7.2 percent SAAR	Q4 2021 = +7.1% SAAR	Up at an annualized rate of 7.4 percent.
Q1 Employment Cost Index Friday, 4/29 Range: 0.9 to 1.5 percent Median: 1.1 percent	Q4 2021 = +1.0%	Up by 1.2 percent, with wage costs up 1.3 percent and benefit costs up 0.9 percent. Our forecast would leave the total ECI up 4.3 percent year-on-year, with wage costs up 4.9 percent – the largest over-the-year increase since Q3 1985 – and benefit costs up 3.2 percent. The ECI is the best measure of growth in labor costs, in part because it is free of the mix issues that can, and often do, distort the average hourly earnings metric in the monthly employment reports, and the ECI is also the FOMC's preferred gauge of labor costs. The Q1 data, however, are unlikely to bring any relief to a group already fretting that the labor market is "too tight."
March Personal Income Friday, 4/29 Range: 0.1 to 0.7 percent Median: 0.4 percent	Feb = +0.5%	Up by 0.5 percent.
March Personal Spending Friday, 4/29 Range: -0.5 to 1.2 percent Median: 0.6 percent	Feb = +0.2%	Up by 0.8 percent. The dramatic spike in gasoline prices and higher prices for goods, with the obvious exception of used motor vehicles, in March pushed nominal spending on goods higher. Recall, however, that as measured in the retail sales data, spending excluding gasoline fell. Lower unit sales mean motor vehicles acted as a drag on spending on consumer durable goods and, more broadly, consumer spending on goods is likely softening as services – which are not captured in the retail sales data – capture a higher share of total consume spending. To that point, our forecast anticipates a solid increase in services spending in March, with April likely to see an even larger increase. But, even if our forecast of nominal spending is on or close to the mark, an outsized increase in the PCE Deflator (see below) means that real, or, inflation adjusted, spending likely fell in March. If so, the level of real consumer spending in March will be below the Q1 average, thus setting a weak base for Q2 growth.
March PCE Deflator Friday, 4/29 Range: 0.7 to 1.1 percent Median: 0.9 percent	Feb = +0.6%	Up by 0.9 percent, which would translate into a year-on-year increase of 6.7 percent. We look for the core PCE Deflator to be up by 0.3 percent, which would yield a year-on-year increase of 5.3 percent.

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