# ECONOMIC PREVIEW

REGIONS

Week of June 13, 2022

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint** *(After the June 14-15 FOMC meeting):* Target Range Mid-point: 1.375 to 1.375 percent Median Target Range Mid-point: 1.375 percent | Range: 0.75% to 1.00% Midpoint: 0.875% | A 50-basis point hike in the Fed funds rate at this week's FOMC meeting is likely, while all eyes will be focused on the Committee's updated economic and financial projections and all ears will be tuned into Chairman Powell's post-meeting press conference. The set of economic projections issued in March was widely panned as being curiously sanguine, implying a sharp and rapid deceleration in inflation with no change in the unemployment rate, which would be the softest of all soft landings. With inflation having risen further and looking to be more persistent than the FOMC expected in March, the June projections will almost surely look less benign. The median projection of PCE inflation in Q4 2023 relative to the March median of 2.7 percent will be an indication of how Committee members' thinking on inflation has evolved. Recall that in March the median projection had the unemployment rate at 3.5 percent in both Q4 2022 and Q4 2023, and this is another thing to watch for in the updated projections, particularly if the Committee's inflation outlook has become more dour. As for the "dot plot," recall that the March edition implied the mid-point of the Fed funds rate target range being 1.875 at year-end 2022 and ending 2023 at 2.75 percent, which was also the implied terminal rate for this cycle. With funds rate hikes of at least fifty basis points all but a given at both the June and July FOMC meetings, the target range mid-point will be at least 1.875 percent after the July meeting, so the question is how much higher the year-end 2022 median will be, and the same holds for the implied year-end 2023 rate and the implied terminal rate. In his post-meeting press conference, Chairman Powell will stress the FOMC's resolve to achieve its inflation target over time, even if that means causing some discomfort in the labor market. The bigger question, however, is whether or not he opens the door for 75-basis point funds rate hikes at subsequent FOMC meetings. |
| **May PPI: Final Demand** Tuesday, 6/14 Range: 0.7 to 1.3 percent Median: 0.8 percent | Apr = +0.5% | Up by 1.1 percent, which would yield a year-on-year increase of 11.1 percent. |
| **May PPI: Core** Tuesday, 6/14 Range: 0.4 to 0.8 percent Median: 0.6 percent | Apr = +0.4% | Up by 0.8 percent, for an over-the-year increase of 8.8 percent. |
| **May Retail Sales: Total** Wednesday, 6/15 Range: -1.1 to 1.2 percent Median: 0.1 percent | Apr = +0.9% | Down by 0.4 percent. The bar is set high for May retail sales, perhaps a bit too high, as our forecast suggests. Right off the bat, a punitive May seasonal adjustment factor poses a challenge. While our forecast would leave not seasonally adjusted sales up by just over two percent from April, that is smaller than the typical May increase, meaning that the seasonally adjusted data will look weaker than is actually the case. A double-digit decline in unit motor vehicle sales poses an even sterner challenge to May retail sales, accounting for the sizable gap between headline and ex-auto sales we and most others expect. Even if we are correct in expecting ex-auto sales to fare better than top-line retail sales, the gain in ex-auto sales could look misleadingly strong. Thanks to a snapback in prices, gasoline station sales should bolster ex-auto retail sales. More broadly, higher goods prices will flatter ex-auto and control retail sales, as the data are not adjusted for price changes. After adjusting for price changes, consumer spending on goods likely fell in May (the BEA's report on May personal income and spending due out on June 30 will bring the definitive answer).<br><br>Even if not to the extent our forecast anticipates, retail sales were likely weak in May, and the data will come at a time when many are increasingly worried about the state of U.S. consumers. As we discussed in our *Monthly Economic Outlook*, however, we think these concerns to be a bit overdone. We've discussed two broad shifts taking place in consumer spending patterns – a rotation in spending away from goods and toward services and, within spending on goods, a rotation toward necessity goods and away from discretionary goods. Rising non-auto retail inventories to some extent reflect both of these shifts. And though many interpreted May's sharp decline in motor vehicle sales as another indication of U.S. consumers pulling back, we think that decline was more of an inventory story, as motor vehicle inventories continue to hover around cycle lows despite recent increases in motor vehicle production. We expect the BEA's data to show another solid increase in spending on services in May and would caution against making judgements on the state of U.S. consumers solely on the basis of the retail sales data, which do not capture services spending. |

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| **May Retail Sales: Ex-Auto**<br>Range: 0.0 to 1.8 percent<br>Median: 0.7 percent | Wednesday, 6/15 | Apr = +0.6% | Up by 0.7 percent. |
| **May Retail Sales: Control Group**<br>Range: -1.1 to 1.1 percent<br>Median: 0.3 percent | Wednesday, 6/15 | Apr = +1.0% | Up by 0.6 percent. |
| **April Business Inventories**<br>Range: 1.0 to 1.6 percent<br>Median: 1.2 percent | Wednesday, 6/15 | Mar = +2.0% | We look for total business inventories to be up by 1.2 percent and for total business sales to be up by 0.5 percent. |
| **May Building Permits**<br>Range: 1.656 to 1.840 million units<br>Median: 1.780 million units SAAR | Thursday, 6/16 | Apr = 1.823 million units SAAR | Down to an annualized rate of 1.656 million units. On a not seasonally adjusted basis, we look for total permits of 146,800 units, down 6.6 percent from April., with an even larger decline in single family permit issuance. Activity in the single family segment of the market is clearly slowing in the face of higher mortgage interest rates. Recall that single family permit issuance spiked in March and, though falling a bit, remained elevated in April, which we attributed to a rush of activity in anticipation of even higher mortgage interest rates. We noted, however, that if our assessment was correct, that burst of single family permit issuance would be followed by some harsh declines, and we expect that to be apparent in the May data. To be sure, demand for single family homes hasn't totally dried up, but builders have cut back on spec starts, which will help push down single family permits and starts. We do, however, expect multi-family permit issuance to remain elevated, and May could mark a third straight month with an annual rate of over 700,000 multi-family permits. We think it worth noting that part of the reason our forecasts of headline (seasonally adjusted and annualized) permits are this low is that the May seasonal adjustment factors are geared for increases in single family permits and starts, whereas our forecasts of the unadjusted data anticipate declines. If we're correct, the seasonally adjusted data will amplify any such weakening. With the single family market in transition, forecasts of construction and sales come with an added degree of uncertainty, but whether our forecasts are too low or the consensus forecasts are too high remains to be seen. |
| **May Housing Starts**<br>Range: 1.500 to 1.760 million units<br>Median: 1.700 million units SAAR | Thursday, 6/16 | Apr = 1.724 million units SAAR | Down to an annualized rate of 1.611 million units. On a not seasonally adjusted basis, we look for total starts of 145,700 units, down 5.8 percent from April with an even larger decline in single family starts. We look for a smaller decline, in percentage terms, in single family starts than in single family permits (not seasonally adjusted), which reflects the sizable backlog of unfilled orders builders have been sitting on for some time. While some of those orders will have been cancelled in the face of higher mortgage interest rates, backlogs nonetheless remain substantial, and with current demand tailing off, builders will make more headway in clearing those backlogs. That may make for a smoother transition down to a diminished level of demand, but with builders cutting back on spec building, single family starts have more room to the downside, regardless of how long it takes to get there. The point we made about seasonal adjustment in our discussion of permits holds for starts as well. We'll also note that housing starts surprised us to the upside in both March and April, and there's obviously a chance that streak will be extended with the May data. Still, even if that is the case, the trendline for single family starts, is pointing downward. |
| **May Industrial Production**<br>Range: 0.0 to 0.9 percent<br>Median: 0.4 percent | Friday, 6/17 | Apr = +1.1% | Up by 0.3 percent. |
| **May Capacity Utilization Rate**<br>Range: 78.2 to 79.6 percent<br>Median: 79.2 percent | Friday, 6/17 | Apr = 79.0% | Up to 79.2 percent. |
| **May Leading Economic Index**<br>Range: -0.9 to 0.4 percent<br>Median: -0.4 percent | Friday, 6/17 | Apr = -0.3% | Down by 0.5 percent. |

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