ECONOMIC PREVIEW

REGIONS

Week of July 18, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 26-27 FOMC meeting):* Target Range Mid-point: 2.125 to 2.625 percent Median Target Range Mid-point: 2.375 percent	Range: 1.50% to 1.75% Midpoint: 1.625%	Total industrial production fell by 0.2 percent in June, led astray by a 0.5 percent decline in manufacturing output. Motor vehicle production was down by 1.5 percent, part of which reflects the supply chain constraints which continue to bedevil vehicle production, and part of which reflects unfavorable seasonal adjustment. Aside from motor vehicles, factory output was down by 0.5 percent in June, with production of consumer goods down by 0.7 percent and a further decline in production of construction supplies. These declines are in line with what we see elsewhere in the economic data. Consumer spending on goods, after adjusting for changes in prices, is falling, while higher mortgage interest rates have led to slowing pace of new single family construction and sales. The ripple effects of these changes are being felt in manufacturing and also in freight markets, where shipping volumes have been falling. One component of industrial production we continue to monitor is production of business equipment, which tends to signal patterns in business investment as reported in the GDP data. Business investment in equipment and machinery has been a support for real GDP over the past several quarters but has been a bit wobbly of late. Whether this simply reflects growth settling into a more sustainable pace after a stretch of notably rapid growth or is a sign that a more uncertain outlook is causing firms to pull in the reins on capital spending remains to be seen, but this is clearly something worth watching. As for this week, our below-consensus forecasts for housing permits and starts and existing home sales (see Page 2) reflect the effects of higher mortgage interest rates as well as harsh seasonal adjustment. If we're correct, the headline numbers will look worse than is actually the case, which we're guessing won't be of much consolation.
June Building Permits Tuesday, 7/19 Range: 1.486 to 1.750 million units Median: 1.650 million units SAAR	May = 1.695 million units SAAR	<u>Down</u> to an annualized rate of 1.486 million units. On a not seasonally adjusted basis, we look for total housing permits of 138,400 units, down 7.1 percent from May with both single family and multi-family permits declining. Note that our forecast of the headline (seasonally adjusted and annualized) permit number would reflect a 12.3 percent decline from May's rate of permit issuance, much harsher than the decline we anticipate on a not seasonally adjusted basis. This reflects June being a month in which permit issuance typically increases, which is what the seasonal factor used to adjust the June data is geared for. So, either a decline in unadjusted permits or simply a smaller increase than is typical for the month of June will be treated harshly in the seasonally adjusted data (this will also hold for the June data on housing starts and existing home sales). While our regular readers will know that we pay no mind to the seasonally adjusted housing market data, the headline numbers are what most analysts and market participants, not to mention the headline writers, will react to. Either way, the June data won't be pretty. Higher mortgage interest rates have led to a pullback in new home sales and single family construction and, if anything, the 9.8 percent decline in single family permits our forecast anticipates may not be harsh enough. One factor which could lead to sharper declines in single family permits and starts is a pullback in investor interest in the single family segment of the market, i.e., build-for-rent construction, which over the past several months has accounted for an increased share of single family construction. We've seen mixed signals on this front, but it is something to keep an eye on in the months ahead.
June Housing Starts Tuesday, 7/19 Range: 1.412 to 1.650 million units Median: 1.580 million units SAAR	May = 1.549 million units SAAR	<u>Down</u> to an annualized rate of 1.412 million units. On a not seasonally adjusted basis, we look for total housing starts of 129,500 units, down 6.4 percent from May. To our above point about June seasonal adjustment, our forecast of the headline starts number would reflect a 8.9 percent decline from May's starts rate. Our forecast would leave not seasonally adjusted single family starts down 7.8 percent from May, less harsh than the decline we anticipate in single family permits. This in part reflects what remains a sizable backlog of single family units that have been permitted but not yet started. As current demand wanes under the weight of diminished affordability, builders will remain busy for some time working down backlogs of unfilled orders, even allowing for rising cancellations and builders being less willing to embark on spec construction. While single family starts have further room to the downside, one mitigant will be the fact that builders simply haven't had the capacity to ramp up starts to nearly the same degree as seen in past cycles, so won't be as caught out by a sharper pullback in demand than seen to date.

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June Existing Home Sales Wednesday, 7/20 Range: 5.030 to 5.620 million units Median: 5.360 million units SAAR	May = 5.410 million units SAAR	Down to an annualized rate of 5.140 million units. On a not seasonally adjusted basis, we look for sales of 522,000 units, and while this would be up 4.8 percent from May, it would nonetheless be considerably smaller than the typical June increase. As such, the seasonally adjusted data will be made to look significantly weaker. That said, we do not know how the NAR's seasonal adjustment factor will account for this being the first year in which Juneteenth was an official holiday, which resulted in there being one fewer sales day this year compared to last June. Which is another reason to ignore the headline sales number and focus on not seasonally adjusted sales. Our forecast would leave unadjusted sales down 15.1 percent year-on-year, and adjusting for sales days would yield an over-the-year decline of 11.1 percent. Still-lean, even if higher, inventories and higher mortgage rates further diminishing affordability teamed up to do a number on June sales, and in addition to sales we'll be watching other metrics, such as median days on market, for signs of weakness in the market. Should investors and cash buyers flee the market, sales could be significantly weaker over coming months than we now anticipate will be the case. We look for another large increase in inventories, to the point that listings should be up on a year-on-year basis for the first time since May 2019. While our forecast anticipates another double-digit year-on-year increase in the median sales price, we look for that increase to be smaller than those seen over the past several months.
June Leading Economic Index Thursday, 7/21 Range: -1.3 to -0.3 percent Median: -0.6 percent	May = -0.4%	Down by 1.1 percent.

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