ECONOMIC PREVIEW

REGIONS

Week of October 24, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 1-2 FOMC meeting):* Target Range Mid-point: 3.875 to 4.125 percent Median Target Range Mid-point: 3.875 percent	Range: 3.00% to 3.25% Midpoint: 3.125%	In a crowded week for data releases, two stand out above the rest. On Thursday, the BEA will release the initial estimate of Q3 GDP (see Page 2). Just as we discounted the contractions in real GDP reported in each of the first two quarters of 2022, we'll also discount what should be a healthy (looking) advance in real GDP in Q3, and for much the same reasons, i.e., trade and inventories having an outsized impact on the headline growth number. Friday brings the release of the Q3 data on the Employment Cost Index (see Page 3), generally accepted as the most reliable gauge of changes in labor compensation costs. This will be the last piece of labor market data the FOMC sees before their November meeting and will do nothing to deter them from approving another 75-basis point increase in the Fed funds rate at that meeting.
October Consumer Confidence Tuesday, 10/25 Range: 102.0 to 110.0 Median: 105.7	Sep = 108.0	Down to 104.8 as higher gasoline prices and a steady drumbeat of bad inflation data weighed on consumers. Even if the headline confidence number dips, we'll be more interested in consumers' assessments of labor market conditions. The "jobs plentiful/jobs hard to get" spread widened in September, presaging the decline in the unemployment rate. But, amid signs that the demand for labor has cooled a bit, we'll be interested to see whether, or to what extent, perceptions of labor market conditions changed in October.
Sep. Advance Trade Balance: Goods Wednesday, 10/26 Range: -$93.0 to -$82.0 billion Median: -$87.5 billion	Aug = -$87.3 billion	Narrowing to -$85.6 billion. Even if it not to the extent we are anticipating, a narrower trade deficit will be the primary support for Q3 real GDP growth.
September New Home Sales Wednesday, 10/26 Range: 490,000 to 700,000 units Median: 581,000 units SAAR	Aug = 685,000 units SAAR	Down to an annualized rate of 618,000 units. On a not seasonally adjusted basis, we look for sales of 49,000 units, down 10.9 percent from August and down 15.5 percent year-on-year. As bad as that may seem, keep in mind that the Census data have been overstating sales of late, as Census reports sales on a gross, not a net, basis. In other words, the Census data book new home sales upon the signing of the sales contract and do not account for those contracts subsequently cancelled. While typically not that meaningful of a divergence, that has changed to an increasing degree of late with builders reporting rising cancellations. The combination of slowing gross sales and rising cancellations has contributed to rising inventories, with units already under construction accounting for over two-thirds of new homes for sale over the past several months. Spec inventories are higher than at any point since mid-2008, and while we don't expect them to get as large as they did in that cycle, they will rise further in the months ahead. Builders are being increasingly aggressive with incentives to move these units, and in some cases are approaching institutional buyers, offering discounts to move blocks (figuratively and literally) of new homes. But, institutional buyers may be inclined to wait; after all, the higher mortgage interest rates go, the larger the discounts they likely can wrangle from builders. With mortgage rates having risen above seven percent, gross sales will fall further and cancellations are likely to rise further, particularly if there were buyers who had not locked a mortgage rate at the time they signed a sales contract. Even with sales falling further, many builders won't be sitting idle. In addition to sizable backlogs of units under construction, backlogs of units that have been permitted but not yet started remain near multi-year highs. Not all of these units will be started, but single family starts and completions are likely to hold up better than sales for some time to come.
September Durable Goods Orders Thursday, 10/27 Range: -1.7 to 2.0 percent Median: 0.6 percent	Aug = -0.2%	Up by 1.4 percent. Boeing booked a large increase in net orders in September, meaning transportation orders will be a support for top-line orders. As always, the single most important line item in the report will be core capital goods orders (see below), which we expect to have fallen in September. This is more about payback for the 1.4 percent increase (pending revision) in August, the largest monthly gain since January, than about a downturn in cap ex. That said, should an increasingly uncertain outlook lead firms to pull in the reins on capital outlays, the first place we'll see that in the data is core capital goods orders, which lead the GDP data on business investment in equipment and machinery. Thus far, the orders data have held up better than we've expected, which of course can always change, quickly and dramatically.
Sep. Durable Goods Orders: Ex-Trnsp. Thursday, 10/27 Range: -0.5 to 0.6 percent Median: 0.2 percent	Aug = +0.3%	We look for ex-transportation orders to have risen by 0.3 percent, and for core capital goods orders (nondefense capital goods excluding aircraft & parts) to have fallen by 0.4 percent.

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Q3 Real GDP – 1st estimate Range: 0.1 to 3.3 percent Median: 2.3 percent SAAR	Thursday, 10/27	Q2 = -0.6% SAAR	Up at an annualized rate of 2.9 percent. Our take on the reported contractions in real GDP in each of the first two quarters of this year was that they were more a reflection of the quirks of GDP accounting than of the underlying health of the U.S. economy. That wasn't because we were recession deniers, the heartwarming e-mails we got accusing us of just that notwithstanding (our personal favorite being the one asking would the coming third straight quarterly contraction finally get us to admit the economy was in recession). Instead, we were simply expressing our view that the GDP accounting treatment of inventories and trade can, and often does, paint a misleading picture, a view no different in the first two quarters of 2022 than it ever has been. To that point, even if our above-consensus forecast of Q3 real GDP growth is on or near the mark, there will be much less to that number than meets the eye. Indeed, we think the two factors that did the most to hold measured real GDP growth down over 1H 2022 will provide most of whatever growth is reported for Q3. We see private domestic demand – combined business and household spending – as a much more relevant gauge of the underlying health of the economy, and our tracking shows real private domestic demand as basically having treaded water in Q3. Residential fixed investment was a powerful drag on Q3 growth which, along with only modest growth in real consumer spending, will largely negate a decent gain in business fixed investment. This leaves a meaningfully smaller trade deficit and a slightly larger build in business inventories than seen in Q2 as the drivers of Q3 real GDP growth. We will note that the Q3 data on both inventories and trade are highly incomplete, leaving BEA estimates to fill in the blanks in their initial estimate of GDP. As such, the risks to our forecast seem tilted to the downside. If our forecast is on or near the mark, it will prove nothing and mean little, as we see real GDP growth crawling along over the next few quarters at a pace that would be an affront to even the laziest and least motivated of snails. More importantly, the meager pace of growth we anticipate over coming quarters would leave the economy with little capacity to deal with adverse external shocks.
Q3 GDP Price Index – 1st estimate Range: 3.5 to 5.7 percent Median: 5.3 percent SAAR	Thursday, 10/27	Q2 = +9.0% SAAR	Up at an annualized rate of 4.6 percent.
September Personal Income Range: 0.1 to 0.6 percent Median: 0.4 percent	Friday, 10/28	Aug = +0.3%	Up by 0.5 percent. Private sector labor earnings continue to underpin growth in total personal income, and our forecast would leave aggregate private sector wage and salary earnings up by over nine percent year-on-year. Two wild cards in our forecast are nonfarm proprietors' income, a proxy for small business profits, and rental income. Both series have been all over the map over recent months, injecting added uncertainty into our forecast. We look for only tepid growth in asset-based income (interest and dividends) but that would be a step up after two straight monthly declines. A sizable increase in SNAP benefits that took effect on October 1st would figure to boost transfer payments, but differences in administration across the individual states mean some of this increase won't be picked up in the personal income data until November, making it less visible in the data for both months.
September Personal Spending Range: 0.0 to 0.7 percent Median: 0.5 percent	Friday, 10/28	Aug = +0.3%	Up by 0.5 percent. Higher unit sales and higher prices for new motor vehicles should provide support for spending on consumer durable goods, but thanks to lower prices gasoline will once again be a powerful drag on nominal spending on nondurable goods. We can make that point more broadly across consumer goods, as aggressive discounting on the part of inventory-laden retailers will have held down nominal sales volumes, with shifting spending patterns adding further downside pressure. That leaves it mainly up to services to support growth in total consumer spending, and we expect that to have been the case in September. We've questioned how much longer services spending will hold up. Our expectation had been that it would tail off once we got past Labor Day but there are, at least thus far, few signs of meaningful deterioration. To be sure, higher services prices are helping support gains in nominal services spending, and any pullbacks will be compounded in the data on real (i.e., inflation-adjusted) spending, which we still expect to slow in the months ahead.

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September PCE Deflator Friday, 10/28 Range: 0.3 to 0.5 percent Median: 0.3 percent	Aug = +0.6%	Up by 0.3 percent, which would yield a year-on-year increase of 6.3 percent. We look for the core PCE Deflator to be up by 0.5 percent, which would translate into a year-on-year increase of 5.2 percent. There has been a tendency to dismiss the recent acceleration in core inflation as measured by the Consumer Price Index (CPI) as little more than a function of lagged measures of rents which, given that rents account for over forty percent of the core CPI, is at least somewhat understandable. There is, however, more to it than that, as evidenced by the CPI measure of prices for services excluding rents, which posted a year-on-year increase of 6.7 percent in September, the largest such increase since July 1982. Moreover, the core PCE Deflator shows a similar acceleration in core inflation even with rents accounting for less than half the weight in the core PCE deflator as in the core CPI. While core goods inflation is slowing, core services inflation is accelerating which, with services carrying a much larger weight, is pushing overall core inflation higher. The more broadly based services price inflation remains, the more persistent it figures to be.
Q3 Employment Cost Index Friday, 10/28 Range: 1.0 to 1.4 percent Median: 1.2 percent	Q2 = +1.3%	Up by 1.3 percent, with wage costs up 1.5 percent and benefit costs up 0.8 percent. On an over-the-year basis our forecast would leave the total ECI up 5.1 percent, with wage costs up 5.2 percent and benefit costs up 4.8 percent. The ECI, generally accepted as the most reliable gauge of changes in labor compensation costs, is the last piece of labor market data the FOMC will see ahead of their November 1-2 meeting, and most FOMC members see wage pressures as a primary source of inflation pressures in the broader economy. Our forecast would mark a second straight quarter with the ECI's measure of wage costs up by better than five percent year-on-year, which would be the first such occurrence since 1983. That of course would not bring a lot of comfort to the FOMC, and many Committee members will see a thus far resilient labor market as grounds to maintain an aggressive pace of Fed funds rate hikes. While there are signs that labor demand is cooling, labor supply remains no match for labor demand. As such, those who, despite decades of evidence to the contrary, continue to labor under the premise of the Phillips Curve will argue that further aggressive action is needed in order to dampen the demand for labor.

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