ECONOMIC PREVIEW

REGIONS

Week of October 14, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the October 29-30 FOMC meeting):* Target Range Mid-point: 1.625 to 1.875 percent Median Target Range Mid-point: 1.875 percent	Range: 1.75% to 2.00% Midpoint: 1.875%	Of late, consumer spending, manufacturing, and the housing market have been the good, the bad, and the somewhere in between, respectively, of the U.S. economy. This week brings new reads on each, and while we don't expect this week's releases to change the narrative on any of these fronts, one never knows in the fun, fast-paced, and often mysterious world of economic data. While the GM strike will make the September industrial production data (see Page 2) look worse than would otherwise be the case, the latest mixed messages on a U.S./China trade deal are a useful reminder that it is too soon to conclude that the worst is over for the manufacturing sector.
September Retail Sales: Total Wednesday, 10/16 Range: 0.1 to 0.7 percent Median: 0.2 percent	Aug = +0.4%	Up by 0.3 percent. Our forecast anticipates building materials and, thanks to price effects, gasoline will be drags on top-line sales with motor vehicle sales more or less a neutral factor. Much was made of the report showing a puny 0.1 percent increase in personal consumption expenditures in August. We think much too much was made of that report. Sharply lower gasoline prices held down nominal spending on nondurable goods, while lower utilities outlays held down spending on services (which are not included in the retail sales data). After adjusting for price changes, spending on goods logged a 0.4 percent increase in August. The retail sales data point to another solid gain in spending on goods in September, as indicated by our forecast on control retail sales, a direct input into the GDP data. A still-healthy labor market is supporting income growth and consumer confidence, the two keys to consumer spending.
September Retail Sales: Ex-Auto Wednesday, 10/16 Range: 0.0 to 0.8 percent Median: 0.2 percent	Aug = 0.0%	Up by 0.3 percent.
Sept. Retail Sales: Control Group Wednesday, 10/16 Range: 0.0 to 0.5 percent Median: 0.3 percent	Aug = +0.3%	Up by 0.5 percent. Our forecast would put annualized Q3 growth in nominal control retail sales at 7.9 percent, matching Q2's frenzied pace. While this is not a sustainable pace of growth, consumer spending will nonetheless remain the key driver of real GDP growth in the near-term barring a material weakening in labor market conditions.
August Business Inventories Wednesday, 10/16 Range: 0.1 to 0.4 percent Median: 0.2 percent	Jul = +0.4%	We look for total business inventories to be up by 0.1 percent, with total business sales also up by 0.1 percent.
September Building Permits Thursday, 10/17 Range: 1.300 to 1.393 million units Median: 1.340 million units SAAR	Aug = 1.425 million units SAAR	Down to an annualized rate of 1.393 million units. There is some upside risk to the headline numbers for permits and starts. September construction activity in the South region was held down by hurricanes in each of the past two years. If this atypical September weakness is over-compensated for by the seasonal adjustment factors, the seasonally adjusted annualized numbers will look stronger than is actually the case. Keep in mind that the South region accounts for over 40 percent of all multi-family activity and over 50 percent of all single family activity, meaning any such noise in the South region can easily move the needle on the national number. But, keep in mind that if we are correct on this point, there will be payback in subsequent months. This is simply another illustration of why we pay no attention to the seasonally adjusted and annualized housing market data and instead focus on the unadjusted data. Our forecast anticipates 115,400 total housing permits on a not seasonally adjusted basis, down from a better than two-year high of 127,000 total permits in August. Still, even if both single family and multi-family permits are down from August as our forecast anticipates, they will nonetheless remain at fairly high levels, and single family activity continues to rebound from the rout that took place in the latter months of 2018 and early months of 2019. Our forecast would leave the running 12-month total of unadjusted housing permits at 1.318 million units.
September Housing Starts Thursday, 10/17 Range: 1.230 to 1.356 million units Median: 1.316 million units SAAR	Aug = 1.364 million units SAAR	Down to an annualized rate of 1.352 million units. Our point about the upside risk to the seasonally adjusted data on housing permits applies here as well. Our forecast anticipates total starts of 118,800 units on a not seasonally adjusted basis, with both single and family starts slightly off of August's pace. Our forecast would leave the running 12-month total of unadjusted starts at 1.242 million units. Elsewhere in the data, we're keeping a close eye on completions, both single family and multi-family. August saw the highest monthly total of single family completions (unadjusted) since December 2007 and completions should grind higher as builders try to keep pace with what remains sold growth in demand. This is the key reason we expect residential investment to add, even if only modestly, to GDP growth over coming quarters after having acted as a persistent drag on GDP growth over the past two years.

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September Industrial Production Thursday, 10/17 Range: -0.6 to 0.3 percent Median: -0.1 percent	Aug = +0.6%	<u>Down</u> by 0.2 percent. The report on September industrial production will be the first top-tier data release that shows the effects of the GM strike. Production of motor vehicles and, as suppliers to GM pare back, motor vehicle parts will be down, though the impact will not be fully felt in the September data given that the strike began in mid-month. Lower production of motor vehicles and parts will lead to a decline in manufacturing output, which we think will be sufficient to drag total industrial production down for the month. To be sure, this is a transitory disruption that will be made up for once the strike is settled. The timing, however, leaves a lot to be desired – amidst a seemingly steady drumbeat of downbeat data on the factory sector, another weak data point won't be helpful. Aside from the impact of the GM strike, the most important detail to focus on will be production of business equipment, an indicator of broader business investment spending. This series has, not surprisingly, been highly uneven over recent months, and though we don't have high hopes, we will nonetheless be interested to see if any of August's sizable increase will be sustained.
September Capacity Utilization Rate Thursday, 10/17 Range: 77.4 to 78.0 percent Median: 77.7 percent	Aug = 77.9%	<u>Down</u> to 77.7 percent.
September Leading Economic Index Friday, 10/18 Range: -0.1 to 0.2 percent Median: 0.1 percent	Aug = 0.0%	<u>Unchanged</u>.

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