ECONOMIC PREVIEW

REGIONS

Week of August 13, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 25-26 FOMC meeting):* Target Range Midpoint: 2.125 to 2.125 percent Median Target Range Midpoint: 2.125 percent	Range: 1.75% to 2.00% Midpoint: 1.875%	It's a wonder that with all of the "housing is done" stories that have become quite the rage of late not a single analyst forecast "zero" for July housing permits or starts (see Page 2). Yes, affordability is being stretched and there is a paucity of existing homes for sale, both of which we've been pointing to for quite some time now. That said, single family housing starts are running over seven percent ahead of last year's pace, and builders are switching their focus to first-time buyers, though there are markets in which lofty entitlement costs make doing so prohibitive. As always, the trends in the not seasonally adjusted data are your best guide to the state of the housing market; those trends show steady, but, yes, gradual, growth in single family construction.
July Retail Sales Wednesday, 8/15 Range: 0.1 to 0.5 percent Median: 0.2 percent	Jun = +0.5%	Up by 0.1 percent. We never have much confidence in our retail sales forecast as the initial estimate for any given month is inherently unreliable – it's pretty much like forecasting noise. That said, we at least expect sales to conform to the pattern in our forecast, i.e., ex-auto sales rising more than headline sales and control sales rising more than ex-auto sales. Then again, one never knows in the magical mystical world of the retail sales data. In any event, the sharp decline in unit motor vehicle sales in July means motor vehicles should be a drag on top-line sales while lower retail prices in July mean that gasoline should also be a drag on top-line sales. Our forecast does anticipate an increase in sales at building materials stores, but only a modest one after strong monthly gains in May and June. The same is true of restaurant sales – our forecast anticipates only a small increase in July on top of a 2.6 percent increase in May and a 1.5 percent increase in June. Even if top-line retail sales are as soft as our forecast anticipates, we won't be at all worried about U.S. consumers. We've said before that growth in consumer spending was neither as weak as the Q1 data implied nor as strong as implied by the Q2 data, and that Q3 growth should fall between the two. Our forecast for July retail sales is consistent with this broader view.
July Retail Sales: Ex-Auto Wednesday, 8/15 Range: 0.2 to 0.6 percent Median: 0.4 percent	Jun = +0.4%	Up by 0.3 percent.
July Retail Sales: Control Group Wednesday, 8/15 Range: 0.2 to 0.5 percent Median: 0.4 percent	Jun = 0.0%	Up by 0.5 percent. As noted above, our forecast anticipates declines in motor vehicle and gasoline sales and only modest increases in building materials and restaurant sales. Stripping these components from total retail sales yields control retail sales, and we expect a solid increase here. This mainly reflects the impact of Amazon Prime Day, though the caveat here is that the full effect may not be captured in the initial estimate of July sales. To some extent, Prime Day can simply divert sales from physical stores to online, with sales at electronics stores and apparel stores prime (sorry, couldn't help it) candidates for such shifts – retail sales in both categories declined last July. Our forecast would get Q3 growth in control retail sales – a direct input into the GDP data on consumer spending – off to a solid start.
Q2 Nonfarm Labor Productivity Wednesday, 8/15 Range: 1.7 to 2.8 percent Median: 2.5 percent SAAR	Q1 = +0.4% SAAR	Up at an annualized rate of 2.0 percent. Real output in the nonfarm business sector rose at an annualized rate of 4.8 percent in Q2, which combined with our forecast of 2.8 percent annualized growth in aggregate hours worked yields productivity growth of 2.0 percent. Still, as we routinely note, productivity growth tends to be highly volatile from quarter-to-quarter and what is of far more significance is the trend rate of productivity growth. That trend rate has been steadily accelerating over recent quarters, and our forecast would put the 8-quarter moving average at 1.4 percent, not "productivity miracle" territory but nonetheless the best read since Q2 2011, when productivity growth was slowing from its post-recession peak. The main question, however, is the extent to which this pick-up in trend productivity growth is sustained, the key to which will be continued steady growth in business investment spending.
Q2 Unit Labor Costs Wednesday, 8/15 Range: -1.0 to 1.5 percent Median: 0.0 percent SAAR	Q1 = +2.9% SAAR	Up at an annualized rate of 0.6 percent. There is considerable uncertainty here given pending revisions to the source data, but our forecast anticipates slower growth in hourly comp costs than seen in Q1 which, along with faster productivity growth, will act as a drag on growth in unit labor costs. Again, what matters more is the trend rate of growth, which points to only moderate growth in labor compensation costs.
July Industrial Production Wednesday, 8/15 Range: 0.1 to 0.7 percent Median: 0.3 percent	Jun = +0.6%	Up by 0.4 percent. We look for modestly higher manufacturing output while the early-July heat wave means utilities output should have posted a sizeable increase, with these two sectors more than offsetting what our forecast anticipates will be lower output in the mining sector. Our forecast would leave total IP up 4.4 percent year-on-year, with manufacturing output up 2.5 percent.

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July Capacity Utilization Rate Range: 78.0 to 78.5 percent Median: 78.2 percent	Wednesday, 8/15	Jun = 78.0%	Up to 78.2 percent.
June Business Inventories Range: 0.0 to 0.4 percent Median: 0.1 percent	Wednesday, 8/15	May = +0.4%	We look for total business inventories to be up by 0.1 percent and for total business sales to be up by 0.3 percent. Unlike most of this week's other releases, the report on June business inventories will go largely unnoticed by market participants but will help shape our expectations of revisions to the initial print on Q2 real GDP growth. Recall the BEA's initial estimate showed inventories taking a full percentage point off of top-line real GDP growth in Q2; the June inventory data (and revisions to the data for April and May) will show how close the BEA came on that initial estimate.
July Housing Permits Range: 1.280 to 1.375 million units Median: 1.310 million units	Thursday, 8/16	Jun = 1.292 million units SAAR	Up to an annualized rate of 1.331 million units. On a not seasonally adjusted basis, we look for total permits of 112.100 units in July, down from 121,600 in June, which would be in line with typical seasonal patterns – in any given year permit issuance tends to begin tapering off in July. This July is more difficult to assess due to a few factors. One is the strength seen in single permit issuance in Florida over recent months – June saw the highest number of single family permits (unadjusted) issued in Florida in any month since August 2006. We've speculated that the jump in single family permit issuance in Florida over the past few months could reflect (delayed) rebuilding from Hurricane Irma, and any such effect will ultimately run its course. While our forecast does not anticipate a dramatic slowdown in the July data, we could be wrong on this point and single family permits could decline more than we expect (we have them down in each of the four broad Census regions in July). The Midwest region poses another challenge for our July forecast. Recall that permits and starts (unadjusted) in this region fell sharply in June, and it is natural to wonder whether the July data will bring payback. We think not, as we think the declines in June were themselves a reversal of unusually strong activity in the Midwest in May, and our forecast anticipates little change in permits and starts in July. Finally, multi-family permit issuance (again, unadjusted) has been oddly strong over recent months across the four broad Census regions. While our forecast anticipates a decline in July, it's hard to have much confidence any forecast of multi-family activity, as this segment of the housing market has made little sense to us for quite some time. In any event, our forecast would put the running 12-month total of unadjusted housing permits at 1.320 million units, with single family permit issuance trending higher and multi-family permit issuance trending lower, albeit both at slow rates.
July Housing Starts Range: 1.167 to 1.300 million units Median: 1.259 million units	Thursday, 8/16	Jun = 1.173 million units SAAR	Up to an annualized rate of 1.238 million units. Many of the same points in our comments on housing permits apply to housing starts. After both fell sharply in June, we look for a solid rebound in single family starts but only a modest rebound in multi-family starts, but we see upside risks to our call on multi-family (once again, it's hard to have much confidence in any forecast of multi-family activity). On a not seasonally adjusted basis, we look for total starts of 115,900 units, which would put the running 12-month total of unadjusted starts at 1.253 million units which reflects gradually rising single family starts and gradually declining multi-family starts.
July Leading Economic Index Range: 0.3 to 0.6 percent Median: 0.4 percent	Friday, 8/17	Jun = +0.5%	Up by 0.5 percent.

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