ECONOMIC PREVIEW

REGIONS

Week of August 27, 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%	While beauty may be in the eye of the beholder, the stance of monetary policy is apparently in the ear of the listener. Or something like that. In any event, headlines in the wake of Fed Chairman Powell's Jackson Hole speech range from "Powell Signals More Rate Hikes Ahead" to "Dovish Powell Read Gives Gold New Lease On Life." Maybe that explains why there was virtually no reaction to the speech in the bond market – traders were too confused to figure out how to react. In any event, what we heard in Chairman Powell's speech was an affirmation of a risk management approach to setting monetary policy that puts less emphasis on modeled outcomes and in which there is no role for policy rules. Our sense is that Chairman Powell is comfortable with removing remaining monetary accommodation and moving the Fed funds rate, gradually, to neutral – which we see consistent with a target rate range mid-point of 2.875 percent – and seeing what the world looks like at that point rather than blowing past neutral to fend off inflation that may or may not be coming. To be sure, such an approach is quite reasonable as long as inflation expectations remain well anchored but becomes much more challenging if inflation begins to accelerate materially, which Chairman Powell addressed by stating the FOMC would do "whatever it takes" to keep inflation expectations from getting out of hand.
July Advance Trade Balance: Goods Tuesday, 8/28 Range: -\$70.6 to -\$66.7 billion Median: -\$68.5 billion	Jun = -\$67.9 billion	<u>Widening</u> to -\$70.6 billion with a decline in exports and higher imports. The trade data have been clouded over recent months as firms, domestic and foreign, have been playing "time the tariffs," i.e., placing orders and making shipments in anticipation of tariffs, and this injects added uncertainty to our forecast for the July trade balance. Still, even if the deficit in the goods account widened less in July than our forecast anticipated, we look for trade to be a drag on Q3 real GDP growth.
August Consumer Confidence Tuesday, 8/28 Range: 124.1 to 128.5 Median: 127.0	Jul = 127.4	<u>Up</u> to 128.2
Q2 Real GDP – 2nd estimate Wednesday, 8/29 Range: 3.2 to 4.2 percent Median: 4.0 percent SAAR	Q2 1st est. = +4.1% SAAR	<u>Up</u> at an annualized rate of, oddly enough, 4.1 percent. Odd in the sense that the first estimate of GDP in any given quarter is based on highly incomplete source data and thus prone to sizeable revision. As such, it would be unusual for the second estimate of Q2 real GDP growth to match the initial estimate. To be sure, we look for many of the underlying components (consumer spending, inventories, trade, and business investment) to have been revised, but those revisions should basically be a wash, leaving top-line growth at 4.1 percent. Until, you know, the next round of revisions.
Q2 GDP Price Index – 2nd estimate Wednesday, 8/29 Range: 3.0 to 3.0 percent Median: 3.0 percent SAAR	Q2 1st est. = +3.0% SAAR	<u>Up</u> at an annualized rate of 3.0 percent.
July Personal Income Thursday, 8/30 Range: 0.3 to 0.5 percent Median: 0.3 percent	Jun = +0.4%	<u>Up</u> by 0.4 percent. It was a close call for our forecast of July personal income which, at 0.35 percent, was literally on the border between a 0.3 increase and a 0.4 increase. As the official arbiter of such situations – a 1993 U.S. silver dollar – came up "heads" we rounded up, not down. In any event, the wage and salary details in the July data will be on the soft side, as a shorter workweek weighed down growth in private sector wage & salary earnings. Nonetheless, we think growth in rental income, dividend & interest income, and transfer payments will be sufficient to push growth in top-line personal income up to 0.4 percent, leaving it up 4.9 percent year-on-year.
July Personal Spending Thursday, 8/30 Range: 0.3 to 0.4 percent Median: 0.3 percent	Jun = +0.4%	<u>Up</u> by 0.3 percent. In the context of downward revisions to the June data we thought there was less to the July retail sales report than met the eye, so we're prepared to be underwhelmed by the report on July personal spending. While the strength of control retail sales in July points to a solid gain in spending on nondurable consumer goods, we look for a middling increase in total consumer spending for July. We think spending on consumer durable goods will be weaker than implied by the July retail sales data, while low utilities outlays will act as a drag on services spending. As we have noted elsewhere, however, growth in consumer spending was neither as weak as implied by the Q1 data nor as strong as implied by the Q2 data, and the July data on personal spending will align with our view that Q3 growth in consumer spending will fall somewhere in between.
July PCE Deflator Thursday, 8/30 Range: 0.1 to 0.2 percent Median: 0.2 percent	Jun = +0.1%	<u>Up</u> by 0.1 percent, for a year-on-year increase of 2.3 percent. We look for the <u>core PCE deflator</u> to be <u>up</u> by 0.2 percent, for a year-on-year increase of 2.0 percent.

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