# ECONOMIC PREVIEW

REGIONS

Week of May 13, 2019

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint** *(After the June 18-19 FOMC meeting):* Target Range Midpoint: 2.375 to 2.375 percent Median Target Range Midpoint: 2.375 percent | Range: 2.25% to 2.50% Midpoint: 2.375% | However bad paybacks may be, unintended consequences can be even worse. That's worth keeping in mind in the midst of the escalation of the trade dispute between the U.S. and China. What is seldom mentioned in discussions on trade is that capital inflows are the flip side of trade deficits. Large and persistent U.S. trade deficits mask the large and persistent capital inflows critical to financing investment, a/k/a the main driver of economic growth over time. The U.S. has legitimate trade grievances with China, but resolving them in a way that disrupts capital flows into the U.S. would be more disruptive to economic growth over time than any trade deficit ever could be. |
| **April Retail Sales: Total** Wednesday, 5/15 Range: -0.1 to 0.6 percent Median: 0.3 percent | Mar = +1.6% | Up by 0.3 percent. The initial estimate of retail sales in any given month is prone to sizable revision, so the first order of business here will be assessing the revisions to the initial estimate of March sales. Beyond that, price effects mean gasoline should provide meaningful support to top-line retail sales, as was the case in February and March. Motor vehicle sales, however, should be a material drag on top-line retail sales, as evidenced by the wide gap between the growth of total and ex-auto sales that we and most others expect. Additionally, a good rule of thumb in any given year is to average the retail sales data for March and April as a means of accounting for what can be considerable noise in the data due to the floating timing of Easter – that Easter falls on a different date each year makes it difficult to properly seasonally adjust the data. Given how late April fell this year, the revised March data and the initial estimate for April will give us a better sense of the extent to which seasonal adjustment noise shaped the profile of retail sales in each month. |
| **April Retail Sales: Ex-Auto** Wednesday, 5/15 Range: 0.3 to 0.9 percent Median: 0.7 percent | Mar = +1.2% | Up by 0.8 percent. |
| **April Retail Sales: Control Group** Wednesday, 5/15 Range: 0.2 to 0.8 percent Median: 0.3 percent | Mar = +1.0% | Up by 0.4 percent. A hefty increase in March set a solid base under Q2 growth in control retail sales, a direct input into the GDP data on consumer spending on goods. As such, we expect much faster growth in total consumer spending in Q2 than was the case in Q1; our forecast of April control sales would get Q2 off to a good start. |
| **April Industrial Production** Wednesday, 5/15 Range: -0.2 to 0.3 percent Median: 0.0 percent | Mar = -0.1% | Down by 0.2 percent. Manufacturing is likely to have been a drag on April industrial production given the decline in aggregate hours worked in the durable goods segment, some of which stems from further job cuts amongst motor vehicle producers. We look for a slower pace of motor vehicle assemblies to have acted as a drag on manufacturing output in the April industrial production data, and this is likely to continue over coming months. Despite steadily rising oil prices, active U.S. rig counts have been trending lower over recent months, and this continued in April. As such, we look for the April industrial production data to show no more than a modest increase in mining output. Our forecast would leave total industrial production up 1.8 percent year-on-year, with manufacturing output up just 0.5 percent. |
| **April Capacity Utilization Rate** Wednesday, 5/15 Range:78.5 to 79.0 percent Median: 78.7 percent | Mar = 78.8% | Down to 78.6 percent. |
| **March Business Inventories** Wednesday, 5/15 Range: 0.0 to 0.4 percent Median: 0.1 percent | Feb = +0.3% | We look for total business inventories to be unchanged and for total business sales to be up by 1.6 percent. We see March as having been somewhat of a transition month, with inventories flipping from being a driver of to a drag on overall growth. What was a sizable build in business inventories, particularly on the wholesale trade level, over the past three quarters will be unwound over coming months which, in addition to what is likely to be a slowing pace of motor vehicle production, will weigh on growth in employment and output in the factory sector. |
| **April Housing Permits** Thursday, 5/16 Range: 1.250 to 1.320 million units Median: 1.288 million units SAAR | Mar = 1.288 million units SAAR | Up to an annualized rate of 1.311 million units. On a not seasonally adjusted basis, we look for 115,300 total housing permits. Our forecast anticipates larger increases in both single family and multi-family permits (not seasonally adjusted) than is typical for the month of April. While this mainly reflects catch-up after a host of weather related disruptions held down activity in February and March, we do see some extra spring in the single family segment of the market thanks to favorable mortgage interest rates. Our forecast would put the running 12-month total of not seasonally adjusted housing permits at 1.290 million units. The April release will incorporate the comprehensive annual revisions to the recent historical data, and the seasonally adjusted data on housing permits back to 2013 will be revised. |

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| **April Housing Starts** Thursday, 5/16<br>Range: 1.130 to 1.287 million units<br>Median: 1.215 million units SAAR | Mar = 1.139 million units SAAR | Up to an annualized rate of 1.193 million units. If that seems like a less than inspiring rebound from a less than impressive March number, well, yes and no. On a not seasonally adjusted basis, our forecast anticipates total housing starts of 107,800 units and, as with housing permits, we look for larger increases in both single family and multi-family starts than is typical for the month of April. There is plenty of catching up to do after unfavorable weather held down starts in February and March. At the same time, the April seasonal adjustment factors do not typically flatter the unadjusted data, hence our rather unflattering forecast of the headline starts number. That said, it does seem like the risk to our forecast is to the upside, i.e., unadjusted starts may come in a bit stronger than we expect, but we will note that for the Midwest, any catching up will have to wait given that flooding remains an issue in a good part of that region.<br><br>Either way, our forecast would leave the running 12-month total of not seasonally adjusted starts at 1.212 million units. Compare that to the total as of September 2018 which, at 1.266 million units, was the highest such total since February 2008. That shows how badly the housing market was knocked off stride in late-2018 as the jump in mortgage interest rates compounded affordability issues and flagging confidence amidst the partial government shutdown and the meltdown in the financial markets gave builders and prospective buyers second thoughts. At the same time, weather conditions put a damper on the rebound in housing market activity sparked by the sharp decline in mortgage interest rates in early-2019. While we look for single family starts to push higher over coming months, the weakness seen in late-2018 will remain apparent in the data for the next several months.<br><br>The April release will incorporate the comprehensive annual revisions to the recent historical data on housing units permitted but not yet started, housing starts, housing completions, and housing units under construction, with revisions to the seasonally adjusted data back to 2014. We're actually eager to see the revised data. While this could be a sign that we just need to get out more, we're quite curious as to whether the revised data will help reconcile what has been an oddly large gap between multi-family permits and starts, and what has also been an oddly large gap between multi-family starts and completions. Some of the patterns in the data have been rather confusing to us and, while we don't have high hopes, we'll be interested in whether, or to what degree, the revised data seem more internally consistent. Which of course won't settle the question of whether we need to get out more. We do, probably. |
| **April Leading Economic Index** Friday, 5/17<br>Range: 0.2 to 0.3 percent<br>Median: 0.2 percent | Mar = +0.4% | Up by 0.2 percent. |

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