ECONOMIC PREVIEW

REGIONS

Week of August 8, 2016

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on September 20-21):* Target Range Midpoint: 0.375 to 0.375 percent Median Target Range Midpoint: 0.375 percent		0.375%	The July employment report should put to rest any lingering concerns that the weak May report was anything other than noise. Clearly, the labor market remains sound and solid growth in labor earnings is underpinning growth in real personal income that is in turn supporting growth in consumer spending. For the FOMC, the July employment report is not a green light to raise the Fed funds rate at their September meeting but, more significantly, neither is it a red light.
Q2 Nonfarm Labor Productivity Range: 0.2 to 0.7 percent Median: 0.5 percent SAAR	Tuesday, 8/9	Q1 = -0.6%	Up at an annual rate of 0.4 percent. Not exactly another "productivity miracle" but it will have to do. Real nonfarm business output grew at an annual rate of 1.2 percent in Q2, matching real GDP growth. What was only a modest increase in aggregate private sector hours worked, as measured in the payroll employment data, will be amplified by a significant increase in hours worked by the self-employed. This will hold down productivity growth, which will seem even more feeble coming off of two consecutive quarterly declines. As we routinely note, given how jumpy the quarterly data can be we prefer to look at the 8-quarter moving average as a better gauge of underlying trend productivity growth. The news here isn't much more encouraging, as our call would put trend growth at just 0.5 percent. Once again, not exactly a productivity miracle.
Q2 Unit Labor Costs Range: 0.6 to 2.9 percent Median: 1.8 percent SAAR	Tuesday, 8/9	Q1 = +4.5%	Up at an annual rate of 2.4 percent. We look for growth in hourly compensation as measured in the productivity data to have been slower in Q2 than was the case in Q1. At the same time, the small gain in productivity will be somewhat of an offset and help hold down growth in unit labor costs, unlike what we saw in Q1.
July Retail Sales Range: 0.2 to 0.6 percent Median: 0.4 percent	Friday, 8/12	Jun = +0.6%	Up by 0.4 percent. There are a lot of cross currents to navigate here, leaving us with little conviction in our forecast. Retail gasoline prices fell by almost five percent in July, far larger than is typical for the month, meaning seasonal adjustment factors won't fully compensate and gasoline station sales will be a drag on the headline sales number. We also expect building materials to give back some of the outsized gain (pending revision, of course) posted in June. We think there is less support from motor vehicle sales than implied by the 17.9 million annualized rate of unit sales. Retail sales of automobiles were weak, with fleet sales providing considerable support, but these are not captured in the retail sales data. Sales of SUVs/light trucks were very strong, which will show up in the retail sales data. This mapping of unit sales to the dollar volume reported in the retail sales data, however, remains one of life's great mysteries, at least in our life, so we could be off by a sizeable amount here. Finally, we expect *Amazon Prime* day to have fueled a hefty increase in sales by nonstore retailers (though this likely won't be fully captured in this week's initial estimate of July sales), which will provide support for overall sales. To be clear, unlike many of our less diligent counterparts in corporate America, we did not participate in *Amazon Prime* day while on the company clock. Well, okay, we did, but only briefly. Okay, fine, we did take a break from shopping to do a few minutes of work that day. Whatever. All in all, we look for a fairly modest gain in total retail sales.
July Retail Sales: Ex-Auto Range: 0.0 to 0.3 percent Median: 0.2 percent	Friday, 8/12	Jun = +0.7%	Up by 0.2 percent.
July Retail Sales: Control Sales Range: 0.3 to 0.5 percent Median: 0.4 percent	Friday, 8/12	Jun = +0.5%	Up by 0.4 percent. Of the factors we noted above as having the most impact on total retail sales in July, only sales at nonstore retailers are included in control sales. We look for a decent gain in this category, a direct input into the GDP data.
July PPI – Final Demand Range: -0.1 to 0.2 percent Median: 0.1 percent	Friday, 8/12	Jun = +0.5%	Down by 0.1 percent. This would leave the PPI up just 0.1 percent year-on-year.
July Core PPI Range: 0.0 to 0.3 percent Median: 0.2 percent	Friday, 8/12	Jun = +0.4%	Up by 0.2 percent, which translates into a year-over-year increase of 1.2 percent.
June Business Inventories Range: 0.0 to 0.2 percent Median: 0.1 percent	Friday, 8/12	May = +0.2%	Up by 0.1 percent with total business sales up by 0.7 percent. The data in this report are likely to show inventories were a larger drag on Q2 real GDP growth than the BEA initially estimated. But, with inventory/sales ratios still elevated, we expect inventories to be only a modest positive for current quarter growth.

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