# ECONOMIC PREVIEW

REGIONS

Week of July 8, 2019

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint**<br>*(After the July 30-31 FOMC meeting):*<br>Target Range Midpoint: 2.375 to 2.375 percent<br>Median Target Range Midpoint: 2.375 percent | Range:<br>2.25% to 2.50%<br>Midpoint:<br>2.375% | The roller coaster ride that is the monthly job growth number continued in June, with total nonfarm employment rising by 224,000 jobs after a gain of just 72,000 jobs in May. While total job growth was overstated by a reported gain of 29,000 jobs in the local government sector, which we fully expect to be revised away next month, private sector payrolls were up by 191,000 jobs and, just as importantly, job growth was more broad based across the private sector in June than in any month this year. While the month-to-month job growth numbers have been more volatile of late, the trend rate of job growth remains solid, with the pace of job growth more than sufficient to keep downward pressure on the unemployment rate and upward pressure on wage growth. That the pace of job growth has slowed from last year's pace is neither alarming nor surprising, at least it shouldn't be.<br><br>The June employment report should help allay concerns that uncertainty over the course of trade policy is taking a toll on the broader economy. In last week's *Preview*, we laid out three markers that we thought would influence the FOMC's thinking on whether or not to cut the Fed funds rate at their July 30-31 meeting – the ISM Non-Manufacturing Index, the ISM Manufacturing Index, and the June employment report. These reports show continued broad based expansion in the services sector, further growth, albeit at a slower pace, in the manufacturing sector, and a solid trend rate of job growth. Though much can happen between now and the end of the month, we see nothing in the data that warrants a funds rate cut this month, though this puts us at odds with market participants who see a rate cut as a done deal.<br><br>That of course is up to the FOMC, and this week will shed some light on how the FOMC sees the case for a rate cut this month. FOMC members combine for eight speaking engagements throughout the week, and Wednesday brings the release of the minutes of the June FOMC meeting. Additionally, Chairman Powell testifies before the House Financial Services Panel on Wednesday and before the Senate Finance Committee on Thursday as part of the semi-annual "Humphrey-Hawkins" testimony. |
| **June Consumer Price Index** Thursday, 7/11<br>Range: -0.1 to 0.2 percent<br>Median: 0.0 percent | May = +0.1% | Unchanged, yielding an over-the-year increase of 1.6 percent. Retail gasoline prices fell sharply in June, which will take one-tenth of a point off the change in the total CPI, and the overall energy index should be down for June. Elsewhere, signs of mounting inflation pressures will be hard to come by in the June CPI data. While our forecast anticipates a modest increase in core goods prices, this would nonetheless leave them down on an over-the year basis, which has been the case over the past several years. Perhaps the bigger story is that core services inflation has slowed a bit over recent months, and that deceleration is much more pronounced when rents are taken out of the equation. We think this is notable because it is generally accepted that services providers have much more latitude to pass along higher costs in the form of higher prices than do goods producers, but the inflation data – both the CPI and the PCE Deflator – suggest services providers are not wielding much pricing power these days. There are some notable wild cards in the June CPI data, including prices for food consumed at home. After February and March saw the largest two-month increase in this category in almost five years, prices fell sharply in April then posted a sizeable increase in May. We look for a more moderate increase in June, but that comes with a low degree of confidence. We'll say the same about our forecast for a modest increase in apparel prices, which have fallen sharply over the past few months after a change in methodology. We look for a more trend-like increase in primary rents in June after considerable swings over the prior three months. Still, the main storyline here is that inflation remains somewhat subdued, thus giving the FOMC cover to cut the Fed funds rate should they choose to do so at this month's meeting. |
| **June Consumer Price Index: Core** Thursday, 7/11<br>Range: 0.1 to 0.3 percent<br>Median: 0.2 percent | May = +0.1% | Up by 0.2 percent, for a year-on-year increase of 2.0 percent. |
| **June Producer Price Index: Final Demand** Friday, 7/12<br>Range: -0.2 to 0.2 percent<br>Median: 0.1 percent | May = +0.1% | Down by 0.1 percent, for a year-on-year increase of 1.4 percent. |
| **June Producer Price Index: Core** Friday, 7/12<br>Range: 0.0 to 0.2 percent<br>Median: 0.2 percent | May = +0.2% | Up by 0.2 percent, which would translate into a year-on-year increase of 2.1 percent. |

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