ECONOMIC PREVIEW

REGIONS

Week of August 19, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 17-18 FOMC meeting):* Target Range Midpoint: 1.625 to 1.875 percent Median Target Range Midpoint: 1.875 percent	Range: 2.00% to 2.25% Midpoint: 2.125%	Just when you thought the world could not get any crazier, last week happens. Dizzying gyrations in the financial markets, the 10/2 U.S. Treasury yield curve inverting, even if only briefly, for the first time since 2007, a new historic low for the yield on 30-year U.S. Treasury bonds, and mounting fears of recession. This against a backdrop of generally positive economic data, though many dismiss the data out of hand on the grounds that the economic data are "backwards looking." Have no fear, though, because here come the central banks riding to the rescue. Yet again. In the "this time we really mean it" category, ECB officials are signaling that the ECB will go big on stimulus because, sure, pushing interest rates even further into negative territory and buying every bond ever issued will work so much better than pushing interest rates only moderately into negative territory and only buying almost every bond ever issued has worked. Of course, in The Land of Magical Thinking, a/k/a ECB headquarters, spinning counter-factual fairy tales of how much worse things would be without all of the "stimulus" provided thus far is supposed to deflect attention from how little that stimulus has done to perk up a Euro Zone economy suffering from ills that have absolutely nothing to do with monetary policy. The ECB is far from alone, however, as central banks around the globe are in a race to see which one can debase their currency to the largest degree in the least amount of time, umm, wait, we meant in a race to provide even more of the monetary stimulus on which the global economy has so clearly thrived over the past decade. Closer to home, a Fed funds rate cut at the September FOMC meeting seems inevitable, the question instead being whether it will be 25 or 50 basis points. Fed Chair Powell is set to speak at the Jackson Hole conference this Friday, though it is hard to see how anything good can come out of that. The risk is that Chairman Powell says something, however inadvertently, that is taken as a sign that FOMC policy is less dovish than is priced into the markets.
July Existing Home Sales Wednesday, 8/21 Range: 5.200 to 5.500 million units Median: 5.390 million units SAAR	Jun = 5.270 million units SAAR	Up to an annualized rate of 5.410 million units. We look for not seasonally adjusted sales of 532,000 units, up 1.7 percent year-on-year but this in part reflects there being one more sales day this July than last. While low mortgage rates are clearly supporting home sales, the reality is that with the exception of the affordability shock of late-2018, which crushed new and existing home sales, inventory (or lack thereof) has ruled the housing market over the past several years. What had been a nice run of rising inventories of existing homes for sale faded in June, and July and August are typically transition months, i.e., months in which inventories flatten out after having risen during the Spring sales season and before falling during the latter months of the year. As such, unless these long-standing patterns in the data are defied this year, there is only so much mileage to be had from mortgage interest rates being as low as they are. It is curious, not to mention more than a little maddening, how many would-be housing market analysts totally ignore the supply side dynamics and (wrongly) conclude that prospective buyers are simply not responding to low mortgage rates.
July Leading Economic Index Thursday, 8/22 Range: 0.0 to 0.4 percent Median: 0.2 percent	Jun = -0.3%	Up by 0.3 percent.
July New Home Sales Friday, 8/23 Range: 609,000 to 685,000 units Median: 640,000 units SAAR	Jun = 646,000 units SAAR	Up to an annualized rate of 657,000 units. Our forecast anticipates not seasonally adjusted sales of 57,000 units, matching the initial estimate for June but up 9.6 percent year-on-year. Commentary from builders has been more upbeat than the Census Bureau data on single family housing starts and new single family home sales, and while we put more stock in the former, we still have to forecast the latter. Clearly, builders are seeing benefits from lower interest rates, whether or not that is being captured in the Census data. Though not as pressing as in the existing homes market, supply constraints continue to weigh on new home sales. One distinct difference is that new home sales can be booked before construction on the units has begun, and we've noted that the share of new home sales accounted for by such units has been elevated. We expect that to remain the case, meaning builders will be kept busy clearing order backlogs even after sales begin to taper off. In addition to sales by stage of construction, we continue to closely track the mix of sales across price ranges. There has been a clear, albeit somewhat slow, shift toward homes priced below $300,000, and while this should persist as builders continue to target first-time buyers with smaller, more affordable homes, it could be that notably low mortgage interest rates trigger another wave of higher-end demand by easing affordability constraints in this segment. These are just some of the details of the July data to watch for.

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