ECONOMIC PREVIEW

REGIONS

Week of December 23, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 28-29 FOMC meeting):* Target Range Mid-point: 1.625 to 1.625 percent Median Target Range Mid-point: 1.625 percent	Range: 1.50% to 1.75% Midpoint: 1.625%	Just when it looked as though the U.S. manufacturing sector was breaking free of the malaise that had gripped it over the past several months, Boeing's decision to halt production of the 737 Max will drag the factory sector back down, even if only temporarily. The past several months have been difficult for the factory sector, reflecting the combined effects of faltering global economic growth, uncertainty over trade, the strength of the U.S. dollar, a sizable inventory overhang, and the effects of the GM strike. Still, along with at least some progress on trade, the recent data have been encouraging – core capital goods orders jumped in October, the U.S. dollar, though not weakening, has at least lost its upward momentum, production of motor vehicles and parts is normalizing in the wake of the GM strike having been settled, and ex-auto employment and output rose in November, with slowing supplier delivery times indicating a stepped-up pace of activity in the manufacturing sector. True, the ISM Manufacturing Index has yet to break back above the 50.0 percent mark, but that seemed a given in light of the improvement in the broader data on the manufacturing sector, particularly given signs that global manufacturing activity has firmed up. Against that improving backdrop, however, Boeing's production cuts, which take effect in January, will cast a wide shadow over the manufacturing sector in early 2020 when accounting for downstream effects on suppliers. The high frequency data on factory orders and shipments, industrial production, and inventories will be impacted, and the hit to Q1 2020 real GDP growth could easily top half a percentage point. To be sure, as was the case with the recent GM strike, once Boeing resumes production of the 737 Max the adverse effects seen in the early-2020 data will be reversed. At this point, however, there is no timetable for production to resume, nor is there any way of knowing the level to which production will be restored, which obviously will have implications for suppliers. Yet another headwind, particularly one this stern, is the last thing the factory sector needs at this point, but, be that as it may, there's just no way around this one.
November New Home Sales Monday, 12/23 Range: 700,000 to 765,000 units Median: 735,000 units SAAR	Oct = 733,000 units SAAR	<u>Up</u> to an annualized sales rate of 743,000 units. On a not seasonally adjusted basis, we look for sales of 54,000 units, but we'd say the risk to our forecast is to the downside. The unadjusted November data on single family permits and starts was weaker than we had anticipated, contrary to "on the ground" accounts of a stronger than normal November. Even if sales do fall a bit short of our forecast, the more significant point is that new home sales have been on a nice roll over the past few months, which is in keeping with our view that the demand side of the market is quite healthy. Our forecast would leave new home sales up by better than 10.0 percent on a year-to-date basis through November, and we've argued that growth in sales would have been even stronger were it not for lingering supply side constraints. Though the rate of growth will slow, we still see further upside room for new home sales in 2020.
November Durable Goods Orders Monday, 12/23 Range: 0.0 to 2.9 percent Median: 1.5 percent	Oct = +0.5%	<u>Up</u> by 2.8 percent. Though, as discussed above, the path forward looks somewhat rocky, November did see a jump in nondefense aircraft orders, and that will boost the headline orders number. One of the most encouraging elements of the November data on industrial production was broad based, if somewhat modest, growth in output across various segments of the manufacturing sector, and we think that will be reflected in the data on November factory orders.
Nov. Durable Goods Orders: Ex-Trnsp. Monday, 12/23 Range: -0.6 to 1.4 percent Median: 0.2 percent	Oct = +0.5%	We look for <u>ex-transportation orders</u> to be <u>up</u> by 0.4 percent. As always, the most important line item will be <u>core capital goods orders</u>, which we expect will be <u>unchanged;</u> while building on last month's sizable gain would be better, unchanged would still be preferable to giving back some of last month's gain. More importantly, core capital goods orders will be a key metric to watch in early 2020 for signs of whether or not easing trade tensions are providing support for capital spending.

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