ECONOMIC PREVIEW

REGIONS

Week of March 16, 2020

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the April 28-29 FOMC meeting):* Target Range Mid-point: 0.000 to 0.125 percent Median Target Range Mid-point: 0.125 percent		Range: 0.00% to 0.25% Midpoint: 0.125%	The social distancing that is a vital element of stemming the spread of the coronavirus will have a significant economic impact, signs of which we are already seeing. While monetary and fiscal policy cannot prevent that, they can help mitigate the impact. The FOMC has made it clear that the full force of monetary policy will be brought to bear. It is now up to Congress and the Administration to show the same for fiscal policy.
February Retail Sales: Total Range: -0.2 to 0.5 percent Median: 0.2 percent	Tuesday, 3/17	Jan = +0.3%	Down by 0.1 percent. Gasoline should be a material drag on total retail sales given the sharp decline in retail gas prices. The extent to which any effects of the coronavirus will turn up in the February retail sales data is unclear – we've factored in some, but this is a matter of timing. Whether February or later, as those effects do turn up in the data, we'd expect to see grocery stores, warehouse stores, and pharmacy/health stores capture higher shares of overall retail sales, while restaurant sales are likely to take a sizeable hit. Keep in mind, however, that spending on services, such as travel, lodging, sporting events, and entertainment, is not captured in the retail sales data, and these are areas in which we expect to see the most rapid, and sharpest, declines in spending.
February Retail Sales: Ex-Auto Range: -0.2 to 0.4 percent Median: 0.1 percent	Tuesday, 3/17	Jan = +0.3%	Down by 0.1 percent.
February Retail Sales: Control Group Range: 0.2 to 0.6 percent Median: 0.4 percent	Tuesday, 3/17	Jan = 0.0%	Up by 0.4 percent. Most of the categories we expect to have weakened in February are not included in control sales, so control sales should easily outperform headline sales. Our forecast anticipates some strength in sales by nonstore retailers, which includes online sales. As reported in the retail sales data, sales in this category have been oddly weak over the past several months, starkly at odds with other sources, sources that we find to be far more credible than the retail sales data. So, in that sense, it may not be realistic to expect a reversal of the soft trend in online sales in the retail sales data, yet, here we are . . . Online sales will likely take on added significance over coming months, should the coronavirus make people less willing to venture out to shop. Still, keep in mind that every online order ultimately relies on humans to facilitate shipping and delivery so, as with everything else about the virus at this point, it is unclear whether, or to what extent, we'll see a bump in online sales in the months ahead and whether, or to what extent, the retail sales data will actually capture any such bump.
February Industrial Production Range: -0.6 to 0.8 percent Median: 0.4 percent	Tuesday, 3/17	Jan = -0.3%	Up by 0.4 percent, with increased manufacturing output accounting for most of the increase. Though utilities output fell sharply in December and January, any rebound in February was capped by above-normal temperatures across much of the U.S.
February Capacity Utilization Rate Range: 76.5 to 77.5 percent Median: 77.1 percent	Tuesday, 3/17	Jan = 76.8%	Up to 77.1 percent.
January Business Inventories Range: -0.2 to 0.4 percent Median: -0.1 percent	Tuesday, 3/17	Dec = +0.1%	We look for total business inventories to be down by 0.1 percent, and for total business sales to be up by 0.4 percent.
February Building Permits Range: 1.450 to 1.573 million units Median: 1.500 million units SAAR	Wednesday, 3/18	Jan = 1.550 million units SAAR	Up to an annualized rate of 1.573 million units. While record or near-record levels of precipitation across much of the Southeast in February will have held down housing starts in that region, permit issuance is not typically as sensitive to weather patterns. But, permit issuance (not seasonally adjusted) was much stronger than normal in January, some of which likely came at the expense of February. That said, our forecast of 111,600 total permits on a not seasonally adjusted basis coupled with a friendly seasonal adjustment factor should yield a fairly lofty "headline" permits number.
February Housing Starts Range: 1.420 to 1.520 million units Median: 1.500 million units SAAR	Wednesday, 3/18	Jan = 1.567 million units SAAR	Down to an annualized rate of 1.488 million units. On a not seasonally adjusted basis, we look for total housing starts of 102,200 units. As noted above, heavy precipitation across much of the Southeast in February likely held down starts in that region. But February temperatures across much of the U.S. were warmer than normal for the month, particularly in the West region, which likely supported housing starts. But, with January and February both warmer than normal, construction activity has been pulled forward, and there will be payback, most likely starting with the March data, when both housing permits and housing starts typically surge. The obvious caveat here is we do not know whether or to what extent the effects of the coronavirus will hold down residential construction and home sales in the months ahead.

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Q4 Current Account Balance Thursday, 3/19 Range: -\$110.0 to -\$106.3 billion Median: -\$109.0 billion	Q3 = -\$124.1 billion	Narrowing to -\$108.3 billion, reflecting a significantly smaller trade deficit.
February Leading Economic Index Thursday, 3/19 Range: -0.3 to 0.2 percent Median: 0.0 percent	Jan = +0.5%	Up by 0.2 percent.
February Existing Home Sales Friday, 3/20 Range: 5.312 to 5.650 million units Median: 5.515 million units SAAR	Jan = 5.460 million units SAAR	Up to an annualized rate of 5.650 million units. If our above-forecast is on or even near the mark, a robust headline sales number would no doubt trigger glowing stories recounting how the housing market, thanks to notably low mortgage interest rates, is showing resilience in the midst of growing concern over the coronavirus. Any such stories will be exactly as informative and meaningful as any story based on nothing more than reactions to a headline number, which is not at all. Existing home sales are booked at closing, and February closings mainly reflect sales contracts signed from mid-December through January, before concerns over the virus arose and before mortgage interest rates, already quite favorable, declined even further in February. Moreover, our forecast banks on what, for the month of February, is typically a very aggressive seasonal adjustment factor, which can easily make the headline sales number look better than is actually the case. To that point, on a not seasonally adjusted basis, we look for existing home sales of 332,000 units in February, a 4.4 percent increase from January, but smaller than the typical February increase. We continue to maintain that extraordinarily lean inventories are acting as a drag on sales, so the February inventory data will bear watching. In any given year, inventories begin to build in the month of February ahead of the Spring sales season, and while we look for listings to have risen by 3.5 percent in February, that would leave listings down 9.8 percent year-on-year. Despite mortgage interest rates being as low as they are, going forward sales will almost surely be impacted by the effects of the coronavirus. There are already stories about prospective sellers pulling listings, not wanting strangers coming through for open houses, while job losses and diminished consumer confidence would be a meaningful drag on demand. As such, even if the headline sales number is near our forecast, it could be the last solid headline sales number we see for a while.

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