ECONOMIC PREVIEW

REGIONS

Week of July 20, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 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%	With a sparse data calendar and FOMC members in quiet time ahead of next week's meeting, there will be little to move markets this week aside from news on the COVID-19 front and signs of progress on an additional aid package from Congress. As such, Thursday's release of the latest data on claims for Unemployment Insurance benefits will take on added significance. To be sure, the claims data, both initial and continuing, remain shrouded in noise, as reporting issues and processing backlogs continue to wreak havoc on the weekly data. Furthermore, the seasonally adjusted data cannot be relied on given the speed and the magnitude of the changes in the raw data; we first noted this back in March and it remains the case. For instance, last week's seasonally adjusted data significantly overstated the magnitude of the decline in initial claims, but in this week's data the seasonal adjustment factor will go the other way, i.e., seasonally adjusted initial claims could easily increase sharply, exaggerating the extent of layoffs stemming from new restrictions on activity due to the recent upturn in COVID-19 cases. As such, the not seasonally adjusted data on initial and continuing claims remain a better, though far from perfect, gauge of changes in labor market conditions, but regardless of which count you go with, initial claims remain disturbingly elevated.
June Existing Home Sales Wednesday, 7/22 Range: 3.700 to 5.400 million units Median: 4.815 million units SAAR	May = 3.910 million units SAAR	Up to an annualized rate of 4.660 million units, which would leave the headline sales number down 12.4 percent year-on-year. On a not seasonally adjusted basis, we look for existing home sales of 493,000 units, for a year-on-year decline of 6.6 percent – the much smaller year-on-year decline in unadjusted sales reflects there having been two more selling days this June than there were last June. Pending home sales, a gauge of signed sales contracts that tends to lead closings by 30-45 days, jumped by better than 40 percent in May, which to some extent reflected catch-up after so much economic activity had been put on hold in March in April. Even on top of any catch-up, however, demand for home purchases has held up better than any of us expected would be the case in the early phases of the pandemic. Indeed, as has been the case for some time now, the constraints on existing home sales have been on the supply side of the market, not the demand side. There are no signs that supply constraints are easing, which is why the higher-end forecasts of June sales seem rather ambitious to us. While we expect a slight increase in listings in the June data, our forecast would nonetheless leave inventories down almost 20 percent year-on-year, which would mark the 13th straight month in which listings were down year-on-year. Lean inventories are supporting a faster pace of house price appreciation than would have otherwise been the case, but low mortgage rates are acting as a buffer against growing pressure on affordability. There are plenty of questions going forward, such as how long demand can hold up absent more meaningful improvement in labor market conditions and how the market will be impacted as mortgage loan forbearance programs and moratoriums on foreclosures expire, but a starting point of chronically low supply will mitigate any downward pressure on home prices.
June Leading Economic Index: Thursday, 7/23 Range: 1.7 to 10.0 percent Median: 2.1 percent	May = +2.8%	Up by 2.6 percent.
June New Home Sales Friday, 7/24 Range: 640,000 to 775,000 units Median: 700,000 units SAAR	May = 676,000 units SAAR	Up to an annualized rate of 738,000 units. Unlike existing home sales, which are booked at closing, new home sales are booked at the signing of the sales contract and, as such, are a timelier indicator of the pulse of the housing market. Extraordinarily low mortgage interest rates, further increases in applications for purchase mortgage loans, a spike in homebuilder confidence, and industry commentary on the strength of demand, including amongst first-time buyers all point to a solid increase in new home sales in June. Which of course is no guarantee the Census data will actually show a solid increase in new home sales in June, given the often rocky relationship between the Census data and, you know, every other indicator of new home sales. On a not seasonally adjusted basis, our forecast anticipates 68,000 new home sales, though this may be a bit lofty, as it would be the highest monthly total since March 2019. Still, even if not nearly to the same degree as in the market for existing homes, inventories of new homes for sale remain on the lean side, as evidenced by the persistent decline in spec inventories, which as of May were sitting at a two-year low. Additionally, if the recent jump in COVID-19 cases is taking a toll on demand – particularly given the combined share of sales accounted for by Florida and Texas – we'll see that in the new home sales data and the weekly data on purchase mortgage applications well before we'll see it in the data on existing home sales.

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