ECONOMIC PREVIEW

REGIONS

Week of November 23, 2020

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 15-16 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%	Who needs a three-day workweek when you can get it all done in a single day? How else to explain this week's key data releases being packed into Wednesday. The one exception is the November report on consumer confidence, which has Tuesday all to itself. Wednesday's barrage of data releases will help refine the outlook for Q4 growth, which right now comes with more questions than answers. Wednesday will be capped off by the release of the minutes of the November FOMC meeting, which should shed some light on where members stand on the Fed's balance sheet policy, which right now also comes with more questions than answers.
November Consumer Confidence Range: 95.1 to 104.0 Median: 99.0	Tuesday, 11/24	Oct = 100.9	<u>Down</u> to 97.2, though the headline print could come down to which side of the recent pandemic-related news carried more weight with survey respondents. To the extent consumers are rattled by the recent, and ongoing, spike in COVID-19 cases, that could push down the "present situation" component of the headline index. To the extent that the recent encouraging news on the vaccine front makes consumers more hopeful, that could provide a lift to the "expectations" component of the headline index – which is given a heavier weighting in the calculation of the headline index than that assigned to the present situation index. Sure, you have to make it through today in order to get to tomorrow, but we simply don't have a sense for how this will play out in the Conference Board's survey, so in that sense whatever the headline index number turns out to be, we won't be surprised. As always, though, our main focus will be on consumers' perceptions of labor market conditions, which have slowly but steadily improved over the past few months. This is ultimately the key to not only how consumers feel but also to their willingness to spend.
Q3 Real GDP – 2nd Estimate Range: 32.5 to 34.4 percent Median: 33.2 percent SAAR	Wednesday, 11/25	Q3 – 1st est = +33.1% SAAR	<u>Up</u> at an annualized rate of 34.1 percent. In any given quarter, the BEA's second estimate of GDP is based on more complete source data, including revisions, than was available at the time the initial estimate was made. The flow of data subsequent to the BEA's initial estimate of Q3 GDP has been mostly favorable, including data on consumer spending, business and residential fixed investment, and inventories. This points to an upward revision to the initial estimate of Q3 GDP. But, even if our forecast is on the mark, that would still leave the level of real GDP roughly 3.3 percent below that of Q4 2019. This release will also include a first look at Q3 corporate profits.
Q3 GDP Price Index – 2nd Estimate Range: 3.4 to 3.6 percent Median: 3.6 percent SAAR	Wednesday, 11/25	Q3 – 1st est = +3.6% SAAR	<u>Up</u> at an annualized rate of 3.5 percent.
Oct. Advance Trade Balance: Goods Range: -$82.0 to -$78.4 billion Median: -$81.0 billion	Wednesday, 11/25	Sep = -$79.4 billion	<u>Widening</u> to -$81.3 billion.
October Durable Goods Orders Range: -1.5 to 5.9 percent Median: 0.9 percent	Wednesday, 11/25	Sep = +1.9%	<u>Up</u> by 0.5 percent. Boeing booked no new orders in October but saw 12 cancellations, leaving net orders negative, as has been the case in each month of 2020. This will act as a drag on total durable goods orders, but friendly seasonal adjustment may mitigate the severity of this drag. As always, our main interest will be in core capital goods orders, which we expect to post a sixth consecutive monthly increase (see below). We admit to being a bit caught off guard by the strength of core capital goods orders, part of which is due to rising outlays on computer and communications equipment with work arrangements having changed. Firms could also be engaging in replacement investment to update what is on the whole an aged capital stock, taking advantage of financing terms that may not ever again be as generous as they have been of late (though, this isn't necessarily a bad thing considering why financing terms have been so favorable). It is also possible that some firms are pulling capital expenditures forward as a hedge against the possible loss of the provision of the 2017 tax bill that allowed for immediate expensing of capital outlays. Keep in mind that, while core capital goods orders do not feed directly into the GDP data on business fixed investment, shipments of core capital goods do, and orders obviously lead shipments. So, whatever the driver(s), this run of growth in core capital goods orders is, ultimately, acting as a support for real GDP growth, the question of course being how much longer this will remain the case.
Oct. Durable Goods Orders: Ex-Trnsp. Range: 0.1 to 1.5 percent Median: 0.4 percent	Wed, 11/25	Sep = +0.9%	<u>Up</u> by 0.7 percent. We look for <u>core capital goods orders</u> (or, nondefense capital goods excluding aircraft & parts) to be <u>up</u> by 0.5 percent.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

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October Personal Income Range: -1.4 to 0.8 percent Median: -0.1 percent	Wednesday, 11/25	Sep = +0.9%	Down by 1.4 percent. Despite what should be another healthy increase in private sector labor earnings, our forecast anticipates total personal income will be pulled down by declines in public sector labor earnings, transfer payments, and nonfarm proprietors' income. While the large decline in government payrolls in October all but assures a decline in public sector labor earnings, we have far less confidence in our calls on transfer payments and nonfarm proprietors' income. September transfer payments were bolstered by payments made under the Lost Wages Assistance Program, which in many states included retroactive payments for the month of August. With funds from that program largely exhausted, our forecast anticipates a sizable decline in October payments, but the spotty nature of the data on this program lends an added degree of uncertainty to our forecast. The BEA's accounting of funds from the Paycheck Protection Program (PPP) adds another layer of uncertainty to our forecast. PPP loans that were converted into grants have been treated as subsidies, spaced out over a six-month period, which have been added to nonfarm proprietors' income. As we understand it, that sequence of subsidies would be reversed over the subsequent six months, beginning in October, hence the decline in nonfarm proprietors' income anticipated by our forecast. If we are wrong on the flow of transfer payments and/or the BEA's accounting for PPP funds, October personal income will easily outperform our forecast.
October Personal Spending Range: 0.2 to 1.1 percent Median: 0.4 percent	Wednesday, 11/25	Sep = +1.4%	Up by 0.5 percent. A softer than expected report on October retail sales points to only a modest increase in consumer spending on goods. At the same time, we look for a much smaller increase in consumer spending on services in October than those seen over the prior few months, even with support from higher utilities outlays. Our forecast would leave the level of spending on goods 7.9 percent above January's level but the level of spending on services 5.7 percent below. What remains to be seen is whether, or to what extent, the spike in COVID-19 cases and a new round of restrictions on activity, though less biting than those seen in the Spring, will impact the balance of consumer spending. Online sales are likely to jump even higher and grocery stores could see a rush in activity, while restaurants and other service providers are likely to see a dip in demand.
October PCE Deflator Range: 0.0 to 0.1 percent Median: 0.0 percent	Wednesday, 11/25	Sep = +0.2%	Unchanged, which would yield a year-on-year increase of 1.2 percent. We look for the Core PCE Deflator to also be unchanged, leaving it up 1.4 percent year-on-year.
October New Home Sales Range: 0.885 to 1.042 million units Median: 0.975 million units SAAR	Wednesday, 11/25	Sep = 0.959 million units SAAR	Up to an annualized sales rate of 1.042 million units. Recall that the September data on housing permits, housing starts, and existing home sales all came in much stronger than expected. So, it made perfect sense when the subsequent report on September new home sales showed a sharp decline in new home sales. Wait, what? Okay, maybe it made perfect sense given the capricious nature of the new home sales data but, either way, it took us by surprise. Not seasonally adjusted sales, which is the number that actually matters, fell to their lowest level since May, which was more than a bit surprising to us. Not to mention out of line with not only the other housing market data but also commentary from the homebuilder community. As such, we will be surprised if that initial estimate of September new home sales is not revised higher. For a fourth straight month, our forecast of the headline sales number is the highest in the survey; that served us well for the July and August data, for the September data, not so much. Our October forecast reflects what we expect will be strong unadjusted sales and friendly seasonal adjustment – in any given year, the October seasonal adjustment factor tends to flatter, rather than insult, the headline sales number. The October data on housing permits and housing starts came in stronger than expected; why that should, but doesn't always, matter is that the permits and starts data enter into the estimate of new home sales. At the same time, industry reports and builder commentary point to strong new home sales in October. On a not seasonally adjusted basis, we look for 84,000 sales, which would match July as the highest monthly total since August 2006. Other metrics to watch are spec inventories, which we expect to have fallen further, and the share of sales accounted for by units on which construction had not yet been started, which we expect to remain elevated.

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