ECONOMIC PREVIEW

REGIONS

Week of December 14, 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%	That there will be no change in the Fed funds rate target range is the only thing about this week's FOMC meeting that seems certain. Beyond that, every facet of the meeting, starting with the post-meeting policy statement and ending with Chairman Powell's post-meeting press conference, comes with questions. While encouraging news on the vaccine front has likely improved their intermediate-term outlook, the ongoing spike in COVID-19 cases is likely weighing on their near-term outlook, which raises the question of how the Committee will balance the two in their post-meeting policy statement. It is likely the portion of the statement in which current economic conditions are assessed will strike a cautious tone. The other question surrounding the post-meeting statement is whether there will be any change in the forward guidance on the Fed's asset purchase program, which the FOMC has been considering over the past few months. Based on the minutes of the November FOMC meeting, it seems likely the Committee will move to qualitative outcome-based guidance, tying the duration and pace of asset purchases to progress toward the dual mandate of full employment and inflation of 2.0 percent on a sustained basis. There is also the question of whether the FOMC will alter the composition of its asset purchases, putting more emphasis on purchases of longer-duration securities. While such a shift seems likely, the question is when, but we do not look for such a shift at this week's meeting. The Committee will also issue an updated set of economic and financial projections, and it will be interesting to see how their expectations of growth will change in response to the ongoing surge in virus cases and the progress on the vaccine front. As for the updated "dot plot," while we expect the median projection will continue to show no funds rate hikes through 2023, it will nonetheless be interesting to see whether more members feel a hike will be warranted in 2023. In September, four members projected a funds rate hike in 2023, and we won't be surprised if that number is larger in the updated dot plot, even if the median dot continues to imply no rate hikes. Between these and other matters, such as the need for further fiscal policy action, Chairman Powell will have plenty of questions to answer in his post-meeting press conference. This week's data on retail sales (see below) and residential construction (see Page 2) are likely to suffer from the same seasonal adjustment noise that has plagued a wide range of data releases over the past couple of months. In the case of retail sales, we expect the seasonally adjusted data to look worse than will actually be the case, while in the case of residential construction, we expect the seasonally adjusted data to look better than will actually be the case. This simply points to the importance of examining the raw, or, not seasonally adjusted, data before drawing any conclusions.
November Industrial Production Tuesday, 12/15 Range: -0.4 to 0.6 percent Median: 0.3 percent	Oct = +1.1%	Down by 0.2 percent. While manufacturing output may notch a small gain, that will largely reflect higher motor vehicle assemblies, while output of nondurable goods will likely decline. Unseasonably warm weather should lead to a decline in utilities output.
November Capacity Utilization Rate Tuesday, 12/15 Range: 72.0 to 73.4 percent Median: 72.9 percent	Oct = 72.8%	Down to 72.6 percent.
November Retail Sales: Total Wednesday, 12/16 Range: -0.8 to 0.3 percent Median: -0.3 percent	Oct = +0.3%	Down by 0.4 percent. A steep decline in unit sales coupled with weaker pricing means motor vehicles will act as a drag, a potentially significant drag, on total retail sales, and lower prices mean that gasoline will also be a drag on the headline sales number. While the surge in COVID-19 cases and renewed restrictions on activity will have impacted consumer behavior, the biggest change in spending on goods may have been to push more spending to online platforms and away from in-store purchases. Grocery stores and general merchandise stores, however, may have gotten a lift to the extent that consumers felt the need to do some stocking up on food and essentials, while restaurant sales may have taken a hit. That many of these changes would have come over the latter half of November, however, may limit the degree to which they would be captured in the retail sales data. We'll make the same point about Cyber Monday – while online sales clearly took on added importance this year, at the expense of in-store sales on Black Friday, that Cyber Monday fell on the 30th of the month leads us to suspect the full extent of what was a stellar sales day will not be picked up in the retail sales data, at least not in the initial estimate of November sales. To our point about possible seasonal adjustment noise, keep in mind that November is typically a strong month for sales. But, should growth in unadjusted sales be weaker than is typical for the month of November, whether due to consumers pulling back or to timing issues, that weakness will be exaggerated in the seasonally adjusted data.

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Indicator/Action Economics Survey:		Last Actual:	Regions' View:
November Retail Sales: Ex-Auto Range: -0.5 to 0.5 percent Median: 0.1 percent	Wednesday, 12/16	Oct = +0.2%	<u>Up</u> by 0.1 percent.
Nov. Retail Sales: Control Group Range: -0.5 to 0.5 percent Median: 0.2 percent	Wednesday, 12/16	Oct = +0.1%	<u>Up</u> by 0.3 percent. The categories we expect to be the biggest drags on total retail sales – motor vehicles, gasoline, restaurants/bars, and to a lesser extent building materials – are not included in the retail control group, which suggests control sales should outperform headline sales. That said, seasonal adjustment noise could change the tone of the seasonally adjusted data. Over the past five years, not seasonally adjusted control retail sales rose by an average of 8.9 percent in November, with an average increase of 8.0 percent over the 1992-2019 period. We suspect the increase this November will fall short of those marks, in part because *Amazon Prime* day pulled some spending forward into October and in part for reasons tied to the surge in COVID-19 cases. While we've accounted for this in our forecast of seasonally adjusted sales, it still seems as though the risk to our forecast is to the downside.
October Business Inventories Range: 0.3 to 0.8 percent Median: 0.6 percent	Wednesday, 12/16	Sep = +0.7%	We look for total <u>business inventories</u> to be <u>up</u> by 0.8 percent, and for total <u>business sales</u> to be <u>up</u> by 1.2 percent.
November Building Permits Range: 1.480 to 1.651 million units Median: 1.550 million units SAAR	Thursday, 12/17	Oct = 1.544 million units SAAR	<u>Up</u> to an annualized rate of 1.651 million units. As with the retail sales data, our forecast anticipates seasonal adjustment issues will distort the data on new single family construction, only in this case seasonal adjustment will flatter the data as opposed to making it look worse. November is typically a seasonally weak month for single family permits and starts; between 2000 and 2019, not seasonally adjusted single family permits declined by an average of 17.3 percent in the month of November, with single family starts declining by an average of 14.6 percent. With declines of this magnitude being the norm, the November seasonal adjustment factors tend to be rather generous. Given how strong demand for new single family construction has been over the past several months, and that demand has shown few signs of letting up, our forecast anticipates smaller declines in unadjusted single family permits and starts than is typical for the month of November. If we are correct, those generous seasonal adjustment factors could yield headline permits and starts numbers that look better than is truly the case. Indeed, our forecast of seasonally adjusted and annualized building permits would mark the fastest monthly rate for permit issuance since September 2006. As always, however, what will matter far more is the unadjusted permit count. On a not seasonally adjusted basis, we look for 122,400 total housing permits, with 86,900 single family permits, which would be down 8.8 percent from October and which, to our point, is much smaller than the "typical" November decline. Admittedly, our forecast of unadjusted permits (and unadjusted starts) could be too ambitious, or the seasonal adjustment factors may not be in as giving of a mood this year as has been the case in the past. But, even if our forecasts are too high, the most important point is one we made above, which is that demand for new single family construction is showing few signs of letting up.
November Housing Starts Range: 1.450 to 1.604 million units Median: 1.530 million units SAAR	Thursday, 12/17	Oct = 1.530 million units SAAR	<u>Up</u> to an annualized rate of 1.604 million units. On a not seasonally adjusted basis, we look for 119,900 total housing starts, with 90,200 single family starts, which would be down 10.7 percent from October but which, again, would be a smaller decline than is typical for the month of November. Even given the degree to which single family starts have ramped up over the past several months, builders have fallen further behind. Backlogs of orders on which work has not yet started continue to grow, and this is one of the details of the November data we'll be watching for.
Q3 Current Account Balance Range: -$191.6 to -$178.4 billion Median: -$188.0 billion	Friday, 12/18	Q2 = -$ 170.5 billion	<u>Widening</u> to -$186.7 billion. The deficit in the current account, which captures all transactions in goods and services and flows of income and current transfer payments between the U.S. and the rest of the world, widened in Q3 on a larger trade deficit.
November Leading Economic Index Range: 0.3 to 0.8 percent Median: 0.5 percent	Friday, 12/18	Oct = +0.7%	<u>Up</u> by 0.6 percent.

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