ECONOMIC PREVIEW

REGIONS

Week of January 18, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 26-27 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%	Go big or go home. While she will no doubt phrase it far more eloquently, that will be the main message sent by former Federal Reserve Chairwoman and incoming Treasury Secretary Janet Yellen as she heads to Capitol Hill for her confirmation hearing. While we are inclined to worry about what happens when the bill comes due, Dr. Yellen has made clear her view that now is precisely the time to go big with fiscal policy thanks to low borrowing costs, and most in the new Congress will share that view.
December Building Permits Thursday, 1/21 Range: 1.550 to 1.680 million units Median: 1.604 million units SAAR	Nov = 1.635 million units SAAR	Up to an annualized rate of 1.653 million units. Construction activity in the South region, which accounts for over half of all single family housing permits and starts, was notably slow in November, well beyond the normal seasonal slowdown. Given that the data on residential construction were at odds with other indicators of housing market activity, our forecast anticipates some measure of payback in the December data. If we are correct on this point, what for the month of December are very generous seasonal adjustment factors would boost the headline (i.e., seasonally adjusted and annualized) permits and starts numbers, hence our above-consensus forecasts. If, however, activity in the South region underperforms our expectations, our forecasts for total permits and starts will be too high, perhaps significantly so. In any event, on a not seasonally adjusted basis, our forecast anticipates total housing permits of 121,100 units in December, which would put the total for 2020 at 1,422,000 units, the highest annual total since 2006. Growth in total permits in 2020 was more than accounted for by single family permits; our forecasts of the December data would put single family permits up 12.2 percent for full-year 2020, more than offsetting a 13.3 percent decline in multi-family permits and leaving total permits up by 2.6 percent.
December Housing Starts Thursday, 1/21 Range: 1.500 to 1.641 million units Median: 1.560 million units SAAR	Nov = 1.547 million units SAAR	Up to an annualized rate of 1.641 million units. As noted above, we look for some payback in the South region after a notably soft November which, along with what for much of the month was accommodative weather across much of the U.S., could lead to unadjusted starts having been stronger than is normal for the month of December. This would be amplified in the seasonally adjusted data, hence our above-consensus forecast. On a not seasonally adjusted basis, we look for total starts of 111,900 units, which would put full-year 2020 starts at 1.376 million units, the highest annual total since 2006. Our forecasts of the December data would leave single family starts up by 11.0 percent and multi-family starts down by 2.8 percent, yielding a 6.7 percent increase in total starts. Our 2021 forecast anticipates more of the same, i.e., a further increase in single family starts as multi-family starts drift further down.
December Existing Home Sales Friday, 1/22 Range: 6.400 to 6.800 million units Median: 6.550 million units SAAR	Nov = 6.690 million units SAAR	Up to an annualized sales rate of 6.700 million units. On a not seasonally adjusted basis, existing home sales fell by 14.1 percent in November, a much larger decline than is typical for the month and the largest November decline since 2015. It was only by the graces of a very favorable seasonal adjustment factor that the headline, i.e., seasonally adjusted and annualized, sales number remained as elevated as it did. While that outsized November decline in unadjusted sales in part reflected the worsening inventory crunch, it is also likely that closings being pushed back amid the surge in COVID-19 cases also played a part. On a not seasonally adjusted basis, our forecast anticipates 521,000 existing home sales in December, up a bit from the 492,000 sales in November but up 20.1 percent year-on-year. Our forecast would put total unadjusted sales at 5.626 million units for full-year 2020, up 5.3 percent from 2019 and the highest annual total since 2006. How much upside room there is for existing home sales in 2021 will be answered on the supply side, not the demand side, of the market. That the year starts out with inventories at record lows suggests limited upside room for sales with continued robust house price appreciation in 2021. We do think that inventories were lower in 2020 than they otherwise would have been as potential sellers kept their properties off the market due to the pandemic, and while we cannot quantify this, we do think it weighed on listings. While it is reasonable to think that this drag will begin to reverse by the end of Q2 and will fade over the second half of 2021, that still leaves the two longer-running constraints on inventories to contend with. We do not expect single family REITs to begin tapering back holdings of homes, and in fact we are seeing more new home construction being diverted to single family REITs as opposed to being placed for sale. As for the demographic factor – over 55 percent of the owner-occupied housing stock is occupied by a primary householder 55 years-old or above – that constraint could begin to ease this year, but we do not expect it to do so to any meaningful degree and certainly not over at least the first half of 2021. So, in short, while we see some relief on the inventory front in 2021, we nonetheless expect lean inventories to continue to weigh on existing home sales.

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