ECONOMIC PREVIEW

REGIONS

Week of February 15, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 16-17 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%	In case Wednesday morning's flurry of data releases isn't enough, Wednesday afternoon brings the release of the minutes of the January FOMC meeting. The minutes may shed some light on how the Committee assesses the risks around its outlook for growth and inflation. Market participants will also scour the minutes for any hints of a potential timeline for the Fed to begin tapering its asset purchases.
January Retail Sales: Total Wednesday, 2/17 Range: 0.1 to 4.1 percent Median: 1.0 percent	Dec = -0.7%	Up by 2.7 percent. Under the heading of "a little context can go a long, long way," the report on December retail sales was not the disaster it was proclaimed by many to be on the basis of the seasonally adjusted headline sales numbers. The context comes courtesy of the not seasonally adjusted data, which show total retail sales rose by 13.5 percent and control retail sales rose by 17.3 percent in December. While those may seem like impressive increases, they are smaller than the typical December increases. So, in essence, the seasonal adjustment factors were geared for larger increases than actually occurred, hence the declines reported in the seasonally adjusted data. We look for payback in the January data. In a typical year, January is far and away the weakest month for retail sales as consumers take a breather after the holiday sales season. To that point, over the past five years, the not seasonally adjusted data show total retail sales have declined by an average of 20.3 percent and control retail sales have declined by an average of 26.8 percent in the month of January. We look for the declines to have been smaller this January, in part because December's increase was smaller than normal and in part because the second round of Economic Impact Payments – over \$140 billion was distributed in January – provided a lift to spending, particularly amongst lower-income households. If we are correct on this point, the result will be a significant increase in sales on a seasonally adjusted basis, hence our above-consensus forecasts for total, ex-auto, and control retail sales. The possibility of the initial estimate of December sales being revised higher looms as a downside risk to our forecast. Still, a sizable increase in unit motor vehicle sales and a spike in retail gasoline prices should support headline retail sales. Barring a meaningful upward revision to the initial December print, sales by nonstore retailers should be up sharply. And, various spending trackers point to increases in spending in other categories, including restaurants, over the course of January. Again, there are reasons to think that the typical seasonal patterns for January consumer spending did not hold this January, as has been the case so often across much of the economic data during the pandemic. This once again points to the importance of looking beyond the headline numbers and going straight to the not seasonally adjusted data, unless of course you're content to spin a narrative around whatever the headline numbers are.
January Retail Sales: Ex-Auto Wednesday, 2/17 Range: 0.2 to 4.6 percent Median: 0.9 percent	Dec = -1.4%	Up by 2.9 percent.
January Retail Sales: Control Group Wednesday, 2/17 Range: 0.2 to 4.3 percent Median: 0.9 percent	Dec = -1.9%	Up by 2.9 percent.
January PPI: Final Demand Wednesday, 2/17 Range: 0.2 to 0.7 percent Median: 0.4 percent	Dec = +0.3%	Up by 0.5 percent, which would yield an over-the-year increase of 1.0 percent.
January PPI: Core Wednesday, 2/17 Range: 0.1 to 0.5 percent Median: 0.2 percent	Dec = +0.1%	Up by 0.3 percent, good for a year-on-year increase of 1.2 percent.
January Industrial Production Wednesday, 2/17 Range: 0.0 to 0.8 percent Median: 0.4 percent	Dec = +1.6%	Up by 0.5 percent. We look for manufacturing output to have been up by 0.7 percent, with mining output also increasing while utilities act as a drag on total industrial production. One thing to watch in the months ahead is the extent to which motor vehicle output will be constrained by the global shortage of semiconductor chips. Given the impact of motor vehicle production on total manufacturing output, this is something that could act as a drag on growth in industrial production through 1H 2021.
January Capacity Utilization Rate Wednesday, 2/17 Range: 73.2 to 75.2 percent Median: 74.8 percent	Dec = 74.5%	Up to 74.9 percent.

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December Business Inventories Wednesday, 2/17 Range: 0.2 to 0.5 percent Median: 0.5 percent	Nov = +0.5%	We look for total <u>business inventories</u> to be <u>up</u> by 0.5 percent, and for total <u>business sales</u> to be <u>up</u> by 1.0 percent.
January Building Permits Thursday, 2/18 Range: 1.600 to 1.740 million units Median: 1.677 million units SAAR	Dec = 1.704 million units SAAR	<u>Up</u> to an annualized rate of 1.722 million units. On a not seasonally adjusted basis, we look for 127,300 total permits, down from 133,600 in December, with both single family and multi-family permits lower, but our forecast anticipates friendly January seasonal adjustment factors pushing the headline permits number higher. Our forecast would leave total housing permits up 12.9 percent year-on-year, with single family permits up 25.3 percent and multi-family permits down 7.8 percent.
January Housing Starts Thursday, 2/18 Range: 1.525 to 1.703 million units Median: 1.658 million units SAAR	Dec = 1.669 million units SAAR	<u>Up</u> to an annualized rate of 1.703 million units. Our forecast anticipates total starts of 118,300 units on a not seasonally adjusted basis, up from 113,300 units in December, with single family starts modestly lower and multi-family starts higher. Our expecting an increase in multi-family starts has more to with how weak they were in December than anything else. Outside of April, when the economy was largely shut down, the 24,000 multi-family starts in December were the fewest in any month since January 2019, while at the same the 45,000 multi-family permits issued in December were the most in any month of 2020. That jump in permits is what leads us to think the January data will show a rebound in starts, but that doesn't mean we've altered our overall view of multi-family – too much supply in the pipeline leading to starts trending lower – we have not. Sure, pinning one's forecast of total housing starts to the ever-volatile multi-family segment is not the path to forecasting accuracy, but, we'll take our chances just this once. Regardless of how that works out for us, we'll be more interested in the single family starts data. As noted above, our forecast anticipates a decline in single family starts, but this would nonetheless put the running 12-month sum of not seasonally adjusted single family starts at 1.012 million units, the first time over the one-million mark since January 2008. There is little in the permit data to suggest single family starts are topping out, while at the same time builders are contending with growing backlogs of unfilled orders. Affordability remains our main concern in the single family segment of the market given the fast and getting faster pace of house price appreciation and mortgage interest rates starting to inch higher. The Mortgage Bankers Association's weekly data show that in the first week of February, the average loan size for purchase loan applications was $402,200, up 15.8 percent from the same week a year ago. As we've noted, given the extent to which prices have risen, affordability will be more sensitive to a given increase in mortgage interest rates than has been the case in past cycles, so even if they're only inching higher at present, that mortgage rates are rising is worth paying attention to. While we do not expect to see much, if any, impact in the January data on single family starts and sales, that could change in the months ahead.
January Existing Home Sales Friday, 2/19 Range: 6.250 to 6.810 million units Median: 6.610 million units SAAR	Dec = 6.760 million units SAAR	<u>Up</u> to an annualized rate of 6.810 million units. In any given year, January is the weakest month of the year for existing home sales – over the past five years, unadjusted sales have declined by an average of 27.2 percent in the month of January. Our forecast of 396,000 sales on a not seasonally adjusted basis would reflect a 26.3 percent decline from December, but keep in mind the January seasonal adjustment factor tends to be very generous, as reflected in our forecast of the headline sales number. As always, it is the not seasonally adjusted data that matter, so whether or not we correctly pegged the seasonal adjustment factor is of no real relevance. Our forecast of not seasonally adjusted sales squares with the December data on pending home sales, a gauge of signed sales contracts. Recall that existing home sales are booked at closing, with pending home sales typically leading closings by 30-45 days. As has been the case for some time now, the inventory data will be as important as, if not more important than, the sales data, with 2020 having ended with the number of listings and the months supply metric both at record lows. Lack of inventory combined with still-strong demand is fueling robust price appreciation, and we look for little relief on the supply front until at least the back half of 2021. As such, demand will remain vulnerable to increases in mortgage interest rates.