ECONOMIC PREVIEW

REGIONS

Week of March 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%	This week's data releases could be more noise than signal. In the case of residential construction and industrial production, February's unusually harsh winter weather is likely to have impacted the data. In the case of retail sales, well, it's retail sales. In any event, to the extent weather did weigh on the February data, subsequent months will bring payback, and the trends in place prior to February will endure. This week's FOMC meeting brings the release of the Committee's updated economic and financial projections, including an updated "dot plot." Relative to the December projections, we expect the new projections will show faster real GDP growth, a lower unemployment rate, and modestly faster inflation for 2021 being somewhat offset by a slightly less favorable 2022 outlook, with no changes in the "longer-run" outlook, which would make the updated dot plot more interesting. Recall that the last three editions of the dot plot have implied no changes in the Fed funds rate target range through 2023. With market-based measures showing inflation expectations rising and the lift-off for the funds rate being pulled forward, the question is whether the median dot will again imply no hikes through 2023. Based on the December edition, it would take four members moving up their timing to get a single 25-basis point hike in 2023, and while we do not expect the dot plot to show that, neither can we rule it out. In his post-meeting press conference, Chairman Powell is likely to stress that, at present, any discussion of tapering the Fed's asset purchases is "premature" and that it will likely be "some time" before the FOMC can assess whether there has been "substantial further progress" toward achieving the FOMC's dual mandate, points he and other FOMC members have made often.
February Retail Sales: Total Tuesday, 3/16 Range: -3.0 to 1.7 percent Median: -0.4 percent	Jan = +5.3%	Up by 0.6 percent. The retail sales data have been little more than a jumbled mess over the past two months. The December data show not seasonally adjusted sales rose in each of the broad categories, yet, as these increases were smaller than is typical for the month of December, the seasonally adjusted data show a decline in retail sales. The January data show not seasonally sales fell in each of the broad categories for which sales are reported, yet, as these declines were smaller than is typical for the month of January, the seasonally adjusted data show an increase in retail sales. For instance, on a not seasonally adjusted basis, control retail sales fell by 23.1 percent in January, which translated into a 6.0 percent increase on a seasonally adjusted basis. The seasonally adjusted data for the individual categories make even less sense, in terms of the magnitude of the swings in sales between December and January. Many overlooked this seemingly not so minor detail, and instead wrapped the headline numbers for each month up into a convenient narrative hinging on the running off of pandemic-related unemployment insurance benefits at the end of December and the distribution of the second round of Economic Impact Payments in January. While not denying these factors had an impact, they cannot on their own account for the wild gyrations in the components of December and January retail sales. Be that as it may, the numbers are what the numbers are. All of which leaves a flimsy base upon which to make a call on February retail sales. In all honesty, we don't have any idea what to expect despite feeling compelled to put some numbers down here, and the range of forecasts doesn't exactly convey a high degree of certainty over what to expect. What we will say is that weather may have impacted February sales in categories such as motor vehicles and restaurants, and may have pushed sales away from physical stores in favor of nonstore retailers, while the second round of Economic Impact Payments may have given a lift to sales in what is typically a seasonally weak month. That latter point is worth keeping in mind, as the seasonal adjustment factor for February retail sales is very generous, which could result in a middling read on not seasonally adjusted sales getting turned into a better seasonally adjusted number than many analysts are expecting.
February Retail Sales: Ex-Auto Tuesday, 3/16 Range: -2.3 to 2.2 percent Median: 0.2 percent	Jan = +5.9%	Up by 1.3 percent.
February Retail Sales: Control Group Tuesday, 3/16 Range: -3.5 to 1.8 percent Median: -0.6 percent	Jan = +6.0%	Up by 0.9 percent.

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February Industrial Production Range: -0.6 to 1.9 percent Median: 0.4 percent	Tuesday, 3/16	Jan = +0.9%	Down by 0.4 percent. A significant drop in motor vehicle assemblies contributed to the decline we expect in total manufacturing output. Mining output should be down sharply, and while a spike in utilities output will provide some offset, the outages in Texas will negate part of the increases seen elsewhere. Even if we are correct in expecting a decline in manufacturing output in the IP data, other indicators such as the ISM survey and orders for core capital goods suggest that will have been a one-off decline, with the expansion in the manufacturing sector having further to run.
February Capacity Utilization Rate Range: 74.8 to 76.1 percent Median: 75.5 percent	Tuesday, 3/16	Jan = 75.6%	Down to 75.0 percent.
January Business Inventories Range: 0.1 to 1.0 percent Median: 0.3 percent	Tuesday, 3/16	Dec = +0.6%	We look for total business inventories to be up by 0.3 percent and for total business sales to be up by 4.0 percent.
February Building Permits Range: 1.600 to 1.975 million units Median: 1.750 million units SAAR	Wednesday, 3/17	Jan = 1.886 million units SAAR	Down to an annualized rate of 1.663 million units. Though permit issuance is typically less prone to weather-related disruptions, it could be that the severity of February's winter weather across much of the country did have an impact, and this is reflected in our forecast. On a not seasonally adjusted basis, we look for total permit issuance of 118,300 units, down from 128,800 units in January and the lowest monthly total since May. Even aside from weather effects, permit issuance was almost sure to slip in February after January saw the highest monthly rate of multi-family permit issuance since June 2015. As with housing starts (see below), it could be that we've made too much of an allowance for weather effects on the February data; if so, our forecast will be too low – no harm, no foul – but even if our forecast is on or close to the mark there will be payback in subsequent months.
February Housing Starts Range: 1.431 to 1.725 million units Median: 1.564 million units SAAR	Wednesday, 3/17	Jan = 1.580 million units SAAR	Down to an annualized rate of 1.431 million units. It's all about the weather, unless of course it's not. Our low-end forecast isn't a sign that we've changed our view of the housing market – we have not. Instead, our forecast anticipates February's unusually harsh winter weather acted as a meaningful drag on residential construction activity across much of the nation. To be sure, the February seasonal adjustment factors are geared for winter weather, but the worst of this February's weather hit the South region, the region for which the February seasonal adjustment factor makes by far the least allowance for winter weather. In the Census groupings, Oklahoma and Texas are included in the South region, and other parts of the broad region were also hit very hard, as were parts of the Midwest and Northeast regions. It is worth noting that the 0.9 percent decline in not seasonally adjusted construction payrolls in February is the largest such February decline since 2010, even more notable in that the BLS's establishment survey period ended before the worst of February's harsh winter weather hit. As such, the question seems not so much whether but instead the extent to which construction activity was held down due to weather effects. On a not seasonally adjusted basis, we look for total housing starts of 101,100 units, down from 109,500 units in January and the lowest monthly total since May. If we are correct in our assessment of starts, it follows that completions will have also been held down, and what was an already growing backlog of single family units permitted but not yet started will have gotten larger. The risks to our forecast are to the upside, and to the extent weather effects held down construction in February, subsequent months will bring payback. The broader point is that our view of the housing market has not changed. We continue to see further upside room for single family construction and a continued gradual downward drift in multi-family construction.
February Leading Economic Index Range: 0.2 to 0.5 percent Median: 0.3 percent	Thursday, 3/18	Jan = +0.5%	Up by 0.3 percent.

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