ECONOMIC PREVIEW

Week of March 22, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the April 27-28 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%	As was the case with last week's data releases, this week's releases will also show the effects of the unusually harsh winter weather that pummeled much of the nation during February, but the March data will bring payback. Though not having gotten as much attention, it is worth noting the supply chain/logistics issues that are posing an increasing threat to the manufacturing sector. While we expect the February data to show further increases (see Page 2), core capital goods orders bear watching in the months ahead for signs that supply-side stresses are weighing on the factory sector.
February Existing Home Sales Monday, 3/22 Range: 6.000 to 6.700 million units Median: 6.500 million units SAAR	Jan = 6.690 million units SAAR	Down to an annualized rate of 6.270 million units. On a not seasonally adjusted basis, we look for total sales of 371,000 units, up 1.1 percent from January but smaller than the typical February increase (5.3 percent, on average, over the 2000-2020 period). Our forecast of a below-par February increase in part reflects the effects of the harsh winter weather seen across much of the U.S. which, particularly in the South region, likely pushed some closings into March. That of course is nothing more than a timing issue, and if we're wrong on this point, our February forecast will be too low. Of much more relevance, however, is the inventory picture. While our forecast calls for listings to have increased in February, as with sales we think that increase will have been smaller than is typical for the month of February – in a typical year, February is the month in which listings begin to ramp up ahead of the spring sales season. Even with the modest increase we anticipate, our forecast would leave listings down by better than 25 percent year-on-year. Lean inventories have been fueling robust house price appreciation, and we expect another double-digit increase in the median sales price. Another metric that helps convey how tight the market has become is median days on market, which has hovered at 21 days for the past several months. While perhaps not exactly "flying off the market" homes are nonetheless not settling in and getting too comfortable before being snatched up by anxious buyers. We do look for some relief on the supply side of the market later this year, but in the interim continued rapid price appreciation and rising mortgage rates make take some of the steam out of demand growth.
Q4 2020 Current Account Balance Tuesday, 3/23 Range: -$209.0 to -$182.6 billion Median: -$188.8 billion	Q3 = -$178.5 billion	Widening to -$184.9 billion.
February New Home Sales Tuesday, 3/23 Range: 0.750 to 0.915 million units Median: 0.876 million units SAAR	Jan = 0.923 million units SAAR	Down to an annualized rate of 0.769 million units. On a not seasonally adjusted basis, we look for new home sales of 66,000 units, down 5.7 percent from January. To help put that into perspective, it is rare for unadjusted new home sales to decline in the month of February. How rare is it? The new home sales data go back to 1963, and in the 58-year life of the data, not seasonally adjusted sales have declined in February only four times, the most recent being in 2006. Over the past five years, the average February increase in unadjusted new home sales is 12.9 percent, which means the February seasonal adjustment factor will amplify any weakness in unadjusted sales, hence our well below-consensus forecast of the headline sales number. If our forecast is on or near the mark, that would seem to fit neatly into the building narrative of higher mortgage interest rates and higher home costs choking off demand. Indeed, one report we saw last week all but declared the housing market done. Sure, and five (or however many) years from now, that analyst will be bragging about being the first to call the end of the housing cycle. Instead, our forecast is mainly about the weather, the effects of which were quite apparent in the report on February residential construction, particularly in the South region, which includes Texas and which accounts for around 58 percent of all new home sales. To be sure, the Census data on single family housing permits, starts, and sales in any given month don't always align, so it could be that new home sales won't have been impacted as much as we've built into our forecast, but even if we are correct any weather effects will be reversed in the March and April data. This isn't to say that higher mortgage rates and higher input costs aren't impacting demand. We have seen reports of buyers canceling sales contracts, though we've yet to hear any builder report that as having become a widespread issue. Instead, builders continue to struggle to keep pace with demand, as order backlogs continue to grow while spec inventories remain notably low. Though affordability constraints could lead to a slower pace of demand growth, we continue to see further upside room for new home sales.

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February Durable Goods Orders Range: -4.6 to 4.7 percent Median: 0.8 percent	Wednesday, 3/24	Jan = +3.4%	Up by 2.9 percent. With Boeing having booked its first month of positive net orders (gross orders minus cancellations) since November 2019, we look for nondefense aircraft to have provided a big lift to total orders, the obvious caveat being that the Census Bureau's orders data do not always line up with industry-level data. More importantly, capital spending has been notably strong over the past several months, with core capital goods orders comfortably above their pre-pandemic peak, and we expect the February data to show further growth (see below). One nontrivial downside risk to our call, however, is that supply chain and logistics issues continue to worsen, which may be pushing new orders further out into the future. Rather than the headline orders number, watch for the data on core capital goods orders for any signs that this is the case.
Feb. Durable Goods Orders: Ex-Trnsp. Range: -1.6 to 1.8 percent Median: 0.6 percent	Wednesday, 3/24	Jan = +1.3%	We look for ex-transportation orders to be up by 0.9 percent. We look for core capital goods (i.e., non-defense capital goods excluding aircraft) orders to be up by 1.0 percent.
Q4 2020 Real GDP – 3rd estimate Range: 4.0 to 4.6 percent Median: 4.1 percent SAAR	Thursday, 3/25	Q4 (2nd est) = +4.1% SAAR	Up at an annualized rate of 4.2 percent.
Q4 2020 GDP Price Index – 3rd estimate Range: 2.0 to 2.1 percent Median: 2.1 percent SAAR	Thursday, 3/25	Q4 (2nd est) = +2.4% SAAR	Up at an annualized rate of 2.4 percent.
February Advance Trade Balance: Goods Range: -$89.4 to -$80.8 billion Median: -$85.6 billion	Friday, 3/26	Jan = -$83.7 billion	Widening to -$86.8 billion.
February Personal Income Range: -8.5 to -0.8 percent Median: -7.0 percent	Friday, 3/26	Jan = +10.0%	Down by 7.1 percent as the wild ride for personal income continues. January's spike in personal income largely reflected the second round of Economic Impact Payments (EIP) and the restoration of pandemic-related unemployment insurance benefits that had lapsed. Without the boost from EIP, personal income will have declined in February, but of course with the third round of EIP – the largest yet – hitting this month, there will be another significant spike in personal income in March. Still, even without the drag from transfer payments, we would have looked for February personal income to be on the soft side, as we expect aggregate private sector wage and salary earnings, the largest single component of personal income, to be flat-to-slightly lower. While private sector payrolls rose by 465,000 jobs in February, the bulk of those job gains came in leisure and hospitality services, the sector with the lowest weekly earnings, and the three-tenths of an hour decline in the average length of the workweek will act as a powerful drag on aggregate earnings. We do expect the second round of Paycheck Protection Program (PPP) loans to bolster nonfarm proprietors' income, reflecting BEA accounting for these loans, while further assistance to farmers should boost farm income. While transfer payments will continue to push headline personal income growth around over the next few months, disposable personal income excluding transfer payments will be a more meaningful gauge of how the recovery in the broader economy is progressing. As of January, ex-transfers disposable income was 1.3 percent below the pre-pandemic peak.
February Personal Spending Range: -4.0 to 0.3 percent Median: -0.7 percent	Friday, 3/26	Jan = +2.4%	Down by 0.9 percent. The February retail sales data show broad based weakness in consumer spending on goods, in part reflecting harsh winter weather across much of the U.S. While that weakness will carry over into some components of spending on services, one significant offset will be sharply higher utilities outlays. Our forecast would leave consumer spending on goods 7.0 percent above its pre-pandemic peak and spending on services 4.7 percent below its pre-pandemic peak, and it is spending on services we and many others expect to be the area in which we'll see the biggest response in consumer spending once the economy is more fully reopened.
February PCE Deflator Range: 0.0 to 0.4 percent Median: 0.3 percent	Friday, 3/26	Jan = +0.3%	Up by 0.3 percent, which would yield a year-on-year increase of 1.6 percent. We look for the Core PCE Deflator to be up by 0.1 percent, which would translate into a year-on-year increase of 1.5 percent.

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