ECONOMIC PREVIEW

REGIONS

Week of September 20, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 21-22 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%	Though there is no chance that the FOMC will raise the Fed funds rate, this week's FOMC meeting still comes with plenty of questions. This week's meeting brings the release of the Committee's latest economic and financial projections, including an updated "dot plot." Given the evolution of the economic data since the last set of projections was issued in June, particularly given what was a pronounced slowdown in the pace of economic activity in August, it will be interesting to see whether, or to what extent, members' expectations of real GDP growth and inflation for 2021 and 2022 have changed. As for the dot plot, recall that many market participants were rattled in June when the dot plot implied 50 basis points worth of funds rate hikes in 2023, in contrast to prior editions of the dot plot that implied no rate hikes through 2023. Moreover, in the June edition of the dot plot, seven members indicated that they felt at least one rate hike in 2022 would be appropriate. So, in addition to where the median dots for 2022 and 2023 end up, watch for the dispersion around those median dots as a signal of how divided the Committee is on the appropriate path of the funds rate. The updated dot plot will provide the first set of projections for 2024, so it will be interesting to see how the cumulative increase in the funds rate through 2024 implied by the dot plot aligns with the expectations of market participants. As evidenced in June, changes in the dot plot can generate reactions in the markets which seem out of line with the reality that the dot plot has never been a useful indicator of the actual path of the funds rate. Perhaps the biggest question ahead of next week's meeting is whether the Committee will reveal plans for tapering the Fed's monthly asset purchases. While several members had been messaging a "sooner rather than later" stance on tapering, it is unclear whether the pronounced slowdown in the pace of economic activity, particularly in the pace of job growth, in August will have shaken their resolve. Either way, we think tapering will begin by year-end 2021, as do many market participants, so we think it will be the pace at which the asset purchases are to be pared down that will matter more than the timing. Whether or not the Committee announces plans for tapering at this week's meeting, the topic will almost surely dominate Chairman Powell's post-meeting press conference.
August Building Permits Tuesday, 9/21 Range: 1.500 to 1.670 million units Median: 1.600 million units SAAR	Jul = 1.630 million units SAAR	Up to an annualized rate of 1.655 million units. On a not seasonally adjusted basis, we look for total housing permits of 141,300 units in August, up 1.5 percent from July. While single family permits account for most of the increase our forecast anticipates, we nonetheless expect single family permits to lag single family starts (not seasonally adjusted) for a fourth consecutive month, as builders remain more focused on clearing what remain sizable backlogs of unfilled orders. That said, many builders have begun to relax, though not totally lift, self-imposed caps on sales, which should allow for at least a modest gain in single family permits. Our forecast would leave the running 12-month total of not seasonally adjusted single family permits at 1.132 million units, which would be the highest such total since June 2007.
August Housing Starts Tuesday, 9/21 Range: 1.476 to 1.628 million units Median: 1.550 million units SAAR	Jul = 1.534 million units SAAR	Up to an annualized rate of 1.628 million units. On a not seasonally adjusted basis, we look for total starts of 143,300 units, up 1.6 percent from July, with the increase more than accounted for by multi-family starts rebounding from July's dip. As noted above, we expect unadjusted single family starts to once again run ahead of single family permits. Though having cooled some from the frenzied pace seen earlier in the cycle, demand remains strong, but builders are making little, if any, headway in their attempts to catch up. While the backlog of single family units permitted but not yet started has edged lower, it nonetheless remans at levels last seen in 2006. Builders continue to face supply challenges, with windows, cabinets, and appliances the most widely cited stress points. Until these constraints begin to ease, there is limited upside room for single family permits and starts, and the pace of single family completions will remain somewhat slow and uneven. There is uncertainty as to the potential effects of Hurricane Ida on the August data on housing permits, housing starts, and new home sales, particularly in the South region. Though Ida struck late in the month, to the extent activity was preemptively halted as the storm approached the effects would be visible in the August data. While we've not adjusted our forecasts, this does pose some downside risk to our forecasts.

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Q2 Current Account Balance Tuesday, 9/21 Range: -$204.6 to -$188.0 billion Median: -$191.0 billion	Q1 = -$195.7 billion	<u>Narrowing</u> to -$190.6 billion.
August Existing Home Sales Wednesday, 9/22 Range: 5.600 to 6.020 million units Median: 5.870 million units SAAR	Jul = 5.990 million units SAAR	<u>Down</u> to an annualized rate of 5.910 million units. We look for not seasonally adjusted sales of 567,000 units, down 2.9 percent from July but up 1.3 percent year-on-year, though there was one more sales day this August than last. Pending home sales, a measure of signed sales contracts that tends to lead closings by 30-45 days, were weaker in July than typical seasonal patterns would dictate, which is reflected in our forecast of August sales (recall that existing home sales are booked at closing). While inventories have risen meaningfully since hitting a bottom in February, the market remains chronically undersupplied, particularly in the lower price ranges. We are in the time of the year in which listings typically begin to fall, and while we anticipate August listings will buck that trend, our forecast would still leave listings down better than 8.0 percent year-on-year. Though we look for further moderation in the year-on-year increase in the median sales price, that is more a reflection of base effects, as it was July 2020 when the pace of price growth kicked into a higher gear. Our forecast would put the running 12-month total of not seasonally adjusted sales at 6.190 million units, higher than July but below June, and we look for this gauge of the trend sales rate to be fairly flat over the remainder of 2021.
August Leading Economic Index Thursday, 9/23 Range: 0.3 to 1.0 percent Median: 0.6 percent	Jul = +0.9%	<u>Up</u> by 0.9 percent.
August New Home Sales Friday, 9/24 Range: 650,000 to 784,000 units Median: 709,000 units SAAR	Jul = 708,000 units SAAR	<u>Up</u> to an annualized rate of 784,000 units. Our well above consensus forecast isn't a sign that we've suddenly taken leave of our senses (that train left the station years ago) or that we've suddenly become wildly upbeat on the outlook for new home sales. Instead, it is simply the product of a modest increase in not seasonally adjusted sales between July and August and a favorable seasonal adjustment factor. On a not seasonally adjusted basis, we look for sales of 66,000 units, up from 63,000 units in July, but this would still leave unadjusted sales down 18.5 percent year-on-year. New home sales have slowed sharply over recent months – in March, unadjusted sales were 83,000 units – which to some degree reflects some cooling of demand but to a much larger degree reflects builders capping sales in the face of increasingly large backlogs of unfilled orders and shortages of materials. Many builders have begun to relax sales caps but are nonetheless moving gradually, at least in part because supply constraints continue to wreak havoc on production schedules. Forecasting new home sales is usually a futile endeavor but has become even more so of late as the past few monthly reports have come with sharp downward revisions to estimates of sales in prior months. Given how low the initial estimate of July sales was, the same kind of downward revisions would put us back at sales rates last seen consistently in mid-2019. Clearly the market has taken a step back over the past few months, but we're not sure it's been quite that big of a step.

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