ECONOMIC PREVIEW

REGIONS

Week of December 20, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 25-26 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%	"You keep using that word, I do not think it means what you think it means." Okay, sure, Inigo Montoya wasn't directing that at someone using the word "hawkish" to describe the FOMC's policy pivot, but it fits just the same. That is how the vast majority of analysts are describing the FOMC in the wake of last week's meeting, which yielded a stepped-up pace of tapering the Fed's monthly asset purchases and a dot plot that implies an earlier start to Fed funds rate hikes and 1.5 hikes more than implied by the September edition. Our counter is that, despite being more concerned about inflation, the FOMC will continue asset purchases for three more months, the Fed's balance sheet will top out at around $9 trillion, it remains unclear when the balance sheet will start to shrink and the rate at which it will be allowed to do so, the median projection would leave the Fed funds rate below the FOMC's estimate of "neutral" at year-end 2024 (assuming we actually were to get all of the hikes implied by the updated dot plot), and, oh by the way, the real Fed funds rate is at present hovering around negative 5.6 percent. Less accommodative – sure, but that still leaves a long way to go to arrive at "hawkish," at least how we understand the word.
November Leading Economic Index Monday, 12/20 Range: 0.5 to 1.2 percent Median: 0.9 percent	Oct = +0.9%	<u>Up</u> by 1.2 percent.
Q3 Current Account Balance Tuesday, 12/21 Range: -$210.0 to -$202.5 billion Median: -$205.4 billion	Q2 = -$190.3 billion	<u>Widening</u> to -$206.3 billion.
November Existing Home Sales Wednesday, 12/22 Range: 6.280 to 6.670 million units Median: 6.560 million units SAAR	Oct = 6.340 million units SAAR	<u>Up</u> to an annualized rate of 6.470 million units. On a not seasonally adjusted basis, we look for sales of 497,000 units, and while this would reflect a year-on-year increase of 0.8 percent, November had one more sales day this year than last. Our forecast would leave sales down 5.5 percent from October, but this would be smaller than the typical November decline (an average decline of 10.0 percent over the 2000-2020 period), and if we are correct on this point the headline number will be flattered by seasonal adjustment. No amount of flattery, however, will make the inventory number go down any easier, and go down it will. While listings typically decline in the month of November, indications are that the decline this November will be much larger than is typical for the month (the NAR inventory data are not seasonally adjusted), and our forecast would yield a year-on-year decline of better than twelve percent. While the rate at which the median sales price is rising has slowed over recent months, that is more about base effects (over-the-year comparisons became much more difficult beginning in July) than it is about the market becoming more balanced. Even with a slower pace of price growth and still-favorable mortgage interest rates, affordability remains a challenge for many prospective buyers given how high prices have risen. Investor interest remains high and cash transactions continue to account for a higher than normal share of total sales, raising the bar for prospective first-time buyers, while the vast majority of homes sold are on the market for less than a month before going under contract. Inventory, or the lack thereof, has been the dominant story in the market for existing homes over the past several years, and we think it will remain the story in 2022.
December Consumer Confidence Wednesday, 12/22 Range: 105.0 to 112.0 Median: 110.6	Nov = 109.5	<u>Up</u> to 111.1 with some relief on gasoline prices and still-constructive views of labor market conditions offsetting concerns over broader inflation and rising COVID case counts. Recall that in the November survey, the "jobs plentiful/jobs hard to get" spread, a gauge of consumers' assessments of labor market conditions, hit a record high. While the December reading may come down from that peak, it will nonetheless remain quite favorable, reflecting the stark imbalance between labor supply and labor demand that is driving rapid wage growth. Annualized growth in private sector labor earnings is running at a better than 11 percent rate thus far in Q4, underpinning continued growth in consumer spending despite what have been less than inspiring headline numbers on the confidence/sentiment surveys.
Q3 Real GDP – 3rd estimate Wednesday, 12/22 Range: 2.0 to 2.2 percent Median: 2.1 percent SAAR	Q3 - 2nd est = +2.1% SAAR	<u>Up</u> at an annualized rate of 2.1 percent.

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Q3 GDP Price Index – 3rd estimate Wednesday, 12/22 Range: 5.9 to 5.9 percent Median: 5.9 percent SAAR	Q3 - 2nd est = +5.9% SAAR	Up at an annualized rate of 5.9 percent.
November Durable Goods Orders Thursday, 12/23 Range: 0.2 to 2.6 percent Median: 1.5 percent	Oct = -0.4%	Up by 2.6 percent. Sharply higher net orders for civilian aircraft orders will serve as a powerful boost to the top-line orders number, and a further increase in motor vehicle orders will also be a support.
Nov. Durable Goods Orders – Ex-Trnsp Thursday, 12/23 Range: 0.4 to 1.5 percent Median: 0.6 percent	Oct = +0.5%	We look for ex-transportation orders to be up by 0.8 percent and for core capital goods orders (nondefense capital goods excluding aircraft & parts) to be up by 0.7 percent, which would mark a ninth straight monthly increase. As core capital goods orders are a leading indicator of business investment in equipment and machinery as reported in the GDP data, continued growth in core capital goods orders suggests business investment will remain a support for GDP growth in 2022.
November Personal Income Thursday, 12/23 Range: 0.0 to 1.0 percent Median: 0.5 percent	Oct = +0.5%	Up by 0.3 percent. Our forecast anticipates transfer payments will again act as a drag on growth in top-line income. Total unemployment insurance benefit payouts should decline further, reflecting people dropping from the benefit rolls, and slightly lower levels of payments under the Economic Impact Payment and Child Care Tax Credit programs will also weigh on total transfer payments. With the unwinding of pandemic-related transfer payments, ex-transfers income has been the more reliable guide to trends in personal income growth over recent months, and that is again the case with the November data. Private sector wage and salary earnings – the largest single component of personal income – continue to post solid growth, and we look for rental income and asset-based income to post healthy increases. The accounting treatment of the Paycheck Protection Program should again be a drag on nonfarm proprietors' income, but to a lesser extent than over the prior several months, with November being the last month this effect is present in the data.
November Personal Spending Thursday, 12/23 Range: 0.3 to 1.4 percent Median: 0.5 percent	Oct = +1.3%	Up by 0.6 percent. The report on November retail sales points to lackluster spending on goods, though to some extent this reflects seasonal adjustment noise. Either way, our forecast anticipates a solid increase in spending on services, which accounts for almost two-thirds of all consumer spending, to push total spending higher, at least on a nominal basis. If our forecast of the PCE Deflator (see below) is on the mark, real spending will be flat but on a quarterly average basis annualized Q4 growth will be much faster than was the case in Q3, meaning consumer spending will make a larger contribution to real GDP growth in Q4 than it did in Q3.
November PCE Deflator Thursday, 12/23 Range: 0.5 to 0.7 percent Median: 0.6 percent	Oct = +0.6%	Up by 0.6 percent, which would translate into a year-on-year increase of 5.7 percent, marking the fastest rate of PCE inflation since July 1982. We look for the Core PCE Deflator to be up by 0.4 percent, which would translate into an over-the-year increase of 4.6 percent.
November New Home Sales Thursday, 12/23 Range: 737,000 to 793,000 units Median: 770,000 units SAAR	Oct = 745,000 units SAAR	Up to an annual rate of 793,000 units. On a not seasonally adjusted basis, we look for sales of 57,000 units, down 3.4 percent from October. As was the case with the data on housing permits and starts, however, a smaller than typical November decline in unadjusted new home sales should lead to a headline number that looks better than is actually the case. We think it striking that our forecast of unadjusted November sales would leave them down 31.3 percent below the March peak (83,000 units), with similarly large declines in single family permits and starts. As we've discussed on more than one occasion, however, these declines are more about the supply side of the market than they are about the demand side of the market. Though there has been some easing of the self-imposed sales caps many builders put in place earlier this year, supply chain issues have intensified, and delivery times have been stretched even further. As such, having made little headway in clearing backlogs of unfilled orders, many builders are hesitant to lift remaining sales limitations. This set of conditions is likely to prevail well into 2022, keeping sales well below where we think they would otherwise be.