ECONOMIC PREVIEW

REGIONS

Week of January 17, 2022

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: 0.125 to 0.125 percent Median Target Range Mid-point: 0.125 percent		Range: 0.00% to 0.25% Midpoint: 0.125%	Though it is still early in the Q4 earnings season, one common theme amongst those reporting thus far has been rising costs, particularly labor costs, putting pressure on margins. As recently as Q3, however, firms seemed fairly confident in their ability to pass along higher costs by raising prices, thus preserving margins. Again, it's still early, but we don't sense the same degree of confidence this time around.
December Building Permits Range: 1.614 to 1.781 million units Median: 1.703 million units SAAR	Wednesday, 1/19	Nov = 1.717 million units SAAR	Up to an annualized rate of 1.781 million units. On a not seasonally adjusted basis, our forecast anticipates total housing permits of 137,700 units, with both single family and multi-family permits up from November. In the case of single family permits, this would be at odds with what is usually a decline in the month of December, and if we are correct then the seasonally adjusted data will show a sizable increase in single family permits. While our forecast could easily prove to be too high, what's more important is that the broad themes of the housing market haven't changed. Despite many builders having imposed caps on sales since the summer months, worsening supply chain issues have meant they've made little, if any, progress in clearing order backlogs. Backlogs are visible on both the front end – an elevated number of single family units permitted but not started – and back end – increasingly stretched completion times – of the construction process. Though sales caps have been eased, they remain in place in a large number of communities, particularly in the South region, which has weighed on permit issuance over recent months. Our forecast anticipates December being the eighth straight month in which single family permits lagged single family starts in the not seasonally adjusted data.
December Housing Starts Range: 1.550 to 1.784 million units Median: 1.650 million units SAAR	Wednesday, 1/19	Nov = 1.679 million units SAAR	Up to an annualized rate of 1.784 million units. On a not seasonally adjusted basis, we look for total housing starts of 126,700 units, with single family starts higher and multi-family starts down relative to November. As with permits, a December increase in single family starts would be at odds with seasonal patterns and, as such, would be greatly amplified in the seasonally adjusted data. So, as always, it will be the unadjusted data that matter, and the beneath-the-headlines data on completions and units under construction will bear watching. As of November, there were a total of 1.499 million housing units – combined single and multi-family units – under construction, the highest total since November 1973. While a bloated backlog of multi-family units under construction is old news, the backlog of unfinished single family homes is growing rapidly and will continue to do so in the months ahead. Even should mortgage interest rates continue to rise and, in conjunction with elevated prices, pose greater affordability hurdles that eat into demand, builders figure to be busy for quite some time to come given the magnitude of order backlogs facing them.
December Existing Home Sales Range: 6.230 to 6.620 million units Median: 6.430 million units SAAR	Thursday, 1/20	Nov = 6.460 million units SAAR	Up to an annualized rate of 6.610 million units. On a not seasonally adjusted basis, we look for total sales of 533,000 units, up 6.0 percent from November. Our forecast would put full-year 2021 (unadjusted) sales at 6.140 million units, an increase of 8.8 percent over 2020 sales, with the South and West regions each posting a double-digit increase. Inventories are of course a different story; our forecast anticipates a double-digit decline in inventories in December, leaving them at an all-time low with another sizable decline likely in the January data given the spread of the Omicron variant. Our 2022 housing market outlook is predicated on at least some relief on the supply side of the market as growth in demand eases, and while it's too soon to throw in the towel, let's just say it isn't an ideal start to the year for the supply side of the market. While there are concerns that higher mortgage interest rates will crater demand, keep in mind different segments of prospective buyers will be impacted differently. Current homeowners who sell homes will likely see significant (tax-free) capital gains that can be put toward the purchase of their next home, with lean inventories of existing homes perhaps pushing them into the new home market. It is prospective first-time buyers who will be much more vulnerable to affordability constraints, particularly as higher prices map into higher down payments, with cash-wielding investors posing stiff competition. As with life in general, at some point the housing market will look more normal. Just don't ask us when – on either count . . .
December Leading Economic Index Range: 0.5 to 0.9 percent Median: 0.8 percent	Friday, 1/21	Nov = +1.1%	Up by 0.6 percent.

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