ECONOMIC PREVIEW

REGIONS

Week of February 21, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 15-16 FOMC meeting):* Target Range Mid-point: 0.125 to 0.625 percent Median Target Range Mid-point: 0.375 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	The most closely watched report in this busy holiday-shortened week will be Friday's release of the January data on personal income and spending. The report will include the latest reading on the PCE Deflator, the FOMC's preferred gauge of inflation, and this will be the last read on the PCE Deflator before the Committee's March meeting. We expect the January data to show the fastest rate of PCE inflation since February 1982 (see Page 2), and the question around the March FOMC meeting remains not whether, but how far, the Committee will go in terms of raising the Fed funds rate.
February Consumer Confidence Tuesday, 2/22 Range: 106.2 to 113.0 Median: 110.0	Jan = 113.8	Down to 111.1, with rapid inflation, rising gasoline prices, sagging equity prices, COVID-related concerns, and mounting geopolitical tensions likely weighing on consumers' minds. On the whole, the Conference Board's measure of consumer confidence has held up better than has the University of Michigan's gauge of consumer sentiment. One key difference between the two surveys is that the Conference Board's measure is more tied to perceptions of labor market conditions than is the University of Michigan's measure. Despite everything going on, consumers remain notably upbeat on labor market conditions, with the "jobs plentiful/jobs hard to get" spread in the consumer confidence survey continuing to hover around a better than two-decade high. Many are quick to dismiss measures of consumer confidence on the grounds that what consumers do is more relevant than what consumers say. Our view has always been that the most important factor for consumers is how they feel about their own job and income prospects, and there is ample reason for consumers to feel upbeat on that front. As such, it is likely that consumer spending will "outperform" current readings on consumer sentiment, barring a marked deterioration in labor market conditions.
Q4 Real GDP – 2nd estimate Thursday, 2/24 Range: 6.8 to 7.5 percent Median: 7.0 percent SAAR	Q4 1st est. = +6.9% SAAR	Up at an annualized rate of 7.2 percent, with upward revisions to the initial estimates of consumer spending and inventory accumulation.
Q4 GDP Price Index – 2nd estimate Thursday, 2/24 Range: 6.9 to 7.0 percent Median: 6.9 percent SAAR	Q4 1st est. = +6.9% SAAR	Up at an annualized rate of 7.0 percent.
January New Home Sales Thursday, 2/24 Range: 716,000 to 870,000 units Median: 800,000 units SAAR	Dec = 811,000 units SAAR	Up to an annualized rate of 827,000 units. On a not seasonally adjusted basis, we look for sales of 65,000 units. Keep in mind that new home sales are booked at the signing of the sales contract, so higher mortgage interest rates in January and the expectation of further increases to come could have prompted fence sitters to come down from their perch and sign on the dotted line. While this would suggest upside risk to our above-consensus forecast, one mitigating factor would be that many builders tightened sales caps in January, reversing the modest easing seen in late-2021. Intensifying supply chain and labor supply constraints prompted builders to reverse course, and sales caps are more prevalent in the South region, which accounts for almost 60 percent of all new home sales (both Florida and Texas are in the Census Bureau's South region). To be sure, new home sales can occur prior to construction being started, but with builders already sitting on sizable order backlogs and no clarity on when supply-side constraints will ease to a meaningful degree, we think there's a limit as to how much more builders would have been willing to add to those backlogs. Either way, in keeping with a trend we've highlighted over recent months, we expect under-construction units to account for the biggest block of January sales. Builders have increasingly taken to starting units but not releasing them for sale until construction is well underway, which we've referred to as "spec lite" construction. This affords builders at least some degree of control over delivery dates while also allowing them to pass more and more price risk stemming from rising materials costs along to buyers. Finally, recall that over the past several months initial estimates of new home sales have been revised lower, and significantly so. That of course makes forecasting monthly new home sales akin to shooting at a moving target while blindfolded, which can lead to some rather awkward outcomes.
January Durable Goods Orders Friday, 2/25 Range: -1.5 to 4.0 percent Median: 0.8 percent	Dec = -0.7%	Up by 1.5 percent, with a lift from transportation orders. As always, the most important line in the report will be core capital goods orders, a harbinger of business investment as reported in the GDP data. Our forecast anticipates core capital goods orders rising for an eleventh straight month (see Page 2).

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January Durable Goods Orders: Ex-Trnsp. Range: -0.8 to 2.5 percent Median: 0.4 percent	Friday, 2/25	Dec = +0.6%	We look for ex-transportation orders to be up by 0.6 percent and for core capital goods (nondefense capital goods excluding aircraft) orders to be up by 0.5 percent.
January Personal Income Range: -1.8 to 0.5 percent Median: -0.3 percent	Friday, 2/25	Dec = +0.3%	Down by 0.3 percent. The expiration of the Child Tax Credit (CTC) extension, paid in monthly installments over the last six months of 2021, will be reflected in a steep decline in transfer payments in the January personal income data. At the same time, however, the annual cost of living adjustment for Social Security benefits kicked in in January, with benefits upped by 5.9 percent, thus cushioning the impact of the expiration of the CTC extension. Still, transfer payments will be a net drag on January personal income. Our forecast anticipates that the decline in aggregate hours worked in January will mean a smaller increase in private sector labor earnings than those seen in the prior several months, while public sector earnings will be bolstered by the annual cost of living adjustment. Our forecast anticipates solid increases in rental income and asset-based income. Nonfarm proprietors' income, a proxy for small business profits, may have suffered from services sector activity having been adversely impacted by the rapid and wide spread of the Omicron variant; while our forecast anticipates a decline in this category, this is a source of uncertainty around our call. We also look for a further decline in farm income. Accounting for various pandemic-related aid programs has had a material impact, in both directions, on farm income over the past several months, but the underlying trend in farm income has been negative. While that may seem surprising given rapidly rising food prices over recent months, keep in mind that farmers have faced substantially higher costs, which has weighed on net income for small, independent farmers.
January Personal Spending Range: 0.6 to 2.7 percent Median: 1.6 percent	Friday, 2/25	Dec = -0.6%	Up by 2.4 percent. The report on January retail sales showed total retail sales rose by 3.8 percent and control retail sales rose by 4.8 percent. While these numbers are mostly a reflection of generous seasonal adjustment, control retail sales (retail sales excluding motor vehicle, building materials, gasoline, and restaurant sales) feed directly into the BEA's estimate of consumer spending. This points to a substantial increase in consumer spending on goods, which will be bolstered by the 20 percent jump in unit motor vehicle sales, itself a gift from generous seasonal adjustment. What remains to be seen is how consumer spending on services, which accounts for roughly 65 percent of all consumer spending, fared in January. The surge in COVID case counts led to pullbacks in spending on things such as travel, lodging, dining out, entertainment, and recreation, which will be reflected in the spending data. At the same time, substantially higher utilities outlays will provide somewhat of an offset. While our forecast anticipates a modest increase in consumer spending on services, the risks to our forecast seem tilted to the downside. Either way, spending on services should rebound in February and March, but we also expect spending on goods to begin normalizing toward pre-pandemic levels (after accounting for higher prices, that is), which will weigh on growth in total inflation-adjusted consumer spending.
January PCE Deflator Range: 0.5 to 0.7 percent Median: 0.6 percent	Friday, 2/25	Dec = +0.4%	We look for the PCE Deflator to be up by 0.5 percent, yielding a year-on-year increase of 6.0 percent. We look for the Core PCE Deflator to be up by 0.4 percent, which would translate into an over-the-year increase of 5.1 percent.

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