ECONOMIC PREVIEW

REGIONS

Week of March 21, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the May 3-4 FOMC meeting):* Target Range Mid-point: 0.625 to 0.875 percent Median Target Range Mid-point: 0.625 percent	Range: 0.25% to 0.50% Midpoint: 0.375%	That the FOMC raised the Fed funds rate target range by 25 basis points at last week's meeting surprised no one. What was surprising to many, us included, was the path of the funds rate implied by the updated dot plot, which implied an additional 150 basis points worth of funds rate hikes by year-end 2022. Further rate hikes in 2023 would yield a Fed funds rate target range mid-point of 2.75 percent by year-end 2023, above the Committee's estimate of the "neutral" funds rate. Whether or not the Committee actually gets there remains to be seen but it is clear that, wherever they're going, they want to get there in a hurry. Chairman Powell opened the door to 50-basis point hikes at future meetings but at some point, likely this side of neutral, the FOMC will pause to reassess their policy stance. Still to be determined is when the Fed's balance sheet will begin winding down and the pace at which it will be allowed to do so, which will likely be addressed at the May FOMC meeting.
February New Home Sales Wednesday, 3/23 Range: 750,000 to 852,000 units Median: 815,000 units SAAR	Jan = 801,000 units SAAR	Down to an annualized rate of 757,000 units. February is typically a seasonally strong month for new home sales – over the 2000-2020 period, the average February increase in not seasonally adjusted new home sales was 13.4 percent. As such, the February seasonal factor used to derive the headline sales number (seasonally adjusted and annualized) tends to be punitive, which means that when unadjusted sales don't live up to the normal February increase, it's bad news for the headline sales number. The most recent example of this came last year, when unadjusted new home sales fell by 9.1 percent – only the fifth February decline in the life of the data that go back to 1963 – which translated into a steep decline in the headline sales number. We expect something similar for this February's data. While we look for a modest increase in sales on a not seasonally adjusted basis, up to 65,000 units from 64,000 in January, this is much smaller than the typical February increase, which we expect to yield a steep decline in the seasonally adjusted estimate of sales. If that does prove to be the case, the tendency will be to attribute weak sales to the sharp increase in mortgage interest rates. To be sure, with new home sales booked at the signing of the sales contract, the impact of higher rates will turn up much sooner in the data on new home sales than is the case with the data on existing home sales, which are booked at closing. That said, while some prospective buyers will have been dissuaded by higher mortgage interest rates, there is a difference between the degree of excess demand being pared down and demand collapsing. Builders have for some time been unable to keep pace with demand, and over the past several months many builders have capped new sales given sizable order backlogs and increasingly challenging materials and labor constraints. In many new home communities, there are lengthy waiting lists for the few units released each month. So, that we expect the February data to show weaker sales than is typical for the month is a reflection of supply-side issues, not demand-side issues. Aside from not seasonally adjusted sales, other metrics to watch in the February data are the revisions to prior estimates of sales in recent months, the share of sales accounted for by units under construction – which remains notably elevated – and inventories of completed homes, as the share of new homes for sale accounted for by completed units has been bumping along near historic lows over recent months.
February Durable Goods Orders Thursday, 3/24 Range: -3.1 to 1.4 percent Median: -0.5 percent	Jan = +1.6%	Down by 2.6 percent. Civilian aircraft will be a significant drag on top-line orders, as Boeing logged only 32 net orders in February, down from 75 in January. As always, the most important data point will be orders for core capital goods, which have risen in each of the past eleven months. While our forecast anticipates another increase (see below), there is the risk that further impairment of global supply chains on top of sizable order backlogs will begin to weigh on orders. If so, our forecasts of ex-transportation orders and core capital goods orders could prove to be too high.
Feb. Durable Goods Orders: Ex-Trnsp. Thursday, 3/24 Range: -0.6 to 1.0 percent Median: 0.5percent	Jan = +0.7%	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.
Q4 Current Account Balance Thursday, 3/24 Range: -$222.0 to -$217.0 billion Median: -$218.0 billion	Q3 = -$214.8 billion	Widening to -$220.2 billion thanks in part to a larger trade deficit.

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