ECONOMIC PREVIEW

REGIONS

Week of November 14, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 13-14 FOMC meeting):* Target Range Mid-point: 4.375 to 4.375 percent Median Target Range Mid-point: 4.375 percent	Range: 3.75% to 4.00% Midpoint: 3.875%	A softer than expected October CPI report touched off a wave of euphoria in the financial markets late last week, with equity prices shooting higher and yields on U.S. Treasury securities falling along the entire curve. While the monthly increases may be moderating, inflation nonetheless remains far above the FOMC's target, meaning the FOMC still has more to do, even if they move in smaller steps. A heavy slate of Fed-speak this week will no doubt look to reinforce that point.
October PPI: Final Demand Tuesday, 11/15 Range: 0.1 to 0.6 percent Median: 0.4 percent	Sep = +0.4%	Up by 0.4 percent, which would yield a year-on-year increase of 8.3 percent.
October PPI: Core Tuesday, 11/15 Range: 0.0 to 0.4 percent Median: 0.3 percent	Sep = +0.3%	Up by 0.3 percent, which would translate into a year-on-year increase of 7.1 percent.
October Retail Sales: Total Wednesday, 11/16 Range: 0.3 to 2.0 percent Median: 1.0 percent	Sep = 0.0%	Up by 1.2 percent. "If we say 'please' and give you a big discount hailed as a super special sale so that you won't know we have way too much inventory on our hands, will you buy this stuff that we really, really want to get rid of?" Okay, so maybe they put it a bit more eloquently, but that's effectively what many large retailers were asking consumers in October. If our above-consensus forecast is on or near the mark, consumers will have said "yes" (in some cases they likely said yes to a dress given the 2.4 percent decline in dress prices in October). To be sure, a surprisingly large increase in unit motor vehicle sales and higher gasoline prices will be supports for top-line sales, but we look for broadly based increases in sales amongst the remaining categories for which sales are reported. That said, our forecast may be a bit on the ambitious side, which has more to do with retailers than consumers. Core (non-food, non-energy) goods prices excluding used motor vehicles were flat in October, with declines in many of the main categories. Many retailers have engaged in aggressive discounting as a means of clearing unwanted stocks and while that may indeed have driven consumers to spend, recall that retail sales are reported in nominal terms, making the October data a battle between higher quantities and lower prices. As such, even if retailers had some success in moving goods, that it took heavy discounting to do so may leave the October retail sales data looking more listless than our forecast anticipates. At the same time, the October data will be flattered by friendly seasonal adjustment, further clouding the picture. Apparel store sales are a prime example of the undercurrents in the October data. The October CPI data show a 0.7 percent decline in apparel prices, after September's 0.3 percent decline, but the October seasonal factor for apparel store sales is the most generous of any of the broad categories; we think the net effect will be a modest increase in sales. And, speaking of prime, between a second *Amazon Prime Day(s)* and other aggressive promotions, our forecast anticipates a sizable increase in sales by nonstore retailers, but if we're wrong on this our forecast of control retail sales will prove to be too high.
October Retail Sales: Ex-Auto Wednesday, 11/16 Range: 0.2 to 1.0 percent Median: 0.5 percent	Sep = +0.1%	Up by 0.8 percent.
October Retail Sales: Control Group Wednesday, 11/16 Range: 0.0 to 0.7 percent Median: 0.3 percent	Sep = +0.4%	Up by 0.7 percent.
October Industrial Production Wednesday, 11/16 Range: -0.3 to 0.5 percent Median: 0.1 percent	Sep = +0.4%	Up by 0.3 percent. The increase in manufacturing output our forecast anticipates is largely driven by increased motor vehicle assemblies, meaning ex-vehicles output will be a more telling reflection of the state of the factory sector. Domestic demand is easing, export orders are fading, inventories are rising, and orders for core capital goods have started to wobble, all of which are taking a toll on the manufacturing sector. Vehicle producers still have a lot of catching up to do, but that is looking like one of the few supports for the manufacturing sector in the months ahead.
October Capacity Utilization Rate Wednesday, 11/16 Range: 80.0 to 80.7 percent Median: 80.4 percent	Sep = 80.3%	Up to 80.4 percent.

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September Business Inventories Wednesday, 11/16 Range: 0.4 to 0.7 percent Median: 0.5 percent	Aug = +0.8%	We look for total business inventories to be up by 0.4 percent and for total business sales to be up by 0.2 percent.
October Building Permits Thursday, 11/17 Range: 1.431 to 1.650 million units Median: 1.510 million units SAAR	Sep = 1.564 million units SAAR	Down to an annualized rate of 1.529 million units. On a not seasonally adjusted basis, we look for total permits of 127,200 units. While our forecast does anticipate an increase in single family permits in the South region as rebuilding efforts in the wake of Hurricane Ian get started, the broader storyline hasn't changed. Higher mortgage rates continue to exact a heavy toll on new construction, particularly with mortgage rates having pushed over the seven percent line over the second half of October. Even allowing for an increase in the South region, our forecast would leave unadjusted single family permits 32.5 percent below the intra-year peak hit in March. As we've noted, single family permit issuance will be hit more harshly than single family starts, give the sizable backlog of units already permitted but not yet started.
October Housing Starts Thursday, 11/17 Range: 1.322 to 1.505 million units Median: 1.411 million units SAAR	Sep = 1.439 million units SAAR	Down to an annualized rate of 1.367 million units. On a not seasonally adjusted basis, we look for total starts of 116,600 units. While we expect the response to Hurricane Ian to have added to single family permit issuance in the South region, we expect no such lift in single family starts. With the South region already seeing a sizable backlog of units under construction while the number of single family units permitted but not yet started is running above levels seen at the height of the prior cycle, there is little capacity for starts to ramp higher. More broadly, our forecast of unadjusted single family starts would mark the lowest monthly total since May 2020, and while the hefty backlog of units already permitted figures to set a floor under single family starts, some portion of those units won't be started any time soon, if at all. Rising cancellations of previously placed orders and builders pulling back on spec activity will be additional drags on single family starts in the months ahead. We'll also be watching the data on completions; while single family completions have been fairly steady over recent months, multi-family completions have tailed off, leaving the number of multi-family units under construction at a level last seen in early-1974. Indeed, each of the past few months has brought a new record-high number of total housing units under construction, and we won't be surprised to see that streak extended in the October data.
October Existing Home Sales Friday, 11/18 Range: 4.170 to 4.880 million units Median: 4.380 million units SAAR	Sep = 4.710 million units SAAR	Down to an annualized rate of 4.460 million units. We look for the not seasonally adjusted data to show total sales of 381,000 units, down 11.0 percent from September and down 27.6 percent year-on-year. Pending home sales, a measure of signed sales contracts, fell sharply in September, with the not seasonally adjusted index posting a much larger decline than is typical for the month, reflecting the effects of higher mortgage interest rates. As pending home sales tend to lead existing home sales (which are booked at closing) by 30-45 days, this sets up a strikingly weak report on October existing home sales, to the point that, barring April-May 2020, our forecast would mark the lowest headline sales number since December 2011. We look for inventories of existing homes for sale to be down both sequentially and over-the-year; fewer new listings are being brought to the market, but homes already listed have been staying on the market longer, while we are in the time of the year in which seasonal declines in inventories take hold. While the median existing home sale price will be up year-on-year, the mid-single digit we anticipate would be a long way from the better than fifteen percent increases seen earlier this year.
October Leading Economic Index Friday, 11/18 Range: -0.8 to -0.2 percent Median: -0.4 percent	Sep = -0.4%	Down by 0.5 percent.

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