ECONOMIC PREVIEW

REGIONS

Week of November 21, 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%	If you're a big fan of volatility, Wednesday is the day for you with the releases of the October data on durable goods orders and new home sales, perhaps the two most volatile of all the top-tier data series. Of the two, we'd argue that the most meaningful will be durable goods orders. After all, by now the new home sales story is all too familiar, i.e., sales being pushed lower by higher mortgage interest rates, and the October data are unlikely to shed any new light on new home sales. The report on October durable goods orders, however, will either reinforce what for us has been growing concern over the state of business capital spending or tell us those concerns are unwarranted, at least for now. Our forecast suggests we're bracing for the former rather than hoping for the latter. For anyone who survives these two releases, Wednesday also brings the release of the minutes to the November FOMC meeting, which should shed some light on the thinking amongst Committee members on the appropriate pace of rate hikes going forward and how members are interpreting recent changes in overall financial conditions.
October Durable Goods Orders Wednesday, 11/23 Range: -1.5 to 0.5 percent Median: 0.4 percent	Sep = +0.4%	<u>Up</u> by 0.8 percent, with transportation goods more than accounting for the increase in top-line orders. Boeing saw an increase orders in October while not losing any orders to cancellations for the first time in over three years. We also look for another increase in motor vehicle orders with supply chain constraints having eased somewhat over recent months. Beyond transportation, however, our forecast looks for another month of weak orders (see below). Commentary on Q3 earnings calls suggests many firms are pulling in the reins on capital spending, which is consistent with the detail on cap-ex plans in the recent batches of regional Fed manufacturing surveys. Orders for core capital goods slipped in September, the first monthly decline since February, and while that could have been no more than one-off noise, there is a growing body of evidence suggesting something more sinister is afoot. It isn't so much that higher interest rates are holding down cap-ex but instead that diminished expectations for growth and rising uncertainty around the outlook are causing firms to scale down planned capital outlays. One area of business investment that has been and should remain strong is intellectual property products, the bulk of which consist of software and R&D, which firms are relying on to an increasing degree to help overcome labor supply constraints. Spending on intellectual property products, however, is not captured in the durable goods data.
Oct. Durable Goods Orders: Ex-Trnsp. Wednesday, 11/23 Range: -0.6 to 0.8 percent Median: 0.0 percent	Sep = -0.5%	We look for <u>ex-transportation</u> orders to be <u>down</u> by 0.1 percent and for <u>core capital goods</u> orders (nondefense capital goods excluding aircraft and parts) to be <u>down</u> by 0.3 percent.
October New Home Sales Wednesday, 11/23 Range: 500,000 to 658,000 units Median: 570,000 units SAAR	Sep = 603,000 units SAAR	<u>Up</u> to an annualized rate of 611,000 units. On a not seasonally adjusted basis, we look for sales of 47,000 units, down 4.1 percent from September and down 7.8 percent year-on-year. As we've noted, however, the Census data report sales on a gross basis, meaning they do not account for cancellations, and with cancellations having risen significantly of late, net sales have been weaker than implied by the Census data. Our forecast of unadjusted sales allows for a modest advance in the South region on the premise that the notably large decline in September was at least to some extent a function of storm-related disruptions. If we're wrong on this point, our forecast will prove to be too high. Also, that our forecast has unadjusted sales going down but headline sales going up simply reflects what should be favorable seasonal adjustment lifting the headline sales number. Even if we're right on both of these points, however, neither should deflect attention from the bigger story, which is the extent new home sales have been battered by higher mortgage interest rates. Builders are sitting on sizable inventories of spec homes for sale and even with mortgage rates having backed off a bit builders will have to become much more accommodative on pricing in order to make a meaningful dent in these inventories. Thus far builders have been offering more generous non-price concessions, but that's just not going to cut it in terms of thinning out spec inventories. We've been quite consistent in our view that, given how chronically undersupplied the market has been for more than a decade now, there is still considerable unmet demand that can absorb much of the spec inventory currently in the market. It may be ore a question of how much (margin) pain builders are willing to endure in order to move these units rather than whether there are any buyers out there.

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