

ECONOMIC PREVIEW



REGIONS

Week of December 19, 2022

Indicator/Action

Economics Survey:

Last

Actual:

Regions' View:

<p>Fed Funds Rate: Target Range Midpoint <i>(After the January 31-February 1 FOMC meeting):</i> Target Range Mid-point: 4.625 to 4.875 percent Median Target Range Mid-point: 4.875 percent</p>	<p>Range: 4.25% to 4.50% Midpoint: 4.375%</p>	<p>This week's notably full docket of economic data releases will mainly help refine the view of current quarter growth. While we think the data related to the housing market and to November consumer spending may be prone to seasonal adjustment noise, we also think there are patterns beginning to take shape that will set the stage for 2023. Specifically, we see growth in consumer spending and business fixed investment slowing while the drag from residential fixed investment begins to abate after Q3's severe contraction knocked 1.40 percentage points off of top-line real GDP growth. What this all adds up to is only tepid growth in real private domestic demand in 2023 even as inflation pressures continue to ease.</p>
<p>November Building Permits Tuesday, 12/20 Range: 1.423 to 1.530 million units Median: 1.480 million units SAAR</p>	<p>Oct = 1.512 million units SAAR</p>	<p><u>Down</u> to an annualized rate of 1.478 million units. Keep in mind that November is typically a weak month for permit issuance, which isn't surprising heading into the winter. But, given the magnitude of the declines seen over the past several months, we think this November's decline will be smaller than is typical for the month (we're referring to the not seasonally adjusted data here). If we're correct on this point, seasonal adjustment will make the headline permit number look better than will actually have been the case. On a not seasonally adjusted basis, we look for total permit issuance of 114,200 units, down 5.5 percent from the 120,800 units permitted in October. Even if we're correct in expecting a smaller than normal November decline, our forecast would still leave single family permits 42.6 percent below the intra-year peak hit in March. It will be interesting to see whether the declines in mortgage interest rates over the past several weeks will lead to some moderation in the rate at which single family permit issuance is declining. The MBA's weekly survey of mortgage applications shows applications for purchase mortgage loans have increased by thirteen percent since mortgage rates began backing down from a peak of 7.16 percent in October. To be sure, that could be more impactful in helping builders move higher inventories of spec homes for sale than in stabilizing new activity, but at this point even a faint ray of light is welcome. We have from the start expected single family permits to decline more than single family starts, reflecting the sizable backlog of units permitted but not yet started. As such, even if the rate of decline eases, single family permit issuance still has further down to go.</p>
<p>November Housing Starts Tuesday, 12/20 Range: 1.250 to 1.450 million units Median: 1.400 million units SAAR</p>	<p>Oct = 1.425 million units SAAR</p>	<p><u>Up</u> to an annualized rate of 1.448 million units. As with housing permits, November is typically a weak month for housing starts and, also as with permits, we suspect this November's decline will be smaller than is typical for the month. If so, seasonal adjustment will flatter the headline starts number. On a not seasonally adjusted basis, we look for total starts of 112,800 units, down 6.5 percent from October, and our forecast would leave single family starts 40.1 percent below the intra-year peak hit in April. While single family starts have further to fall, lower mortgage interest rates should at least help stem the decline. Aside from permits and starts, we'll be watching the data on completions and units under construction. Recall that in each of the past three months and in four of the past five months there has been a new record high number of housing units under construction, which in October reflected completions turning lower. To be sure, you can't have a new record every month, but without a pick-up in the rate of completions, the under-construction backlog will continue to grow even as starts fall further.</p>
<p>Q3 Current Account Balance Wednesday, 12/21 Range: -\$250.0 to -\$201.9 billion Median: -\$223.5 billion</p>	<p>Q2 = -\$251.1 billion</p>	<p><u>Narrowing</u> to -\$218.6 billion.</p>
<p>December Consumer Confidence Wednesday, 12/21 Range: 98.0 to 105.0 Median: 101.0</p>	<p>Nov = 100.2</p>	<p><u>Up</u> to 102.9, which is predicated on falling gasoline prices and falling prices for consumer goods helping improve consumers' moods. As always, we'll be more interested in consumers' assessments of labor market conditions than in the headline confidence number. The "jobs plentiful/jobs hard to get" spread widened slightly in November but is well off its peak from earlier this year with some high profile announcements of job cuts likely weighing on consumers' perceptions of labor market conditions. A declining quits rate is one indication that consumers' faith in the labor market is beginning to wobble, but overall labor market conditions are still reasonably healthy, which should help buck up consumer sentiment.</p>

ECONOMIC PREVIEW



Indicator/Action

Economics Survey:

Last

Actual:

Regions' View:

<p>November Existing Home Sales Range: 4.030 to 4.500 million units Median: 4.200 million units SAAR</p>	<p>Wednesday, 12/21 Oct = 4.430 million units SAAR</p>	<p><u>Down</u> to an annualized rate of 4.120 million units. On a not seasonally adjusted basis, we look for total sales of 328,000 units, which would be the lowest monthly sales total since January 2020. Back then, notably low inventories were weighing on sales, while at present sales have been crushed by higher mortgage interest rates. Pending home sales, an index of signed sales contracts, fell by 8.7 percent in September and by a further 4.6 percent in October, leaving them down 36.7 percent year-on-year. Why this matters here is that existing sales are booked at closing, which generally occurs 30-45 days after the sales contract is signed. Recall that mortgage rates were rising sharply from late-September through late-October before they reversed course, meaning that November existing home sales will for the most part capture the period when the housing market was absorbing the worst of the blow from higher mortgage rates. Were it not for what we expect will be friendly seasonal adjustment, our forecast of the headline sales number would look even worse. Still, mortgage rates have fallen by over seventy basis points, based on the weekly MBA surveys, from that October peak and, as we noted above, applications for purchase mortgage loans have risen as rates have backed off. It will take some time for this to translate into the data on existing home sales but, even so, inventories will remain an issue. We look for a larger than normal decline in inventories in November which would nonetheless leave them up year-on-year. At the same time, we look for further moderation in the over-the-year increase in the median existing home sales price, which we expect to be around 4.0 percent in the November data.</p>
<p>Q3 Real GDP: 3rd estimate Range: 1.6 to 3.6 percent Median: 2.9 percent SAAR</p>	<p>Thursday, 12/22 Q2: 2nd est. = +2.9% SAAR</p>	<p><u>Up</u> at an annualized rate of 2.9 percent.</p>
<p>Q3 GDP Price Index: 3rd estimate Range: 4.3 to 4.3 percent Median: 4.3 percent SAAR</p>	<p>Thursday, 12/22 Q2: 2nd est. = +4.3% SAAR</p>	<p><u>Up</u> at an annualized rate of 4.3 percent.</p>
<p>November Leading Economic Index Range: -0.8 to -0.2 percent Median: -0.5 percent</p>	<p>Thursday, 12/22 Oct = -0.8%</p>	<p><u>Down</u> by 0.6 percent.</p>
<p>November Personal Income Range: -0.1 to 0.7 percent Median: 0.3 percent</p>	<p>Friday, 12/23 Oct = +0.7%</p>	<p><u>Up</u> by 0.4 percent. Recall that a spike in transfer payments, largely reflecting state governments passing unspent “pandemic relief” funds on to residents, added three-tenths of a point to the change in total personal income in October. We look for the level of these transfers to be little changed in the November data, which will capture the second distribution in California, but keep in mind that these payments will likely fade from the data in December, which will act as a drag on top-line income growth. More fundamentally, we look for another solid advance in private sector wage and salary earnings, though a shorter workweek in November means a smaller gain than would otherwise have been the case. After a jump in October, reflecting higher dividend payments, asset-based income will post a more trend-line gain while rent growth will continue to slow.</p> <p>One category that we continue to track with keen interest is nonfarm proprietors’ income, a proxy for small business profits. Though the monthly data have been a bit erratic and prone to sizable revision, the trend over the past several months shows over-the-year growth at just over half the rate that prevailed in the two years prior to the onset of the pandemic. This suggests small business owners are not nearly as able to pass along higher input costs, including labor, in the form of higher prices, as are large corporations. This should give pause to those who see an unbreakable link between higher wages and broader inflation pressures. This isn’t to claim a direct link between core services, where the wages/inflation link is argued to be the strongest, and nonfarm proprietors’ income, but there is considerable overlap. The monthly personal income data call into question just how strong this link actually is.</p>

ECONOMIC PREVIEW


REGIONS

Week of December 19, 2022

Indicator/Action
Economics Survey:
Last
Actual:
Regions' View:

November Personal Spending Range: -0.1 to 0.4 percent Median: 0.2 percent	Friday, 12/23	Oct = +0.8%	<u>Unchanged</u> . Nominal spending on goods will be held down by lower unit motor vehicle sales and lower core goods prices. But, if the PCE Deflator data mirror the CPI data in showing lower air fares, lower lodging rates, lower rental car rates, and lower utilities costs, nominal services spending will look weaker as well
November PCE Deflator Range: 0.0 to 0.3 percent Median: 0.1 percent	Friday, 12/23	Oct = +0.3%	<u>Up</u> by 0.1 percent, which would yield a year-on-year increase of 5.5 percent. We look for the <u>core PCE Deflator</u> to be <u>up</u> by 0.2 percent, for an over-the-year increase of 4.6 percent.
November Durable Goods Orders Range: -3.5 to 0.8 percent Median: -1.0 percent	Friday, 12/23	Oct = +1.1%	<u>Down</u> by 2.6 percent. A sizable decline in civilian aircraft orders will act as a material drag on top-line orders, but as evidenced by our forecast for ex-transportation and core capital goods orders (see below), we don't expect the details to be any better than the headline number. Growth in core capital goods orders has slowed and we expect it to slow even more as firms become more circumspect when it comes to capital outlays. If we're correct, this softening in core capital goods orders will show up in the GDP data on business investment in equipment and machinery in early-to-mid 2023. Deterioration in orders for core capital goods is consistent with the erosion in the ISM Manufacturing Index, which dipped below 50.0 percent in November, and the November industrial production data showing a decline in manufacturing output. With both foreign and domestic demand weakening and order backlogs having been significantly pared down, the next several months could prove to be challenging for the manufacturing sector.
Nov. Durable Goods Orders: Ex-Trnsp. Range: -0.9 to 0.5 percent Median: 0.0 percent	Friday, 12/23	Oct = +0.5%	We look for <u>ex-transportation</u> orders to be <u>down</u> by 0.4 percent and for <u>core capital goods</u> orders (non-defense capital goods excluding aircraft) to be <u>down</u> by 0.5 percent.
November New Home Sales Range: 500,000 to 640,000 units Median: 600,000 units SAAR	Friday, 12/23	Oct = 632,000 units SAAR	<u>Up</u> to an annualized rate of 638,000 units. As with housing permits, housing starts, and existing home sales, November is typically a weak month for new home sales. As is also the case with each of the other series, the magnitude of the declines seen over the past several months leads us to expect a smaller November decline in not seasonally adjusted new home sales than is typical for the month. What could be an added support, even if only a modest one, for November new home sales is that mortgage interest rates fell throughout the month. New home sales are booked at the signing of the sales contract, so are quicker to reflect the impacts of changes in mortgage interest rates than are existing home sales. That applications for purchase mortgage loans rose throughout November as mortgage rates were falling figures to add at least some support for new home sales. On a not seasonally adjusted basis, we look for sales of 46,000 units in November, down 4.2 percent from the 48,000 sales in October but much smaller than the typical November decline. If we're right on this point, seasonal adjustment will flatter the headline sales number. Either way, that cancellations continue to run higher than normal pace means that the new home sales data are overstating sales, which Census reports on a gross basis rather than a net basis. Rising cancellations are part of the reason spec inventories of new homes for sale have risen sharply over the past several months. That said, spec inventories have flattened out over the past few months (pending revisions to prior estimates), which reflects the drops in single family permits and starts, and if we're correct that falling mortgage rates may have aided sales, spec inventories may have fallen modestly in November. Even with the decline in mortgage rates over the past month, however, affordability remains an issue for many prospective buyers. Builders have yet to become very aggressive on pricing concessions to help clear higher spec inventories, and there is only so long builders can slow walk completions of units already under construction. So, even if our above-consensus forecast of November sales is on or near the mark, builders will face continued margin pressures as part of clearing higher than desired spec inventories.

This Economic Preview may include opinions, forecasts, projections, estimates, assumptions, and speculations (the “Contents”) based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Preview. The Contents of this Economic Preview reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Preview or with respect to any results arising therefrom. The Contents of this Economic Preview shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.