ECONOMIC PREVIEW

REGIONS

Week of January 23, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 31-February 1FOMC meeting):* Target Range Mid-point: 4.625 to 4.875 percent Median Target Range Mid-point: 4.625 percent	Range: 4.25% to 4.50% Midpoint: 4.375%	The highlight of this week's slate of data releases will be Thursday's release of the BEA's initial estimate of Q4 GDP (see below). Though we expect the data to show another quarter of decent growth, a number of this week's releases of December data could leave Q4 GDP looking much different than our forecast anticipates. In any given quarter the initial estimate of GDP is based on highly incomplete source data, but given how volatile much of the data have been of late we have a lower than usual degree of confidence in our call on Q4 growth.
December Leading Economic Index Monday, 1/23 Range: -0.8 to 0.2 percent Median: -0.7 percent	Nov = -1.0%	<u>Down</u> by 0.8 percent.
Q4 Real 2022 GDP – 1st estimate Thursday, 1/26 Range: 1.2 to 3.6 percent Median: 2.7 percent SAAR	Q3 = +3.2% SAAR	<u>Up</u> at an annualized rate of 2.9 percent. Consumer spending, business fixed investment, inventories, and government spending will be supports for top-line real GDP growth, while residential fixed investment and trade will be drags. There is, however, considerable uncertainty across most of the main components, in part a reflection of the first estimate of GDP in any given quarter being based on highly incomplete source data. With the trade data having been all over the map of late (see below), business investment in equipment and machinery been losing steam, and many retailers trying to shed unwanted inventories, the BEA's estimates of the still-missing pieces of December could be meaningfully different than ours. Sure, this is true with the first estimate in any given quarter, but we sense that there is more play in the initial estimate for Q4 than is typically the case. Either way, as we move through 1H 2023 we look for the drag from residential fixed investment to fade while the push from consumer spending and business investment becomes less forceful, with the net result being only very modest growth in private domestic demand.
Q4 GDP Price Index – 1st estimate Thursday, 1/26 Range: 3.0 to 4.5 percent Median: 3.2 percent SAAR	Q3 = +4.4% SAAR	<u>Up</u> at an annualized rate of 3.0 percent.
December Advance Trade Balance: Goods Thursday, 1/26 Range: -\$96.1 to -\$78.0 billion Median: -\$88.1 billion	Nov = -\$83.3 billion	<u>Widening</u> to -\$93.8 billion. As noted above, trade is a source of considerable uncertainty in our forecast of Q4 GDP. Imports of goods into the U.S. fell by 7.5 percent in November as the not seasonally adjusted data showed the largest November decline in imports of consumer goods since 2008. Given the magnitude of November's decline, however, that sets up a smaller decline in December than is typical for the month, and if we're correct on this point the seasonally adjusted data could show a sizable increase in imports, hence our forecast anticipating a larger gap in the goods account than the consensus expects. A smaller gap than we anticipate, or the BEA assuming a smaller gap, pose upside risks to our forecast of Q4 real GDP growth.
December New Home Sales Thursday, 1/26 Range: 550,000 to 645,000 units Median: 610,000 units SAAR	Nov = 640,000 units SAAR	<u>Down</u> to an annualized rate of 616,000 units. On a not seasonally adjusted basis, we look for total sales of 45,000 units, down 2.2 percent from November. Our forecast would put full-year 2022 sales at 647,000 units, down 16.1 percent from 2021. It does help to remember that 2020 and 2021 weren't exactly normal years, and also that the market had been chronically undersupplied over the several years prior to the pandemic. Also keep in mind that new home sales, which are booked at the signing of the sales contract, are a more timely indicator of the impacts of changes in mortgage interest rates than are existing home sales, which are booked at closing. After pushing above 7.0 percent in October, mortgage interest rates have since fallen by almost one hundred basis points and buyers have responded. That isn't to say there has been a stampede of buyers into the market, but it does go to a point we've made since sales began to plummet, which is that there remains considerable pent-up demand for home purchases and anything that helps improve affordability will unlock some of that demand. Lower mortgage rates are one piece of the puzzle, another piece will be builders being more flexible on pricing, with higher than desired spec inventories providing them plenty of incentive. Again, we're talking about gradual movement back to some semblance of normality not a rush but, at this point, any movement toward normal will be welcome by builders and buyers.

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December Durable Goods Orders Thursday, 1/26 Range: -2.1 to 7.0 percent Median: 2.5 percent	Nov = -2.1%	Up by 4.4 percent. A surge in net orders for civilian aircraft will provide a powerful lift to top-line orders, but we expect the details of the December data to tell a story of faltering business investment in equipment and machinery. Again, this is another area in which the BEA arriving at a different conclusion could leave the initial estimate of Q4 real GDP growth looking different than we expect. Of more relevance, however, is whether the December data on core capital goods orders are in line with what has been a weakening trend. We expect that to be the case and we expect that trend to weaken further over 1H 2023.
Dec. Durable Goods Orders: Ex-Trnsp. Thursday, 1/26 Range: -1.5 to 0.6 percent Median: -0.2 percent	Nov = +0.1%	We look for ex-transportation orders to be down by 0.3 percent and for core capital goods orders (nondefense capital goods excluding aircraft & parts) to be down by 0.4 percent.
December Personal Income Friday, 1/27 Range: 0.0 to 0.5 percent Median: 0.2 percent	Nov = +0.4%	Up by 0.2 percent. The earnings detail from the December employment report point to only a tepid increase in private sector wage and salary earnings, the largest single component of personal income. Indeed, our forecast would mark the smallest monthly increase since April, which in turn would check any advance in total personal income. One wild card in the December data will be transfer payments, which in October and November were bolstered by several state governments unburdening themselves of unspent pandemic relief funds by transferring them to state residents. While those payments had not totally run their course, we do expect the December data to show a smaller shift, but if we're wrong on this point our forecast of top-line income growth will prove too low. Our forecast anticipates the recent weakness in rental income and nonfarm proprietors' income to have persisted in December, with another solid increase in interest income supporting growth in asset-based income.
December Personal Spending Friday, 1/27 Range: -0.5 to 0.3 percent Median: -0.1 percent	Nov = +0.1%	Down by 0.2 percent. Though it had far more to do with seasonal adjustment than with the actual state of consumers, the retail sales data show spending on goods fell sharply in December. Control retail sales, which feed directly into the BEA's data on consumer spending on goods, fell by 0.7 percent in December, on top of which a steep decline in gasoline prices and lower unit motor vehicle sales further weighed on nominal goods spending. That the seasonally adjusted retail sales data show spending at restaurants fell in December suggests the BEA's measure of consumer spending on services may have been a bit wobbly. All of this, at least in our forecast, adds up to a decline in total consumer spending which, if we're correct, sets a weak base for spending growth in early 2023. The December data on consumer spending offer yet another opportunity for our forecast on Q4 GDP growth to go awry as they will be incorporated into Thursday's release of the BEA's initial estimate of Q4 GDP.
December PCE Deflator Friday, 1/27 Range: -0.1 to 0.1 percent Median: 0.0 percent	Nov = +0.1%	Unchanged, which would yield a year-on-year increase of 4.9 percent. We look for the core PCE Deflator to be up by 0.3 percent, which would translate into a year-on-year increase of 4.4 percent.

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