ECONOMIC PREVIEW

Week of February 20, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 21-22FOMC meeting):* Target Range Mid-point: 4.875 to 4.875 percent Median Target Range Mid-point: 4.875 percent	Range: 4.50% to 4.75% Midpoint: 4.625%	In contrast to many of our counterparts, we did not have recession as our base case coming into this year, though we were quick to point out that our baseline forecast, which included only tepid real GDP growth and a higher unemployment rate, wouldn't look or feel all that different than the brief but mild recession many were anticipating. Given the strength of the January data on employment, consumer spending, and personal income, many are either backtracking from their recession calls or, at the very least, pushing back their timing of a recession. Indeed, we've been asked if the recent data make us more confident in our no-recession call, and our answer has been "not at all." As we've noted in our write-ups of the top-tier data, our view is that much of the "strength" in the recent data has been nothing more than seasonal adjustment flattery. This isn't just us not being able to accept good news but instead is simply us being quite consistent, as we were pointing out late last year that seeming weakness in data, such as retail sales, was more noise than signal. This goes to our oft-repeated point that typical seasonal patterns in economic activity have been significantly off kilter since the onset of the pandemic which, other than making forecasting seasonally adjusted values of data points way more tricky, hasn't changed anything for us. We've always considered the trends in the unadjusted data as being the most reliable gauge of the underlying health of the economy and have thought that to be even more the case since the onset of the pandemic. As such, we are more than a bit bewildered by how strongly many analysts, market participants, and policy makers react to twists and turns in the data that can reflect little more than seasonal adjustment noise. Indeed, the recent revisions to the Consumer Price Index (CPI) were considered to be somewhat deflating, as they show considerably less progress against inflation over the final months of 2022 than had previously been reported (you see what we did there, right?). Those revisions, however, reflected nothing more than updates to the seasonal factors used to adjust the raw data, which were not revised at all. In other words, the price of widgets in the revised data has not changed from what was originally reported. What has changed is our perception of how widget prices have changed thanks to new seasonal adjustment factors largely based on a period in which, again, seasonal patterns in economic activity have been anything but typical. While seasonal adjustment noise is behind much of the "strength" in the recent economic data, the trends in the unadjusted data show us an economy that doesn't look all that different than it has over the past several months.
January Existing Home Sales Tuesday, 2/21 Range: 3.930 million to 4.500 million units Median: 4.100 million units SAAR	Dec = 4.020 million units SAAR	Up to an annual rate of 4.370 million units. On a not seasonally adjusted basis, we look for total sales of 242,000 units, which would be the lowest monthly total since January 2010 and would leave sales down 26.0 percent from December. That decline, however, would be smaller than the typical January decline, which means that seasonal adjustment will flatter the headline sales number. One caveat is that in conjunction with the January data, NAR will incorporate revised seasonal adjustment factors, and while in any given year the January seasonal factor is the most generous of any month, this January's seasonal factor may not be quite as generous as we expect will be the case. Recall that pending home sales, an index of signed sales contracts, logged an uncharacteristic increase in December as mortgage interest rates were retreating from the October peak of over seven percent. With signed sales contracts tending to lead closings by 30-45 days, December's increase in pending home sales suggests January existing home sales (booked at closing) will fare better than is typically the case. That said, our above-consensus forecast would still leave sales down 31.5 percent year-on-year, the fourteenth straight month in which unadjusted sales were down year-on-year. And, with mortgage rates reversing course over the past two weeks, sales will come under renewed downward pressure. Our forecast anticipates a further decline in inventories of existing homes for sale, though this would still leave a double-digit year-on-year increase in inventories.
Q4 Real GDP: 2nd estimate Thursday, 2/23 Range: 2.5 to 3.1 percent Median: 2.9 percent SAAR	Q4: 1st est. = +2.9% SAAR	Up at an annualized rate of 2.9 percent, as some shuffling of the underlying details leaves the headline growth number unchanged.
Q4 GDP Price Index: 2nd estimate Thursday, 2/23 Range: 3.5 to 3.6 percent Median: 3.5 percent SAAR	Q4: 1st est. = +3.5% SAAR	Up at an annualized rate of 3.6 percent.

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January Personal Income Range: 0.2 to 1.7 percent Median: 1.1 percent	Friday, 2/24	Dec = +0.2%	Up by 1.2 percent, reflecting significant increases in labor earnings and transfer payments. On top of private sector payrolls rising by 443,000 jobs in January, the average length of the workweek rose by three-tenths of an hour, which is a huge change as average weekly hours go. This combination yielded one of the largest monthly increases in aggregate private sector wage and salary earnings on record outside of the pandemic-related swings seen in 2020, and this is easily the largest component of personal income. At the same time, a cost-of-living increase for federal government workers will bolster public sector wage earnings. While a considerable portion of measured job growth in January was no more than seasonal adjustment noise, it is the seasonally adjusted data on employment, hours, and earnings that carry into the personal income data. January also saw the 8.7 percent cost-of-living adjustment in Social Security benefits, which will provide a powerful boost to transfer payments. Assuming trend-like increases in rental income and asset-based income, the net result should be a hefty increase in total personal income. One key category in which there has seemingly been no rhyme or reason over the past several months is nonfarm proprietors' income, a proxy for small business profits, with sharp monthly swings and sizable revisions to initial estimates having become the norm. As a general rule, small businesses do not have the same degree of pricing power as do large corporations, nor do they have the same latitude when it comes to negotiating input costs. To the extent that small businesses are services providers, that services prices continue to outpace overall inflation is somewhat offset by ongoing input price increases. As such, it's hard to get a general read on how small business profits are faring, and the monthly personal income data haven't provided much clarity on that front.
January Personal Spending Range: 0.6 to 2.5 percent Median: 1.3 percent	Friday, 2/24	Dec = -0.2%	Up by 1.6 percent. As with the January employment data, seasonal adjustment provided a powerful boost to the January retail sales data, and it is the seasonally adjusted estimate of control retail sales – up by 1.7 percent in January – that feeds into the BEA's estimate of consumer spending on goods. At the same time, a spike in unit motor vehicle sales, itself a byproduct of friendly seasonal adjustment, will bolster spending on consumer durable goods. The one glimpse of services spending, which accounts for roughly two-thirds of all consumer spending, offered in the retail sales data is restaurant sales, but the 7.2 percent increase reported in the retail sales data is so overblown as to not be of much use in gauging total services spending. Despite lower utilities outlays acting as a drag, we look for the increase in overall services spending to be in line with those seen over the prior few months. We will, however, note that our proxy for inflation-adjusted discretionary services spending declined in each of the final three months of 2022, and it isn't clear to us that January would have brought a meaningful reversal. A recent survey by the Federal Reserve Bank of New York showing upper-income households have a much more dour outlook for labor market conditions than do lower-income households offers some anecdotal support for our view. As such, we see services spending as posing a downside risk to our forecast of total consumer spending.
January PCE Deflator Range: 0.4 to 0.6 percent Median: 0.5 percent	Friday, 2/24	Dec = +0.1%	Up by 0.6 percent, which would yield a year-on-year increase of 5.1 percent. We look for the core PCE Deflator to be up by 0.5 percent, which would put the year-on-year increase at 4.4 percent. We will note that the basis on which health care costs are measured in the PCE Deflator differs dramatically from that used in the CPI. The two are diverging meaningfully of late, owing in part to how prices for health insurance are measured in the CPI, which is acting as a material drag on the rate at which prices for medical care services are advancing. Absent this drag, we look for health care prices as a source of upward pressure on the core PCE Deflator.
January New Home Sales Range: 550,000 to 664,000 units Median: 620,000 units SAAR	Friday, 2/24	Dec = 616,000 units SAAR	Down to an annual rate of 588,000 units. On a not seasonally adjusted basis, we look for sales of 50,000 units, up 6.4 percent from December but smaller than the typical January increase, so seasonal adjustment will push the headline sales number lower. Buyers have responded to dips in mortgage interest rates which, along with builder incentives, provided support for January sales. Though still elevated, we think spec inventories are past their peak, but with mortgage rates having turned higher this month, paring down spec inventories further will be a slow and uneven process.

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