ECONOMIC PREVIEW

REGIONS

Week of August 21, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 19-20 FOMC meeting):* Target Range Mid-point: 5.375 to 5.625 percent Median Target Range Mid-point: 5.375 percent	Range: 5.25% to 5.50% Midpoint: 5.375%	With all due respect to Fed Chair Powell, who will speak at the Jackson Hole symposium on Friday, we think the most meaningful event this week will come on Wednesday when the BLS releases the preliminary estimate of the annual benchmark revision to the data on nonfarm employment, hours, and earnings. As we've noted, we expect a downward revision to the level of nonfarm employment as of March 2023, which will be the new reference month for the BLS's establishment survey, and we expect the magnitude of this revision to be much larger than the typical benchmark revision. Our expectations are based on data from the Quarterly Census of Employment and Wages, which covers the universe of payroll tax returns that almost all firms are required to file. If we are correct, that would make it highly likely that there will ultimately be downward revisions to the BEA's estimates of personal income, which would cast further doubt on the staying power of consumer spending.
July Existing Home Sales Tuesday, 8/22 Range: 4.050 to 4.220 million units Median: 4.150 million units SAAR	Jun = 4.160 million units SAAR	Down to an annualized sales rate of 4.090 million units. On a not seasonally adjusted basis, we look for total sales of 382,000 units, which would be down 12.0 percent from June and down 15.9 percent year-on-year. July will mark the twentieth straight year-on-year decline in sales, and our forecast would leave the running twelve-month total of unadjusted sales, which we see as the trend sales rate, at 4.345 million units, the lowest such total since March 2012. Keep in mind that existing home sales are booked at closing, so July sales will mostly reflect sales contracts signed from late-May through June, meaning they won't reflect most of the recent run-up in mortgage interest rates. That will come in the August data, but the July data will reflect the ongoing dearth of existing homes for sale. To be sure, higher mortgage rates have weighed on the supply side of the market as well, as homeowners who otherwise may have looked to trade up instead remain in place, and the recent run-up in mortgage rates, which has left them over seven percent, will only make that worse. Our forecast would leave inventories down nearly twenty percent year-on-year, and we are entering into what is a seasonally weak time of the year for inventories. It is important to keep the supply side in mind when trying to make sense out of house prices. While many are surprised that the plunge in sales hasn't pulled down prices more dramatically than seen to date, we've from the start pointed out that what for years have been chronically lean inventories would mitigate any decline in house prices. Indeed, the median existing home sales price, while admittedly not the preferred gauge of prices, rose back over the $400,000 mark in June and was the second highest on record, and we look for the July median sales price to be up around 1.0 percent year-on-year, ending a run of five straight months with over-the-year declines. That goes hand-in-hand with the days on market metric falling back to eighteen days in May and June. That may not change much even with higher mortgage rates, as those higher rates trim both demand and supply. Not only is nothing about the market for existing homes normal these days, but we don't even know what would constitute "normal" anymore.
July New Home Sales Wednesday, 8/23 Range: 670,000 to 730,000 units Median: 707,000 units SAAR	Jun = 697,000 units SAAR	Up modestly to an annualized sales rate of 699,000 units. On a not seasonally adjusted basis, we look for sales of 57,000 units, down 5.0 percent from June but up 30.0 percent year-on-year. In contrast to existing home sales, new home sales are booked at the signing of the sales contract, so July sales will more fully feel the impact of the run-up in mortgage interest rates. To that point, on a not seasonally adjusted basis, single family permit issuance fell 15.0 percent in July, twice the typical July decline, and we can't help but think that's a harbinger of things to come for new home sales should mortgage interest rates remain so elevated. This comes after May and June had seen marked increases in single family activity, in part reflecting buyers frustrated by lack of inventory in the market for existing homes flocking to the market for new homes. Builders have been using rate buydowns to help facilitate sales, but the higher mortgage rates go, the more costly doing so becomes for builders and, even with rate buydowns, affordability becomes a challenge for an increasing number of prospective buyers. It could also be that higher mortgage interest rates lead to rising cancellations, but we won't know that from the new home sales data, which are reported on the basis of gross, not net, sales. Thus far we've not heard builders reporting increasing cancellations, but that could come. While builders have made progress in working down elevated spec inventories, that progress is at risk with higher mortgage rates.

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July Durable Goods Orders Thursday, 8/24 Range: -6.7 to -0.5 percent Median: -4.0 percent	Jun = +4.6%	Down by 3.9 percent, but that would reflect no more than civilian aircraft orders coming down from the significant spike seen in June.
July Durable Goods Orders: Ex-Trnsp. Thursday, 8/24 Range: -0.4 to 0.5 percent Median: 0.3 percent	Jun = +0.5%	We look for ex-transportation orders to be up by 0.5 percent and for core capital goods orders (nondefense capital goods excluding aircraft & parts) to be up by 0.3 percent.

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