ECONOMIC PREVIEW

REGIONS

Week of September 18, 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 5.375 percent Median Target Range Mid-point: 5.375 percent	Range: 5.25% to 5.50% Midpoint: 5.375%	Signs of cooling labor market conditions, questions about the reliability of the data notwithstanding, and further deceleration in core inflation make it all but a given that the FOMC will leave the Fed funds rate unchanged at this week's meeting. As such, all eyes will turn to the updated economic and financial projections, particularly the updated dot plot. Updated economic projections will likely show a faster rate of real GDP growth for 2023 (Q4/Q4), which will feed into the 2024 forecast as well, with a higher rate of headline inflation and a slightly slower rate of core inflation for 2023 and little change to the forecast for 2024 and beyond. With less than complete confidence that inflation is firmly on track back to their 2.0 percent target rate and several FOMC members on record in stating further funds rate hikes may be warranted, the updated dot plot will likely imply an additional twenty-five basis point hike by year-end 2023 while the median year-end 2024 dot will likely imply one fewer rate cut than was the case in the June edition, the same going for the median year-end 2025 dot. Obviously, the dot plot is not, nor is it intended to be, a set-in-stone forecast of the path of the funds rate, but it is a signaling tool and the Committee will use it to signal that they do not see their fight against inflation as being over. This is a point Chair Powell is likely to stress in his post-meeting press conference, and he is likely to be intentionally vague as to the potential for, and timing of, a subsequent rate hike. Instead, he will stress that the FOMC remains in a "data dependent" mode, thus holding open the possibility that the additional hike implied in the dot plot may not actually come. As to the prospect of the updated dot plot implying fewer rate cuts in 2024 than had been the case in the June edition, Chair Powell will likely downplay this, stressing instead the need for policy to remain sufficiently restrictive for as long as needed to quell inflationary pressures. He is also likely to note that, to the extent there are rate cuts in 2024, that would be to ensure that the stance of monetary policy as gauged by the real funds rate does not become overly restrictive as inflation eases. It will be interesting to hear Mr. Powell's comments on the recent reacceleration in headline inflation and the prospect that core inflation could also reaccelerate in the months ahead. Finally, Mr. Powell will no doubt be queried on the potential economic fallout and the potential implications for monetary policy of the UAW strike and a shutdown of the federal government should that come to pass. Though the effects of the UAW strike on employment, output, inflation, and consumer spending will be unwound once the strike is resolved, the bigger impact on policy could come from a partial government shutdown that disrupts the flow of economic data on employment, inflation, and residential construction, GDP, and consumer spending, amongst other series. Not actually having data is not exactly ideal for a central bank in a data dependent mode, which could keep the Committee grounded at their October 30-November 1 meeting.
August Building Permits Tuesday, 9/19 Range: 1.379 to 1.460 million units Median: 1.440 million units SAAR	Jul = 1.443 million units SAAR	Down to an annualized rate of 1.403 million units. On a not seasonally adjusted basis, we look for total permit issuance of 125,800 units, and while this would reflect a six percent increase from July's unadjusted total, our forecast anticipates tough August seasonal factors pushing the seasonally adjusted annualized total lower. If we're correct on this point, it would be yet another illustration of our stance that, when it comes to the data on residential construction and sales, the only numbers that matter are the not seasonally adjusted numbers. To that point, unadjusted single family permit issuance spiked in May and June, with builders reporting increasing traffic fueled in large measure by those fleeing the supply-starved market for existing homes. That spike in permit issuance fizzled in July, however, and while rising mortgage interest rates likely were a contributing factor, the magnitude of July's decline in single family permits seemed a bit overdone. As such, we anticipate some payback in the August data despite what were further increases in mortgage rates, but we will note that our forecast would leave single family permit issuance lower than was the case in May and June (again, not seasonally adjusted). Along those same lines, while multi-family permit issuance had been trending lower, July saw fewer multi-family permits issued than in any month since October 2020, and our forecast anticipates a modest bounce off that low. We expect multi-family permit issuance to continue to trend lower over coming quarters with only grudging increases in single family permits unless there is some relief on the mortgage interest rate front.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

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August Housing Starts Tuesday, 9/19 Range: 1.375 to 1.478 million units Median: 1.440 million units SAAR	Jul = 1.452 million units SAAR	Down to an annualized rate of 1.393 million units. On a not seasonally adjusted basis, we look for total starts of 123,700 units, down 5.5 percent from July with both single family and multi-family starts down. Unlike single family permits, unadjusted single family starts rose in July, with part of the dichotomy likely accounted for by builders paring down the number of single family units already permitted but not yet started. That backlog, however, remains substantial, which does pose downside risk to our forecast of August permits. Though down considerably from the peak reached in mid-2022, the number of single family units under construction remains elevated as builders remain frustrated by constraints on labor supply and certain materials. In contrast, but already substantial backlog of multi-family units under construction has continued to expand, topping one million units in July. Though multi-family permits have been trending lower, there hasn't yet been a corresponding movement in multi-family starts, in part reflecting builders working down the backlog of units permitted but not yet started while multi-family completions remain highly uneven from month to month. These are all metrics worth watching in the August data.
Q2 Current Account Balance Thursday, 9/21 Range: -$228.3 to -$212.0 billion Median: -$221.0 billion	Q1 = -$219.3 billion	Narrowing to -$217.7 billion.
August Leading Economic Index Thursday, 9/14 Range: -0.6 to -0.3 percent Median: -0.5 percent	Jul = -0.4%	Down by 0.6 percent.
August Existing Home Sales Thursday, 9/21 Range: 4.000 to 4.250 million units Median: 4.100 million units SAAR	Jul = 4.070 million units SAAR	Up modestly to an annualized rate of 4.090 million units. On a not seasonally adjusted basis, we look for total sales of 404,000 units, up 8.6 percent from July but a much tougher seasonal factor than that from July would make pretty much of a wash out of the headline sales number. Our forecast would leave sales down 14.8 percent year-on-year, which would be the twenty-first straight over-the-year decline in unadjusted sales, a streak which began prior to mortgage interest rates beginning to push higher. That goes to our point that the long-running slide in sales began as a supply-side, not a demand-side, issue. Though our forecast anticipates inventories of existing homes for sale rising modestly, that would still yield a double-digit over-the-year decline. Though not to the same degree as had been the case before mortgage rates turned higher, the market remains undersupplied, and that is being reflected in notably low days on market and in house prices holding up better than many had feared would be the case. Our forecast anticipates a modest year-on-year increase in the median existing home sales price in August, which would be the second in a row after a brief string of year-on-year declines.

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