ECONOMIC PREVIEW

Week of October 23, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the October 31-November 1 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%	Recent commentary by FOMC members suggests many are not swayed by upside surprises in the data on employment, inflation, and consumer spending and do not see those data points as grounds for moving at their upcoming meeting. Additionally, many FOMC members are assessing how overall financial conditions are changing in conjunction with the recent run-up in longer-term interest rates and see tighter financial conditions as diminishing the need for further Fed funds rate hikes. Finally, many FOMC members are looking to see whether the stronger than anticipated Q3 data, including real GDP growth, will carry over into Q4 before making decisions on the need for further funds rate hikes. In a sense, how Committee members see the appropriate path of the funds rate comes down to whether they feel further rate hikes are warranted to help mitigate the risk of a reacceleration of inflation, or whether they feel confident enough in their forecasts of a cooling economy and further slowing in inflation to argue against any further funds rate hikes. Our sense is that there are more members in the latter camp than in the former camp.
September New Home Sales Wednesday, 10/25 Range: 620,000 to 709,000 units Median: 682,000 units SAAR	Aug = 675,000 units SAAR	Down to an annualized sales rate of 633,000 units. On a not seasonally adjusted basis, we look for sales of 49,000 units, down 9.3 percent from August. As with much of the economic data, September is typically a seasonally weak month for new home sales, but our forecast anticipates a larger than normal decline in unadjusted sales, reflecting the extent to which higher mortgage interest rates have blunted sales. While it is true that builders have benefitted from the dearth of existing homes for sale and many have been able to use rate buydowns to facilitate sales, that advantage is not immune to higher mortgage interest rates. It could be that with the bulk of September's increase in mortgage rates coming over the final two weeks of the month, new home sales will have held up better than our forecast anticipates, and our forecast of the headline sales number is easily below the consensus forecast. Even if our forecast proves too low, we think it a matter of when, not if, the impact of higher mortgage rates becomes more apparent in the new home sales data, particularly with mortgage rates making a run at eight percent. Another point to keep in mind is that new home sales are reported on a gross, not a net, basis, meaning that cancellations are not accounted for in the data. Thus far, most builders have yet to see a meaningful increase, but the higher mortgage rates go, the more likely it is that cancellations begin to rise. By the end of September, many builders had seen significant slowing in new orders, and not seasonally adjusted single family housing permits fell sharply in September, and while a sizable backlog of previously permitted but not yet started units cushioned the impact in September, single family starts are also likely to fall in the months ahead. Many builders are still sitting on higher than desired levels of spec inventories, so will likely be more aggressive in the use of incentives other than rate buydowns in order to help further pare down spec stocks. The reality is that, with little give in prices thus far, the higher mortgage interest rates go the more binding affordability constraints become, which will take a toll on new home sales.
September Durable Goods Orders Thursday, 10/26 Range: -0.5 to 4.5 percent Median: 1.5 percent	Aug = +0.1%	Up by 2.9 percent. A surge in orders for nondefense aircraft will provide considerable support for top-line orders growth, but we expect the underlying details to be much weaker, yielding a slight decline in core capital goods orders (see below). Tighter C&I lending standards, higher financing costs, inventories having largely been right-sized, and a more uncertain, if not more unfavorable, growth outlook have combined to take a toll on business investment in equipment and machinery. With strong and steady growth in investment in intellectual property products for some time, it figures that at some point there will be a corresponding boost to physical investment, but at present the weights on investment in equipment and machinery seem a more powerful force.
Sep. Durable Goods Orders: Ex-Trnsp. Thursday, 10/26 Range: -0.3 to 0.5 percent Median: 0.3 percent	Aug = +0.4%	We look for ex-transportation orders to be up by 0.1 percent and fore core capital goods orders (nondefense capital goods excluding aircraft and parts) to be down by 0.2 percent.
Sep. Advance Trade Balance: Goods Thursday, 10/26 Range: -$89.5 to -$83.5 billion Median: -$86.0 billion	Aug = -$84.6 billion	Widening to -$85.9 billion.

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

ECONOMIC PREVIEW REGIONS

Week of October 23, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Q3 Real GDP – 1st estimate Thursday, 10/26 Range: 2.8 to 6.0 percent Median: 4.3 percent SAAR	Q2 = +2.1% SAAR	Up at an annualized rate of 4.8 percent. Consumer spending, inventory accumulation, and a smaller U.S. trade deficit will be the primary supports for growth. While this would mark the fastest quarterly growth rate since Q4 2021 and a fifth straight quarter of above-trend growth, there is little to suggest a growth pace anywhere near that seen in Q3 can be sustained. Much of the growth in real consumer spending in Q3 came from the strength of spending in July, as growth slowed markedly in August and September, which sets up a weaker base for Q4 growth. While a faster pace of inventory accumulation should make a sizable contribution to Q3 growth, keep in mind that while the change in business inventories enters into the calculation of the level of real GDP, it is the change in the change in inventories that matters for the growth rate of real GDP, and we don't see inventory accumulation contributing to Q4 growth. While construction and sales of new single family homes rose smartly over the summer months as extraordinarily lean inventories of existing homes for sale drove more prospective buyers into the market for new homes, there is growing evidence that the most recent run-up in mortgage interest rates is taking a toll on new single family construction and sales. As such, while residential fixed investment likely added to Q3 real GDP growth after having been a drag over the prior nine quarters, we look for it to transition back to being a drag on growth in Q4. At the same time, business fixed investment and machinery has been quite uneven over recent months, but we expect it to push lower in Q4 while at the same time the boost to business investment in structures from the construction of manufacturing facilities has begun to fade, which we think will have much less of an impact on real GDP in Q4 than has been the case over recent quarters. In short, while government spending, including infrastructure projects, will continue to provide support for real GDP, much of the private sector supports that contributed to the lofty Q3 headline growth print have either already begun to or will begin to fade. As such, we continue to expect the Q4 data to show a sharp deceleration in real GDP growth.
Q3 GDP Price Index – 1st estimate Thursday, 10/26 Range: 2.3 to 3.5 percent Median: 2.7 percent SAAR	Q2 = +1.7% SAAR	Up at an annualized rate of 2.7 percent.
September Personal Income Friday, 10/27 Range: 0.3 to 0.7 percent Median: 0.4 percent	Aug = +0.4%	Up by 0.4 percent. Wage and salary earnings growth, in both the private and public sectors, will be the primary support for growth in total personal income, with support from rental income and asset-based income, primarily interest income. Transfer payments loom as a wild card in the September data; declines in SNAP benefits and many states paring Medicaid roles have contributed to transfer payments declining in three of the past four months. If these cuts have largely run their course, the September data could bring a modest increase in transfer payments, which is what our forecast anticipates. If we're wrong on this point, our forecast for top-line income growth could be too high. Our forecast would leave aggregate private sector wage and salary earnings up 5.2 percent year-on-year, and while this would be the smallest such increase since February 2021, it would still leave growth ahead of inflation, as has been the case over the duration of this prolonged period of elevated inflation.
September Personal Spending Friday, 10/27 Range: 0.1 to 0.8 percent Median: 0.5 percent	Aug = +0.4%	Up by 0.6 percent. The September retail sales data were flattered by seasonal adjustment, making spending look stronger than was actually the case. Recall that control retail sales are a direct input into the BEA's estimates of consumer spending on goods, and it is the seasonally adjusted data that flow into the BEA's accounts. As such, we look for the September data to show another hefty increase in consumer spending on goods, to be augmented by a larger increase in spending on services than seen in August. The net result would be another solid increase in total spending which, based on our expectations for the PCE Deflator (see below), would leave real spending up 0.3 percent. We do, however, continue to expect a meaningful slowdown in growth in discretionary services spending in Q4, which will dampen growth in overall consumer spending considerably.
September PCE Deflator Friday, 10/27 Range: 0.3 to 0.4 percent Median: 0.3 percent	Aug = +0.4%	Up by 0.3 percent, yielding a year-on-year increase of 3.4 percent. We look for the core PCE Deflator to also be up by 0.3 percent, which would translate into a year-on-year increase of 3.7 percent.

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.