Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 30-31 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%	As the economic data makers clear the decks ahead of the holidays, this week's slate of data is notably crowded and includes an updated read on the PCE Deflator (Page 3), the FOMC's preferred gauge of inflation. Our forecast anticipates a decline in the total PCE Deflator with the core PCE Deflator being unchanged which, if on the mark, would validate the FOMC's latest projections. Also, the combination of some relief in mortgage rates and favorable seasonal adjustment could flatter headline new home sales (Page 3), but even if we're wrong on this point the recent drops in mortgage rates will likely prompt a smart pick-up in sales in the months ahead.
November Building Permits Tuesday, 12/19 Range: 1.400 to 1.510 million units Median: 1.460 million units SAAR	Oct = 1.498 million units SAAR	Up to an annual rate of 1.528 million units. On a not seasonally adjusted basis, we look for total permits of 115,100 units, down 8.2 percent from October with both single family and multi-family permits lower. That the declines anticipated by our forecast are smaller than the "typical" November declines would in turn make the seasonally adjusted data look artificially strong, which accounts for our forecast anticipating an increase in the headline (i.e., seasonally adjusted and annualized) permits number. As for the numbers that actually matter, i.e., the unadjusted permits numbers, recall that permit issuance in October meaningfully outperformed typical seasonal patterns at a time when mortgage interest rates flirted with eight percent, so we look for some payback in the November data. We do expect a larger November decline in single family permits than in single family starts, with falling mortgage interest rates and some stabilization in sales supporting starts activity, including starts on units already permitted. Though by no means following a straight path, multi-family permits are nonetheless trending lower, and our November forecast is in keeping with that trend.
November Housing Starts Tuesday, 12/19 Range: 1.272 to 1.429 million units Median: 1.360 million units SAAR	Oct = 1.372 million units SAAR	Up to an annual rate of 1.429 million units. As with housing permits, we expect a smaller November decline than is typical for not seasonally adjusted housing starts will be translated into an increase in the seasonally adjusted, annualized data. On a not seasonally adjusted basis, we look for total starts of 109,600 units with both single family and multi-family starts down from October. Mortgage rates moved lower through the month, though at a much more rapid pace over the second half of November, and applications for purchase mortgage loans increased accordingly. But, with builders intent on paring down still-elevated spec inventories, it isn't clear how supportive these developments will have been for single family starts in November.
November Existing Home Sales Wednesday, 12/20 Range: 3.650 to 3.900 million units Median: 3.770 million units SAAR	Oct = 3.790 million units SAAR	Up to an annual rate of 3.830 million units. On a not seasonally adjusted basis, we look for sales of 301,000 units, down 9.6 percent from October, but a friendly seasonal factor should nudge the headline (seasonally adjusted and annualized) sales number higher. Our forecast would leave unadjusted sales down 7.4 percent year-on-year, and while that would be the twenty-fourth straight over-the-year decline, it would nonetheless be the smallest such decline since May 2022. That, however, is more a reflection of the extent to which sales have declined than of any stabilization in the market. Recall that existing home sales are booked at closing, so November closings largely reflect sales contracts signed from late-September through October, or, right when mortgage interest rates were racing to a cycle high. That said, the not seasonally adjusted data show pending home sales, a gauge of signed sales contracts, rose by 9.1 percent in October despite higher mortgage rates. Though this is a bit smaller than the typical October increase, it does suggest some support for November closings, and also keep in mind that cash transactions have been accounting for a higher than normal share of existing home sales over recent months. The story here, however, remains supply constraints, which continue to weigh on sales. To that point, while November is typically a seasonally weak month for inventories, normal seasonal patterns have been disrupted of late, so it would not surprise us to see that inventories rose modestly in November, particularly as mortgage rates began to fall during the month. One question over coming months is the extent to which further declines in mortgage rates will unlock supply, and while we do think this will happen, it won't happen to nearly the degree required to bring the market back into balance, particularly since at the same time lower mortgage rates will further unlock what remains a considerable degree of pent-up demand.

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ECONOMIC PREVIEW

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Week of December 18, 2023

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Q3 Current Account Balance Range: -$225.0 to -$190.3 billion Median: -$196.0 billion	Wednesday, 12/20	Q2 = -$212.1 billion	Narrowing to -$194.6 billion on a much smaller trade deficit than seen in Q2.
December Consumer Confidence Range: 100.0 to 111.6 Median: 104.5	Wednesday, 12/20	Nov = 102.0	Up to 105.1. The University of Michigan's early-December survey showed a jump in consumer sentiment, with falling gasoline prices helping alleviate inflation concerns. While we expect the Conference Board's survey to follow suit, we will note that the Conference Board's survey is more weighted to assessments of labor market conditions than is the University of Michigan survey, and consumers have become more guarded in their views on the labor market over recent months, which could help check any increase in the headline confidence print. To that point, we'll be watching for any further narrowing in the "jobs hard to get/jobs plentiful" spread which had for some time hovered around more than two-decade highs. Even with cash being freed up by lower energy prices, growing unease about the labor market could weigh on consumer spending, unless of course consumers decide to defer worrying about the labor market until after the holiday season, or, in other words, right about when those pesky bills for holiday season spending begin to show up.
Q3 Real GDP: 3rd estimate Range: 4.6 to 5.4 percent Median: 5.2 percent SAAR	Thursday, 12/21	Q3: 2nd est. = +5.2% SAAR	Up at an annualized rate of 5.1 percent. The downward revision to prior estimates of September control retail sales could lead to the BEA's second estimate of Q3 growth in real consumer spending being trimmed down, which would in turn lead to a modest markdown of top-line real GDP growth.
Q3 GDP Price Index: 3rd estimate Range: 3.4 to 3.6 percent Median: 3.6 percent SAAR	Thursday, 12/21	Q3: 2nd est. = +3.6% SAAR	Up at an annualized rate of 3.6 percent.
November Leading Economic Index Range: -0.7 to -0.2 percent Median: -0.5 percent	Thursday, 12/21	Oct = -0.8%	Down by 0.4 percent.
November Personal Income Range: 0.2 to 0.6 percent Median: 0.4 percent	Friday, 12/22	Oct = +0.2%	Up by 0.5 percent. Wage and salary earnings will be the primary support for growth in total personal income. With perhaps an assist from the return of striking UAW workers, average hourly earnings were up a solid 0.4 percent in November while the average length of the workweek ticked up by one-tenth of an hour. That combination will have a powerful effect on aggregate private sector wage and salary earnings, which we look to have risen by 0.7 percent. Our forecast anticipates a similar gain in aggregate public sector wage and salary earnings, where rapid job growth on the state and local government levels over the past several months has fueled faster growth in aggregate wage and salary earnings. We look for a smaller increase in asset-based income than that seen in October, as that month's sizable increase in dividend income likely won't have been repeated, while growth in interest income has come off the boil and will slow further in the months ahead. Our forecast anticipates the drag from declining transfer payments seen over the prior five months has abated, but if we're wrong on this point our forecast for total income growth will be too high. We continue to focus on nonfarm proprietors' income, a proxy for small business profits, which continues to post solid growth that at least in part traces to continued rapid gains in services prices. We'd see weakening nonfarm proprietors' income as a sign of faltering growth in the services sector, though we're not at that point yet.
November Personal Spending Range: 0.1 to 0.5 percent Median: 0.3 percent	Friday, 12/22	Oct = +0.2%	Up by 0.5 percent. Whether or not we buy the November retail sales data (we don't, unless at a substantial discount), the reported 0.4 percent increase in control retail sales feeds directly into the BEA's estimate of consumer spending on goods. That increase is, depending on how one chooses to see it, even more remarkable or even less credible given the substantial decline in core goods prices in November after a run of monthly declines. Either way, in real (i.e., adjusted for price changes) terms, consumer spending on goods posted a strong gain in November. The BEA's spending data will offer a first look at November services spending which, based on spending trackers and anecdotal evidence, seems to have been more robust than we had anticipated. Though Q4 growth in real consumer spending will easily fall short of Q3 growth, the November data suggest the gap may not be as wide as we had anticipated.

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Week of December 18, 2023

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
November PCE Deflator Range: -0.1 to 0.1 percent Median: 0.0 percent	Friday, 12/22	Oct = 0.0%	<u>Down</u> by 0.1 percent, which would yield a year-on-year increase of 2.7 percent, the smallest such increase since March 2021. We look for the <u>core PCE Deflator</u> to be <u>unchanged</u>, which would leave it up 3.2 percent year-on-year, which would be the smallest such increase since April 2021. Falling core goods prices are acting as a drag on both headline and core inflation. Lower energy prices and falling commodity prices are in keeping with that has been notable softness in the Producer Price Index, and with few signs of inflation pressures in the production pipeline it is reasonable to expect further deceleration in retail-level inflation in the months ahead despite some persistence prices pressures for core services excluding shelter. This could help account for the surprising turn taken by the FOMC at last week's meeting.
November Durable Goods Orders Range: -0.1 to 7.0 percent Median: 2.4 percent	Friday, 12/22	Oct = -5.4%	<u>Up</u> by 1.6 percent. Though a modest decline in civilian aircraft orders will weigh on orders for transportation equipment, we expect this to be more than offset by the end of the UAW strike sparking an increase in orders for motor vehicles and parts. Aside from transportation equipment, however, we look for another month of order books remaining somewhat barren; we'll note that our forecast anticipates the end of the UAW strike triggering a rebound in primary metals orders, which accounts for roughly half of our expected increase in ex-transportation orders. While lower interest rates won't hurt, it will take more than that to spark a rebound in business investment in equipment and machinery. The ISM Manufacturing Index has shown the factory sector to be in contraction for thirteen straight months, new orders down for fifteen straight months, and backlogs of unfilled orders having been largely worked down, with weak global growth hammering export orders. While we continue to expect the push for efficiency gains and increased domestic production of semiconductor chips and electric vehicles and EV batteries will at some point lead a turnaround in business outlays on equipment and machinery, we're just not sure where that point is.
Nov. Durable Goods Orders: Ex-Trnsp. Range: -0.2 to 0.8 percent Median: 0.1 percent	Friday, 12/22	Oct = 0.0%	We look for <u>ex-transportation</u> orders to be <u>up</u> by 0.2 percent and for <u>core capital goods</u> orders (nondefense capital goods excluding aircraft & parts) to be <u>up</u> by 0.3 percent.
November New Home Sales Range: 650,000 to 710,000 units Median: 688,000 units SAAR	Friday, 12/22	Oct = 679,000 units SAAR	<u>Up</u> to an annual rate of 691,000 units. On a not seasonally adjusted basis, we look for sales of 49,000 units, down 3.9 percent from October but, as with the rest of the housing market data, a friendly November seasonal factor should flatter the headline number. Mortgage interest rates did drift lower and applications for purchase mortgage loans drifted higher during the month, while many builders reported smaller than typical seasonal lulls in orders, which is in keeping with our forecast anticipating a smaller than typical November decline in unadjusted sales. While our forecast of November sales could easily prove too ambitious, the extent to which mortgage interest rates have fallen of late and the likelihood of further declines coupled with how undersupplied the market for existing home sales remains should support higher new home sales over coming months. In addition to the top-line sales number, we'll also be watching the composition of sales by stage of construction; with spec inventories higher than many builders are comfortable with, they may resort to more aggressive incentives to help pare spec stocks down, so we'll watch for the share of sales accounted for by completed units and units under construction.

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