ECONOMIC PREVIEW

REGIONS

Week of December 25, 2023

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%	After last week's deluge of data, things will be much quieter in this holiday-shortened week. In case you spent last week scouring the stores for super-hero economist action figures to give as holiday gifts and therefore weren't keeping track of the various data releases, here are some highlights. Starts of new single family homes rose sharply in November, which went way beyond the data being flattered by seasonal adjustment. On a not seasonally adjusted basis, single family starts rose in November, meaning this year joins 2013 as the only years since 1970 in which unadjusted single family housing starts rose in the month of November. While many attributed this to mortgage rates having retreated from the cycle highs seen in October, that explanation is hard to square with the 12.8 percent decline in not seasonally adjusted single family housing permits in November. In our preview of the November data we noted that builders paring down sizable backlogs of units permitted but not yet started would lead to starts outperforming permits, and the data reflect that. The question going forward is what kind of response the recent sharp declines in mortgage interest rates will bring from builders, buyers, and sellers of existing homes. While lower mortgage rates may begin to unlock inventories of existing homes, we think it will take a much more pronounced decline than we've seen thus far to trigger a meaningful supply-side response in the market for existing homes. To that point, while sales came in as our forecast anticipated, inventories of existing homes for sale fell in November, with the level of inventory equivalent to 3.5 months of sales, a sign of how chronically imbalanced the market remains. To the extent lower mortgage rates draw out more pent-up demand for home purchases, that will clearly benefit builders, even if that isn't readily apparent in the November data on new home sales. Unadjusted new home sales fell to 41,000 units in November, well short of our forecast of 49,000 units. Our miss, however, is entirely due to Census reporting the lowest monthly total of new home sales in the South region since December 2016, which simply doesn't seem plausible, while sales in the other three regions matched our forecasts. Even if the November data hold up to revision, which we doubt, coming months should see higher new home sales. Further declines in gasoline prices, falling interest rates, and a slightly more positive take on the labor market helped bolster consumer confidence in December. The "jobs plentiful/jobs hard to get" spread in the Conference Board's monthly survey widened in December, and though still far from the nearly two-decade highs that had been seen for much of 2022, December's read at least ended a run of five straight months in which that spread had narrowed. We've always seen consumers' assessments of labor market conditions as an important factor in consumer spending decisions. Two rounds of revisions to the BEA's initial estimate of Q3 GDP were not kind to consumer spending. The BEA's third estimate shows real consumer spending grew at an annual rate of 3.1 percent in Q3, quite a tumble from the initial estimate of 4.0 percent growth. Services spending took the entire hit, as the initial estimate of Q3 real consumer spending on goods was revised slightly higher. The first estimate of Q3 real business investment in equipment and machinery also did not fare well, having been marked down twice. Countering these downward revisions were upward revisions to business spending on structures and government spending. The net effect was that the BEA's third estimate puts Q3 real GDP growth at an annual rate of 4.9 percent, or, right back where the BEA's initial estimate put it. We have for some time expected a markedly slower pace of real GDP growth in Q4, and nothing we've seen in the incoming data has led us to change that call. Falling goods prices, including gasoline, held down growth in nominal consumer spending in November, but the pace of real spending picked up. That said, Q4 growth in real consumer spending is still tracking well below Q3 growth, even with the recent downward revision to the latter. Falling goods prices pulled the PCE Deflator down by 0.1 percent in November, but the core PCE Deflator was up by just 0.058 percent, indicating inflation pressures continue to recede at a faster pace
Nov. Advance Trade Balance: Goods Thursday, 12/28 Range: -\$68.8 to -\$92.6 billion Median: -\$89.6 billion	Oct = -\$89.6 billion	Narrowing to -\$78.9 billion on what we expect will be a sharp decline in imports of nonfood consumer goods, in part reflecting weak holiday season spending on goods.

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