ECONOMIC PREVIEW

REGIONS

Week of January 15, 2024

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%	This week's data releases will mostly help fill in some remaining blank spaces in the Q4 GDP story, bringing some welcome clarity. To that point, forecasts for December retail sales are all over the map, and we could easily rationalize both the highest and the lowest forecasts. Either way, one thing to keep in mind is that while Q4 growth in nominal control retail sales, a direct input into the GDP data on consumer spending on goods, will be much slower than was the case in Q3, falling core goods prices will mitigate the slowdown in real growth. The data on November business inventories, however, will be a reminder that, after having added 1.27 percentage points to top-line real GDP growth in Q3, inventories will be a drag, perhaps a significant drag, on Q4 growth. And, while existing home sales (see Page 3) don't directly enter into the calculation of GDP, they are likely doing so indirectly as notably lean inventories funnel buyers into the market for new homes, which will have had at least some impact on December housing permits and starts (see Page 2).
December Retail Sales: Total Wednesday, 1/17 Range: -0.1 to 1.2 percent Median: 0.4 percent	Nov = +0.3%	Up by 0.8 percent. In any given year, the December retail sales data are a jumbled mix of holiday season shopping, holiday season discounting amongst retailers, and highly punitive seasonal adjustment which in a "below-average" year can make the seasonally adjusted data look much worse than is actually the case. Further complicating matters in the December 2023 data is that November retail sales were stronger than had been expected and what over the past several months have been persistent declines in prices for core consumer goods (consumer goods excluding food and energy). To our point about seasonal adjustment, our forecasts would leave total retail sales up 7.4 percent and control retail sales up 11.1 percent on a not seasonally adjusted basis, each smaller than the typical December increase. In part, that reflects what has been a shift in spending patterns over the past several years that has seen November capture a larger share of holiday season sales, and we think that shift may have been a bit exaggerated in the 2023 data due to Thanksgiving having fallen relatively early in November. The seasonal factors used by the Census Bureau have, at least partially, adapted to this shift, so we're not expecting an undue penalty from seasonal adjustment in the December data. It could be that the bigger factor will be the persistent weakness in goods prices over the past several months given that retail sales are reported in nominal terms (i.e., not adjusted for price changes). Based on the Consumer Price Index (CPI), prices for core consumer goods fell in each of the last seven months of 2023, and even taking prices for used motor vehicles out of the equation still leaves core goods prices down. Granted, the CPI data and the retail sales data don't always align, but the pricing environment was weak even before whatever discounting retailers may have resorted to in order to clear out stocks ahead of year-end. Another factor to keep in mind is that growth in discretionary services spending has remained solid, which to some extent has diverted spending away from goods. Aside from restaurant sales, however, the retail sales data do not capture services spending, so until the BEA puts out its estimate of total consumer spending on January 26th, we won't know whether this pattern persisted in December. So, while much will no doubt be made of the headline retail sales number, we'd offer that the better gauge of December retail sales will be the not seasonally adjusted data, and that the better gauge of how consumer spending is holding up will be the BEA's December data on total – goods and services – consumer spending. That said, we think the biggest supports for December retail sales will come from motor vehicles and sales by nonstore retailers, but, honestly, we won't be surprised by whatever the headline sales number turns out to be.
December Retail Sales: Ex-Auto Wednesday, 1/17 Range: -0.3 to 1.1 percent Median: 0.2 percent	Nov = +0.2%	Up by 0.6 percent.
December Retail Sales: Control Group Wednesday, 1/17 Range: -0.4 to 0.7 percent Median: 0.2 percent	Nov = +0.4%	Up by 0.7 percent.
November Business Inventories Wednesday, 1/17 Range: -0.1 to 0.3 percent Median: -0.1 percent	Oct = -0.1%	We look for total business inventories to be down by 0.1 percent, and for total business sales to be up by 0.1 percent.

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December Industrial Production Range: -0.5 to 0.3 percent Median: 0.0 percent	Wednesday, 1/17	Nov = +0.2%	Down by 0.2 percent. Despite further gains in motor vehicle output, we look for manufacturing output to have declined, with particular weakness in production of nondurable goods. At the same time, atypically mild December weather will likely have put a dent in the seasonally adjusted estimate of utilities output. Even if, as we anticipate, mining output increases, that won't be enough to keep total industrial production from declining. Interestingly enough, our forecast would nonetheless leave total industrial production up year-on-year, which has not happened since July.
December Capacity Utilization Rate Range: 78.5 to 79.0 percent Median: 78.7 percent	Wednesday, 1/17	Nov = 78.8%	Down to 78.5 percent.
December Building Permits Range: 1.380 to 1.530 million units Median: 1.475 million units SAAR	Thursday, 1/18	Nov = 1.467 million units SAAR	Up to an annual rate of 1.516 million units. On a not seasonally adjusted basis, we look for total permits of 114,700 units, up 5.4 percent from November with both single family and multi-family permits higher. While it is typical for multi-family permits to increase in the month of December, our forecast anticipates a smaller than normal increase, which will be treated rudely by seasonal adjustment, In contrast, the increase we expect in single family permits is contrary to typical December patterns, and if unadjusted single family permits do indeed increase, that increase will be amplified by seasonal adjustment, which helps account for our forecast of the headline permits number. Recall that permit issuance fell sharply in November, with double-digit declines in both single family and multi-family permits in the not seasonally adjusted data. While multi-family permit issuance is trending lower, the inherent volatility in this segment remains, so even with the December increase our forecast anticipates, the running twelve-month total of unadjusted multi-family permits will still drop further. We think the sharp decline in single family permits in November had more to do with elevated mortgage interest rates (which did not begin to drop until late in the month) putting a further dent in demand, leaving builders to concentrate on clearing order backlogs – recall that unadjusted single family starts rose in November. With mortgage interest rates having fallen sharply, a considerable degree of pent-up demand, and still-lean inventories of existing homes for sale, an increase in single family permit issuance, though atypical in the month of December, isn't out of the question. And, it isn't as though we think builders went nuts; the increase we expect for December would still leave the level of unadjusted single family permits lower than in the several months prior to November. While we could easily be off base in our December forecast, further moderation in interest rates will unleash more pent-up demand, which will be to the benefit of builders given what we see as limited upside for inventories of existing homes for sale.
December Housing Starts Range: 1.350 to 1.570 million units Median: 1.425 million units SAAR	Thursday, 1/18	Nov = 1.560 million units SAAR	Down to an annual rate of 1.557 million units. On a not seasonally adjusted basis, we look for total starts of 109,700 units, a 9.0 percent decline from November, with declines in both single family and multi-family starts, but generous seasonal adjustment should make the raw starts number more presentable. The 7.9 percent decline we expect in multi-family starts is well smaller than the typical December decline, reflecting both multi-family permits and starts clearly trending lower, hence the seasonal adjustment flattery. Still, the inherent volatility in the multi-family data tells us to have more faith in the trend than in any one month's forecast. As for single family starts, one thing that jumped out to us in the November data was the sizable disparity between single family starts and single family permits in the raw data, with starts higher than permits by the largest margin since October 2006. As noted above, we took this as a sign of builders concentrating on paring down backlogs, and there was a meaningful decline in the number of single family units permitted but not yet started. So, while our forecast anticipates some give-back in unadjusted single family starts, we look for a smaller than normal December decline. That said, the pace of single family completions has been somewhat uneven, and the backlog of single family units under construction hasn't budged over the past several months, which may act as a drag on starts. As for multi-family, the under-construction backlog has topped the one-million units mark in each of the past seven months despite the pace of starts having tailed off sharply. That could become an increasingly heavy weight on multi-family starts.

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November Existing Home Sales Friday, 1/19 Range: 3.710 to 3.950 million units Median: 3.830 million units SAAR	Nov = 3.820 million units SAAR	Down slightly to an annual rate of 3.810 million units. On a not seasonally adjusted basis, we look for sales of 307,000 units, little changed from the 300,000 sales in November but much smaller than the typical December increase. Keep in mind that existing home sales are booked at closing, meaning that the December data will largely reflect sales contracts signed from late-October through November. As such, the December sales data should be mostly undisturbed by the declines in mortgage interest rates over the final several weeks of 2023. The one obvious counter is that cash sales continue to account for a significantly higher share of existing home sales than had been the case prior to 2022, when mortgage rates first took flight. Either way, the story here remains the extent to which notably lean inventories are weighing on existing home sales, which can be, and is, true even with demand having fallen under the weight of higher mortgage rates. While many are talking of lower mortgage rates unlocking inventories of existing homes for sale, we think mortgage rates would have to fall at least another hundred basis points from where they now are for that to have a meaningful impact. Until that point, existing home sales could drift along within a fairly narrow range. One implication of the market still being undersupplied is that prices have proven to be resilient, and we look for the December data to show the median sales posting a year-on-year increase in the mid-single digits.

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