

ECONOMIC PREVIEW



REGIONS

Week of January 22, 2024

Indicator/Action

Economics Survey:

Last

Actual:

Regions' View:

<p>Fed Funds Rate: Target Range Midpoint <i>(After the January 30-31 FOMC meeting):</i> Target Range Mid-point: 5.375 to 5.375 percent Median Target Range Mid-point: 5.375 percent</p>	<p>Range: 5.25% to 5.50% Midpoint: 5.375%</p>	<p>Surprisingly resilient economic data and aggressive push-back in public comments from FOMC members have led market participants to rethink expectations of the path of the Fed funds rate over the course of 2024. To be sure, those expectations needed some rethinking; the number of rate cuts priced into the market coming into 2024 seemed implausible barring the economy slipping into recession. That does not, however, mean it is unrealistic to expect the FOMC to begin cutting the funds rate this year. As inflation continues to decelerate, cuts in the nominal funds rate are warranted to keep the real funds rate from rising, effectively making policy more restrictive. The December data on the PCE Deflator (see Page 2) will not only show further deceleration in inflation, but the monthly increase we and the consensus expect for December would put the three-month annualized change in the core PCE Deflator at 1.8 percent. To be sure, the FOMC is not, at least as a whole, yet confident this progress will be sustained, and many point to looser financial conditions as a factor that could make the FOMC hesitant to cut the funds rate. We continue to think, however, that further deceleration in inflation will trigger funds rate cuts this year, though we never saw market expectations coming into this year as being plausible.</p>
<p>December Leading Economic Index Monday, 1/22 Range: -0.4 to -0.1 percent Median: -0.3 percent</p>	<p>Nov = -0.5%</p>	<p><u>Down</u> by 0.2 percent.</p>
<p>Q4 2023 Real GDP – 1st estimate Thursday, 1/25 Range: 1.3 to 2.5 percent Median: 2.0 percent SAAR</p>	<p>Q3 = +4.9% SAAR</p>	<p><u>Up</u> at an annual rate of 2.2 percent. Capped off by what we expect will have been a strong December (see Page 2), we look for real consumer spending to have grown at an annual rate of around 2.6 percent in Q4, which will be the main support for top-line real GDP growth. State and local government spending and fixed investment, both residential and business, will also support top-line growth. In contrast to Q3, however, when inventory accumulation added 1.27 percentage points to top-line real GDP growth, we anticipate inventories being a meaningful drag on Q4 growth, while a slightly wider trade deficit will also be a drag, with the two combining to knock more than one percentage point off top-line growth. With the Q4 data, we'll have a first look at full-year 2023 real GDP growth. Recall that going into 2023 the economy was widely expected to slip into recession, and while we were part of a very small minority of forecasters not having recession as their base case, the economy still managed to handily beat our expectations. Full-year 2023 real GDP growth should come in at around 2.4 percent.</p>
<p>Q4 2023 GDP Price Index – 1st estimate Thursday, 1/25 Range: 1.3 to 2.9 percent Median: 2.3 percent SAAR</p>	<p>Q3 = +3.3% SAAR</p>	<p><u>Up</u> at an annual rate of 2.4 percent.</p>
<p>December Durable Goods Orders Thursday, 1/25 Range: -3.8 to 4.7 percent Median: 1.1 percent</p>	<p>Nov = +5.4%</p>	<p><u>Up</u> by 4.7 percent, with the increase in top-line orders driven almost entirely by a second consecutive spike in transportation orders. Boeing booked 369 net new orders in December, and even allowing for the Census data not always aligning with the industry data, nondefense aircraft will provide a significant boost to top-line orders, as was also seen in the November data. At the same time, we expect the December data to show another sizable increase in motor vehicle orders, reflecting motor vehicle assemblies continuing to normalize in the wake of the UAW strike. Beyond these two categories, however, our forecast anticipates order books having been almost bare in December and, as indicated below, we look for core capital goods orders to have fallen, which would continue a pattern of wide month-to-month swings that left core capital goods orders little-changed over the course of 2023. While the Q4 GDP data may show a bounce in real business investment spending on equipment and machinery, the listless trend in core capital goods orders points to weakness in this component of GDP over the first half of 2024.</p>
<p>Dec. Durable Goods Orders: Ex-Trnsp. Thursday, 1/25 Range: -0.5 to 0.4 percent Median: 0.2 percent</p>	<p>Nov = +0.4%</p>	<p>We look for <u>ex-transportation orders</u> to be <u>unchanged</u> and for <u>core capital goods orders</u> (nondefense capital goods excluding aircraft & parts) to be <u>down</u> by 0.1 percent.</p>
<p>December Advance Trade Balance: Goods Thursday, 1/25 Range: -\$94.0 to -\$87.0 billion Median: -\$88.7 billion</p>	<p>Nov = -\$89.3 billion</p>	<p><u>Narrowing</u> to -\$88.6 billion.</p>

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<p>November New Home Sales Range: 602,000 to 700,000 units Median: 650,000 units SAAR</p>	<p>Thursday, 1/25 Nov = 590,000 units SAAR</p>	<p><u>Up</u> to an annual rate of 624,000 units. On a not seasonally adjusted basis, we look for sales of 46,000 units, but will confess to being at somewhat of a loss here as the Census data on residential construction and sales have been all over the map of late. Recall that, on a not seasonally adjusted basis, new home sales fell by 19.6 percent in November, a number we thought to be highly suspect as it was at odds with the strength of single family starts and, more significantly, commentary from builders indicating healthy growth in orders. While mortgage interest rates did drop during December, single family housing starts weakened significantly and, while noting some pick-up in traffic, many builders took a wait and see attitude, and did not begin to report significant growth in demand until January. To be sure, while we always look to the (unadjusted) data on single family permits and starts to inform our forecasts of (unadjusted) new home sales, the construction data are more informative over time than in any given month. For instance, new home sales can come at any stage in the construction process – before construction has started, while construction is underway, and after construction has been completed – and it is true that units under construction and completed units have accounted for a higher share of new home sales over recent months, which is in keeping with builders' efforts to pare down spec inventories. So, we could be underestimating the extent to which units out of spec inventories drove sales in December, which could easily account for why our forecast is not only below the consensus forecast but is one of the lowest in the surveys we take part in.</p> <p>That said, if the December seasonal factor is anywhere near where we anticipate it being, the increase in unadjusted sales it would take to get to the median forecast of the headline sales number seems implausibly large to us. But, even if we're off base here, we've found that the monthly new home sales data aren't worth getting too worked up about one way or another, as they come with a huge margin of error, making them highly volatile from month to month and prone to sizable revision. We do, however, have much more faith in our view of the longer-term trends in new home sales, which continue to point up. Lower mortgage rates will help draw out pent-up demand, particularly as lean inventories of existing homes for sale continue to funnel buyers to the market for new homes and builders remain willing to offer rate buydowns to further ease affordability constraints. We look for an increase in the mid-single digits for new home sales in 2024, an increase that would be larger were builders not still contending with labor and materials constraints.</p>
<p>December Personal Income Range: 0.2 to 0.5 percent Median: 0.3 percent</p>	<p>Friday, 1/26 Nov = +0.4%</p>	<p><u>Up</u> by 0.2 percent. A decline in aggregate hours worked will weigh on growth in private sector wage and salary earnings, which in turn will weigh on growth in total personal income. In contrast, robust hiring amongst state and local governments has fueled rapid growth in public sector wage and salary earnings, and we look for December to have been the sixth straight month in which public sector earnings have grown faster than private sector earnings. Transfer payments have declined in each of the past six months, largely reflecting the unwinding of pandemic-related expansions in benefit rolls for certain programs, and our forecast anticipated that continued in December. Nonfarm proprietors' income, a proxy for small business profits, softened considerably over the prior two months, and while we anticipate a modest rebound, this is one wild card in the December data. Further declines in interest rates will have weighed on growth in asset-based income in December.</p>
<p>December Personal Spending Range: 0.2 to 0.7 percent Median: 0.4 percent</p>	<p>Friday, 1/26 Nov = +0.3%</p>	<p><u>Up</u> by 0.6 percent. We know from the retail sales data that spending on goods was strong in December, and we expect the BEA's data to show similar strength in services spending, as discretionary services spending has proven surprisingly, at least to us, resilient. Our forecast would put Q4 growth in real consumer spending at an annual rate of 2.6 percent, slower than Q3 growth (3.1 percent) but closer than we and most others anticipated heading into Q4.</p>
<p>December PCE Deflator Range: 0.1 to 0.5 percent Median: 0.2 percent</p>	<p>Friday, 1/26 Nov = -0.1%</p>	<p><u>Up</u> by 0.2 percent, yielding a year-on-year increase of 2.7 percent. We look for the core PCE Deflator to have also been <u>up</u> by 0.2 percent, good for a year-on-year increase of 3.0 percent.</p>

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