ECONOMIC PREVIEW

REGIONS

Week of February 19, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 19-20 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%	Last week's data releases unleased a range of emotions amongst market participants, as evidenced by what were sharp swings in equity prices and interest rates. This of course is what happens when every single headline number on every single data release is seen strictly through the lens of what it means for the FOMC and the path of the Fed funds rate. In last week's *Preview*, we noted that while the week ahead would bring a crowded slate of data, that data would come with a high degree of noise, thus diminishing the signaling value normally expected from those releases. Those going no further than the headline numbers atop these releases, however, would not have known that in their rush to divine what each headline number would mean for the FOMC. Between weather-related distortions, seasonal adjustment issues, and some January-specific quirks in some of the series, we expected the headline numbers on the releases covering the January data on the Consumer Price Index, retail sales, industrial production, and residential construction to be at odds with what many were expecting to see. There was very little in what we saw in these releases that surprised us and, as such, our reactions to these releases were, let's say, just a bit more tempered than the reactions in the financial markets. Beneath all of the noise in much of the January data, perhaps the most relevant underlying emerging theme is that there are unsettling signs that inflation may be reversing course. Rising retail gasoline prices will contribute to firmer headline inflation, and higher shipping costs are starting to turn up in prices for core consumer goods, as evidenced in the data on non-energy import prices. Though we think that there is at least some seasonal component to these moves, that the prices paid index in the ISM's monthly surveys of the manufacturing and services sectors jumped in January seems consistent with the signals sent by the Producer Price Index. These developments all support a consistent message in recent public comments from FOMC members, which is that it is too soon to consider Fed funds rate cuts. That message will no doubt be reinforced in Wednesdays release of the minutes of this month's FOMC meeting. Though they clearly do not like it, it does appear that market participants have at least come to accept that message.
January Leading Economic Index Tuesday, 2/20 Range: -0.4 to 0.2 percent Median: -0.3 percent	Dec = -0.1%	<u>Down</u> by 0.3 percent.
January Existing Home Sales Thursday, 2/22 Range: 3.750 to 4.100 million units Median: 3.970 million units SAAR	Dec = 3.780 million units SAAR	<u>Up</u> to an annualized rate of 3.980 million units. On a not seasonally adjusted basis, we look for sales of 233,000 units, down 21.6 percent from December. Sure, that's a big drop, but in reality it is considerably smaller than the typical January decline. In part, that reflects sales having fallen so low that you'd expect the declines to have moderated. At the same time, however, the December data on pending home sales, a gauge of signed sales contracts, point to a smaller than normal January decline in unadjusted sales. Recall that existing home sales are booked at closing, so January closings mainly reflect sales contracts signed from late-November through December. The December pending home sales data, not seasonally adjusted, show a much smaller decline, than typically seen in the month, which factors into our forecast of unadjusted January sales. Even if that is the case, however, it will be of scant consolation given how low sales have fallen, but it could be that sales are at least beginning to bottom out. Our forecast of unadjusted sales would leave them modestly higher year-on-year but adjusting for there being one more sales day this January than last January leaves sales down year-on-year. Our forecast would leave headline sales (seasonally adjusted and annualized) down year-on-year for a thirtieth straight month, but, at 0.6%, it would be far and away the smallest such decline during this span. Inventory, or lack thereof, remains a heavy weight on existing home sales, a long-running constraint on sales that has been exacerbated by higher mortgage interest rates. It could be that dips in mortgage rates will free some of the inventory locked in by elevated mortgage rates, which we think may have been the case in January, but we see it as highly unlikely that mortgage rates will decline to the extent that we'd see a significant jump in listings in 2024. While we do think lower mortgage rates will allow for improvement in inventory and sales of existing homes over the back half of the year, builders will continue to hold most of the cards on the supply side of the for-sale segment of the housing market in 2024.

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