# ECONOMIC PREVIEW

REGIONS

Week of February 26, 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% | The "hot" print on the January core CPI came as no surprise to us for many reasons, some of which had to do with actual price changes, and we expect a similarly hot print on the January core PCE Deflator (see Page 2). That said, other indicators of inflation pressures, such as commodity prices, retail gasoline prices, prices of non-energy imported goods, and the prices paid indexes in the ISM's January surveys, are all pointing in the wrong direction. How much of this is signal and how much is noise, particularly seasonal January noise, remains to be seen. The February ISM Manufacturing Index (see Page 2) will help answer the question of whether the surprising pop in the prices paid index in the January manufacturing survey was noise or an early indicator of upward pressure on consumer and capital goods prices. |
| **January New Home Sales** Monday, 2/26 Range: 618,000 to 715,000 units Median: 684,000 units SAAR | Dec = 664,000 units SAAR | Up to an annualized rate of 711,000 units. On a not seasonally adjusted basis, we look for sales of 61,000 units, up 22.0 percent from December. While that is larger than the typical January increase in unadjusted sales, lower mortgage rates sparked renewed interest amongst prospective buyers, which we think will have translated into higher sales. While unusually harsh winter weather clearly impacted residential construction in January, we think that will have had less of an impact on new home sales, though this poses downside risk to our forecast. But, even if our forecast is on or near the mark, that mortgage rates have reversed course, yet again, and headed higher could blunt whatever momentum may have gathered in January. Applications for purchase mortgage loans have always been sensitive to changes in mortgage interest rates, but have been even more so of late, in both directions, which we think is a function of how elevated mortgage rates are. That said, builders have been fairly nimble in turning incentives, including mortgage rate buydowns, on/off in response to shifts in buyer interest. We still expect mortgage rates to trend lower over the course of 2024, which will continue to unlock pent-up demand, and we continue to expect builders to be the prime beneficiary of this demand thanks to what will remain lean inventories of existing homes for sale. But, as mortgage interest rates are unlikely to trend lower in anything close to resembling a straight line, the data on new home sales are likely to be volatile from month to month. |
| **January Durable Goods Orders** Tuesday, 2/27 Range: -8.5 to -0.2 percent Median: -5.0 percent | Dec = 0.0% | Down by 7.2 percent. After 359 net orders in December, Boeing booked no net orders in January, which will act as a significant drag on top-line orders. Our outlook for core capital goods orders is a bit more constructive (see below), but orders have been quite uneven over the past several months and it is too soon to know whether we're in the early phases of the period of sustained growth we expect to see at some point or are still in what amounts to a holding pattern. |
| **January Durable Goods Orders: Ex-Trnsp.** Tuesday, 2/27 Range: -0.3 to 0.5 percent Median: 0.2 percent | Dec = +0.5% | We look for ex-transportation orders to be up by 0.3 percent and look for core capital goods orders (nondefense capital goods excluding aircraft & parts) to be up by 0.2 percent. |
| **February Consumer Confidence** Tuesday, 2/27 Range: 110.0 to 118.0 Median: 115.0 | Jan = 114.8 | Up to 115.3 in what could be a battle between good feelings about the labor market and bad feelings about rising gasoline prices. Retail gasoline prices have risen sharply over the past several weeks; rising gasoline prices have typically been associated with sagging consumer confidence. The Conference Board's January survey, however, showed a significant, not to mention surprising, improvement in consumers' assessments of labor market conditions; more favorable views of labor market conditions have typically been associated with rising consumer confidence. The net result should be little change, in either direction, in the headline index. |
| **January Advance Trade Balance: Goods** Wednesday, 2/28 Range: -\$91.7 to -\$86.0 billion Median: -\$88.3 billion | Dec = -\$87.9 billion | Widening to -\$88.9 billion. |
| **Q4 2023 Real GDP: 2nd estimate** Wednesday, 2/28 Range: 3.0 to 3.6 percent Median: 3.3 percent SAAR | Q4: 1st est. = +3.3% SAAR | Up at an annualized rate of 3.2 percent, with a downward revision to growth in real consumer spending more than offsetting modest upward revisions elsewhere. |
| **Q4 2023 GDP Price Index: 2nd estimate** Wednesday, 2/28 Range: 1.5 to 1.5 percent Median: 1.5 percent SAAR | Q4: 1st est. = +1.5% SAAR | Up at an annualized rate of 1.5 percent. |

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| **January Personal Income** Thursday, 2/29<br>Range: 0.2 to 0.6 percent<br>Median: 0.4 percent | Dec = +0.3% | Up by 0.2 percent. A blowout job growth number notwithstanding, unusually harsh winter weather led to a significant decline in aggregate private sector hours worked in January; roughly 1.8 million people who normally work full-time worked only part-time, and over half a million more missed time at work altogether on account of harsh weather. Though some seem to be counting on the spike in average hourly earnings to offset the impact of the drop in aggregate hours worked, the reported 0.6 percent increase in average hourly earnings is more myth than reality, as it is no more than a byproduct of the drop in hours worked. As such, we look for only paltry growth in aggregate private sector wage and salary earnings. In contrast, continued robust job growth and a hefty cost of living increase will lead to a sizable gain in aggregate public sector wage and salary earnings. While January prints on transfer payments tend to be biased higher by cost of living increases in Social Security benefits and adjustments to Medicare/Medicaid reimbursement rates, we don't expect that to have been the case this year, particularly since this year's Social Security cost of living increase was much smaller than last year's due to inflation being much lower. If we're wrong in expecting only a modest increase in transfer payments, our forecast of top-line income growth will be too low. We do expect the run of solid monthly increases in interest income to have continued in January but look for only a modest bounce in dividend income off of December's decline. It is worth keeping in mind that to the extent weather-related disruptions weighed on private sector labor earnings in January, the February data will bring payback. The key point here is that growth in aggregate labor earnings continues to easily outpace inflation, which has put a sturdy floor under consumers. |
| **January Personal Spending** Thursday, 2/29<br>Range: -0.2 to 0.4 percent<br>Median: 0.2 percent | Dec = +0.7% | Down by 0.1 percent. We know from the data on unit motor vehicle sales and control retail sales that spending on goods was weak in January. With the clear exception of motor vehicle sales, we do not think January's unusually harsh winter weather had much impact on the level of spending on goods, though it did impact the mix of that spending. Weather may have taken a greater toll on discretionary services spending in January, which helps account for our below-consensus forecast on total consumer spending. To be sure, utilities outlays spiked in January, helping offset any pullback in discretionary services spending. At the same time, favorable seasonal adjustment will help mitigate the impacts of January's harsh weather; while unadjusted restaurant sales fell by 19.4 percent in January, that translated into a 0.7 percent increase in the seasonally adjusted retail sales data. We'll make the same point here that we made when discussing our below-consensus but mostly on the mark forecast of January retail sales, which is that even if our January forecast of total consumer spending is on or near the mark, that won't change our take on the state of U.S. consumers. We continue to see considerable financial supports for consumer spending, and as long as the labor market holds up, we think growth in real consumer spending will continue to surprise many to the upside, even if that isn't the case in each and every month. |
| **January PCE Deflator** Thursday, 2/29<br>Range: 0.2 to 0.4 percent<br>Median: 0.3 percent | Dec = +0.2% | Up by 0.3 percent, which would translate into a year-on-year increase of 2.4 percent. We look for the core PCE Deflator to be up by 0.4 percent, yielding a year-on-year increase of 2.8 percent. |
| **February ISM Manufacturing Index** Friday, 3/1<br>Range: 47.8 to 51.5 percent<br>Median: 49.5 percent | Jan = 49.1% | Up to 50.2 percent, which would mark the end of a fifteen-month run of contraction in the factory sector. Still, we'd caution against reading too much into a headline print above the 50.0 percent mark, as that could say more about the calculation of the ISM's diffusion indexes than about improvement in underlying conditions. More specifically, though the headline index rose smartly in the January survey, only four of eighteen industry groups reported growth, only five reported increased orders, and only four reported increased output. The indexes of supplier delivery times and prices paid, neither of which enters into the calculation of the headline index, could be more useful markers of the extent to which conditions in the factory sector are improving. |
| **January Construction Spending** Friday, 3/1<br>Range: -0.6 to 0.7 percent<br>Median: 0.2 percent | Dec = +0.9% | Down by 0.4 percent, though this mainly reflects the extent to which unusually harsh winter weather weighed on construction activity. |

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