ECONOMIC PREVIEW

Week of March 18, 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%	Though no changes in the Fed funds rate are on tap, there is still plenty of intrigue around this week's FOMC meeting. The inflation data to start 2024 haven't exactly fit into the common narrative of decelerating inflation opening the door for the FOMC to begin cutting the Fed funds rate with market interest rates following suit and thus acting as a support for the interest-sensitive sectors of the economy. While that narrative hasn't been abandoned, expectations for the timing and magnitude of Fed funds rate cuts have been dampened. The FOMC's messaging, including the tone taken by Chair Powell in his post-meeting press conference, will likely continue to stress that the FOMC is not yet confident enough to begin cutting the funds rate and will need to see softer inflation prints in the months ahead in order to build that confidence. With this week's meeting, the FOMC will issue an updated Summary of Economic Projections (SEP), including an updated dot plot. Here are a few things to watch for. First, how will the Committee's inflation forecasts change relative to the December edition of the SEP, which showed both headline and core PCE inflation at 2.4 percent on a Q4/Q4 basis for 2024? Given the inflation data thus far in 2024, those forecasts will almost surely be revised higher, it's a matter of how much higher. Second, how many Fed funds rate cuts will the updated dot plot imply? Recall that the December edition implied three 25-basis point cuts this year and another four such cuts next year, and note that it would only take two members shifting their view from three cuts to two to shift the median year-end 2024 dot down such that it implies only two cuts this year. Third, will the FOMC's median estimate of the "neutral" funds rate, which has been anchored at 2.50 percent since mid-2019, move higher? We think that estimate to be too low and, much more importantly, several of the regional Fed bank presidents have expressed a similar view, which we think makes it more a question of when than whether the dot plot will show a higher neutral rate. Markets have significantly scaled down expectations for Fed funds rate cuts, so even if the FOMC does adopt a more hawkish posture, markets may take that in stride, at least after the initial shock of hearing it and seeing it in print (or in dots) wears off.
February Building Permits Tuesday, 3/19 Range: 1.428 to 1.525 million units Median: 1.500 million units SAAR	Jan = 1.489 million units SAAR	Up to an annualized rate of 1.522 million units. On a not seasonally adjusted basis, we look for total permits of 116,200 units, up 1.2 percent from January, with an increase in single family permits more than offsetting another decline in multi-family permits. We think single family permit issuance would have been even stronger in February were it not for a still-substantial backlog of single family units permitted but not yet started, a backlog which got larger in January. In contrast, multi-family permits continue to trend lower, a trend which we think has further to run. The divergent fortunes of the single family and multi-family segments can be seen in the over-the-year changes in permit issuance; our forecast would leave single family permits up 35.3 percent year-on-year while leaving multi-family permits down 29.5 percent, and even if multi-family permits outperform our forecast, they will still be down on a year-on-year basis for a twelfth consecutive month.
February Housing Starts Tuesday, 3/19 Range: 1.300 to 1.570 million units Median: 1.430 million units SAAR	Jan = 1.331 million units SAAR	Up to an annualized rate of 1.526 million units. On a not seasonally adjusted basis, we look for total starts of 109,800 units, up 17.2 percent from January. Recall, however, that unusually harsh winter weather held down construction activity in January, so there is some element of payback in the February increase our forecast anticipates. That will be more apparent in multi-family starts, as multi-family permits and starts are reported on a number of units basis rather than a number of structures basis. To that point, the initial estimate puts unadjusted multi-family starts at 25,000 units in January, down 20.1 percent from December 2023 and the lowest monthly total since April 2020. Even though multi-family starts are clearly trending lower, the January decline still overstates the case. In contrast, single family starts were down by only five percent in January, and while the February increase our forecast anticipates reflects making up for ground lost in January, it also reflects builders upping spec starts ahead of what could for them be a stronger than normal spring sales season despite elevated mortgage interest rates. It could be, however, that there was less of a boost to single family starts in February than our forecast anticipates if builders were more focused on completions. Single family completions plummeted in January, going well beyond the typical seasonal lull with the lowest monthly total since February 2019. Even if February favored completions over starts, we still expect single family starts to continue to trend higher in the months ahead.

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Q4 Current Account Balance Thursday, 3/21 Range: -$212.9 to -$198.0 billion Median: -$209.0 billion	Q3 = -$200.3 billion	Widening to -$206.6 billion.
February Leading Economic Index Thursday, 3/21 Range: -0.5 to 0.2 percent Median: -0.2 percent	Jan = -0.4%	Down by 0.1 percent.
February Existing Home Sales Thursday, 3/21 Range: 3.850 to 4.330 million units Median: 3.940 million units SAAR	Jan = 4.000 million units SAAR	Up to an annualized rate of 4.330 million units. On a not seasonally adjusted basis, we look for sales of 264,000 units, up 12.8 percent from January but down 1.9 percent year-on-year. Keep in mind, however, that there was one more February sales day this year than last, so after adjusting for that our forecast would leave sales down 6.8 percent year-on-year. While we would concede the risks to our forecast are weighted to the downside, keep in mind that existing home sales are booked at closing. As such, February closings would mostly reflect sales contracts signed from mid-December through January, a time during which mortgage interest rates were falling. Also keep in mind that pending home sales, a gauge of signed sales contracts, jumped in January on a not seasonally adjusted basis, exceeding the usual seasonal bounce. There has been at least some progress on the inventory front, which should also be supportive of sales, though we're still far, far away from anything resembling a balanced market and won't be getting close to that point any time soon. Though we still expect mortgage interest rates to drift lower over the course of this year, we don't think they'll do so to a degree sufficient to unlock a significant level of inventory. We look for the median existing home sales price to be up around five percent year-on-year.

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