ECONOMIC PREVIEW

REGIONS

Week of March 25, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the April 30-May 1 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%	Ahead of last week's FOMC meeting, the seemingly singular focus of market participants was whether the updated dot plot would imply three twenty-five basis point cuts in the Fed funds rate by year-end 2024, as did the December 2023 edition. Much to the delight of the markets, that indeed proved to be the case but, on the whole, the FOMC's updated economic and financial projections don't necessarily add up. The median forecasts for 2024 show, relative to the FOMC's December 2023 projections, faster real GDP growth, a lower unemployment rate, and higher core inflation. Moreover, the majority of FOMC members saw the risks to their inflation forecast as being to the upside, i.e., if their forecast is wrong, they see inflation being higher than their forecast as more likely than inflation being lower than their forecast. All of which seems at least a bit at odds with the updated dot plot implying the same three rate cuts by year-end, even allowing for the profile of the dots having shifted higher, i.e., being more concentrated at and above the median than was the case in the prior edition. The FOMC could counter that even with inflation running higher than they had previously expected, there is still scope to make policy less restrictive than is at present the case. And while we've made that same point, what has gone largely overlooked is that overall financial conditions have become more and more accommodative, which would seem to argue against the FOMC making any moves on the funds rate. And, even allowing for the presence of residual seasonality in the inflation data for January and February, a point we've repeatedly made and a point Chair Powell touched on in last week's post-meeting press conference, the path of inflation going forward seems less and less certain given recent movements in energy prices, industrial commodity prices, and prices for other non-labor inputs to production. Thus far, markets seem to be quite accepting of Chair Powell's reassurance that the inflation story hasn't changed, and while that may indeed prove to be the case, markets seem to be totally discounting any possibility of inflation proving to be more stubborn. This could set the stage for considerable volatility in the markets in the weeks and months ahead. It could be that the February data on the PCE Deflator (see Page 3) get a free pass, in the sense that the February data on the Consumer Price Index helped hammer home the point that while inflation may indeed be on a downward path, that path is bumpy, to borrow a word used by Chair Powell in last week's press conference. Even so, if the core PCE Deflator comes in as we and the consensus expect, that will put the annualized three-month change at 3.6 percent, which would be up from 2.6 percent in January and the largest such increase since May. Again, however unsettling that may seem, it has largely already been priced into market expectations, and the data for March and beyond will be the subject of great scrutiny. Early indicators, such as energy prices, commodity prices, and the ISM's prices paid indexes, aren't exactly inspiring a lot of confidence that inflation will settle back on a smooth, downward path, a risk that markets seem to be discounting.
February New Home Sales Monday, 3/25 Range: 650,000 to 700,000 units Median: 675,000 units SAAR	Jan = 661,000 units SAAR	Up to an annualized rate of 687,000 units. On a not seasonally adjusted basis, we look for sales of 62,000 units, up 8.8 percent from January, though our forecast may be a bit ambitious. Recall that new home sales are booked at the signing of the sales contract, and that mortgage interest rates pushed higher in February may have acted as a weight on sales. Builders did, however, report that activity picked up over the second half of the month after the first half of the month was slow. We typically use the unadjusted data on housing permits and starts as a guide to our forecasts of unadjusted sales in each of the four broad Census regions, but that signal isn't as clear in the February data as starts rebounded strongly after having been held down by unusually harsh winter weather in January. Moreover, builders have been looking to add to spec inventories ahead of what for many could be a busier than normal spring as chronically lean inventories of existing homes for sale continue to funnel buyer traffic to the market for new homes. It is also interesting to note that recent weeks have seen significant declines in the share of builders offering price incentives as a means of facilitating sales, hardly what you'd expect were demand in a full-fledged retreat. So, our bottom line is that even if our forecast of February new home sales proves too high, all signs point to a meaningful pickup in new home sales in the months ahead, particularly should mortgage interest rates continue to drift lower.

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February Durable Goods Orders Tuesday, 3/26 Range: -2.5 to 4.0 percent Median: 1.2 percent	Jan = -6.2%	Up by 1.6 percent. After serving as a heavy weight in January, civilian aircraft orders will be supportive of top-line orders in the February data. The weakness in the January data went way beyond civilian aircraft, as ex-transportation orders were down by 0.4 percent and core capital goods orders were basically flat. Between what should be the typical seasonal pick-up and signs of life in the manufacturing sector, we look for the February data to be better. What remains unclear, however, is when we'll see some clear upward momentum in core capital goods orders, which ended 2023 exactly where they began 2023 with some modest fluctuations in between. We've maintained that at some point we'll see a meaningful and sustained pickup in business investment in equipment and machinery, driven in part by newly built manufacturing facilities being equipped and in part by a push for faster labor productivity growth on a sustained basis. We still expect to see that, but still don't have a good sense for when that will be.
February Durable Goods Orders: Ex-Trnsp. Tuesday, 3/26 Range: -0.1 to 0.8 percent Median: 0.4 percent	Jan = -0.4%	We look for ex-transportation orders to be up by 0.4 percent and look for core capital goods orders (nondefense capital goods excluding aircraft & parts) to be up by 0.2 percent.
March Consumer Confidence Tuesday, 3/26 Range: 105.0 to 112.5 Median: 107.0	Feb = 106.7	Down to 106.3. The February survey showed a surprising drop in confidence, which was mainly triggered by consumers downgrading their assessments of labor market conditions. What was a bit odd in the February survey was that it showed consumer expectations of inflation easing further despite sharply higher gasoline prices. Sure, the downgrade in assessments of labor market conditions may seem prescient given that BLS subsequently reported the unemployment rate rose in February, but that increase was no more than noise, albeit quite loud, in the data that had little, if anything, to do with actual labor market conditions. Either way, with gasoline prices having risen further – up over five percent between the Conference Board's February and March survey periods – consumers' assessments of current conditions may have dampened a bit. Aside from the headline index, it will also be worth watching for further downgrades in consumers' assessments of labor market conditions.
Q4 2023 Real GDP: 3rd estimate Thursday, 3/28 Range: 3.1 to 3.5 percent Median: 3.2 percent SAAR	Q4: 2nd est = +3.2% SAAR	Up at an annualized rate of 3.4 percent.
Q4 2023 GDP Price Index: 3rd estimate Thursday, 3/28 Range: 1.6 to 1.7 percent Median: 1.6 percent SAAR	Q4: 2nd est = +1.6% SAAR	Up at an annualized rate of 1.6 percent.
February Personal Income Friday, 3/29 Range: 0.0 to 0.7 percent Median: 0.4 percent	Jan = +1.0%	Up by 0.1 percent. Looks can sometimes be deceiving, and that could be the case here as February income growth is unlikely to actually be as weak as the headline print will suggest if our forecast is on or near the mark. There were two main drivers of January's outsized gain in personal income – a spike in transfer payments which in part reflected cost of living adjustments to Social Security benefits, and Costco's special dividend payout (which we neglected to account for in our forecast of January personal income). The former added five-tenths of a point and the latter added three-tenths of a point to the monthly change in total personal income, more than offsetting what was a below-trend increase in aggregate private sector wage and salary earnings. Neither, however, will be present in the February data, meaning dividend income will fall sharply while there should be a more "normal" increase in transfer payments. With aggregate hours worked having reversed January's weather-induced decline, the February data should show a more trend-like increase in private sector labor earnings, while growth in public sector earnings will remain in line with the faster pace seen over the past several months. Two sources of uncertainty in our forecast are rental income and interest income, with growth in each in January having broken sharply from the trends seen over the prior several months – the former well above and the latter well below. It remains to be seen whether the January prints were outliers or marked the start of different growth paths, but this is something that could easily sway top-line income growth in either direction.

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February Personal Spending Friday, 3/29 Range: 0.2 to 0.7 percent Median: 0.5 percent	Jan = +0.2%	Up by 0.6 percent. Our forecast anticipates a solid rebound in spending on consumer durable goods after a sharp decline in January, with a rebound in motor vehicle sales the main, well, driver (oh come on, we couldn't resist, and you knew we wouldn't be able to . . .). At the same time, higher gasoline prices will help salvage growth in spending on nondurable goods despite a soft print on control retail sales (which feeds directly into the BEA data). Recall that a spike in utilities outlays, well, fueled (again, could not resist . . .) a spike in services spending, and while that spike will have subsided in the February data we expect a more trend-like increase in discretionary services spending to support the broad services category. Still, if our forecasts of total consumer spending and the PCE Deflator (see below) are on the mark, that will yield only a modest increase in real consumer spending, which fell slightly in January. As such, Q1 growth in real consumer spending will be meaningfully weaker than was Q4 growth, which in turn will weigh on Q1 real GDP growth.
February PCE Deflator Friday, 3/29 Range: 0.3 to 0.4 percent Median: 0.4 percent	Jan = +0.3%	Up by 0.4 percent, which would yield a year-on-year increase of 2.5 percent. We look for the core PCE Deflator to be up by 0.3 percent, which would yield a year-on-year increase of 2.8 percent.
February Advance Trade Balance: Goods Friday, 3/29 Range: -\$96.0 to -\$87.3 billion Median: -\$89.7 billion	Jan = -\$90.5 billion	Widening to -\$91.1 billion.

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