ECONOMIC PREVIEW

REGIONS

Week of April 15, 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%	Last week was another reminder that big surprises can come in small packages, as a very light week of data releases brought a big, not to mention unpleasant, surprise by way of the March CPI data. This week's data docket is much heavier, but even in its totality may not pack the punch as last week's release of the March CPI data. We do, however, see potential for downside surprises in the data on residential construction and retail sales, as reflected in our below-consensus forecasts. These calls don't mean we see the economy sinking under the weight of stubborn inflation and elevated interest rates, but instead reflect the potential for seasonal adjustment to bias the headline numbers on both releases lower. In contrast, we do see some potential for at least a modest upward surprise on March existing home sales (see Page 3).
March Retail Sales: Total Monday, 4/15 Range: -0.2 to 0.7 percent Median: 0.4 percent	Feb = +0.6%	<u>Unchanged</u>. March is typically a strong month for retail sales, second to only December in terms of the average increase in unadjusted control retail sales. As such, the seasonal factors used by Census to produce its estimates of seasonally adjusted sales have tended to be somewhat punitive for the month of March. That will change with the data for this March, with the net effects of seasonal adjustment across the main categories more or less neutral. At the same time, however, our forecast anticipates a smaller increase in not seasonally adjusted sales than is typical for the month of March, hence our relatively uninspired forecasts of total, ex-auto, and control retail sales (the latter measure being the most relevant as it feeds directly into the GDP data on consumer spending on goods). Motor vehicle sales will be a weight on March retail sales; not only did unit sales of new vehicles decline but, to the extent the CPI data can be relied on, declines in prices for both new and used vehicles will also weigh on sales revenue. More broadly, the CPI measure of core (non-food, non-energy) consumer goods prices shows that with the exception of apparel prices, goods prices fell in March, with some of the largest declines in categories corresponding to the retail sales categories, such as electronics and appliances. Another potential drag on March retail sales is that February sales outperformed typical seasonal norms, as seen in the not seasonally adjusted data. The question is whether that simply reflected catch-up after harsh winter weather impacted January sales or whether some of what would have been March sales were pulled forward into February. We think any such effects reflect the latter more than the former. Moreover, we've seen no signs that the shift toward services spending – not accounted for in the retail sales data with the exception of restaurant sales – is abating, which works against retail sales. All that said, it could be that our forecast is simply too low, particularly with Easter having fallen in March this year, but even if sales come in ahead of our forecast, real (inflation adjusted) control retail sales will still have contracted in Q1, setting up a weak print on goods spending in the Q1 GDP data. As such, whatever growth we do see in real consumer spending in the Q1 GDP data will come entirely from higher spending on services.
March Retail Sales: Ex-Auto Monday, 4/15 Range: 0.1 to 0.9 percent Median: 0.5 percent	Feb = +0.3%	<u>Up</u> by 0.3 percent.
March Retail Sales: Control Group Monday, 4/15 Range: 0.1 to 0.7 percent Median: 0.4 percent	Feb = 0.0%	<u>Up</u> by 0.2 percent.
February Business Inventories Monday, 4/15 Range: 0.2 to 0.4 percent Median: 0.4 percent	Jan = 0.0%	We look for total <u>business inventories</u> to be <u>up</u> by 0.4 percent and for total <u>business sales</u> to be <u>up</u> by 1.5 percent.
March Industrial Production Tuesday, 4/16 Range: 0.0 to 0.7 percent Median: 0.4 percent	Feb = +0.1%	<u>Up</u> by 0.6 percent. Increased motor vehicle production and firming conditions in the broader manufacturing sector should be reflected in an increase in manufacturing output in the March data, and we also look for higher output in the mining sector.
March Capacity Utilization Rate Tuesday, 4/16 Range: 78.2 to 79.0 percent Median: 78.5 percent	Feb = 78.3%	<u>Up</u> to 78.8 percent.

Regions Financial Corporation, 1900 5th Avenue North, 17h Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

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<table>
<tr><th>Indicator/Action Economics Survey:</th><th>Last Actual:</th><th>Regions' View:</th></tr>
<tr><td>March Building Permits Tuesday, 4/16
Range: 1.450 to 1.541 million units
Median: 1.510 million units SAAR</td><td>Feb = 1.524 million units SAAR</td><td><u>Down</u> to an annual rate of 1.455 million units. On a not seasonally adjusted basis, we look for total permits of 132,200 units, up eleven percent from February with increases in both single family and multi-family permits. If you're wondering how to square our expecting a double-digit increase in unadjusted permits along with a sharp decline in permits on a seasonally adjusted (annualized) basis, why, yes, our math is just fine, why do you ask? It's quite straightforward, actually, once you consider that, in any given year, March is the month in which we typically see the largest increases (percentage changes) in both housing permits and housing starts, for both single family and multi-family units, in the not seasonally adjusted data. As such, the March seasonal factors tend to be somewhat punitive, meaning that anything short of a "typical" March increase in unadjusted permits or starts will be treated harshly, biasing the seasonally adjusted annualized figures lower. We expect that will be the case with both housing permits and housing starts in the March data.

One thing to keep in mind is that single family permits have risen smartly thus far in 2024, with increases in unadjusted single family permits well above the typical increases for January and February. It could be that an already sizable backlog of single family units permitted but not yet started tempered single family permit issuance in March, particularly as spec inventories may be getting to levels that warrant at least a bit of restraint on the part of builders. As such, while we look for a further increase in unadjusted single family permits, the 13.5 percent increase our forecast anticipates would only be half the typical March increase which, to our earlier point, would not be treated kindly by seasonal adjustment. Though multi-family permits and starts are both clearly trending lower, there are no straight lines in the multi-family data. So, while we look for a modest increase in unadjusted multi-family permits, that would be far short of a typical March increase which, again, would be treated somewhat rudely by seasonal adjustment. Our forecast for March permit issuance may prove to be too low, but we think the trends seen in the data over recent months – single family permits trending higher, multi-family permits trending lower – have further to run.</td></tr>
<tr><td>March Housing Starts Tuesday, 4/16
Range: 1.440 to 1.565 million units
Median: 1.485 million units SAAR</td><td>Feb = 1.521 million units SAAR</td><td><u>Down</u> to an annual rate of 1.483 million units. On a not seasonally adjusted basis, we look for total starts of 121,400 units, up 12.3 percent from February with both single family and multi-family starts higher. We'll make the same point here we made above in discussing our permits forecast, which is that the increase our forecast anticipates in unadjusted housing starts is well smaller than the typical March increase and, as such, will be frowned upon by seasonal adjustment, thus weighing on the headline, i.e., seasonally adjusted and annualized, starts number. Our forecast of unadjusted starts would be lower were we not looking for a spike in multi-family starts in the Northeast region. While that would be in keeping with the spike in multi-family starts in that region seen in March in each of the past two years, our forecast has more to do with 10,100 multi-family permits issued in the Northeast region in February, which should translate into a spike in starts, if not in March then at some point down the line. Absent that regional spike, however, the trend in multi-family starts is still downward, which will remain the case for some time given the similar downward trend in multi-family permits.

More significantly, we expect a further increase in single family starts to yield the highest monthly total of unadjusted single family starts since last July. Even with mortgage interest rates flirting with 7.00 percent for much of March, builders across much of the U.S. reported steady traffic, and builders have become increasingly confident in the outlook for sales that they continue to add to spec inventories, though we do wonder how much longer this will be the case.

In addition to the starts numbers, we'll be keeping an eye on completions and under-construction pipelines. Completions were routed in January by unusually harsh winter weather, and while some of that ground was regained in February, not all of it was. Even prior to January, progress on clearing substantial backlogs of both single family and multi-family units under construction had slowed considerably. As such, we'll be looking to the March data for signs of progress on both of these fronts.</td></tr>
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March Leading Economic Index Thursday, 4/18 Range: -0.3 to 0.3 percent Median: -0.1 percent	Feb = +0.1%	Down by 0.2 percent.
March Existing Home Sales Thursday, 4/18 Range: 4.00 to 4.55 million units Median: 4.20 million units SAAR	Feb = 4.38 million units SAAR	Down to an annual rate of 4.23 million units. On a not seasonally adjusted basis, we look for sales of 352,000 units, up 29.9 percent from February, though that's not nearly as impressive as it seems as this would just amount to typical March increase over the past several years. Though still far below anything close to what would leave us with a balanced market, inventories of existing homes for sale have been moving higher over the past few months, helping facilitate sales. Many sellers, however, have been slow to grasp shifting market conditions, as homes have been staying on the market longer and more sellers have had to reduce asking prices to facilitate sales. Another factor playing into our forecast is that pending home sales, a gauge of signed sales contracts, followed a strong January by rising strongly in February, with the largest February increase in the unadjusted index since 2020. Recall that existing home sales are booked at closing, which typically follows the signing of the sales contract by 30-45 days, suggesting upside potential for March closings. We've noted over the past two months that we've seen signs of a bottom forming in sales of existing homes, and the March data will go a long way toward determining whether we're on the right track or not. But, even if we are correct on this point, that by no means suggests anyone should expect existing home sales to rocket higher. Inventories, though increasing, are still notably lean, and mortgage interest rates at current levels are doing no favors to either sellers or buyers. Still, as both buyers and sellers come to the realization that waiting for rates to decline may not pay off, activity could pick up more than we anticipate over the months ahead. If that is the case, however, in an undersupplied market the likely result will be an even firmer pace of price appreciation than seen over recent months.

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