ECONOMIC PREVIEW

REGIONS

Week of October 21, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 6-7 FOMC meeting):* Target Range Mid-point: 4.625 to 4.875 percent Median Target Range Mid-point: 4.625 percent	Range: 4.75% to 5.00% Midpoint: 4.875%	The September retail sales data continue a pattern we've been pointing to since we previewed the September employment report, which is generous seasonal adjustment making the data look better than is actually the case. September is a month in which the pace of economic activity typically slows sharply, as reflected in the not seasonally adjusted data on employment, industrial production, retail sales, home sales, and residential construction, amongst other series. Though geared to smooth out this recurring pattern, seasonal adjustment has been considerably more generous this September than has been the case over the past several years. The net result is that the seasonally adjusted data for the month of September have, for the most part, looked stronger than is actually the case. This, in turn, has altered perceptions of the underlying health of the U.S. economy and led to marked shifts in interest rates and expectations of the path of the Fed funds rate. Just as we cautioned against this effect prior to the September data starting to roll in, we'll also caution that we expect to see the opposite effect in the October data, i.e., seasonal adjustment making the data look weaker than is actually the case.
September Leading Economic Index Monday, 10/21 Range: -0.4 to 0.1 percent Median: -0.3 percent	Aug = -0.2%	<u>Down</u> by 0.4 percent.
September Existing Home Sales Wednesday, 10/23 Range: 3.76 to 3.95 million units Median: 3.88 million units SAAR	Aug = 3.86 million units SAAR	<u>Down</u> to an annual rate of 3.81 million units, which would be the lowest annual sales rate since August 2010. On a not seasonally adjusted basis, we look for sales of 333,000 units, a decline of 11.9 percent from August which would leave sales down 4.3 percent year-on-year (no adjustment for sales days is needed as this September had the same number of sales days as did last September). Recall that existing home sales are booked at closing, so September closings will mainly reflect sales contracts signed from late-July through August. While mortgage interest rates were falling over this period, house prices . . . yeah, not so much, meaning that lower rates provided only limited relief from affordability constraints. At the same time, September is the start of what is typically a seasonally weak period for sales – with the exception of 2020, unadjusted existing home sales have never risen in the month of September. So, even though rising inventories and slowing sales are helping resolve the long-running imbalance in the market for existing homes, we'd say it's more akin to stumbling toward balance as opposed to confidently striding toward balance. It is interesting to note that, while sales have been slipping and inventories rising over recent months, time on market remains notably low. To some extent, this could reflect a still-high share of all-cash transitions, but could also reflect sellers having come to terms with the balance of market power having shifted toward buyers and, as such, being more willing to trim asking prices to facilitate sales. Either way, all of this is coming at such a low level of sales that, even if moving toward balance, the move toward normal in the market for existing homes will be much slower.
September New Home Sales Thursday, 10/24 Range: 695,000 to 750,000 units Median: 716,000 units SAAR	Aug = 716,000 units SAAR	<u>Up</u> to an annual rate of 743,000 units. On a not seasonally adjusted basis, we look for total sales of 59,000 units, up slightly from the preliminary estimate of 58,000 sales in August. That our forecast anticipates a more substantial jump in the headline sales number simply reflects a more favorable seasonal factor for September than that applied to the raw August data. Sharply lower mortgage interest rates over August and September weren't nearly as strong of a tailwind for new home sales as many assumed would be the case, reflecting ongoing affordability challenges posed by elevated prices. To be sure, builders keen on slimming down elevated spec inventories continue to offer incentives, including mortgage rate buydowns, but many had until recently remained somewhat guarded on pricing. With mortgage interest rates having reversed course thus far in October, builders will either have to get more aggressive on pricing or get more comfortable sitting on elevated spec inventories. We'll also note that the September data on residential construction suggest Hurricane Helene weighed on activity in the South region, and our forecast does anticipate a drop in unadjusted sales in the South region. Any such effects, however, will be more pronounced in the October data given the added hit from Hurricane Milton. As with the data on residential construction, we'll be watching the unadjusted data for the three remaining Census regions for signs of any shifts in underlying patterns of activity in the months ahead.

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September Durable Goods Orders Friday, 10/25 Range: -5.8 to 1.7 percent Median: -1.0 percent	Aug = 0.0%	Up by 0.5 percent. Striking machinists at their Washington plant notwithstanding, Boeing saw a meaningful increase in orders in September. While it remains to be seen whether, or to what extent, cancellations will rise should the strike endure, civilian aircraft should boost top-line orders in the September data. Note that the Census data are reported on a net, not a gross, basis, and cancellations are reflected in the data in the month they are logged. Thus far, the strike does not seem to have triggered a jump in cancellations, but this does pose a downside risk to our forecast. Either way, our forecast anticipates a decline in orders for motor vehicles & parts, reflecting rising inventories, negating much of the boost in the transportation equipment category provided by higher civilian aircraft orders. As indicated below, we expect to see scant signs of life in the data outside civilian aircraft, reflecting the general malaise that continues to loom over the manufacturing sector. We do not expect this to lift until there is more clarity on the outlook for fiscal, trade, and regulatory policy, which may be slow in coming.
Sep. Durable Goods Orders: Ex-Trnsp. Friday, 10/25 Range: -0.9 to 0.4 percent Median: -0.1 percent	Aug = +0.5%	We look for ex-transportation orders to be unchanged and for core capital goods orders (nondefense capital goods excluding aircraft & parts) to be up by 0.1 percent. To our point about a general malaise looming over the manufacturing sector, our forecast would leave core capital goods orders right where they were at the start of 2023, a level from which orders have not strayed far, in either direction, over this entire time. Of course, one way to look at it is that core capital goods orders have been more or less stable, as opposed to steadily contracting, but "growth" is, at least in this instance, preferable to "stability." But, that we have not been seeing steady erosion goes to our premise that manufacturing activity has settled in at a fairly slow pace that could, under the right set of conditions, give way to renewed growth in fairly short order.

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