

ECONOMIC PREVIEW



Week of January 27, 2025

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<p>Fed Funds Rate: Target Range Midpoint <i>(After the January 28-29 FOMC meeting):</i> Target Range Mid-point: 4.375 to 4.375 percent Median Target Range Mid-point: 4.375 percent</p>	<p>Range: 4.25% to 4.50% Midpoint: 4.375%</p>	<p>With no change in the Fed funds rate on tap and no updated economic and financial projections to be issued in conjunction with this week's FOMC meeting, all eyes, and ears, will be on Chair Powell's post-meeting press conference. Chair Powell's strategy may be to say as little as possible in as many different ways as possible. The main message we expect Chair Powell to send is that the Committee can be patient in returning to a neutral policy stance but will adapt to the flow of economic data. Sending that message, however, may be more difficult than it would seem. A pause this week will intensify the focus on the March FOMC meeting, but Chair Powell will no doubt try to avoid explicit guidance one way or the other, a task that will be more difficult given that he will surely be asked about Fed Governor Waller's comments about a rate cut being possible in March and that market participants may be underestimating the number of cuts in 2025. Chair Powell will no doubt also be questioned about the President's "demand" for lower interest rates, as well as the extent to which the policy mix to be sought by the Trump Administration will add to inflation. Chair Powell will likely respond to the former by stressing that the Fed is designed to be free from political influence and to the latter by stressing that the FOMC will not pre-judge policy changes before the details of them are known.</p>
<p>December New Home Sales Monday, 1/27 Range: 613,000 to 700,000 units Median: 672,000 units SAAR</p>	<p>Nov = 664,000 units SAAR</p>	<p><u>Down</u> to an annualized rate of 659,000 units. On a not seasonally adjusted basis, we look for total sales of 49,000 units, which would be up 8.9 percent from November but flat year-on-year.</p>
<p>December Durable Goods Orders Tuesday, 1/28 Range: -4.5 to 2.2 percent Median: 0.5 percent</p>	<p>Nov = -1.2%</p>	<p><u>Down</u> by 4.2 percent, a forecast which is more about the accounting treatment and less about the economics of civilian aircraft orders. Though Boeing logged 142 gross orders in December, a number that would typically boost top-line orders, they also took almost that many prior orders off the books, leaving little in the way of net orders. It is net, not gross, orders that enter into the Census data, hence our expectation of a sizable decline in top-line orders. If we're wrong about the accounting or if that is not picked up in the Census data then, obviously, our forecast will be way too low. Either way, none of this says anything about the underlying trends in business capital spending or the manufacturing sector. As always, our focus will be squarely on what we and most others consider to be the single most important line item in the monthly data on durable goods orders, i.e., core capital goods orders, a harbinger of business investment in equipment and machinery as reported in the GDP data. We've for some time noted that core capital goods orders have been more or less rangebound since the start of 2023, but our forecast (see below) would mark a second straight solid monthly gain, in keeping with what we expect to be an improving tone of capital spending as we move through 2025. Keep in mind that it is shipments, not orders, which enter into the GDP data, so even if we're correct in sensing building momentum in core capital goods orders, it will take some time for that to be reflected in the GDP data. Again, given the uncertainty around the accounting of Boeing orders, whatever signal there is in the December data will be sent by core capital goods orders while the headline number will, if our forecast is on or near the mark, be pure noise.</p>
<p>Dec. Durable Goods Orders: Ex-Trnsp. Tuesday, 1/28 Range: 0.0 to 0.9 percent Median: 0.4 percent</p>	<p>Nov = -0.2%</p>	<p>We look for <u>ex-transportation orders</u> to be <u>up</u> by 0.4 percent and look for <u>core capital goods orders</u> (nondefense capital goods excluding aircraft and parts) to be <u>up</u> by 0.5 percent.</p>
<p>January Consumer Confidence Tuesday, 1/28 Range: 102.0 to 109.0 Median: 105.6</p>	<p>Dec = 104.7</p>	<p><u>Up</u> to 108.3. The headline index surprised us to the downside in December, which in and of itself wasn't all that noteworthy, but what did stand out was the improvement in consumers' assessments of labor market conditions. The "jobs plentiful/jobs hard to get" spread widened to a level last seen in May and was consistent with the dip in the unemployment rate in December. To be sure, many lower-to-middle income households continue to struggle with the cumulative increases in prices, particularly for necessities, over the past few years, but still-healthy labor market conditions and record-high household net worth remain supportive of overall household financial conditions. That said, even if our forecast is on or near the mark, that would still leave consumer confidence well off pre-pandemic levels, but we have long seen the "jobs plentiful/jobs hard to get" spread as the more meaningful indicator of patterns of activity in the broader economy.</p>

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Dec. Advance Trade Balance: Goods Range: -\$115.1 to -\$102.8 billion Median: -\$105.0 billion	Wednesday, 1/29	Oct = -\$102.9 billion	<p><u>Widening</u> to -\$107.4 billion. If our forecast is on or near the mark, trade will have acted as a drag on Q4 real GDP growth as an already wide trade deficit widened further. Though many finger rising imports as the culprit, reflecting firms pulling orders forward to avoid higher tariffs, the data tell a different story. Imports of goods were on course to decline in Q4, but exports of goods were on course to decline by a larger magnitude, hence the wider trade deficit. While it is true that imports of consumer goods were trending modestly higher in Q4, it would take a significantly larger December increase than we anticipate to give credence to the “rush to beat higher tariffs” narrative. What we think to be more telling is that a decline in imports of non-auto capital goods was the primary factor behind the softness in total imports, an indication of noncommittal capital spending plans. At the same time, sagging exports in Q4 reflect still wobbly global growth. To be sure, there is considerable uncertainty looming over the global trade landscape, but the data suggest that rather than rushing to beat the generic “higher tariffs,” around which they had no actual details, firms instead ended 2024 in wait-and-see mode. And, even if there were a post-election rush to pull imports forward to beat anticipated increases in tariffs, order, production, and shipping times make it most unlikely any such imports would show up in the December trade data.</p>
Q4 Real GDP – 1st estimate Range: 1.7 to 3.0 percent Median: 2.7 percent SAAR	Thursday, 1/30	Q3 = 3.1% SAAR	<p><u>Up</u> at an annualized rate of 2.9 percent. Consumer spending, residential fixed investment, and a faster pace of inventory accumulation were the main drivers of Q4 growth, while a wider trade deficit and softness in business investment in equipment and machinery acted as drags. Our forecast would yield full-year 2024 real GDP growth of 2.8 percent after growth of 2.9 percent in 2023, a two-year run of growth easily ahead of what we see as the economy’s sustainable long-term pace. We’ve argued that the combination of faster growth in the supply of and the productivity of labor fueled this above-trend growth but have also argued that slower labor supply growth and a higher for longer interest rate profile would push growth back much closer to trend in 2025.</p>
Q4 GDP Price Index – 1st estimate Range: 2.0 to 2.7 percent Median: 2.5 percent SAAR	Thursday, 1/30	Q3 = 1.9% SAAR	<p><u>Up</u> at an annualized rate of 2.4 percent.</p>
December Personal Income Range: 0.3 to 0.5 percent Median: 0.4 percent	Friday, 1/31	Nov = +0.3%	<p><u>Up</u> by 0.5 percent, with wage and salary earnings, interest income, and a rebound in dividend income the main drivers. Our forecast would leave private sector wage and salary earnings, the largest single component of personal income, up 5.8 percent year-on-year, easily ahead of the rate of inflation as has been the case throughout this episode of elevated inflation. In contrast, growth in asset-based income (combined dividend and interest income) has slowed sharply over the past several months and is no longer outpacing inflation (our forecast would leave it up just over one percent year-on-year), though this comes after a long run of often frenzied growth. If you buy the general premise that wage and salary earnings tend to be more supportive of spending on necessities while asset-based income tends to be more supportive of discretionary spending, this split in personal income points to two downside risks for consumer spending in 2025 – a marked deterioration in labor market conditions and negative wealth effects triggered by a sharp correction in equity and/or house prices – that would weigh on both necessity and discretionary spending.</p>
December Personal Spending Range: 0.4 to 0.7 percent Median: 0.5 percent	Friday, 1/31	Nov = +0.4%	<p><u>Up</u> by 0.7 percent. Whatever 2025 may bring for consumer spending, 2024 clearly ended on a strong note. The jump in control retail sales and higher unit motor vehicle sales in December point to a solid increase in spending on goods. At the same time, providers of travel services reported strong demand in December, suggesting a solid increase in discretionary services spending, while higher utilities outlays will support overall services spending. Our forecast of December spending would put Q4 growth in real consumer spending at an annualized rate of around 3.4 percent, making it the main support for Q4 real GDP growth.</p>

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December PCE Deflator Range: 0.2 to 0.3 percent Median: 0.3 percent	Friday, 1/31	Nov = +0.1%	<u>Up</u> by 0.2 percent, which would translate into a year-on-year increase of 2.5 percent. We look for the <u>core PCE Deflator</u> to be <u>up</u> by 0.1 percent, which would yield a year-on-year increase of 2.8 percent.
Q4 Employment Cost Index Range: 0.7 to 1.1 percent Median: 0.9 percent	Friday, 1/31	Q3 = +0.8%	<u>Up</u> by 0.7 percent, with the wages component up by 0.8 percent and the benefits component up by 0.7 percent. Our forecast would leave the total ECI up by 3.7 percent year-on-year, with the wages component up 3.6 percent, the smallest such increase in the latter since Q2 2021. The ECI is considered by most, including the FOMC, to be the most reliable gauge of trends in labor compensation costs, in part as it is constructed to be free of the mix issues that often bias the average hourly earnings metric in the monthly employment reports, which we see as not all that useful of an indicator of trends in labor compensation costs. That our forecast of the ECI is below the consensus forecast in part reflects our discounting the acceleration in growth of average hourly earnings seen in Q4. But, even if our forecast proves to be on the low side, the trend in virtually every metric we look to as a signal of trends in wage growth, including hiring rates, quits rates, and job vacancies, suggests a slowing trend rate of wage growth. This, along with a rising trend rate of labor productivity, is helping preserve corporate profit margins.

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