ECONOMIC PREVIEW

REGIONS

Week of February 17, 2025

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 18-19 FOMC meeting):* Target Range Mid-point: 4.375 to 4.375 percent Median Target Range Mid-point: 4.375 percent	Range: 4.25% to 4.50% Midpoint: 4.375%	In a light data week, Wednesday brings the minutes of the January FOMC meeting. We'll be interested in any comments around the extent to which Committee members see the current policy stance to be restrictive, a topic around which there seems to be some disagreement within the Committee. We'll also be watching for any comments on whether, or to what degree, members are factoring anticipated changes in fiscal, trade, immigration, and policies into their outlooks for growth and inflation.
January Building Permits Wednesday, 2/19 Range: 1.400 to 1.490 million units Median: 1.460 million units SAAR	Dec = 1.482 million units SAAR	Down to an annual rate of 1.409 million units. On a not seasonally adjusted basis, we look for total permits of 105,100 units, down 6.9 percent from December, which would be the lowest monthly total since April 2020. We see two main factors impacting the January data on housing permits and starts – unusually harsh winter weather across much of the U.S. and the single family segment of the market wobbling under the weight of affordability constraints that have contributed to what for many builders remain uncomfortably high inventories of spec homes for sale. Though weather events typically have a much greater impact on starts than on permits, the severity of January's winter weather, particularly across a wide swath of the South region, may have been felt more sharply in permit issuance than otherwise would have been the case. To the extent that was the case, however, it is not cause for concern as any delays in permit issuance in January will be made up for with a bounce in the February data. The state of the single family segment is the far more important factor, the effects of which will spill over into the multi-family segment. Undesirably high spec inventories and an elevated count of single family units already permitted but not yet started will combine to put downward pressure on single family permit issuance. To that point, the running twelve-month sum of not seasonally adjusted single family permits, which we consider the most reliable gauge of underlying trends, has already turned downward. Still, to the extent the single family segment does falter, that could spark activity in the multi-family segment. Though supply-side concerns have not totally faded, they have at least abated as there has been steady progress in paring down the backlog of multi-family units under construction. In mid-2024, we speculated on whether multi-family permit issuance had bottomed, and while not expecting a frenzied rebound we did at least see room for a gradual turn higher. To be sure, given the inherent volatility in multi-family permits and starts, it's too soon to know whether that was the right call but, with a fairly dim outlook for single family activity, it seems reasonable to expect at least a measured rebound in multi-family activity in the months ahead.
January Housing Starts Wednesday, 2/19 Range: 1.310 to 1.514 million units Median: 1.397 million units SAAR	Dec = 1.499 million units SAAR	Down to an annual rate of 1.316 million units. On a not seasonally adjusted basis, we look for total starts of 93,300 units which, as with housing permits, would be the lowest monthly total since April 2020. Recall that the jump in housing starts in December was a function of two things – multi-family starts rebounding strongly after having plummeted in November, and friendly seasonal adjustment. Largely overlooked in the hoopla around the headline starts number (seasonally adjusted and annualized) was that not seasonally adjusted single family starts declined, and we look for them to have declined further in January. While that in part reflects the effects of atypically harsh winter weather across much of the nation, there are more fundamental factors at play. With affordability constraints weighing on demand, spec inventories for many builders remain uncomfortably high, which is acting as a drag on the pace of new single family starts. To that point, completed units accounted for 49.8 percent of total new home sales in 2024, a share topped only twice in the life of the data, the last instance being 2008. In contrast, sales of units on which construction had not yet started accounted for just 14.1 percent of total new home sales in 2024, second to only 1974's 11.6 percent as the lowest share on record. While builders continue to use incentives, including mortgage rate buydowns, to facilitate sales, the aim is to reduce spec inventories which, again, weighs on starts. Moreover, to the extent mortgage interest rates remain around seven percent, the pool of prospective buyers will naturally be thinner than would be the case with mortgage interest rates hovering around six percent. To our point, the running twelve-month total of not seasonally adjusted single family housing starts began to turn downward in late-2024 and we think it will continue to drift lower in the months ahead. Though we expect multi-family starts to have pulled back in January after the sizable jump in December, we nonetheless expect them to trend at least gently higher in the months ahead.

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January Leading Economic Index Thursday, 2/20 Range: -0.5 to 0.1 percent Median: -0.1 percent	Dec = -0.1%	<u>Down</u> by 0.3 percent.
January Existing Home Sales Friday, 2/21 Range: 4.00 to 4.40 million units Median: 4.13 million units SAAR	Dec = 4.24 million units SAAR	<u>Down</u> to an annual rate of 4.14 million units. On a not seasonally adjusted basis, we look for sales of 243,000 units, down 26.1 percent from December but up 3.9 percent year-on-year. Keep in mind that January is far and away the weakest month for existing home sales, so the month/month decline our forecast anticipates isn't as dramatic as it may seem and is indeed smaller than the typical January decline. Okay, at least to the extent that there is anything "typical" about the housing market these days. Keep in mind that existing home sales are booked at closing, so there is a chance harsh winter weather will have led to some closing activity being pushed back to February. January closings would mostly reflect sales contracts signed from mid-November through December, and pending home sales were weak in December, with the not seasonally adjusted data showing a larger December decline than is, well, typical. That, far more so than weather effects, poses some downside risk to our forecast, though we will note that over recent months pending home sales have been less useful as an indicator of existing home sales than had previously been the case (we've always looked to the not seasonally adjusted pending home sales data to help shape our forecast of unadjusted existing home sales). Mortgage interest rates rose roughly thirty basis points between the beginning and end of December, ending the month right at seven percent, which did no favors for home sales. Though still below pre-pandemic norms, days on market have been lengthening and more buyers are cutting asking prices, though we'll offer our usual caveat that a reduction in asking prices does not necessarily mean the seller would be taking a loss on a sale. The inventory data will be particularly interesting, as January is typically the month in which inventories begin to build ahead of the spring sales season. This year, that comes against a backdrop of significant numbers of homes having been pulled off the market in December, far more than is common for the month. That could be sellers having opted against cutting asking prices and instead deciding to try again in the spring, as opposed to unconditionally surrendering, but to the extent that was the case you wouldn't expect those homes to be re-listed as early as January. So, while our forecast does anticipate a modest bump in inventories, it is nonetheless smaller than the increase typically seen in the month of January (the NAR inventory data are not seasonally adjusted). We look for the median existing home sales price to be up around five percent year-on-year.

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