ECONOMIC PREVIEW

REGIONS

Week of March 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%	With no change in the Fed funds rate on tap at this week's FOMC meeting, market participants will be focused on the updated Summary of Economic Projections (SEP) and Chair Powell's post-meeting press conference. Like the rest of us, Committee members are still trying to account for a quickly changing policy landscape. We expect the updated SEP to project slower real GDP growth and higher inflation than in the December edition, and it will be interesting to see whether the updated dot plot implies a third Fed funds rate cut this year, as markets are pricing in, rather than the two cuts implied in the December dot plot. Market pricing aside, do not think so. It is striking, at least to us, that despite signs that the economy has lost considerable momentum amid heightened volatility and uncertainty, FOMC members continue to stress the need to push inflation down further and, as such, may be more hesitant to enact further cuts in the funds rate than market participants have come to believe.
February Retail Sales: Total Monday, 3/17 Range: -0.2 to 0.9 percent Median: 0.7 percent	Jan = -0.9%	Down by 0.2 percent. As in January, a spell of atypically harsh winter weather impacted spending patterns in February, which will weigh on February retail sales. Of more relevance, however, is that flagging consumer confidence seems to have taken a toll on discretionary spending in February, and while that will be more apparent in the data on discretionary services spending, we think the retail sales data will have been impacted as well (other than restaurant sales, the retail sales data do not capture consumer spending on services). An increase in unit sales of new vehicles and higher prices for used vehicles should contribute to a solid increase in motor vehicle dealer sales revenue. Our forecast anticipates another sizable decline in sales at building materials stores due to harsh winter weather. The February Consumer Price Index data do not offer evidence that the increase in tariffs on imports from China that took effect early in the month had a meaningful impact on goods prices in February. While there has been evidence in recent months of consumers pulling purchases forward to avoid tariff-driven price increases, we do not expect that to have been the case in February, particularly given the sharp decline in consumer confidence during the month. Instead, we think it more likely that think the February data will reflect payback for purchases having been pulled forward into prior months – recall that spending on consumer durable goods was notably strong over the final months of 2024. Either way, appliances, electronics, and furniture are the categories other than motor vehicle sales in which any such effects would be the most visible. One source, okay, fine, another source, of uncertainty around our forecast of February retail sales is the nonstore retailer category. While it would be reasonable to expect a meaningful bounce after the sharp decline – 1.9 percent – seen in the January data, we think that decline was somewhat overstated, even allowing for the usual post-holiday (spending) hangover. That said, to the extent harsh winter weather held down in-store traffic, some of those sales could easily have been shifted to online sales, posing upside risk to our forecast of sales by nonstore retailers. Given that online sales account for roughly ninety-three percent of sales by nonstore retailers and roughly twenty-nine percent of control retail sales, a miss in this category can doom a forecast to, well, wherever it is that bad forecasts go to die. We'll also note that while this February's seasonal factors will appear to be much more generous than last February's, keep in mind that there was one fewer calendar day this February than last. In other words, we don't look for a boost from friendly seasonal adjustment to make the February retail sales data look more appealing. Consumers, particularly lower-income consumers, continue to struggle with the effects of the cumulative increases in prices, particularly for necessities, seen over the past few years, and have become increasingly concerned that increased tariffs will push prices even higher. At the same time, there is growing unease about labor market conditions, particularly given the cuts in the federal government workforce and uncertainty as to what the spillover effects into the private sector will be. To the extent that declines in equity prices and, in many markets, house prices are generating negative wealth effects, that will be more visible in the data on services spending rather than in the retail sales data. It does, however, help to recall that while the trend rate of job growth is slowing, growth in aggregate labor earnings continues to easily outpace inflation, which we've pointed to as an overlooked support for spending or, more recently, saving. Our somewhat lackluster forecast of February sales would leave real (i.e., adjusted for price changes) control sales up 3.5 percent year-on-year.

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February Retail Sales: Ex-Auto Range: -0.5 to 0.9 percent Median: 0.4 percent	Monday, 3/17	Jan = -0.4%	Down by 0.5 percent.
February Retail Sales: Control Group Range: -0.5 to 0.9 percent Median: 0.3 percent	Monday, 3/17	Jan = -0.8%	Down by 0.2 percent.
January Business Inventories Range: 0.1 to 0.7 percent Median: 0.3 percent	Monday, 3/17	Dec = -0.2%	We look for total business inventories to be up by 0.3 percent and look for total business sales to be down by 0.7 percent.
February Building Permits Range: 1.440 to 1.491 million units Median: 1.450 million units SAAR	Tuesday, 3/18	Jan = 1.473 million units SAAR	Up to an annualized rate of 1.491 million units. On a not seasonally adjusted basis, we look for total permits of 110,800 units, down slightly from January with a drop in single family permits more than offsetting an increase in multi-family permits. While atypically harsh winter weather will have had a bigger impact on starts than on permits, elevated inventories of spec homes for sale are weighing on single family permits and starts as affordability constraints remain a drag on demand.
February Housing Starts Range: 1.323 to 1.410 million units Median: 1.380 million units SAAR	Tuesday, 3/18	Jan = 1.366 million units SAAR	Up to an annualized rate of 1.393 million units. On a not seasonally adjusted basis, we look for total starts of 101,300 units, up 6.1 percent from January, when the impact of atypically harsh winter weather was more severe and more geographically dispersed than was the case in February. Again, though, elevated spec inventories of new homes for sale remain a constraint on single family starts. Aside from January's weather-related decline, our forecast would reflect the lowest monthly total for single family starts (not seasonally adjusted) since February 2023. While mortgage interest rates did fall by around twenty basis points over the last two weeks of February, that likely had little, if any, impact on either single family permits or starts as builders looking to clear spec inventories were more aggressive with incentives. It is worth noting that the decline in mortgage interest rates has extended into March, and that in each of the past two weeks there have been spikes in applications for purchase mortgage loans. That goes straight to a point we began making when mortgage rates began rising rapidly back in 2022, which is that there is considerable pent-up demand for home purchases that would be sensitive to dips in mortgage rates. What remains to be seen however, is whether the drop in mortgage interest rates will be sustained and, if so, whether that will unleash enough of that pent-up demand to bring spec inventories back into balance. Until there is some clarity on these points and spec inventories are in much better balance, lower mortgage rates are unlikely to trigger a substantial wave of new single family starts. In addition to permits and starts, we'll be keeping an eye on the data on completions, which plunged in January (not seasonally adjusted) beyond what normal seasonal patterns would have dictated. Builders may not have made up much ground in February, so under-construction backlogs may have widened a bit.
February Industrial Production Range: -0.3 to 0.5 percent Median: 0.2 percent	Tuesday, 3/18	Jan = +0.5%	Up by 0.1 percent. We look for a healthy increase in manufacturing output, as tipped in the February employment report data on payrolls and aggregate hours worked in manufacturing. At the same time, however, our forecast anticipates declining output in the mining and utilities sectors will negate most of the increase in manufacturing output. While February did see another round of atypically harsh winter weather, that was neither as severe nor as geographically dispersed as in January. Also, recall that utilities output spiked by over seven percent in January, which makes it reasonable to expect at least some payback in February.
February Capacity Utilization Rate Range: 77.4 to 78.0 percent Median: 77.8 percent	Tuesday, 3/18	Jan = 77.8%	Unchanged at 77.8 percent.
Q4 Current Account Balance Range: -\$340.0 to -\$325.0 billion Median: -\$338.0 billion	Thursday, 3/20	Q3 = -\$310.9 billion	Widening to -\$335.1 billion, with the larger gap mainly driven by a wider trade deficit.

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February Leading Economic Index Thursday, 3/20 Range: -0.3 to -0.1 percent Median: -0.2 percent	Jan = -0.3%	Down by 0.2 percent.
February Existing Home Sales Thursday, 3/20 Range: 3.88 to 4.10 million units Median: 3.93 million units SAAR	Jan = 4.08 million units SAAR	Down to an annualized rate of 4.04 million units. On a not seasonally adjusted basis, we look for sales of 249,000 units, up 3.8 percent from January, a far cry from the better than fifteen percent February increases seen over the past two years. Recall that existing home sales are booked at closing, so February closings mainly reflect sales contracts signed from late-December through January, a time when mortgage interest rates hovered around seven percent. While that no doubt weighed on demand, pending home sales, a gauge of signed sales contracts, nonetheless increased by 20.3 percent in January (not seasonally adjusted). Though that was smaller than a typical January increase, it does at least show that there were still signs of life in the market. With mortgage rates hovering around seven percent, it had become increasingly common for sellers to cut asking prices to help alleviate affordability constraints and facilitate sales. That does not, however, in most cases mean that sellers were taking losses on sales but rather that they were simply realizing smaller gains given the extent of house price appreciation over the past few years. Still, sellers of existing homes can have difficulty competing with builders looking to clear elevated spec inventories and able to aggressively use incentives, including mortgage interest rate buydowns, to help them do so. We look for the median existing home sales price to be up around 4.5 percent year-on-year. Another thing to watch for in the February data will be inventories. Traditionally, February has marked the start of a seasonal build in inventories ahead of the spring selling season. While we do look for inventories to have risen, we expect a smaller increase than is typical for the month of February but one which would nonetheless leave inventories up just over fourteen percent year-on-year. Going forward, the decline in mortgage interest rates that began in late-February has carried into March, and in each of the past two weeks there has been a spike in applications for purchase mortgage loans. The pending home sales data for March will be a sign of the extent to which mortgage interest rates are drawing out some of the pent-up demand for home purchases we've been pointing to over the past few years. Against the backdrop of falling mortgage interest rates, however, fading consumer confidence and jitters over labor market conditions may result in less of a boost from lower mortgage interest rates than would otherwise have been the case. Moreover, builders looking to clear elevated spec inventories will no doubt use lower mortgage interest rates to their advantage and will continue to offer incentives to help move spec units. So, while we see at least some near-term upside for existing home sales, we also see limits on the degree of that upside.

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