ECONOMIC PREVIEW

REGIONS

Week of April 18, 2016

Indicator/Action Economics Survey: | Last Actual: | Regions' View:

Fed Funds Rate: Target Range Midpoint
(After the FOMC meeting on April 26-27):
Target Range Midpoint: 0.375 to 0.375 percent
Median Target Range Midpoint: 0.375 percent

Last Actual: 0.375%

In a fairly quiet week, at least in terms of top-tier economic data, housing takes center stage. This is fitting as, next to consumer spending, housing is one of the key supports for the U.S. economy at present. That can at times be hard to see, given the inherent volatility in the headline housing numbers but, as we routinely note, the real story is in the underlying trends. Those trends show us continued steady improvement in single family construction while multi-family construction is or will soon be topping out. The transition to more single family construction means housing will provide a bigger kick to GDP growth going forward, as the impact on overall economic activity from single family construction is larger.

March Housing Starts — Tuesday, 4/19
Range: 1.126 to 1.194 million units
Median: 1.168 million units SAAR

Last Actual: Feb = 1.178 million

Down to an annualized rate of 1.157 million units. We don't for a minute believe the 822,000 annualized rate for single family starts reported for February was anything more than seasonal adjustment noise. As such, we've built in a decline in our March forecast that would bring single family starts back in line with the underlying trend rate. As for multi-family, it is puzzling, at least to us, that multi-family starts have been persistently running far behind permits, and in recent months we've been expecting some payback. Sure, we've been wrong, but that hasn't stopped up from incorporating a faster rate of multi-family starts into our March forecast – you may not care much for our accuracy, or lack thereof, but one day you'll come to admire our consistency. You will, won't you?

In any event, one reason our forecast is below consensus is we believe what was for the most part unseasonably warm weather in the "winter" months clearly pulled construction activity forward (Exhibit A being the February single family starts number). To the extent some of this activity came from March, what are decidedly less favorable seasonal adjustment factors for the March data would magnify this effect in the headline starts numbers reported on a seasonally adjusted annual rate basis. This is yet another illustration of why our focus is squarely on the raw, i.e., not seasonally adjusted, data and what we believe to be the most relevant indicator of underlying trends – the 12-month moving sum of the unadjusted monthly data. On this basis, our March forecast would leave single family starts at their highest level since July 2008 and multi-family starts at their highest level since March 1989. Yes, you read that last part correctly, the difference being we think single family starts have considerable room to the upside from here while multi-family starts are at or very close to the cyclical top.

March Housing Permits — Tuesday, 4/19
Range: 1.171 to 1.218 million units
Median: 1.200 million units SAAR

Last Actual: Feb = 1.177 million

We look for total housing permits to be basically flat, with an annual rate of 1.178 million units compared to the revised February rate of 1.177 million units. We do, however, look for a slight shift in the mix, with single family permits accounting for a higher share of total permits than was the case in February.

March Existing Home Sales — Wednesday, 4/20
Range: 5.070 to 5.500 million units
Median: 5.290 million units SAAR

Last Actual: Feb = 5.080 million

Up to an annual sales rate of 5.330 million units. The decline in headline sales in February is yet another example of how fun with seasonal adjustment can go so wrong. We suspect the extra sales day in the month due to this being a leap year was overcompensated for, which is how a four percent increase in unadjusted sales turns into a seven percent decline in adjusted sales. Again, though, we are far more interested in the underlying trends in the raw data and our forecast for unadjusted sales in March (416,000) would leave the 12-month moving sum at just over 5.3 million units, the highest total since September 2007.

Of even more importance, however, will be the inventory data. We and other analysts have repeatedly stressed how lean inventories are acting as a drag on sales but, really, a quick glimpse at the months supply metric tells you all you need to know. Over February, March, and April, inventories typically rise at an increasing rate in conjunction with the spring selling season. While February's increase in listings was a bit larger than normal for the month (the NAR inventory data are not seasonally adjusted) the problem is that increase came from such a low base, which means there is still substantial catching up to do but only two months – March and April – in which that catching up can be done in time to salvage this year's prime sales season. The March inventory data will give us a sense of whether or not that will happen and how sales may be impacted over coming months.

March Leading Economic Index — Thursday, 4/21
Range: 0.2 to 0.5 percent
Median: 0.4 percent

Last Actual: Feb = +0.1%

Up by 0.4 percent.

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