ECONOMIC PREVIEW

REGIONS

Week of January 16, 2017

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on January 31-February 1):* Target Range Midpoint: 0.625 to 0.625 percent Median Target Range Midpoint: 0.625 percent		0.625%	The high frequency data suggest the U.S. economy ended 2016 with considerably more momentum than will be apparent in the Q4 GDP data (out on January 27). We look for real GDP growth to have slowed to around 2.2 percent (annualized) in Q4, which seems at odds with not only the high frequency data but also with the jumps in consumer and business sentiment seen in the final months of 2016. One way to reconcile this is to look not at top-line real GDP growth but at growth in private domestic demand, or, consumer spending, residential fixed investment, and business fixed investment. While a sharply wider trade deficit acted as a drag on top-line real GDP growth, real private domestic demand likely grew at an annual rate of better than 3.0 percent in Q4 2016. To be sure, there is ample room for improvement, and it remains to be seen how much sustained improvement the collective changes to fiscal, regulatory, and trade policy that lie ahead will bring.
December Consumer Price Index Range: 0.2 to 0.4 percent Median: 0.3 percent	Wednesday, 1/18	Nov = +0.2%	<u>Up</u> by 0.3 percent, which yields a year-on-year increase of 2.1 percent. Retail gasoline prices rose by three percent in December, at odds with typical seasonal patterns, which means this gain will be magnified in the seasonally adjusted CPI data. We look for gasoline to account for just over one-third of the overall increase in the headline CPI. Elsewhere, household energy costs and rents will also lend support to the rise in the headline index. If medical costs, which have behaved somewhat oddly of late, surprise us to the upside the headline index will do the same. Our call would leave the headline CPI up by 1.3 percent for 2016 as a whole.
December Core CPI Range: 0.1 to 0.2 percent Median: 0.2 percent	Wednesday, 1/18	Nov = +0.2%	<u>Up</u> by 0.2 percent, for a year-on-year increase of 2.1 percent. The story here is pretty much the same as it has been for some time, with rents remaining the primary driver of core CPI inflation. We look for core goods prices to have fallen year-on-year for the 44th time in the last 45 months, and to the extent the U.S. dollar strengthens further over coming months core goods prices will remain under downward pressure. Our call would leave the core CPI up by 2.2 percent for 2016 as a whole. While price pressures may increase in some sectors of the economy in 2017, we look for a deceleration in rent growth to keep core CPI inflation in check as rents account for roughly 40 percent of the core CPI.
December Industrial Production Range: 0.2 to 1.1 percent Median: 0.6 percent	Wednesday, 1/18	Nov = -0.4%	<u>Up</u> by 0.9 percent. We look for a spike in utilities output to, well, fuel a sizeable increase in the headline index, but also look for manufacturing and mining output to have advanced. Our call would leave the headline index up 0.6 percent year-on-year, which may not sound like much but it would break a run of 15 consecutive months in which the headline index was down on a year-on-year basis.
December Capacity Utilization Rate Range: 75.1 to 76.0 percent Median: 75.4 percent	Wednesday, 1/18	Nov = 75.0%	<u>Up</u> to 75.7 percent.
December Building Permits Range: 1.150 to 1.250 million units Median: 1.220 million units SAAR	Thursday, 1/19	Nov = 1.212 mil	<u>Up</u> to an annualized rate of 1.243 million units. On a not seasonally adjusted basis, we look for 93,100 total permits, with single family permits higher and multi-family permits drifting lower. Our call would put total housing permits at 1,175,100 units in 2016, a 0.6 percent decline from 2015's total reflecting a 7.8 percent increase in single family permits and a 12.7 percent decline in multi-family permits. We look for a repeat of this pattern in 2017 – a further increase in single family permits while multi-family permits log another decline. The difference is that this year we expect the increase in single family permits to more than offset the decline in multi-family permits so that total permit issuance increases in 2017.
December Housing Starts Range: 1.100 to 1.282 million units Median: 1.184 million units SAAR	Thursday, 1/19	Nov = 1.090 mil	<u>Up</u> to an annualized rate of 1.282 million units. Our call would mark the second highest monthly rate for all of 2016, but in part reflects some payback for the plunge in multi-family housing starts reported for November, a decline not at all substantiated by the permit data. In any event, as always we're far more interested in the not seasonally adjusted data and on this basis we look for 89,700 total starts. This would put the total for 2016 at 1,173,100 units, up 5.5 percent from 2015's total. As with permits, this total starts number reflects an increase in single family starts and a decline in multi-family starts, and we look for a repeat of this split in 2017. Our 2017 forecast for housing starts is once again below consensus, but that has served us well over the past several years. Two main questions loom over our 2017 housing forecast – first, whether higher mortgage interest rates will wreak havoc with our single family forecast, and, second, whether enough of the notably high number of multi-family units currently under construction come on-line in 2017 so that multi-family permits and starts decline more than we are expecting.

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