ECONOMIC PREVIEW

REGIONS

Week of January 18, 2016

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on January 26-27):* Target Range Midpoint: 0.375 to 0.375 percent Median Target Range Midpoint: 0.375 percent		0.375%	We're not exactly sure which department handles such requests, but, can we have 2015 back? Not because it was a great year or anything, indeed, it was rather pedestrian as years go. But, at least based on the early returns, pedestrian would be a step up from how 2016 is shaping up. Sure, it's early, and given how January has gone, the rest of the year has to get better from here. That's right, isn't it?
December Consumer Price Index Range: -0.3 to 0.1 percent Median: 0.0 percent	Wednesday, 1/20	Nov = 0.0%	Unchanged which would leave the headline CPI up 0.8 percent year-on-year and up a scant 0.14 percent for 2015 as a whole. We look for the total CPI to be up 1.3 percent for 2016, which is more like inflation waking up than roaring back.
December Core CPI Range: 0.1 to 0.2 percent Median: 0.2 percent	Wednesday, 1/20	Nov = +0.2%	Up by 0.1 percent, leaving the core CPI up 2.1 percent year-on-year and up 1.8 percent for 2015 as a whole. Keep an eye on rents, which account for roughly 42 percent of the core CPI. November saw 2015's smallest monthly gains in market rents and owners' equivalent rents, raising the question of whether rents were simply taking a breather or rent growth is settling into a slower trend rate. We've built in a slight rebound in rent growth but if we have understated the degree to which that occurs our calls on the CPI – total and core – will prove to be too low.
December Housing Starts Range: 1.175 to 1.255 million units Median: 1.210 million units SAAR	Wednesday, 1/20	Nov = 1.173 mil	Up to an annualized rate of 1.254 million units, which would be the fastest monthly starts rate since October 2007. To our long-time regular readers who have grown accustomed to our below-consensus housing market forecasts, relax, we haven't suddenly gone over to the dark side (or, in this case, would that be the sunny side?). Instead, there are two specific factors behind our call. First, as was the case with the November data, we think the December starts data will be the beneficiary of a sizeable boost from seasonal adjustment. This is precisely what we see in the employment data for November and December – the monthly declines in not seasonally adjusted construction payrolls were smaller than normal in both months as unseasonably warm weather meant builders kept workers on the job for longer than normal. As such, when the seasonal adjustment factors were applied to higher than normal bases it led to artificially large gains in seasonally adjusted construction employment. The same effect is apparent in the data on November housing starts and we expect it to be in the December data. The second factor behind our call is the spike in multi-family permits in November. Permit data are far less prone to seasonal adjustment distortion than is the case with starts data, and seasonal adjustment isn't the issue here as unadjusted multi-family permits rose by over seven percent in November, in stark contrast to the sizeable decline normally seen in the month. It could be the case that unseasonably warm weather led builders to pull permits sooner than would have otherwise been the case but, either way, the jump in multi-family permits in November should mean an outsized increase in multi-family starts in December. Leaving aside any seasonal distortions in the November and December data, when all is said and done total housing starts will have posted a better than eleven percent increase for 2015 as a whole, with single family starts up a bit less and multi-family starts up a bit more. In 2016 we look for single family starts to be a bigger driver of the increase in total housing starts, but our forecast for just over 1.2 million total starts in 2016 is below consensus expectations, as has been the case for the past several years. We look for total housing permits to be down to an annual rate of 1.164 million units as single family permits post a modest gain while multi-family permits fall if not entirely back to then at least closer back to earth after soaring in November.
December Leading Economic Index Range: -0.5 to 0.2 percent Median: 0.1 percent	Friday, 1/22	Nov = +0.4%	Down by 0.2 percent.
December Existing Home Sales Range: 4.820 to 5.500 million units Median: 5.120 million units SAAR	Friday, 1/22	Nov = 4.760 mil	Up to an annual sales rate of 5.410 million units. December's data will capture closings delayed in November thanks to the new TRID rules (recall existing home sales are booked at closing, not contract signing) and our call would leave the sales rate in line with the trend in place prior to November's distorted total. To be sure, inventory constraints remain a drag on sales; inventories will have fallen in December but should be to up year-on-year. On a year-over-year basis we look for total sales to be up 6.7 percent and non-distress sales up 9.1 percent.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com