ECONOMIC PREVIEW

REGIONS

Week of January 23, 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%	We generally avoid deeming the U.S. dollar to be either "too strong" or "too weak," preferring instead to let the markets decide the proper valuation of the dollar. Over the past several weeks, expectations of faster U.S. economic growth, higher U.S. interest rates, and fairly contained inflation led to a notably stronger U.S. dollar. The markets of course don't always get it right, so it's comforting to know that a correctly valued U.S. dollar is apparently now only a tweet away should those who know better than the markets decide an adjustment is needed. Then again, these are the same people who tell us the yuan is vastly undervalued, which would probably come as news to the many market participants trading the opposite view and even bigger news to China, which is hemorrhaging foreign exchange reserves as it tries to defend the yuan. So, let's see, who exactly is the currency manipulator here?
December Existing Home Sales Tuesday, 1/24 Range: 5.450to 5.620 million units Median: 5.530 million units SAAR	Nov = 5.610 million units	<u>Down</u> to an annualized rate of 5.580 million units. We look for not seasonally adjusted sales of 446,000 units which would mean total sales of 5.458 million units in 2016, a 3.9 percent increase over 2015 sales. As existing home sales are booked at closing, there figures to be little impact of the post-election bounce in mortgage interest rates in the December data. As has been the case for some time now, however, lean inventories are acting as a drag on sales. December is a month in which listings typically fall sharply, and if that pattern held last month December will have been the 19th consecutive month in which listings were down year-on-year. Lean inventories are helping sustain robust price appreciation, but to the extent that mortgage rates rise further over coming months both sales and price appreciation could get dinged.
Dec. Advance Trade Balance: Goods Thursday, 1/26 Range: -\$67.6 to -\$61.8 billion Median: -\$64.0 billion	Nov = -\$66.6 billion	<u>Narrowing</u> to -\$64.7 billion.
December New Home Sales Thursday, 1/26 Range: 565,000 to 613,000 units Median: 589,000 units	Nov = 592,000 units	<u>Up</u> to an annualized rate of 613,000 units. Unlike existing home sales, new home sales are booked at contract signing, so there should be more evidence of the post-election bounce in mortgage rates in the December new home sales data. What we don't really have a sense for, however, is whether higher rates led would-be buyers to back away or whether higher rates motivated indecisive home shoppers to sign on the dotted line. We suspect it was more the latter than the former in December, but we'll also note there are no data on contract cancellations. So, to the extent higher rates led to some buyers backing out on sales contracts we won't know that and sales would be overstated to some degree. We look for not seasonally adjusted sales of 44,000 units in December, which would bring the 2016 total to 566,000 units, a 13 percent increase over 2015 sales. As with existing home sales, there are supply issues in the new homes market and, while we believe the demand side of the market is fundamentally sound, further increases in mortgage interest rates in the months ahead pose a downside risk to sales.
December Leading Economic Index Thursday, 1/26 Range: 0.2 to 0.6 percent Median: 0.5 percent	Nov = 0.0%	<u>Up</u> by 0.5 percent.
Q4 Real GDP – 1st estimate Friday, 1/27 Range: 1.6 to 2.5 percent Median: 2.1 percent SAAR	Q3 = +3.5% SAAR	<u>Up</u> at an annualized rate of 2.2 percent. The top-line growth number understates the degree of momentum the U.S. economy carried into 2017, but we look for real private domestic demand to have grown at better than 3.0 percent, annualized. Our forecast reflects another solid quarter for consumer spending and firmer residential and business investment spending, but a sharp increase in the trade deficit will act as a meaningful drag on the headline growth number. Our forecast would mean real GDP growth of 1.6 percent for 2016 as a whole.
Q4 GDP Price Index – 1st estimate Friday, 1/27 Range: 1.6 to 2.5 percent Median: 2.1 percent SAAR	Q3 = +1.4% SAAR	<u>Up</u> at an annualized rate of 2.2 percent.
December Durable Goods Orders Friday, 1/27 Range: 1.5 to 6.0 percent Median: 3.0 percent	Nov = -4.5%	<u>Up</u> by 5.7 percent, but this mostly reflects a surge in orders for civilian aircraft. To be sure, swings in unit orders don't always neatly map into the reported dollar volume of orders, but we nonetheless expect a pop in the headline number. Of more significance, however, is what happens with <u>ex-transportation orders</u>, which we expect to be <u>up</u> by 0.5 percent in yet another sign of a budding rebound in business capital spending.

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