ECONOMIC PREVIEW

REGIONS

Week of March 21, 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		0.375%	Last week saw stocks, bonds, oil, commodities, and even gold rally on the back of drastically improved global economic fundamentals. We're embarrassed to report, however, we managed to miss what had to have been clear and obvious signs of that improvement. Wait, what . . . you mean global economic fundamentals haven't improved, and asset prices are simply responding to yet another round of monetary policy magic? Well, okay, but all this monetary stimulus will lead to greatly improved economic fundamentals. It will, won't it?
February Existing Home Sales Range: 5.200 to 5.550 million units Median: 5.355 million units SAAR	Monday, 3/21	Jan = 5.470 mil	Down to an annualized sales rate of 5.260 million units. Existing home sales have been choppy over recent months, with new mortgage disclosure regulations and what look to be some seasonal adjustment issues leading to large swings from one month to the next. The underlying trend, however, shows sales gradually rising and we expect this trend to remain in place. January's decline in pending home sales suggests some downside risk to our call on February existing home sales – existing home sales are booked at closing while pending home sales reflect contract signings and thus lead closings by one to two months. January's steep drops in pending home sales in the Midwest and West regions reflect harsh weather conditions rather than suddenly deteriorating market fundamentals. Still, the main drag on existing home sales over the past several months has been abnormally low inventories. February is typically when listings start to rise ahead of the spring selling season, so the inventory detail in this week's report will be of particular interest. Lean inventories have helped fuel accelerating house price appreciation, better seen in the various repeat sales price indexes than the NAR's median price series. Either way, though, rather than faster price appreciation drawing out more inventory, it could be prospective sellers are opting to wait for prices to push even higher. At the same time, continued low mortgage interest rates, steady growth in real disposable personal income, and rents rising to, let's say, curious levels in many markets are supporting growing demand for home purchases. Sooner or later something will have to give, and our expectation is that inventories will become more and more supportive but, given our outlook for demand, this won't necessarily take all of the steam out of price appreciation. Based on our expectations for total sales and the mix between distress and non-distress sales, our call would leave total sales up 5.8 percent year-on-year with distress sales down 23.0 percent and non-distress sales up 9.4 percent.
February New Home Sales Range: 490,000 to 550,000 units Median: 510,000 units SAAR	Wednesday, 3/24	Jan = 494,000	Up to an annual sales rate of 544,000 units. January new home sales fell far short of expectations, ours included, as sales in the West tumbled due to unusually wet weather. We look for payback in the West – as was the case in the data on single family housing starts – and trend-like sales in the other regions to have pushed total new home sales much higher in February. Evening out these monthly swings leaves the underlying trend, always our main focus, at an annualized run rate just over half-a-million units, reflecting steady but gradual improvement. We expect this to remain the case, in part because as with existing home sales lean inventories remain a drag on new home sales and the process of building up new home inventories is much slower. One thing that will be interesting to watch in the new home sales data is the extent to which builders gravitate to the lower price points after having spent last year highly concentrated in the upper ends of the price spectrum. We took note of that but argued it could not go on indefinitely and the last two months have seen a shift in the sales mix by price range, so it will be interesting to see if this continued in February.
February Durable Goods Orders Range: -7.0 to 0.5 percent Median: -2.4 percent	Thursday, 3/24	Jan = +4.7%	Down by 3.4 percent, mainly due to what should be a large decline in orders for civilian aircraft (though, admittedly, Commerce's mapping of unit orders to dollar volumes is one of life's great mysteries). We look for ex-transportation orders to be up 0.2 percent.
Q4 2015 Real GDP – 3rd estimate Range: 0.9 to 1.3 percent Median: 1.0 percent SAAR	Friday, 3/25	Q4 2nd est = +1.0%	Up at an annualized rate of 1.0 percent, matching the headline print on the BEA's second estimate though many of the underlying details will be revised. Of more importance, this release will include the first glimpse of Q4 corporate profits – we look for a second consecutive over-the-year decline.
Q4 2015 GDP Price Index – 3rd estimate Range: 0.9 to 1.0 percent Median: 0.9 percent SAAR	Friday, 3/25	Q4 2nd est = +0.9%	Up at an annualized rate of 0.9 percent, also unchanged from the second estimate.

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