ECONOMIC PREVIEW

REGIONS

Week of September 19 2016

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on September 20-21):* Target Range Midpoint: 0.375 to 0.625 percent Median Target Range Midpoint: 0.375 percent		0.375%	The popular narrative is that the increased volatility seen in the financial markets over the past two weeks, including the increase in long-term interest rates, is due to fear that the FOMC will raise the Fed funds rate at this week's meeting. We'd argue this is not at all the case and point to the yield on 2-year U.S. Treasury notes, which basically has not budged, to support our contention. Our take is the Bank of Japan raising questions about its QE efforts and the ECB's decision not to expand its QE efforts were unsettling reminders of what a world without QE would look like. As if anyone currently alive on planet earth will live long enough to actually see that day . . . As far as the FOMC, while we don't expect a change in the funds rate target range this week, neither do we attach a zero probability to such an outcome. Honestly, though, we'll be more interested to see if the FOMC lowers their projections of the longer run (or, neutral) value of the Fed funds rate. A lower projected neutral funds rate would be a telling sign of how the FOMC views the economy's long-term growth prospects. As we've noted elsewhere, at least some FOMC members see those prospects as having diminished.
August Housing Permits Range: 1.100 to 1.200 million units Median: 1.164 million units SAAR	Tuesday, 9/20	Jul = 1.144 mil	<u>Down</u> to an annual rate of 1.138 million units. We expect a decline in multi-family permits, though admittedly multi-family permit issuance has proven more resilient than we had expected to be the case. As for the single family segment of the market, July saw an oddly large decline in not seasonally adjusted permits, the effect of which was mitigated by a very favorable seasonal adjustment factor, which also struck us as odd. We look for payback in the August data, having built in a large increase in seasonally adjusted single family permits. So, in short, our forecast could be too low on multi-family permits and too high on single family permits. On a not seasonally adjusted basis, we look for total permits to come in at 110,000 units, which would leave the 12-month moving sum at 1.170 million units.
August Housing Starts Range: 1.130 to 1.233 million units Median: 1.190 million units SAAR	Tuesday, 9/20	Jul = 1.211 mil	<u>Down</u> to an annual rate of 1.167 million units. We'll offer the same caveat here as we did in our comments about housing permits – we do not expect multi-family starts to come close to the annual rate of 441,000 units (pending revision) reported for July. This accounts for our expected decline in total starts, as we look for a modest increase in single family starts. On a not seasonally adjusted basis, we look for total starts of 105,000 units, which would leave the 12-month moving sum at 1.160 million units. This would be the highest such total since May 2008 and reflects ongoing modest gains in single family starts as multi-family starts slowly drift lower from what we believe will prove to be the cyclical peak in March 2016. Looking forward, we don't see much potential for the rate of growth in single family starts to pick up given various supply and regulatory constraints, but we do see considerable potential for the downturn in multi-family starts to accelerate. At just over 600,000 units as of July, the number of multi-family units under construction remains higher than at any point since the mid-1970s which, ultimately, should be reflected in a sharper slowdown in multi-family starts.
August Leading Economic Index Range: -0.1 to 0.2 percent Median: 0.0 percent	Thursday, 9/22	Jul = +0.4%	<u>Down</u> by 0.1 percent.
August Existing Home Sales Range: 5.330 to 5.550 million units Median: 5.450 million units SAAR	Thursday, 9/22	Jul = 5.390 mil	<u>Up</u> to an annual rate of 5.490 million units. As with all of the data on residential construction and sales, we pay far more attention to the not seasonally adjusted data than we do the seasonally adjusted annualized headline numbers. As such, we were quite puzzled by the not seasonally adjusted July data which not only showed a sharp decline in sales on a month-to-month basis but also the first year-on-year decline since November 2014. This of course raises the question of whether July was a one-off weak month or whether there are other factors, most notably lack of inventory, that are becoming bigger drags on sales. While we have for some time been pointing to notably low inventories, we expect to see a better August sales number as demand fundamentals remain solid. August is a month in which inventories tend to be little changed (the NAR inventory data are not seasonally adjusted), and we look for that to have been the case this August but still expect inventories to be down year-on-year for a 15th consecutive month. It is worth noting that, while still above levels consistent with a fully healthy housing market, distress inventories have been pared down considerably and distress sales are simply not making the same contribution to top-line sales as has been the case in recent years. On a not seasonally adjusted basis, we look for total sales of 538,000 units in August, which would leave the running 12-month total at 5.368 million units.

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