ECONOMIC PREVIEW

REGIONS

Week of February 20, 2017

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on March 14-15):* Target Range Midpoint: 0.625 to 0.625 percent Median Target Range Midpoint: 0.625 percent	0.625%	The data calendar is light in this holiday shortened week, which is a somewhat welcome break after last week's barrage of data that contained more than a few surprises. The January CPI came in much hotter than expected, residential construction and retail sales were surprisingly strong and, despite a weak headline print, the details of the report on January industrial production were more constructive, as output in the manufacturing and mining sectors increased but was negated by an unusually steep decline in utilities output that held total IP down. As we have noted in our write-ups of the data, January is one of the months in any given year for which it is the most difficult to properly seasonally adjust the data, and there is ample evidence of seasonal adjustment noise in the January reports on employment, residential construction, retail sales, and the CPI. That is not said as a means of dismissing those reports, but instead we think it important that headline numbers which to some extent are artificially boosted not draw attention away from what has been a clear improvement in the underlying trends. Indeed, upon the release of the report on Q4 GDP we noted the details of that report suggested the U.S. economy entered 2017 with much more momentum than implied by the soft headline print, and thus far the January data have done nothing to change our view. We believe the FOMC is satisfied with the evolution of the labor market and the broader economy as captured in the economic data over the past several weeks. In her testimony before Congress last week, we believe Chairwoman Yellen was successful in putting the possibility of a Fed funds rate hike on the table for the March FOMC meeting and, more significantly, in establishing that the FOMC will move at a faster pace than that implied by the latest "dot plot" should economic conditions, specifically an accelerating rate of inflation, warrant such a stance.
January Existing Home Sales Wednesday, 2/22 Range: 5.400 to 5.610 million units Median: 5.535 million units SAAR	Dec = 5.490 million units SAAR	Up to an annualized sales rate of 5.610 million units. The January release will incorporate the annual benchmark revisions to the recent historical data, and while large-scale revisions are not the norm here this nonetheless injects a degree of uncertainty into our forecast. In any event, January is typically the weakest month for existing home sales in any given year – existing home sales are booked at closing, which is typically one-to-two months after the sales contract is signed, and there just aren't as many sales contracts signed during the holiday season. Still, we're expecting sales to be a bit stronger than is typical for a January, which combined with a friendly seasonal adjustment factor should give us a fairly strong headline sales number. On a not seasonally adjusted basis, we look for 324,000 sales, which would be a 7.3 increase on a year-over-year basis. This would put the 12-month moving sum of existing home sales at 5.474 million units, which would be the highest such total since August 2007. While the post-election bump in mortgage interest rates may have trimmed demand, we still see lack of inventory as the main drag on existing home sales. January is a month in which there is normally a modest increase in listings, but even if that was the case this January, inventories will still be down year-on-year for a 20th consecutive month.
January New Home Sales Friday, 2/24 Range: 523,000 to 600,000 units Median: 570,000 units SAAR	Dec = 536,000 units SAAR	Up to an annualized sales rate of 593,000 units. As they are booked at the signing of the sales contract, new home sales are more of a "real time" indicator than are existing home sales. In contrast to existing home sales, January is typically a month in which new home sales increase on a not seasonally adjusted basis, and we expect unadjusted sales to post a solid increase, with 44,000 sales. This would leave the running 12-month total of unadjusted sales at 567,000 units, which would be the best such total since July 2008. While the post-election increase in mortgage interest rates does pose a downside risk, mortgage rates were a few basis points lower in January than in December, and purchase mortgage apps were up modestly in January, so sales may have held up better than many are anticipating. One trait shared in the existing and new homes markets is lean inventories, but a key difference here is that lack of physical inventory is not as binding a constraint in the new homes market, as sales can occur before construction has started. Such sales have accounted for an atypically high share of new home sales over the past several months. Another trend in the new home sales data is that sales have been highly concentrated in the higher price points over the past two years and, at least thus far, that trend shows no signs of reversing. These are a couple of the beneath the headline numbers we'll be watching for in the January new home sales report.

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