ECONOMIC PREVIEW

REGIONS

Week of March 20, 2017

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on May 2-3):* Target Range Midpoint: 0.875 to 0.875 percent Median Target Range Midpoint: 0.875 percent	0.875%	As expected, the FOMC raised the Fed funds rate target range mid-point by 25 basis points at last week's meeting. Some market participants, however, were surprised that the updated "dot plot" did not imply a steeper trajectory of rate hikes than was implied by the December 2016 dot plot. Even so, the markets and the FOMC seem more aligned in their expectations for the path of monetary policy than they have been for quite some time. How long that will last is anyone's guess.
Q4 2016 Current Account Balance Tuesday, 3/21 Range: -\$131.4 to -\$120.0 billion Median: -\$128.2 billion	Q3 = -\$113.0 billion	Widening to -\$129.2 billion, which would put the current account deficit at 2.7 percent of GDP. A one-off spike in exports led to a sharp decline in the U.S. trade deficit in Q3, which was reflected in a narrower current account deficit. With the trade deficit having widened significantly in Q4, so too did the current account deficit. Our forecast incorporates a higher balance on primary income and a wider deficit in net unilateral transfers, but we have a high degree of uncertainty on the path of transfers, raising the risks to our forecast of the total current account deficit.
February Existing Home Sales Wednesday, 3/22 Range: 5.420 to 5.750 million units Median: 5.585 million units SAAR	Jan = 5.690 million SAAR	Down to an annualized sales rate of 5.470 million units. January's headline sales number was significantly inflated by an overly friendly seasonal adjustment factor. This of course deflected attention from the much more sedate underlying trend rate of sales, reflecting notably lean inventories. Still, the January report did spawn one of our all-time favorite headlines – "sales rise to decade high as supply falls." In any event, we look for February sales to better reflect that underlying trend. Recall that existing home sales are booked at closing, which typically lags the signing of the sales contract by one-to-two months. Contract signings, as gauged by the NAR's *Pending Home Sales Index*, fell sharply in the Midwest and West regions in January, while the Northeast and South regions saw modest increases. On balance, this points to a weak February sales number but, more significantly, lean inventories remain a material drag on existing home sales. Listings typically rise modestly in the month of February ahead of the spring selling season, but any such increase this February will likely have been smaller than normal and would still leave inventory down year-on-year for a 21st consecutive month. While lean inventories have supported a faster pace of house price appreciation, that hasn't yet triggered more listings by prospective move-up buyers. As mortgage interest rates rise further, we think that will lead to even fewer move-up trades as fewer current owners will be willing to trade up if it means taking on a higher mortgage rate. We do see some upside potential for existing home sales, but at the same leisurely pace that has prevailed for some time. This slow pace can be masked by swings in the seasonally adjusted annualized headline sales numbers, but is readily apparent in the not seasonally adjusted data, where our focus lies. We look for unadjusted sales of 321,000 units in February. This would leave the 12-month moving sum of sales at 5.477 million units, which would be the highest such total since August 2007. And, who knows, if our forecast for the headline sales number is on or close to the mark, maybe we'll see a "sales fall due to limited supply" headline.
February New Home Sales Thursday, 3/23 Range: 550,000 to 599,000 units Median: 565,000 units SAAR	Jan = 555,000 SAAR	Down slightly to an annualized sales rate of 554,000 units. Admittedly, it feels somewhat odd forecasting such a trivial change in the headline number of what is a notably volatile data series. Nonetheless, our call reflects a modest increase in raw, i.e., not seasonally adjusted, sales and a roughly neutral seasonal adjustment factor, as is typically the case for the month of February. We look for not seasonally adjusted sales of 45,000 units, which would leave the 12-month moving sum of sales at 562,000 units, a figure which has not budged over the past several months. As with existing homes, lean inventories have been a drag on new home sales. One difference, however, is that new home sales can take place prior to construction being started, and such sales have accounted for an elevated share of new home sales for some time now. This backlog will provide some support to single family housing starts over coming months as we assess how higher mortgage interest rates will impact new home sales. The increases seen to date don't appear to have had a material impact, but coming months will give us a much better indication.
February Durable Goods Orders Friday, 3/24 Range: 0.0 to 3.0 percent Median: 1.3 percent	Jan = +0.6%	Up by 1.4 percent, with ex-transportation orders up by 0.8 percent. Given the outsized impact of transportation orders, the focus here is always on the details, not the headline number. The rebound in orders for core capital goods, a barometer of business investment spending, sputtered in January, but we look for core capital goods orders to have risen by 0.8 percent in February.

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