ECONOMIC PREVIEW

REGIONS

Week of October 16, 2017

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the October 31-November 1 FOMC meeting):* Target Range Midpoint: 1.125 to 1.125 percent Median Target Range Midpoint: 1.125 percent	1.125%	Rather than inspiring confidence that inflation will firm up as they expect, the September CPI data will more likely instill doubt in the FOMC, at least amongst those members already wavering in their inflation outlook. That does not preclude a Fed funds rate hike at the December FOMC meeting – we still have a hike in our baseline forecast. Rather than forgoing a December rate hike should inflation stubbornly refuse to cooperate with them, perhaps a more likely result is that the FOMC softens the trajectory of rate hikes in 2018 in the December iteration of their "dot plot."
September Industrial Production Tuesday, 10/17 Range: -0.4 to 0.5 percent Median: 0.3 percent	Aug = -0.9%	Up by 0.4 percent. We expect a modest increase in manufacturing output and look for the mining and utilities sectors to make up part of the significant decline in output each saw in August, which largely reflected the impact of Hurricane Harvey. Hurricane Irma will have weighed on utilities output in parts of the South, which will limit the extent of the rebound seen in the aggregate data for September.
September Capacity Utilization Rate Tuesday, 10/17 Range: 75.0 to 76.8 percent Median: 76.2 percent	Aug = 76.1%	Up to 76.3 percent.
September Housing Permits Wednesday, 10/18 Range: 1.130 to 1.356 million units Median: 1.235 million units SAAR	Aug = 1.272 million units, SAAR	Up to an annualized rate of 1.356 million units. To put our forecast in context, we'll note the following points. First, prior to the hurricanes, the trends in the not seasonally adjusted data showed a steady, but slow, increase in single family permits and multi-family permits edging lower. Second, the post-hurricane rebuilding process begins with permit issuance, which we expect to magnify the increase in single family permits without arresting the gradual slide in multi-family permits. Third, that our forecast anticipates an increase in not seasonally adjusted single family permits is notable as this would be the first such increase in the month of September since 1997, which means the seasonal adjustment factors are geared for a decline, not an increase. Fourth, to the extent we are correct on points two and three, the reported increase in single family permits in the seasonally adjusted annualized data will be significantly exaggerated, hence our well above-consensus forecast for the headline number. On a not seasonally adjusted basis, we look for 119,200 total permits in September.
September Housing Starts Wednesday, 10/18 Range: 1.077 to 1.500 million units Median: 1.183 million units SAAR	Aug = 1.170 million units, SAAR	Down to an annualized rate of 1.146 million units. We do expect higher permit volumes, but conditions were not conducive to starting construction in many of the areas impacted by Harvey and Irma, while the September seasonal adjustment factors for starts are far less friendly than those for permits. As such, our forecast anticipates the seasonally adjusted annualized headline starts number will be well below trend. On a not seasonally adjusted basis, we look for total starts of 102,100 units. While there is of course a high degree of uncertainty surrounding the timing of the rebuilding efforts from Hurricanes Harvey and Irma, keep in mind that even prior to the hurricanes builders were contending with shortages of labor and materials that have acted as a significant drag on the pace of residential construction. Added demand from the rebuilding efforts will only intensify market imbalances, which is why we expect the rebuilding process to move much more slowly than is typically the case.
September Leading Economic Index Thursday, 10/19 Range: -0.2 to 0.4 percent Median: 0.1 percent	Aug = +0.4%	Up by 0.1 percent.
September Existing Home Sales Friday, 10/20 Range: 5.100 to 5.450 million units Median: 5.300 million units SAAR	Aug = 5.350 million units, SAAR	Down to an annualized sales rate of 5.280 million units. In any given year, September kicks off a seasonally slow period for sales, and the normal September slowdown will this year be magnified by the hurricanes and by extraordinarily lean inventories. On a not seasonally adjusted basis, we look for total sales of 462,000 units, with our forecast anticipating a sharp decline in sales in the South region reflecting the effects of the hurricanes. But, it is important to note that existing home sales had been losing momentum even prior to the storms as lean inventories have acted as a progressively more severe drag on sales. Aside from the normal seasonal decline in sales, there was one fewer sales day this September compared to last year, so we do expect some help from seasonal adjustment – if we are wrong on this point the headline (i.e., seasonally adjusted and annualized) sales number will be lower than we anticipate. We look for inventories to have fallen further in September, in line with seasonal patterns, which will leave them down year-on-year for a 28th consecutive month. It is likely that the typical seasonal decline in inventories in September will be compounded by the impacts of the hurricanes, but as sales will have also been adversely impacted, the inventory-to-sales ratio should not change significantly even as listings shrink.

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