ECONOMIC PREVIEW

REGIONS

Week of December 25, 2017

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 30-31 FOMC meeting):* Target Range Midpoint: 1.375 to 1.375 percent Median Target Range Midpoint: 1.375 percent	Range: 1.25% to 1.50% Midpoint: 1.375%	A holiday shortened week brings a light slate of data, but last week's full slate tips a number of key story lines to follow in 2018. Total personal income growth in November (0.3 percent) fell a bit shy of expectations (0.4 percent), which mainly reflected a surprise drop in transfer payments. Wage and salary earnings, however, posted a solid gain in keeping with ongoing improvement in labor market conditions. At the same time, the 0.6 percent increase in total personal spending was one-tenth higher than expected. While higher gasoline prices helped inflate the headline nominal spending number, real spending was up 0.4 percent and Q4 growth in real consumer spending on goods in on course to be the fastest since Q2 2016. At 2.9 percent, however, the personal saving rate remains notably low, and one story line to follow in 2018 is the extent to which consumers feel compelled to rebuild savings. As we expected would be the case, the headline numbers on the November reports on residential construction and home sales were biased higher by seasonal adjustment noise and as such look much better than is actually the case. For instance, at 733,000 units, seasonally adjusted annualized new home sales in November were the highest since July 2007. This was ahead of our forecast of 693,000 units and even further ahead of the consensus forecast of 655,000 units. But, not seasonally adjusted sales came in at 49,000 units in November, matching our forecast. That our forecast for not seasonally adjusted sales was spot on but our forecast for headline sales was well short of the mark simply reflects the seasonal adjustment factor being far more generous than we had anticipated (which also makes the initial November estimate a prime candidate for the type of downward revision seen in the data for October, with the initial estimate of 685,000 sales being knocked down to 624,000). This is seen in the other housing market data for the month of November. These headline numbers deflect attention from what remains the main underlying theme of the housing market – the demand side of the market remains quite healthy, but the supply side of the market, at least the market for single family homes, remains characterized by notably lean inventories. The extent to which these inventory constraints ease will be another of the main story lines to watch over the course of 2018. Finally, Q3 real GDP growth was marked slightly lower, to an annualized rate of 3.2 percent from the prior estimate of 3.3 percent. This reflects a host of modest markdowns in most expenditure categories. One notable exception, however, was business investment in equipment and machinery, now reported to have risen at an annualized rate of 10.8 percent in Q3. As we've often noted, solid growth in business investment has been the most encouraging element of the economic data over the past several months. As we discussed in our December *Monthly Economic Outlook*, we expect this strength to carry over into 2018, particularly with the provision in the new tax bill allowing for immediate expensing of capital outlays. While the smaller than expected 1.2 percent increase in durable goods orders in November does not escape attention, this could simply be a pause after several months of solid gains, or it could reflect firms holding off as the prospects for tax legislation making it out of Congress improved. This is another of the main story lines to follow in 2018.
December Consumer Confidence Wednesday, 12/27 Range: 125.0 to 131.0 Median: 128.0	Nov = 129.5	Down to 128.4; while we look for the component for current conditions to post another modest increase, we look for the expectations component to give back some of the sizeable gains seen over recent months. Even so, our forecast would leave the overall index at its second highest level since December 2000, behind only November's 129.5 print.
Nov. Advance Trade Balance: Goods Thursday, 12/28 Range: -$72.0 to -$66.0 billion Median: -$67.5 billion	Oct = -$68.1 billion	Widening to -$69.2 billion.

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