ECONOMIC PREVIEW

REGIONS

Week of January 15, 2018

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%	At first glance, the December retail sales report may seem disappointing, with both headline and control retail sales (the latter a direct input into the GDP data) coming in below expectations. But, the December data must be assessed in the context of upward revisions to the initial estimate of November sales. For instance, the 0.8 percent increase in control retail sales initially reported for November is now shown to be an increase of 1.4 percent, thanks mainly to a comically large upward revision to the estimate for sales at nonstore retailers. And, sure, the initial estimate for December will be revised (most likely higher), but as the data now read the Q4 GDP data (set for release on January 26) will likely show inflation adjusted consumer spending grew at an annualized rate of around 4.0 percent. As such, Q4 2017 could prove to be the third consecutive quarter with top-line real GDP growth at or above 3.0 percent. With ongoing improvement in labor market conditions, rising household net worth, elevated consumer confidence, and the recently enacted tax bill set to give at least some lift to disposable personal income, the momentum seen in consumer spending over the final months of 2017 should easily carry into 2018. It is, however, worth noting that the personal saving rate is unusually low, so it could be that consumers will opt to add to saving, rather to spending, over coming quarters. Whether, or to what extent, they opt for more saving rather than more spending will of course have a material impact on 2018 real GDP growth, which we at present expect to come in at 2.8 percent. At the same time, the details of the December CPI report raise questions as to the path of core inflation in 2018. The core CPI rose by 0.3 percent in December, besting expectations for a 0.2 percent increase. Three components we have pegged as critical in determining the path of core inflation in 2018 – rents, medical care costs, and core goods prices – all showed signs of life in December. But, the outlook for each of these components remains uncertain, particularly core goods, which were bolstered in December by sizeable increases in new and used motor vehicle prices that are unlikely to be sustained over coming months. While higher energy prices will push headline inflation higher in 2018, it is the evolution of core inflation that will be front and center for the FOMC as they deliberate the course of monetary policy. Our baseline forecast anticipates three 25-basis point hikes in the Fed funds rate in 2018, the question is whether faster than anticipated inflation would prompt the FOMC to move at a faster pace than we – and market participants – now anticipate. This is a potential source of considerable volatility in the financial markets in 2018.
December Industrial Production Range: -0.1 to 0.9 percent Median: 0.4 percent	Wednesday, 1/17	Nov = +0.2%	Up by 0.6 percent with increases in each of the three broad sectors – manufacturing, mining, and utilities. Our forecast would leave total industrial production up 3.1 percent year-on-year, with manufacturing output up 2.6 percent.
December Capacity Utilization Rate Range: 76.9 to 77.8 percent Median: 77.3 percent	Wednesday, 1/17	Nov = 77.1%	Up to 77.5 percent, which would be the highest utilization rate since March 2015.
December Housing Permits Range: 1.265 to 1.350 million units Median: 1.290 million units SAAR	Thursday, 1/18	Nov = 1.303 million units SAAR	Down to an annualized rate of 1.284 million units. On a not seasonally adjusted basis, we look for 96,300 total permits, which would put total permit issuance for 2017 as a whole at 1.257 million units, with 824,600 single family permits and 432,700 multi-family permits. This would yield a 4.2 percent increase in total permits, with single family permits up by 9.8 percent and multi-family permits down by 5.1 percent. We look for the divergence between the single family and multi-family segments of the market to widen in 2018, with a double-digit increase in single family permits and a larger decline in multi-family permits than that seen in 2017.
December Housing Starts Range: 1.225 to 1.328 million units Median: 1.275 million units SAAR	Thursday, 1/18	Nov = 1.297 million units SAAR	Up to an annualized rate of 1.328 million units, with generous seasonal adjustment factors making the headline number look far more impressive than is actually the case. To that point, we look for the seasonally adjusted data to show total starts of 92,800 units, down from 98,400 starts in November. Our forecast for not seasonally adjusted starts would put total starts at 1.214 million units for 2017 as a whole, with 855,700 single family starts and 358,500 multi-family starts. This would give us a 3.5 percent increase in total starts, with single family starts up by 9.5 percent and multi-family starts down by 8.6 percent. As with permits, we look for a double-digit increase in single family starts in 2018 and another decline in multi-family starts. But, keep in mind that with the backlog of multi-family units under construction larger than at any time since the mid-1970s, multi-family completions should post a sizeable increase in 2018 even as multi-family permits and starts slide further.

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