ECONOMIC PREVIEW

REGIONS

Week of January 22, 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%	As we to sift through some of the final reads on the 2017 data (okay, sure, in the fun and fast paced world of economic data there is no such thing as "final"), this week's slate of releases also sets up what we think will be some key storylines to follow in 2018 in the data on housing (will inventory constraints ease?), capital spending (will the strength seen in 2017 be sustained?), and inflation (is it back from sabbatical?).
December Existing Home Sales Wednesday, 1/24 Range: 5.550 to 5.900 million units Median: 5.700 million units SAAR	Nov = 5.810 million units SAAR	Down to an annualized sales rate of 5.790 million units. November's heady sales rate had little to do with the reality of the housing market, as an overly friendly seasonal adjustment factor made a somewhat common raw sales number look like royalty. We believe the reality of the housing market in December was at least to some extent altered by the tax bill, as closings on sales of higher priced homes may have been pushed up to beat the diminished mortgage interest deduction. As such, our forecast for 458,000 not seasonally adjusted sales reflects a larger than normal increase for the month of December. This would put total existing home sales at 5.544 million units for 2017 as a whole which, while making 2017 the best year for existing home sales since 2006, would reflect only a 1.7 percent increase from 2016 sales. This gets us to what we've pegged as the main storyline to follow in the housing market in 2018, i.e., whether we will see meaningful increases of homes, new and existing, for sale. Our forecast anticipates December's existing home inventory level will be the lowest on record for any month in the life of the data, marking the 31st consecutive month in which listings are down year-on-year. We do not, however, anticipate any meaningful degree of relief on the supply side in 2018. This will help sustain rapid price appreciation which, along with what figure to be higher mortgage interest rates, will continue to price many prospective first-time buyers out of the market.
Dec. Advance Trade Balance: Goods Thursday, 1/25 Range: -$71.7 to -$66.8 billion Median: -$68.8 billion	Nov = -$70.0 billion	Narrowing to -$68.8 billion, but trade will nonetheless have been a drag on Q4 real GDP growth.
December New Home Sales Thursday, 1/25 Range: 635,000 to 750,000 units Median: 680,000 units SAAR	Nov = 733,000 units SAAR	Down to an annualized sales rate of 706,000 units. We look for not seasonally adjusted sales of 50,000 units, which would put total sales at 619,000 units for 2017 as a whole, up 10.3 percent from 2016 and the highest annual total since 2007. Still, a third consecutive double-digit increase in sales is more a reflection of the low base than anything else, and our contention is that the market for new homes remains undersupplied. Despite our expectation of another solid year for single family housing starts, we think new home inventories will remain well below historical norms in 2018. As we routinely note, however, this is worse for buyers than it is for builders, as builders continue to focus on the upper price ranges. That said, rising costs for labor and materials could act as a drag on builders' margins in 2018.
December Leading Economic Index Thursday, 1/25 Range: 0.1 to 0.7 percent Median: 0.5 percent	Nov = +0.4%	Up by 0.6 percent.
Q4 2017 Real GDP – 1st estimate Friday, 1/26 Range: 2.4 to 3.4 percent Median: 3.0 percent SAAR	Q3 = +3.2% SAAR	Up at an annualized rate of 3.0 percent, which would mark a third consecutive quarter of growth at or above 3.0 percent. Consumer spending, residential and business fixed investment, and government spending will have been supportive of top-line growth in Q4, more than offsetting drags from inventories and trade.
Q4 2017 GDP Price Index – 1st estimate Friday, 1/26 Range: 2.0 to 3.2 percent Median: 2.3 percent SAAR	Q3 = +2.1% SAAR	Up at an annualized rate of 2.6 percent, which would be the fastest quarterly growth since Q2 2011. This mainly reflects higher energy prices, but core inflation did pick up in Q4. While higher energy prices are likely to prop up headline inflation in the months ahead, a key question for 2018 will be the extent to which the acceleration in core inflation seen in late-2017 becomes more pronounced in 2018. Market based measures of inflation expectations have increased of late, but inflation only becomes a big story if it accelerates to the point that the FOMC has to move at a more rapid pace than either they or market participants now anticipate will be the case.
December Durable Goods Orders Friday, 1/26 Range: -1.0 to 3.0 percent Median: 0.9 percent	Nov = +1.3%	Up by 1.4 percent. While there was a spike in unit orders for civilian aircraft, the increase was roughly in line with typical seasonal patterns, so our forecast anticipates only a modest boost to headline orders from this source. The main question ahead of the December report is whether the modest declines in ex-transportation orders and core capital goods orders in the November data will be reversed. We expect this to be the case, and our forecast anticipates ex-transportation orders will be up by 0.7 percent and core capital goods orders will be up by 0.8 percent.

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