ECONOMIC PREVIEW

REGIONS

Week of April 23, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the May 1-2 FOMC meeting):* Target Range Midpoint: 1.625 to 1.625 percent Median Target Range Midpoint: 1.625 percent	Range: 1.50% to 1.75% Midpoint: 1.625%	Be afraid of the yield curve. But not just yet. Much has been made of the flattening yield curve, with the narrowest spread between yields on 10-year and 2-year U.S. Treasury since late-2007, as an inverted yield curve has historically been a harbinger of recession (albeit with long and variable lead times). Some argue that since the Fed is a main contributor to the flattening yield curve, it should either slow down or stop raising the Fed funds rate to ward off a downturn. That won't happen; if patterns in growth and inflation warrant a higher Fed funds rate, they should also warrant a higher yield on 10-year notes, as seen late last week when signs of firmer inflation pushed 10-year yields higher. Granted, what hasn't been clear over recent years is the extent to which extraordinary monetary accommodation has distorted the signal being sent by the yield curve. That said, we do not think this diminishes the value of the yield curve as a signaling mechanism, but we do think that the Fed is at this point not overly concerned by what the yield curve is telling them.
March Existing Home Sales Monday, 4/23 Range: 5.390 to 5.600 million units Median: 5.550 million units SAAR	Feb = 5.540 million units SAAR	Down to an annualized sales rate of 5.510 million units. On a not seasonally adjusted basis, we look for sales of 441,000 units, which would leave unadjusted sales down 3.1 percent year-on-year. While this in part reflects a lower sales day count this March compared to last March, if our call is correct it would mark the third year-on-year decline in the past four months while leaving the 12-month sum of unadjusted sales at 5.495 million units, right around where it has settled in recent months. To us, this is a reflection of the paucity of inventories that has for some time now been a meaningful drag on sales. While we look for inventories of existing homes for sale to have risen to 1.66 million units in March, this is simply in keeping with typical seasonal patterns that see listings rise ahead of the peak sales season. More tellingly, our forecast would leave inventories down 7.2 percent year-on-year, marking the 34th consecutive month of over-the-year declines. We've been on record with our expectation that 2018 would be the fourth consecutive year in which the seasonal peak of inventory would be lower than that of the prior year, and nothing we've seen thus far has caused us to change that call. One consequence of solid demand chasing lean inventories has been robust price appreciation, but with mortgage rates having begun to tick higher, at some point affordability could begin to erode, meaning that sales would then suffer from both supply side and demand side issues.
April Consumer Confidence Tuesday, 4/24 Range: 123.0 to 129.0 Median: 126.0	Mar = 127.7	Down to 125.8
March New Home Sales Tuesday, 4/24 Range: 600,000 to 650,000 units Median: 630,000 units SAAR	Feb = 618,000 units SAAR	Up to an annualized sales rate of 633,000 units. We look for not seasonally adjusted sales of 60,000 units, which would be a 17.7 percent increase over February sales. While this is right in line with the typical increase for the month of March in any given year, it could be that harsh winter weather and this year's early Easter were bigger drags on sales than our forecast anticipates. Of more significance is that our forecast would leave the running 12-month total of not seasonally adjusted sales at 615,000 units, basically unchanged over the past four months. That the trend rate of sales has flattened out is more a reflection of ongoing supply constraints, which we do not see abating to any material degree over coming months, than of weakness in demand, particularly as builders are seeing growing backlogs of unfilled orders. That said, rising materials prices and accelerating growth in labor costs will make it more challenging for builders to concentrate on the lower price points that would attract prospective first-time buyers who are being shut out of the existing homes market. In short, while we do see more upside for new home sales, further gains in sales will come at only a grudging pace
March Durable Goods Orders Thursday, 4/26 Range: -0.3 to 4.0 percent Median: 1.2 percent	Feb = +3.0%	Up by 1.6 percent. Nondefense aircraft orders jumped in March, which is common for March of any given year but this year's increase was larger than normal so seasonal adjustment won't fully account for it. As such, there should be some effect on the headline orders number, which is the primary driver of our forecast. As in any given month, of more significance in the March report is the detail beneath the headline orders number. We look for ex-transportation orders to be up by 0.6 percent, with core capital goods orders up by 0.4 percent on the heels of a 1.4 percent increase in February. One source of uncertainty around the March report is the extent to which February's strong print on core capital goods orders reflected firms reacting to tariff talk by pulling orders forward to beat higher costs. We don't think this was a large factor but nonetheless recognize it as a downside risk to our March forecast.

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

ECONOMIC PREVIEW

REGIONS

Week of April 23, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
March Advance Trade Balance: Goods Thursday, 4/26 Range: -$76.1 to -$69.0 billion Median: -$74.8 billion	Feb = -$75.9 billion	Narrowing to -$71.8 billion.
Q1 Employment Cost Index Friday, 4/27 Range: 0.5 to 0.8 percent Median: 0.7 percent	Q4 2017 = +0.6%	Up by 0.7 percent, with both wage costs and benefit costs up by 0.7 percent. On an over-the-year basis, our forecast would leave the total ECI up 2.5 percent, wage costs up 2.6 percent, and benefit costs up 2.6 percent. The ECI is our preferred gauge of labor compensation costs, in no small part because it is not skewed by changes in the mix of jobs over time and hence is a more pure measure of changes in compensation costs. While the ECI shows some acceleration in labor costs over the past several quarters, that has come in fits and starts as opposed to being a steady upward climb. This puts the ECI in line with other measures, none of which suggest a labor market on the boil despite an unemployment rate on the verge of pushing below 4.0 percent.
Q1 Real GDP – 1st estimate Friday, 4/27 Range: 1.3 to 2.8 percent Median: 2.0 percent SAAR	Q4 2017 = +2.9% SAAR	Up at an annualized rate of 2.1 percent, but that reflects an allowance for the impacts of residual seasonality, which has been a persistent, and often significant, drag on measured Q1 real GDP growth for much of the past two decades. Our actual forecast of what a noise-free Q1 report would look like has real GDP growth of 2.7 percent, but even if the Q1 print is on the soft side, any seasonal adjustment noise in the Q1 data will be made up for over subsequent quarters. As to what really matters here, growth in real consumer spending slowed sharply in Q1, to the surprise of only those who haven't been paying attention, and trade will be a significant drag on growth. On the flip side, a much larger inventory build than that seen in Q4 2017 should add at least one percentage point to Q1 top-line real GDP growth, with additional support from business investment and government spending (the latter being the component of the GDP data most prone to residual seasonality issues). The details we expect to see in the Q1 GDP data would set up a better growth profile for Q2. We'd simply caution against reading too much into the headline number on the Q1 GDP report. Sure, we say that about every data release, but this time we really mean it,
Q1 GDP Price Index – 1st estimate Friday, 4/27 Range: 1.9 to 2.5 percent Median: 2.2 percent SAAR	Q4 2017 = +2.3% SAAR	Up at an annualized rate of 2.2 percent.

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