ECONOMIC PREVIEW

REGIONS

Week of November 19, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 18-19 FOMC meeting):* Target Range Midpoint: 2.375 to 2.375 percent Median Target Range Midpoint: 2.375 percent	Range: 2.00% to 2.25% Midpoint: 2.125%	As with appearances, headlines can be deceiving. We think the headline number atop this week's report on existing home sales will be bolstered by a friendly seasonal adjustment factor, which illustrates the importance of looking at the not seasonally adjusted data. The headline number on this week's report on durable goods orders will look far worse than the details, thanks to a sharp decline in aircraft orders (which swing wildly from month to month), but in any given month the single most important line item in the report on durable goods orders is core capital goods orders.
October Housing Permits Tuesday, 11/20 Range: 1.203 to 1.300 million units Median: 1.260 million units SAAR	Sep = 1.270 million units, SAAR	Down to an annualized rate of 1.266 million units. While Hurricane Michael likely had an adverse effect on construction activity in the South region in October, those parts of the South in which Hurricane Florence held down activity in September should have begun to rebound in October. We think the latter effect will outweigh the former effect. Beneath the hurricane-related distortions in the South region, the underlying trends in residential construction should still be in place, i.e., a gradual advance in single family activity and a gradual retreat in multi-family activity. On a not seasonally adjusted basis, we look for 107,500 total housing permits. This would leave the running 12-month moving sum of not seasonally adjusted permits, which we see as the most reliable gauge of permit issuance, at 1.301 million units, with single family permits trending higher and multi-family permits trending lower.
October Housing Starts Tuesday, 11/20 Range: 1.200 to 1.280 million units Median: 1.228 million units SAAR	Sep = 1.201 million units, SAAR	<u>Up</u> to an annualized rate of 1.236 million units. The points made above regarding the effects of Hurricanes Florence and Michael on housing permits hold for housing starts. Likewise, the broader trends seen in the data on housing permits hold for housing starts, i.e., gradually increasing single family activity and gradually receding multi-family activity. We see little impetus for the pace of growth in single family activity to accelerate; that higher mortgage rates have curbed (but have not choked off) demand growth while builders continue to struggle with the "usual" constraints – shortages of labor and buildable lots and more rigid entitlement processes in many markets. On the other hand, we see plenty of reasons why the pace of retreat in multi-family activity should accelerate. To be more specific, we see about 606,000 reasons why this should be the case, with that being the number of multi-family units under construction. Some have taken the downward drift in multi-family permits as evidence that supply is being properly managed but have failed to account for this swollen supply pipeline, which is on the order of looking into a room and failing to see not only the elephant but also the 600 pound gorilla. In any event, on a not seasonally adjusted basis we look for 106,200 total housing starts in October, which would put the running 12-month total of unadjusted starts at 1.259 million units.
October Durable Goods Orders Wednesday, 11/21 Range: -4.5 to -1.5 percent Median: -2.7 percent	Sep = +0.7%	<u>Down</u> by 3.9 percent. Significant declines in transportation orders (motor vehicles and aircraft, defense and nondefense) will ground the headline orders number. Aside from transportation, however, we look for modest but broad based growth in orders.
Oct. Durable Goods Orders: Ex-Trnsp. Wed., 11/21 Range: -0.1 to 1.1 percent Median: 0.4 percent	Sep = 0.0%	We look for ex-transportation orders to be <u>up</u> by 0.5 percent, with <u>core capital goods</u> orders <u>up</u> by 0.4 percent. Core capital goods orders lost some momentum in Q3, and uncertainty over trade policy could be making firms hesitant to commit to cap ex. But, unlike some others, we're not quite ready to hop on the "capital spending is done" bandwagon just yet. While lower energy prices, if they persist, will sap capital spending in the energy sector, that will be more apparent in spending on structures, where energy accounts for a larger share of total outlays, than in the equipment & machinery category, which is more closely aligned with durable goods orders.
October Existing Home Sales Wednesday, 11/21 Range: 5.100 to 5.360 million units Median: 5.200 million units SAAR	Sep = 5.150 million units, SAAR	<u>Up</u> to an annualized sales rate of 5.310 million units. We think that a not insignificant number of closings scheduled in the South region in September were put off due to Hurricane Florence, and at least some of those likely took place in October. While Hurricane Michael will have delayed some scheduled October closings, the number should be much smaller than with Florence. More broadly, while higher mortgage interest rates have curbed growth in demand, we continue to hold that the bigger issues in the housing market remain on the supply side of the market. On a not seasonally adjusted basis, we look for 462,000 sales, up (but only modestly) from last October thanks mainly to there being one more selling day this year. Our forecast would leave the running 12-month sum of unadjusted sales at 5.427 million units.
October Leading Economic Index Wednesday, 11/21 Range: -0.2 to 0.3 percent Median: 0.0 percent	Sep = +0.5%	<u>Unchanged</u>.

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