ECONOMIC PREVIEW

REGIONS

Week of December 24, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 29-30 FOMC meeting):* Target Range Midpoint: 2.375 to 2.375 percent Median Target Range Midpoint: 2.375 percent	Range: 2.25% to 2.50% Midpoint: 2.375%	The financial markets reacted very badly in the wake of the December FOMC meeting. While some argue that the Committee disappointed the markets by not being sufficiently dovish, we do not agree with this. The updated dot plot signaled a less aggressive path of Fed funds rate hikes and a lower "neutral" rate relative to the prior set of projections, and in his post-meeting press conference Chairman Powell struck the right chords in stressing that the path of monetary policy will be data dependent. While perhaps not thrilled with this, the markets at least seemed okay with this. That was clearly not the case with Chairman Powell's replies to the two questions about the Fed's balance sheet, particularly his reply to a direct question as to the extent of additional tightening imposed by the paring down of the balance sheet. It was at these two instances that equity prices fell sharply, and in the second instance equity prices just kept going. Mr. Powell's characterization of balance sheet reduction as being on "auto pilot" and having no material effects on the economy is in stark contrast to the view of many market participants, who see the paring down of the balance sheet as a drain on liquidity that is being compounded by rapidly growing federal government budget deficits. In conjunction with a rising funds rate, this leads many market participants to see monetary policy as becoming significantly tighter than the FOMC seems to see it becoming, hence the reaction when Mr. Powell did not address these concerns. More than one FOMC member has likened the paring down of the Fed's balance sheet to "watching paint dry," which we think is a most curious thing to say. This is effectively saying that an expanding balance sheet promoted faster economic growth but a contracting balance sheet will have no impact on economic growth – it can't be both. It is very telling that the FOMC itself has yet to even begin to discuss balance sheet policy, i.e., where will the balance sheet settle and when it will get there. Look through the minutes of the last several FOMC meetings and you won't find any mention of such a discussion. If last week's reaction in the financial markets didn't get the FOMC's attention, nothing will.
November New Home Sales Thursday, 12/27 Range: 535,000 to 606,000 units Median: 569,000 units SAAR	Oct = 544,000 units, SAAR	Up to an annualized sales rate of 606,000 units. November is a seasonally weak month for residential construction and existing home sales, but overly friendly seasonal adjustment factors typically compensate for weakness in the not seasonally adjusted data, thus yielding respectable headline numbers. This is also the case with new home sales, which basically accounts for our above-consensus call on November new home sales. Then again, all that applying reason to our forecasts of new home sales has ever gotten is us a very poor track record of forecasting new home sales, one of the most inherently volatile data series there is. In any event, on a not seasonally adjusted basis, we look for 43,000 new home sales in November. This would put the running 12-month total of not seasonally adjusted sales, which to us is the most reliable gauge of the trend rate of sales, at 621,000 units, making November the third consecutive month in which the trend sales rate declined, which likely reflects higher mortgage interest rates. Still, the decline has been orderly, in stark contrast to most housing market headlines we've seen of late, and our forecast would leave unadjusted new home sales up 1.4 percent year-to-date through November. Aside from sales, the key things to watch will be the mix of sales by price and the share of sales accounted for by units on which construction had not yet started. The sales mix is gradually shifting back towards the lower price ranges as more builders target first-time buyers, while a marked slip in the share of sales accounted for by units yet to be started would be a sign of a meaningful drop-off in demand.
December Consumer Confidence Thursday, 12/27 Range: 130.0 to 135.8 Median: 133.0	Nov = 135.7	Down to 133.3 – while sharp declines in equity prices and a steady stream of dour headlines have almost surely taken a toll on confidence, our view is that labor market conditions are far and away the key driver of confidence for most consumers. The Conference Board's measure of consumers' perceptions of labor market conditions is more favorable than has been the case since January 2001, which we think will put a floor under the headline consumer confidence index.
Nov. Advance Trade Balance: Goods Friday, 12/28 Range: -$78.3 to -$73.1 billion Median: -$75.5 billion	Oct = -$77.0 billion	Narrowing to -$76.1 billion. As we've often noted, the trade data over the past several months have been skewed by tariffs, those already imposed and those that may be imposed. We see the net effect of this as having resulted in a wider trade deficit than would otherwise be the case, as U.S. firms rushed imports to beat what may become more widespread and more punitive tariffs. When this pre-emptive ordering subsides, the trade deficit should narrow, and our sense is that the November trade deficit may not be as large as our forecast anticipates. That said, lower oil prices could sustain a wider trade gap, at least on a nominal basis, with the U.S. now such a large exporter.

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