ECONOMIC PREVIEW

REGIONS

Week of March 4, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 19-20 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%	It was like going to an opera but not hearing any singing. That's how we'd characterize Fed Chair Powell's two-day stint on Capitol Hill last week that stood out for what was missing, which was any actual questions about his actual day job. You know, the head of the Committee responsible for setting monetary policy. Sure, Mr. Powell got plenty of questions on plenty of topics, but none of these questions were about the path of the funds rate, the definition of a "neutral" policy stance, or any of those other pesky details you'd think people would want to query the head of the FOMC about. Sure, it isn't as though Mr. Powell would have revealed any earth-shattering market-moving insights into the FOMC's thinking but, really, would it have hurt to ask? Meanwhile, back on planet earth, the February employment report highlights a full slate of economic data releases. Though the employment data have been somewhat noisy of late, there is no cause to question the underlying health of the labor market. The January data on new residential construction bear watching, particularly the permit data, as this will test our premise that there is more life left in the housing market than implied by the dismal Q4 2018 data.
December Construction Spending Monday, 3/4 Range: -0.8 to 0.8 percent Median: 0.2 percent	Nov = +0.8%	<u>Down</u> by 0.5 percent. After having been surprisingly strong in November, particularly outlays on improvements, residential construction will likely have been a significant drag on total construction outlays in December.
December New Home Sales Tuesday, 3/5 Range: 552,000 to 650,000 units Median: 585,000 units SAAR	Nov = 657,000 units SAAR	<u>Down</u> to an annualized sales rate of 572,000 units, marking a lousy end to a lousy month of housing market data (see December housing starts and existing home sales). Just how lousy we think new home sales were in December can best be seen in our forecast for not seasonally adjusted sales – we look for unadjusted sales of 42,000 units, which would be the lowest monthly total since December 2016. This would put full-year 2018 sales at 626,000 units, a rather uninspiring 2.1 percent increase over 2017 sales. But, we'll reiterate a point we've been making for the past few months, which is that there is more life left to the housing market than implied by the Q4 2018 data, and we think that is the case across the board, from permits to starts to sales of new and existing homes. We think the key to new home sales in 2019 will be the extent to which builders stress smaller, more affordable homes. The mix of sales across price points began to shift in late-2018, and we expect to see this continue in 2019. If not, new home sales will underperform our modest expectations.
Feb. ISM Non-Manufacturing Index Tuesday, 3/5 Range: 56.0 to 58.7 percent Median: 57.2 percent	Jan = 56.7%	<u>Up</u> to 57.2 percent.
December Trade Balance Wednesday, 3/6 Range: -\$58.1 to -\$51.3 billion Median: -\$57.8 billion	Nov = -\$49.3 billion	<u>Widening</u> to -\$57.8 billion. A surprisingly steep drop in imports led to a smaller deficit in the goods account in November. The preliminary December data on trade in goods show a rebound in imports and a sizeable decline in U.S. exports, which will blow out the deficit in the goods account. This will push the overall trade deficit higher despite what should be a slightly larger surplus in the services account.
Q4 Nonfarm Labor Productivity Thursday, 3/7 Range: 1.0 to 2.4 percent Median: 1.7 percent SAAR	Q3 = +2.3% SAAR	<u>Up</u> at an annualized rate of 1.4 percent. Real output in the nonfarm business sector grew at an annualized rate of 3.1 percent in Q4, while our forecast anticipates growth of around 1.7 percent (annualized) in aggregate hours worked. This would yield annualized Q4 productivity growth of 1.4 percent, More importantly, this would push the 8-quarter moving average rate of productivity growth, which we use as a proxy for trend productivity growth, up to 1.4 percent, marking further acceleration but nonetheless leaving the current trend rate well below historical norms.
Q4 Unit Labor Costs Thursday, 3/7 Range: 1.4 to 2.2 percent Median: 1.8 percent SAAR	Q3 = +0.9% SAAR	<u>Up</u> at an annualized rate of 1.7 percent. Our forecast would leave the 8-quarter moving average rate of growth in unit labor costs at 1.5 percent, a milder pace of growth than implied by other measures of labor compensation costs.
January Housing Permits Friday, 3/8 Range: 1.248 to 1.358 million units Median: 1.280 million units SAAR	Dec = 1.326 million units SAAR	<u>Up</u> to an annualized rate of 1.358 million units. In any given year, the January seasonal adjustment factors tend to be on the generous side, which tends to make the headline (seasonally adjusted and annualized) permit number look better than is actually the case, and we think that general rule will apply here. On a not seasonally adjusted basis, we look for 97,200 total permits, with single family permits rebounding from what in December was the lowest monthly total since January 2016. We do think that lower mortgage rates will support further growth in single family permits over coming months as multi-family permits gradually drift lower.

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January Housing Starts Range: 1.044 to 1.275 million units Median: 1.201 million units SAAR	Friday, 3/8	Dec = 1.078 million units SAAR	Up to an annualized rate of 1.222 million units. December was just an ugly month all the way around, with the lowest monthly totals for both single family and multi-family starts (not seasonally adjusted) since February 2015. While the bar was set very low, permits easily outperformed starts in December, which helps account for why we look for starts to rebound in January. Given how late in the month the polar vortex arrived, we don't think it will have a material effect on the not seasonally adjusted data – if anything, atypically mild weather for much of the month may well have bolstered construction activity, and the January employment data support this premise. On a not seasonally adjusted basis, we look for 84,400 total housing starts in January. While we don't expect anything approaching robust growth, we do see upside room for single family construction over coming months.
February Nonfarm Employment Range: 155,000 to 222,000 jobs Median: 188,000 jobs	Friday, 3/8	Jan = +304,000	Up by 173,000 jobs, with private sector payrolls up by 164,000 jobs and public sector payrolls up by 9,000 jobs. As we noted upon the release of the January employment report, an oddly low response rate to the January establishment survey sets the initial estimate of January job growth up for a large revision, which we would expect to be to the downside. Moreover, seasonal adjustment noise biased measured January job growth in retail trade, construction, and leisure & hospitality services higher, which will push February job growth in these industry groups lower. To be clear, we are by no means questioning the strength of the labor market, our point is simply that you have to look through the noise in the monthly data to get a better sense of the underlying health of the labor market. In addition to the magnitude of job growth, we continue to monitor the breadth of job growth across private sector industry groups. A steadily narrowing base of hiring across private sector industry groups would be a clear warning sign of an expansion running out of juice, but thus far job growth remains notably broad based, particularly for this deep into an expansion. This is a reassuring sign that the current expansion has longer to run.
February Manufacturing Employment Range: 2,000 to 15,000 jobs Median: 10,000 jobs	Friday, 3/8	Jan = +13,000	Up by 11,000 jobs. One thing we're watching in the manufacturing sector is motor vehicle production. With the pace of unit sales slowing and inventories of unsold vehicles on the rise, motor vehicle production could easily become a drag on growth in manufacturing employment. For some time now scaled down production of smaller, more fuel efficient sedans has been offset by stepped up production of SUVs and light trucks, but with overall sales volumes moving lower, job counts amongst this industry group will likely come under pressure.
February Average Weekly Hours Range: 34.5 to 34.5 hours Median: 34.5 hours	Friday, 3/8	Jan = 34.5 hours	Unchanged at 34.5 hours.
February Average Hourly Earnings Range: 0.1 to 0.4 percent Median: 0.3 percent	Friday, 3/8	Jan = +0.1%	Up by 0.4 percent, for a year-on-year increase of 3.4 percent, which would be the fastest growth since January 2009, when wage growth was decelerating rapidly. Our calls on job growth, hours worked, and hourly earnings would yield a 0.5 percent increase in aggregate private sector wage and salary earnings, leaving them up 5.5 percent year-on-year.
February Unemployment Rate Range: 3.8 to 4.0 percent Median: 3.9 percent	Friday, 3/8	Jan = 4.0%	Down to 3.9 percent. The partial government shutdown helped account for the increase in the unemployment rate in January, but that should reverse in the February data. Still, it is a close call, as our forecast is basically a rounding error away from printing the jobless rate at 3.8 percent. Either way, we see further reductions in the jobless rate over coming months.

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