ECONOMIC PREVIEW

REGIONS

Week of December 30, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 28-29 FOMC meeting):* Target Range Mid-point: 1.625 to 1.625 percent Median Target Range Mid-point: 1.625 percent	Range: 1.50% to 1.75% Midpoint: 1.625%	In a holiday-shortened week, the main event will be the ISM Manufacturing Index which, as we discuss below, we expect will show signs that conditions in the factory sector are at least stabilizing, if not modestly improving. While a return to robust growth in the factory sector isn't in the cards, other indicators suggest that things are at least no longer getting worse, and we'll be most interested in the message contained in the ISM's December data. Also on tap this week is the release of the minutes of the December 11 FOMC meeting (due Friday, January 3, at 2:00 EST). The minutes, however, will likely be as uneventful as the meeting itself, though there are a couple of details to watch for. First, in his post-meeting press conference, Chairman Powell set the bar for a Fed funds rate hike exceptionally high, stating that he "would want to see a significant move up in inflation that is also persistent" before he would want to raise the funds rate to address concerns over inflation. It will be interesting to see the extent to which other members share this view – keep in mind that in the December dot plot, four members indicated that a rate hike would be appropriate at some point in 2020. Second, the minutes may reveal further discussion around the FOMC's policy review, a wide-ranging review of its "monetary policy strategy, tools, and communications practices." The minutes of the October FOMC meeting revealed a comprehensive discussion of forward guidance, and we'll be interested to see if the December meeting included any discussion of changes to the Committee's inflation target, such as adopting an "average over time" approach to setting its inflation target, or even whether 2.0 percent is an appropriate target to aim at. Though there will have been no firm decisions made at the December FOMC meeting, it is nonetheless worth tracking the discussion around these issues.
Nov. Advance Trade Balance: Goods Monday, 12/30 Range: -\$70.8 to -\$65.0 billion Median: -\$68.8 billion	Oct = -\$66.5 billion	<u>Narrowing</u> slightly to -\$66.1 billion.
December Consumer Confidence Tuesday, 12/31 Range: 124.2 to 132.0 Median: 128.2	Nov = 125.5	<u>Up</u> to 130.4 with improvement in both the present conditions and expectations components. As always, however, we'll be much more interested in the questions on consumers' perceptions of labor market conditions. Though slightly off from the cycle high, consumers nonetheless continue to feel better about labor market conditions than at any time since 2000 which, along with still-solid growth in real personal income, lays the groundwork for continued growth in consumer spending. As we've noted before, this series has an impressive track record as a recession indicator, which is one reason we follow it as closely as we do.
December ISM Manufacturing Index Friday, 1/3 Range: 47.7 to 50.4 percent Median: 49.0 percent	Nov = 48.1%	<u>Up</u> to 49.4 percent. We were a bit wrong-footed by the ISM's November data – while we expected the headline index to remain below the 50.0 percent break between contraction and expansion, we nonetheless thought it would rise closer to that mark given other data showing conditions in the factory sector had begun to stabilize. Instead, the headline index fell in November, and while the decline was modest, the underlying details offered little in the way of evidence that conditions were stabilizing. So, in a sense, our December forecast is doubling down on our November forecast, which probably isn't any better of a strategy here than it is in a casino. Umm, what we meant to say was "than we hear it is in a casino." In any event, even if the ISM's headline index doesn't make it back to 50.0 percent, our forecast anticipates the details on new orders, employment, and production showing improvement, which would be in line with other indicators of factory sector activity. Perhaps the most telling detail to watch will be the number of industry groups reporting growth in activity in December. Recall that only 3 of the 18 industry groups reported growth in September, the fewest since April 2009, and that number was stuck at 5 in October and November. If that number doesn't go up in the December data, it would obviously call into question our premise of stabilization, if not slight improvement, in factory sector conditions. Also, while Boeing's decision to halt production of the 737 Max will cast a wide shadow over the factory sector, we don't expect there to be as much of an impact on the ISM's December data as will be the case in subsequent months.
November Construction Spending Friday, 1/3 Range: -0.4 to 1.0 percent Median: 0.3 percent	Oct = -0.8%	<u>Up</u> by 0.5 percent.

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