ECONOMIC PREVIEW

REGIONS

Week of January 27, 2020

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%	This week's FOMC meeting will come as close to being a non-event as an FOMC meeting can possibly come. Save for changing "October" to "December" in the opening paragraph, the post-meeting policy statement may not change at all from the December statement, and will reiterate that the current monetary policy stance "is appropriate" to help sustain the current expansion. In his post-meeting press conference, Chairman Powell will no doubt reiterate that monetary policy is "in a good place." One potential line of questioning pertains to financial stability; the minutes to the December FOMC meeting show that "a few participants" were concerned that a prolonged period of low interest rates may be encouraging "excessive risk-taking." While perhaps acknowledging increased risks, Chairman Powell is likely to stress that triggering the countercyclical capital buffer is not warranted at present.
December New Home Sales Monday, 1/27 Range: 700,000 to 764,000 units Median: 727,000 units SAAR	Nov = 719,000 units SAAR	Up to an annualized rate of 764,000 units. To be sure, our forecast may be on the ambitious side, as it would mark the highest monthly sales rate since July 2007. Recall, however, that single family housing starts were notably strong in December, reflecting atypically warm weather over much of the month. Some of that strength should carry over into new home sales which, when combined with what are typically very generous December seasonal adjustment factors, should yield a lofty headline sales number. The obvious caveat here is that the data on new home sales are notoriously flighty, and applying reason to one's forecast of sales in any given month doesn't always end well. In any event, on a not seasonally adjusted basis, we look for sales of 53,000 units which, to our point, would be stronger than normal for the month of December. Our forecast would put full-year 2019 new home sales at 688,000 units, up 11.5 percent from 2018 sales and the highest annual total since 2007. Even more noteworthy is the manner in which new home sales rebounded from a miserable start and strengthened over the course of 2019, helped along by lower mortgage interest rates. We see further upside room for new home sales in 2020, with one caveat. Spec inventories have been falling in recent months, and in November posted the largest over-the-year decline in seven years. Though not nearly to the extent as in the market for existing homes, lean inventories have been holding down new home sales, and in the absence of spec inventories turning higher, it is hard to see the momentum in new home sales being sustained. This is one of the details to watch in the December data.
December Durable Goods Orders Tuesday, 1/28 Range: -3.5 to 2.1 percent Median: 1.0 percent	Nov = -2.1%	Up by 1.6 percent. Durable goods orders came in much weaker than anticipated in November, as orders for defense capital goods plummeted. With federal government appropriations now in place, we look for a sizable bounce in defense capital goods orders in the December data that will more than offset a sharp decline in nondefense aircraft orders. As in any given month, the most important number to watch for is core capital goods orders, which were up big in October and rose a bit further in November. We've pegged business investment as the main wild card in our 2020 forecast, and sustained growth in core capital goods orders would put business investment on course to outperform our forecast, though admittedly that's a low bar to clear.
Dec. Durable Goods Orders: Ex-Transp. Tuesday, 1/28 Range: to percent Median: percent	Nov = -0.1%	We look for ex-transportation orders to be up by 0.4 percent, and for core capital goods orders to be up by 0.3 percent.
January Consumer Confidence Tuesday, 1/28 Range: 126.0 to 130.0 Median: 128.0	Dec = 126.5	Up to 128.6
Dec. Advance Trade Balance: Goods Wednesday, 1/29 Range: -\$69.0 to -\$63.0 billion Median: -\$65.0 billion	Nov = -\$63.2 billion	Widening to -\$66.4 billion. The trade data were distorted over much of 2019 thanks to ongoing trade spats, but those effects should fade over coming months. Even if the trade deficit widened a bit in December as our forecast anticipates, trade will still have made a sizable contribution to Q4 real GDP growth.
Q4 Real GDP – 1st estimate Thursday, 1/30 Range: 1.3 to 2.5 percent Median: 2.1 percent SAAR	Q3 = +2.1% SAAR	Up at an annualized rate of 2.1 percent. Our forecast is subject to change upon Wednesday's release of the advance report on December trade in goods (see above), which also includes preliminary reads on December wholesale and retail inventories. Just as we look for trade to have made a sizable contribution to Q4 real GDP growth, we look for inventories to have been a meaningful drag on Q4 real GDP growth, and Wednesday's data will help determine if we have the relative magnitudes correct. Either way, consumer spending, government spending, and residential investment will have been the primary supports for Q4 growth, with business investment a laggard.

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Q4 GDP Price Index – 1st estimate Thursday, 1/30 Range: 1.6 to 2.1 percent Median: 1.8 percent SAAR	Q3 = +1.8% SAAR	Up at an annualized rate of 1.8 percent.
Q4 Employment Cost Index Friday, 1/31 Range: 0.7 to 0.9 percent Median: 0.7 percent	Q3 = +0.7%	Up by 0.8 percent, with wages up by 0.8 percent and benefit costs up by 0.6 percent. Our forecast would leave the total ECI up 2.9 percent year-on-year, with wages up 3.1 percent and benefit costs up 2.4 percent, and this would be the largest such increase in wages since Q3 2008. The ECI is our, and much more significantly the FOMC's, preferred gauge of growth in labor costs, and the ECI data show the same gradual acceleration in wage growth seen in other series. While there is some upward pressure on wages, there is nothing to suggest a labor market on the boil despite the unemployment rate having been below 4.0 percent in 17 of the past 18 months.
December Personal Income Friday, 1/31 Range: 0.1 to 0.4 percent Median: 0.3 percent	Nov = +0.5%	Up by 0.2 percent. Our below-consensus forecast assumes that, after having spiked in November on trade-related subsidy payments, farm income will have been a drag on top-line income growth in December. Elsewhere in the data, a smaller increase in private sector payrolls combined with a paltry increase in hourly earnings sets up a below-trend increase in aggregate wage and salary earnings. Despite a soft end, our forecast would leave total personal income up by 4.6 percent for 2019 as a whole, with private sector wage and salary earnings up by 5.2 percent for a second consecutive year.
December Personal Spending Friday, 1/31 Range: 0.2 to 0.5 percent Median: 0.3 percent	Nov = +0.4%	Up by 0.3 percent. Our forecast anticipates spending on consumer durable goods was a drag on growth in spending on goods, reflecting the drop-off in motor vehicle sales, while atypically warm weather resulted in utilities outlays being a drag on growth in spending on services.
December PCE Deflator Friday, 1/31 Range: 0.1 to 0.3 percent Median: 0.2 percent	Nov = +0.2%	Up by 0.2 percent, yielding an over-the-year increase of 1.6 percent. We look for the core PCE Deflator to also have been up by 0.2 percent, for an over-the-year increase of 1.6 percent. Our forecast would leave the PCE Deflator up by 1.4 percent for 2019 as a whole, with the core PCE Deflator up by 1.6 percent.

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