ECONOMIC PREVIEW

REGIONS

Week of March 23, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the April 28-29 FOMC meeting):* Target Range Mid-point: 0.000 to 0.125 percent Median Target Range Mid-point: 0.125 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	The abrupt shutting down of economic activity over the past two weeks is like nothing we've ever seen. In the weeks ahead, the economic data will begin to capture this, starting with this Thursday's release of weekly claims for Unemployment Insurance. We don't know of a way to prepare for what we may see in the economic data over the next several weeks, other than to say that, at this point, nothing we see will surprise us. While it is clear that there will be a substantial contraction in real GDP in Q2, keep in mind that the BEA will issue their initial estimate (the first of three) of Q2 GDP on July 30. While we're not advising anyone to ignore forecasts of Q2 GDP growth, it is worth asking how many times any forecast of Q2 being made at present, including ours, will change between now and July 30. If the last two weeks are any guide, the answer is "a lot." The reality is that, at this point, none of us knows what the hit to Q2 GDP will be, and whatever number someone may show you today, that number will change with each new data point that hits the wires.
February New Home Sales Tuesday, 3/24 Range: 730,000 to 762,000 units Median: 754,000 units SAAR	Jan = 764,000 units SAAR	Down to an annualized sales rate of 758,000 units. On a not seasonally adjusted basis, we look for sales of 64,000 units, up 12.3 percent from January. This is actually a smaller increase than typically seen in the month of February, but as was the case with new residential construction, atypically warm weather meant activity in January was much stronger than typical for the month, which pulled some activity forward from February. New home sales are booked at the signing of the sales contract, so the effects of the coronavirus will show up in the new home sales data sooner than will be the case with existing home sales, which are booked at closing. But, reports we've seen indicate new home sales remained robust through the first week of March, so there is little reason to expect any impact on the February data. Instead, with low mortgage interest rates and what were still solid labor market conditions and elevated consumer confidence, February looks to have been another strong month for new home sales. Despite a solid start to the month, however, the March data will likely show new home sales beginning to fade, reflecting the growing effects of the coronavirus.
February Durable Goods Orders Wednesday, 3/25 Range: -4.1 to 1.2 percent Median: -1.0 percent	Jan = -0.2%	Down by 4.1 percent. While Boeing booked 18 new orders in February, they also had 43 cancellations, yielding net new orders of minus-25 planes. The Commerce Department's guidelines specify that the data are to be reported on a net basis; if this is followed in practice, the February data should show a negative number for the dollar volume civilian aircraft orders (which last happened in December 2009). This accounts for the steep decline in total new orders our forecast anticipates. That said, the underlying details won't be any more encouraging, as indicated by our forecasts of ex-transportation orders and core capital goods orders (see below).
Feb. Durable Goods Orders: Ex-Transp. Wed., 3/25 Range: -5.0 to 0.0 percent Median: -0.4 percent	Jan = -0.8%	Down by 0.2 percent. We look for core capital goods orders to be down by 0.3 percent. Just as an easing of trade tensions allowed it to begin to regain its footing, the effects of the coronavirus have thrown the manufacturing sector into total disarray. Capital spending will contract sharply in the months ahead, but the February orders data won't fully reflect that. We expect larger declines in core capital goods orders over the next few months.
February Adv. Trade Balance: Goods Thursday, 3/26 Range: -\$69.4 to -\$58.6 billion Median: -\$63.8 billion	Jan = -\$65.9 billion	Narrowing to -\$58.6 billion. Traffic through the ports of Los Angeles and Long Beach plummeted in February. Trade flows from China would have been expected to fall in February on the timing of the Chinese New Year, but that decline was amplified by the effects of the coronavirus on the Chinese economy. It appears import volume fell off much more sharply than did export volume, which helps account for the extent to which we expect the deficit in the goods account to have narrowed. Even if our timing is off here, these effects will show up in the March data. As such, a smaller trade deficit will help cushion the blow to Q1 GDP from economic activity having stopped so abruptly in March. There will, however, be no such cushion in Q2, which is one reason why we and most others expect a significant contraction in real GDP in Q2.
Q4 Real GDP – 3rd estimate Thursday, 3/26 Range: 2.0 to 2.2 percent Median: 2.1 percent SAAR	Q4 – 2nd est. = +2.1% SAAR	Up at an annualized rate of 2.2 percent.
Q4 GDP Price Index – 3rd estimate Thursday, 3/26 Range: 1.3 to 1.3 percent Median: 1.3 percent SAAR	Q4 – 2nd est. = +1.3% SAAR	Up at an annualized rate of 1.3 percent.

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February Personal Income Friday, 3/27 Range: 0.2 to 0.6 percent Median: 0.4 percent	Jan = +0.6%	Up by 0.5 percent. Private sector wage and salary earnings will be the primary source of growth in top-line personal income. In addition to another outsized increase in private sector payrolls, up by 238,000 jobs, and a 0.3 percent increase in average hourly earnings, a one-tenth of an hour increase in the average length of the workweek provided a powerful boost to aggregate labor earnings. As we are seeing of late, that boost will clearly not be sustained, as rapidly deteriorating labor market conditions will drag total personal income lower.
February Personal Spending Friday, 3/27 Range: 0.1 to 0.4 percent Median: 0.3 percent	Jan = +0.2%	Up by 0.2 percent. The report on February retail sales showed consumer spending on goods was weak in February. Many attributed that to the effects of the coronavirus, offering yet another instance in which the convenient and seemingly obvious explanation is not necessarily the correct explanation. Sharply lower retail gasoline prices meant that gasoline station sales were a meaningful drag on total retail sales in February, while upward revisions to initial estimates of many of the components of January retail sales raised the bar for February comparisons. That said, all that matters here is that control retail sales, a direct input into the BEA's broader measure of consumer spending, were flat in February, not why they were flat. Spending on services will have gotten a boost from higher utilities outlays in February, providing support for total consumer spending. Beginning with the March data, however, it is spending on services, which accounts for roughly two-thirds of consumer spending as measured in the GDP data, where we will see the largest, and most sudden, declines in consumer spending due to the coronavirus.
February PCE Deflator Friday, 3/27 Range: 0.0 to 0.1 percent Median: 0.1 percent	Jan = +0.1%	Up by 0.1 percent, which would yield a year-on-year increase of 1.7 percent. We look for same out of the core PCE deflator – up by 0.1 percent with an over-the-year increase of 1.7 percent.

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