ECONOMIC PREVIEW

REGIONS

Week of August 20, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 25-26 FOMC meeting):* Target Range Midpoint: 2.125 to 2.125 percent Median Target Range Midpoint: 2.125 percent	Range: 1.75% to 2.00% Midpoint: 1.875%	The headline numbers atop this week's home sales reports (see below) are not likely to change anyone's view of the housing market, which many have soured on of late. For anyone trying to get a better sense of where home sales are heading, we'll point to two metrics that will tell you much more than the headline sales numbers. Look to the inventory data in the report on existing home sales. Listings were up big in June and whether or not that increase can be built on in the months ahead will have significant implications for sales and prices. In the report on new home sales, look to the price distribution of sales. Recent months have seen lower-priced homes account for a growing share of new home sales, and if that continues, as we expect, the new homes market would be opened up to a broader range of buyers. Our view has been, and remains, that demand is healthier than implied by the top-line sales numbers; if the two developments noted here are sustained our view will be put to the test.
July Existing Home Sales Wednesday, 8/22 Range: 5.290 to 5.510 million units Median: 5.410 million units SAAR	Jun = 5.380 million units SAAR	<u>Up</u> to an annualized sales rate of 5.420 million units. On a not seasonally adjusted basis, we look for 519,000 sales, up slightly from July 2017 but that mainly reflects there being one more selling day this July. While inventories continue to act as a drag on sales, we are intrigued by the jump in listings reported in the June data, which ended a three-year run of listings being down year-on-year. In any given year July typically sees a modest increase in listings and our forecast anticipates listings rose further this July. However, this comes with a high degree of uncertainty on our part, as June's increase was so large and basically, given how listings had been trending, came out of the blue. Steadily increasing listings would take some of the edge off of what has been a heady pace of price appreciation, allowing for more sales to the first-time buyers who have to a large degree been locked out of the market by lean inventories and affordability constraints. Our forecast would bring the running 12-month total of not seasonally adjusted sales to 5.457 million units, up from June but still well off what thus far is the post-recession high of 5.529 million units in July 2017. We're on record calling this as the peak for this cycle, but should there be meaningful relief on the inventory and price fronts we'd have to reconsider this call.
July New Home Sales Thursday, 8/23 Range: 608,000 to 660,000 units Median: 648,000 units SAAR	Jun = 631,000 units SAAR	<u>Up</u> to an annualized sales rate of 648,000 units. Much like single family construction, new home sales continue to trend higher at a steady but slow pace. Yet, the focus for many seems to be on the "slow pace" part of this story as opposed to the "trend higher" part of this story. We look for not seasonally adjusted sales of 55,000 units, which would put the 12-month moving sum at 644,000 units, the highest since April 2008 and which would leave new home sales up 8.3 percent on a year-to-date basis through July. While we think the market could digest more single family construction than is currently being supplied, we simply don't see much meaningful supply-side relief any time soon. That said, there are signs, albeit still early, that the mix of supply is shifting. We have for some time been highlighting the price mix of sales and how it has been heavily slanted toward more expensive homes. Over the past few months homes priced under $300,000 have accounted for an increasing share of total new home sales, and that share hit 50.0 percent in June, the highest since February 2017. Builders have begun to shift their focus more to lower priced homes, including entry level, as high-end demand wanes. Yet, some have ignored this strategic shift on the part of builders, instead seizing on a falling median sales price as a sign of market weakness. Whatever works, we suppose, but in any event we will be interested in the price distribution of sales in July and beyond. A continued shift in the price mix would be consistent with our view that there is still plenty of unfilled demand, but supply has to become better aligned with where in the market that demand is.
July Durable Goods Orders Friday, 8/24 Range: -2.0 to 2.0 percent Median: 0.0 percent	Jun = +0.8%	<u>Up</u> by 0.4 percent. As usual, transportation orders will have an undue sway over the headline orders number, but not in the usual way. At least we think. Despite a surge in unit orders for nondefense aircraft in June, the dollar volume of orders showed an oddly small increase. We look for payback in the dollar volume of civilian aircraft orders in the July data despite a significant decline in unit orders. This props up our forecast for headline durable goods orders, but if we're wrong on this point our forecast for headline orders will be too high. Of course, this is nothing but noise that has no real bearing on, well, on anything. What really matters are orders for core capital goods which we expect to have logged a solid increase in July (see below).
July Durable Goods Orders: Ex-Transp. Friday, 8/24 Range: -0.6 to 1.0 percent Median: 0.5 percent	Jun = +0.2%	We look for <u>ex-transportation</u> orders to be <u>up</u> by 0.6 percent and also expect <u>core capital goods</u> orders to be up by 0.6 percent. The latter gets Q3 growth in business investment spending off to a solid start.

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