ECONOMIC PREVIEW

REGIONS

Week of October 22, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 7-8 FOMC meeting):* Target Range Midpoint: 2.125 to 2.125 percent Median Target Range Midpoint: 2.125 percent	Range: 2.00% to 2.25% Midpoint: 2.125%	In the event you've been glued to financial talk TV listening to an endless stream of analysts offering an endless list of reasons for the recent turmoil in equity markets, here's some of what you missed. A record high number of open jobs, a rate of hiring that is accelerating, workers voluntarily leaving jobs at a near-record rate, construction of new single family homes up six percent this year, in line with growth in new single family home sales despite mortgage rates trending higher, mostly solid corporate earnings, business investment spending growing at a rapid pace, and near-record consumer and business confidence. Sure, we're mindful of the downside risks, and there are plenty of things that keep us up at night. That said, amidst all the noise, it's useful to remember that there is a lot right with the U.S. economy.
September New Home Sales Wednesday, 10/24 Range: 600,000 to 635,000 units Median: 625,000 units SAAR	Aug = 629,000 units SAAR	<u>Down</u> to an annualized sales rate of 618,000 units. On a not seasonally adjusted basis, we look for total sales of 48,000 units, which would match January as the lowest monthly sales total of 2018, but this simply reflects our expectation that sales in the South region were adversely impacted by Hurricane Florence. Our forecast calls for not seasonally adjusted sales of 24,000 units in the South region, which would make September the slowest month for sales in the region since August 2017, with sales in the other three broad Census regions in line with recent trends. We'll also note that if not seasonally adjusted sales are as weak as our forecast anticipates, the seasonal adjustment factor could, in essence, overcompensate, meaning the headline sales number could be above our forecast. But, if this does prove to be the case we totally won't care, as this would be nothing more than meaningless noise. Either way, our forecast would leave not seasonally adjusted sales up by six percent year-to-date through September which, as if by magic coincidence, matches the increase seen in single family housing starts. By no means spectacular growth, but solid growth which we think will persist even in the face of higher mortgage interest rates. There are signs in the data over recent months that builders have turned their attention to more moderately priced homes, so we'll look for further signs of this in the September data. As we've noted before, in so doing builders are making new home sales accessible to a wider range of prospective buyers than has been the case over recent years, which is where we see more room to run for new home sales. But, with the data for September and October being impacted by hurricanes, it may take a while for the underlying trends in the data to reassert themselves.
September Durable Goods Orders Thursday, 10/25 Range: -3.0 to 1.3 percent Median: -1.0 percent	Aug = +4.4%	<u>Down</u> by 2.9 percent on a steep decline in civilian aircraft orders, which of course is all noise and no signal. We look for <u>ex-transportation</u> orders to be <u>up</u> by 0.5 percent, and for <u>core capital goods</u> orders – easily the most important single number in the report – to be <u>up</u> by 0.3 percent. Not exactly a rousing rebound from the 0.9 percent decline in core capital goods orders posted in August, but that decline came on the back of notably rapid growth over the prior four months, and we see further upside room for core capital goods orders over coming quarters.
Sept. Advance Trade Balance: Goods Thursday, 10/25 Range: -$79.4 to -$73.0 billion Median: -$75.1 billion	Aug = -$75.5 billion	<u>Widening</u> to -$76.2 billion. Exports of U.S. goods sank like a stone in June, July, and August, while imports of foreign goods jumped. We think both of these patterns held in September, though to a lesser degree, which still leaves a notably wide deficit in the goods account. For Q3 as a whole, the deficit in the goods account will be larger than has been the case for years, meaning trade will be a significant drag on Q3 real GDP growth (see below). There is, however, some upside risk to our forecast for September – to the extent U.S. retailers accelerated ordering for the holiday sales season in an attempt to avoid tariffs in imported consumer goods, September imports may come in weaker than our forecast anticipates, which would yield a smaller deficit in the goods account than we are looking for.
Q3 Real GDP – 1st estimate Friday, 10/26 Range: 2.4 to 4.1 percent Median: 3.4 percent SAAR	Q2 = +4.2% SAAR	<u>Up</u> at an annualized rate of 3.4 percent. Last week's reports on retail sales (control sales for July and August were revised slightly lower) and residential construction (downward revisions to the July and August data) led us to tone down our forecast for Q3 real GDP growth, but we're still left with another quarter of solid growth. Consumer spending, business investment, and a sizeable inventory build were the main drivers of Q3 growth, but what will be a significantly larger trade deficit could take as much as 1.5 points off of top-line growth.
Q3 GDP Price Index – 1st estimate Friday, 10/26 Range: 1.5 to 2.7 percent Median: 2.2 percent SAAR	Q2 = +3.0% SAAR	<u>Up</u> at an annualized rate of 1.9 percent.

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