ECONOMIC PREVIEW REGIONS
Week of December 17, 2018

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint**<br>*(After the December 18-19 FOMC meeting):*<br>Target Range Midpoint: 2.375 to 2.375 percent<br>Median Target Range Midpoint: 2.375 percent | Range:<br>2.00% to 2.25%<br>Midpoint:<br>2.125% | A full slate of economic data takes a back seat to this week's FOMC meeting (which concludes Wednesday). We fully expect a 25-basis point increase in the Fed funds rate target range, but perhaps the more relevant question is the trajectory of the funds rate implied by the updated "dot plot." Many, us included, think the updated dot plot will imply only two 25-basis point funds rate hikes in 2019, down from the three hikes implied by the September 2018 dot plot – it would take only one or two (depending on how new member Michelle Bowman casts her dots) FOMC members backing off a third rate hike to pull down the median year-end 2019 dot. Still, we do think that making such a shift now could prove costly, in terms of unsettling the financial markets, down the road. In other words, it would be less disruptive to signal three rate hikes in 2019 and only follow through on two (or one) of them than to signal two rate hikes in 2019 and then decide it necessary to hike three (or four) times. Either way, Fed Chairman Powell will have his work cut out for him at his post-meeting press conference, by the end of which he may be questioning (silently, of course) the decision to have a press conference following each FOMC meeting. |
| **November Housing Permits** Tuesday, 12/18<br>Range: 1.230 to 1.310 million units<br>Median: 1.260 million units SAAR | Oct = 1.265 million units, SAAR | Up to an annualized rate of 1.277 million units. There could easily be more noise than signal in the headline permits and starts numbers. November has historically been a weak month for housing market activity, meaning the seasonal adjustment factors tend to be overly generous. This only highlights the importance, at least to us, of looking beneath the headline numbers to the not seasonally adjusted data. We look for a total of 101,500 housing permits on a not seasonally adjusted basis, with single family permits higher and multi-family permits lower on an over-the year basis. Our forecast would leave the running 12-month total of not seasonally adjusted permits at 1.311 million units, with single family permit totals grinding higher as multi-family permits continue to drift lower. |
| **November Housing Starts** Tuesday, 12/18<br>Range: 1.200 to 1.265 million units<br>Median: 1.230 million units SAAR | Oct = 1.228 million units, SAAR | Up to an annualized rate of 1.256 million units. As noted above, start out with a seasonally weak month, add in some friendly seasonal adjustment factors, and you get a headline number that may not mean all that much. We look for not seasonally adjusted housing starts of 99,700 units, down from 107,300 starts in October but nonetheless up 1.8 percent year-on-year. Our forecast would leave the running 12-month total of not seasonally adjusted housing starts at 1.263 million units, matching September's total as the cycle high, with 890,700 single family starts, the highest 12-month total since April 2008, and multi-family starts slowly drifting lower. |
| **Q3 Current Account Balance** Wednesday, 12/19<br>Range: -\$132.6 to -\$120.0 billion<br>Median: -\$124.8 billion | Q2 = -\$101.5 billion | Widening to -\$126.6 billion due to a significantly wider trade deficit. Our forecast would put the current account deficit at 2.45 percent of GDP. |
| **November Existing Home Sales** Wednesday, 12/19<br>Range: 5.100 to 5.330 million units<br>Median: 5.200 million units SAAR | Oct = 5.220 million units, SAAR | Up to an annualized sales rate of 5.330 million units. As with housing permits and starts, November is a seasonally weak month for existing home sales – in the current data series, not seasonally adjusted existing home sales have never increased in the month of November, and that streak is not likely to have been broken this November. We look for not seasonally adjusted sales of 413,000 units, but a friendly seasonal adjustment factor should yield a respectable "headline" sales number. Inventories, or lack thereof, remain a material drag on existing home sales. On a regional basis, sales in the West have been notably weak over the past few months, this being the region where lack of inventory and affordability issues are most pressing. |
| **November Leading Economic Index** Thursday, 12/20<br>Range: -0.1 to 0.2 percent<br>Median: 0.0 percent | Oct = +0.1% | Unchanged, as lower stock prices and higher initial claims for unemployment insurance weighed on the index. The increase in claims, however, was more seasonal adjustment noise than anything else and has already subsided. |
| **November Durable Goods Orders** Friday, 12/21<br>Range: -0.6 to 2.7 percent<br>Median: 1.7 percent | Oct = -4.3% | Up by 1.6 percent, with a big assist from civilian aircraft orders. We look for ex-transportation orders to be up by 0.3 percent, and for orders for core capital goods to be up by 0.4 percent. |
| **Q3 Real GDP – 3rd estimate** Friday, 12/21<br>Range: 3.5 to 3.6 percent<br>Median: 3.5 percent SAAR | Q2 2nd est. = +3.5% SAAR | Up at an annualized rate of 3.5 percent, which would match the first two estimates. In all of our years doing this – we're not about to say how many years that is, but we will say that's an awful lot of quarters of GDP data – we cannot remember a single instance in which top-line real GDP growth has been the same for each of the BEA's three estimates. That does not mean the underlying details have not changed – they have – but the profile of growth will remain the same: consumer spending and inventories were the main drivers of Q3 growth while trade was a material drag. |

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| **Q3 GDP Price Index – 3rd estimate**<br>Range: 1.6 to 1.7 percent<br>Median: 1.7 percent SAAR | Friday, 12/21 | Q2 2nd est. = +1.7% SAAR | Up at an annualized rate of 1.6 percent. |
| **November Personal Income**<br>Range: 0.2 to 0.5 percent<br>Median: 0.3 percent | Friday, 12/21 | Oct = +0.5% | Up by 0.3 percent. A modest decline in the length of the average workweek led to a decline in aggregate hours worked in the private sector, and this will act as a drag on growth in private sector wage and salary earnings. As this is the largest single component of total personal income, the effects of the decline in hours worked will be passed through to top-line income growth. We look for solid gains in rental income and proprietors' income, with smaller increases in dividend income and transfer payments than those seen in October. One wild card here will be farm income – recall that the October data incorporated the first round of subsidy payments to farmers hurt by trade disputes, which alone added one-tenth of a point to growth in total personal income. We're anticipating a similarly large payment to appear in the November data, but to the extent our estimate here is off, either too low or too high, then our forecast for growth in total personal income will be off in the same direction. Our forecast would leave total personal income up 4.3 percent year-on-year, with private sector wage and salary earnings up 4.4 percent. |
| **November Personal Spending**<br>Range: 0.2 to 0.6 percent<br>Median: 0.3 percent | Friday, 12/21 | Oct = +0.6% | Up by 0.4 percent. As with the retail sales data, sharply lower gasoline sales will be a material drag on consumer spending on nondurable goods in the PCE data. We look for modestly higher spending on consumer durables and a solid increase in spending on household services, helped along by what should be sharply higher utilities outlays, to have pushed total personal spending higher in November. |
| **November PCE Deflator**<br>Range: 0.0 to 0.1 percent<br>Median: 0.2 percent | Friday, 12/21 | Oct = +0.2% | Unchanged, which would leave the total PCE Deflator up 1.8 percent year-on-year. We look for the core PCE Deflator to be up by 0.2 percent, which would yield a year-on-year increase of 1.9 percent. There isn't much room for error in our forecast of the core PCE deflator, as our forecast calls for unrounded increases of 0.164 percent (month/month) and 1.86 percent (year/year). Either way, as with the CPI, we think energy prices will be a drag on headline inflation as measured by the PCE Deflator over coming months while core PCE inflation will continue to edge higher. As such, it is core PCE inflation that the FOMC will be watching most closely in the months ahead as their guide to inflation pressures in the U.S. economy. |



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