ECONOMIC PREVIEW

REGIONS

Week of January 21, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 29-30 FOMC meeting):* Target Range Midpoint: 2.375 to 2.375 percent Median Target Range Midpoint: 2.375 percent	Range: 2.25% to 2.50% Midpoint: 2.375%	Forward guidance isn't so much going away as it is evolving. Any remaining doubts about that were swept aside last week when Kansas City Fed President Esther George, who has long been one of the, if not the, most hawkish of the hawks on the FOMC, urged fellow Committee members to be patient in considering further hikes in the Fed funds rate. Some FOMC members, particularly New York Fed President Williams, have expressed the desire to move away from explicit forward guidance, and while that may be the case when it comes to their post-meeting policy statements, FOMC members have recently been sending a distinct, coordinated message in their public comments. That message can be boiled down to one word – "patience" – and while that message has thus far been well received by market participants, we'll simply note that "patient" does not mean "done." As such, we think it only a matter of time until there is further evolution in the guidance coming from the FOMC.
December Existing Home Sales Tuesday, 1/22 Range: 4.970 to 5.350 million units Median: 5.220 million units SAAR	Nov = 5.320 million units SAAR	There is good news and bad news regarding the report on December existing home sales. The good news is that the partial government shutdown has no impact here as the data on existing home sales are compiled and reported by a private sector entity, meaning the report on December existing home sales will be released as scheduled. The bad news is that the report on December existing home sales will be released as scheduled. At least it will be bad news if our forecast is on or near the mark, as we look for existing home sales to be <u>down</u> to an annualized rate of 4.980 million units. Recall that existing home sales are booked at closing, but the NAR's index of pending home sales offers a gauge of signed sales contracts. December closings would largely reflect sales contracts signed from mid-October through November, and the pending home sales data for October and November were, in a word, dismal, as the housing market was clearly struggling to regain some semblance of balance as 2018 wound down. Weakness was particularly pronounced in the West region in late-2018, which to some extent reflects the impacts of the devastating fires but the bigger issue is that inventory and affordability constraints have been much more pressing in the West than in other regions. That said, in addition to the West, pending sales had softened in each of the other three broad regions by November, and we think this will be reflected in notably weak December closings, hence our bleak forecast of headline sales. On a not seasonally adjusted basis, we look for sales of 396,000 units, down 7.3 percent year-on-year despite the same number of sales days in both years. Our forecast would put unadjusted sales at 5.362 million units for 2018 as a whole, down 2.7 percent from 2017, with annual declines in sales all four broad regions. Still, we think it too soon to write off the housing market, and while we've taken some flak for saying this out loud, our view hasn't changed. One potential bright spot in the December data could be inventories. December is a seasonally weak month for listings, but we think the drop in listings this December will be smaller than that typically seen for the month, and our forecast would leave listings up 6.8 percent year-on-year, which would be the fifth consecutive month in which listings were up year-on-year. A small step, perhaps, but nonetheless a step in the right direction after a 37-month run of listings being down year-on-year. Additionally, price appreciation has eased while mortgage rates have come down from their late-year 2018 highs, which helps account for what has been a surge in purchase mortgage applications thus far in January. Lack of inventory and diminished affordability clearly weighed on sales as 2018 progressed, and though it is far too early to draw any definitive conclusions, we think there is more life to the housing market than we expect to see in the report on December existing home sales.
December Leading Economic Index Thursday, 1/24 Range: -0.2 to 0.2 percent Median: -0.1 percent	Nov = +0.2%	<u>Down</u> by 0.1 percent.
December Durable Goods Orders Friday, 1/25 Range: 0.3 to 3.0 percent Median: 2.0 percent	Nov = +0.8%	<u>Up</u> by 0.7 percent, with <u>ex-transportation</u> orders <u>up</u> by 0.4 percent. A modest rebound in ex-transportation orders and a sizeable increase in orders for nondefense aircraft, should be sufficient to push total durable goods orders higher. This release, however, will be delayed by the partial government shutdown.
December New Home Sales Friday, 1/25 Range: N/A to N/A Median: N/A	Nov = ? units SAAR	<u>N/A</u> The report on November new home sales was one of the first data casualties of the partial government shutdown, and as we do not yet have the November data, we have no basis on which to build a forecast for December sales. Which of course is rendered moot as the release of the December data will also be delayed.

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