ECONOMIC PREVIEW

REGIONS

Week of February 25, 2019

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 19-20 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%	This week's slate of releases is heavy on data delayed by the partial government shutdown. In that sense, we'll get a lot of data but won't necessarily learn a lot from it, though the report on Q4 GDP will reflect the collective toll of the shutdown, the meltdown in the equity markets, higher mortgage interest rates, and fears over trade policy (though, as we note below, some questionable data could bias measured Q4 growth lower). The February ISM Manufacturing and consumer confidence reports will pose sterner tests of our generally constructive view of the U.S. economic data.
December Housing Permits Range: 1.230 to 1.325 million units Median: 1.290 million units SAAR	Tuesday, 2/26	Nov = 1.328 million units SAAR	Down to an annualized rate of 1.319 million units. For December permits and starts, we look for overly generous seasonal adjustment factors to make decent unadjusted numbers look better than they actually are. On a not seasonally adjusted basis, we look for total permits of 98,400 units, bringing the annual 2018 total to 1.315 million units, the highest annual total since 2007. Our forecast would leave single family permits up 4.8 percent for 2018 with multi-family permits down 1.5 percent.
December Housing Starts Range: 1.200 to 1.304 million units Median: 1.252 million units SAAR	Tuesday, 2/26	Nov = 1.256 million units SAAR	Up to an annualized rate of 1.304 million units. We think the unadjusted December housing starts data will be fairly solid, particularly if we are correct in thinking that relatively mild weather brought payback for harsh weather having held down construction in November. That, combined with seasonal adjustment factors that tend to be overly friendly for the month of December, should make the headline (or, seasonally adjusted and annualized) starts number look much better than is actually the case. On a not seasonally adjusted basis, we look for 90,000 total housing starts, which would put the annual 2018 total at 1.269 million units. As with permits, this would make 2018 the best year for housing starts since 2007, and our forecast would leave single family starts up 4.1 percent and multi-family starts up 8.9 percent. We do not expect 2019 to bring a repeat of the strength in multi-family starts seen in 2018, and multi-family permits having tailed off over the second half of 2018 is consistent with our view. Then again, we were taken by surprise at how strong multi-family starts were in 2018 so, unlike *The Who*, we may indeed get fooled again.
February Consumer Confidence Range: 122.0 to 128.3 Median: 124.8	Tuesday, 2/26	Jan = 120.2	Up to 128.3. Other surveys of U.S. consumers point to a rebound in expectations, which makes sense given the end of the partial government shutdown, a rebound in equity markets, and further evidence of a rock solid labor market. To that latter point, even as expectations about the future dimmed in the *Conference Board's* December and January surveys, consumers' assessments of the labor market remained more favorable than had been the case in almost two decades. As such, though down from the cycle high, consumer confidence nonetheless remains notably elevated.
Dec. Advance Trade Balance: Goods Range: -\$76.5 to -\$72.0 billion Median: -\$73.0 billion	Wednesday, 2/27	Nov = -\$71.6	Widening to -\$72.1 billion, which would still leave trade on course to be a support for Q4 real GDP growth (see below).
December Factory Orders Range: -0.5 to 1.6 percent Median: 0.5 percent	Wednesday, 2/27	Nov = -0.6%	Down by 0.3 percent. As in November, a steep decline in oil prices will drag orders for nondurable goods lower, more than offsetting an increase durable goods orders and thus dragging total factory orders lower.
Q4 2018 Real GDP Range: 1.8 to 2.8 percent Median: 2.3 percent SAAR	Thursday, 2/28	Q3 = +3.4% SAAR	Up at an annualized rate of 1.8 percent. Well, Q4 growth sure went south in a hurry, at least our forecast of top-line growth, which now stands 100 basis points below where it was prior to recent data on retail sales, business investment, and inventories. That said, we don't for a minute believe retail sales were as weak in December as implied by the Census Bureau's initial estimate. But, as control retail sales are a direct input into the GDP data, we saw no other choice than to incorporate that initial estimate into our GDP forecast. While we would largely discount a weak print on consumer spending in the GDP report, there's no getting around the fact that, based on the recent monthly data on core capital goods orders and shipments, business investment will have once again failed to live up to our expectations, and we look for real business spending on equipment and machinery to be a drag on Q4 real GDP growth. This will also be the case with inventories, as the high frequency data suggest a smaller inventory build than we had been incorporating into our forecasts. One if not bright then at least less dim spot in the report on Q4 GDP will be trade, which should be a support for top-line growth based on the surprisingly large decline in the real trade deficit in November (the December trade data are not yet available). If our forecast for top-line Q4 growth is on the mark, it would put full-year 2018 real GDP growth at 2.8 percent, which would match our forecast from our 2018 annual outlook (published January 2018) but yet would feel oddly disappointing.

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Q4 2018 GDP Price Index Range: 1.3 to 2.2 percent Median: 1.7 percent SAAR	Thursday, 2/28	Q3 = +1.8% SAAR	Up at an annualized rate of 1.6 percent.
December Personal Income Range: 0.3 to 0.5 percent Median: 0.4 percent	Friday, 3/1	Nov = +0.2%	Up by 0.4 percent. The combination of a sizeable increase in employment, a longer workweek, and a hefty increase in average hourly earnings should set up strong growth in private sector wage and salary earnings, the largest single component of total personal income. Rental income should also support top-line income growth, as should further subsidy payments to farmers shut out of foreign markets due to ongoing trade disputes.
December Personal Spending Range: -0.4 to 0.45 percent Median: -0.1 percent	Friday, 3/1	Nov = +0.4%	Down by 0.2 percent. In all honesty, we don't know what to do with this one, mainly because we still haven't figured out to do with the report on December retail sales. We do not buy that retail sales were as weak in December as implied by the initial estimate, but the problem here is the reported 1.7 percent decline in control retail sales feeds right into the BEA's estimate of consumer spending on goods. At the same time, the sharp decline in retail gasoline prices will pull down spending on nondurable goods, while atypically mild winter weather was a material drag on utilities outlays, which will hold down growth in consumer spending on services. It all adds up to one lousy report on December consumer spending, at least to the extent the initial estimate of December retail sales carries over into the BEA's estimate of total consumer spending.
December PCE Deflator Range: -0.1 to 0.1 percent Median: 0.0 percent	Friday, 3/1	Nov = +0.2%	Unchanged, which yields a year-on-year increase of 1.7 percent. We look for the core PCE deflator to be up by 0.2 percent, leaving it up 1.9 percent year-on-year. At present, inflation is doing nothing to test the FOMC's newly-found patience
January Personal Income Range: 0.2 to 0.5 percent Median: 0.4 percent	Friday, 3/1	Dec= N/A	Up by 0.3 percent. Despite an outsized increase in employment in January, a meager increase in average hourly earnings will hold down growth in aggregate wage and salary earnings and, in turn, total personal income. The usual January bump in transfer payments should support top-line income growth, but we look for a sizeable decline in farm subsidy payments after transitory jumps in November and December. We may be off on the timing of this decline, in which case our forecast for top-line income growth could be too low. Also, while the BEA typically releases estimates of personal spending along with estimates of personal income, that the January retail sales data have yet to be released means BEA is unable to produce its estimate of total consumer spending in January at this time.
February ISM Manufacturing Index Range: 53.0 to 57.2 percent Median: 56.0 percent	Friday, 3/1	Jan = 56.6%	Down to 55.6 percent. Not as bad as December, not as good as January, and little clarity around where we go from here. That about sums up our take on the manufacturing sector in general and the ISM Manufacturing Index in particular. After an alarmingly large decline in December, the new orders component of the ISM's index bounced back in January, but we think some of January's gain will be taken back in the February data. We think that will also be the case for the current production component. We do think growth in the manufacturing sector is setting into a slower pace, but that seldom happens in a straight line. There are signs that the U.S.-China trade dispute will be resolved in a relatively benign manner, which could give a badly needed boost to global economic growth and thus help sustain the expansion in the U.S. factory sector.

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