ECONOMIC PREVIEW

REGIONS

Week of March 18, 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%	Ever since the December debacle, when a dot plot implying two Fed funds rate hikes this year and one more in 2020 and Fed Chairman Powell stating that the balance sheet run-off was on auto pilot sparked a rout in the equities markets, the FOMC has executed a dovish pivot, stressing patience and flexibility. As in patience in any further changes to the funds rate and flexibility in managing the Fed's balance sheet. The Committee's dexterity will be put to a much sterner test with this week's FOMC meeting, which brings an updated set of economic projections and an updated dot plot. Even the post-meeting policy statement will be more challenging, as the Committee has no choice but to acknowledge what has been considerable volatility in the economic data of late while making the case that the underlying trends remain favorable to continued economic growth. The updated Summary of Economic Projections should help make this case. Other than a modest markdown to 2019 real GDP growth, reflecting what is shaping up to be a lousy Q1, we expect no changes to prior takes on 2020 and 2021 real GDP growth, inflation, and unemployment. The dot plot, however, is where it gets tricky for the FOMC. As we've noted before, many market participants have interpreted "patient" and "flexible" as meaning "finished," so while there is no chance that the updated dot plot implies two funds rate hikes this year and one next year, as did the December edition, a dot plot implying any further rate hikes at all could roil the markets. While we acknowledge the possibility, we think it highly unlikely that the updated dot plot will imply zero funds rate hikes this year, that would simply require too many FOMC members making large shifts in their outlook since December. So while there will be some Committee members shifting from two hikes this year to none, we think the median dot will still imply one funds rate hike in 2019. This sums up what we've thought all along was the downside to the FOMC's dovish pivot. We think the FOMC has basically talked itself into a corner, to the point that the markets see virtually no chance of any further funds rate hikes, yet the FOMC's baseline outlook is consistent with at least one more hike. In short, Chairman Powell will have his work cut out for him at the post-meeting press conference. Also, we look for the Committee to signal that the runoff of the Fed balance sheet will come to an end in this year's fourth quarter.
January Factory Orders Tuesday, 3/19 Range: -0.5 to 0.6 percent Median: 0.3 percent	Dec = +0.1%	<u>Up</u> by 0.5 percent. The advance data on durable goods orders show a 0.4 percent increase, and we look for higher oil prices to have pushed orders for nondurable goods higher. More importantly, the advance data show a 0.8 percent increase in core capital goods orders, a nice bounce back from weak orders in Q4 2018. The key, of course, is the extent to which this growth will be sustained over coming months.
February Leading Economic Index Thursday, 3/21 Range: -0.1 to 0.5 percent Median: 0.1 percent	Jan = 0.0%	<u>Up</u> by 0.1 percent.
February Existing Home Sales Thursday, 3/21 Range: 4.920 to 5.460 million units Median: 5.088 million units SAAR	Jan = 4.940 million units SAAR	<u>Up</u> to an annualized sales rate of 5.460 million units, but even if our forecast is on or near the mark, it's a number that will look better than it will actually be, thanks in large part to a sizeable seasonal adjustment factor. On a not seasonally adjusted basis, we look for 322,000 sales, up slightly from 319,000 sales in February 2018 on an equal number of sales days. But, our forecast anticipates a sizeable jump from the 285,000 sales in January, a much larger February increase than is typical, reflecting a larger than normal January increase in pending home sales. Keep in mind that existing home sales are booked at closing (pending home sales reflect signed sales contracts), so the February data would be the first instance in which the sharp decline in mortgage interest rates since mid-November would be seen in the existing home sales data. But, as a sign of how soft sales have been over recent months, our forecast would put the running 12-month total of not seasonally adjusted existing home sales at 5.318 million units, which is more in line with the trend rate of sales in early-2016. We've for some time argued that, with the exception of Q4 2018, this is more a supply side issue than a demand side issue. We do, however, look for further relief on the supply side in the February data, with listings rising to 1.660 million units, a larger than normal increase for the month of February (the inventory data are not seasonally adjusted) which would leave listings up better than five percent year-on-year. With mortgage rates looking somewhat range bound over the next several months and a slower pace of house price appreciation, we continue to look for modest growth in new and existing home sales in 2019.

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