# ECONOMIC PREVIEW

REGIONS

Week of September 21, 2020

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint**<br>*(After the November 4-5 FOMC meeting):*<br>Target Range Mid-point: 0.000 to 0.125 percent<br>Median Target Range Mid-point: 0.125 percent | Range:<br>0.00% to 0.25%<br>Midpoint:<br>0.125% | Thursday's release of the data on jobless claims will be the most significant release in a light week for economic data. Though well off of the early-April peak, initial claims nonetheless continue to run at around four times the pre-pandemic rate. Though continuing claims have been declining, that in part reflects recipients having exhausted their regular state level benefits. We have pointed to the increasing duration of unemployment, particularly amongst those on temporary layoff, as a sign that the pace of recovery in the labor market has slowed, and the claims data support that view. |
| **August Existing Home Sales** Tuesday, 9/22<br>Range: 5.550 to 6.350 million units<br>Median: 6.060 million units SAAR | Jul = 5.860 million units SAAR | Up to an annualized rate of 5.910 million units. On a not seasonally adjusted basis, we look for existing home sales of 579,000 units, down 3.0 percent from July. This is in line with the behavior of pending home sales, a measure of signed sales contracts that tend to lead closings by 30-45 days and which declined by 6.0 percent in July on a not seasonally adjusted basis. Still, this is much smaller than the typical July decline, so it could be that our forecast of unadjusted sales is too low, which in turn would mean our forecast of the headline sales number is too low. In any event, the main story line with existing home sales remains inventory, or lack thereof. Notably low inventories have for some time acted as a drag on existing home sales – you can't buy what's not for sale – and this constraint shows no signs of easing any time soon. Our forecast for August would leave inventories of existing homes for sale down by better than 20 percent year-on-year. Strong demand and persistently lean inventories are fueling robust price appreciation. To the extent that accelerating year-on-year growth in the median sales price reflects faster growth in all price ranges, as opposed to a shift in the mix of sales across price points, the pace of price appreciation as measured in the repeat sales price indexes should pick up in the months ahead. |
| **August New Home Sales** Thursday, 9/24<br>Range: 840,000 to 981,000 units<br>Median: 893,000 units SAAR | Jul = 901,000 units SAAR | Up to an annualized rate of 981,000 units. Our above-consensus forecast may be a bit ambitious, but we said the same thing last month when we forecast an annualized sales rate of 907,000 units. Sure, like they say in the mutual fund commercials, just because you come close one month doesn't mean you'll come close the next month, particularly in forecasting a series as relentlessly fickle as new home sales. Yet, here we are. On a not seasonally adjusted basis, we look for new home sales of 82,000 units, which would be the highest monthly total since April 2007. Many builders are reporting much stronger growth in orders than is likely to turn up in the Census data on new home sales, so, even if our forecast proves too high, new home sales are clearly trending higher, being fueled by lower mortgage interest rates and the push to the exurbs (a pattern in place prior to, but greatly accelerated by, the pandemic). Lean inventories are acting as a headwind for new home sales, even if not nearly to the same degree as for existing home sales, the difference being that, while you can't buy what's not for sale, you can buy what hasn't yet been built. Keep in mind that new home sales are booked at the signing of the sales contract, which can occur after construction has been completed, while construction is underway, or before construction has started. An elevated share of units sold prior to construction having been started can be a sign that builders are pressing to keep pace with demand. Another sign of that is declining spec inventories; spec inventories have been falling for some time and as of July were at their lowest level since June 2017. Still, pricing is a bigger concern to us; between strong demand, lean inventories, and sharply higher materials costs, new home prices have been rising at a rapid clip. While low mortgage interest rates can act as a buffer, helping preserve affordability, that buffer will ultimately wear thin in the face of sustained rapid price appreciation. There is a tipping point, even if we do not know precisely where that tipping point is. For now, though, even if our forecast of August sales is proven to be too high, there is further upside room for new home sales. |
| **August Durable Goods Orders** Friday, 9/25<br>Range: -4.1 to 6.0 percent<br>Median: 1.1 percent | Jul = +11.4% | Up by 3.4 percent. Though Boeing's net orders were again negative (minus 12), further growth in motor vehicle orders will push total transportation orders higher, thus supporting top-line orders. As always, however, our focus will be on core capital goods orders (nondefense capital goods excluding aircraft) and whether the bounce seen over the prior three months can be sustained. We expect that it will (see below), though how much longer that will be the case remains to be seen. Our forecast would push the level of core capital goods orders above that of January, and we expect growth in business investment to be fairly slow and uneven from here on out. |
| **August Durable Goods Orders: Ex-Trnsp.** Friday, 9/25<br>Range: -1.4 to 2.4 percent<br>Median: 1.0 percent | Jul = +2.6% | We look for ex-transportation orders to be up by 1.1 percent. Our forecast anticipates orders for core capital goods to be up by 1.2 percent. |