ECONOMIC PREVIEW

REGIONS

Week of October 19, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 4-5 FOMC meeting):* Target Range Mid-point: 0.000 to 0.125 percent Median Target Range Mid-point: 0.125 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	Interpreting the messages in the various economic data releases has been more difficult than usual of late. As we've noted, what for years have been typical seasonal patterns in the data have this year been disrupted by the effects of the pandemic. Much of the data for the month of September has been biased higher by seasonal adjustment issues, making the headline numbers look better than is actually the case. It remains to be seen whether that pattern will hold in the September data on residential construction and existing home sales. The bottom line remains the same – the economy continues to heal, but the pace of improvement has slowed, and meaningful downside risks remain.
September Building Permits Tuesday, 10/20 Range: 1.400 to 1.600 million units Median: 1.520 million units SAAR	Aug = 1.476 million units SAAR	Down to an annualized rate of 1.412 million units. On a not seasonally adjusted basis, we look for total permits of 118,800 units, down from 126,200 units in August. Though this may seem at odds with so much talk of a "sizzling" housing market, it is in keeping with typical seasonal patterns. September is typically a seasonally weak month for housing permits, housing starts, and home sales, such that drop-offs from August are the rule not the exception in the unadjusted data. For instance, since 2000, there has not been a single year in which unadjusted single family permits rose in September. What is more relevant is that our forecast anticipates the drop-offs in housing market activity this September will be smaller than is typically the case. For instance, our forecast anticipates 83,900 single family permits, and while this would be a 6.7 percent decline from August, that is nonetheless smaller than the "typical" September decline of 10.6 percent, and our forecast would leave single family permits up 16.7 percent year-on-year. If we are correct in thinking that this September will be stronger than is typical for the month, that opens the door for seasonal adjustment mischief that could make the headline numbers look better than is actually the case. This simply points to the importance of understanding the trends in the unadjusted data, which is why we expect continued strength in the single family segment of the market as multi-family activity tails off. One unknown is the extent to which the fires in the West and flooding in the South will impact the September data. Any such effects will be much more pronounced in the data on housing starts than in the data on housing permits.
September Housing Starts Tuesday, 10/20 Range: 1.375 to 1.571 million units Median: 1.465 million units SAAR	Aug = 1.416 million units SAAR	Down to an annualized rate of 1.389 million units. On a not seasonally adjusted basis, we look for total starts of 123,300 units, down from 127,300 units in August. As with housing permits, a decline in unadjusted starts in September would be in keeping with typical seasonal patterns, and our forecast would leave total starts up 8.9 percent year-on-year, with single family starts up 14.4 percent. To the extent fires in the West and hurricane-related flooding in the South did impact the September data, starts will be much more impacted than permits, which poses some downside risk to our forecast and could add volatility to the starts data over the next few months. The broader trends in the not seasonally adjusted data, however, will remain intact, i.e., further growth in single family starts which will nonetheless still leave builders scrambling to keep pace with demand as multi-family starts ease further. With mortgage rates unlikely to stray very far, the main near-term threats to demand for single family homes are affordability constraints and a meaningful deterioration in labor market conditions.
September Leading Economic Index Thursday, 10/22 Range: 0.4 to 1.8 percent Median: 0.8 percent	Aug = +1.2%	Up by 0.6 percent.
September Existing Home Sales Thursday, 10/22 Range: 5.820 to 6.750 million units Median: 6.300 million units SAAR	Aug = 6.000 million units SAAR	Up to an annualized sales rate of 6.360 million units. Continuing with a main theme in the data on housing permits and starts, September is typically a seasonally weak month for existing home sales. Over the life of the current data series, unadjusted sales have never increased in the month of September, and our forecast of not seasonally adjusted sales of 549,000 units would reflect a 2.1 percent decline from August sales of 561,000 units. But, this would be a much smaller decline than the average September decline of 15.2 percent over the 2000-2019 period. Again, the point is that we anticipate this September being stronger than a "typical" September, which will provide a boost to the headline (i.e., seasonally adjusted and annualized) sales number. The key to whether, or to what degree, the recent momentum in existing home sales can be sustained is inventory, and extraordinarily lean inventories have for some time acted as a drag on sales and as an accelerant for price appreciation. As with sales, September is typically a seasonally weak month for listings; our forecast anticipates a larger than normal September decline which would leave listings down more than 20 percent year-on-year. This plays into our concerns over affordability, with price appreciation being fueled by lean inventories and still-solid growth in demand.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com