ECONOMIC PREVIEW

REGIONS

Week of October 26, 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%	This week brings the release of the BEA's initial estimate of Q3 GDP (see Page 2). While it was clear early on that there would be a significant bounce after an epic contraction in Q2, private domestic demand rebounded more strongly in Q3 than we had anticipated would be the case. Clearly, growth will settle back into a more normal range beginning with Q4, but exactly what constitutes "normal" going forward is anything but clear. The U.S. economy carried positive momentum into Q4, but there are lingering downside risks, while Europe serves as a cautionary tale of what a resurgence of the COVID-19 virus could mean for the U.S. economy.
September New Home Sales Monday, 10/26 Range: 0.937 to 1.092 million units Median: 1.023 million units SAAR	Aug = 1.011 million units SAAR	Up to an annualized rate of 1.092 million units. Thus far, three of the four pillars of the monthly housing market data – permits, starts, and existing home sales – have easily outperformed typical seasonal patterns for the month of September. While we expect that to be the case with the fourth pillar, the reality is that one never knows with new home sales, which seem to derive an undue amount of pleasure from mocking forecasters. Be that as it may, our forecast anticipates not seasonally adjusted new home sales of 89,000 units, which would be the highest monthly total since June 2006. To reinforce our point about the September housing market data significantly outperforming typical seasonal patterns, the new home sales data go back to 1963, and over the 1963-2019 period, there were only four years in which unadjusted new home sales rose between August and September. While this September will almost surely be the fifth time, it could be that our forecast is a bit on the ambitious side. Aside from the not seasonally adjusted sales number, watch for the share of sales accounted for by units on which construction has not yet started – when that share is elevated, as it has been over recent months, it is a sign that builders are pressed to keep pace with demand. Also look for the change in spec inventories, which in August fell to a more than three-year low, further evidence of builders pressed to keep pace with demand. Despite the recent strength of sales, affordability is a growing concern, even more so should mortgage interest rates follow yields on longer-term Treasuries higher. It could be that, at least for now, originators hold the line on primary mortgage rates to help preserve volume, but if Treasury yields continue to rise, it seems only a matter of time before mortgage rates follow. This isn't to say we look for new home sales to take a sudden tumble in the months ahead, but it seems increasingly likely that the trajectory of new home sales will begin to flatten out.
September Durable Goods Orders Tuesday, 10/27 Range: -2.8 to 2.9 percent Median: 0.5 percent	Aug = +0.5%	Up by 0.6 percent. Boeing's string of negative net monthly orders continued last month but, while only a small negative (-3), that September has tended to be a strong month for orders leaves the door open for seasonal adjustment noise, posing a downside risk to our forecast of total orders. Barring that, we look for total orders for transportation goods to push higher, as motor vehicle orders make back some of the ground lost in August. Orders for core capital goods (see below) have been strong over the past few months, having surpassed pre-pandemic levels, but we've questioned the sustainability of that strength, and our forecast anticipates a more modest gain in the September data.
Sep. Durable Goods Orders: Ex-Trnsp. Tuesday, 10/27 Range: -0.6 to 2.0 percent Median: 0.3 percent	Aug = +0.6%	We look for ex-transportation orders to be up by 0.7 percent, and for core capital goods orders to be up by 0.5 percent.
October Consumer Confidence Tuesday, 10/27 Range: 98.0 to 106.5 Median: 101.9	Sep = 101.8	Down to 98.6, giving back some of what seemed an oddly large increase in September. As always, the details on consumers' assessments of labor market conditions will be our main interest. Overall assessments have swung between being modestly negative and modestly positive over the past four months, so it will be interesting to see if the modestly positive reading in September will be built on or reversed in the October data – a plausible case could be made either way.
Sep. Advance Trade Balance: Goods Wednesday, 10/28 Range: -\$89.1 to -\$79.2 billion Median: -\$85.4 billion	Aug = -\$82.9 billion	Widening to -\$86.6 billion. Data on port traffic suggest September saw another sizeable increase in imports along with a much smaller increase in exports than that seen in August. In a typical year, imports of consumer goods tend to be strong from July through October, as retailers ready themselves for the holiday shopping season. This year, however, normal seasonal patterns across a wide swath of the economy have been disrupted by the pandemic, and global trade flows have been no exception. With retailers trying to extend the holiday shopping season this year to smooth out the flow of in-store sales, we're looking for a larger than normal September increase in imports. Even if the deficit in the goods account does not widen as much in September as our forecast anticipates, trade will still have deducted from Q3 GDP growth.

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

ECONOMIC PREVIEW

REGIONS

Week of October 26, 2020

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Q3 Real GDP – 1st estimate Range: 26.4 to 36.0 percent Median: 31.9 percent SAAR	Thursday, 10/29	Q2 = -31.4% SAAR	Up at an annualized rate of 33.6 percent. While this would easily be the fastest quarterly growth rate on record, it would also leave the level of real GDP over three percent below that of Q4 2019. We'll leave it to you to decide which of those you think to be more relevant. In any event, consumer spending, business fixed investment, and residential fixed investment all rebounded strongly after having collapsed in Q2, making the drag from a wider trade deficit little more than an afterthought. In any given quarter, the BEA's initial estimate of GDP is based on highly incomplete source data and thus prone to sizable revision, but the subsequent revisions to the initial estimate for Q3 are likely to be larger than normal.
Q3 GDP Price Index – 1st estimate Range: 2.0 to 3.4 percent Median: 2.9 percent SAAR	Thursday, 10/29	Q2 = -1.8% SAAR	Up at an annualized rate of 3.1 percent.
Q3 Employment Cost Index Range: 0.3 to 0.9 percent Median: 0.5 percent	Friday, 10/30	Q2 = 0.5%	Up by 0.4 percent, with wages up by 0.4 percent and benefit costs up by 0.5 percent. Our forecast would leave the total ECI up by 2.4 percent year-on-year, with wages up by 2.5 percent and benefit costs up by 2.2 percent. Free of the mix issues that caused average hourly earnings to gyrate wildly over Q2 and Q3, we expect the ECI to show muted growth in labor costs in Q3.
September Personal Income Range: -1.9 to 2.0 percent Median: 0.4 percent	Friday, 10/30	Aug = -2.7%	Up by 1.1 percent. The late-July expiration of the $600 per week in supplemental unemployment insurance benefits provided by the CARES Act led to a sharp decline in transfer payments in August, a decline large enough to have dragged total personal income down. Part of that decline in transfer payments was retraced in September, reflecting payments made under the Lost Wages Assistance Program, which in many states included retroactive payments for weeks unemployed during August. This will contribute to an increase in total personal income. Another sizable increase in private sector wage and salary earnings will also contribute to growth in top-line personal income. The BEA's accounting for funds from the Paycheck Protection Program (PPP) should again add to nonfarm proprietors' income, though to a much smaller extent than over the prior five months; these increases will unwind over coming months, acting as a drag on nonfarm proprietors' income. Our forecast anticipates a sixth consecutive decline in dividend income, but if we are correct in thinking that this will be a much smaller decline than seen over the prior five months, it could be a sign that this string of declines has largely run its course. With growth in spending (see below) outpacing growth in income, the personal saving rate should fall slightly but will remain significantly above the pre-pandemic run rate.
September Personal Spending Range: 0.5 to 2.1 percent Median: 1.0 percent	Friday, 10/30	Aug = +1.0%	Up by 1.2 percent. The September data on personal spending will have been incorporated into the initial estimate of Q3 GDP that comes on Thursday, and should show a solid increase in spending on goods along with a smaller increase in spending on services than that seen in the August data, in part due to sharply lower utilities outlays. While spending on goods has breezed past the pre-pandemic level, there is still a sizable gap in spending on services – our forecast would leave the level of spending on services 6.6 percent below that of February. Our view is that it will take some time to fully fill in this gap.
September PCE Deflator Range: 0.1 to 0.3 percent Median: 0.2 percent	Friday, 10/30	Aug = +0.3%	Up by 0.2 percent, which would translate into a year-on-year increase of 1.5 percent. We look for the Core PCE Deflator to be up by 0.1 percent, for a year-on-year increase of 1.6 percent.

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