ECONOMIC PREVIEW

REGIONS

Week of November 16, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 15-16 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%	Despite encouraging news of considerable progress on two fronts in a COVID-19 vaccine, the surge in new cases is a grim reminder that things can get worse, possibly much worse, before they get better should rising case numbers lead to renewed restrictions on economic activity and put a dent in consumer/business confidence. This poses a clear downside risk to near-term growth. The weekly data on initial claims for unemployment insurance benefits will be a timely indicator of whether, or to what extent, the economy is being impacted by the upturn in cases and/or policy responses.
October Retail Sales: Total Tuesday, 11/17 Range: -1.0 to 1.2 percent Median: 0.5 percent	Sep = +1.9%	Up by 0.7 percent. By all accounts, Amazon Prime Day (okay, days for those of you scoring at home), pushed back to October this year, was a rousing success, not only for Amazon but also for the third party vendors using Amazon's platform and for other retailers using their own online platforms. Whether that will be reflected in the data on October retail sales is another question, as history suggests the retail sales data have but a passing familiarity with Amazon Prime Day. Keep in mind that while online sales account for over 90 percent of the broad nonstore retailers category, online sales are only broken out in the retail sales data with a one-month lag, meaning that in any given month there is a good deal of play in the initial estimate of sales by nonstore retailers. It is also uncertain the extent to which sales by third party vendors using Amazon's platform are captured in the retail sales data. So, while our forecast does anticipate a sizable increase in sales by online retailers, we think the actual increase will have been even larger. Additionally, many retailers took this year's later Prime Day as an opportunity to extend the "holiday shopping" season (it only seemed like that wasn't actually possible) by pulling shoppers into stores sooner. While those factors work in favor of October retail sales, there will be a few factors working in the opposite direction. Price effects mean gasoline should be a small drag on top-line sales. Also, the not seasonally adjusted data show September sales were better than normal for the month, which in part reflects a delayed back to school shopping season, as reflected in department store and apparel store sales. There is bound to be some payback in the October, data, but how much is uncertain. Given that in a "normal" year the October seasonal adjustment factors anticipate a strong gain in sales, this leaves room for seasonally adjusted sales to come in well below our forecast. Finally, with so many bars and restaurants having emphasized outdoor seating, it remains to be seen how restaurant sales fared with the weather having turned; our forecast anticipates a much smaller increase in this category in October than those seen from July through September. What remains to be seen is whether, or to what extent, Amazon Prime Day and earlier than normal seasonal promotions will have simply pulled holiday season sales forward as opposed to increasing total expenditures. The October data will provide the first part of the answer to this question, with the November and December data providing the rest, and it will be the not seasonally adjusted data for each month that will bear watching. The unadjusted data will show the extent to which typical seasonal shopping patterns were disrupted this year, and to the extent that is the case, it will make the seasonally adjusted data less reliable. This is something to keep in mind when processing the headline retail sales numbers for October, November, and December.
October Retail Sales: Ex-Auto Tuesday, 11/17 Range: -1.1 to 1.3 percent Median: 0.6 percent	Sep = +1.5%	Up by 0.8 percent.
October Retail Sales: Control Group Tuesday, 11/17 Range: -0.9 to 0.9 percent Median: 0.8 percent	Sep = +1.4%	Up by 0.9 percent.
October Industrial Production Tuesday, 11/17 Range: 0.3 to 1.7 percent Median: 1.0 percent	Sep = -0.6%	Up by 1.2 percent. After the decline seen in September, our forecast anticipates a vigorous rebound in manufacturing output, thanks in part to a sizable increase in motor vehicle assemblies. We also look for a bounce in utilities output on the heels of the 5.6 percent decline in September. Even if our forecast is on or close to the mark, output in the manufacturing sector would still be down over four percent year-on-year.
October Capacity Utilization Rate Tuesday, 11/17 Range: 71.6 to 72.8 percent Median: 72.1 percent	Sep = 71.5%	Up to 72.5 percent.

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September Business Inventories Tuesday, 11/17 Range: -0.2 to 0.6 percent Median: 0.5 percent	Aug = +0.3%	We look for total business inventories to be up by 0.6 percent, and for total business sales to be up by 0.8 percent.
October Building Permits Wednesday, 11/18 Range: 1.400 to 1.650 million units Median: 1.568 million units SAAR	Sep = 1.545 million units SAAR	Up to an annualized rate of 1.586 million units. While multi-family permits and starts continue to jump around in a manner that makes it hard to know where they're going next, there is no ambiguity about where single family permits and starts are heading – higher. What is in question, however, is the rate at which they head higher in the months ahead. While it is reasonable to expect that the pace of growth in single family activity will ease at some point, when and to what extent that will happen remain open questions. On a not seasonally adjusted basis, we look for total housing permits of 138,100 units in October, with modest increases in both single family and multi-family permits. Unadjusted single family permits rose to 94,700 units in September, marking the highest monthly total since June 2007 and making this year the only year over the 2000-2020 period in which unadjusted single family permits rose in the month of September. While we see further upside room, we also think gains will come at a more restrained pace going forward, and the path higher won't necessarily be a straight one.
October Housing Starts Wednesday, 11/18 Range: 1.350 to 1.560 million units Median: 1.460 million units SAAR	Sep = 1.415 million units SAAR	Up to an annualized rate of 1.484 million units. On a not seasonally adjusted basis, we look for total starts of 126,500 units, up slightly from 125,000 units in September, with an increase in multi-family starts offsetting modestly lower single family starts. Aside from another downturn in the broader economy, we see diminishing affordability as the main threat to the single family segment of the housing market. Even without increases in mortgage interest rates, should the pace of house price appreciation seen over recent months be sustained, let alone increase, that poses a clear threat to affordability. With applications for purchase mortgage loans having drifted lower over the past several weeks, some think we're already at that point. We think it may be too soon to make that call, especially as we are in a seasonally weak part of the year for home purchases. Keep in mind, however, that even should demand for new single family home purchases falter, sizable backlogs of unfilled orders will help sustain starts enough to make for a smoother transition to a lower level of activity, though, again, we do not believe the market to be at that point yet.
October Existing Home Sales Thursday, 11/19 Range: 6.310 to 6.700 million units Median: 6.450 million units SAAR	Sep = 6.540 million units SAAR	Up to an annualized sales rate of 6.620 million units. On a not seasonally adjusted basis, we look for sales of 552,000 units, down 1.4 percent from September but up 19.5 percent year-on-year despite this October having one fewer sales day than last. Pending home sales, signed sales contracts that lead closings by 30-45 days, fell in September, but the not seasonally adjusted data show this September's decline was less harsh than is typical for the month, and on a year-on-year basis, pending home sales were up by over 20 percent in each of the four broad geographic regions. Our forecast of unadjusted sales in each region lines up with the pending home sales data. As has for some time been the case, the inventory data will bear close watching. We expect a modest decline in listings in October, in keeping with typical seasonal patterns, but our forecast would leave listings down by roughly 18 percent year-on-year. Also watch the median sales price. While the median sales price is not always a reliable guide to trends in house prices, as it can be swayed by changes in the mix of sales, the recent acceleration in median price appreciation comes from intense price pressures across all price ranges and, as such, is consistent with the message being sent by the various repeat-sales price indexes. Extraordinarily lean inventories and notably low mortgage interest rates are combining to fuel accelerating price appreciation and, while also present in the market for new homes, supply constraints are much more pressing in the market for existing homes.
October Leading Economic Index Thursday, 11/19 Range: 0.0 to 0.8 percent Median: 0.7 percent	Sep = +0.7%	Up by 0.8 percent.

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