ECONOMIC PREVIEW

REGIONS

Week of December 21, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 26-27 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%	It's almost as if 2020, a year which will be neither missed nor forgotten, just couldn't resist leaving us with a parting shot. In any event, there are growing signs that the economy is losing momentum as 2020 comes to a close. While many, including us, expect the economy to be performing strongly over the second half of 2021, the issue is getting to that point, which seems more of a challenge with each passing day.
Q3 Real GDP – 3rd estimate Tuesday, 12/22 Range: 33.0 to 33.7 percent Median: 33.1 percent SAAR	Q3 2nd est. = +33.1% SAAR	Up at an annualized rate of 33.2 percent.
Q3 GDP Price Index – 3rd estimate Tuesday, 12/22 Range: 3.4 to 3.7 percent Median: 3.6 percent SAAR	Q3 2nd est. = +3.6% SAAR	Up at an annualized rate of 3.6 percent.
December Consumer Confidence Tuesday, 12/22 Range: 95.0 to 100.8 Median: 97.5	Nov = 96.1	Up to 98.8, but we have little, well, confidence in our forecast of consumer confidence. The obvious question is whether, or to what degree, a decline in the present conditions component would be offset by improvement in the expectations component, the latter being more heavily weighted in the Conference Board's measure. With the ongoing surge in COVID-19 cases, we'll also be watching for deterioration in consumers' assessments of labor market conditions, which had been slowly improving.
November Existing Home Sales Tuesday, 12/22 Range: 6.500 to 7.026 million units Median: 6.700 million units SAAR	Oct = 6.850 million units SAAR	Down to an annualized sales rate of 6.540 million units, which makes this the first time in months that one of our housing market forecasts has been below the consensus. On a not seasonally adjusted basis, we look for 513,000 existing home sales, down 10.5 percent from October and a larger decline than is typical for the month of November. We haven't suddenly soured on the housing market, so how is it that we find ourselves looking up at the consensus forecast? The most obvious answer is that our forecast is simply wrong, so, you know, there's that. But, if our forecast is on or near the mark, it could be that November brought payback for sales in October having been so strong – October's monthly sales rate was the fastest since November 2005. Or it could be that inventory constraints are becoming more and more pressing, which helped limit sales in November. In September and October, the median days on market was a record-low 21 days, and 72 percent of homes sold in October were on the market less than a month. It could also be that, with notably lean inventories fueling faster and faster price appreciation, some prospective buyers are effectively being priced out of the market, even with mortgage interest rates as low as they are. We think it's some of all these factors, but our forecast would still leave not seasonally adjusted sales up 27 percent year-on-year, while we expect inventories to be down 18 percent year-on-year.
November Personal Income Wednesday, 12/23 Range: -1.6 to 0.2 percent Median: -0.3 percent	Oct = -0.7%	Down by 0.9 percent. As in October, a solid gain in aggregate private sector wage and salary earnings, far and away the largest single component of personal income, will be paired with declines in other components, with the net result a decline in total personal income. The main culprit in the November data will be nonfarm proprietors' income, which is a proxy for small business profits. The BEA's treatment of funds from the Paycheck Protection Program (PPP) in the personal income data provided a boost to nonfarm proprietors' income from April through September, but that sequence will be flipped in the data from October through March, and the deduction in November will be materially larger than that seen in October. PPP-related accounting won't be the only drag on nonfarm proprietors' income, as the surge in COVID-19 cases and new curbs on activity will have also taken a toll. Our forecast also anticipates another decent gain in asset-based income and further softening in rental income.
November Personal Spending Wednesday, 12/23 Range: -0.6 to 0.4 percent Median: -0.2 percent	Oct = +0.5%	Down by 0.4 percent. The retail sales data suggest consumer spending on goods was surprisingly weak in November, but we think seasonal adjustment noise and calendar effects made the retail sales data look weaker than was actually the case. Nonetheless, our forecast anticipates a sharp decline in spending on goods, while services spending was held down by the surge in COVID-19 cases and related curbs on activity as well as by lower utilities outlays. Keep in mind, however, that even if our forecast for November personal spending is on the mark and we see further weakness in December, real Q4 consumer spending will still post a sizable increase thanks to base effects. The level of spending in September was well above the Q3 average, putting Q4 off to a strong start, and spending notched a solid gain in October. As such, in terms of the GDP math, it would be the Q1 2021 data in which we'd see a pronounced slowdown in the growth of real consumer spending.

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November PCE Deflator Wednesday, 12/23 Range: 0.0 to 0.2 percent Median: 0.1 percent	Oct = 0.0%	Up by 0.1 percent, which would yield an over-the-year increase of 1.2 percent. We look for the core PCE Deflator to be up by 0.1 percent, for a year-on-year increase of 1.5 percent.
November New Home Sales Wednesday, 12/23 Range: 0.890 to 1.105 million units Median: 0.990 million units SAAR	Oct = 0.999 million units SAAR	Up to an annualized sales rate of 1.018 million units. Given what remains robust demand in the for-sale segment of the housing market, a common theme in our forecasts for November single family housing permits, housing starts, and new home sales was that the raw (or, not seasonally adjusted) data would show smaller declines than is normal for the month of November. When combined with what for the month of November tend to be very generous seasonal adjustment factors, the result would be headline (i.e., seasonally adjusted and annualized) numbers that look more impressive than would actually be the case. That didn't work out quite as we anticipated in the data on new single family construction – while the declines this November were smaller than is typical for the month, they were nonetheless larger than our forecast anticipated, thus the headline numbers for single family permits and starts fell short of our forecast. This led us to temper our forecast for November new home sales, which is still above the consensus forecast but by less than was the case with our preliminary forecast. On a not seasonally adjusted basis, we look for new home sales of 74,000 units, down 7.5 percent from October but still a smaller decline than is typical for the month of November. As with existing homes, new home inventories are notably lean, with spec inventories hitting a more than three-year low in October and likely having fallen further in November. One offset builders have is that sales can take place prior to construction having been started, and such units have accounted for an elevated share of sales over recent months. The result is that builders are sitting on larger and larger backlogs of unfilled orders, and some are actively using pricing as a means of taking some of the steam out of demand.
November Durable Goods Orders Wednesday, 12/23 Range: -2.1 to 3.0 percent Median: 0.6 percent	Oct = +1.3%	Down by 2.1 percent. You wouldn't know it from our forecast of top-line orders, but we expect the report on November durable goods orders to be strong. The issue, as is usually the case in the orders data, is civilian aircraft orders. Boeing reported 27 new orders in November, up from zero in September and October. While this would seem to suggest a boost to top-line durable goods orders, keep in mind that it is net orders, not gross orders, that go into the durable goods data. With Boeing having reported 88 cancellations in November, that puts net orders at negative 61, so our forecast anticipates the dollar amount of civilian aircraft orders will be negative, thus acting as a sizable drag on top-line orders. To be sure, the mapping between unit orders and the dollar volume of orders in this data series is never all that clear cut, and most forecasts have total durable goods orders rising, not falling as does our forecast. Trying to get this mapping right is a somewhat silly, and often futile, exercise to go through every month, yet here we are . . . But, a look at our forecast for ex-transportation orders (see below) illustrates our point about expecting a strong report, headline number notwithstanding. And, as in any month, the one number in the report on durable goods orders that matters more than any other number is core capital goods orders. While it is the data on shipments of core capital goods that feed into the GDP data on business investment, orders lead shipments, and core capital goods orders have been notably strong over the past several months. We expect another solid gain in November, and after surprising to the upside in Q3 business investment in equipment and machinery will turn in another strong performance in the Q4 GDP data.
Nov. Durable Goods Orders: Ex-Trnsp. Wednesday, 12/23 Range: -0.1 to 1.5 percent Median: 0.5 percent	Oct = +1.3%	Up by 1.0 percent. We look for core capital goods orders (nondefense capital goods excluding aircraft & parts) to be up by 0.8 percent.

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