ECONOMIC PREVIEW

REGIONS

Week of January 25, 2021

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%	This week's FOMC meeting will bring no changes in the policy stance and few, if any, changes to the post-meeting statement. In his post-meeting press conference, we look for Chairman Powell to once again emphasize that it is too soon for the Committee to set any kind of a timeline for tapering the pace of the Fed's asset purchases.
January Consumer Confidence Tuesday, 1/26 Range: 85.0 to 92.1 Median: 89.2	Dec = 88.6	Up to 91.4. As 2021 kicked off, sentiment was being pulled in opposite directions – the arrival of a second round of Economic Impact Payments and progress on the vaccine front versus rapidly rising COVID-19 case counts. So, whether the headline index rises, as we anticipate, or falls, any change is likely to be modest. As always, we'll be most interested in consumers' assessments of labor market conditions. December saw an erosion of the modest improvement recorded over the prior few months even though the details of the December employment report were much better than implied by a headline print showing a decline in nonfarm payrolls. That initial claims were rising earlier this month likely impacted how survey respondents assessed the labor market in the Conference Board's survey.
December Durable Goods Orders Wednesday, 1/27 Range: -3.8 to 3.8 percent Median: 1.0 percent	Nov = +1.0%	Up by 1.2 percent. Boeing posted 90 new orders in December, the best monthly total in two years, but at the same time logged 107 cancellations, pushing net orders down to negative 17, which is nonetheless much better than November's net order number. We expect offset from growth in other components of transportation orders, so look for transportation orders to support top-line orders. We look for continued growth in core capital goods orders (see below), and for business investment in equipment and machinery to have provided meaningful support for Q4 real GDP growth.
Dec. Durable Goods Orders: Ex-Trnsp. Wed., 1/27 Range: -0.2 to 1.5 percent Median: 0.5 percent	Nov = +0.4%	We look for ex-transportation orders to be up by 0.7 percent. Orders for core capital goods, or, non-defense capital goods excluding aircraft, will be up by 0.5 percent.
Q4 Real GDP – 1st estimate Thursday, 1/28 Range: 3.8 to 5.2 percent Median: 4.2 percent SAAR	Q3 = +33.4% SAAR	Up at an annualized rate of 5.2 percent. Inventories, residential fixed investment, business investment in equipment and machinery, and, despite fading late in the quarter, consumer spending were the primary supports for Q4 real GDP growth, while net exports and business investment in structures acted as meaningful drags. That consumer spending faded as Q4 wore on – the level of real consumer spending in December was below the Q4 average – set Q1 2021 growth off on a soft note. Assuming further progress in the fight against COVID-19, even if it comes at a halting and uneven pace, real GDP growth should improve as 2021 wears on.
Q4 GDP Price Index – 1st estimate Thursday, 1/28 Range: 1.5 to 3.0 percent Median: 2.5 percent SAAR	Q3 = +3.5% SAAR	Up at an annualized rate of 2.2 percent.
December New Home Sales Thursday, 1/28 Range: 0.802 to 1.004 million units Median: 0.866 million units SAAR	Nov = 0.841 million units SAAR	Up to an annualized sales rate of 1.004 million units. As a general rule, it seldom pays to spend too much time trying to make sense out of whatever we're told new home sales are in any given month. The new home sales data are inherently volatile, prone to sizable revision, and are often at odds with other housing market data and builder commentary. The November data are the latest illustration, as not seasonally adjusted sales declined by 22.4 percent, with particularly harsh declines in the Midwest (down 55.6 percent) and West (down 31.8 percent) regions. Even allowing for the potential impacts of the surge in COVID-19 cases, there was little in other housing market indicators that supported the reported decline in new home sales. Indeed, in the Midwest, the ratio of new home sales to new home starts – we use the ratios of sales/starts and sales/permits as checks on our new home forecasts – fell to a more than eight-year low. So, in what admittedly could amount to the triumph of (forecasting) hope over experience, we're looking for payback in the December data, with not seasonally adjusted sales of 69,000 units, up 17 percent from November. Keep in mind that December is typically a seasonally weak month for new home sales, so even if unadjusted sales don't rise as much as we anticipate, favorable seasonal adjustment will provide a boost to the headline (seasonally adjusted and annualized) sales number. Other than not seasonally adjusted sales, other metrics to watch will be spec inventories, which in November fell to the lowest level since May 2017, and the share of sales accounted for by units on which construction had not yet started, which has been notably elevated in recent months. These metrics are indicative of builders being increasingly pressed to keep pace with demand, even if that demand isn't always apparent in the headline new home sales number.

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Dec. Advance Trade Balance: Goods Thursday, 1/28 Range: -$86.5 to -$82.0 billion Median: -$83.5 billion	Nov = -$84.8 billion	Widening to -$85.4 billion.
December Leading Economic Index Thursday, 1/28 Range: 0.2 to 0.7 percent Median: 0.5 percent	Nov = +0.6%	Up by 0.5 percent.
Q4 Employment Cost Index Friday, 1/29 Range: 0.2 to 0.8 percent Median: 0.5 percent	Q3 = +0.5%	Up by 0.4 percent, with wage costs up by 0.4 percent and benefit costs up by 0.5 percent. Our forecast would leave the total ECI up 2.2 percent year-on-year, with wage costs and benefit costs each up 2.2 percent.
December Personal Income Friday, 1/29 Range: -1.0 to 1.7 percent Median: 0.1 percent	Nov = -1.1%	Up by 0.5 percent. You'll likely need a scorecard to keep track of all the moving parts beneath the headline personal income number for December. The details of the December employment report point to a healthy increase in private sector wage and salary earnings. The average length of the workweek declined by one-tenth of an hour, which acts as a powerful drag on labor earnings, but the offset is the 0.8 percent increase in average hourly earnings. To a large extent, however, this is simply a mix issue reflecting payrolls in leisure and hospitality services – the industry group with the lowest hourly wages – having fallen by 498,000 jobs. It isn't clear to us how these two factors will add up in the BEA's data, but our forecast anticipates a 0.4 percent increase in private sector wage earnings, the largest single component of personal income. While supplemental and pandemic-related unemployment insurance (UI) benefit programs lapsed late in the month, the timing suggests a relatively modest impact in the December personal income data, though more people falling off the regular benefit rolls should lead to a decline in total UI payouts. While the vast majority of the payouts were made in January, some portion of the second round of Economic Impact Payments was paid out in late-December, which should lend some support to transfer payments. Costco's special dividend payment of $10 per share, paid on December 11, amounted to roughly $4.4 billion, but keep in mind that the personal income data are reported on an annualized basis, which will exaggerate the boost to dividend income in the December data. This alone added three-tenths of a point to our forecast of the change in total personal income in December but will be reversed in the January data. Finally, the deduction from nonfarm proprietors' income from the reversal of prior payments from the Paycheck Protection Program and the deduction from farm income from the reversal of prior payments from the Coronavirus Food Assistance Program will both be much smaller in the December data than was the case in the November data and hence each will be less of a drag on total personal income. Like we said, you'll need a scorecard to keep track of all of this, and with all these moving parts, our degree of confidence in our forecast of personal income is much lower than is typically the case.
December Personal Spending Friday, 1/29 Range: -1.0 to 0.3 percent Median: -0.4 percent	Nov = -0.4%	Up by 0.1 percent. On the surface, the report on December retail sales was a disaster, particularly the 1.9 percent decline in control retail sales, a direct input into the PCE data on consumer spending on goods. This is no doubt shaping expectations of spending on goods as reported in the PCE data. But, the details of the retail sales data show that, while spending was weaker than is typical for the month of December, it was seasonal adjustment that made the retail sales report look as alarming as it did. To be sure, the BEA's seasonal adjustment process is likely to yield the same effects, but we don't expect them to be as severe as those in the retail sales data. Obviously, if we're wrong on this point, our forecast will be off, perhaps significantly so. Additionally, the retail sales data do not capture consumer spending on services, which accounts for roughly two-thirds of all consumer spending. Our forecast anticipates a rebound in services spending in December, helped along by higher utilities outlays.
December PCE Deflator Friday, 1/29 Range: 0.0 to 0.4 percent Median: 0.3 percent	Nov = 0.0%	Up by 0.3 percent, for a year-over-year increase of 1.2 percent. We look for the core PCE Deflator to be up by 0.1 percent, which would yield an over-the-year increase of 1.3 percent.

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