ECONOMIC PREVIEW

REGIONS

Week of February 22, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 16-17 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%	In addition to a fairly crowded docket of data releases, this week brings Fed Chairman Powell's testimony in conjunction with the Semiannual Monetary Policy Report to the Congress. Chairman Powell appears (virtually) before the Senate Banking Committee on Tuesday and before the House Financial Services Committee on Wednesday (10:00 EST each day). It is unlikely that Chairman Powell will signal any shifts in policy, with his prepared testimony likely to stress the FOMC's resolve to stick to a highly accommodative policy stance until they are confident that the downside risks to the economy have subsided further and the labor market is on much firmer footing.
January Leading Economic Index Monday, 2/22 Range: 0.2 to 0.7 percent Median: 0.3 percent	Dec = +0.3%	Up by 0.6 percent.
February Consumer Confidence Wednesday, 2/24 Range: 87.0 to 93.0 Median: 90.0	Dec = 89.3	Up to 92.4, with our forecast anticipating further improvement in the expectations component and a modest bounce in the present situation component after three straight monthly declines. One possible downside risk to our call is the sharp increase in retail gasoline prices over the past several weeks, which could act as a drag on the present situation component. Of more importance will be consumers' assessments of labor market conditions, which slipped in both December and January as the pace of hiring slowed. The February survey will be an early read of what the February employment report, due on March 5, holds in store.
January New Home Sales Wednesday, 2/24 Range: 0.809 to 0.920 million units Median: 0.860 million units SAAR	Dec = 0.842 million units SAAR	Down to an annualized rate of 0.831 million units. On a not seasonally adjusted basis, we look for new home sales of 62,000 units; while this would be a 12.7 percent increase, it would nonetheless be smaller than the typical January increase and would come off of a larger than normal December decline. The NAHB's survey of homebuilder confidence showed some slippage in traffic and sales in January, the report on January residential construction showed a decline in single family starts, and January's increase in applications for purchase mortgage loans was smaller than is typical for the month, all of which are consistent with our expectation of fairly subdued new home sales. While weather issues played a part in January's decline in single family starts, there are also signs that builders, facing sharply higher input costs and growing backlogs of unfilled orders, are intentionally slowing down development. At the same time, it is reasonable to wonder whether affordability constraints are starting to impact demand. It will take time to sort these things out, though the February data won't be of any help along those lines given that starts and sales will be held down by the severe winter weather gripping much of the U.S. As far as the January data, aside from not seasonally adjusted sales, we'll be most interested in spec inventories, which edged higher in December after having trended lower for more than two years, and the share of sales accounted for by units on which construction had not yet started.
January Durable Goods Orders Thursday, 2/25 Range: 0.0 to 3.0 percent Median: 1.1 percent	Dec = +0.5%	Up by 2.3 percent. While transportation orders, including what we think will be a boost from seasonal adjustment, will do most of the heavy lifting here, the details on non-transportation orders and core capital goods orders (see below) should be strong. If we're right on the latter, that will put Q1 growth in business investment spending as measured in the GDP data off to a good start.
Jan. Durable Goods Orders: Ex-Trnsp. Thursday, 2/25 Range: -0.3 to 1.2 percent Median: 0.7 percent	Dec = +1.1%	We look for ex-transportation orders to be up by 0.9 percent, with orders for core capital goods (nondefense capital goods excluding aircraft and parts) up by 1.0 percent.
Q4 2020 Real GDP – 2nd estimate Thursday, 2/25 Range: 4.0 to 4.4 percent Median: 4.1 percent SAAR	Q4 – 1st est. = +4.0% SAAR	Up at an annualized rate of 4.4 percent. While the downward revision to December control retail sales did no favors for the initial estimate of Q4 growth in real consumer spending, we nonetheless look for business fixed investment, inventories, residential fixed investment, and net exports to be better than the BEA initially estimated, which should lead to an upward revision in top-line real GDP growth.
Q4 2020 GDP Price Index – 2nd estimate Thursday, 2/25 Range: 1.9 to 2.0 percent Median: 2.0 percent SAAR	Q4 – 1st est. = +2.0% SAAR	Up at an annualized rate of 2.0 percent.
Jan. Advance Trade Balance: Goods Friday, 2/26 Range: -$84.0 to -$79.5 billion Median: -$82.9 billion	Dec = -$82.5 billion	Widening to -$83.9 billion.

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January Personal Income Friday, 2/26 Range: 1.8 to 13.5 percent Median: 9.5 percent	Dec = +0.6%	Up by 10.1 percent. The second round of Economic Impact Payments, totaling over $140 billion, was distributed in January, which will provide a huge boost to total personal income, and any December lapses in pandemic-related unemployment insurance benefits will be made up for. January also brings the annual cost of living adjustments to various transfer payments, such as Social Security, and for government workers. All of this will come on top of what should be a solid increase in private sector wage and salary earnings – while private sector payrolls went up by only 6,000 jobs in February, recall that the average length of the workweek increased by three-tenths of an hour, which will have a powerful effect on aggregate earnings. One drag on income growth will be a decline in dividend income, unwinding the impact of Costco having paid its special dividend in December. With income growth significantly outpacing spending growth (see below), an already elevated personal saving rate will be pushed even higher. Even without the looming third round of (even larger) Economic Impact Payments, which we expect will start to be distributed in March or April, the significant pool of household savings will provide a significant boost to consumer spending once the economy is more fully reopened at some point later this year, which is nothing more than simple math. The more complex calculations come in trying to assess the net effects on and the ultimate costs to the economy once that burst of spending has subsided.
January Personal Spending Friday, 2/26 Range: 0.4 to 4.1 percent Median: 2.4 percent	Dec = -0.2%	Up by 3.1 percent. The seemingly obvious explanation is that the second round of Economic Impact Payments (EIP) drove consumer spending sharply higher in January, and this was the most commonly offered explanation for the "surge" in retail sales, with total retail sales up 5.3 percent and control retail sales up 6.0 percent. Those gains, however, were largely the product of overly generous seasonal adjustment, as is apparent in even a cursory glance at the not seasonally adjusted data. To be sure, the decline in unadjusted retail sales in January was smaller than is typical for the month, and the EIP funds played a role in that, particularly amongst lower-income households, as did the relaxation of curbs placed on activity over the final weeks of 2020. Still, data from the Census Bureau's *Household Pulse Survey* show three-quarters of recipients listed saving or paying down debt as the primary use of the EIP funds, which simply goes to the point about the accumulation of household savings that we made above. The bottom line here is that there is little reason to suspect the BEA's data on January consumer spending will be less impacted by the seasonal adjustment noise apparent in the retail sales data, and regardless of whether or not we buy the BEA's January spending numbers, they are nonetheless what will feed into the Q1 GDP data.
January PCE Deflator Friday, 2/26 Range: 0.2 to 0.5 percent Median: 0.3 percent	Dec = +0.3%	Up by 0.5 percent, which would yield a year-on-year increase of 1.6 percent. We look for the core PCE Deflator to be up by 0.4 percent, which would translate into a year-on-year increase of 1.6 percent. The details of the January Producer Price Index (PPI) show a sharp increase in health care costs, which account for roughly twenty percent of the core PCE Deflator. Recall that the Consumer Price Index (CPI) measures health care costs on the basis of out-of-pocket costs to consumers, whereas the PCE Deflator measures health care costs on the basis to payments to providers, regardless of who makes those payments – also the basis on which health care costs are measured in the PPI data. It is on the basis of this mapping that we anticipate sizable jumps in both the total and core PCE Deflators, with energy prices also helping push the headline deflator higher. If we are correct in our assessment, core PCE inflation would have outrun core CPI inflation in January, which would be the first such instance since 2010. Some will argue that the jump in health care costs in January is a one-off adjustment and, as such, isn't as worrisome as would be a sustained series of cost increases but, even so, the January data will set the 2021 base even higher, which will yield higher measured inflation. Even without an assist from health care, inflation was likely to pick up in 2021, but not to the point that the FOMC would respond.

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