# ECONOMIC PREVIEW

REGIONS

Week of January 16, 2023

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint**<br>*(After the January 31-February 1FOMC meeting):*<br>Target Range Mid-point: 4.625 to 4.875 percent<br>Median Target Range Mid-point: 4.875 percent | Range:<br>4.25% to 4.50%<br>Midpoint:<br>4.375% | A holiday-shortened week will be a busy one for economic data releases and will also bring the last round of Fedspeak ahead of the upcoming FOMC meeting as the blackout period kicks in next week. While the December Producer Price Index report will offer more evidence of diminishing inflation pressures, FOMC members are likely to continue stressing that they are not yet convinced inflation is on a one-way path down and, as such, those making public remarks this week will continue to stress that Fed funds rate cuts are not in the cards for 2023. In terms of this week's slate of data releases, the December report on retail sales is likely to attract the most attention, though not necessarily for the right reasons if our forecast, considerably below the consensus forecast, is on or close to the mark. As we explain below, however, our call says more about seasonal adjustment than about how we see U.S. consumers. Meanwhile, the December data on housing starts and existing home sales (see Page 3) will be further reminders of how powerfully the housing market has been battered by higher interest rates, even if other segments of the economy have yet to feel them. |
| **December Retail Sales: Total** Wednesday, 1/18<br>Range: -2.0 to 0.0 percent<br>Median: -0.9 percent | Nov = -0.6% | Down by 1.9 percent. If our well below consensus forecast is even close to the mark, the retail sales data will no doubt be widely interpreted as proof of how mightily U.S. consumers are struggling and that the economy is either already in or will soon be in recession. The details of the data, for anyone up to going through them, will tell a different story, albeit one not given to dramatic headlines or sound bites. Our forecast would leave retail sales up by 10.8 percent in December on a not seasonally adjusted basis, larger than the 8.7 percent increase seen in December 2021 but much smaller than the average December increase of 14.8 percent over the twenty years prior to the pandemic. Couple that shortfall with a punitive December seasonal factor, and the result will be a seasonally adjusted headline number that looks much worse than was actually the case. To be sure, it is fair to ask why sales in December would have been weaker than is normal for the month, and without an answer to that question no one can have anything meaningful to say about the data or about U.S. consumers.<br><br>We can point to a number of factors that lead us to expect last month's sales to have fallen short of a typical December. First on that list is the shift in underlying patterns of consumer spending, away from goods and toward services, that we have been discussing for quite some time now. Second is that many retailers launched "holiday" sales promotions in October, in part to help clear unwanted inventories, and to the extent these promotions were successful, they would have pulled spending earlier in the year than would otherwise have been the case. Indeed, this is one factor we cited to help explain November's decline in retail sales. Third, prices for core goods (consumer goods excluding food and energy) have fallen in each of the past three months, and the retail sales data are not adjusted for price changes. December's decline in core goods prices would have been larger than the 0.3 decline reported in the CPI data were it not for an odd, and oddly large, increase in appliance prices, so in terms of holiday-related shopping, aggressive discounting likely led to larger price declines than implied by the CPI data, thus weighing on measured retail sales.<br><br>To that list we can add a sizable decline in unit motor vehicle sales – and lower prices for new and used vehicles – and a plunge in gasoline prices as factors that held down not seasonally adjusted retail sales in December. It is of course possible that lower gasoline prices freed up cash for consumers to spend elsewhere, which poses upside risk to our forecast. Either way, we still look for the increase in not seasonally adjusted sales to have fallen short of that seen in a typical December, and if that is the case that shortfall will be compounded by seasonal adjustment. For those with short memories, retail sales were reported to have fallen in three of the prior four Decembers, and in each case an increase in not seasonally adjusted sales was turned into a decline in the seasonally adjusted data. While we could easily be off the mark in terms of magnitude, we at least think our forecast will be correct directionally on both a not seasonally adjusted and a seasonally adjusted basis. |
| **December Retail Sales: Ex-Auto** Wednesday, 1/18<br>Range: -1.7 to 0.3 percent<br>Median: -0.5 percent | Nov = -0.2% | Down by 1.7 percent. |

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| **December Retail Sales: Control Group**<br>Range: -1.9 to 0.7 percent<br>Median: -0.4 percent | Wednesday, 1/18 | Nov = -0.2% | Down by 1.9 percent. |
| **December PPI: Final Demand**<br>Range: -0.4 to 0.1 percent<br>Median: -0.1 percent | Wednesday, 1/18 | Nov = +0.3% | Down by 0.2 percent, yielding a year-on-year increase of 6.6 percent. |
| **December PPI: Core**<br>Range: -0.1 to 0.3 percent<br>Median: 0.1 percent | Wednesday, 1/18 | Nov = +0.4% | Up by 0.2 percent, which would translate into a year-on-year increase of 5.7 percent. |
| **December Industrial Production**<br>Range: -0.8 to 0.4 percent<br>Median: -0.1 percent | Wednesday, 1/18 | Nov = -0.2% | Down by 0.3 percent. The data from the December employment report on hours worked across the manufacturing sector show broad-based weakness, with motor vehicle production one of the few exceptions. As such, we look for a decline in manufacturing output in the industrial production data that would put it in line with the ISM Manufacturing Index. Mining output should post a healthy advance, but utilities output is somewhat of a wild card. While harsh winter weather across much of the U.S. would have driven up utilities usage, it could be that it came too late in the month to be picked up, at least fully, in the industrial production data. This looms as an upside risk to our below-consensus forecast. |
| **December Capacity Utilization Rate**<br>Range: 79.2 to 79.8 percent<br>Median: 79.6 percent | Wednesday, 1/18 | Nov = 79.7% | Down to 79.4 percent. |
| **November Business Inventories**<br>Range: 0.1 to 0.4 percent<br>Median: 0.4 percent | Wednesday, 1/18 | Oct = +0.3% | We look for total business inventories to be up by 0.3 percent and for total business sales to be down by 1.0 percent. |
| **December Building Permits**<br>Range: 1.297 to 1.420 million units<br>Median: 1.370 million units SAAR | Thursday, 12/19 | Nov = 1.351 million units SAAR | Up to an annualized rate of 1.401 million units. On a not seasonally adjusted basis, we look for total permits of 106,100 units, up 3.5 percent from November with both single family and multi-family permits higher. If that seems a bit, or even a lot, at odds with everything you're hearing and reading about the housing market, keep in mind that it isn't uncommon for single family permits to increase in the month of December and that the last December decline in multi-family permits came in 2007. Why, no, that's not at all ominous, why do you ask? In any event, many builders reported increases in orders in December, reflecting mortgage interest rates continuing to back down from the peak seen in October. While it could be that some, if not much, of any increase in orders in December would have been filled by units already under construction, reflecting the significant increase in spec inventories over the past few months, buyers responding to lower mortgage rates would likely have had at least some impact on permits. But, even if we are correct in expecting unadjusted permits to have risen in December, any such increase would come off of a very low base. To that point, our forecast would leave single family permits 47.3 percent below the peak seen in March 2022 and would leave 2022 single family permit issuance down 13.2 percent from 2021's level. It isn't likely that we'll see a meaningful and sustained increase in single family permit issuance until the still-large backlog of unfilled orders and the elevated level of spec inventories have both fallen to a meaningful degree. |

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| **December Housing Starts** Thursday, 12/19<br>Range: 1.229 to 1.424 million units<br>Median: 1.357 million units SAAR | Nov = 1.427 million units SAAR | Down to an annualized rate of 1.424 million units. On a not seasonally adjusted basis, we look for total starts of 101,200 units, down 8.9 percent from November, with declines in both single family and multi-family starts. The declines we anticipate, however, are smaller than is normal for the month of December which, coupled with generous seasonal factors, would make the seasonally adjusted data look better than was actually the case. While the bump in orders triggered by lower mortgage rates may have supported single family starts, builders working to further pare down order backlogs will have been a more meaningful support for starts, with "support" in this context meaning kept the decline from being even larger. Our forecast would leave single family starts above single family permits (not seasonally adjusted data) for a ninth straight month, which goes to the point of builders working down backlogs. Our forecast would leave 2022 single family starts 11.0 percent below 2021's level but would leave multi-family starts up 17.4 percent over 2021, leaving total starts down 2.6 percent. In addition to starts, we'll also be keeping tabs on completions and the number of units under construction. Single family completions rose in November while single family starts fell, helping whittle down the number of single family units under construction. In contrast, multi-family completions fell while multi-family starts ticked higher, meaning an already elevated number of multi-family units under construction became even more so in November. We do not look for that backlog to have changed much in December. |
| **December Existing Home Sales** Friday, 1/20<br>Range: 3.790 to 4.100 million units<br>Median: 3.950 million units SAAR | Nov = 4.09 million units SAAR | Down to an annualized rate of 3.940 million units. On a not seasonally adjusted basis, we look for total sales of 322,000 units, down 1.2 percent from November. We do not think the retreat in mortgage interest rates will have had much, if any, impact on December existing home sales. Existing home sales are booked at closing, so December closings largely reflected sales contracts signed from mid-October through November, and it wasn't until the final half of November that the decline in mortgage rates picked up pace. Nor will seasonal adjustment help; existing home sales typically rise in the month of December, meaning that seasonal adjustment won't have much sympathy for a decline in unadjusted sales such as our forecast anticipates. Any relief from the retreat in mortgage interest rates would turn up in the January data on existing home sales. While we look for a larger than normal decline in inventories in December, our forecast would nonetheless leave inventories up year-on-year but still low enough that the months supply metric will continue to imply a badly undersupplied market. Though we look for the over-the-year change in the median existing home sales price to be positive, we look for an increase of only around 2.0 percent after the 3.5 percent increase seen in November, with the over-the-year change turning negative in early-2023. |

*This Economic Preview may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Preview. The Contents of this Economic Preview reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Preview or with respect to any results arising therefrom. The Contents of this Economic Preview shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.*

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