

ECONOMIC PREVIEW



REGIONS

Week of November 27, 2023

Indicator/Action

Economics Survey:

Last

Actual:

Regions' View:

<p>Fed Funds Rate: Target Range Midpoint <i>(After the December 12-13 FOMC meeting):</i> Target Range Mid-point: 5.375 to 5.375 percent Median Target Range Mid-point: 5.375 percent</p>	<p>Range: 5.25% to 5.50% Midpoint: 5.375%</p>	<p>Wednesday's release of the <i>Beige Book</i> takes on added significance amid a stream of data suggesting a slowing pace of economic growth. Though anecdotal in nature, observations from each Federal Reserve district will help inform the FOMC's outlook as they gather at their rapidly approaching December meeting.</p>
<p>October New Home Sales Monday, 11/27 Range: 680,000 to 773,000 units Median: 723,000 units SAAR</p>	<p>Sep = 759,000 units SAAR</p>	<p>Up to an annualized rate of 773,000 units. October is a month in which unadjusted new home sales tend to be little changed, and our forecast anticipates that having been the case this year. On a not seasonally adjusted basis, we look for sales of 59,000 units, down slightly from the initial estimate of 60,000 sales in September, but the October seasonal factor will flatter the headline (seasonally adjusted, annualized) sales number, yet another illustration of why our sole focus is on the unadjusted sales figures. It does, however, seem the risks to our forecast are tilted to the downside. New home sales are booked at the signing of the sales contract, so are a more timely gauge of the impacts of changes in mortgage interest rates, and mortgage rates were up sharply in October, holding at 7.90 percent over the back half of the month. That said, builders have been aggressive in the use of rate buydowns to facilitate sales and have become more generous with price concessions, with this combination helping ease, though by no means eliminate, affordability constraints. Some are also pointing to what have been increasing inventories of existing homes for sale over the past two months, in stark contrast to typical seasonal patterns, as a weight on new home sales, as the paucity of existing homes for sale has for some time funneled prospective buyers into the market for new homes. We're not sure we buy this argument; even with these increases, inventories of existing homes for sale remain extraordinarily lean, and the mix of the increase in inventories – single family units versus condo/co-op units, the distribution across price ranges – suggests less of a threat to new single family home sales than implied by the increased number of existing homes for sale. Moreover, unadjusted single family permits and starts have more than held their own in the face of sharply higher mortgage interest rates, and that was again the case in October. To be sure, builders working to pare down backlogs of already-permitted units, many already booked as sales, has been a support for single family starts, but unadjusted single family permits rose in October, an increase much larger than the typical October increase. None of this is to suggest new home sales are immune to higher mortgage rates, but rather that the damage from higher rates may not be as severe as many are anticipating. In addition to unadjusted sales, we'll also be watching spec inventories; while spec inventories were down 9.9 percent year-on-year as of September, they nonetheless remain well above levels most builders are comfortable with as the pace at which they are being pared down has slowed. This accounts for why many builders have become more accommodative on pricing, and the October data will offer some hints as to how successful they've been. It should be noted that many builders report cancellations beginning to tick higher in conjunction with the most recent jump in mortgage rates despite builders being more accommodative with rate buydowns and price concessions. The Census data on new home sales, however, are reported on a gross, not a net, basis and, as such, do not account for cancellations.</p>
<p>November Consumer Confidence Tuesday, 11/28 Range: 97.9 to 107.0 Median: 101.0</p>	<p>Oct = 102.6</p>	<p><u>Down</u> to 101.1, with consumers still worried about inflation and becoming more concerned over labor market conditions. After several months of hovering at a more than two-decade high, the "jobs plentiful/jobs hard to get" spread has narrowed quite a bit over the past few months, and we won't be surprised if it narrowed further in the November survey. We've often noted this spread has been a reliable indicator of turns in the business cycle, which is one reason to be on the watch for it narrowing further. It is also worth noting that the recent sharp slide in gasoline prices has not helped buck up consumer confidence, which is notably at odds with historical patterns. While many have wondered why consumers don't seem happier about slowing inflation, our premise is that many households are being pressed by the cumulative price increases seen over the past two-plus years, meaning that prices increasing at a slower rate is of little consolation to them.</p>
<p>October Advance Trade Balance: Goods Wednesday, 11/29 Range: -\$88.8 to -\$84.1 billion Median: -\$86.5 billion</p>	<p>Sep = -\$86.8 billion</p>	<p><u>Narrowing</u> to -\$85.9 billion.</p>

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Q3 Real GDP: 2nd estimate Range: 4.9 to 5.3 percent Median: 5.0 percent SAAR	Wednesday, 11/29	Q3: 1 st est. = +4.9% SAAR	<u>Up</u> at an annualized rate of 5.1 percent. We expect upward revisions to the initial estimates of consumer spending on both goods and services to push the top-line growth number higher, with revisions elsewhere in the data mostly offsetting each other. Either way, current quarter growth will be significantly slower, primarily because Q4 growth in real consumer spending will be much slower than Q3 growth.
Q3 GDP Price Index: 2nd estimate Range: 3.5 to 4.0 percent Median: 3.5 percent SAAR	Wednesday, 11/29	Q3: 1 st est. = +3.5% SAAR	<u>Up</u> at an annualized rate of 3.5 percent.
October Personal Income Range: 0.0 to 0.4 percent Median: 0.2 percent	Thursday, 11/30	Sep = +0.3%	<u>Up</u> by 0.2 percent. It was a case of three strikes and you're out for growth in private sector wage and salary earnings, the largest single component of personal income, in October. The combination of a meager increase in private sector payrolls, middling growth in average hourly earnings, and a decline in average weekly hours worked left the proxy for aggregate private sector earnings in the October employment report flat for the month (down slightly unrounded). Of the three, the one-tenth of an hour decline in average weekly hours was the most powerful drag, knocking three-tenths of a point off the monthly change in aggregate private sector earnings, which is one reason we make such big deals out of seemingly modest changes in average weekly hours. This was not, however, the only drag on growth in personal income in October. Our forecast anticipates a continuation of the string of declines in transfer payments, mainly reflecting the ongoing culling of what had been pandemic-related expansions of SNAP and Medicaid beneficiary rolls. The biggest supports for October income growth will have been another hefty increase in asset-based income, with our forecast anticipating a fourth straight monthly increase of 1.0 percent in interest income (the upside of higher interest rates) and a bounce back from a weak September print on dividend income. Rental income and public sector wage and salary earnings will also provide supports. Note, however, that these four components add up to only about sixty percent of the level of private sector wage and salary earnings, hence the paltry increase in total personal income we expect.
October Personal Spending Range: 0.0 to 0.3 percent Median: 0.2 percent	Thursday, 11/30	Sep = +0.7%	<u>Up</u> by 0.1 percent. The retail sales data point to a decline in consumer spending on goods in October, so any increase in overall consumer spending will have to come from higher services spending. One key will be discretionary services spending, which we expect to have weakened in October after the oddly large increase seen in the September data. We have for some time pointed to weaker discretionary services spending as a key factor behind the marked slowdown in growth in real consumer spending we've expected in Q4. The October data will be the first test of our premise.
October PCE Deflator Range: 0.0 to 0.2 percent Median: 0.1 percent	Thursday, 11/30	Sep = +0.4%	<u>Up</u> by 0.1 percent, which would yield a year-on-year increase of 3.1 percent. We look for the <u>core PCE Deflator</u> to be <u>up</u> by 0.2 percent, which would translate into an over-the-year increase of 4.0 percent.
October Construction Spending Range: -0.1 to 0.6 percent Median: 0.4 percent	Friday, 12/1	Sep = +0.4%	<u>Up</u> by 0.3 percent.

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<p>November ISM Manufacturing Index Friday, 12/1 Range: 46.2 to 52.0 percent Median: 47.7 percent</p>	<p>Oct = 46.7%</p>	<p>Up to 48.2 percent, indicating a thirteenth straight month of contraction in the factory sector. The resolution of the UAW strike may bring modest relief in some of the component indexes, but not enough to push the headline index above 50.0 percent. As were many others, we were wrong-footed by the slide in the headline index in the October survey, with the sharp drop in the new orders index the most disconcerting element in an all-around weak report. Most tellingly, ISM reported more firms resorting to layoffs in response to a “more urgent need to reduce staffing.” Recall that earlier this year firms were intent on retaining labor even with the headline index below the 50.0 percent break between contraction and expansion, the premise being that firms were merely seeing a temporary slowdown in demand and that the second half of 2023 would bring a rebound. We were skeptical of that premise at the time, and now it appears that a growing number of firms within the factory sector have abandoned it, as firms anticipating a quick turnaround in demand do not suddenly start laying off workers. Another indication that firms are no longer counting on a turnaround in demand is that inventories continue to be run down which, with still-contracting order books and dwindling order backlogs, is weighing on production, hence firms reporting less need for workers. While we do look for the new orders index to have risen, perhaps even pushing the 50.0 percent threshold, keep in mind that the November seasonal factor for the new orders index is the most generous of any month of the year, so that must be accounted for in interpreting the change in the seasonally adjusted index. What will be more telling, at least to us, will be the breadth of growth in new orders; only three of the eighteen industry groups included in the ISM survey reported growth in new orders in October, and for more than a year now the number of industry groups reporting orders growth in any given month could have been counted on one hand. Sure, that kind of sophisticated, technical analysis isn't for everyone, but we do the hard work so you don't have to.</p>
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