ECONOMIC PREVIEW

REGIONS

Week of December 16, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 17-18 FOMC meeting):* Target Range Mid-point: 4.375 to 4.625 percent Median Target Range Mid-point: 4.375 percent	Range: 4.50% to 4.75% Midpoint: 4.625%	In another instance of "clear the decks, the holidays are coming," this week's docket of economic data releases is exceptionally crowded. One could argue that though big in volume, this week's data docket is light on impact, in terms of the capacity to alter perceptions of underlying economic conditions amongst market participants. The exceptions will be November retail sales (see Page 2), and the November read on the PCE Deflator (see Page 3), which comes after this week's FOMC meeting. While we and most others anticipate a twenty-five basis point cut in the Fed funds rate at this week's meeting, all eyes will be on the updated Summary of Economic Projections (SEP) though, if there were ever an instance in which the FOMC wished they could just skip the SEP, this would probably be it. Like the rest of us, the FOMC has no visibility into the specific changes in fiscal, trade, regulatory, and immigration policy to be sought by the incoming administration, meaning that any forecast made ahead of specific policy details won't have all that long of a shelf life. That they won't incorporate potential policy changes into their forecasts does not mean this won't be a topic of discussion during the meeting, though Chair Powell is unlikely to shed much light on the nature any such discussion in his post-meeting press conference. As it is, the year-end 2024 projections will be revised to show faster real GDP growth and higher inflation on a Q4/Q4 basis relative to the September edition of the SEP. That of course will beg the question of why the FOMC would cut the funds rate – assuming they do so. Chair Powell will address this in his post-meeting press conference, making the point that, even with inflation proving more stubborn than had been anticipated, monetary policy remains restrictive, and the Committee saw room to modestly dial back the degree to which that is the case. Of more interest will be the extent to which members see additional room for funds rate cuts after the September edition of the dot plot implied one hundred basis points of cuts in 2025. While the updated dot plot will imply fewer rate cuts in 2025, we think it will be a close call between two and three twenty-five basis point cuts, though going from four cuts to two cuts in 2025 may be too dramatic of a shift in the median projection all at once. To that point, the dispersion of the dots around the year-end median will be worth noting, and we won't be surprised to see a greater number of projections above the median year-end 2025 dot than in September, when there were five such dots. We expect to see the same with the projection of the "neutral" Fed funds rate, which we expect will be pushed over three percent in the updated dot plot. This would still leave the estimate below where we and many others see neutral being, but the point here is we expect to see a wide range of individual estimates. A final, albeit somewhat in the weeds, element of the updated SEP worth exploring will be whether, or to what extent, members' assessments of the risks to their forecasts have changed. Specifically, in the September SEP sixteen of the nineteen members perceived the risks to their forecasts of total and core inflation to be balanced, the most in the history of the SEP. We expect to see a meaningful migration away from this assessment, with more members seeing the risks to their inflation forecasts leaning to the upside. This would be consistent with the dot plot implying fewer funds rate cuts in 2025 and beyond than was the case in the September SEP.
November Industrial Production Tuesday, 12/17 Range: -0.1 to 0.9 percent Median: 0.3 percent	Oct = -0.3%	Up by 0.4 percent. The boost to manufacturing output from the return of striking Boeing workers will be somewhat offset by softness elsewhere in the factory sector, at least going by the November employment report. The reported increase in factory sector payrolls in November was only roughly half of our estimate of the October decline triggered by the strike, with November job losses scattered across various industry groups. At the same time, aggregate hours worked in the mining sector fell sharply in November, suggesting a decline in mining output, and we also look for utilities output to be down on a seasonally adjusted basis. Thus far, there is little in the data on core capital goods orders or in the ISM's monthly surveys to suggest a rebound in manufacturing output in the industrial production data, which shows manufacturing output down year-on-year for the better part of the last two years.
November Capacity Utilization Rate Tuesday, 12/17 Range: 76.9 to 77.8 percent Median: 77.3 percent	Oct = 77.1%	Up to 77.4 percent.

Regions Financial Corporation, 1900 5th Avenue North, 17h Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

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October Business Inventories Tuesday, 12/17 Range: 0.0 to 0.3 percent Median: 0.1 percent	Sep = +0.1%	We look for total <u>business inventories</u> to be <u>unchanged</u> and for total <u>business sales</u> to also be <u>unchanged</u>.
November Retail Sales: Total Tuesday, 12/17 Range: -0.1 to 1.0 percent Median: 0.5 percent	Oct = +0.4%	<u>Up</u> by 0.7 percent. All indications point to November having been a strong month for consumer spending. Whether, or to what extent, that translates into a strong retail sales print, however, is a different matter entirely. That link will be weakened to some extent given the strength of spending on travel services in in November, which will not be captured in the retail sales data but will be captured in the BEA's measure of personal consumption expenditures (see Page 3). Unlike the past two months, we do not look for seasonal adjustment to skew the perceptions of November spending. Recall that, on a seasonally adjusted basis, control retail sales were reported to have risen by 1.2 percent in September and then to have fallen by 0.1 percent in October. The not seasonally adjusted data, however, show a 5.5 percent decline and a 7.2 percent increase, respectively, for those two months. Though Thanksgiving fell late this year, there was one more weekend this November than last, and we think these two factors basically cancelled each other out in terms of the impact on the seasonal factor Census will apply to unadjusted November sales. That said, the 7.2 percent increase in unadjusted control sales in October was the second largest gain for that month in the life of the current series on retail sales. As such, there could be some payback in the November data; our forecast of a six percent increase in unadjusted control sales would be a bit smaller than the typical November increase. Higher unit sales and higher prices mean motor vehicle sales should be a support for total retail sales. While we expect gasoline to be modestly supportive for top-line sales, that isn't a given; prices were down on not seasonally adjusted basis but the seasonally adjusted data from the CPI show a modest increase, but to us the difference comes down to what by all accounts was stronger demand. Outside of motor vehicles and gasoline, prices for core consumer goods excluding used motor vehicles were all over the map but, on net, we think pricing will be a more or less neutral factor in November retail sales. One component which could be the undoing of our above-consensus forecast for control retail sales is nonstore retailers, a category dominated by online sales. Stepped-up online promotions in October, "Cyber Monday" falling in December this year, and a harsh seasonal factor combine to pose a meaningful downside risk to our forecast given that online sales account for just under thirty percent of control retail sales. As usual, in assessing November retail sales our emphasis will be on the not seasonally adjusted data. But, even should November sales fall short of our forecast, as things now stand the risks to our holiday sales forecast seem to be tilting to the upside.
November Retail Sales: Ex-Auto Tuesday, 12/17 Range: -0.1 to 0.8 percent Median: 0.4 percent	Oct = +0.1%	<u>Up</u> by 0.6 percent.
November Retail Sales: Control Group Tuesday, 12/17 Range: 0.2 to 0.8 percent Median: 0.4 percent	Oct = -0.1%	<u>Up</u> by 0.6 percent.
November Building Permits Wednesday, 12/18 Range: 1.390 to 1.552 million units Median: 1.430 million units SAAR	Oct = 1.419 million units SAAR	<u>Up</u> to an annualized rate of 1.552 million units. On a not seasonally adjusted basis, we look for total permits of 115,400 units, down 7.8 percent from October with sharp declines in both single family and multi-family permits. That our forecast of the "headline" permits number is so far afield from the consensus forecast simply reflects our expectation that the November seasonal factors used to adjust the raw data will, in the spirit of the season, be in a giving mood. Whether the seasonal factors fall in line with our expectations is not at all relevant, as we assess our forecasts based on the unadjusted data. That permit issuance has lagged over recent months is one reason why we expect a smaller decline in the November data than is typically the case, and we think there could be some payback in the South region after October activity was held down by the hurricanes, though any such payback will be more pronounced in the starts data than in the permits data.

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November Housing Starts Wednesday, 12/18 Range: 1.250 to 1.380 million units Median: 1.343 million units SAAR	Oct = 1.311 million units SAAR	Up to an annualized rate of 1.447 million units. On a not seasonally adjusted basis, we look for total starts of 111,700 units, virtually unchanged from October with an increase in multi-family starts negating a modest drop in single family starts. As with housing permits, that our forecast of the "headline" starts number reflects what we anticipate will be generous seasonal factors. Our forecast of not seasonally adjusted starts anticipates payback from the hurricane-related disruptions in the South region in October but anticipates combined starts in the three remaining Census regions will decline. Seasonal adjustment and hurricane-related disruptions aside, the prevailing dynamic in the single family segment is that affordability constraints continue to weigh on demand for single family home purchases, and builders sitting on higher than desired spec inventories are aggressively using incentives, including mortgage rate buydowns, while paring back starts. Absent more meaningful declines in mortgage interest rates, it will take further declines in single family starts to help achieve the degree of balance builders are looking for.
Q3 Current Account Balance Wednesday, 12/18 Range: -\$294.0 to -\$276.4 billion Median: -\$287.1 billion	Q2 = -\$266.8 billion	Widening to -\$286.6 billion.
Q3 Real GDP – 3rd estimate Thursday, 12/19 Range: 2.8 to 3.0 percent Median: 2.8 percent SAAR	Q3: 2nd est. = +2.8% SAAR	Up at an annualized rate of 2.9 percent, slightly ahead of the first two estimates thanks to modestly faster growth in consumer spending and a slightly smaller drag from trade than had previously been estimated.
Q3 GDP Price Index – 3rd estimate Thursday, 12/19 Range: 1.9 to 2.0 percent Median: 1.9 percent SAAR	Q3: 2nd est. = +1.9% SAAR	Up at an annualized rate of 1.9 percent.
November Leading Economic Index Thursday, 12/19 Range: -0.2 to 0.1 percent Median: -0.1 percent	Oct = -0.4%	Up by 0.1 percent.
November Existing Home Sales Thursday, 12/19 Range: 3.50 to 4.28 million units Median: 4.08 million units SAAR	Oct = 3.96 million units SAAR	Up to an annualized rate of 4.28 million units. On a not seasonally adjusted basis, we look for sales of 322,000 units, down 7.5 percent from October. This is, however, smaller than the typical November decline which, as with housing permits and starts, we think will lead to a larger than normal boost from seasonal adjustment. Again, though, it is the unadjusted data that matter. Pending home sales, a gauge of signed sales contracts that tends to lead closings by 30-45 days, were stronger than normal in October (on a not seasonally adjusted basis), which is one reason we look for a smaller than normal November decline in sales. Rising inventories and lengthening (but still low) time on market suggest buyers gaining a bit of power. As such, cuts in asking prices are now more commonplace, helping blunt the impact of elevated mortgage rates. At the same time, the share of all-cash transactions remains easily above pre-pandemic norms, further blunting the impact of elevated mortgage rates. We look for an atypical November increase, albeit modest, in inventories, which would leave them up by more than twenty percent year-on-year.
November Personal Income Friday, 12/20 Range: 0.3 to 0.6 percent Median: 0.4 percent	Oct = +0.6%	Up by 0.5 percent, buttressed by growth in labor earnings; our forecast would leave total wage and salary earnings up 5.8 percent year-on-year. One wild card in the November data will be transfer payments, which rose by 0.7 percent in each of the prior two months. We do not look for another such gain in November, but another such increase would mean our forecast for top-line income growth is too low.
November Personal Spending Friday, 12/20 Range: 0.1 to 0.6 percent Median: 0.5 percent	Oct = +0.4%	Up by 0.6 percent. As we noted in our discussion of retail sales, November appears to have been a strong month for consumer spending, including spending on services which is not captured in the retail sales data. There does, however, remain a stark divide in spending patterns amongst lower/upper income households.
November PCE Deflator Friday, 12/20 Range: 0.1 to 0.3 percent Median: 0.2 percent	Oct = +0.2%	Up by 0.1 percent, which would yield a year-on-year increase of 2.4 percent. We look for the core PCE Deflator to be up by 0.1 percent, which would yield a year-on-year increase of 2.8 percent.

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