

# ECONOMIC PREVIEW



REGIONS

Week of February 19, 2018

## Indicator/Action Economics Survey:

## Last Actual:

## Regions' View:

<p><b>Fed Funds Rate: Target Range Midpoint</b> (After the March 20-21 FOMC meeting): Target Range Midpoint: 1.625 to 1.625 percent Median Target Range Midpoint: 1.625 percent</p>	<p>Range: 1.25% to 1.50% Midpoint: 1.375%</p>	<p>It's amazing how quickly things can change, sometimes seemingly in the blink of an eye. For instance, one day you're busily stocking the underground bunker with canned food, bottled water, and gold, all in anticipation of the chaos sure to ensue following a prolonged bout of global deflation. Next thing you know, you're in Zimbabwe, circa 2008, staring down an inflation rate of over 231 million percent but you're at least thankful that you've got an underground bunker fully stocked with canned food, bottled water, and gold, all of which will surely come in handy what with global inflation soaring out of control and the ensuing chaos that will bring. Okay, we don't really know just how high inflation got in Zimbabwe, 231 million percent was simply the final official estimate as of July 2008 before Zimbabwe's government stopped filing official inflation statistics because, really, once you pass 231 million percent inflation, does it even matter? Probably not, we suspect.</p> <p>Sure, the "holy geez, we're Zimbabwe" moment may not be at hand just yet, but it sure seems like we're heading in that direction, and rather quickly at that. After all, when headline inflation of 2.1 percent and core inflation of 1.8 percent can trigger a wave of headlines containing the words "inflation surge" – in that order – the all-out panic can't be far behind. Just to be clear, we're not mocking concerns about inflation returning from its lengthy sabbatical, even if we've spent the better part of two paragraphs seeming to do just that. But, as reflected in our baseline 2018 forecast, neither are we surprised to see inflation pressures building, nor should anyone be in an environment in which a U.S. economy with a considerably diminished degree of slack is seeing a late-cycle acceleration in growth, global economic growth is broad based and accelerating, energy prices have firmed, and the U.S. dollar has weakened.</p> <p>It is understandable that with market participants having been shaken out of a decade-long slow growth-low inflation slumber we're seeing equity prices and market interest rates adjust as inflation uncertainty, even if not materially higher inflation, is priced in. While the January employment and CPI reports may have been the catalysts for this reawakening, the reality is that both reports were loaded with noise. Hence, neither should be taken as a reliable indicator of price pressures, either in the labor market or the broader economy. Which of course hasn't stopped some from doing just that, with one analyst tying the reported decline in retail sales in January to the 0.5 percent increase in the CPI, on the grounds that higher prices meant consumers couldn't afford to buy anything. Wow, okay, no. Seriously, no, although if you were looking for your "holy geez, we're Zimbabwe" moment, that would pretty much be it. Really, though, we're just not there. At least not quite yet.</p>
<p><b>January Existing Home Sales</b> Range: 5.500 to 5.800 million units Median: 5.620 million units SAAR</p>	<p>Wednesday, 2/21 Dec = 5.570 million units SAAR</p>	<p><u>Down</u> to an annualized sales rate of 5.520 million units. The January existing home sales data will incorporate the NAR's benchmark revisions to the recent historical data, injecting an extra shot of uncertainty into our forecast. Moreover, January is the weakest month of the year for not seasonally adjusted sales – in the life of the data the average December-to-January decline is over 27 percent – which means added opportunity for seasonal adjusted mischief. Be that as it may, there is little reason to expect the January data to have deviated from the broader trends that have taken hold in the existing homes market – healthy demand blunted by notably lean inventories.</p> <p>If there is any hope of sales breaking out meaningfully to the upside, the first glimmer will come in the inventory data, but while we look for inventories to bounce off of December's record-low level, it won't be all that enthusiastic of a bounce and listings will still be down year-on-year for a 32<sup>nd</sup> consecutive month. Of course, even should listings rise more over coming months than we anticipate . . . along come higher mortgage interest rates which, at some point, will press on demand. So, whether due to ongoing inventory constraints or to demand being crimped by higher mortgage rates, there doesn't figure to be a material increase in existing home sales in 2018. We look for not seasonally adjusted sales of 316,000 units, a slightly smaller than average decline for the month of January, though this would leave sales slightly lower year-on-year. Our forecast for not seasonally adjusted sales would leave the running 12-month total at 5.508 million units (pending the benchmark revisions), extending the downward drift in the trend rate of sales seen over recent months.</p>
<p><b>January Leading Economic Index</b> Range: 0.2 to 1.2 percent Median: 0.6 percent</p>	<p>Thursday, 2/22 Dec = +0.6%</p>	<p><u>Up</u> by 0.9 percent.</p>

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