ECONOMIC PREVIEW

REGIONS

Week of March 19 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 20-21 FOMC meeting):* Target Range Midpoint: 1.625 to 1.625 percent Median Target Range Midpoint: 1.625 percent	Range: 1.25% to 1.50% Midpoint: 1.375%	While a 25-basis point hike in the Fed funds rate target range is a virtual lock at this week's FOMC meeting, the meeting won't be lacking for suspense. Okay, fine, the words "FOMC meeting" and "suspense" are generally not found in the same sentence without the words "lack of" being between them, but just work with us here. Front and center will be the updated FOMC economic projections and the latest edition of the "dot plot." One question is whether, or to what extent, additional fiscal stimulus will push expectations for growth and/or inflation higher than reflected in the last set of projections (issued in December 2017). This in turn will shape Committee members' views on the dot plot, and the main "suspense" here is whether the revised dot plot will imply a total of three funds rate hikes this year, as in the December 2017 edition, or four. We continue to expect a total of three rate hikes this year, and expect the dot plot to again imply the same. As we've noted before, however, while we do not believe there to be sufficient evidence in the data at this point to shift the dots higher, that can and will change should inflation accelerate faster than FOMC members are now anticipating. Finally, this week's meeting is followed by new Fed Chair Powell's initial press conference which, while not likely to be all that suspenseful, will help shed light on his approach to sending messages to the markets.
Q4 2017 Current Account Balance Wednesday, 3/21 Range: -\$126.8 to -\$115.4 billion Median: -\$124.7 billion	Q3 = -\$100.6 billion	Widening to -\$126.8 billion, mainly due to a significantly larger trade deficit.
February Existing Home Sales Wednesday, 3/21 Range: 5.300 to 5.600 million units Median: 5.380 million units SAAR	Jan = 5.380 million units SAAR	Down to an annualized sales rate of 5.360 million units. We look for not seasonally adjusted sales of 314,000 units, a trivial increase from 313,000 in January and much smaller than the typical February increase. As existing home sales are booked at closing, February closings largely reflect sales contracts signed from mid-December through January – in other words, it is too soon to see a material impact of higher mortgage rates in the existing home sales data (unlike new home sales, as noted below). As has been the case for some time now, lean inventories are the main culprit behind what have become listless sales – our forecast of not seasonally adjusted sales would leave the running 12-month total, our preferred gauge of underlying sales trends, at 5.504 million units, or, right about where this metric has settled over recent months. We are in the time of the year in which inventories typically begin to rise ahead of the peak sales season, and while we expect listings to have risen in February, this will still leave them down year-on-year for a 33rd consecutive month.
February Leading Economic Index Thursday, 3/22 Range: 0.2 to 0.8 percent Median: 0.5 percent	Jan = +1.0%	Up by 0.6 percent.
February Durable Goods Orders Friday, 3/23 Range: 0.6 to 3.3 percent Median: 1.6 percent	Jan = -3.6%	Up by 1.6 percent. Aircraft orders, defense and nondefense, should support top-line orders. We look for ex-transportation orders to be up by 0.5 percent. As always, the most important line item in the report will be core capital goods orders, which we expect to be up by 0.5 percent. After having been notably strong over most of 2017, core capital goods orders have fallen the past two months. While we make it a rule to never put too much stock in any single data point in any given month, we'll be looking to the February data to shed some light on whether the recent soft patch in core capital goods orders was just that or the beginning of something more ominous.
February New Home Sales Friday, 3/23 Range: 598,000 to 640,000 units Median: 620,000 units SAAR	Jan = 593,000 units SAAR	Up to an annualized sales rate of 631,000 units. We look for not seasonally adjusted sales of 52,000 units, in part reflecting payback for an atypically slow January. Our forecast would leave the running 12-month total of not seasonally adjusted sales at 612,000 units, matching December 2017 as the highest such total since May 2008. While over time higher mortgage interest rates would be a drag on home sales, it could be that to the extent the increases in February were seen as the start of a sustained period of rising mortgage interest rates, some prospective buyers were prompted to commit sooner than they otherwise would have. As new home sales are booked at the signing of the sales contract, this would be reflected in the February sales data. More fundamentally, builders are contending with rising costs for labor and materials, which is limiting their ability to divert more attention to first-time buyers who are being shut out of the existing homes market due to lack of inventory and the resulting rapid price appreciation. Though sales volumes are much lower than would have been the case in a more normal cycle, builders have nonetheless made up for lack of volume with higher margins, but this can't continue indefinitely.

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