

# ECONOMIC PREVIEW



REGIONS

Week of May 21, 2018

## Indicator/Action Economics Survey:

## Last Actual:

## Regions' View:

<b>Fed Funds Rate: Target Range Midpoint</b> <i>(After the June 12-13 FOMC meeting):</i> Target Range Midpoint: 1.875 to 1.875 percent Median Target Range Midpoint: 1.875 percent	Range: 1.50% to 1.75% Midpoint: 1.625%	Home sales are front and center this week and, as if on cue, mortgage interest rates stand at a seven-year high, with Freddie Mac reporting 30-year fixed rate mortgage rates at 4.61 percent. That mortgage interest rates have risen is no surprise, that they have risen as rapidly as they have is a surprise. We have for some time argued that anyone who originated or refinanced a mortgage in the era of sub-4.0 percent rates (late-2014 through late-2016) is unlikely to move if it means trading into a higher mortgage rate, and the number of people "locked in" by lower mortgage rates will increase as market rates go higher. Moreover, low mortgage rates have acted as a buffer which has helped preserve affordability in the face of robust house price appreciation. That buffer gets thinner and thinner as mortgage rates move higher. Hence, it is a matter of when, not if, higher mortgage rates eat into home sales.
<b>April New Home Sales</b> Range: 650,000 to 731,000 units Median: 678,000 units SAAR	Wednesday, 5/23 Mar = 694,000 units SAAR	<u>Up</u> to an annual sales rate of 722,000 units. While one never knows quite what to expect from the new home sales data, there is even more than the usual high degree of uncertainty (or, if you prefer, even less than the usual low degree of confidence) around our April forecast. Over the past several months, there have been significant upward revisions to the initial estimate of sales in any given month, and were that pattern to hold the revised March sales rate would be easily above 700,000 units. At the same time, however, the April report incorporates the Census Bureau's annual benchmark revisions to the recent historical data. That the benchmark revisions to the residential construction data were uneventful for the single family segment would suggest the same will be the case for the revisions to the new home sales data but, this being the new home sales data, nothing is guaranteed. As such, we can be reasonably, but not totally, confident April sales will be bounded by zero on the low end and infinity on the high end. What we do know is that the not seasonally adjusted data show 84,300 single family housing starts in April, the highest monthly total since August 2007, with notable strength in the South region. We expect that to translate into strong new home sales, and our forecast of 72,000 sales, not seasonally adjusted, for the U.S. as a whole would mark the highest monthly total since June 2007 and would leave the running 12-month total of unadjusted sales at 644,000 units. Coming months will show the extent to which higher mortgage interest rates will be a drag on the housing market; we'll see any such effect in the data on new home sales, which are booked at the signing of the sales contract, before we see it in the data on existing home sales.
<b>April Existing Home Sales</b> Range: 5.450 to 5.680 million units Median: 5.550 million units SAAR	Thursday, 5/24 Mar = 5.600 million units units SAAR	<u>Down</u> to an annualized sales rate of 5.480 million units. On a not seasonally adjusted basis, we look for total sales of 462,000 units. While up 6.5 percent from March, this would be smaller than the typical March-to-April increase. We do see some upside risk to our forecast, given that the net increase in listings for February and March was stronger this year than is typically the case for these two months. While we've accounted for this in our forecast, pending home sales in February and March give no hint of an outsized increase in sales in April. Toss in what should be a less than generous seasonal adjustment factor, and the result should be a slower pace of sales as reported on a seasonally adjusted annualized basis (i.e., headline sales). As has been the case for some time, the most important number in the April report will be the inventory number, and we look for listings to have risen to 1.790 million units, up 7.1 percent from March but down year-on-year for a 35 <sup>th</sup> consecutive month. We are approaching the seasonal top in inventories (which comes in May in most years) and even with the stronger showing in February and March, 2018 will still be the fourth consecutive year in which the seasonal top in inventories is lower than that of the prior year. In other words, inventories, or the lack thereof, remain a material drag on existing home sales. Given that existing home sales are booked at closing, rather than at the signing of the sales contract, it is too soon to see any adverse effects of higher mortgage interest rates in the existing home sales data.
<b>April Durable Goods Orders</b> Range: -3.0 to 1.2 percent Median: -1.4 percent	Friday, 5/25 Mar = +2.6%	<u>Down</u> by 1.8 percent, with what figures to be a steep decline in transportation orders acting as a drag on the headline number. This simply illustrates a point we routinely make, i.e., the underlying details are much more relevant than the headline number. Along these lines, we look for <u>ex-transportation orders</u> to be <u>up</u> by 0.6 percent and <u>core capital goods orders</u> to be up by 0.7 percent. The print on core capital goods orders takes on added significance given the decline reported in the March data, a further decline in April would make us question our premise that capital spending will be stronger this year than has been the case over the life of the current economic expansion, during which capital spending has been a notable laggard.

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