ECONOMIC PREVIEW

REGIONS

Week of February 4, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 19-20 FOMC meeting):* Target Range Midpoint: 2.375 to 2.375 percent Median Target Range Midpoint: 2.375 percent	Range: 2.25% to 2.50% Midpoint: 2.375%	In his press conference following last week's FOMC meeting, Fed Chairman Powell stressed that the FOMC would be patient and flexible – patient in any further increases in the Fed funds rate and flexible in managing the Fed balance sheet. While Chairman Powell's message struck the right notes with financial market participants, we can't help but wonder whether the FOMC has talked itself into a corner, as many market participants seem to interpret "patient and flexible" to mean "done." Stronger than expected January data on the labor market and the factory sector are a reminder that while the FOMC has settled in to a patient pause, their work is not necessarily finished. To be sure, there are a number of, to borrow Chairman Powell's phrase, cross currents buffeting the U.S. economy, but as those currents die down, the FOMC may find itself facing yet another communications challenge.
November Factory Orders Monday, 2/4 Range: -1.2 to 1.0 percent Median: 0.4 percent	Oct = -2.1%	Down by 0.7 percent. While civilian aircraft orders pushed durable goods orders higher, we expect the steep decline in crude oil prices did a (negative) number on orders for nondurable goods, thus pulling total orders lower. Note: this report was originally scheduled for release on January 7 but was delayed by the partial government shutdown. The December report was originally scheduled for release on February 4 but will be delayed; the new release date has yet to be announced.
January ISM Non-Manufacturing Index Tuesday, 2/5 Range: 56.0 to 58.5 percent Median: 57.0 percent	Dec = 58.0%	Down to 57.6 percent, consistent with continued solid growth outside of the factory sector.
November Trade Balance Wednesday, 2/6 Range: -$55.5 to -$51.6 billion Median: -$54.0 billion	Oct = -$55.5 billion	Narrowing to -$53.8 billion. Lower crude oil prices will impact both sides of the ledger here, but on net we look for a modest narrowing in the deficit in the goods account along with a slightly larger surplus in the services account. The net result should be a smaller overall deficit for November, but trade will nonetheless be a drag on Q4 real GDP growth. Note: this report was originally scheduled for release on January 8 but was delayed by the partial government shutdown. The December report was originally scheduled for release on February 5, but will be delayed; the new release date has yet to be announced.
Q4 Nonfarm Labor Productivity Wednesday, 2/6 Range: 1.1 to 2.5 percent Median: 1.6 percent SAAR	Q3 = +2.3% SAAR	Up at an annualized rate of 1.1 percent, though our forecast comes with a low degree of confidence. With the Q4 2018 GDP data delayed by the partial government shutdown, data on Q4 real nonfarm business output, the basis on which productivity is measured, is not available. Instead, we're relying on our forecast of Q4 real nonfarm business output to derive our forecast for productivity growth. In any event, what is most important here is the trend rate of productivity growth, not the quarterly changes, which tend to be highly volatile. We measure trend productivity growth with the 8-quarter moving average, which has been edging higher with no particular sense of urgency. Our forecast would leave the trend rate of productivity growth at 1.3 percent, better than the post-recession average but still well below historical norms. While we see further acceleration this year, we don't look for productivity growth to test those historical norms any time soon.
Q4 Unit Labor Costs Wednesday, 2/6 Range: 1.0 to 1.9 percent Median: 1.7 percent SAAR	Q3 = +0.9% SAAR	Up at an annualized rate of 1.9 percent. If we're close to or on the mark with our call on productivity growth, the flip side of that will be faster growth in unit labor costs, but nowhere near the point that would suggest a labor market on the boil.
December New Home Sales Wednesday, 2/6 Range: 540,000 to 663,000 units Median: 575,000 units SAAR	Nov = 657,000 units SAAR	Down to an annualized sales rate of 592,000 units. On a not seasonally adjusted basis, we look for sales of 44,000 units in December, which would bring total new home sales to 628,000 units for 2018 as a whole. This would be a 2.5 percent increase from 2017, and while new home sales did slow over the final months of 2018 we suspect sales in early 2019 will have gotten at least a modest boost from lower mortgage interest rates. While November new home sales surprised to the upside, we were more interested in the mix of sales across the price distribution. Sales of homes priced below $300,000 accounted for 49 percent of all new home sales in November, the highest share in almost two years. One of our main housing market themes in 2018 was our expectation of a gradual shift in the mix of new home sales away from higher priced homes and toward lower priced homes, so we'll watch the December data for further changes in the mix of sales. First-time buyers have become increasingly shut out of the market for existing homes, and many builders are targeting this group as a means of sustaining sales as higher-end demand wanes. Note: this report had been scheduled for January 25 but was delayed by the partial government shutdown; and February 6 is only a tentative date for its release.

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