ECONOMIC PREVIEW

REGIONS

Week of February 18, 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%	It's hard to know where you're going when you're not sure where you are. With the large backlog of economic data releases delayed by the partial government shutdown now being worked off, we've gone from being not sure where the economy is because we weren't getting some key releases to being not sure where the economy is because we are getting some key releases. Last week's release of the delayed report on December retail sales is a prime example. December retail sales were not weak, they were shockingly weak, at least according to the initial estimate. While we think it perfectly reasonable that consumer spending slowed in December given the state of the world, not to mention the state of the equity markets, we just don't buy the initial estimate of December retail sales, as those figures are significantly at odds with job growth, wage growth, and consumer confidence. The problem, however, is that these are the numbers we have to work with, and the estimate of control retail sales feeds directly into the measure of consumer spending in the GDP data, helping to account for why estimates of Q4 real GDP growth have been sinking like a stone. Many other key data series saw significant reversals between the December data and the January data, making it difficult to interpret what they are trying to tell us. Even under the best conditions, forecasting the path of the U.S. economy is an often futile endeavor that can leave those who undertake it looking foolish. We know this better than most. But, when you have so little confidence in the data going into your model, it's that much harder to have a reasonable degree of confidence in any forecast that comes out. Sure, clarity is a fleeting thing when it comes to the economic data, but even the usual degree of opacity would be a step up from where we are right now.
December Durable Goods Orders Thursday, 2/21 Range: 0.0 to 4.5 percent Median: 1.7 percent	Nov = +0.7%	<u>Up</u> by 0.9 percent, with ex-transportation orders up by 0.4 percent. A modest rebound in ex-transportation orders and a sizeable increase in orders for nondefense aircraft should be sufficient to push total durable goods orders higher. While our forecast is easily below the consensus, we think others may be putting too much stock in the jump in nondefense aircraft orders. In any given year, orders for nondefense aircraft typically spike in December, meaning the seasonal adjustment factors should compensate for this, thus mitigating the impact on top-line durable goods orders. That said, logic has not proven to be the best of guides to follow when forecasting the always volatile durable goods series. As in any month, however, the most important number in the report on durable goods orders will be orders for <u>core capital goods</u>, which we expect to be <u>up</u> by 0.3 percent.
January Leading Economic Index Thursday, 2/21 Range: -0.2 to 0.3 percent Median: 0.2 percent	Dec = -0.1%	<u>Up</u> by 0.1 percent. As with the reading for December, the January reading will incorporate *Conference Board* estimates for durable goods and building permits, as the Census Bureau has yet to catch up on the backlog of releases stemming from the partial government shutdown. As such, there is considerable uncertainty around our forecast, though a (welcome) rebound in the S&P 500 in January will be a support for the headline index, which continues to point to moderate economic growth.
January Existing Home Sales Thursday, 2/21 Range: 4.900 to 5.240 million units Median: 5.000 million units SAAR	Dec = 4.990 million units SAAR	<u>Up</u> to an annualized sales rate of 5.120 million units. Our forecast of an increase in "headline" (i.e., seasonally adjusted and annualized) sales reflects nothing more than what should be an overly generous seasonal adjustment factor. As always, our focus is on the raw (i.e., not seasonally adjusted) data, and on this front existing home sales will go from bad to worse. December 2018 was the weakest December for existing home sales since 2012, and in any given year January is the weakest month for sales. We look for not seasonally adjusted sales of 298,000 units in January, which would be the lowest monthly total since February 2015 and would leave sales down 4.8 percent year-on-year on an equal number of sales days. Still, all is not lost – keep in mind that existing home sales are booked at closing, so January closings generally reflect sales contracts signed from mid-November through December. While we know pending home sales (the NAR's gauge of signed sales contracts) fell again in December, the not seasonally adjusted data show a "normal" decline for the month of December. Mortgage rates have fallen from 2018's highs, the pace of price appreciation has slowed, and purchase mortgage applications jumped in January, all of which should work their way into the existing home sales data over coming months. The other key metric to watch is inventories; we look for a larger-than-normal (for the month of January) increase in listings to leave inventories up better than 6.5 percent year-on-year. To be clear, we are by no means suggesting that existing homes sales will come roaring back, simply that there is more life left in the housing market than implied by the sales numbers seen over the final months of 2018.

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