ECONOMIC PREVIEW

REGIONS

Week of January 24, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 25-26 FOMC meeting):* Target Range Mid-point: 0.125 to 0.125 percent Median Target Range Mid-point: 0.125 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	This week's FOMC Meeting will be all about the messaging. It is almost universally expected that the FOMC will begin raising the Fed funds rate at their March meeting. With no updated economic and financial projections to be released at this week's meeting, the policy statement and Chairman Powell's post-meeting press conference will lay the groundwork for upcoming policy changes. In addition to signaling a 25-basis point funds rate hike at the March meeting, the Committee will also have to give some guidance on how they will manage the Fed's balance sheet. As of now, the monthly asset purchases are scheduled to stop in mid-March, and several FOMC members have stated they think it appropriate to begin a passive run-off not too long after the asset purchases have ended. The trick for the Committee will be to manage expectations without laying out specific paths for the funds rate or the balance sheet, and what makes this even more challenging is that, unlike over recent decades when the FOMC has moved preemptively to fend off inflation, this time around they are acting after a significant acceleration in inflation. This raises the risk that they go too far too fast. One of Chairman Powell's tasks this week will be to allay any such fears.
January Consumer Confidence Tuesday, 1/25 Range: 105.0 to 116.9 Median: 111.8	Dec = 115.8	<u>Down</u> to 111.2 with the spike in COVID case counts and elevated inflation weighing on confidence. One thing that may cushion any decline in the Conference Board's survey is that it is more weighted toward labor market conditions and less weighted toward personal financial conditions than are other measures such as the University of Michigan's gauge of consumer sentiment. Consumers have been notably upbeat on labor market conditions over the past several months, including during the spike in cases due to the Delta variant, with the "jobs plentiful/jobs hard to get" spread hovering near all-time highs since June. While a considerable gap between labor demand and labor supply continues to fuel robust wage growth, that many businesses have been forced to scale back operations due to the rapid spread of the Omicron variant may have altered perceptions of labor market conditions.
Dec. Advance Trade Balance: Goods Wednesday, 1/26 Range: -$99.5 to -$90.1 billion Median: -$96.0 billion	Nov = -$98.0 billion	<u>Widening</u> slightly to -$98.3 billion.
December New Home Sales Wednesday, 1/26 Range: 700,000 to 809,000 units Median: 765,000 units SAAR	Nov = 744,000 units SAAR	<u>Up</u> to an annualized rate of 761,000 units. On a not seasonally adjusted basis, we look for sales of 51,000 units, down from 53,000 units in November and down 19.1 percent from December 2020. Right off the bat, watch for revisions to prior estimates of sales over the September-November period. The revisions have been most unkind over the past several months, particularly those released with the November data, when the estimate of October sales was knocked down from 745,000 units to 662,000 units (annualized rates). While the new home sales data have always been prone to sizable revision, that the revisions have been large and downward over the past several months is a sign of how sharply new home sales slowed over the back half of 2021 – recall that not seasonally adjusted sales peaked at 83,000 units in March. The slowdown in sales is much more a reflection of supply side conditions, which worsened as 2021 wore on, than of demand side conditions. Builders ended 2021 sitting on top of sizable backlogs of unfilled orders on both ends of the construction pipeline – units on which construction had not yet been started, and units under construction but not yet completed. The recent jump in mortgage interest rates will likely lead to even bigger backlogs, at least in the near term. If that sounds counterintuitive, it isn't necessarily so, as the jump in rates likely pulled people into the market sooner than they otherwise would have entered, which is backed up by the increases in applications for purchase mortgage loans in recent weeks. While many builders continue to operate under self-imposed sales caps, those caps have been relaxed a bit, allowing for continued growth in orders. Even if demand does subside after this recent burst, builders will remain busy for some time to come.
Q4 Real GDP – 1st estimate Thursday, 1/27 Range: 3.8 to 7.1 percent Median: 5.5 percent SAAR	Q3 = +2.3% SAAR	<u>Up</u> at an annualized rate of 5.2 percent, with consumer spending, business fixed investment, and inventories the main drivers of growth.
Q4 GDP Price Index – 1st estimate Thursday, 1/27 Range: 4.5 to 8.2 percent Median: 6.0 percent SAAR	Q3 = +6.0% SAAR	<u>Up</u> at an annualized rate of 6.2 percent.

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December Durable Goods Orders Thursday, 1/27 Range: -1.5 to 0.7 percent Median: -0.5 percent	Nov = +2.6%	Up by 0.5 percent. While civilian aircraft orders will be a drag on growth in total orders, our forecast anticipates that drag being less severe than others are expecting. The decline in net orders (gross orders minus cancellations) in December is much smaller than the decline in gross orders, and it is net orders that enter into the data on durable goods orders. The caveat here is that the mapping of the data on unit orders into the mapping on the dollar volume of orders remains somewhat of a mystery so, sure, our forecast could prove too high. Of much more relevance will be the data on core capital goods orders (see below); the modest decline in November broke a string of eight straight monthly increases, and we look for a rebound in December.
Dec. Durable Goods Orders: Ex-Trnsp. Thursday, 1/27 Range: -0.1 to 0.8 percent Median: 0.3 percent	Nov = +0.9%	We look for ex-transportation orders to be up by 0.7 percent, with core capital goods orders (nondefense capital goods excluding aircraft & parts) up by 0.6 percent.
Q4 Employment Cost Index Friday, 1/28 Range: 0.9 to 1.5 percent Median: 1.2 percent	Q3 = +1.3%	Up by 1.4 percent, with wage costs up by 1.7 percent and benefit costs up by 0.8 percent. The Employment Cost Index (ECI) is generally considered to be the most reliable gauge of changes in labor compensation costs, as it measures changes in comp costs for the same jobs over time and is thus free of the mix issues that can distort the signal in the data on average hourly earnings. The ECI's index of private sector wages rose by 1.6 percent in Q3, the largest quarterly increase since Q3 1982, and our forecast anticipates another hefty increase in the Q4 data. On an over-the-year basis, our forecast would leave the total ECI up by 4.4 percent, with wage costs up by 5.2 percent and benefit costs up by 2.7 percent. While we anticipate labor supply constraints easing over the course of 2022, we also expect the labor force participation rate to remain below pre-pandemic norms throughout our forecast horizon. As such, while the pace of wage growth will slow, we expect wage growth to remain on a faster track than was the case prior to the pandemic.
December Personal Income Friday, 1/28 Range: 0.0 to 0.8 percent Median: 0.5 percent	Nov = +0.4%	Up by 0.4 percent. Our forecast anticipates that transfer payments will be a drag on top-line income growth, as unemployment insurance benefit payouts decline further (reflecting people dropping off the benefit rolls) and the last vestiges of Economic Impact Payments (finally) fade from the data – recall the third round of EIP was distributed in March 2020, at least in theory if not necessarily in practice. Still, even if we are correct in expecting a drag from transfer payments, another solid increase in private sector wage and salary earnings, continued rapid growth in rental income, and another increase in asset-based income will be sufficient to push total personal income higher. Keep in mind that December was the last of the six monthly advance payments of the expanded Child Care Tax Credits, setting the stage for transfer payments to again act as a drag on top-line personal income in the January data, even allowing for a sizable cost-of-living increase in Social Security benefits.
December Personal Spending Friday, 1/28 Range: -1.3 to 0.2 percent Median: -0.6 percent	Nov = +0.6%	Down by 0.7 percent. Even though it was largely seasonal adjustment noise, the 3.1 percent decline in control retail sales in December will feed directly into the BEA's estimate of consumer spending on goods, while a decline in unit motor vehicle sales will weigh on spending on durable goods, even with higher prices. While the spread of the Omicron variant weighed on services spending over the latter part of December, we still look for an increase for the month as a whole, though lower than normal utilities outlays will temper that increase. Note that the combination of our forecasts of nominal spending and the PCE Deflator would leave real consumer spending down by 1.1 percent in December, pulling Q4 growth down with it. This is reflected in our forecast for Q4 real GDP growth (see Page 1), which we knocked down after the release of the December retail sales data.
December PCE Deflator Friday, 1/28 Range: 0.4 to 0.5 percent Median: 0.4 percent	Nov = +0.6%	We look for the PCE Deflator to be up by 0.4 percent, yielding an over-the-year increase of 5.8 percent. We look for the Core PCE Deflator to be up by 0.5 percent, which would translate into an over-the-year increase of 4.9 percent.