# ECONOMIC PREVIEW

REGIONS

Week of September 19, 2022

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint** *(After the September 20-21 FOMC meeting):* Target Range Mid-point: 3.125 to 3.125 percent Median Target Range Mid-point: 3.125 percent | Range: 2.25% to 2.50% Midpoint: 2.375% | It seems fitting, in an ironic sort of way, that in a week in which the economic news will be dominated by the September FOMC meeting, the economic data will be dominated by the housing market. It is, after all, the housing market which has thus far borne the brunt of the FOMC's efforts to rein in inflation. In the wake of the August CPI data markets are pricing in a non-trivial probability of a 100-basis point hike at this week's meeting, but we continue to expect a 75-basis point hike (as we did prior to the release of the August CPI data). We think the bigger story could be the updated economic and financial projections to be issued at the conclusion of this week's meeting. As for the economic projections, the main questions are how much slower real GDP growth will be, how much higher inflation will be, how far above the FOMC's 2.0 percent target rate inflation will be in Q4 2023, and how much higher the unemployment rate will be, all relative to the June projections. As for the dot plot, recall that in the June edition the mid-point of the Fed funds rate target range topped out at 3.75 percent in 2023. The question for the updated projections isn't whether the terminal funds rate will be higher than that, but how much higher it will be, and we would not rule out the updated dot plot showing the mid-point of the target range topping out at 4.375 percent (implying a range of 4.25-4.50 percent) in 2023. While many FOMC members, including Chair Powell, have pushed back aggressively against the notion of a quick pivot from rate hikes to rate cuts, that won't rule out the median dot implying at least one funds rate cut in 2024. |
| **August Building Permits** Tuesday, 9/20 Range: 1.453 to 1.675 million units Median: 1.609 million units SAAR | Jul = 1.685 million units SAAR | Down to an annualized rate of 1.453 million units. On a not seasonally adjusted basis, we look for total permits of 126,300 units. Our forecast of the headline (seasonally adjusted annualized rate) permits number would reflect a 13.8 percent decline from July. Keep in mind, however, that July's headline number was grossly inflated by seasonal adjustment, as if to show that there really is no escape from inflation these days. Indeed, the not seasonally adjusted data for July showed permits underperformed our forecast, declining by 14.5 percent. So, whether our far below consensus forecast of the headline number is on or near the mark is totally irrelevant because, as always, it is the unadjusted data that matter. Our forecast of unadjusted permits would reflect a 6.0 percent decline from July and incorporates a second straight double-digit decline in single family permits that would leave them 37.2 percent below the intra-year peak reached in March.<br><br>We have from the start expected higher mortgage interest rates to exact a steeper toll on single family permit issuance than on single family starts. This is simply a function of the sizable backlog of single family units which have been permitted but not yet started and rapidly rising spec inventories. Though off the peak reached in March, the backlog of single family units permitted but not yet started remains notably elevated. It could be that it stays that way for some time to come, at least to the extent that builders had been pulling permits for spec units which, given the dramatic change in market conditions, they won't be starting any time soon. We have also argued that, given how chronically undersupplied the market has been over the last decade-plus, there is a floor under demand. Sure, there is always a concrete floor – zero – under demand, but a more relevant marker would be 22,100, which is the number of single family permits issued in January 2009 and the lowest monthly total on record. While our forecast of 67,400 single family permits in August won't be the bottom, we don't expect that January 2009 mark to be tested during this cycle barring a far more significant deterioration in the economy than we expect at present. |
| **August Housing Starts** Tuesday, 9/20 Range: 1.330 to 1.540 million units Median: 1.450 million units SAAR | Jul = 1.446 million units SAAR | Down to an annualized rate of 1.344 million units. On a not seasonally adjusted basis, we look for total starts of 117,300 units, a 10.2 percent decline from July. After a 12.8 percent decline in July, our forecast anticipates single family starts falling by 15.0 percent in August, which would leave them down 34.2 percent from the intra-year peak hit in April. The pace of single family completions remains hindered by supply chain and labor supply constraints, which has helped push the number of single family units under construction up over 830,000, the most since October 2006. While the dip in mortgage interest rates in August may have provided a modest boost to new home sales, it is unlikely to have done so for single family starts, with those sales more likely to have come out of already started spec inventories. So, as with permits, we think there is further room to the downside for single family starts. |

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

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| **August Existing Home Sales**<br>Range: 4.500 to 4.790 million units<br>Median: 4.700 million units SAAR | Wednesday, 9/21 | Jul = 4.810 million units SAAR | <u>Down</u> to an annualized rate of 4.660 million units. On a not seasonally adjusted basis, we look for total sales of 446,000 units, down 1.6 percent from July and down 22.6 percent year-on-year. There was, however, one more sales day this August than last, so adjusted for sales days, our forecast implies a year-on-year decline of 25.9 percent. Recall that existing home sales are booked at closing, with August closings largely reflecting sales contracts signed from late-June through late-July, meaning that the dip in mortgage rates in August won't have had an impact on August existing home sales. We look for the median existing home sales price to be up by less than ten percent year-on-year, which would be the first month since July 2020 with less than a double-digit increase. While we look for inventories of existing homes for sale to have risen in August, the rate at which inventories are rising has slowed, mainly reflecting fewer new listings coming on to the market as those already on the market stay there longer. To that point, we'll be watching time on market for an indication of the extent to which demand has cooled. Recall that median days on market (before going under contract) fell to a record low of 14 days for homes sold in June and July, we'd be surprised if that didn't lengthen in the August data. It is also worth noting that all-cash sales have accounted for over one-quarter of all existing home sales thus far in 2022, higher than the typical share, mitigating the impact of higher mortgage interest rates. A meaningful decline in that share, however, could signal a shift in perceptions of valuations. Our longer-term readers are by now familiar with our annoying (apparently) habit of offering context, as opposed to simply extrapolating the latest data points out into, you know, forever. While it may be hard to think of it as such in the face of rapidly receding demand, the market nonetheless remains undersupplied. We began discussing how lean inventories were weighing on sales back in 2014, and while the drop-off in demand and increase in inventories over recent months have pushed the market closer to balance, there is still far to go on that front. To the extent we're correct on this point, days on market may remain lower and the share of cash sales may remain higher than you'd think likely in the face of lower sales numbers. |
| **Q2 Current Account Balance**<br>Range: -$275.0 to -$251.0 billion<br>Median: -$260.0 billion | Thursday, 9/22 | Q1 = -$291.4 billion | <u>Narrowing</u> to -$256.6 billion, reflecting a significantly smaller trade deficit. |
| **August Leading Economic Index**<br>Range: -0.3 to 0.2 percent<br>Median: -0.1 percent | Thursday, 9/22 | Jul = -0.4% | <u>Down</u> by 0.2 percent. |



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