ECONOMIC PREVIEW

REGIONS

Week of October 17, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 1-2 FOMC meeting):* Target Range Mid-point: 3.875 to 4.125 percent Median Target Range Mid-point: 3.875 percent	Range: 3.00% to 3.25% Midpoint: 3.125%	Last week's reads on the Producer Price Index and the Consumer Price Index brought scant signs of relief from price pressures, with the monthly change in the core CPI coming in double expectations for a second straight month. While another 75-basis point increase in the Fed funds rate at the November FOMC meeting was the most likely outcome either way, last week's data would seem to up the odds of a larger move at the December meeting than had been thought likely. That won't be welcome news for a housing market already reeling from higher mortgage interest rates, as this week's releases on construction and existing home sales (see Page 2) will show.
September Industrial Production Tuesday, 10/18 Range: -0.3 to 0.4 percent Median: 0.1 percent	Aug = -0.2%	<u>Up</u> by 0.2 percent. The September employment report showed a strong increase in aggregate hours worked by manufacturing production workers (supervisors, not so much), which should lift factory output, but utilities and mining will be drags.
September Capacity Utilization Rate Tuesday, 10/18 Range: 79.6 to 80.2 percent Median: 80.0 percent	Aug = 80.0%	Up to 80.1 percent.
September Building Permits Wednesday, 10/19 Range: 1.455 to 1.600 million units Median: 1.530 million units SAAR	Aug = 1.542 million units SAAR	<u>Up</u> to an annualized rate of 1.554 million units. On a not seasonally adjusted basis, we look for total permits of 130,100 units, down from 139,000 in August with lower totals for both single family and multi-family permits. Even with higher mortgage interest rates doing a job on demand for home purchases, we've expected single family starts to hold up better than single family permits, as large backlogs of units on which construction had not yet started would be a support for starts even allowing for rising order cancellations. Our forecast would leave single family permits lower than single family starts (not seasonally adjusted) for a sixth straight month. To be sure, in this case "hold up better" translates into "decline less," at least until backlogs of units awaiting construction begin to thin out, whether due units being started or orders being cancelled. One source of uncertainty is the extent to which the run of notably high multi-family permit issuance in the South region will continue; on average, there have been 27,500 multi-family permits issued each month in the South region over the past six months, far ahead of normal levels. To some extent, this could reflect perceived shifts in demand in reaction to higher mortgage interest rates. Even if that is the catalyst, the high levels of multi-family permit issuance figure to come down at some point, but when that will be remains to be seen. The September data will not have been impacted by Hurricane Ian, but the effects of that devastating storm will be seen in the data for the South region over the coming several months.
September Housing Starts Wednesday, 10/19 Range: 1.336 to 1.560 million units Median: 1.470 million units SAAR	Aug = 1.490 million units SAAR	<u>Down</u> to an annualized rate of 1.436 million units. On a not seasonally adjusted basis, our forecast anticipates total starts of 124,400 units, down 11.5 percent from August. Recall that the August data surprised us to the upside, and there were two factors behind that. First, the South region saw 31,800 multi-family starts in August, the most in any month since October 1983. Second, the 0.5 percent decline in single family starts in August was much milder than we had anticipated, even allowing for backlogs of units awaiting construction providing somewhat of a buffer. Sure, having our August forecast so cruelly mocked by the actual data doesn't exactly inspire a lot of confidence in the forecast of the September data, yet, here we are. It does seem unlikely that we'll see a repeat of the wave of multi-family starts seen in August, though the sheer volume of multi-family permits issued in the South region over the past several months looms as an upside risk to our forecast. On the single family side, we look for a more pronounced decline than that seen in August – our forecast would mark the lowest monthly total of unadjusted single family starts since February 2021. The data on construction backlogs and completions bear watching. Multi-family completions fell sharply in August as single family completions remain fairly steady; while the multi-family data tend to be lumpy, such that we could easily see a jump in completions in the September data, there seems little capacity for a sizable and sustained increase in single family completions anytime soon. Recall that August saw the latest – 1.721 million units – in what is becoming a string of new record highs in housing units under construction, while the backlog of units permitted but not yet started continues to hover around multi-year highs. The sizable backlog of under construction multi-family units has been years in the making, but the jump in the single family backlog has been more recent. Neither figures to clear quickly.

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September Existing Home Sales Thursday, 10/20 Range: 4.420 to 4.910 million units Median: 4.690 million units SAAR	Aug = 4.800 million units SAAR	Up to an annualized rate of 4.910 million units, though even if our forecast is on or near the mark, the headline sales number would look better than would actually be the case. On a not seasonally adjusted basis, we look for sales of 434,000 units, down 8.8 percent from July and down 20.6 percent year-on-year. That would, however, be much smaller than the typical September decline, so seasonal adjustment will make the headline sales number (i.e., seasonally adjusted, and annualized) look better than is actually the case. Or perhaps we should say make the headline number look less bad than is actually the case. In any event, recall that existing home sales are booked at closing, and that pending home sales, a gauge of signed sales contracts, tend to lead closings by 30-45 days. While pending home sales were down in August on a seasonally adjusted basis, the not seasonally adjusted data show an increase, meaning this August outperformed the "typical" August. This may in part reflect the dip in mortgage interest rates in the first half of the month. While none of that points to a resurgence in sales, it does at least suggest September sales may not have been as bad as many are expecting, hence our above-consensus forecast. Even if September sales are not as bad as many are expecting, the trend in home sales, new and existing, is still pointing downward, even more so with the latest jump in mortgage rates. With sale prospects dimming and higher mortgage rates "locking in" more and more homeowners, new listings of existing homes for sale have tumbled over recent weeks, which we think will have pushed inventories down further in September even as homes already on the market stay there longer. September is a month in which inventories typically fall (the NAR's inventory data are not seasonally adjusted), and our forecast anticipates a larger decline than is normal for the month, which will leave inventories down year-on-year. Finally, year-on-year growth in median sales prices has slowed sharply; August's increase was just 7.7 percent and September's increase will be smaller still, which will be another step on the road to over-the-year declines in the months ahead.
September Leading Economic Index Thursday, 10/20 Range: -0.6 to -0.1 percent Median: -0.3 percent	Aug = -0.3%	Down by 0.6 percent.

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