ECONOMIC PREVIEW

REGIONS

Week of July 20 2015

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on July 28-29):* Target Range Midpoint: 0.125 to 0.125 percent Median Target Range Midpoint: 0.125 percent		0.125%	The housing market is front and center in an otherwise quiet week for top-tier economic data. Our expectations for home sales are in line with last week's data on June housing starts, well, the part of the data showing further steady growth in single family starts, not the part of the data showing a surge in multi-family starts. That this reported surge is less than entirely believable is another story for another day, but, aside from that, multi-family activity has been the main driver of housing market activity since mid-2010, rising rapidly for a prolonged period. In contrast, the single family segment of the housing market has improved at a steady but frustratingly slow pace. This matters since, for a given housing unit, there is a bigger impact on the broader economy from a single family unit than for a multi-family unit, from the number of construction jobs involved in building the unit through the level of associated level of spending by the ultimate occupant. As such, while the number of total housing starts has risen significantly from the cyclical trough, this recovery has gotten less of a kick from housing than has been the case in past cycles. We look for these patterns to shift over coming quarters, i.e., single family activity becomes a bigger driver of total housing market activity and multi-family activity less so, but we also expect this shift to occur at a gradual rate. This week's data on home sales should help to reinforce that theme.
June Existing Home Sales Range: 5.250 to 5.500 million units Median: 5.400 million units SAAR	Wednesday, 7/22	May = 5.350 mil	Up to an annual sales rate of 5.430 million units. Continued solid prints on pending home sales point to further gains in existing home sales (recall existing home sales are booked at closing). This would be the fastest monthly sales rate since November 2009 when tax credits were artificially boosting sales, otherwise you have to go back to March 2007 for a monthly sales pace as high as our forecast. As we have been noting for some time now, beneath the headline sales number the profile of sales has been improving steadily, reflecting the fading share of distress sales in the overall sales mix. To some extent, inventories remain a story here, as lean inventories have acted as a drag on sales and have helped push up the pace of price appreciation. The NAR inventory data are not seasonally adjusted, and June is typically a month in which there is very little change in inventory, so it will be interesting to see if this year was an exception. It is not unreasonable to expect firmer price appreciation to start drawing out more inventory.
June Leading Economic Index Range: 0.1 to 0.7 percent Median: 0.2 percent	Thursday, 7/23	May = +0.7%	Up by 0.2 percent.
June New Home Sales Range: 530,000 to 569,000 units Median: 549,000 units SAAR	Friday, 7/24	May = 546,000	Up to an annual rate of 558,000 units, which would be the fastest monthly sales rate since February 2008. Though the monthly new home sales data are inherently volatile and subject to often large revision, the trend rate of new home sales has risen steadily over the past several months and we look for that to have continued in June. In contrast to the headline sales number which is reported on a seasonally adjusted annual rate basis, we prefer to look at the not seasonally adjusted monthly sales number. On this basis, this year's sales in April and May were the highest for those months since 2007 and we expect this will also be the case for June sales. New home inventories remain abnormally low, though this is less of a constraint on sales than is the case with existing home sales, as the sale of a new home can occur prior to construction being started, while the unit is under construction, or when the unit is completed (new home sales are booked at contract signing). Over recent months, sales of units on which construction has not yet started have accounted for a rising share of total new home sales and this is in part due to builders engaging in less spec building than at times in the past. This pattern is consistent with what has been a higher share of sales coming from homes on the higher end of the price spectrum, as over the past several months builders seem content to have made up for in margin what they have missed out on in volume. It will be interesting to see whether there are signs of this pattern reversing over coming months – with steady job gains, improving income growth, a prolonged period of steadily rising rents, and signs of easing mortgage lending standards (though, to be sure, easing from a very stringent starting point), it could be builders decide first time buyers are a portion of the market worth making a run at. Barring such a change, we expect the pace of new home sales to continue improving at a gradual pace.

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