ECONOMIC PREVIEW

REGIONS

Week of October 19, 2015

Indicator/Action Economics Survey: | Last Actual: | Regions' View:

Fed Funds Rate: Target Range Midpoint
(After the FOMC meeting on October 27-28):
Target Range Midpoint: 0.125 to 0.125 percent
Median Target Range Midpoint: 0.125 percent

Last Actual: 0.125%

In a fairly quiet week, the light data schedule affords us the opportunity to both preview and review. Specifically, review the reaction to a few events of last week – the September reports on retail sales and inflation, and Wal-Mart's earnings announcement. To us, the general reaction was a classic instance of people putting two and two together and coming up with, well, something that isn't four. September retail sales rose just 0.1 percent and fell once auto sales were stripped out. The retail sales data coincided with Wal-Mart's announcement they had significantly scaled back expectations for profits in what remains a challenging sales environment. Sure enough, these two events were combined into yet another chapter in the long running narrative of the dire straits in which U.S. consumers are trapped, while the implications of the inflation data were largely ignored.

Long running, yes; accurate, maybe not so much. As for Wal-Mart, the retailer is spending heavily on building up an on-line platform it hopes will ultimately put it on even footing with the likes of Amazon.com, on paying its workers more (to the tune of about $2.5 billion this year and next), and on putting its house, i.e., the physical condition of its stores, in order. It isn't our place to pass judgment on the merits of Wal-Mart's strategy; our point is simply that the retailer's earnings outlook is a Wal-Mart story, it is not a broad narrative on the U.S. consumer.

As to that, apparently consumers were so downtrodden in September they went out and bought new cars and SUVs at the fastest rate since July 2005, drove themselves to restaurants for nice meals, then on the way back home stopped and upgraded their wardrobes, at least judging from the retail sales data. We have noted flat to lower goods prices over the past several months – and, sure, this is where the (global) macro environment is hitting Wal-Mart and other retailers – mean sales data reported in nominal terms make consumer spending look weaker than it actually is. To that point, even with the September data in hand, real, i.e., inflation adjusted, consumer spending was on course for growth of 3.6 percent (annualized) in Q3, which would be the fifth time in the past six quarters real growth will have been at or above 3.5 percent. Despite the familiar but by now tired narrative, U.S. consumers are on sounder financial footing and are feeling increasingly confident, as is reflected in the data on inflation adjusted spending.

September Housing Starts — Tuesday, 10/20 — Aug = 1.126 mil
Range: 1.100 to 1.175 million units
Median: 1.131 million units SAAR

Up to an annualized rate of 1.133 million units. We look for further improvement in single family starts, albeit at the same grudging pace that has prevailed for some time now. Total starts are firmly entrenched above the 1 million unit pace for 2015; the difference between this year and the past few is the contributions are more balanced between single family and multi-family construction. Indeed, our forecast would leave both single family and multi-family starts up 11.1 percent (year-to-date through September). The balance should tilt in the other direction, i.e., single family making a bigger contribution to overall growth as multi-family gradually eases off towards its longer-term trend rate in the quarters ahead. We look for total housing permits to increase to an annual rate of 1.173 million units, with single family accounting for the increase in total permits.

September Leading Economic Index — Thursday, 10/22 — Aug = +0.1%
Range: -0.2 to 0.2 percent
Median: 0.0 percent

Down by 0.2 percent.

September Existing Home Sales — Thursday, 10/22 — Aug = 5.310 mil
Range: 5.288 to 5.510 million units
Median: 5.350 million units SAAR

Up to an annualized sales rate of 5.510 million units, with the South and West regions providing the bulk of the overall increase after each region saw unusually large declines in sales in August. More broadly, the upward, though at an uneven pace, trend in existing home sales remains intact with distress sales gradually fading from the landscape. While our forecast puts total sales up 8.0 percent on a year-over-year basis, our anticipated mix of sales would leave distress sales down 24.4 percent while nondistress sales would be up 11.9 percent. Inventories remain a key point of interest, as the market remains undersupplied. We do not, however, look for any relief on the supply side as September is a month in which inventories typically decline (the NAR inventory data are not seasonally adjusted). Lean inventories are supporting sturdier price appreciation, though we caution this is better seen in the repeat sales price indices as opposed to the median price data in the NAR report. It is reasonable to expect, however, that at some point house price appreciation will be sufficient to draw more inventory on to the market, though this is likely to remain a slow and gradual process.

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