ECONOMIC PREVIEW

REGIONS

Week of September 17, 2012

SEPTEMBER 14, 2012

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

Fed Funds Rate
(after the FOMC meeting on October 24)
Range: 0.00 to 0.25 percent
Median: 0.125 percent (mid-point of target range)

Last Actual: 0.00% to 0.25%

As was widely expected, the FOMC announced it had decided to provide additional monetary policy accommodation to an economy stuck in the throes of a slow and uneven recovery. The additional accommodation takes two forms – forward guidance amended to state exceptionally low levels for the Fed funds rate are now likely to be warranted at least through mid-2015, and additional purchases of mortgage-backed securities. The latter step, more popularly referred to as "QE-3" will be part of a plan to increase the Fed's holdings of long-term securities by $85 billion per month through year-end with the intent of putting downward pressure on long-term interest rates.

The Fed's main concern at present is an unemployment rate that remains stubbornly high. It's a reasonable question to ask how the Fed purchasing mortgage-backed securities will help drive the unemployment rate lower. The Fed is placing its money, literally, on the housing market as the most effective means of influencing the broader economy. In principal, a healthier housing market, particularly rising home prices, can have significant positive effects throughout the broader economy. For instance, even the increases in house prices seen to date, modest though they may have been, have helped increase household net worth and also mean that many homeowners who had been underwater on their mortgage loan are at least back on the surface. These factors in turn should help lift consumer spending and facilitate a faster rate of home sales, and this to some extent becomes a self-sustaining cycle.

Where we have some concern is the "in principal" part. With mortgage lending standards remaining elevated, it is also reasonable to question just how much benefit the economy will get from incrementally lower mortgage rates. An even greater concern is when we assess the relative impacts of further monetary policy accommodation and the fiscal cliff – the fiscal cliff wins hands down. Finally, the Fed perceives that they have considerable latitude to act with longer term inflation expectations remaining "stable." In their view, with the unemployment rate likely to remain above the rate consistent with full employment at least into 2015, wage pressures will remain quiescent, even as the unemployment rate begins to fall. We are not as confident as the FOMC, at least most of its members, that inflation will remain so well behaved.

The bottom line is that none of the concerns outlined here have kept, nor will keep, the Fed from acting on their conviction that if they can do something, however marginal the benefits, they should do something. How useful this will ultimately be remains to be seen, but if the pace of the recovery does not pick up in a meaningful way, it won't be due to lack of trying on the part of the Fed.

Q2 Current Account Balance — Tuesday, 9/18
Range: -$135.0 to -$122.0 billion
Median: -$126.5 billion

Last Actual: Q1 = -$137.3 bil

Narrowing to -$127.2 billion.

August Housing Starts — Wednesday, 9/19
Range: 725,000 to 790,000 units
Median: 755,000 units

Last Actual: Jul = 746,000

Up to an annualized rate of 780,000 units, with a modest increase in single family starts and a larger increase in multi-family starts. Our expected rate of starts would mark the highest total since September 2008, when starts were heading in the opposite direction, and rapidly so. We look for total building permits to come in at an annualized rate of 800,000 units, down slightly from the preliminary July print of 812,000 units.

August Existing Home Sales — Wednesday, 9/19
Range: 4.400 to 4.620 million units
Median: 4.550 million units (SAAR)

Last Actual: Jul = 4.470 mil

Up to an annualized sales rate of 4.62 million units.

August Leading Economic Index — Thursday, 9/20
Range: -0.2 to 0.3 percent
Median: 0.1 percent

Last Actual: Jul = +0.4%

Down by 0.1 percent.

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