ECONOMIC PREVIEW

REGIONS

Week of October 22, 2012

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on October 23-24)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	Despite low inventories holding back sales in some markets, we look for new home sales to have risen in September (see below). On a six-month moving average basis – our preferred lens through which to view the volatile housing market data – our expected increase would leave new home sales at a pace of 369,000 units, the fastest such pace since April 2010. This would cap off a recent spate of data highlighting what has become an interesting dichotomy between the household sector, including the housing market, which is showing renewed signs of vigor while the corporate sector is trying to decide whether to stand still or fall back into an all-out retreat. Even allowing for what we think is some seasonal adjustment related noise that has made much of the September data look better than it should, it does appear consumers and homebuilders are feeling better about the world these days. We do not, however, expect consumer spending to advance at the same pace in Q4 as was the case in Q3, which was capped off by a strong retail sales report. Job and income growth has simply not been sufficient to support growth in consumer spending on par with that seen in Q3. There is, however, the possibility that the income data are being understated which is plausible in light of Treasury's data on personal tax withholding. Either way, it occurs to us that consumers may be overlooking a potentially painful hit to their disposable income in early 2013. Whatever else happens with the looming fiscal cliff, we fully expect Social Security withholding rates to revert back to the normal rate of 6.2 percent from the current "here's some stimulus now go spend some stinkin' money" rate of 4.2 percent. After all, with all of the back and forth over what constitutes "rich" and what marginal tax rate rich people should pay, there has been little talk of the Social Security withholding rate, which impacts a far greater number of households, including many in the "47 percent." As such, higher withholding rates could weigh down consumer spending in Q1 2013. The week ahead also includes the FOMC meeting, which doesn't figure to break any new ground – no press conference, no new forecasts, and very likely no new policy. We'll have to settle for the Committee's latest take on the state of the economy, though their focus will remain on the considerable degree of labor market slack that continues to hold down growth in earnings.
September New Home Sales Range: 371,000 to 400,000 units Median: 382,000 units (SAAR)	Wednesday, 10/24	Aug = 373,000	Up to an annualized rate of 388,000 units.
September Durable Goods Orders Range: 3.5 to 9.2 percent Median: 7.0 percent	Thursday, 10/25	Aug = -13.2%	Up by 8.1 percent. Boeing's order book has looked more like a roller coaster ride in recent months, and following a plunge in August orders rebounded sharply in September. This will lift orders for transportation equipment, which account for roughly 30 percent of durable goods orders in a typical month. On a more fundamental level, we will be closely watching to see if the recent slides in orders for industrial machinery and computer & electronics products will be arrested, and the broader core capital goods component will provide some insight into the overall appetite for business fixed investment.
Q3 Real GDP – First Estimate Range: 1.4 to 2.2 percent Median: 1.8 percent (annualized)	Friday, 10/26	Q2 = +1.3%	Up at an annualized rate of 2.1 percent, right in line with average growth over the life of the current recovery (which is why we frequently, but not so fondly, say we're living in a two-percent world). Stepped up growth during Q3 is largely a function of stronger growth in consumer spending and inventory accumulation in the nonfarm business sector, neither of which we expect to persist in Q4. It's worth noting that the first estimate of real GDP growth is always somewhat of a roll of the dice, as the BEA must rely on estimates and assumptions to fill the holes in the source data. As such, the BEA's first read could vary a bit in either direction, but we don't expect it will be too far from the 2.0 percent mark. Of course, an estimate of 10 percent growth in Q3 would lead us to think the conspiracy buffs out there may be on to something . . .
Q3 GDP Price Index – First Estimate Range: 1.3 to 2.7 percent Median: 2.0 percent (annualized)	Friday, 10/26	Q2 = +1.6%	Up at an annualized rate of 2.6 percent.

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