ECONOMIC PREVIEW

REGIONS

Week of November 19, 2012

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on December 11-12)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	As we noted in last week's preview would be the case, Hurricane Sandy is having a significant impact on the economic data. Though not able to quantify the impact, the Census Bureau acknowledged Sandy's effects on October retail sales, which are reported to have declined by 0.3 percent. The Federal Reserve estimated Sandy caused total industrial production to be one percent lower in October than would otherwise have been the case, hence the reported 0.4 percent decline in industrial production. This week's housing-related data are also likely to be impacted. Moreover, as the effects of the storm lingered on into November, it will not be until the December data (to be released in January and February 2013) that we are clear of storm-related effects. Estimates as to the effects of Sandy on real GDP growth during Q4 are gravitating towards a deduction of 0.5 percentage points. What we do know, however, is prior to the storm there was increasing momentum in consumer spending and the housing market while the manufacturing sector was losing momentum (to this point, the September industrial production data were revised downward) while concern over the looming fiscal cliff intensifies in all quarters. The minutes from the October FOMC meeting suggest it is a matter of how, and not whether, the Committee will revamp its communications strategy to incorporate specific economic markers into its forward guidance on an initial increase in the Fed funds rate. It is important to distinguish between a threshold and a target – the FOMC will not select a specific unemployment rate and/or core inflation rate that would trigger a hike in the funds rate, but instead will look to provide thresholds which, once crossed, would mean a funds hike would be deliberated and, if deemed appropriate, implemented. Any such threshold would also have to incorporate economic and financial data and expectations beyond the unemployment rate and/or the rate of core inflation, and would then have to be clearly communicated to the financial markets. Just working through this paragraph gives one a sense of how difficult that task will be but, nonetheless, we expect such a change in communications strategy to be adopted soon.
October Existing Home Sales Range: 4.600 to 4.800 million units Median: 4.750 million units (SAAR)	Monday, 11/19	Sep = 4.750 mil	<u>Down</u> to an annualized rate of 4.680 million units.
October Housing Starts Range: 815,000 to 885,000 units Median: 840,000 units (SAAR)	Tuesday, 11/20	Sep = 872,000	<u>Down</u> to an annualized rate of 845,000 units. We had looked for an easing from September's pace, which marked the fastest rate of housing starts since July 2008. That decline will be amplified by the effects of Hurricane Sandy – to a degree. The Northeast region typically accounts for around 10 percent of total housing starts, which will mitigate the effects of Sandy on the headline number. Also, over the past few years both starts and permits have declined in the month of October on a not seasonally adjusted basis, so any decline in the raw data will be cushioned by the seasonal adjustment process. Still, it is important not to lose sight of the bigger picture by focusing on these month-to-month swings – the housing market is on the mend and what has been healthy growth in multi-family permits and starts has recently been reinforced by improvement in the single family segment of the market. The near-term impact of Sandy notwithstanding, we expect that to remain the case –our anticipated decline for October would mark the second highest pace of starts since July 2008. We look for total housing permits to come in at an annualized rate of 880,000 units.
October Leading Economic Index Range: -0.1 to 0.4 percent Median: 0.2 percent	Wednesday, 11/22	Sep = +0.6%	<u>Up</u> by 0.2 percent.

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