# ECONOMIC PREVIEW

REGIONS

Week of March 18, 2013

| Indicator/Action Economics Survey: | | Last Actual: | Regions' View: |
|---|---|---|---|
| **Fed Funds Rate**<br>*(after the FOMC meeting on March 19-20)*<br>Range: 0.00 to 0.25 percent<br>Median: 0.125 percent (mid-point of target range) | | 0.00% to 0.25% | Last week's data on retail sales, industrial production, and inflation were consistent with what has been an emerging theme of late – a private sector recovering at a more rapid rate while overall inflation pressures remain muted. The momentum in the private sector can be seen in the data on jobless claims, payroll employment and earnings, residential construction, house prices, and capital spending. At the same time, aside from February's spike in retail gasoline prices inflation pressures remain muted with core inflation as measured by the Consumer Price Index hovering right at 2.0 percent.<br><br>While the firmer tone of the data and lack of meaningful inflation pressure will be of some comfort to the FOMC as it gathers for the two-day March session, they will no doubt stress that despite the recent progress, there is still far to go before the U.S. economy in general, and the labor market in particular, can be considered fully healed. They will certainly get no argument from us on that point. Moreover, the improved tenor of the data on the private sector does not mean the economy is immune to the jumbled mess otherwise known as fiscal policy, though it does suggest a firmer base from which to deal with it. To that point, we are by no means convinced the data will not soften over the next few months, particularly the data on consumer spending as the longer term reaction of consumers to higher payroll taxes and still elevated retail gasoline prices becomes more fully apparent as the effects of the sequestration spending cuts kick in.<br><br>We do not look for any policy changes from the FOMC this week, but that does not mean the meeting will lack interest. This week's meeting includes the release of the latest round of the FOMC's central tendency forecasts. We will be keenly interested to see whether these forecasts will lend support to the suggestion in the minutes to the previous two FOMC meetings that there is growing debate within the Committee as to how long the large-scale asset purchases should continue and the potential costs and risks of these purchases. More upbeat forecasts for the paths of real GDP and the unemployment rate would be consistent with the tone of the minutes. We will note, however, that the interpretation of the language of the minutes, specifically the terms "many members" and "several members" is quite open, such that if the forecasts are not materially better we should perhaps discount any "hawkish" interpretations of the minutes, at least those passages pertaining to the Fed's asset purchases.<br><br>Chairman Bernanke will have ample room to elaborate on these points, to the extent he wishes to do so, during his press conference following the conclusion of the FOMC meeting. We look for him to remain largely on script, however, acknowledging the improved tone of the economic data but pointing to what remains a high degree of labor market slack as evidence that it is far too soon to consider paring back, let alone ending, the Fed's asset purchases. Chairman Bernanke will likely also manage to work in his oft-repeated point that monetary policy can only take the economy so far without help on the fiscal policy front. There is of course no reason to expect fiscal policy makers to be any more moved by Chairman Bernanke's insights than has been the case all along, but you have to at least give the Chairman credit for his persistence on this point. |
| **February Housing Starts**<br>Range: 880,000 to 960,000 units<br>Median: 916,000 units SAAR | Tuesday, 3/19 | Jan = 890,000 | Up to an annualized rate of 930,000 units. We look for a big increase in multi-family starts while single family starts hover around a rate of 600,000 units. We look for total housing permits to come in at an annualized rate of 960,000 units. |
| **February Leading Economic Index**<br>Range: 0.1 to 0.8 percent<br>Median: 0.3 percent | Thursday, 3/21 | Jan = +0.2% | Up by 0.6 percent with higher stock prices, a longer workweek, an increase in housing permits, and improved consumer expectations doing the heavy lifting to take the leading index higher. |
| **February Existing Home Sales**<br>Range: 4.900 to 5.150 million units<br>Median: 4.995 million units SAAR | Thursday, 3/21 | Jan = 4.920 mil | Up to an annualized rate of 5.050 million units. Aside from the headline sales number, we will be watching the change in inventories, the share of distress sales, and the share of sales to investors – we look for these latter two metrics to steadily drift lower over the course of 2013. |

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