# ECONOMIC PREVIEW

**REGIONS**

Week of May 27, 2013

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

**Fed Funds Rate**
*(after the FOMC meeting on June 18-19)*
Range: 0.00 to 0.25 percent
Median: 0.125 percent (mid-point of target range)

Last Actual: 0.00% to 0.25%

There has been a lot of discussion from various Fed officials as to the course of the Fed's large scale asset purchases. Not to be immodest, but we realize for those with less expertise in these matters trying to correctly interpret all of this chatter can at times be somewhat confusing. So let us clarify it for you. The FOMC could vote to taper the pace of asset purchases if they see evidence of substantial and sustained improvement in labor market conditions. Though there is not a definitive definition of what constitutes substantial and sustained improvement, the vote to taper purchases could possibly take place over the "next few" FOMC meetings. But, should the FOMC actually pull back on the pace of asset purchases, it could later vote to ramp them back up if economic conditions subsequently deteriorate. Then again, labor market improvement notwithstanding, if the recent disinflationary trend persists, causing inflation expectations to fall substantially below 2.0 percent, the FOMC could decide to increase the pace of asset purchases. So, to sum up, the pace of asset purchases could be scaled back or it could be stepped up, and any change could come as soon as the next few FOMC meetings or it could come later.

We're glad we could clear that up for you. If, however, you need further guidance, we suggest you not look to the financial markets, as the markets have turned into that "we want more" girl from the Ally Bank commercials. As in, "we want more QE," to the point that good economic data has become bad news and bad economic data has become good news, depending on how each piece of data is perceived to alter the path of the Fed's asset purchases. Talk about confusing.

All of this suggests the difficulty facing the Fed and the importance of clear and effective communication when it does come time to change policy. Think of it this way – to the majority of the FOMC, the cost of moving too fast too soon clearly outweighs the cost of moving too slowly too late. So, through all of the talk, we see the broader message to be over coming months the FOMC will likely decide to pare back the pace of asset purchases, but purchases will be tapered at a very deliberate pace. Without question, "a very deliberate pace" will be the focal point of the Fed's communication strategy around any changes to asset purchases.

**May Consumer Confidence Index** — Tuesday, 5/28
Range: 69.0 to 74.8
Median: 70.8

Last Actual: Apr = 68.1

Up to 73.4, as we look for improvement in the expectations component to be the main driver of the increase in the overall index.

**Q1 Real GDP – 2nd Estimate** — Thursday, 5/30
Range: 2.3 to 2.9 percent
Median: 2.5 percent SAAR

Last Actual: Q1 1st est = +2.5%

Up at an annualized rate of 2.8 percent, slightly ahead of the BEA's initial estimate. Relative to the assumptions built into the initial estimate, we look for a smaller trade deficit, slightly faster growth in consumer spending and in business spending on equipment and software, and a smaller inventory build by nonfarm businesses with the net effect of slightly faster top-line growth. However the revisions shake out, the underlying dichotomy between an expanding private sector and a contracting government sector will remain in place.

**Q1 GDP Price Index – 2nd Estimate** — Thursday, 5/30
Range: 1.2 to 1.3 percent
Median: 1.2 percent SAAR

Last Actual: Q1 1st est = +1.2%

Up at an annualized rate of 1.2 percent, matching the initial estimate.

**April Personal Income** — Friday, 5/31
Range: -0.2 to 0.3 percent
Median: 0.2 percent

Last Actual: Mar = +0.2%

Up by 0.1 percent. April's sharp decline in aggregate hours worked in the private sector should lead to a decline in wage and salary earnings which will weigh down the by now usual gains in rental and dividend income. On a year-over-year basis, this would leave growth in total personal income right at the 2.5 percent pace that has prevailed thus far in 2013.

**April Personal Spending** — Friday, 5/31
Range: -0.3 to 0.2 percent
Median: unchanged

Last Actual: Mar = +0.2%

Down by 0.1 percent, though this looks worse than it actually is. Lower utilities outlays will suppress spending on household services – which accounts for roughly two-thirds of all consumer spending – while price effects, including sharply lower gasoline prices, will hold down nominal spending on goods. To this point, we look for the PCE deflator to fall by 0.3 percent, so real personal spending will increase in April despite the decline in the headline (i.e., nominal) number.

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