ECONOMIC PREVIEW

REGIONS

Week of May 20, 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)		0.00% to 0.25%	Against the backdrop of data showing the U.S. economy cooling down the debate within the Fed as to the course of its large scale asset purchases seems to be heating up. At least judging by the recent spate of speeches by members of the Board of Governors, with Richmond Fed President Lacker, Dallas Fed President Fisher and Philadelphia Fed President Plosser calling for the purchases to be slowed or halted over coming months. It is not terribly surprising this group would express such a sentiment, given they are considered standing members of the hawkish branch of the Fed. But, it was a bit surprising that San Francisco Fed President Williams, considered a dove in good standing, stated he could see a case for paring back the pace of purchases "as early as this summer" with the purchases ended completely "sometime late this year" – this of course predicated on continued improvement in the labor market and the broader economy. On the opposing side were Boston Fed President Rosengren and Fed governor Sarah Bloom Raskin, and it is worth noting they are voting FOMC members at present while the more hawkish regional presidents are not. We could get more insight into how heated the debate within the Fed is with the release of the minutes of the April 30/May 1 FOMC meeting, set for 2:00 EST on Wednesday. Of course, the minutes could be old news by time they are released given that Chairman Bernanke testifies before the Congressional Joint Economic Committee that morning (10:00 EST), where he is slated to discuss current monetary policy and the state of the economy. It is, at least in our view, unlikely there will be changes in the pace of the Fed's large scale asset purchases anytime soon. We, along with many analysts, are looking for real GDP growth at or slightly below 2.0 percent for Q2 and there is considerable uncertainty as to the economy's course over the second half of 2013. Until there is more clarity on this point it is difficult to see the Fed making any changes to its asset purchase program and, no, we do not think the Fed is sufficiently concerned over the recent disinflationary trend to actually step up the pace of asset purchases. We are in the camp expecting slower growth in Q2 to give way to faster growth over the second half of the year, bringing with it further improvement in labor market conditions. If so, a plausible case can be made for the Fed tapering the pace of asset purchases in Q4 before ending them altogether in early 2014. Clearly, however, there are simply not enough FOMC members, particularly voting members, willing to commit to any such changes at present and if our timeline is off, any changes to the asset purchase program will come later than we now expect, not sooner.
April Existing Home Sales Range: 4.903 to 5.100 million units Median: 4.999 million units, SAAR	Wednesday, 5/22	Mar = 4.920 mil	Up to an annualized rate of 5.020 million units. The ever shifting sales mix, with fewer distress sales now than last year, will contribute to another outsized year-over-year increase in the median sales price. Of more interest will be the behavior of inventories – unlike the top-line sales number, the inventory data reported by the NAR are not seasonally adjusted and April typically sees a sizeable increase in homes for sale. In part because of significantly lower distress inventories, however, overall inventories have not been behaving in their typical manner. One offset could come in the form of pent-up supply – we have maintained a potentially large supply of homes would be placed on the market when prices had risen enough to draw them out. Given the pace of price appreciation in recent months, it will be worth watching to see if that happened to a meaningful degree in April. In other words, while it clearly is a good time to buy, the more relevant question may be whether current homeowners feel it is a good time to sell, and April's inventory data may help us answer that question.
April New Home Sales Range: 410,000 to 437,000 units Median: 426,000 units SAAR	Thursday, 5/23	Mar = 417,000	Up to an annualized rate of 428,000 units. Inventories of new homes for sale are beginning to rise but remain low, and we look for the months supply metric to slip to 4.3 months, from March's reading of 4.4 months.
April Durable Goods Orders Range: -1.7 to 3.7 percent Median: 1.7 percent	Friday, 5/24	Mar = -0.1%	Up by 1.4 percent, with a lift from civilian aircraft orders and a modest increase in motor vehicle orders. The rest of the April data will likely be a mixed bag, and we look for a 0.4 percent increase in ex-transportation orders.

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