

## 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%

“Three little words, oh what I’d give for that wonderful phrase, to hear those three little words, that’s all I’d live for the rest of my days.”

“Three Little Words,” indeed a timeless classic. While over the years many have tried it their way, there are really only a few versions that matter – Nat King Cole, Ella Fitzgerald, and Frank Sinatra. Until lately, that is, when that other Chairman, Fed Chairman Ben Bernanke, came out with his own version. Okay, so we’re not talking about the same three little words, and, apparently, no one actually wanted to hear Dr. Bernanke’s three little words – “next few meetings.”

In his May 22 testimony before Congress, Chairman Bernanke raised the possibility that the FOMC could vote to dial back the pace of the Fed’s large-scale asset purchases as soon as the “next few meetings.” The reaction to these words in the financial markets has been decidedly less than friendly, with global equity and bond markets having been on wild rides ever since. The markets apparently overlooked three other words emphasized by Chairman Bernanke on May 22 – “a considerable time.” As in, when the FOMC does decide to dial down and ultimately end its asset purchases, the Fed expects monetary policy to remain highly accommodative for a considerable time.

Of three tangible measures of the degree of monetary accommodation – the rate of the Fed’s asset purchases, the size of the Fed’s balance sheet, and the level of the Fed funds rate – the markets are seemingly focused on only the first. So, while this week’s FOMC meeting will surely bring no changes in policy, it will be of great interest to see whether, and to what extent, Chairman Bernanke uses his post-meeting press conference to manage expectations. Not so much to explicitly lay out a timeline for any dialing down of asset purchases, which have always been said to be data dependent, but to reiterate the distinction between balance sheet policy and interest rate policy. Whether the markets will listen to, or believe, what Chairman Bernanke says will remain to be seen.

### May Consumer Price Index

Range: 0.0 to 0.3 percent

Median: 0.2 percent

Tuesday, 6/18 Apr = -0.4%

Up by 0.2 percent, which translates into an over-the-year increase of 1.4 percent.

### May CPI – Core

Range: 0.1 to 0.2 percent

Median: 0.2 percent

Tuesday, 6/18 Apr = +0.1%

Up by 0.2 percent, for a year-over-year increase of 1.7 percent. Whether measured by the CPI or the PCE deflator, core inflation continues to moderate. We think the core CPI to be the more reliable indicator at present, and it is running easily ahead of the PCE deflator’s measure of core inflation. Also, with core services prices rising at a steady (year-over-year) rate of about 2.4 percent for some time now, the moderation in core inflation is solely due to softness in core goods prices, which fell on a year-over-year basis in April and likely did so again in May.

### May Housing Starts

Range: 880,000 to 1,000,000 units

Median: 950,000 units SAAR

Tuesday, 6/18 Apr = 853,000

Up to an annualized rate of 980,000 units. After dropping sharply in April, we look for multi-family starts to have bounced back in a big way in May, with single family starts edging slightly higher. We look for total housing permits to have risen slightly, to an annualized rate of 1.010 million units.

### May Existing Home Sales

Range: 4.950 to 5.100 million units

Median: 5.000 million units SAAR

Thursday, 6/20 Apr = 4.970 mil

Up to an annualized rate of 5.02 million units. The inventory data will be of as much interest as the top-line sales number, with lean inventories in many markets acting as a brake on the pace of sales growth. We continue to expect rising prices to draw out pent-up supply, so while we look for a 27<sup>th</sup> consecutive year-over-year decline in inventories, we look for that decline to have moderated further in May. We will also look for signs of a continued shift in the mix of buyers away from investors towards traditional, mortgage reliant buyers. To this point, the recent run-up in mortgage interest rates won’t impact May’s existing home sales data, as existing home sales are booked at closing, not at contract signing as is the case with new home sales. As such, any ill effects of higher mortgage interest rates on existing home sales won’t turn up until the June/July data.

### May Leading Economic Index

Range: -0.3 to 0.4 percent

Median: 0.2 percent

Thursday, 6/20 Apr = +0.2%

Up by 0.2 percent.

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