ECONOMIC PREVIEW

REGIONS

Week of July 8, 2013

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on July 30-31)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	Last week was one of those odd weeks in that it left us feeling worse about the broader economy but feeling better about the labor market. What was shaping up as a weak quarter for real GDP growth became weaker still upon the release of the May data on international trade, with a jump in the U.S. trade deficit deducting from our tracking estimate of Q2 growth. We now see real GDP growth of around 1.5 to 1.7 percent (annualized) for Q2, following on the heels of 1.8 percent growth in the year's first quarter. While we do expect the pace of growth to improve over the second half of 2013, we do not expect to see the better than 3 percent annualized growth it would take for the most recent FOMC forecast for 2013 growth to be on the mark. In and of itself, however, that will have little influence on the FOMC's decision on whether and when to begin dialing down the pace of its large-scale asset purchases from the current monthly rate of $85 billion. Indeed, a stronger than expected June employment keeps the FOMC on track, at least in our view, to vote to begin dialing down the pace of asset purchases at their September meeting. The June employment report showed private sector payrolls rose by 202,000 jobs with previous estimates for April and May revised significantly higher. Sure, the unemployment rate remained at 7.6 percent but the labor force participation rate and the employment to population ratio both rose modestly. By no means is the labor market completely healed, indeed, the spike in the number of people working part-time for economic reasons is a stark reminder of that, but "completely healed" is not the FOMC's threshold for pulling back on asset purchases, nor is a blistering pace of improvement in labor market conditions. Instead, the FOMC is on the watch for substantial and sustained improvement, and a plausible argument can be made that threshold has been met, barring of course a sharp and sudden U-turn in the data over the next two months. Moreover, regardless of when the FOMC decides to dial back on the pace of asset purchases, the Fed's balance sheet will continue to grow and, perhaps more significantly, the Fed funds rate is staying put for some time to come, likely until at least early in 2015's second quarter. In other words, the Fed will maintain an exceptionally accommodative monetary policy stance even as it begins to pull in the reins on its large-scale asset purchases. Not only is the week ahead a quiet one in terms of top-tier data releases, but we have to wait until Friday to get the week's one such release and that – the June Producer Price Index – is not likely to shed any new light, as core inflation on the producer level will remain benign. Other releases during the week that should not be overlooked include the NFIB's monthly survey on small business optimism and the monthly Job Openings and Labor Turnover Survey (a/k/a the JOLTS data), both on Tuesday July 9, and the release of the minutes of the June FOMC meeting, set for Wednesday July 10 (1:00 EST). The FOMC minutes will be of interest for any "behind the scenes" color they may add to Chairman Bernanke's post-meeting press conference that so unsettled the financial markets.
June Producer Price Index Range: 0.1 to 0.9 percent Median: 0.5 percent	Friday, 7/12	May = +0.5%	Up by 0.4 percent on higher fuel costs. On an over-the-year basis, the PPI will be up by 2.1 percent.
May PPI – Core Range: 0.0 to 0.3 percent Median: 0.1 percent	Friday, 7/12	Apr = -0.2%	Up by 0.1 percent which translates into an over-the-year increase of 1.6 percent.

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