ECONOMIC PREVIEW

REGIONS

Week of August 26, 2013

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

Fed Funds Rate
(after the FOMC meeting on September 17-18)
Range: 0.00 to 0.25 percent
Median: 0.125 percent (mid-point of target range)

Last Actual: 0.00% to 0.25%

The much anticipated release of the minutes to the July FOMC meeting brought not a moment of clarity as to the course of the Fed's large-scale asset purchases. That is not at all surprising, given how divided opinion within the Committee seems to be. The surprise is that anyone thought the minutes would have contained a definitive message as to when, and by how much, the FOMC will vote to dial down the rate of asset purchases. The minutes made it clear there was widespread agreement the pace of asset purchases would be scaled back sometime later this year. What is not yet clear, however, is whether "later this year" means September, October, or December, and the extent to which the asset purchases will be scaled back.

For now, the markets will continue to scour every data release and every speech by an FOMC member for hints. This of course means we should expect a great deal of volatility in the markets over the next few weeks. There will be an exceptional degree of volatility around the September 6 release of the August employment report, particularly given there are those who believe the FOMC's decision will come down to this one data release. We do not buy that but, to the extent the August employment report will factor into the FOMC's decision, we see it more a matter of how bad would the report have to be for the FOMC to not vote to dial down the pace of asset purchases rather than how good the report would have to be for the FOMC to vote to do so.

Sure, the July FOMC minutes could have delivered perfect clarity on these issues. But, as you watch stock prices and bond yields gyrate wildly over the next few weeks, just ask yourself how much fun that would have been.

July Durable Goods Orders — Monday, 8/26 — June = +3.9%
Range: -7.0 to 3.2 percent
Median: -3.5 percent

<u>Down</u> by 5.5 percent on a large decline in transportation orders. Boeing saw a steep decline in orders in July and we look for defense aircraft orders to have fallen as well. We expect a 0.8 percent increase in orders excluding transportation goods, and a fifth consecutive monthly increase in orders for core capital goods.

August Consumer Confidence — Tuesday, 8/27 — July = 80.3
Range: 74.3 to 81.4
Median: 79.5

<u>Down</u> to 79.4.

Q2 Real GDP – 2nd Estimate — Thursday, 8/29 — 1st est. = +1.7%
Range: 1.3 to 2.5 percent
Median: 2.2 percent SAAR

<u>Up</u> at an annualized rate of 2.3 percent. Compared to the first estimate we look for a smaller trade deficit and stronger growth in real consumer spending to offset a smaller inventory build by nonfarm businesses. One potential wild card will be revisions to government spending, which in the BEA's first estimate was shown to have declined by well less than anticipated. That inventory accumulation in Q2 was smaller than initially estimated by the BEA will be supportive of production over the second half of 2013, particularly given recent growth in new orders and order backlogs. If we are correct, the jump in the production component of July's ISM manufacturing survey will be sustained over coming months, and this series over time has been closely aligned with real GDP growth.

Q2 GDP Price Index – 2nd Estimate — Thursday, 8/29 — 1st est. = +0.7%
Range: 0.4 to 0.7 percent
Median: 0.7 percent SAAR

<u>Up</u> at an annualized rate of 0.7 percent, matching the initial estimate.

July Personal Income — Friday, 8/30 — June = +0.3%
Range: 0.0 to 0.3 percent
Median: 0.2 percent

<u>Up</u> by 0.2 percent, mainly on the back of income from dividends and interest. We look for private sector wage & salary earnings to have fallen, in line with the proxy from the July employment report, given the decline in average hourly earnings and average weekly hours worked. On a year-over-year basis, however, private sector earnings are still up by better than four percent

July Personal Spending — Friday, 8/30 — June = +0.5%
Range: 0.1 to 0.5 percent
Median: 0.3 percent

<u>Up</u> by 0.3 percent. We look for spending on consumer durable goods to be slightly lower due to a decline in unit vehicle sales coupled with aggressive price discounting while sales at home furnishing stores also fell in July. Higher outlays on household services and nondurable consumer goods will offset the weaker durables number and carry total spending higher. Our expected 0.2 percent increase in the PCE deflator, however, means the gain in real consumer spending will be smaller than the headline gain in nominal spending.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com