ECONOMIC PREVIEW

REGIONS

Week of September 16 2013

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on October 29-30)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	Will they or won't they? And, if they do, then by how much? After months of speculation, countless media stories and analyst reports, and an endless stream of experts weighing in on financial talk TV, we'll finally know Wednesday whether the FOMC feels comfortable enough with the economy to begin dialing down the pace of the Fed's large-scale asset purchases. We expect the FOMC to vote to do just that and while we have clung to this position for some time, we expect a smaller reduction in the monthly asset purchases than we had before. Instead of a $20 billion per month reduction equally spread across Treasuries and MBS, we now look for a $10 to $15 billion reduction more heavily weighted towards Treasuries. In conjunction, we expect the FOMC to provide explicit acknowledgement that the Fed funds rate will remain unchanged for some time to come and won't be surprised if, as a means of driving this point home to the markets, they lower their unemployment threshold to 6.0 percent as part of this forward guidance. Even such a "taper lite" approach could pose a challenge for the FOMC. This week's meeting also comes with the latest round of FOMC central tendency forecasts and a post-meeting press conference by Chairman Bernanke. If, as we expect, the FOMC's growth outlook gets marked down (yet again) while the inflation forecast remains below the Fed's target, explaining why the FOMC sees fit to become less accommodative could be challenging for Chairman Bernanke. Then again, the FOMC could use a marked down forecast and what has been an uneven tenor of the economic data of late to justify making no changes to the pace of asset purchases just yet. All the more reason Chairman Bernanke's press conference will be must watch TV.
August Industrial Production Range: -0.1 to 0.7 percent Median: 0.5 percent	Monday, 9/16	Jul = 0.0%	<u>Up</u> by 0.7 percent on contributions from manufacturing and utilities. Also, we look for the capacity utilization rate to <u>rise</u> to 78.0 percent
August Consumer Price Index Range: 0.1 to 0.2 percent Median: 0.2 percent	Tuesday, 9/17	Jul = +0.2%	<u>Up</u> by 0.1 percent, which yields a 1.6 percent year-over-year increase. Inflation pressures remain fairly muted, which figures to remain the case over coming months as long as tensions in the Middle East do not lead to military action.
August CPI – Core Range: 0.1 to 0.2 percent Median: 0.2 percent	Tuesday, 9/17	Jul = +0.2%	<u>Up</u> by 0.1 percent for a year-over-year increase of 1.8 percent. Still mild, but also leaving core inflation as measured by the CPI well ahead of core inflation as measured by the PCE deflator, the Fed's preferred gauge.
August Housing Starts Range: 849,000 to 975,000 units Median: 916,000 units SAAR	Wednesday, 9/18	Jul = 896,000	<u>Up</u> to an annualized rate of 935,000 units, with increases in both single family and multi-family starts. There could be some upside risk to our August starts forecast, as permits have run well ahead of starts over the past several months. We look for building permits at an annual rate of 940,000 units.
Q2 Current Account Balance Range: -$105.5 to -$95.0 billion Median: -$97.0 billion	Thursday, 9/19	Q1 = -$106.1 bil	<u>Narrowing</u> to -$97.4 billion, mainly due to a significantly smaller trade deficit in Q2.
August Leading Economic Index Range: 0.1 to 0.8 percent Median: 0.5 percent	Thursday, 9/19	Jul = +0.6%	<u>Up</u> by 0.7 percent with fairly broad based increases amongst the individual components that go into the leading index.
August Existing Home Sales Range: 5.180 to 5.414 million units Median: 5.255 million units SAAR	Thursday, 9/19	Jul = 5.390 mil	<u>Down</u> to an annualized rate of 5.210 million units. Existing home sales rose sharply in July, but this in part reflected the spike in mortgage interest rates from mid-May through June. Recall existing home sales are booked at closing, so July's closings were on contracts signed four to six weeks prior and rapidly rising rates likely induced some wavering shoppers to commit to buying. There could be some lingering effects in the August data, and our expected sales rate would still leave sales well above the trend seen before mortgage rates began to climb higher. Also, inventory constraints are easing – August will mark the 30th consecutive month in which inventories declined on a year-over-year basis, but we expect August to be the last month for which this is the case. Deeper inventories will help facilitate sales over coming months.

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