ECONOMIC PREVIEW

REGIONS

Week of November 25, 2013

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on December 17-18)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	It's coming, we just don't know when. That was pretty much our answer to the question of when the FOMC would vote to dial down the rate of the Fed's large scale asset purchases before we read the minutes to the October FOMC meeting. Now that we've read the minutes, our answer is it's coming, we just don't know when. The minutes do provide a great deal of clarity as to just how little clarity there is within the FOMC on the course of the asset purchases. It was striking the extent to which the minutes contained far more questions than answers. In short, from our read, we can identify six basic questions to which, at least as of the October FOMC meeting, there were no clear cut answers: 1) when; 2) why (i.e., the economy is ready to stand on its own two feet, or the costs are beginning to outweigh the benefits); 3) how (i.e., reduce purchases of only Treasury securities or both Treasuries and MBS); 4) at what rate; 5) what to say about it (i.e., explaining to the public the why, how, and at what rate questions); and 6) how to guide expectations about the course of the Fed funds rate once tapering begins (and after QE ends). For anyone to argue the FOMC will vote to begin tapering at their December meeting, they have to assume that the FOMC will evolve from being nowhere near a consensus on ANY of these points at the October meeting to being at a consensus on ALL of these points at the December meeting. Sure, it could happen, but we just don't see it. In what was an in-depth speech before the National Economists Club, Chairman Bernanke presented a thoughtful summary of the reasoning behind the FOMC's policy decisions over the past several years. Chairman Bernanke also made it quite clear monetary policy will remain highly accommodative even after the asset purchases have run their course, reinforcing the distinction between balance sheet policy and interest rate (i.e., the Fed funds rate) policy. In the post-speech question period, Chairman Bernanke likened QE to a booster rocket, again showing his affinity for transportation-themed analogies, having previously likened monetary policy to driving a car and landing a jet on an aircraft carrier. The problem of course is that while monetary policy may be a car, a jet, or a rocket, the economy remains more like an unwieldy cart being pulled by a mule who is either really, really tired or just not all that committed to his job. While the Fed is doing all it can to spur growth, the economy's path is being impeded by continued fiscal policy bungling, and the economy has yet to fully heal from the deep structural wounds left by the Great Recession. Still, that the FOMC is trying to find a way to begin, and to explain, winding down QE "in coming months" is a sign they are, at least collectively, feeling better about the economy's prospects.
September Housing Starts Range: 855,000 to 935,000 units Median: 903,000 units SAAR	Tuesday, 11/26	Aug = 891,000	<u>Up</u> to an annualized rate of 935,000 units – this was our forecast for the September data originally scheduled for release October 17 and, since it seemed a perfectly good (albeit not necessarily accurate) forecast then, we'll let it ride.
October Housing Starts Range: 845,000 to 950,000 units Median: 910,000 units SAAR	Tuesday, 11/26	Sep = ?	No, you're not seeing double, as the Census will release the September data (delayed by the partial shutdown of the federal government) at the same time they release the October data. For October, we look for total housing starts to be <u>up</u> to an annualized rate of 944,000 units, though we admit to not having a great deal of confidence in a call made without having the data on September starts or permits.
November Consumer Confidence Range: 67.6 to 78.0 Median: 72.1	Tuesday, 11/26	Oct = 71.2	<u>Up</u> to 78.0, reversing most but not all of the damage down by the partial shutdown of the federal government in October. Of interest will be the details pertaining to the labor market, specifically the assessment of whether jobs are hard to find or are plentiful. Over time, changes in the gap between these two replies has been a useful indicator of movements in the unemployment rate – the gap had been narrowing before widening in October as confidence took a hit.
October Durable Goods Orders Range: -5.0 to 3.5 percent Median: -1.7 percent	Wednesday, 11/27	Sep = -0.1%	<u>Down</u> by 1.6 percent, mainly due to declining aircraft orders. We look for orders excluding transportation to be <u>up</u> by 0.4 percent
October Leading Economic Index Range: -0.4 to 0.4 percent Median: 0.0 percent	Wednesday, 11/27	Sep = +0.7%	<u>Up</u> by 0.1 percent, a much more moderate advance than seen over the prior three months, which we see as more of a pause than the beginning of a prolonged period of meager gains.

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