ECONOMIC PREVIEW

REGIONS

Week of December 23, 2013

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on January 28-29)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	To us, the biggest surprise of the past week was not the FOMC voting to dial down the pace of the Fed's large-scale asset purchases but instead the steep upward revision to Q3 real GDP growth. In their third, and for now final, estimate the BEA pegs real GDP growth at 4.1 percent (annualized) in Q3, a significant upward revision from the second estimate of 3.6 percent growth (itself a significant upward revision from the initial estimate of 2.8 percent). Unlike the BEA's second estimate, which was accorded little respect as it was based on a faster pace of inventory accumulation, the third estimate shows a better mix of growth, as consumer spending, business investment spending, and U.S. exports of goods were all revised higher. In short, the revised GDP data show the U.S. economy entered Q4 with more momentum than had previously been thought to be the case, momentum which we expect to build further in 2014. The revised GDP data may make the FOMC more comfortable with their decision to begin paring down the rate of monthly asset purchases in January 2014. Despite this decision, we would argue the net result of the December FOMC meeting is that monetary policy is more, not less, accommodative than had been the case prior to the meeting. This is due to the enhanced guidance on the path of the Fed funds rate offered in the FOMC's post-meeting policy statement which pushes an initial hike in the funds rate further out into the future, specifically, "well past the time the unemployment rate declines below 6.5 percent." In many quarters, forward guidance is now viewed as a more effective policy tool than the monthly asset purchases, and clearly the FOMC wants to avoid a disruptive spike in long-term interest rates as they continue to wind down the remnants of QE-3. With improving economic growth serving as a source of upward pressure on long-term rates in 2014, new FOMC Chairwoman Janet Yellen will have quite a balancing act on her hands.
November Personal Income Range: 0.1 to 0.9 percent Median: 0.4 percent	Monday, 12/23	Oct = -0.1%	Up by 0.5 percent; private sector earnings growth will account for much of the gain with added support from rental income and farm income. On a year-over-year basis, this will leave total personal income up by just 2.6 percent – on a nominal basis. This is, however, a misleadingly small increase as it was November 2012 when we saw dividend payments ramp up and the start of early bonus payouts in advance of the higher tax rates that took effect on January 1. Once we are into 2014 growth rates of both total personal income and disposable personal income will look better, as firmer wage and salary earnings growth underpins improved top-line income growth. This will be the case despite the scheduled expiration of extended Unemployment Insurance benefits and state UI benefits which will weigh on income growth via diminished transfer payments.
November Personal Spending Range: 0.2 to 0.7 percent Median: 0.5 percent	Monday, 12/23	Oct = +0.3%	Up by 0.6 percent. The jump in unit motor vehicle sales will help push spending on consumer durable goods higher, but discounting by dealers could hold down growth in the dollar volume of sales, while higher utilities outlays will contribute to a larger gain in spending on household services. If we are on the money with our call on nominal consumer spending and the PCE deflator is unchanged as we anticipate will be the case, the net result will be a large gain in real consumer spending. This would put real consumer spending on course for better than 3 percent growth in Q4 which will help mitigate any drag on top-line real GDP growth stemming from a slower rate of inventory accumulation.
November Durable Goods Orders Range: 0.3 to 2.9 percent Median: 1.7 percent	Tuesday, 12/24	Oct = -2.0%	Up by 1.8 percent with a lift from aircraft orders. We look for ex-transportation orders to be up by 0.6 percent.
November New Home Sales Range: 420,000 to 480,000 units Median: 444,000 units SAAR	Tuesday, 12/24	Oct = 444,000	Down to an annualized sales rate of 432,000 units. At first glance, the 25 percent jump in new home sales in October may seem like the kind of suspiciously large increase in one month that gets reversed in the next month. But, it is worth noting October's sales pace matches the average sales pace seen over the first six months of 2013 – before higher mortgage rates began to take a bite out of home sales. So, the question is whether that, or the average sales pace of 369,000 units seen from July through September, more closely reflects the underlying trend in new home sales. We think it more the former than the latter, so look for the November data to show only a modest pullback in the sales pace.

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