ECONOMIC PREVIEW

REGIONS

Week of December 9, 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%	There is little to take issue with in the November employment report. Total nonfarm payrolls rose by 203,000 jobs while the unemployment rate fell to 7.0 percent, the lowest rate in five years. Payroll job growth was broad based across industry groups and aggregate private sector earnings growth is running ahead of the pace seen during Q3 which will feed into better growth in personal income. We are, however, a bit wary of the reported decline in the unemployment rate (we did not, after all, say there was nothing to take issue with in the November employment report). October's large decline in the labor force was only partially offset in November, while household employment more than recouped the losses reported in the October data. This suggests something less benign than how furloughed federal government workers were accounted for contributed to the decline in the labor force in October. So, if the December data fill in this remaining gap in the labor force, the unemployment rate could be pushed a bit higher, if not, the unemployment rate will have fallen at least in part for the wrong reason. Either way, the 7.0 percent unemployment rate reported for November is not quite as good news as it seems on the surface. Perhaps the more significant question around the November employment report is what, if any, impact it will have when the FOMC meets this month and addresses the course of the Fed's large-scale asset purchases. We think the answer is, in short, not much. Indeed, even with what in recent weeks has been a firmer tone to the top-tier economic data, we still do not expect a vote to begin dialing down the rate of asset purchases at the December FOMC meeting. Recall the number of false starts we have seen in the economic data over the past few years which, when viewed in light of the FOMC's desire to see substantial and sustained improvement in the labor market and the broader economy, argues for no change in policy just yet. Moreover, inflation running well below their target buys the Fed the latitude to be patient. If anything, rather than using the December FOMC meeting as an opportunity to change policy, we see it as an opportunity for the FOMC to prep the financial markets for tapering to begin in Q1 2014.
November Retail Sales Range: 0.1 to 1.0 percent Median: 0.6 percent	Thursday, 12/12	Oct = +0.4%	Up by 0.7 percent, largely on the strength of motor vehicle sales. Unit sales jumped by over 7 percent in November and higher priced light trucks accounted for a greater share of the sales mix. As such, we look for a healthy gain in the dollar volume of sales at motor vehicle dealers. Aside from motor vehicles, however, there likely won't be much to get excited about in the November retail sales data. A late Thanksgiving could mean that the start of the holiday sales season has only a muted impact on November sales – indeed, "Cyber Monday" came in December this year. Moreover, aggressive discounting in what for many retailers was an already weak pricing environment could weigh on top-line revenue. Lower retail pump prices will lead to a decline in sales at gasoline stations, which will also weigh on the headline retail sales number.
November Retail Sales – Ex-Auto Range: 0.1 to 0.4 percent Median: 0.2 percent	Thursday, 12/12	Oct = +0.2%	As noted above, we don't have high hopes for ex-auto sales, which we expect to be up by 0.2 percent. We expect control retail sales to be up by 0.3 percent. We do expect a better performance from retail sales in December which would leave growth in real consumer spending north of 2.0 percent (annualized) in Q4 compared to the 1.4 percent annualized growth seen during Q3.
October Business Inventories Range: 0.1 to 0.4 percent Median: 0.3 percent	Thursday, 12/12	Sep = +0.6%	Total business inventories will be up by 0.2 percent, consistent with our expectation that the pace of inventory growth will be much more restrained in Q4 than was the case in Q3 and, as such, will act as a drag on top-line real GDP growth. We look for total business sales to be up by 0.2 percent.
November Producer Price Index Range: -0.2 to 0.2 percent Median: 0.1 percent	Friday, 12/13	Oct = -0.2%	Up by 0.2 percent, which would yield a year-over-year increase of 0.9 percent.
November PPI – Core Range: 0.0 to 0.6 percent Median: 0.1 percent	Friday, 12/13	Oct = +0.2%	Up by 0.1 percent, which translates into a year-over-year increase of 1.4 percent.

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