ECONOMIC PREVIEW

REGIONS

Week of February 24, 2014

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on March 18-19)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	Change is good. Unless of course it is not. Either way, change is coming, at least to the forward guidance offered by the Fed. The minutes to the January FOMC meeting suggest considerable debate within the Committee, not so much whether but instead how to change the forward guidance regarding the prospective timing of an initial hike in the Fed funds rate. With the unemployment rate fast approaching the current 6.5 percent threshold, change to the forward guidance is coming soon, perhaps as soon as the March FOMC meeting. Were the Fed and the Bank of England to compare notes on their experiences with forward guidance, we think the three main takeaways would be: 1) if you are going to base forward guidance on a particular indicator, make sure you pick the right indicator, as centering forward guidance around the wrong indicator can lead to some awkward moments in central banking; 2) even if you pick what you think is the right indicator on which to base forward guidance, do not attach a specific numeric value to that indicator, as picking the wrong numeric value can lead to some awkward moments in central banking; and 3) reality will not always oblige even the most well intentioned and well crafted of policies. As such, expect the revamped forward guidance to be qualitative in nature, particularly since the unemployment rate is likely to be shown at or below the 6.5 percent threshold in the February employment report (due March 7). At this point, lowering the unemployment rate threshold would cost the Fed credibility without adding any clarity. Instead, the Fed will likely point to an array of labor market indicators and could, for instance, put the focus on growth of nominal earnings – without attaching a specific numeric value, of course – as the most telling indicator of the degree of labor market slack. One argument against any such change at the March FOMC meeting is the Fed basically has one chance to get this change right and, as such, may want to take more time to deliberate. One thing we expect to stay the same is the so-far steady rate at which the Fed is paring down its large-scale asset purchases. The soft tone of the recent data notwithstanding, we expect another $10 billon cut at the March meeting.
February Consumer Confidence Range: 78.0 to 83.0 Median: 80.0	Tuesday, 2/25	Jan = 80.7	Up slightly to 81.4. We do not think cold consumers are necessarily less confident consumers, but we'll find out with the release of the Conference Board's monthly index. It is possible the current conditions component will give back some of January's bounce, but we look for the expectations component to hold up. As always, the series that will hold the most interest for us is the assessment of labor market conditions. In January, the spread between those viewing jobs as "plentiful" and those viewing jobs as "hard to get" remained negative (i.e., more viewing jobs as hard to get than as plentiful) but was at its narrowest point since September 2008. Further narrowing of this spread would presage a further decline in the unemployment rate.
January New Home Sales Range: 380,000 to 442,000 units Median: 404,000 units SAAR	Wednesday, 2/26	Dec = 414,000	Down to an annualized rate of 396,000 units. Harsh winter weather will have had some impact but those effects were likely more muted in January than will be the case in February. The current sales and buyer traffic components of the NAHB Housing Market Index (their survey of builder sentiment) held up well in January before tumbling in February, so we expect to see a more meaningful hit from the weather in the February data. Also, what will be a smaller seasonal adjustment factor relative to recent years will have a modest adverse effect on January sales as reported on a seasonally adjusted annual rate basis.
January Durable Goods Orders Range: -4.0 to 3.8 percent Median: -1.5 percent	Thursday, 2/27	Dec = -4.2%	Down by 2.4 percent mainly due to lower transportation orders – we look for both nondefense aircraft orders and motor vehicle orders to have fallen. Elsewhere the durable goods orders data are likely to be a mixed bag, and we look for ex-transportation orders to be up 0.6 percent.
Q4 2013 Real GDP – 2nd Estimate Range: 2.2 to 3.2 percent Median: 2.5 percent SAAR	Friday, 2/28	1st est = +3.2%	Up at an annualized rate of 2.7 percent. The initial estimate will be pared down due to what we expect to be downward revisions to growth in consumer spending and less shrinkage in the trade gap than initially estimated, with marked down net exports having the larger impact.
Q4 GDP Price Index – 2nd Estimate Range: 1.1 to 1.4 percent Median: 1.3 percent SAAR	Friday, 2/28	1st est = +1.3%	Up at an annualized rate of 1.3 percent, matching the initial estimate.

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