ECONOMIC PREVIEW

REGIONS

Week of March 17, 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%	This week's main event is the FOMC meeting, the first to be led by Chairwoman Yellen. In addition, Dr. Yellen will hold her first press conference and the latest round of FOMC central tendency forecasts will be released. We look for another $10 billion cut in the rate of monthly asset purchases but beyond that are not sure what we will get. There is a good chance the FOMC will alter its forward guidance around the path of the Fed funds rate, though we think April may be in play as at that point the Board of Governors will be fully stocked, including new Vice Chairman Fischer. Rather than when, however, the bigger question is what shape the new forward guidance will take – more qualitative, or still quantitative but with a broader range of indicators and/or more emphasis on the inflation threshold with the unemployment rate threshold having outlived its usefulness.
February Industrial Production Range: -0.3 to 0.5 percent Median: 0.2 percent	Monday, 3/17	Jan = -0.3%	<u>Up</u> by 0.3 percent with most of the increase due to higher utilities output which, along with a modest gain in manufacturing output, will be sufficient to offset lower output in the mining segment.
February Capacity Utilization Rate Range: 78.2 to 78.9 percent Median: 78.6 percent	Monday, 3/17	Jan = 78.6%	<u>Up</u> to 78.7 percent.
February Consumer Price Index Range: -0.1 to 0.2 percent Median: 0.1 percent	Tuesday, 3/18	Jan = +0.1%	<u>Up</u> by 0.1 percent. Both the total and core CPI are basically rounding errors away from being unchanged for the month, which simply illustrates how little inflation pressure there is out there in the world. The total CPI is getting some "help" from favorable seasonal adjustment on gasoline prices as February's increase in unadjusted pump prices was smaller than normal for the month. Even so, aside from rents and, at least as measured in the CPI, health care costs, there remains little upward pressure on prices, reflecting the degree of slack remaining in the global economy. We look for the CPI to be up just 1.1 percent year-over-year.
February Core Consumer Price Index Range: 0.0 to 0.3 percent Median: 0.1 percent	Tuesday, 3/18	Jan = +0.1%	<u>Up</u> by 0.1 percent, which translates into a 1.5 percent year-over-year increase.
February Housing Starts Range: 792,000 to 970,000 units Median: 910,000 units SAAR	Tuesday, 3/18	Jan = 880,000	<u>Up</u> to an annual rate of 970,000 units. Just as when last month we offered the lowest estimate we had not suddenly turned into depressed bears, neither have we turned into raging bulls this month when we have the highest estimate. Last month we pointed to harsh winter weather and unfavorable seasonal adjustment as the factors behind our call. Harsh weather did persist into February but hit less of the country and by mid-month had turned. As such, the latter part of the month would have been more conducive to construction starts, and there was likely some catching up from January. As to seasonal adjustment, that was likely a more neutral factor in February. We look for total permits to <u>increase</u> to an annual rate of 1.005 million units, pointing to a further pick up in starts over the spring.
Q4 2013 Current Account Balance Range: -$93.0 to -$82.0 billion Median: -$88.0 billion	Tuesday, 3/18	Q3 = -$94.8 bil	<u>Narrowing</u> to -$84.8 billion thanks to a significantly smaller trade gap. This would be the smallest absolute current account deficit since Q3 1999. What is more germane, however, is the relative deficit, i.e., the deficit as a share of GDP and, at 1.99 percent, our estimate would be the smallest relative current account deficit since Q1 1998.
February Leading Economic Index Range: 0.1 to 0.4 percent Median: 0.2 percent	Thursday, 3/20	Jan = +0.3%	<u>Up</u> by 0.2 percent.
February Existing Home Sales Range: 4.500 to 4.760 million units Median: 4.620 million units SAAR	Thursday, 3/20	Jan = 4.620 mil	<u>Down</u> to an annual sales rate of 4.610 million units. Okay, fine, weather will have played a part – the February sales figure will reflect contract signings from mid-December through January. But, there are more significant constraints on existing home sales, such as fewer distress sales and inventories that remain on the lean side. We have repeatedly stressed that we expect little change in the overall level of existing home sales this year, but simply looking at the sales level masks what is turning into a more favorable mix of sales – fewer distress sales, less investor activity, but more sales to "traditional" buyers, i.e., mortgage reliant owner occupants. We do look for inventories to gradually rise as pricing firms up and should start to see more evidence of this over coming months.

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