ECONOMIC PREVIEW

REGIONS

Week of March 24, 2014

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on March 29-30)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	As sequels go, the present day version of *Three Little Words* just didn't live up to the original despite Fed Chair Yellen doing her best Fred Astaire send-up, dancing around three little words that caused such a stir at her post-FOMC meeting presser. When asked to clarify "a considerable period," i.e., the gap between the end of QE and the start of hikes in the Fed funds rate, Dr. Yellen's reply was "around six months." This rattled the financial markets though the totality of her remarks did not signal a material shift in monetary policy. As we noted, simply doing the math – at the current pace of tapering, the Fed's asset purchases will end in early 2015 which, adding six months, would put the first funds rate hike in the middle of 2015 – leaves us pretty much where expectations have been for, well, a considerable period. While we think those three little words got too much play, she also offered three little words that did not get enough – "inflation matters too." Regardless of whether the FOMC points to a specific unemployment rate threshold or assesses a "wide range" of indicators, the funds rate is not going anywhere unless and until inflation does so first. And, judging by the Fed's preferred gauge of inflation, the PCE deflator (see below), that is not happening for, well, a considerable period. The Fed has been making note of low inflation for some time now but the point has either been overlooked or just not given enough emphasis. So, if you want to know when the Fed funds rate will be on the move, sure, watch a "wide range" of indicators, but focus on average hourly earnings and focus on PCE inflation. Narrowing your focus will leave ample time to work on your dance steps.
March Consumer Confidence Range: 75.0 to 80.2 Median: 78.6	Tuesday, 3/25	Feb = 78.1	Up modestly to 78.6.
February New Home Sales Range: 415,000 to 490,000 units Median: 445,000 units SAAR	Tuesday, 3/25	Jan = 468,000	Down to an annualized sales rate of 422,000 units. The February report on new home sales straddles the February and March NAHB surveys of homebuilder sentiment, and it was the February survey in which sentiment took a tumble. This included sharp declines in the components for current sales and buyer traffic, and we expect this to translate into a hefty decline in new home sales – assuming of course January's sales rate, which seemed oddly high at the time it was released, survives revision. We are still willing to give the housing market a pass due to this year's unusually harsh winter weather. Whether that is us being exceptionally understanding or just engaging in wishful thinking will become clear in the weeks ahead as we see the data for March and April.
February Durable Goods Orders Range: -1.2 to 3.0 percent Median: 1.0 percent	Wednesday, 3/26	Jan = -1.0%	Up by 2.6 percent, but this is mainly due to what we expect to be higher orders for motor vehicles and nondefense aircraft. We look for ex-transportation orders to have posted a decidedly more modest gain of 0.2 percent.
Q4 2013 Real GDP – 3rd estimate Range: 2.2 to 3.0 percent Median: 2.7 percent SAAR	Thursday, 3/27	2nd est = +2.4%	Up at an annualized rate of 2.9 percent. When the BEA released its first pass at Q4 real GDP growth we thought their estimate of growth in consumer spending was too low and would be revised. Sure enough, the BEA's second estimate included a revision to consumer spending but, much to our surprise, it was revised lower which, along with a downward revision to net exports, took real GDP growth down to 2.4 percent. Subsequent data on spending on services suggest an upward revision to growth in consumer spending this time around, which is the main reason we expect top-line growth to be revised higher as well.
February Personal Income Range: 0.2 to 0.5 percent Median: 0.3 percent	Friday, 3/28	Jan = +0.3%	Up by 0.2 percent. Another month of tepid growth in wage and salary earnings – recall aggregate hours worked fell sharply due to weather related distortions – will hold down top-line personal income growth. In addition, January's growth was boosted by a sizeable increase in transfer payments, which will not have been repeated in February. We are expecting quite a bit more from the labor market data in March and beyond, and expect income growth to follow suit.
February Personal Spending Range: 0.1 to 0.6 percent Median: 0.3 percent	Friday, 3/28	Jan = +0.4%	Up by 0.4 percent as spending on services, mainly utilities and health care (the latter reflecting the impact of the ACA) will support top-line growth. We look for both the total and core PCE deflators to be up 0.1 percent, yielding over-the-year increases of 0.9 percent and 1.1 percent, respectively. This will leave us with a decent but by no means stellar gain in real consumer spending for February.

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