ECONOMIC PREVIEW

REGIONS

Week of March 10, 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%	The February employment report was not great but, happily, it did not have to be as the bar was set sufficiently low that simply not being a disaster would have been enough to clear it. Total nonfarm payrolls rose by 175,000 jobs in February and job gains were broad based. Still, the continuation of harsh winter weather did have an effect, as roughly 6.9 million people who normally work full-time were able to only work part-time due to the weather and the length of the average workweek fell to 34.2 hours, the lowest since January 2011. The shorter workweek helped blunt the impact of a 0.4 percent increase in average hourly earnings, as aggregate private sector earnings rose by just 0.2 percent for the month. The unemployment rate rose from 6.6 percent to 6.7 percent as the labor force rose by more than household employment. With the exception ongoing slowing in hiring in the health care industry – which had been a stalwart during the Great Recession – most of the softness in the details of the February employment report can be tied to the harsh winter weather, and we continue to expect a meaningful pick-up in the pace of job growth over coming months. There certainly is nothing in the February employment report that would cause the FOMC to forego scaling down the rate of the Fed's large-scale assets once again at their March meeting, so we continue to look for another $10 billion cut in the rate of monthly purchases. The more interesting question is whether the uptick in the unemployment rate buys the FOMC some time in terms of altering their forward guidance around the path of the Fed funds rate. There seems little doubt amongst analysts and market participants, or within the FOMC, that the guidance needs to be changed and will be changed soon. There is, at least within the FOMC, less agreement on the nature of the changes, i.e., whether the revamped guidance needs to be qualitative in nature or whether it needs to remain somewhat quantitative but focused on different data series. So, February's rise in the unemployment rate may buy the FOMC more time to reach a consensus.
February Retail Sales Range: -0.1 to 0.5 percent Median: 0..2 percent	Thursday, 3/13	Jan = -0.4%	<u>Up</u> by 0.3 percent. As with January retail sales, weather will have impacted February sales, and it is unclear the extent to which the pick-up in traffic over the latter stages of the month will be captured in the retail sales data. Recall that in January spending on goods – which is captured in the retail sales data – fell while spending on household services – not captured in the retail sales data – logged its biggest gain since October 2001. We could see a similar pattern play out in the February data as unusually harsh weather prevailed over the first half of the month. One looming wild card out there is gift cards purchased during the holiday season. Gift cards are booked as sales upon redemption of the cards, as opposed to when the cards were purchased. To the extent harsh weather kept consumers indoors during January, we would have seen a lower than normal redemption rate, so this figures to add some upside potential for either February or March retail sales. All in all, though, most categories of discretionary spending figure to be at least a bit better than in January but, given how weak January sales were, that is not necessarily saying a whole lot.
February Retail Sales – Ex-Auto Range: -0.1 to 0.4 percent Median: 0.1 percent	Thursday, 3/13	Jan = 0.0%	<u>Up</u> by 0.4 percent, and we look for control retail sales to also be <u>up</u> by 0.4 percent. We have built in a sizeable snap back in on-line sales which means our estimates will be on the high side should that not materialize.
January Business Inventories Range: 0.2 to 0.5 percent Median: 0.4 percent	Thursday, 3/13	Dec = +0.5%	We look for total business inventories to be <u>up</u> by 0.4 percent, but what were weak sales across the board mean some of this inventory accumulation was unintentional. Even still, we expect to see inventories build at a slower rate in Q1 than was the case over 2H 2013 and our call on January inventories would be consistent with that. We expect total business sales to have <u>fallen</u> by 0.2 percent with declines in manufacturing shipments and retail sales to more than offset a very modest gain in sales on the wholesale level.
February Producer Price Index Range: 0.1 to 0.4 percent Median: 0.2 percent	Friday, 3/14	Jan = +0.2%	<u>Up</u> by 0.3 percent, which would translate into an over-the-year increase of 1.3 percent.
February Core Producer Price Index Range: 0.0 to 0.2 percent Median: 0.1 percent	Friday, 3/14	Jan = +0.2%	<u>Up</u> by 0.1 percent, for a year-over-year increase of 1.5 percent.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com