# ECONOMIC PREVIEW

REGIONS

Week of April 21, 2014

| Indicator/Action Economics Survey: | | Last Actual: | Regions' View: |
|---|---|---|---|
| **Fed Funds Rate**<br>*(after the FOMC meeting on April 29-30)*<br>Range: 0.00 to 0.25 percent<br>Median: 0.125 percent (mid-point of target range) | | 0.00% to 0.25% | Noting the obvious caveat on the perils of seasonally adjusting weekly data around floating holidays, in this case Easter, the ongoing decline in initial claims for Unemployment Insurance is nonetheless encouraging. Claims edged slightly higher (up 2,000) in the week of April 12, but the downward trend remains in place and of more significance is the further decline in the four-week moving average of initial claims. This takes added significance since the week of April 12 corresponds to the survey period for the April employment report, and the four-week moving average of initial claims is at its lowest level for any employment survey week since the end of the 2007-09 recession. While this points to a larger increase in nonfarm payrolls in April, it should also be noted the trend towards fewer layoffs tells only half the story on net job growth.<br><br>What is still missing is a stepped up pace of hiring. The hire rate, from the JOLTS data, is still well below the trend rate that prevailed prior to the recession, despite the rate of job openings being almost back to its pre-recession trend. While we agree mismatches in skill sets – those looked for by firms with open jobs and those possessed by job seekers – play some role in this, we think another explanation could be an increased reliance on "just in time" hiring, particularly amongst smaller firms. Instead of hiring in anticipation of faster growth in demand, one of the legacies of the recession could be firms won't take on new workers until that faster growth in demand materializes, a stance that is far more viable when the pool of available job seekers is so large. Fewer layoffs can only take us so far, and we won't see a significant, sustained increase in the rate of net job growth until the rate of hiring picks up. |
| **March Leading Economic Index**<br>Range: 0.4 to 0.8 percent<br>Median: 0.7 percent | Monday, 4/21 | Feb = +0.5% | <u>Up</u> by 0.7 percent. |
| **March Existing Home Sales**<br>Range: 4.500 to 4.750 million units<br>Median: 4.565 million units SAAR | Tuesday, 4/22 | Feb = 4.600 mil | <u>Up</u> to an annualized rate of 4.640 million units which, while a slight improvement over February's sales rate, is down on a year-over-year basis. If we are correct March would be the sixth consecutive month of over-the-year declines in existing home sales. This is not as concerning to us as it is to many others, and what we think those analysts are missing is the changing mix of sales. Dwindling inventories of distressed properties over recent months have meant sales of such units account for an increasingly smaller share of overall sales, but at the same time non-distress sales have continued to rise. In short, declining over-the-year sales are masking a better mix of sales which we have consistently pointed to as a sign of a healthier housing market. |
| **March New Home Sales**<br>Range: 445,000 to 466,000 units<br>Median: 450,000 percent | Wednesday, 4/23 | Feb = 440,000 | <u>Up</u> to an annualized sales rate of 462,000 units. We would say that, more than anything else, supply constraints are weighing down new home sales. True, inventories of new homes for sale are off their historical lows but the increases in single family permits, starts, and completions seen to date have been grudging at best as builders contend with constraints on lots, labor, and materials. While the NAHB's survey of market conditions has not exactly been inspiring of late, we've found the gap between the readings on present sales and traffic of prospective buyers has over time been a useful indicator of trends in new home sales. That gap has been widening for some time, consistent with our expectation that new home sales will continue to improve. The more relevant question, however, is when we will see a meaningful and – recalling the inherent volatility in the month-to-month sales data – sustained pick up in the pace of improvement. Based on the rate of single family permit issuance, the answer is "not soon." |
| **March Durable Goods Orders**<br>Range: 0.5 to 3.5 percent<br>Median: 1.9 percent | Thursday, 4/24 | Feb = +2.2% | <u>Up</u> by 2.7 percent, led by orders for transportation goods. Boeing's orders doubled during the month, which should support a sizeable gain in the dollar volume of orders for nondefense aircraft, and we also look for orders for motor vehicles to boost overall transportation orders. We look for ex-transportation orders to be <u>up</u> 0.7 percent on what we expect to be fairly broad based gains across industry groupings. One number that always merits attention is the print on orders for "core" capital goods," and we would say it merits extra attention in the March report. Several analysts, us included, are looking for a stepped up pace of business investment spending over coming months and various indicators point in that direction, but we would need affirmation from the orders data. |

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