ECONOMIC PREVIEW

REGIONS

Week of May 19, 2014

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on June 17-18)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	Last week brought a flurry of top-tier economic data which, on the whole, shed little new light on the underlying health of the U.S. economy. Sure, things, including our jobs, would be much easier if all of the data moved in the same direction in the same magnitude at the same time, but, be honest, what would be the fun in that. There were still some weather effects in the data, as spikes in series such as industrial production and retail sales in February and March were followed by weak April prints, think of it as payback for the payback for weather related distortions in early Q1. The retail sales data also seem to have been impacted by seasonal adjustment issues pertaining to this year's later than usual Easter. A look at the unadjusted data for March and April support this contention but taking the two months as a whole still shows the consumer on firmer footing as the economy headed into Q2. Indeed, control retail sales – a direct input into the GDP data – for April were up by almost four percent, annualized, from their Q1 average. While the April report on new residential construction came with impressive headlines, the details show more of the same story – a vibrant multi-family segment of the housing market and a single family segment still awaiting takeoff. Finally, there were those who looked at April's 2.0 percent year-over-year increase in the CPI as evidence the economy is heating up and suggested this may be cause for concern at the Fed. We will simply point out the year-over-year increase in the CPI in part reflects weakness in 2013 when the CPI fell 0.2 percent in both March and April, making the over-the-year comparison a low bar to clear. Also, the Fed has indicated at least some tolerance for inflation running ahead of its target rate as the economy continues to heal which, coupled with the fact that inflation as measured by the Fed's preferred gauge, the PCE deflator, runs well below inflation as measured in the CPI, suggests it will be some time before the FOMC as a whole becomes genuinely worried about inflation. In last week's *Preview* we wrote the economy was not nearly as bad as the Q1 GDP data make it appear (especially with pending revisions almost sure to show a contraction in real GDP in Q1) but neither is it as robust as will look in the Q2 GDP data. Through all the twists and turns and revisions and seasonal adjustment issues, that is still the underlying message we see in the data.
April Leading Economic Index Range: 0.2 to 0.6 percent Median: 0.3 percent	Thursday, 5/22	Mar = +0.8%	Up by 0.4 percent.
April Existing Home Sales Range: 4.620 to 4.800 million units Median: 4.690 million units SAAR	Thursday, 5/22	Mar = 4.590 mil	Up to an annualized sales rate of 4.660 million units. This would yield a sixth consecutive month of year-over-year declines in sales but, as we have been pointing out for some time now, it is important to look at the mix of sales. As distress sales continue to fade and such sales account for an increasingly small share of sales, that acts as a drag on total sales and masks what has been steady, albeit slow, growth in non-distress sales. As such, the mix of sales is healthier despite a lower overall sales volume. What remain lean inventories of homes for sale continues to act as a constraint on sales. Inventories are rising but at an uneven rate, particularly given what in many markets has been a robust rate of price appreciation. So, aside from the overall volume and composition of sales, the inventory data from the April report will bear watching.
April New Home Sales Range: 396,000 to 440,000 units Median: 425,000 units SAAR	Friday, 5/23	Mar = 384,000	Up to an annualized rate of 404,000 units. A still sluggish underlying pace of sales combined with what will be the year's least friendly seasonal adjustment factor will yield a modest increase in sales on a seasonally adjusted annual basis. Still, sales will be lower on an over-the-year basis for the second consecutive month, something we have not seen since early 2011. Note the April report will include the annual revisions to historical data, but these should amount to tinkering around the edges rather than altering the previously reported path of new home sales over the past few years.

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