ECONOMIC PREVIEW

REGIONS

Week of May 26, 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%	The minutes to the April FOMC meeting show an FOMC at the drawing board exploring the options for normalizing monetary policy but remaining highly uncertain as to when any of these ideas will actually get put to the test. While in agreement the economy is improving, there is some contention over just how much slack remains, particularly in the labor market, and the extent to which this slack will keep inflation in check over coming quarters. As such, while "normalization" is being discussed, it is unlikely to begin any time soon, and the Committee seems comfortable with that. So, over coming months, not only will the FOMC look at the options (reverse repos, interest on excess reserves, . . .) and the possible effects of each, they will also think about how to best communicate their normalization plan to the markets. They will want to make the markets comfortable with whatever approach they ultimately adopt and want to avoid sharp swings in long-term interest rates. Of course, since they are in essence in uncharted waters, there will be some degree of uncertainty associated with any policy they adopt, so keeping the markets "in check" will be that much more challenging. The bottom line, though, is it will be some time yet before we actually see just how rocky the road to normal (monetary policy) will be.
April Durable Goods Orders Range: -3.5 to 1.5 percent Median: -0.7 percent	Tuesday, 5/27	Mar = +2.5%	Down by 0.4 percent, reflecting some settling back after solid gains in February and March, but the decline we anticipate for April would nonetheless leave the dollar volume of total orders comfortably above the Q1 average. Transportation orders were likely a mixed bag, as Boeing saw a drop in orders which we expect to be countered by a gain in motor vehicle orders. We look for ex-transportation orders to be unchanged.
May Consumer Confidence Range: 71.5 to 85.0 Median: 83.0	Tuesday, 5/27	Apr = 82.3	Up to 83.1.
Q1 Real GDP – 2nd Estimate Range: -0.9 to 0.6 percent Median: -0.5 percent SAAR	Thursday, 5/29	1st est = +0.1%	Contracting at an annualized rate of 0.6 percent. Pick any component of real GDP and it is likely to look worse in the BEA's second estimate than it did in the first. Consumer spending, business investment, residential and commercial construction, net exports, and nonfarm inventories will likely be revised lower relative to the BEA's initial estimate. One exception could be government expenditures, which looked to be on the low side in the first estimate, but even should there be an upward revision here, it won't be enough to fend off a contraction in top-line real GDP.
Q1 GDP Price Index – 2nd Estimate Range: 1.3 to 1.6 percent Median: 1.3 percent SAAR	Thursday, 5/29	1st est = +1.3%	Up at an annualized rate of 1.3 percent.
April Personal Income Range: 0.2 to 0.7 percent Median: 0.3 percent	Friday, 5/30	Mar = +0.5%	Up by 0.4 percent, with the largest gains coming from rental income, dividends, and transfer payments, with the latter being propped up by expanding Medicaid benefits under the Affordable Care Act. Private sector earnings logged another gain though it may look on the small side in light of April's outsized increase in employment, but recall average hourly earnings were flat. We look for government sector earnings to have posted a modest gain, which would leave them up 1.1 percent on a year-over-year basis. There is nothing notable about this, until you consider this would be the largest such gain in almost four years (since August 2010) as ongoing job cuts – which largely have run their course – have weighed down government sector earnings.
April Personal Spending Range: -0.1 to 0.5 percent Median: 0.2 percent	Friday, 5/30	Mar = +0.9%	Up by 0.3 percent. April's decline in unit motor vehicle sales will weigh on spending on consumer durable goods, and a weak print on control retail sales sets a similar tone for spending on nondurable consumer goods. Spending on services, which accounts for roughly two-thirds of all consumer spending, is the wild card here. Utilities outlays should fall significantly, but greater spending on health services, again reflecting the impact of the ACA, will provide support. We look for the PCE deflator to have increased 0.3 percent which, along with our expectations for nominal spending growth, would leave real consumer spending flat in April, but still easily ahead of the Q1 average. We look for the core PCE deflator to be up 0.2 percent.

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