ECONOMIC PREVIEW

REGIONS

Week of July 21, 2014

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on July 29-30)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	For anyone who had become complacent over the state of the economy or the state of the world at large, the past two weeks were a blunt wake-up call. From spotty economic data at home to concerns over Europe's stagnant economy to geopolitical tensions on the boil on several different fronts, there have been plenty of reminders that staking out a position, whether on the course of the financial markets or on the course of the broader economy, is the easy part, the harder part being having much conviction in that position. Sure, there are those on the respective fringes – everything is terrible or everything is just grand – for whom the absence of thought provides a comforting cocoon of certainty, but for everyone else conviction seems harder and harder to come by. Whether that is us feeling even less confident about whatever forecast we offer up, or consumers unsure of their financial well being, or businesses not confident enough to invest in a better future that may or may not materialize, or policy makers debating over whether, and when, to let go of the reins, the uncertainty can be debilitating. And, yes, of course the world has never been a certain place, it just seems considerably less so these days, particularly when confidence has yet to recover from the last downturn. To the extent this is the case, expect continued volatility in the financial markets as the domestic and global economic data continue to send mixed messages and global tensions remain elevated.
June Consumer Price Index Range: -0.2 to 0.4 percent Median: 0.3 percent	Tuesday, 7/22	May = +0.4%	<u>Up</u> by 0.4 percent, with the increase driven by energy, medical care, and rents. Thus far in 2014 medical care costs have been rising at a faster pace than was the case in 2013, and while this will be more impactful in the PCE deflator it nonetheless is contributing to headline CPI inflation. If our call on rent of primary residence is correct, it would mark the fourth consecutive month of a 0.3 percent or better increase, the first such stretch since 2008 and rent growth does not figure to abate soon. The increase in the headline CPI could be worse – after four straight months of 0.4 percent increases in food prices, we've built in a 0.2 percent increase for June. On a year-over-year basis, we look for the total CPI to be up 2.2 percent.
June Core Consumer Price Index Range: 0.0 to 0.3 percent Median: 0.2 percent	Tuesday, 7/22	May = +0.3%	<u>Up</u> by 0.2 percent, for an over-the-year increase of 2.0 percent. The divide between prices for core goods and core services will persist; we look for a 14th consecutive year-over-year decline in prices for core goods while core services inflation will come push up to 2.8 percent. Both headline and core CPI inflation continue to run ahead of their PCE deflator counterparts. As the Fed trusts the PCE deflator as its main gauge of inflation, if the CPI data set off any alarm bells over accelerating inflation, they won't be coming from within the FOMC.
June Existing Home Sales Range: 4.800 to 5.100 million units Median: 4.990 million units SAAR	Tuesday, 7/22	May = 4.890 mil	<u>Up</u> to an annualized rate of 4.980 million units.
June New Home Sales Range: 440,000 to 515,000 units Median: 480,000 units SAAR	Thursday, 7/24	May = 504,000	<u>Down</u> to an annual sales rate of 464,000 units. They say seeing is believing but, while we saw the May new home sales data showing sales running at an annual rate of 504,000 units, we don't believe it. May's sales pace was the highest since May 2008, and the year-to-date average for 2014 through April was a decidedly more modest 431,000 units, so we see the May number as the outlier. Even should the May number survive revision, it's hard to imagine that as the new base for new home sales, though many of our peers seem to believe that to be the case. We'd happily be wrong on this one, and if we see another outsized sales figure for June we may or may not believe it but we will at least accept it and move on with our lives. One factor to keep in mind – even though physical inventories of new homes for sale continue to increase at only a grudging pace, a rising share of new home sales over recent months have been sales of units on which construction had not yet started, so at least for now single family permits, not starts, may be a better signal of new home sales.
June Durable Goods Orders Range: -1.8 to 2.5 percent Median: 0.5 percent	Friday, 7/25	May = -0.9%	<u>Up</u> by 0.5 percent in what we expect to be a so-so report though we do look for core capital goods orders to advance. We look for ex-transportation orders to also <u>increase</u> by 0.5 percent, meaning transportation orders are pretty much of a wash, as we expect a sizeable drop in defense aircraft orders to negate a small gain in nondefense aircraft orders and modestly higher orders for motor vehicles.

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