ECONOMIC PREVIEW

REGIONS

Week of August 18, 2014

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on September 16-17)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	It is a fairly light week for top-tier economic data, but one highlight will be the release of the minutes of the July FOMC meeting – due out Wednesday at 1:00 EST. With the Fed's large-scale asset purchases on course to end in Q4, the main focus is now on the steps the FOMC will take, and the sequence in which they will take them, on the path to normalizing monetary policy. Comments from various Fed officials suggest the FOMC is close to forming a consensus on these issues, so any details along these lines within the minutes will be of particular interest. Another noteworthy event this week is the annual gathering in Jackson Hole, WY, where Fed Chair Yellen will speak. It is possible Dr. Yellen will at least float some broad hints as to the FOMC's thought process on the steps involved in policy normalization. Her main focus, however, will likely be on the state of the labor market, particularly what in her view remains an elevated degree of labor market slack and the various indicators she uses to make this assessment. It is from any such comments that listeners will have to ferret out clues as to the possible timing of any policy moves on the part of the FOMC.
July Consumer Price Index Range: 0.0 to 0.2 percent Median: 0.1 percent	Tuesday, 8/19	Jun = +0.3%	<u>Up</u> by 0.1 percent, for a year-over-year increase of 2.0 percent. So much for the Great Inflation Scare of 2014, circa May-June, when headline CPI inflation popped up to 2.1 percent, leading many analysts to proclaim inflation was set to take off. Of course, there are those who have been making that same call since the early days of "QE" – that would be "QE1." They were not necessarily wrong, they were just early, okay, way early, to warn higher inflation was coming but no doubt will one day be vindicated. While we don't know just when that day will be, we are fairly sure it will not be August 19. We noted last month inflation was more likely to settle in – at around 2.0 percent – than to break out, and the July CPI data should be consistent with that view. Aside from housing, led by rents, and medical care costs, there won't be much evidence of mounting inflation pressure. Our expected 0.3 percent increase in primary (i.e., market) rents would yield a fourth consecutive month of over-the-year increases topping 3.0 percent, which last happened in 2008. A sizeable decline in not seasonally adjusted retail gasoline prices in July means gasoline will act as a drag on the seasonally adjusted CPI – gasoline prices continue to defy typical seasonal patterns, which will help hold down top-line inflation over the rest of 2014. In addition, we look for a 15th consecutive month of over-the-year declines in core goods prices while core services inflation continues its gradual acceleration.
July Core Consumer Price Index Range: 0.1 to 0.3 percent Median: 0.2 percent	Tuesday, 8/19	Jun = +0.1%	<u>Up</u> by 0.2 percent, which translates into an over-the-year increase of 1.9 percent.
July Housing Starts Range: 875,000 to 1,053,000 units Median: 970,000 units SAAR	Tuesday, 8/19	Jun = 893,000	<u>Up</u> to an annual rate of 1.010 million units. Or not. Starts took a dive in June, due to the implausibly large decline reported for the South region – the second consecutive June in which this has happened. Last year, though, starts in the South did not bounce back until August so if that pattern also repeats this year, we won't have been wrong in predicting a jump in starts, we'll just have been early (yeah, that's the ticket). In any event, multi-family starts have been trailing permits by a good margin over the past several months and, if it did not do so in July, that gap figures to narrow at some point in the months ahead. The more compelling figures to watch here will be single family permits and starts. While we expect a reversal of June's decline in single family starts, we look for that to only take us back to what had been a disappointingly slow run rate, and it will be in the permit data we will see whether there is any hope of starts pushing to a faster pace over coming months. We look for total housing permits to <u>increase</u> to an annual rate of 1.020 million units but do not expect the significant jump in single family permits many are hoping for.
July Leading Economic Index Range: 0.4 to 1.1 percent Median: 0.6 percent	Thursday, 8/21	Jun = +0.3%	<u>Up</u> by 0.7 percent.
July Existing Home Sales Range: 4.890 to 5.160 million units Median: 5.000 million units SAAR	Thursday, 8/21	Jun = 5.040 mil	<u>Up</u> to an annual rate of 5.120 million units. Sales will be up sequentially but, for a ninth straight month, down year-over-year. As we have noted, this is a function of fading investor purchases as non-investor purchases slowly edge higher.

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