ECONOMIC PREVIEW

REGIONS

Week of September 22 2014

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on October 28-29)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	One question in advance of the September FOMC meeting was whether or not the Committee would ditch the "considerable time" phrase (referring to the interlude between the end of QE and the initial hike in the Fed funds rate) from their forward guidance around the path of the Fed funds rate – they opted not to. One reason may have been to soften the impact of their dot chart. For those not versed in the highly technical language of central banking, the "dot chart" shows what each member sees as the "appropriate" level of the funds rate target (now the mid-point of a target range) at year-end. In the latest version, the median funds rate at both year-end 2015 and year-end 2016 was higher than in prior versions. This suggests that, while the FOMC may be in no hurry to begin raising the funds rate (as they took pains to point out), once they do start the pace of funds rate hikes may be more aggressive. Indeed, this is the third straight version of the dot chart in which the year-end funds rates have risen, which is interesting because the FOMC's median estimate of the economy's "speed limit" has drifted lower and now stands at just over 2 percent. The inference is that the funds rate is poised to head for a lower target at a faster rate, hardly an uplifting proposition.
August Existing Home Sales Range: 5.000 to 5.350 million units Median: 5.200 million units SAAR	Monday, 9/22	Jul = 5.150 mil	Up to an annual sales rate of 5.220 million units. This would mark a fifth consecutive month of increasing sales but a tenth consecutive month of year-over-year declines. As we have pointed out before, however, the over-the-year declines are a function of fading distress sales as nondistress sales have steadily improved. At most, the year-over-year declines in total sales will persist for another two months as by then the data will be cleaner. Perhaps the more meaningful numbers to watch for will be inventories and months supply – over recent months inventories have been steadily advancing (look at the year-over-year change as the NAR does not seasonally adjust their inventory data and September is a seasonally weak month for inventory), which will help facilitate sales while taking some of the edge off of price appreciation.
August New Home Sales Range: 405,000 to 455,000 units Median: 430,000 units SAAR	Wednesday, 9/24	Jul = 412,000	Up to an annual sales rate of 428,000 units. Recent months have seen what, even for this inherently volatile series, have been sharp swings in the monthly data and often sizeable revisions, so we're not so sure how confident we are in this call. Still, the underlying trend in new home sales, as in new single family construction, remains softer than had been anticipated and the August data are unlikely to mark a break in that trend. Inventories have been rising, but at a slow rate, and sales of units on which construction has not yet been started continue to account for an atypically high share of total new home sales. Another trend has been an above average share of sales accounted for by homes priced at or above $300,000, and the persistence of this trend is a sign the housing market remains out of balance, so we'll also be watching the sales mix in the August data.
August Durable Goods Orders Range: -22.0 to 3.5 percent Median: -17.7 percent	Thursday, 9/25	Jul = +22.6%	Down by 17.9 percent. If you can't stomach volatility in the economic data, this is seriously not your week (new home sales, durable goods) But, just as the large advance in July was nothing to get overly excited about, neither will the large decline to be reported in the August data be anything to get overly worried about. July's gain was driven by a surge in transportation orders – Boeing's orders tripled for the month and orders for motor vehicles posted a double-digit gain. Boeing's August orders were more in line with what had been the underlying trend and we look for motor vehicle orders to have given back a sizeable chunk of July's gain. As always with the durable goods data, the metrics to focus on are ex-transportation orders, which we expect to be up 0.7 percent, and orders for core capital goods, which we also expect to post an increase in the August data.
Q2 Real GDP – 3rd estimate Range: 3.4 to 5.0 percent Median: 4.6 percent SAAR	Friday, 9/26	2nd est = +4.2%	We look for the BEA's third estimate to show real GDP rose at an annualized rate of 4.8 percent in Q2. As we noted with the first two estimates, the third estimate will be the first to incorporate hard data on health care outlays, which we now know rose in Q2 after having surprisingly fallen in Q1 – some of this volatility reflects the implementation of the Affordable Care Act. This will support an upward revision to top-line GDP, as will consumer spending on goods and business investment outlays. By no means do we consider Q2's growth rate to be sustainable, as it to some extent reflects payback for the one-off contraction in Q1 real GDP, but thus far Q3 growth is tracking at slightly better than 3.0 percent (annualized) which we do see as being sustainable over the next few quarters.

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