ECONOMIC PREVIEW

REGIONS

Week of September 8, 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%	The "things are terrible and any good number is concocted as part of a vast government conspiracy" crowd, many of whom can be found on financial talk TV screaming at someone tasked with actually trying to understand the data, had a field day with the August employment report. The weak headline print, the downward revisions to prior estimates for June and July, and the reported decline in the labor force are all signs of how terrible things really are out there. Why, it's a wonder such lousy data made it through the vast government conspiracy machine in the first place. For those able to get by the lousy headline number and actually sift through the underlying details, the August employment report does nothing to alter the view of underlying labor market trends, particularly with the six-month moving average job growth number still north of 200,000. While technical issues made a muddled mess of the headline numbers, in both the payroll and household surveys, the underlying details show signs of further improvement in labor market conditions, including sizeable declines in the number of long-term unemployed and the number of those working part-time for economic reasons. Moreover, August's headline job growth number is badly out of alignment with other data, including initial jobless claims and the ISM surveys, for both the manufacturing sector and the service sector. No one single piece of data is ever, in and of itself, a game changer, and the August employment report is no exception. We expect over coming months revisions will put the August employment more in alignment with the other high frequency economic data. As such, we do not see the August employment report as having any material implications for the FOMC as they gather later this month and debate changes to forward guidance around the path of the Fed funds rate with the end of QE drawing ever nearer. What could alter the equation for the FOMC is the ECB. While not embarking on QE, the ECB nonetheless is acting to ease credit conditions and is apparently embracing a depreciating euro as a meaningful policy tool. This will remain a weight on long rates here in the U.S. even as shorter-term rates continue to firm up.
August Retail Sales Range: 0.2 to 1.2 percent Median: 0.5 percent	Friday, 9/12	Jul = 0.0%	<u>Up</u> by 0.8 percent with a big assist from motor vehicle sales, as unit sales jumped to an annual rate of 17.5 million units in August, the strongest monthly sales rate since January 2006, and a 6.4 percent increase from July's sales rate. Still, the translation from unit vehicle sales, reported by the BEA, to the dollar volume of retail vehicle sales, reported in the Commerce Department's retail sales data, is often confounding. Fleet sales are included in the unit sales data but not the retail sales data, used car sales are reported in the retail sales data but not the unit sales data, and incentives offered by dealers can hold down the reported dollar volume of sales (you were warned, it is often confounding). In August, incentives were used more aggressively, helping pull some sales over the Labor Day weekend forward from September into August. The bottom line is we are looking for a sizeable increase in motor vehicle sales to drive the headline retail sales number sharply higher. Were it not for a hefty decline in retail gasoline prices, total retail sales would have logged an even bigger gain in August.
August Retail Sales – Ex-Auto Range: 0.1 to 0.7 percent Median: 0.2 percent	Friday, 9/12	Jul = +0.1%	<u>Up</u> by 0.2 percent. In addition to lower sales at gasoline stations, we also look for a decline in sales at building materials stores, and these two factors will weigh on ex-auto sales. Back to school spending will have supported other components of retail sales, as suggested by what were stronger than expected chain store sales results. As to the most significant data point in the August report, we look for <u>control retail sales</u> (a direct input into the consumer spending data contained in the GDP data) be <u>up</u> 0.4 percent after coming in flat in July. Recall that in the wake of a soft July retail sales report, many analysts were concerned consumer spending would act as a material drag on Q3 real GDP growth. Though not a stellar report, particularly after one gets past the large gain in headline sales, the August retail sales report should nonetheless help allay those concerns.
July Business Inventories Range: 0.3 to 0.5 percent Median: 0.4 percent	Friday, 9/12	Jun = +0.4%	We look for total business inventories to be <u>up</u> by 0.4 percent, while total business sales <u>rose</u> by 0.8 percent.

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