ECONOMIC PREVIEW

REGIONS

Week of December 15, 2014

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on December 16-17)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	Should it stay or should it go? That will be a major point of debate at this week's FOMC meeting, with "it" of course being the "for a considerable time" phrase that for a considerable time now has resided in the Committee's forward guidance around the path of the Fed funds rate. There are some members who feel with QE having come to an end it is appropriate to ditch the phrase, and there are some members who continue to see it as appropriate. Though still present after the October FOMC meeting, the "for a considerable time" phrase was effectively neutralized as the Committee, without actually using the phrase "data dependent," noted the timing of the initial hike in the Fed funds rate will depend on the evolution of incoming data relative to the Committee's expectations. Really, even if the words "for a considerable time" are stricken from the forward guidance, the sentiment will remain the same and the Committee will no doubt find a way to convey to the financial markets they are in no hurry to begin raising the funds rate and more significantly, at least to us, that once they do begin raising the funds rate the pace of rate hikes will be gradual. Along with inflation that is low and, thanks to falling energy prices (see below) going lower, a still elevated degree of labor market slack, and an uncertain global growth outlook combine to give the FOMC the latitude to remain patient in the timing of the initial hike in the funds rate and the pace of subsequent rate hikes. However they opt to phrase it that is the sentiment we expect them to convey at the conclusion of this week's meeting. Note this week's meeting will also be accompanied by the release of the latest round of the Committee members' central tendency forecasts (we expect to see real GDP growth upgraded slightly and unemployment and inflation marked lower) and followed by a press conference by Chairwoman Yellen.
November Industrial Production Range: 0.2 to 1.4 percent Median: 0.7 percent	Monday, 12/15	Oct = -0.1%	Up by 0.7 percent with output rising across the board in the manufacturing, mining, and utilities sectors. This would leave total industrial production up better than 4 percent on a year-over-year basis.
November Capacity Utilization Rate Range: 79.0 to 79.8 percent Median: 79.3 percent	Monday, 12/15	Oct = 78.9%	Rising to 79.4 percent.
November Housing Starts Range: 0.900 to 1.100 million units Median: 1.035 million units SAAR	Tuesday, 12/16	Oct = 1.009 mil	Up to an annual rate of 1.048 million units. But, this will be the result of a jump in multi-family starts as we look for single family starts to fall sharply from the reported October rate of 696,000 units, far above a level consistent with the permit data. We look for multi-family starts to repeat a pattern seen during 2014 in which a steep decline towards 300,000 units (as seen in October) is followed by a jump above the 400,000 unit rate yielding, remarkably enough, an average rate of about 350,000 units for the year as a whole.. We expect total housing permits to fall to an annual rate of 1.042 million units, as single family permits rise slightly and multi-family permits retreat from October's 445,000 unit pace.
November Consumer Price Index Range: -0.3 to 0.1 percent Median: -0.1 percent	Wednesday, 12/17	Oct = 0.0%	Down by 0.2 percent thanks to sharply lower retail gasoline prices. Unadjusted retail pump prices fell by almost 8 percent in November, far outpacing the decline built into the seasonal adjustment factors, and this will be a sizeable weight on the total CPI. Outside of rents, though, there will be little upward pressure to offset the impact of lower gasoline prices. On a year-over-year basis this would leave the total CPI up just 1.4 percent.
November CPI – Core Range: 0.1 to 0.2 percent Median: 0.1 percent	Wednesday, 12/17	Oct = +0.2%	Up by 0.1 percent with, as noted above, few sources of meaningful inflation pressure outside of rents. We look for core goods prices to log a 19th consecutive over-the-year decline, a trend being reinforced by the recent strength of the U.S. dollar. On a year-over-year basis, we look for the core CPI to be up 1.7 percent which, while still below 2.0 percent, will have more meaning to the Fed than the lower headline inflation rate.
Q3 Current Account Balance Range: -$105.7 to -$91.0 billion Median: -$97.5 billion	Wednesday, 12/17	Q2 = -$98.5 bil	Widening to -$99.3 billion. The trade gap shrank in Q3 but we look for the deficit in unilateral transfers to have widened towards the longer-term trend after having narrowed in Q2. The net result will be a slightly larger current account deficit.
November Leading Economic Index Range: 0.0 to 0.8 percent Median: 0.5 percent	Thursday, 12/18	Oct = +0.9%	Up by 0.6 percent.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com