ECONOMIC PREVIEW

REGIONS

Week of December 8, 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%	Despite the impressive headline of 321,000 net new payroll jobs, the November employment report is consistent with the theme of yes, things are improving, but there is still far to go. Some of November's gain in nonfarm employment was due to seasonal hiring in transportation/distribution and retail trade, but even allowing for that underlying job growth was above the recent trend, and prior estimates for September and October were revised higher (and, if history repeats, the November job gain number will be revised substantially higher over the next two months). Moreover, one of our favorite under the headline metrics – the one-month hiring diffusion index, which measures the breadth of hiring across private sector industries – hit its highest level since January 1998, affirming job growth remains exceptionally broad based. As to the "far to go part" while average hourly earnings rose 0.4 percent in November this comes after no gain in September and just a 0.1 percent gain in October, and even November's gain leaves hourly earnings up just 2.1 percent over-the-year. While the length of the average workweek rose to 34.6 hours, November is actually the third month in a row the average workweek was reported at 34.6 hours in the initial print but both September and October saw hours revised lower, and we will see if November's initial print awaits the same fate. And, while the number of long-term unemployed and the number of those working part-time for economic reasons declined in November, they remain far, far above levels that would be seen in a fully healthy labor market. All in all, then, while the markets seem to interpret the November employment report as pulling forward the initial hike in the Fed funds rate, we're not so convinced, particularly with inflation pressures as muted as they are.
November Retail Sales Range: 0.1 to 0.6 percent Median: 0.4 percent	Thursday, 12/11	Oct = +0.3%	Up by 0.4 percent, with motor vehicle sales driving the gain in total retail sales as sharply lower pump prices reduced gasoline to the equivalent of watered down fuel (really, these auto and gasoline themed puns just write themselves, you can't stop them, you can only hope to contain them). Unit motor vehicle sales jumped to an annual rate of 17.2 million units, though aggressive discounting and Black Friday promotions (no wonder traffic at malls was down, people were in auto showrooms instead) pulled sales forward from December. That November's sales pace is not sustainable doesn't matter for November retail sales, however, and in addition to the jump in unit sales the mix of sales – higher priced SUVs and light trucks accounted for a greater share of sales – will support higher sales revenue at motor vehicle dealers. At the other extreme, though, retail gasoline prices fell by 7.9 percent in November, a far larger decline than will be captured by seasonal adjustment factors and this will act as a sizeable drag on top-line retail sales.
November Retail Sales – Ex-Auto Range: -0.2 to 0.5 percent Median: 0.1 percent	Thursday, 12/11	Oct = +0.3%	Up by 0.1 percent, and this is where the impact of lower gasoline prices will be more evident. The underlying details, however, will be much more constructive, as we expect control retail sales to be up 0.5 percent (control sales exclude motor vehicles, gasoline, building materials, and restaurants) with what should be broad based gains across sales categories. To the extent retailers engage in aggressive discounting this could take away from reported sales revenue, but nonetheless we expect control sales to post a healthy gain. If control sales come in at or above our expectations, that will be a sign consumer spending will make a larger contribution to Q4 real GDP growth than was the case in Q3.
October Business Inventories Range: 0.2 to 0.5 percent Median: 0.3 percent	Thursday, 12/11	Sep = +0.3%	We look for total business inventories to be up 0.2 percent, with total business sales unchanged. A slow start to the quarter suggests inventory accumulation will exert a meaningful drag on Q4 real GDP growth.
November PPI – Final Demand Range: -0.4 to 0.1 percent Median: -0.1 percent	Friday, 12/12	Oct = +0.2%	Down by 0.2 percent, which would translate into an over-the-year increase of 1.4 percent. Admittedly, we don't quite yet have a good grasp of the nuances of the new PPI series and could again be surprised if price pressures in the services sectors more than offset lower energy costs, as happened in the October data. Even so, there will be little in the PPI data to fan fears that retail level inflation will be heating up any time soon.
November Core PPI – Final Demand Range: -0.1 to 0.2 percent Median: 0.1 percent	Friday, 12/12	Oct = +0.4%	Up by 0.1 percent, for an over-the-year increase of 1.8 percent.

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