ECONOMIC PREVIEW

REGIONS

Week of January 19, 2015

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on January 27-28)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	Last week's biggest story was brought to us by a foreign central bank – the Swiss National Bank dropped its franc-euro exchange rate ceiling and in so doing dropped a huge, and hugely unsettling, surprise on global financial markets. This week's biggest story will also be brought to us by a foreign central bank, as the ECB meets on Thursday, January 22 and is almost universally expected to announce its own version of quantitative easing. The main question at this point is whether the ECB's plan will be bold enough to assuage the markets' fears that the Euro Zone is on the cusp of a deflationary free-fall, and our take is anything short of the ECB announcing an open ended program will be seen as a disappointment. Should that be the case, expect another week of heightened volatility in the financial markets and further downward pressure on long-term U.S. interest rates. As to whether any form, open ended or not, of quantitative easing from the ECB will have a material impact on the Euro Zone economy our hopes are, at best, modest. If there is to be any effect it will come not through the credit expansion channel – after all, borrowing costs are decidedly not the issue at present across the Euro Zone – but rather through the trade channel courtesy of a depreciating euro. Even on this front, however, we have our doubts. First, it is a valid question as to how much of the recent depreciation of the euro reflects expectations of QE-ECB style being priced in ahead of the actual announcement. Second, even if the euro does fall further, how much will it stimulate Euro Zone exports, particularly since the country that stands to benefit the most is Germany, arguably the country that needs the least help. Still, the ECB has little, if any at this point, choice but to commit to QE, and in what is a light week for domestic economic data there could yet be considerable volatility in the financial markets.
December Housing Starts Range: 0.999 to 1.057 million units Median: 1.040 million units SAAR	Wednesday, 1/21	Nov = 1.028 mil	<u>Up</u> to an annual rate of 1.044 million units, with rising multi-family starts offsetting a decline in single family starts. With our call on December, starts for 2014 as a whole would have risen to 995,000 units (subject to revision), a 7.0 percent increase from 2013 with single family starts up just 2.9 percent and multi-family starts up 15.2 percent. We look for the balance to shift over the course of 2015 with single family starts rising and multi-family starts to begin easing around mid-year. That said, our forecast of around 680,000 single family starts for 2015 is not exactly on the ambitious side but we can't justify the much bigger jump we've seen in other forecasts. We look for total housing permits to have <u>risen</u> to 1.055 million units (annual rate) in December.
December Leading Economic Index Range: 0.2 to 0.5 percent Median: 0.4 percent	Friday, 1/23	Nov = +0.6%	<u>Up</u> by 0.5 percent.
December Existing Home Sales Range: 4.940 to 5.200 million units Median: 5.020 million units SAAR	Friday, 1/16	Nov = 4.930	<u>Up</u> to an annual sales rate of 5.180 million units.

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