ECONOMIC PREVIEW

REGIONS

Week of January 26, 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%	With no post-meeting press conference on tap, the FOMC's policy statement will be closely scrutinized. We look for little change in the assessment of current economic conditions, though the statement may be more explicit in conveying the Committee's view that the recent deceleration in headline and core inflation as well as the appreciation of the U.S. dollar largely reflect transitory forces. We look for a repeat of the reference to patience in the forward guidance around the path of the Fed funds rate, this time however without the reference to "a considerable time" found in the December statement. There has of late been some degree of consistency in public statements by various Fed officials who, despite recent data on inflation and wage growth, feel a mid-year lift off in the funds rate is appropriate and we do not expect anything will come out of this week's meeting to change this perception,. That said, a lot can change in the next five months and the Committee's resolve will surely be put to the test.
December Durable Goods Orders Range: -3.0 to 1.5 percent Median: 0.4 percent	Tuesday, 1/27	Nov = -0.9%	Up 0.2 percent with ex-transportation orders up 0.6 percent. Core capital goods orders and shipments were soft in Q4 so business investment in equipment and software poses a downside risk to our call on Q4 real GDP growth (see below).
January Consumer Confidence Index Range: 93.0 to 99.4 Median: 95.1	Tuesday, 1/27	Dec = 92.6	Up to 96.9 which would be the highest reading since September 2007.
December New Home Sales Range: 438,000 to 480,000 units Median: 450,000 units SAAR	Tuesday, 1/27	Nov = 438,000	Up to an annual sales rate of 446,000 units. New home sales ended 2014 with a whimper rather than a bang, and if our headline call is on the mark, new home sales will have posted a piddling 0.8 percent increase for 2014 as a whole. Moreover, one of the most inherently volatile of the high frequency data series seemed to be even more so in 2014, with large increases often reported in the initial prints then later revised away. For 2015, here's hoping for the large increases sans the subsequent downward revisions.
Q4 Real GDP – 1st estimate Range: 2.3 to 3.5 percent Median: 3.3 percent SAAR	Friday, 1/30	Q3 = +5.0%	Up at an annualized rate of 3.4 percent. The December retail sales report was a flop, but even with a 0.4 percent decline on a nominal basis control retail sales were flat on a real basis, leaving real consumer spending on course to rise at just under a 4.0 percent annualized rate for Q4 as a whole, which will provide support for top-line real GDP growth. Contrary to earlier expectations it would be a drag on Q4 growth, trade should either be neutral or provide modest support for top-line real GDP growth. As always, we caution that in any given quarter the BEA's initial estimate of real GDP is based on highly incomplete source data and relies heavily on BEA assumptions and projections, particularly the inventories and foreign trade components. As such, the average revision between the first and third estimates of real GDP growth in a given quarter is 0.6 percent (on an absolute value basis). So, while no one expected the pace of real GDP growth seen in 2014's second and third quarters to be sustained, it will take a while (i.e., two more months) until we know just how much growth decelerated in Q4.
Q4 GDP Price Index – 1st estimate Range: -0.4 to 1.4 percent Median: 1.0 percent SAAR	Friday, 1/30	Q3 = +1.4%	Up at an annualized rate of 0.8 percent.
Q4 Employment Cost Index Range: 0.3 to 0.7 percent Median: 0.6 percent	Friday, 1/30	Q3 = +0.7%	We look for the total ECI to be up 0.6 percent, with the wages component up 0.6 percent and the benefits component up 0.5 percent, for year-over-year increases of 2.3 percent, 2.2 percent, and 2.5 percent, respectively. We were a bit suspicious of the 0.8 percent increase (Q/Q) in wages reported in the Q3 data, as retail trade and leisure & hospitality services posted two of the largest increases of all industry groups. So, either the Q3 data will be revised down or there will be some payback in the Q4 data, and our expected 0.6 increase in the wage component would put it back in line with the underlying trend. While this would reflect further improvement in year-over-year wage growth, that improvement continues to come at a grudging pace, which is likely to remain the case in the near term. We consistently point to the ECI as a less appreciated but more reliable measure of wage growth than its much more ballyhooed counterpart average hourly earnings. Lately, however, both are telling pretty much the same story when it comes to meaningful acceleration in wage growth, or the lack thereof.

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