ECONOMIC PREVIEW

REGIONS

Week of January 12, 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%	At first glance, the headlines on the retail sales and CPI reports might lead one to the (frightening) conclusion that we've suddenly turned into the Euro Zone. Not to worry, though, as the headline prints reflect the impact of the sharp decline in retail gasoline prices in December. This week's data will simply reinforce a point we make over and over – the underlying details are far more important than the headlines. And, relax, the U.S. economy is still on solid footing.
December Retail Sales Range: -0.4 to 0.5 percent Median: 0.1 percent	Wednesday, 1/14	Nov = +0.7%	Up by 0.1 percent. We expect top-line retail sales to withstand drags from two key components – motor vehicles and gasoline – and eke out a small gain. While unit motor vehicle sales were strong for the month, with an annual sales rate of 16.9 million units, this is nonetheless a small step back from November's sales rate of 17.2 million units, so we look for a commensurate decline in revenue at dealers, which is what the retail sales data capture. As for retail gasoline process, they tumbled in December, down 12 percent from November and down 21.6 percent from December 2013. Even so, we look for solid gains in most other categories, particularly electronics, apparel, nonstore retailers, and restaurants, to offset the drags from autos and gasoline. There may be some downside risk to our call due to price effects, given the aggressive discounting resorted to by many retailers looking to move merchandise in the final weeks of the holiday shopping season. Another potential downside risk comes from gift cards – while always a popular holiday gift item, cards are not booked as sales until they are redeemed, which has the potential to take away from reported December sales while boosting reported January sales. Either way though, the money still gets spent.
December Retail Sales – Ex-Auto Range: -0.4 to 0.6 percent Median: 0.1 percent	Wednesday, 1/14	Nov = +0.5%	Up by 0.2 percent, and we look for control retail sales to be up 0.6 percent, which is always the most meaningful data point in the retail sales data as control sales feed directly into the GDP data on consumer spending. Should our call prove correct, nominal control retail sales will have logged a 5.7 percent annualized increase in Q4, leaving real consumer spending on course for a better than 4 percent annualized gain, providing a nice support for Q4 real GDP growth.
November Business Inventories Range: 0.1 to 0.7 percent Median: 0.2 percent	Wednesday, 1/14	Oct = +0.2%	We look for total business inventories to be up by 0.4 percent, with total business sales down by 0.1 percent.
December PPI – Final Demand Range: -1.0 to -0.1 percent Median: -0.5 percent	Thursday, 1/15	Nov = -0.2%	Down by 0.5 percent on lower energy and food prices. This would leave the index up just 0.9 percent on a year-over-year basis.
December Core PPI – Final Demand Range: -0.1 to 0.2 percent Median: 0.1 percent	Thursday, 1/15	Nov = 0.0%	Up by 0.1 percent, for an over-the-year increase of 1.9 percent.
December Consumer Price Index Range: -0.5 to 0.1 percent Median: -0.3 percent	Friday, 1/16	Nov = -0.3%	Down by 0.4 percent, leaving the headline CPI up by only 0.7 percent year-over-year. Retail sales are not the only data being impacted by falling gasoline prices, as the CPI's seasonal adjustment factors drowned in December's decline in retail pump prices, which in and of itself will knock five-tenths of a point off of the monthly percentage change in the CPI.
December Core CPI Range: 0.0 to 0.3 percent Median: 0.1 percent	Friday, 1/16	Nov = +0.1%	Up by 0.2 percent, for an over-the year increase of 1.8 percent. Apparel prices fell by over 1 percent in November which won't be repeated in the December data, and this pretty much accounts for the larger increase in the core CPI.
December Industrial Production Range: -0.4 to 0.4 percent Median: 0.0 percent	Friday, 1/16	Nov = +1.3%	Up by 0.2 percent, as we look for modest gains in manufacturing and utilities output to offset what we expect to be a decline in mining output (which includes all energy production). Year-over-year, total industrial production will be up better than 5 percent for the second consecutive month.
December Capacity Utilization Rate Range: 79.5 to 80.3 percent Median: 80.0 percent	Friday, 1/16	Nov = 80.1%	Unchanged at 80.1 percent.

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