ECONOMIC PREVIEW

REGIONS

Week of February 9, 2015

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on March 17-18)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	The January employment report will have far reaching effects through the economy. In January, 257,000 net new nonfarm jobs were added while revisions now put job growth in 2014 at over 3 million jobs. Revisions were particularly strong for Q4 2014, and with job counts and hourly earnings revised higher, aggregate private sector earnings have now grown at an average rate of 5.3 percent (year-over-year) over the past four months. This is on a nominal basis but with inflation low and going lower, real disposable income is growing at a very healthy rate, a point overlooked by those who focus solely on growth of average hourly earnings. Additionally, aggregate hours worked in Q4 rose much more rapidly than had been previously estimated, which means either real GDP growth for Q4 will be revised higher or the decline in labor productivity was far worse than the 1.8 percent annualized decline reported last week. We suspect the former is the case but do not expect to see any such upward revision to the Q4 GDP data until July, when the BEA releases its annual benchmark revisions.
January Retail Sales Range: -1.0 to -0.2 percent Median: -0.5 percent	Thursday, 2/12	Dec = -0.9%	Down by 0.4 percent. In an encore performance, falling gasoline prices take the retail sales report down with them. After having fallen by over 12 percent in December, retail gasoline prices fell 16 percent in January (all grades, national average) and as was the case in December a sizeable decline in gasoline station sales – we've penciled in a better than 8 percent decline – will weigh on top-line retail sales. Lower gasoline prices will also be felt in the warehouse clubs and superstores category, as many such stores also sell gasoline. Unlike December, however, when sales fell in 9 of the 13 broad categories reported, there will be offsets in January, and once gasoline is set aside we expect broad based gains. One support will be redemption of holiday gift cards, which will show up in the January retail sales data – gift cards are booked as sales when they are redeemed not when they are purchased. It will also be worth watching for the revisions to the December data – lower gasoline prices notwithstanding the reported 0.9 percent decline was more than a little surprising. To be sure, the headline retail sales numbers are unsettling but it is worth noting the extent to which lower retail gasoline prices are distorting the nominal, i.e., not adjusted for changes in prices, data. Based on the decline in retail gasoline prices we look for the headline CPI to have declined around 0.6 percent in January (we will refine that forecast next week), which would leave real, i.e., inflation adjusted, sales higher. Just something to keep in mind before getting too stressed over what will be another grim headline retail sales figure.
January Retail Sales – Ex-Auto Range: -1.2 to -0.2 percent Median: -0.5 percent	Thursday, 2/12	Dec = -0.9%	Down by 0.6 percent. Though unit motor vehicle sales fell slightly in January – to a still strong annual sales rate of 16.7 million vehicles – we nonetheless expect motor vehicle dealers to have added to, not deducted from, total retail sales thanks to a significant shift in the mix of sales. Lower gasoline prices helped fuel a spike in sales of SUVs and light trucks, which accounted for 55 percent of motor vehicle sales in January, the highest such share since early 2006. As these vehicles carry higher sticker prices than automobiles, we expect the shift in the sales mix to result in higher revenue at motor vehicle dealers despite the drop in unit sales, meaning the decline in ex-auto sales will exceed the decline in total retail sales. Additionally, we look for control retail sales to be up 0.3 percent, which would be consistent with our expectation of broad based gains in the control group. If that doesn't strike you as a very meaningful increase refer back to the above passage about the impact lower gasoline prices on headline inflation. If the top-line price index falls on the order of 0.6 percent, then our 0.3 percent increase in nominal control retail sales will translate into a much more sizeable increase in real control sales, and this is the number that impacts real GDP growth. So, the bottom line is even despite what are expected to be lousy (nominal) headline numbers, real consumer spending should get off to a solid start in Q1.
December Business Inventories Range: -0.2 to 0.3 percent Median: 0.2 percent	Thursday, 2/12	Q3 = +0.7%	We look for total business inventories to be up 0.1 percent while total business sales were down 1.1 percent. The December inventory data, as well as what will be revisions to the November data, could end up being one source of revision to the BEA's initial estimate of Q4 real GDP growth though in our view this is unlikely to be a source of material revision – in either direction.

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