ECONOMIC PREVIEW

Week of March 16, 2015

Indicator/Action
Economics Survey:

Fed Funds Rate: Target Range Midpoint
(After the FOMC meeting on March 17-18):
Target Range Midpoint: 0.125 to 0.150 percent
Median Target Range Midpoint: 0.125 percent

Last
Actual:

Regions’ View:

Seldom, if ever, has there been so much anticipation over the fate of one single word. But, in the build up to this week’s FOMC meeting the main focus seems to be on whether the Committee will strike the word “patient” from their forward guidance around the path of the Fed funds rate. We expect them to do so which, as we’ve pointed out often over recent weeks, keeps a mid-year liftoff in the Fed funds rate in play but by no means ensures such an outcome. Striking “patient” – the presence of which implies a funds rate hike is off the table for the subsequent two FOMC meetings – merely gives the FOMC the flexibility to hike the funds rate at any meeting from mid-year on, as they deem appropriate. As this meeting will be followed by Chairwoman Yellen holding a press conference, this affords her another opportunity to reinforce the point that striking “patient” from the forward guidance would be all about the flexibility it would buy the Committee and nothing more.

The March meeting will also be accompanied by the release of the latest batch of the FOMC’s central tendency forecasts. So, other than possible changes to the forward guidance, there are three things to watch for from the FOMC this week. First, whether the Committee’s central tendency estimate of “full employment” is lowered from the current 5.2 to 5.5 percent range. Given the lack of upward pressure on hourly earnings growth despite the unemployment rate standing at 5.5 percent, a lower estimate of full employment would imply the FOMC thinks it will take even longer for meaningful wage pressure to develop, which argues for hiking the funds rate later rather than sooner. Second, the FOMC has made it clear they see abnormally low headline inflation as no more than a reflection of the transitory impact of energy prices, so it is worth watching whether they alter their forecast of core inflation – a materially lower forecast for core inflation may imply concerns of broader disinflationary pressure which, again, would argue for hiking the funds rate later rather than sooner. Third, we have stressed the specific timing of the initial hike in the funds rate is not nearly as important as the pace of subsequent rate hikes. So, the “dot plot,” which lays out expectations of the path of the funds rate by individual FOMC members, albeit anonymously, is worth watching for signals on current views of the appropriate pace of rate hikes.

February Industrial Production
Monday, 3/16
Jan = +0.2%
Range: -0.1 to 0.7 percent
Median: 0.2 percent

February Capacity Utilization Rate
Monday, 3/16
Jan = 79.4%
Range: 79.2 to 80.0 percent
Median: 79.4 percent

February Housing Starts
Tuesday, 3/17
Dec = 1.065 mil
Range: 0.984 to 1.080 million units
Median: 1.045 million units SAAR

Q4 2014 Current Account Deficit
Thursday, 3/19
Q3 = -$100.3 bil
Range: -$111.5 to -$100.5 billion
Median: -$103.0 billion

February Leading Economic Index
Thursday, 3/19
Jan = +0.2%
Range: 0.2 to 0.5 percent
Median: 0.3 percent

Up by 0.2 percent, as we don’t expect much out of manufacturing in the February data, in part due to the widespread impacts of the West Coast port strike and what has been softer demand for U.S. exports. Utilities output should post a hefty gain.

Down to an annualized rate of 984,000 units. This is no reflection of our views on underlying housing market conditions, instead it is us making an allowance for the impact of harsh winter weather over the latter part of the month. And, yes, we realize it is cold each winter, but we also realize seasonal adjustment factors only adjust for normal seasonal patterns, and this February’s weather was much colder and had far more precipitation than normal across much of the Midwest and Northeast. As residential construction goes, these are the two smallest of the four broad Census regions, so we may have overcompensated. In any event, to the extent there are weather related distortions in the February data, they’ll be made up for down the road and even if our low-end estimate for February starts is on or close to the mark it won’t change our expectations for residential construction for 2015 as a whole. Also, we look for total housing permits to rise to an annualized rate of 1.072 million units from January’s revised rate of 1.060 million units.

Widening to -$105.2 billion. A wider trade gap is the primary culprit but we also look for a slight deterioration in the balance on income to contribute to a wider current account deficit. Our call would leave the current account deficit equivalent to 2.4 percent of GDP, up slightly from the prior two quarters but nonetheless exceptionally low for the 2000-2014 period as a whole.

Up by 0.2 percent.
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