ECONOMIC PREVIEW

REGIONS

Week of March 23, 2015

Indicator/Action Economics Survey: | Last Actual: | Regions' View:

Fed Funds Rate: Target Range Midpoint
(After the FOMC meeting on April 28-29):
Target Range Midpoint: 0.125 to 0.125 percent
Median Target Range Midpoint: 0.125 percent

Last Actual: 0.125%

They're no longer patient, but they're not impatient. They are, instead, data dependent. That shift in the FOMC's stance was widely expected ahead of last week's FOMC meeting. What was not expected, however, was the extent to which they shifted their views on the appropriate path of the Fed funds rate, as indicated by the "dot plot" which now shows significantly a lower anticipated Fed funds rate target at year-end 2015 and 2016 than had previously been the case. One implication of the FOMC being data dependent is market expectations of the timing and trajectory of rate hikes will likely twist and turn with each data release, suggesting a continued high degree of volatility in the financial markets.

February Existing Home Sales — Monday, 3/23
Range: 4.710 to 5.050 million units
Median: 4.940 million units SAAR

Last Actual: Jan = 4.820

Up to an annual sales rate of 4.880 million units. Existing home sales are booked at closing, so weather should have had little, if any, impact on February existing home sales. Our forecast would leave sales up 4.7 percent on a year-over-year basis and, accounting for the shifting mix of sales, our projected increase reflects steady growth in sales to "traditional" buyers as distress sales have faded. Inventory, or lack thereof, likely continued to weigh on sales. The NAR's inventory data are not seasonally adjusted and inventories typically rise in the month of February, so the more interesting question here is whether this year's February increase is larger or smaller than normal, we expect the latter.

February Consumer Price Index — Tuesday, 3/24
Range: -0.5 to 0.5 percent
Median: 0.2 percent

Last Actual: Jan = -0.7%

Up by 0.2 percent, ending a string of three consecutive monthly declines. During that stretch, it was rapidly falling gasoline prices dragging the headline index lower but retail pump prices rose better than four percent in February and thus helped lift the headline print. On a year-over-year basis, however, the total CPI will be down by 0.1 percent, the second consecutive month with a negative over-the-year print and we expect this to remain the case through mid-year.

February CPI – Core — Tuesday, 3/24
Range: 0.0 to 0.2 percent
Median: 0.1 percent

Last Actual: Jan = +0.2%

Up by 0.1 percent, for a year-over-year increase of 1.6 percent. Core inflation has been fairly stable over recent months, lending credence to the FOMC's assertion that recent moves in headline inflation mainly reflect changes in energy prices and, more recently, a stronger U.S. dollar. Still, the stronger dollar is helping sustain what is now a long-running trend – we look for February to be the 23 consecutive month in which prices for core goods fell on a year-over-year basis. Whatever inflationary pressures there are in the economy are coming mainly from the services side of the economy, not the goods side.

February New Home Sales — Tuesday, 3/24
Range: 428,000 to 491,000 units
Median: 475,000 units SAAR

Last Actual: Jan = 481,000

Down to an annual sales rate of 428,000 units. Last week our forecast for February housing starts was the lowest submitted by survey participants, our premise being harsh winter weather across the Midwest and Northeast would take toll on construction activity. That turned out to be the correct thought but it just wasn't deep enough (um, our forecasted decline in starts, not our thought) as starts declined far more than we anticipated. We expect that same harsh winter weather will have also impacted new home sales. New home sales are booked at contract signing and, as such, are more vulnerable to weather effects than are existing home sales (see above). While the decline in the latest NAHB survey of homebuilder sentiment got considerable attention, what largely escaped notice is that decline was driven by a decline in prospective buyer traffic not by watered down sales expectations. Over the past year the Midwest and Northeast combined have accounted for roughly 20 percent of all new home sales, so a sharp enough decline in sales in these two regions would weigh on overall sales. But, as we stated in our note on February housing starts, should our call be on or close to the mark, it will not change our view of the housing market for 2015 as a whole.

February Durable Goods Orders — Wednesday, 3/25
Range: -4.0 to 1.3 percent
Median: 0.5 percent

Last Actual: Jan = +2.8%

Up by 0.7 percent. We think there is still noise in the headline number stemming from the accounting of nondefense aircraft orders. We expect ex-transportation orders to be up 0.4 percent and look for a small gain in core capital goods orders.

Q4 2014 Real GDP – 3rd estimate — Friday, 3/27
Range: 1.8 to 2.5 percent
Median: 2.4 percent SAAR

Last Actual: 2nd est = +2.2%

Up at an annualized rate of 2.5 percent. The BEA's second estimate had real consumer spending growing at an annualized rate of 4.2 percent, but that estimate was made without benefit of the Q4 *Quarterly Services Survey* which now shows spending on services (which accounts for roughly two-thirds of consumer spending in the GDP accounts) grew faster than had been estimated. As such, we look for an upward revision to consumer spending growth to push up top-line real GDP growth in the BEA's third and, at least for now, final estimate for Q4 2014.

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