ECONOMIC PREVIEW

REGIONS

Week of March 9, 2015

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
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		0.125% to 0.125%	The February employment report is likely the death knell for the use of "patient" in the FOMC's forward guidance, and keeps a mid-year liftoff in the Fed funds rate in play but by no means assures such an outcome. Job growth beat expectations hands down despite harsh winter weather, the widespread impact of the West Coast port strike, the strike amongst refinery workers, and layoffs in the energy sector. Still, despite the unemployment rate having fallen to 5.5 percent, average hourly earnings growth remains range bound, something the resident "doves" on the FOMC will surely emphasize. Given the steadily improving health of the labor market and the broader economy, however, sluggish growth in hourly earnings in and of itself won't be sufficient to fend off a funds rate hike.
February Retail Sales Range: -0.8 to 0.6 percent Median: 0.4 percent	Thursday, 3/12	Jan = -0.8%	Up by 0.5 percent. For a fifth consecutive month gasoline sales will exert a heavy influence on top-line retail sales, but this time to the good. Retail pump prices rose better than four percent in February after a string of declines that included double-digit drops in both December and January. February's higher gasoline prices are partly seasonal – annual shutdowns to prepare for the switch to production of summer blends – and partly related to the strike amongst workers at several refineries which, in reality, has not greatly impacted supplies but has nonetheless given retailers cover to raise prices in the ever popular anticipation of reduced supplies. In any event, gasoline added to top-line sales in February but, just as the January retail sales report was soft in its own right regardless of gasoline sales, we look for the February report to have improved ex-gasoline. Harsher weather likely lifted sales at building materials stores and at the same time may have helped lift sales at on-line retailers. We expect apparel stores and general merchandise retailers to have posted better results. As for the specific component of the retail sales data that feeds directly into the GDP data on consumer spending, we expect control retail sales to be up 0.3 percent.
February Retail Sales – Ex-Auto Range: -0.6 to 0.9 percent Median: 0.6 percent	Thursday, 3/12	Jan = -0.9%	Up by 0.9 percent. Unit motor vehicle sales fell to an annualized rate of 16.2 units in February as harsh weather decimated the latter part of the month in many areas. While a perfectly respectable number in its own right, February's sales rate nonetheless is down from January's sales rate and this decline will act as a drag on top-line retail sales, thus boosting the ex-autos gain. One factor that will mitigate the impact of the drop in unit sales is the mix of sales, with higher priced SUVs and light trucks accounting for 55.4 percent of all sales, the highest share since December 2005. Conversely, however, one factor that will amplify the gap between total and ex-auto sales is what we expect to be a sharp decline in sales at auto parts dealers. Over past few months sales in this category have behaved in a very erratic manner, up 4.6 percent in November, down 5.5 percent in December, up 5.3 percent in January. Admittedly, we do not know what is behind this erratic behavior, perhaps it is a desperate plea for attention motivated by envy over gasoline prices/sales having hogged the spotlight of late (if you have something better, bring it). Indeed, auto parts store sales get so little respect that, while excluded in the calculation of "ex-auto" retail sales, this isn't reflected in the commonly used name for this category, i.e., ex-auto retail sales. In any event, we expect another sharp swing in auto parts sales in February.
January Business Inventories Range: -0.3 to 0.3 percent Median: 0.1 percent	Thursday, 3/12	Dec = +0.1%	We look for total business inventories to be down by 0.3 percent, with declines in the manufacturing and wholesale sectors. After downward revisions to the Q4 2014 data, the bar for inventory accumulation to add to real GDP growth in Q1 2015 was set fairly low but the January data suggest it may be hard to clear. We look for total business sales to be down by 1.0 percent. One caveat in this data set – there are price effects in play in the nominal, i.e., not adjusted for inflation, data that will wash out in the real, i.e., inflation adjusted, data, so the impact on real GDP growth will be far less harsh than suggested by these headline numbers.
February PPI – Final Demand Range: -0.2 to 0.6 percent Median: 0.2 percent	Friday, 3/13	Jan = -0.8%	Up 0.4 percent, only partially reversing January's steep decline and leaving the headline index up just 0.2 percent year-over-year.
February Core PPI – Final Demand Range: -0.3 to 0.4 percent Median: 0.1 percent	Friday, 3/13	Jan = -0.1%	Up by 0.2 percent, for a year-over-year increase of 1.7 percent. As with measures of retail level inflation, core inflation on the wholesale level has been much more stable than headline inflation, highlighting the extent to which swings in energy prices have distorted much of the economic data over recent months.

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