ECONOMIC PREVIEW

REGIONS

Week of May 11, 2015

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on June 16-17):* Target Range Midpoint: 0.125 to 0.125 percent Median Target Range Midpoint: 0.125 percent		0.125%	If nothing else, the April employment report came as somewhat of a relief, as it supports the contention that Q1 was a one-off stumble rather than the beginning of a free fall. Even if these "one-off" Q1 stumbles are becoming an annual rite of passage. Still, last week's trade data suggest the economy's Q1 stumble was more severe than had been implied by the BEA's first estimate of Q1 GDP. A significantly larger trade deficit, which largely reflects the unwinding of the backlog that had accumulated during the West Coast port strike, means the U.S. economy likely contracted in Q1 – our estimate shows real GDP contracted at an annualized rate of 0.5 percent in Q1. The economy seems to have righted itself though, to be sure, the April report on retail sales doesn't suggest a roaring comeback in Q2, though admittedly our call is on the low end of estimates. Given the sharp Q1 swings in trade and inventories, there is little clarity around the extent to which the economy will bounce back in Q2. But, the April employment report and some of the higher frequency data – jobless claims, purchase mortgage applications, commercial and consumer loan growth – suggest the economy is healthier than has been implied by many of the noisy headline numbers of late.
April Retail Sales Range: -0.1 to 0.6 percent Median: 0.2 percent	Wednesday, 5/13	Mar = +0.9%	<u>Down</u> by 0.1 percent. Consumer spending gets off to a soft start in Q2 with top-line retail sales likely to have fallen thanks to a decline in motor vehicle sales. Recall that in March unit sales jumped up to an annualized rate of over 17 million vehicles, but this reflected catch-up from February's weather induced dip in sales. April sales fell back to a pace consistent with the underlying trend rate but that will skew the monthly retail sales data downward. Another drag on April sales will be the normal post-Easter pause in sales at apparel and general merchandise stores. This year's early Easter meant the bulk of holiday related sales were pulled forward into March, contributing to the sizeable gain in total retail sales. Between lower retail gasoline prices, harsh winter weather, and seasonal spending, the headline retail sales numbers of late have been choppy, making the underlying trend the relevant point of focus. In our view, the "truth" about consumer spending is somewhere between the 4.4 percent growth in real consumer spending posted in Q4 2014 and the 1.9 percent growth logged in Q1 2015. Sure, that's a wide range, but the underlying trend rate of growth in consumer spending (including spending on services, which is not captured in the retail sales data) is healthier than will be implied by the April retail sales print.
April Retail Sales – Ex-Auto Range: 0.2 to 0.7 percent Median: 0.5 percent	Wednesday, 5/13	Mar = +0.4%	<u>Up</u> by 0.3 percent.
April Retail Sales – Control Group Range: 0.2 to 0.9 percent Median: 0.6 percent	Wednesday, 5/13	Mar = +0.4%	<u>Up</u> by 0.2 percent.
March Business Inventories Range: 0.1 to 0.3 percent Median: 0.2 percent	Wednesday, 5/13	Feb = +0.3%	We expect total business inventories to be <u>up</u> by 0.1 percent, with total business sales <u>up</u> 0.4 percent.
April PPI – Final Demand Range: -0.1 to 0.3 percent Median: 0.2 percent	Thursday, 5/14	Mar = +0.2%	<u>Up</u> by 0.2 percent, which translates into a year-on-year decline of 0.7 percent.
April Core PPI – Final Demand Range: 0.1 to 0.3 percent Median: 0.1 percent	Thursday, 5/14	Mar = +0.2%	<u>Up</u> by 0.1 percent, for a year-over-year increase of 1.1 percent.
April Industrial Production Range: -0.3 to 0.7 percent Median: 0.1 percent	Friday, 5/15	Mar = -0.6%	<u>Up</u> by 0.1 percent. We look for a minor increase in manufacturing output and another decline in mining output, though smaller than in recent months, while utilities should be a modest positive to overall IP after a series of wild swings. The April ISM Manufacturing Index pointed to stabilization in the manufacturing sector amidst the adverse impact of a stronger U.S. dollar, so it will be interesting to see if the report on industrial production supports that notion.
March Capacity Utilization Rate Range: 78.1 to 78.6 percent Median: 78.4 percent	Friday, 5/15	Mar = 79.4%	<u>Unchanged</u> at 78.4 percent.

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