ECONOMIC PREVIEW

REGIONS

Week of June 15, 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%	The highlight of a busy week is the FOMC meeting. We expect the post-meeting statement to take a more upbeat tone on the current economic condition as the data are supportive of the premise the Q1 slowdown was largely due to transitory factors. This week's meeting includes the release of the latest round of central tendency forecasts and the updated "dot plot," which shows the median value of the "appropriate" year-end Fed funds rate. We look for growth projections to be pared down, which for 2015 is a given after the Q1 contraction in real GDP. More significantly, we look for the collective estimate of the economy's long-term growth rate to be scaled back, in recognition of persistently weak data on labor productivity, and it will be worth watching to see if the estimate for the "terminal" level of the funds rate comes down as well. Finally, this week's meeting is followed by Chairwoman Yellen's press conference. While likely to affirm "sometime" this year is likely the appropriate timing of the initial funds rate hike, we expect Dr. Yellen to stress the timing matters less than the pace of subsequent rate hikes which will likely come at a very modest pace.
May Industrial Production Range: 0.1 to 0.3 percent Median: 0.2 percent	Monday, 6/15	Apr = -0.3%	Up by 0.2 percent with manufacturing and utilities output rising but we also look for a further decline in mining output.
May Industrial Production Range: 78.1 to 78.5 percent Median: 78.3 percent	Monday, 6/15	Apr = 78.2%	Up to 78.3 percent.
May Housing Starts Range: 1.040 to 1.190 million units Median: 1.095 million units, SAAR	Tuesday, 6/16	Apr = 1.135 mil	Down to an annualized rate of 1.076 million units. Yes, we look for housing starts to have declined in May. No, this does not mean something is wrong with the housing market, at least not in our view. Recall that construction activity was sharply curtailed in both February and March due to weather conditions, and April's jump in housing starts reflected some payback but was not sustainable. One thing that has stood out over the past several months is how far out of alignment single family starts and permits have been, with the former easily outpacing the latter. A downside risk to our forecast is that single family starts could fall back in alignment with permits which, to be sure, would still reflect a rising pace of single family activity, just less than suggested by the recent headline numbers. We look for total housing permits to fall to an annual rate of 1.084 million units – we've allowed for an increase in single family permits but expect multi-family permits settle back after April saw the highest rate of multi-family permit issuance of any month since June 2008. Our call on May starts and permits is consistent with how we have for some time now described the housing market data – volatile headline numbers masking trends of steady improvement.
May Consumer Price Index Range: 0.2 to 0.6 percent Median: 0.5 percent	Thursday, 6/18	Apr = +0.1%	Up by 0.6 percent, which would be the largest increase since February 2013. May's increase, however, is mainly a function of a spike in retail gasoline prices, which rose almost 10 percent during the month, which itself pushes the headline CPI up roughly four-tenths of a percent. Rents and food prices – mainly food consumed away from home – will account for most of the rest of the increase in the headline index. We look for the total CPI to be unchanged year-on-year.
May CPI -- Core Range: 0.1 to 0.2 percent Median: 0.2 percent	Thursday, 6/18	Apr = +0.3%	Up by 0.2 percent, for a year-over-year increase of 1.8 percent. Core CPI inflation continues to be stable and to run well ahead of core PCE inflation largely due to differences in how rents and medical costs are measured and weighted.
Q1 Current Account Balance Range: -\$122.0 to -\$115.3 billion Median: -\$117.5 billion	Thursday, 6/18	Q4 = \$113.5 bil	Widening to -\$118.9 billion. The monthly trade data tell us the trade deficit will be wider than was the case in Q4 2014 and we also look for a smaller balance on the income account to contribute to the wider current account deficit. Our call on the headline number would leave the current account deficit at 2.7 percent of GDP, the highest since Q3 2012. As we've noted with the monthly trade data, the trade deficit was wider in Q1 but it is unclear the extent to which this reflects the impact of the West Coast port strike and the extent to which it reflects the impact of a stronger U.S. dollar and soft global growth environment. Either way, we expect both the trade deficit and current account deficit to narrow a bit in Q2.
May Leading Economic Index Range: 0.2 to 0.4 percent Median: 0.4 percent	Friday, 6/19	Apr = +0.7%	Up by 0.4 percent.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com