ECONOMIC PREVIEW

REGIONS

Week of June 8, 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 May employment was fairly solid but nonetheless had a few soft patches, many stemming from what we have referred to as the structural forces acting as drags on economic growth (the energy sector and its impact on related industries, a stronger U.S. dollar, and an uneven global growth environment) over the past several months. Thus, while service producing industries posted very solid job gains in May, the goods producing industries did not. While the faster rate of growth in hourly earnings seen in May is certainly welcome news, we think it a bit too soon to put too much stock in this, particularly coming on the heels of a weak April print – we will need to see a much greater degree of consistency here before drawing conclusions as to what this is telling us about the degree of labor market slack. Indeed, while other analysts can, and some do, differ, what remains a significantly elevated degree of labor market slack and the gradual pace at which it is being pared down tells us we are far from seeing steady and sustained acceleration in hourly earnings growth. We suspect this view is shared by many FOMC members, and we won't have to wait long to find out, as this week's FOMC meeting is accompanied by the release of the latest round of member forecasts and Chairwoman Yellen's post-meeting press conference. September, which has long been our call on the initial hike in the Fed funds rate, certainly remains in play, but only if coming months bring a more consistent story of strengthening conditions in the labor market and the broader economy.
May Retail Sales Range: 0.4 to 1.5 percent Median: 1.2 percent	Thursday, 6/11	Apr = 0.0%	Up by 1.4 percent. While an outsized increase in total retail sales will likely bring cheer to those who of late have been fretting over the seemingly stubborn refusal of consumers to actually spend, we won't see the May retail sales report is a game changer even if our call on headline sales is on or near the mark. Unit motor vehicle sales surged to an annual rate of 17.8 million units in May, helped in part by a friendly calendar (i.e., a relatively early Memorial Day holiday) and what was likely pent-up demand from sales disruptions of the prior few months. By no means is the May sales rate sustainable, but the more immediate effect will be to give a sizeable boost to total retail sales, particularly as some sources pegged the dollar volume of motor vehicle sales in May as the highest on record. Still, looking over the past several months the retail sales numbers have been all over the map and, to our earlier point about the May report not being a game changer, even with an outsized increase in May the longer-term trend still shows but moderate growth in retail sales. So, while there will no doubt be those who take the May retail sales report as a sign consumers have snapped out of whatever funk they allegedly have been in, those will be the same people who next month are bemoaning the supposed relapse when the June retail sales number comes nowhere close to matching the May number.
May Retail Sales Ex-Auto Range: 0.3 to 1.0 percent Median: 0.8 percent	Thursday, 6/11	Apr = +0.1%	Up by 0.8 percent, which would tell us there was more to retail sales in May than motor vehicle sales. One factor boosting sales was an almost 10 percent increase in retail gasoline prices, meaning gasoline sales will add to, not detract from, growth in overall retail sales. Aside from autos and gasoline, we look for broad based increases across most categories after what was a soft April report. This, however, simply serves to reiterate our point about how uneven sales have been from one month to another and should serve as a caution against drawing any broad conclusions based on what should be a solid May number.
May Control Retail Sales Range: 0.1 to 1.1 percent Median: 0.5 percent	Thursday, 6/11	Apr = 0.0%	Up by 0.5 percent.
April Business Inventories Range: 0.1 to 0.4 percent Median: 0.1 percent	Thursday, 6/11	Mar = +0.1%	We look for both total business inventories and total business sales to be up by 0.1 percent. In contrast to Q1 we look for inventory accumulation to act as a significant drag on Q2 real GDP growth.
May PPI – Final Demand Range: 0.1 to 0.8 percent Median: 0.4 percent	Friday, 6/12	Apr = -0.4%	Up by 0.4 percent, for an over-the-year decline of 1.1 percent.
May Core PPI – Final Demand Range: 0.0 to 0.3 percent Median: 0.1 percent	Friday, 6/12	Apr = -0.2%	Up by 0.1 percent, for a year-on-year increase of 0.6 percent.

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