ECONOMIC PREVIEW

REGIONS

Week of July 27, 2015

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on July 28-29):* Target Range Midpoint: 0.125 to 0.125 percent Median Target Range Midpoint: 0.125 percent		0.125%	On the surface, this week's FOMC meeting will be as much of a nonevent as it is possible for an FOMC meeting to be. With no new economic projections and no post-meeting press conference the only output for public consumption will be the post-meeting statement, and that likely won't change much from the June version, though the assessment of current economic conditions should be modestly more upbeat. Behind the scenes, however, there could be some spirited debate as to the appropriate timing of the initial hike in the Fed funds rate, especially as the inflation backdrop is shaping up as more of a concern. Revised data on industrial production and capacity utilization show utilization to be significantly lower than had been reported. In other words, with more idle capacity in the economy than previously estimated we are that much further away from seeing meaningful inflation pressure. At the same time global commodity prices seem to have set off on a new leg downward and, again, any such move puts us that much further away from seeing meaningful inflation pressure. Even with the more relaxed threshold of being "reasonably confident" inflation will move toward their 2.0 percent target, recent developments are sure to put any such confidence to the test, which could push the initial funds rate hike further into the future.
June Durable Goods Orders Range: 0.9 to 6.0 percent Median: 3.1 percent	Monday, 7/27	May = -2.2%	Up by 4.1 percent, mainly due to a significant increase in orders for transportation goods. We look for ex-transportation orders to be up by a modest 0.2 percent.
July Consumer Confidence Index Range: 98.0 to 102.0 Median: 100.0	Tuesday, 7/28	Jun = 101.4	Down to 99.1.
Q2 Real GDP – 1st estimate Range: 2.1 to 3.3 percent Median: 2.7 percent	Thursday, 7/30	Q1 = -0.2%	Up at an annualized rate of 2.4 percent. While the phrase "often wrong, never in doubt" is an apt description of our forecasting prowess, our call on Q2 real GDP growth comes with absolutely no conviction behind it. As is the case each year, the initial estimate of Q2 GDP coincides with the release of the annual benchmark revisions to the historical GDP data. This time around, however, the BEA will also incorporate methodological changes to address what has been a good deal of residual seasonality in the data for Q1 over the past decade, which has resulted in Q1 growth being the weakest of any of the four quarters. With no clear sense of how the revised Q1 data will look, we cannot have any degree of conviction behind our call on Q2 growth. That said, based on income data we think the economy expanded at an annualized rate of around 1.5 percent in Q1 2015 and, with what should be a smaller trade deficit and faster growth in real consumer spending, it figures Q2 real GDP growth will top whatever the final Q1 number turns out to be. One additional point about the pending fix to the seasonal adjustment issues that have plagued the GDP data – any such fix will alter only the reported intra-year patterns of real GDP growth without altering the underlying trend rate of growth. So, no, the economy's performance over recent years won't look any better after the change in methodology than it did before.
Q2 GDP Price Index – 1st estimate Range: 0.4 to 2.0 percent Median: 1.5 percent	Thursday, 7/30	Q1 = 0.0%	Up at an annualized rate of 1.4 percent.
Q2 Employment Cost Index Range: 0.5 to 0.7 percent Median: 0.6 percent	Friday, 7/31	Q1 = +0.7%	Up by 0.5 percent with the wages component up 0.4 percent and the benefits component up 0.6 percent. On a year-over-year basis, we look for the total ECI to be up 2.3 percent with wages up 2.2 percent and benefits up 2.3 percent. We're on the low side of expectations here but we expect little follow through on what was a 0.7 percent increase in the wage component in the Q1 ECI data. That increase was skewed by outsized increases in earnings in sales occupations, which included commissions, and we do not look for that to have been repeated in Q2. Additionally, the 2.5 percent year-on-year gain in the wage component in Q1 was to some extent a function of how weak the wage component was in Q1 2014. Annualized growth in aggregate private sector earnings as reported in the monthly employment reports slowed considerably in Q2, which does not necessarily mean the ECI data are doomed to the same fate but we're leaning in that direction. If we are closer to the mark than the consensus, wage growth would still be accelerating, just not at the pace implied by the Q1 ECI data. Given our view of the degree of slack still in the labor market we do not expect sustained, meaningful acceleration in earnings growth until we are into 2016.

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