ECONOMIC PREVIEW

REGIONS

Week of July 6, 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%	This week's data calendar is relatively light but there will be plenty to keep our attention. First and foremost is the vote in Greece which formally is a vote on whether or not Greece should accept the latest in a long line of bailout packages but is being sold as a vote on whether or not Greece remains part of the euro bloc. It is not clear to us a "no" vote would automatically be followed by a Grexit, although if that all along has been the desired destination of the current government it would be hard to imagine them laying out a more perfect road map. One thing we are fairly sure of is, regardless of the outcome of the referendum, it will not mark the end of the long running Greek drama, one to which the rest of the world has no choice but to remain tuned into. Not because of the significance of Greece to the global economy – Greece is the economic equivalent of Paris Hilton, famous for being famous but with little, if any, actual significance. Nonetheless, the potential for adverse after effects in the global financial markets is what makes it all required viewing. Greece, that is. Wednesday will see the release of the minutes to the June FOMC meeting and one thing we will watch for is any mention of whether, and to what extent, the developments in Greece might impact the FOMC's outlook. Our sense is while there may well be heightened volatility in the financial markets in the immediate aftermath of the referendum, any impact will have faded by, say, September, and as such the FOMC's main focus will be on the outlook for the U.S. economy. That of course does not necessarily lend any clarity to the question of when the FOMC will begin the process of normalizing short-term interest rates. Yes, the economy continues to improve, but that improvement is by no stretch of the imagination coming at a steady and uniform pace across the economy. The June employment report is a prime example of the mixed messages being sent by the economic data. Total nonfarm employment rose by 223,000 jobs in June but prior estimates for April and May were revised down by a net 60,000 jobs. The unemployment rate fell to 5.3 percent but instead of indicating further tightening of labor market conditions the jobless rate was pulled down by a sizeable decline in the labor force, though one that was oddly concentrated amongst males aged 16-to-24. As if to hammer home the point the drop in the unemployment rate said little about underlying labor market conditions, average hourly earnings were flat for the month and were up – you guessed it – just 2.0 percent year-on-year. As to whether the June employment rate takes the September FOMC off the table as to the timing of the initial hike in the funds rate, of course not, as there will be a good deal more data between now and then, including two more monthly employment reports. Then again, if those two reports send a message as mixed as that sent by the June report, they won't exactly make the FOMC's job any easier. And, while we're on the theme of mixed messages on labor market conditions, the latest JOLTS (or, for the acronymically challenged, Job Openings and Labor Turnover Survey) data come out Tuesday. Each month the headline grabber from the JOLTS data is the number of job openings, which for the past few months has been hovering at record highs, but what gets less attention is the hiring rate, which remains well below the average that prevailed prior to the 2007-09 recession. Clearly, it is taking longer for firms to fill jobs, with skill shortages the most popular, though in our view not the main, explanation. We continue to argue firms are still somewhat hesitant to pull the trigger on hiring as they are not yet fully confident the economic outlook will continue to improve. And, really, if this is the case, who can blame them with the domestic data sending mixed messages and no shortage of uncertainty inducing drama on the global stage.
June ISM Non-Manufacturing Index Range: 55.0 to 57.5 percent Median: 56.0 percent	Monday, 7/6	May = 55.7%	<u>Up</u> to 56.4 percent. As the services sector has been the key driver of growth in total employment over the past few months, our attention will be on the new orders and employment components, and we look for both to have risen in June.
May Trade Balance Range: -\$44.0 to -\$38.5 billion Median: -\$42.0 billion	Tuesday, 7/7	Apr = -\$40.9 bil	<u>Widening</u> to -\$43.3 billion. We look for exports to post a further gain though smaller than that seen in April but imports will rebound from their April decline, thanks in part to higher oil prices. Still, the trade deficit for Q2 will be considerably smaller than that posted in Q1. With the May data we will have seen the last of any lingering impacts from the West Coast port strike. Going forward, the key questions will be the extent to which U.S. exports will be weighed down by a firmer U.S. dollar and a still uneven global growth environment.

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