ECONOMIC PREVIEW

REGIONS

Week of August 17, 2015

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on September 16-17):* Target Range Midpoint: 0.125 to 0.375 percent Median Target Range Midpoint: 0.375 percent		0.125%	The July inflation data will be enough to test the resolve of even the most confident of central bankers. To be sure, the PCE deflator, not the CPI, is the FOMC's preferred measure of inflation, but it isn't as though the PCE data (due later this month) will tell a different story. Even prior to China's surprise currency move inflation, no matter how one measures it, was nowhere near the FOMC's 2.0 percent target. Slower growth in China was a main factor behind the recent downturns in commodity and oil prices, and should any of China's competitors opt to devalue their own currency that would make the U.S. dollar even stronger which, in turn, will fuel disinflationary pressures. On top of what remains an elevated degree of slack in the U.S. economy, global factors leave us with more reasonable doubt than reasonable confidence that inflation will approach the FOMC's 2.0 percent target inflation rate any time soon.
July Housing Starts Range: 1.060 to 1.280 million units Median: 1.180 million units SAAR	Tuesday, 8/18	Jun = 1.174 mil	Down to an annualized rate of 1.114 million units, though this forecast comes with a high, or, since we are talking about housing starts here, a higher than usual degree of uncertainty. There has been a good deal of noise in the multi-family data over the past couple months, thanks in part to the effects of expiring tax credits in New York and thanks in part to what has become an annual ritual of curious June data for the South region. As such, our July call on multi-family is the combination of the underlying trend and a carefully crafted, finely honed estimate (a/k/a guess) of how much residual noise remains in the multi-family data. Thank goodness, then, for the staid single family segment of the housing market, which has been plodding along on a path of steady but decidedly unspectacular improvement. We look for this to have continued in July. While a big step back from June's amped-up starts rate, our July forecast for total housing starts would nonetheless be right in line with the trend in place prior to the June data. As for housing permits, again, we look for some payback in the multi-family segment after June's by no means sustainable pace with, you guessed it, more gradual improvement in the single family sector. This leaves us with total housing permits down to an annualized rate of 1.165 million units.
July Consumer Price Index Range: 0.1 to 0.2 percent Median: 0.2 percent	Wednesday, 8/19	Jun = +0.3%	Up by 0.2 percent. Higher gasoline prices will account for almost half of our expected increase in the headline CPI with rents and other housing costs doing most of the rest. Goods prices remain under pressure – we look for July to mark the 28th consecutive month in which core goods prices have fallen on a year-over-year basis, a streak is likely to persist for some time to come, particularly should other nations follow China's surprise currency devaluation with similar moves of their own. On an over-the-year basis, the headline CPI will be up 0.2 percent.
July Consumer Price Index Range: 0.1 to 0.2 percent Median: 0.2 percent	Wednesday, 8/19	Jun = +0.2%	Up by 0.1 percent, which translates into a year-on-year increase of 1.8 percent. Core inflation as measured by the CPI is both more stable and closer to the FOMC's target rate than is headline inflation, but core CPI inflation continues to be biased higher by persistent rapid growth in market rents, somewhat tainting its reliability as a signal of broader underlying inflation pressures.
July Leading Economic Index Range: 0.1 to 0.5 percent Median: 0.2 percent	Thursday, 8/20	Jun = +0.2%	Up by 0.1 percent.
July Existing Home Sales Range: 5.300 to 5.600 million units Median: 5.440 million units SAAR	Thursday, 8/20	Jun = 5.490 mil	Up to an annual sales rate of 5.580 million units. Pending home sales were down in July but up smartly year-over-year – it is the year-over-year change in pending sales, not the month-to-month change, that is the more reliable indicator of existing home sales. Our July call would leave sales up 10 percent, year-over-year and reflects further improvement in the sales mix, with a double-digit over-the-year increase in nondistress sales. One downside risk to our forecast is mortgage rates. Existing home sales are booked at closing, with sales contracts typically signed one to two months ahead of closing. Mortgage rates rose steadily during May and June, so to the extent June's jump in sales was fueled by those rushing to beat what they expected to be even higher mortgage rates in subsequent months, some of those sales likely came at July's expense. If so, our call on headline sales will be too high. Aside from the headline sales number, we watch inventories most closely and normal seasonal patterns suggest a modest increase in listings of existing homes for sale in July. Even should this turn out to be the case, inventories will remain lean and will, at least in several markets across the U.S., remain a drag on sales.

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