ECONOMIC PREVIEW

REGIONS

Week of August 24, 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%	Inventories are the theme of the week. And, now that we've lost all but two of our readers (that's assuming Mrs. Chief Economist is still reading) with that rousing opener, we'll explain. Inventory accumulation in the nonfarm business sector was far more robust than the estimate BEA, in the absence of complete source data, incorporated into their initial pass at Q2 GDP. This larger inventory build will be the prime source of what we expect to be a sizeable upward revision to Q2 real GDP growth (see below). But, if we are correct on our estimate of Q2's inventory build, it will mean Q1 and Q2 will be the largest back-to-back increases in inventories on record in the GDP data, which sets up a sharp deceleration in real GDP growth in Q3. Additionally, with manufacturing inventories having risen sharply in recent months, our premise is this can't but help translate into downward pressure on new orders for manufactured goods, hence our below-consensus call on ex-transportation orders (see below). Inventories also factor into our call on July new home sales, though in this case the issue is inventories being too low rather than too high. So, while perhaps not the most scintillating of topics, ebbs and flows in inventory cycles can nonetheless have significant effects throughout the economy, and we expect this week's data to illustrate this point.
August Consumer Confidence Range: 89.7 to 95.0 Median: 93.0	Tuesday, 8/25	Jul = 90.9	Up to 94.1, reflecting a partial reversal of July's steep decline.
July New Home Sales Range: 490,000 to 540,000 units Median: 510,000 units SAAR	Tuesday, 8/25	Jun = 482,000	Up to an annual sales rate of 528,000 units. In an always tricky series to predict July is an extra tricky month, as the raw (i.e., not) seasonally adjusted historical data show July to be the start of a seasonal slowdown in sales. Put another way, the seasonal adjustment factors become far more generous beginning with July, such that if raw sales are stronger than is typically the case, the adjusted headline sales number can easily surprise to the upside. With improving underlying demand, this could well be the case this year. Of course, as we repeatedly stress, our focus is more on the longer-term trend in the raw data, which shows sales improving at a far steadier pace than implied by the seasonally adjusted, annualized headline sales numbers. One factor holding down growth in new home sales is inventory, or, the lack thereof, as inventories remain exceptionally lean and this is something that will change only gradually. We put very little faith in the spike in single family housing starts reported in the July data, indeed, the underlying trend shown by the raw starts data looks very much the same as that shown by the raw sales data, and we expect this to continue to be the case.
July Durable Goods Orders Range: -1.9 to 1.0 percent Median: -0.5 percent	Wednesday, 8/26	Jun = +3.4%	Up by 0.3 percent on a jump in motor vehicle orders, but that will be one of the few bright spots here. Orders for nondefense aircraft will be down, the recent slide in oil prices means orders for energy related equipment and machinery will fall further and, as noted above, rising inventories could weigh on orders in many categories. We look for ex-transportation orders to be down 0.4 percent.
Q2 Real GDP – 2nd estimate Range: 2.4 to 3.6 percent Median: 3.3 percent SAAR	Thursday, 8/27	Q2 1st est = +2.3%	Up at an annualized rate of 3.4 percent, well above the initial estimate. The main factor behind the upward revision will be inventories, as noted above, but there will also be upward revisions to business investment in structures and consumer spending. Enjoy it now, though, since Q3's headline growth number will pale in comparison to the upgraded Q2 print as inventories will take away from growth.
July Personal Income Range: 0.3 to 0.6 percent Median: 0.4 percent	Friday, 8/28	Jun = +0.4%	Up by 0.5 percent, continuing an impressive run of solid monthly income growth numbers. Based on the details of the July employment report, private sector wage and salary earnings should post a sizeable gain, with income from interest and rents also contributing. Nominal personal income growth is running over 4 percent, year-over-year and with inflation running at a much slower pace, indeed, closer to zero, real personal income growth is notably healthy.
July Personal Spending Range: 0.3 to 0.6 percent Median: 0.4 percent	Friday, 8/28	Jun = +0.2%	Up by 0.4 percent. We look for spending on goods (roughly one-third of all consumer spending) to be solidly higher but see spending on services (roughly two-thirds of all consumer spending) being a bit soft, particularly as utilities outlays figure to be somewhat light. One possible downside risk to the nominal spending number is price effects, as prices for goods almost across the board are falling on a year-over-year basis and putting up only token gains on a month-to-month basis. We believe this to be understating reported growth in nominal spending on goods, be it in the monthly retail sales data or the monthly PCE data.

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