ECONOMIC PREVIEW

REGIONS

Week of August 10, 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%	It was almost a given the July employment report wouldn't be able to live up to the hype – "crucial," "the most important jobs report in years," "the fate of the entire free world is resting on its shoulders," and the like. Okay, we made that last one up, though we won't rule out someone somewhere having characterized it as such, but the point is we just didn't understand the build-up and the perceived significance to the FOMC. Short of having screamed "DON'T DO IT" the July employment report was unlikely to have had any bearing on an FOMC seemingly intent on raising the Fed funds rate despite inflation being, and likely to remain, in hiding. None of this week's data will scream "DO IT NOW – WELL, OKAY, NOT LITERALLY 'NOW' BUT AT THE SEPTEMBER MEETING" but, then again, that isn't the threshold. Aside from the fact that data can't actually scream, or if it could we probably wouldn't understand what it was screaming, the economy remains on a course of steady, even if somewhat slow, improvement that justifies a very, very gradual course of funds rate hikes.
Q2 Nonfarm Labor Productivity Range: 0.5 to 2.5 percent Median: 1.5 percent SAAR	Tuesday, 8/11	Q1 = -3.1%	Up at an annualized rate of 1.2 percent. With the revisions to the GDP data Q1's dismal productivity figure will be revised to show a smaller decline, or, if you prefer, to show a less dismal figure. Even accounting for that along with our expected Q2 increase, the trend rate of productivity growth nonetheless remains below 1.0 percent. This has many implications, none of them good, for wage growth, overall economic growth, and monetary policy. While we do believe measurement issues are holding down reported productivity growth, we do not see this as being as big of an issue as do some other analysts. Instead, we point to an aged capital stock and underinvestment on the part of firms as the prime culprits behind persistently weak productivity growth.
Q2 Unit Labor Costs Range: -0.7 to 2.1 percent Median: 0.3 percent SAAR	Tuesday, 8/11	Q1 = +6.7%	Up at an annualized rate of 1.9 percent. If we are correct and revised data show a smaller decline in Q1 productivity, the flip side of that will be smaller growth in Q1 unit labor costs, and we look for Q2's increase to be more in line with the underlying trend showing only grudging growth in labor earnings.
July Retail Sales Range: 0.2 to 0.8 percent Median: 0.6 percent	Thursday, 8/13	Jun = -0.3%	Up by 0.5 percent. Motor vehicle sales will be a prime support for July retail sales, with unit sales having come in at 17.5 million units. We also expect a notable increase in sales by nonstore retailers, reflecting what, at least for Amazon.com, was a really, really prime sales day. What is unclear, however, is the extent to which Amazon's big day increased overall spending or simply led consumers to divert spending away from other retailers on other days. We think it will be more the latter than the former and, as such, do not have big expectations for control retail sales, which we expect to be up 0.2 percent. This means consumer spending will have gotten off to a soft start in Q3.
July Retail Sales – Ex-Auto Range: 0.2 to 0.7 percent Median: 0.4 percent	Thursday, 8/13	Jun = -0.1%	Up by 0.3 percent.
June Business Inventories Range: 0.2 to 0.5 percent Median: 0.3 percent	Thursday, 8/13	May = +0.3%	We look for total business inventories to be up by 0.5 percent, with total business sales up by 0.3 percent.
July PPI – Final Demand Range: -0.2 to 0.2 percent Median: 0.1 percent	Friday, 8/14	Jun = +0.4%	Down by 0.2 percent, for a year-over-year decline of 1.1 percent.
July Core PPI – Final Demand Range: 0.0 to 0.2 percent Median: 0.1 percent	Friday, 8/14	Jun = +0.3%	Up by 0.1 percent, which translates into a year-on-year increase of 0.5 percent.
July Industrial Production Range: 0.2 to 0.7 percent Median: 0.3 percent	Friday, 8/14	Jun = +0.2%	Up by 0.3 percent. Led by motor vehicle production, manufacturing output should post a good-sized increase but one with little breadth behind it. With crude oil prices having taken a tumble in July we look for a decline in mining output, which will act as a drag on growth in total industrial production.
July Capacity Utilization Rate Range: 77.8 to 78.8 percent Median: 78.0 percent	Friday, 8/14	Jun = 77.8%	Up to 78.0 percent. Benchmark revisions to the industrial production data showed capacity utilization to be even lower than had been thought to be the case which, to at least some degree, suggests the economy is in turn further away from the point inflation pressures would begin to build. It will take sustained increases well beyond what we expect for July to change this.

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

This Economic Preview may include opinions, forecasts, projections, estimates, assumptions and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Preview. The Contents of this Economic Preview reflect judgments made at this time and are subject to change without notice, <u>and the information and opinions herein are for general information use only</u>. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Preview or with respect to any results arising therefrom. The Contents of this Economic Preview shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial or other plan or decision.