ECONOMIC PREVIEW

REGIONS

Week of October 12, 2015

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on October 27-28):* Target Range Midpoint: 0.125 to 0.125 percent Median Target Range Midpoint: 0.125 percent		0.125%	This week's slate of data looks so unappealing that one may be excused for wishing the government had shut down so that these reports would have never seen the light of day. Oh well, at least there is the Columbus Day holiday, which will buy us an extra day to get in the proper frame of mind to deal with the data. This will come in handy because, in the spirit of Columbus, one will have to look far and wide to discover anything good in this week's data. Along these lines, we will offer up one point to keep in mind before dismissing the retail sales report out of hand. As we have been noting for the past few months now, prices for many goods are falling, not only on an over-the-year basis as has been the case for some time now, but of late on a month-to-month basis. This means the nominal spending data, such as the retail sales report (which does not include spending on services), have been understating the strength of consumer spending. Even so, we look for total (goods and services) consumer spending to have grown at around a 4.0 percent annualized rate on a real, i.e., inflation adjusted, basis in Q3. So, while at first glance it may look like little is expected from September retail sales, looking a little deeper tells a better story. As for the rest of this week's data, well, just because the government is up and running and releases the reports nothing says you have to actually look at them, even if we do.
September Retail Sales Range: -0.1 to 0.6 percent Median: 0.2 percent	Wednesday, 10/14	Aug = +0.2%	Up by 0.2 percent. First and foremost, gasoline will be a large drag on total retail sales, as retail pump prices fell by just under 10 percent in September (leaving them down 29.4 percent year-on-year per EIA data). And, while at first glance September's annualized sales rate of 18.1 million units would seem to suggest motor vehicles would be a powerful tail wind for total retail sales, recall July's sales rate was a not too shoddy 17.8 million units, so we don't look for too large of a month-to-month gain in revenue at motor vehicle dealers. We look for the typical seasonal (i.e., post back to school, pre-holiday) slowdown in sales at apparel stores and general merchandise stores to weigh on total sales. Bright spots should be electronics stores and restaurants and we also look for a larger gain in sales by nonstore retailers than seen in August. And, as noted above, price effects are weighing on growth in nominal sales but in real, i.e., inflation adjusted, terms, September's spending numbers will look much better.
September Retail Sales – Ex-Auto Range: -0.3 to 0.4 percent Median: -0.1 percent	Wednesday, 10/14	Aug = +0.1%	Unchanged. We look for control retail sales to be up by 0.3 percent, which would mean a robust 6.1 percent annualized gain in Q3 on a nominal basis and a solid gain on a real basis. This is one reason behind our forecast for overall consumer spending in Q3 (recall control retail sales are a direct input into the GDP data).
September Producer Price Index Range: -0.4 to 0.2 percent Median: -0.2 percent	Wednesday, 10/14	Aug = 0.0%	Down by 0.3 percent, which yields a 0.8 percent decline on a year-over-year basis.
September PPI – Core Range: -0.2 to 0.2 percent Median: 0.1 percent	Wednesday, 10/14	Aug = +0.3%	Up by 0.1 percent, leaving the core PPI up 1.2 percent year-on-year.
August Business Inventories Range: -0.2 to 0.3 percent Median: 0.1 percent	Wednesday, 10/14	Jul = +0.1%	We look for total inventories to be down by 0.1 percent – inventories were clearly a drag on Q3 real GDP growth, it's just a matter of to what degree. Total business sales will be down 0.5 percent.
September Consumer Price Index Range: -0.3 to 0.1 percent Median: -0.2 percent	Thursday, 10/15	Aug = -0.1%	Down by 0.3 percent, which translates into a 0.1 percent decline on a year-over-year basis. The steep decline in gasoline prices will weigh on the headline index but, aside from rents, there is little evidence of inflation pressure.
September CPI – Core Range: 0.1 to 0.2 percent Median: 0.1 percent	Thursday, 10/15	Aug = +0.1%	Up by 0.1 percent, with an over-the-year increase of 1.8 percent. As we often note, rents account for roughly 42 percent of the core CPI, which is resulting in core CPI inflation being significantly overstated.
September Industrial Production Range: -0.6 to 0.2 percent Median: -0.2 percent	Friday, 10/16	Aug = -0.4%	Down by 0.6 percent. We look for a weak print on manufacturing output and a further decline in mining output. Manufacturing (excluding motor vehicles) is clearly feeling the impact of weak global growth. Our call would leave total IP down year-on-year for the first time since December 2009.
September Capacity Utilization Rate Range: 77.21 to 77.8 percent Median: 77.3 percent	Friday, 10/16	Aug = 77.6%	Down to 77.2 percent. Low capacity utilization rates could ultimately act as a drag on business investment spending and reflect the fact that firms, at least goods producing firms, have very little pricing power.

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