ECONOMIC PREVIEW

REGIONS

Week of August 11, 2014

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on September 16-17)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	The behavior of long-term interest rates has confounded forecasts – including ours – of steadily increasing long-term rates over the course of 2014. That forecast was pretty much put into a deep freeze as the harsh winter contributed to a Q1 to forget. Still, by time we got the BEA's first estimate of Q2 GDP it had been clear in the high frequency data for some time that Q1 was the outlier, not the start of a new downturn. As such, it was reasonable to expect longer-term interest rates to belatedly head higher, which has not happened yet. Aside from any technical factors helping hold down rates, the combination of mounting tensions in what seems to be a growing list of global hot spots and renewed concerns over growth in the Euro Zone and other parts of the world is helping sustain a flight to quality trade (or, as we refer to it, a flight to relative quality). This is resulting in rising demand for U.S. Treasury securities thus pushing down yields despite the improving tone of the economic data here at home. While it is possible the world may wake up tomorrow, join hands, and commence singing *Kumbaya*, we kind of doubt it, so there is no telling how long global tensions will persist. And, coming in the fall, the release of the results of the ECB's stress tests of European banks could further unsettle the markets. So, despite what figures to be further improvement in the domestic economy, elevated global risk aversion could hold down long-term U.S. interest rates for some time to come.
July Retail Sales Range: -0.1 to 0.4 percent Median: 0.3 percent	Wednesday, 8/13	Jun = +0.2%	Up by 0.2 percent. The July retail sales report will not be all that inspiring, but neither will it be a sign of the impending collapse of the U.S. consumer, though if our headline call is correct, there will no doubt be those who interpret it as such. We look for categories such as apparel and general merchandise to take a breather between the sizeable gains posted in June and the back-to-school bounce that will come in August (unless of course that whole impending collapse of the U.S. consumer thing turns out to be true), while lower gasoline prices will hold down sales volume at gasoline stations and thus act as a drag on headline retail sales. Though a big miss, in either direction, on our call for control retail sales (see below) would certainly grab our attention, we do not see the July retail sales report as being very informative as to the underlying trends in consumer spending. The August data, however, will have more meaning for us.
July Retail Sales – Ex-Auto Range: 0.1 to 0.5 percent Median: 0.4 percent	Wednesday, 8/13	Jun = +0.4%	Up by 0.2 percent. Realizing we are at odds with other analysts who see motor vehicle sales as a drag on overall retail sales in July, we see them as more of a wash. True, unit sales did drop from June's heady pace, but lower fleet sales were at least partly to blame for the decline in unit sales, while less aggressive discounting and a more favorable mix of sales (a greater share of higher priced light trucks and a smaller share of lower priced automobiles relative to June's sales mix) will have supported total sales revenue for motor vehicle dealers. More significantly, we look for control retail sales (a direct input into the GDP measure of total consumer spending) to be up just 0.1 percent but, again, we will not be too distressed should this come to pass as we see it more of a pause before what we expect to be stronger sales in August.
June Business Inventories Range: 0.1 to 0.6 percent Median: 0.4 percent	Wednesday, 8/13	May = +0.5%	We look for total business inventories to be up by 0.2 percent, with modest gains across the board in the manufacturing, wholesale, and retail sectors. We look for total business sales to have risen 0.3 percent.
July PPI – Final Demand Range: 0.0 to 0.4 percent Median: 0.1 percent	Friday, 8/15	Jun = +0.4%	Up by 0.1 percent, which translates into an over-the-year increase of 1.7 percent.
July Core PPI – Final Demand Range: 0.0 to 0.2 percent Median: 0.2 percent	Friday, 8/15	Jun = +0.2%	Up by 0.2 percent, yielding a 1.6 percent year-over-year increase.
July Industrial Production Range: -0.2 to 0.5 percent Median: 0.2 percent	Friday, 8/15	Jun = +0.2%	Up by 0.4 percent. This would leave total industrial production up over five percent year-over-year, the largest such gains since early 2011 when comparisons were based on output levels still depressed by the 2007-09 recession.
July Capacity Utilization Rate Range: 78.7 to 79.6 percent Median: 79.2 percent	Friday, 8/15	Jun = 79.1%	Up to 79.3 percent.

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