ECONOMIC PREVIEW

REGIONS

Week of June 27, 2016

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on July 26-27):* Target Range Midpoint: 0.375 to 0.375 percent Median Target Range Midpoint: 0.375 percent		0.375%	It will literally take years for the full economic, financial, and political impacts of the Brexit vote to play out. And, don't assume Brexit marks the end of exit, given the political dynamics playing out across much of Europe in the face of prolonged economic malaise. Here in the states, to the extent heightened global uncertainty fuels a flight to safety, a stronger U.S. dollar will have negative impacts on U.S. exports and corporate profits while at the same time acting to hold down inflation. Additionally, should business confidence take a further hit, in an environment in which capital spending is already wobbling, there are greater downside risks to cap ex and hiring which of course would threaten the broader economy. As such, the FOMC is even more firmly on hold than they already may have been. Again, it is far too soon to draw meaningful and firm conclusions as to what it all means, but even before Brexit we had argued the risks to our outlook were tilted to the downside. Those downside risks will be intensified by what we expect to be considerable economic and financial volatility in the months ahead.
May Advance Goods Trade Balance Range: -$60.5 to -$55.6 billion Median: -$59.5 billion	Monday, 6/27	Apr = -$57.5 billion	<u>Widening</u> to -$59.2 billion. We look for both exports and imports to have risen, but a larger increase in imports will lead to a wider deficit in the balance on trade in goods.
Q1 Real GDP – 3^{rd} estimate Range: 0.8 to 1.2 percent Median: 1.1 percent SAAR	Tuesday, 6/28	2^{nd} est = +0.8%	<u>Up</u> at an annualized rate of 1.1 percent. The first estimate was 0.5 percent, the second estimate was 0.8 percent, and we expect the BEA's third estimate to be higher still. So, unleashing our considerable powers of deductive reasoning, it must follow that if the BEA keeps revising it, Q1 will keep looking better and better. It must, right? Okay, fine, "better" is a relative term and no matter how much better it looks, Q1 will never actually look good. Either way, we look for small upward revisions to consumer spending, commercial construction, and inventories to add up to a top-line Q1 growth number slightly above 1.0 percent.
Q1 GDP Price Index – 3^{rd} estimate Range: 0.6 to 0.6 percent Median: 0.6 percent SAAR	Tuesday, 6/28	2^{nd} est = +0.6%	<u>Up</u> at an annualized rate of 0.6 percent, matching the second estimate.
June Consumer Confidence Range: 91.5 to 95.3 Median: 93.0	Tuesday, 6/28	May = 92.6	<u>Up</u> to 93.2. Higher frequency surveys show sentiment shifted as June wore on, but the cut-off in the Conference Board's survey is typically mid-month so it's hard to know what will be captured here. Either way, we don't look for much change in the headline number and, as always, we will be far more interested in the details on consumers' perceptions of labor market conditions. April saw those perceptions less dour than any point since January 2008, but they slipped a bit in May, suggesting there was more than just noise behind that weak May employment report. As such, June's reading will be of considerable interest.
May Personal Income Range: 0.1 to 0.4 percent Median: 0.3 percent	Wednesday, 6/29	Apr = +0.4%	<u>Up</u> by 0.3 percent. We look for growth in private sector labor earnings to be a bit better than the details of the May employment report indicated. If not, our call will be too high as, other than rental income, we do not see much support for personal income growth in May. Our call on the headline would leave total personal income up 4.1 percent, year-on-year, with private sector wage & salary earnings up 5.1 percent, both easily ahead of inflation.
May Personal Spending Range: 0.2 to 0.4 percent Median: 0.3 percent	Wednesday, 6/29	Apr = +1.0%	<u>Up</u> by 0.3 percent. We look for spending on consumer durables to be a modest drag, while lower utilities outlays will hold down growth in spending on household services. Still, the solid gain in control retail sales in May points to a nice bump in spending on nondurable consumer goods. Even with the smaller gain we expect for May, Q2's growth in real consumer spending will still be nearly twice that seen in Q1, underpinning what we expect to be real GDP growth of around 2.7 percent for Q2.
June ISM Manufacturing Index Range: 50.0 to 52.0 percent Median: 51.2 percent	Friday, 7/1	May = 51.3%	<u>Down</u> to 50.8 percent. While conditions in the manufacturing sector have stabilized in recent months, we view any such stability as tentative and continue to see the risks to manufacturing as weighted to the downside.
May Construction Spending Range: -0.2 to 1.0 percent Median: 0.6 percent	Friday, 7/1	Apr = -1.8%	<u>Up</u> by 0.8 percent. April saw a sizeable decline in total construction outlays, but that came off of a sharp upward revision to the March figure, so our call would leave the level of construction in May somewhere between the prior two months. Going forward we look for multi-family outlays to drift lower as single family construction and residential improvements carry total residential outlays higher, while both commercial and public outlays meander about, lacking clear direction.

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