ECONOMIC PREVIEW

REGIONS

Week of August 15, 2016

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on September 20-21):* Target Range Midpoint: 0.375 to 0.375 percent Median Target Range Midpoint: 0.375 percent		0.375%	The minutes to the July FOMC meeting, set for release on Wednesday 8/17 (2:00 EST), could prove to be the most interesting item on this week's calendar. Think back to the mid-May release of the minutes to the April FOMC meeting. Those minutes showed the discussion in the meeting took a much more hawkish tone than did the vanilla post-meeting policy statement, to the point that expectations for a June or July funds rate hike were ramped up considerably. Sure, then that whole Brexit thing happened, but the point is we suspect the internal discussion in July was far livelier than implied by the vanilla post-meeting policy statement.
July Consumer Price Index Range: -0.1 to 0.2 percent Median: 0.0 percent	Tuesday, 8/16	Jun = +0.2%	Unchanged, which would leave the total CPI up just 0.9 percent year-on-year. Food and gasoline will be significant drags on the headline CPI, countering what we expect to be trend-like increases in rents and medical care costs. Retail gasoline prices fell better than 4.0 percent in July – while pump prices typically decline in the month of July, this year's decline is far larger than normal and, as such, will totally swamp the seasonal adjustment factor. Food prices have been under downward pressure for some time now and we look for another decline in prices for food consumed at home. Swings in food prices are impacting retail sales – much of the weakness in reported grocery store sales reflects lower prices, while these lower grocery store prices, particularly for prepared foods, are also pulling some sales from fast food restaurants. On the flip side, rent growth remains robust, though we suspect this reflects continued strong pricing for single family rental units as opposed to rental apartments, on which rent growth has been flagging. At the same time, healthy rates of house price appreciation are likely biasing owners' equivalent rents higher as well. Aside from medical costs, however, there remains scant evidence of mounting inflation pressure in the U.S. economy. One factor behind this is that core goods prices remain weak, having fallen month-to-month in 12 out of the past 14 months and having fallen year-over-year in 38 of the past 39 months. While non-energy import prices seem to be firming, this is tenuous at best and another bout of U.S. dollar appreciation would put renewed downward pressure on core goods prices.
July Core CPI Range: 0.1 to 0.2 percent Median: 0.2 percent	Tuesday, 8/16	Jun = +0.2%	Up by 0.2 percent, which translates into a year-on-year increase of 2.3 percent. If this seems at odds with the above discussion of the lack of broad based inflation pressure, keep in mind rents account for better than 40 percent of the core CPI. Ex-shelter core inflation is running at a more sedate pace of 1.4 percent.
July Housing Starts Range: 1.150 to 1.208 million units Median: 1.180 million units SAAR	Tuesday, 8/16	Jun = 1.189 million	Down to an annual rate of 1.172 million units. We look for a modest increase in single family starts while multi-family starts to tail off significantly from June's pace. We expect the not seasonally adjusted data to show total starts of 109,000 units, which would leave the running 12-month total at 1.151 million units, of which 756,000 would be single family units. These are levels last seen back in 2007. Going forward, growth in total starts will come at a slower pace, reflecting a shifting mix of rising single family starts and falling multi-family starts.
July Housing Permits Range: 1.140 to 1.180 million units Median: 1.160 million units SAAR	Tuesday, 8/16	Jun = 1.153 million	Down slightly to an annual rate of 1.151 million units. On a not seasonally adjusted basis, we look for 111,000 total permits, which would put the running 12-month total at 1.174 million units. As with starts, we expect a shifting mix away from multi-family towards single family permits to weigh on growth in total permit volume. Think about it this way, activity in the multi-family segment, permits and starts, tends to rise and fall at a faster pace than does activity in the single family segment, particularly given how modestly single family activity is growing in the current cycle. As such, if we're right about the shift in building activity, total starts and permits will grow at a slow pace at best in the near term.
July Industrial Production Range: 0.0 to 0.7 percent Median: 0.3 percent	Tuesday, 8/16	Jun = +0.6%	Up by 0.6 percent, underpinned by a 0.3 percent increase in manufacturing output. On a year-over-year basis, our call would leave total IP down by 1.4 percent, but this mainly reflects a double-digit decline in mining output.
July Capacity Utilization Rate Range: 75.3 to 75.8 percent Median: 75.6 percent	Tuesday, 8/16	Jun = 75.4%	Up to 75.8 percent.
July Leading Economic Index Range: 0.1 to 0.4 percent Median: 0.3 percent	Thursday, 8/18	Jun = +0.3%	Up by 0.4 percent.

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