ECONOMIC PREVIEW

REGIONS

Week of August 22, 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 0.625 percent Median Target Range Midpoint: 0.375 percent		0.375%	Fed Chair Yellen takes center stage Friday with her speech at the Jackson Hole gathering. One thing to watch for is how far she goes in setting up the September FOMC meeting as a "live" meeting in terms of the timing of the next Fed funds rate hike, and how much credence market participants give to any such efforts. Our view is the FOMC has cost itself considerable credibility with market participants with what has been a consistent pattern of FOMC members laying out the case for rate hikes but there always (well, with one obvious exception) being reasons to not raise the funds rate. To the extent this is the case, market participants will maintain their Missouri-like stance, i.e., "show me," towards the FOMC. More importantly, at least in our view, is whether/to what extent Dr. Yellen will follow up on a theme taken up of late by a few FOMC members – that while further hikes in the funds rate may be appropriate in the near term, the "neutral" funds rate will be much lower in this cycle than has been the case in the past. If this seems contradictory, it is not. Instead, it is consistent with the premise that the economy's non-inflationary "speed limit" is much lower now than has been true in the past, which is an argument we have been making for quite some time based on persistently anemic growth in labor productivity. If true, this lower speed limit has implications for monetary policy that include the FOMC having to raise the funds rate sooner than would otherwise be the case and a lower "terminal" value of the funds rate.
July New Home Sales Range: 555,000 to 604,000 units Median: 580,000 units SAAR	Tuesday, 8/23	Jun = 592,000	Down to an annual sales rate of 562,000 units, which is more a reflection of our view the pace of sales seen over the prior three months, particularly June's sales pace, is not sustainable. We look for not seasonally adjusted sales to slip to 50,000 units from 54,000 in June, but raw sales typically decline in July (they have done so in 13 of the past 15 years) so, again, this isn't cause for concern. Our forecast for not seasonally adjusted sales would leave the running 12-month total at 537,000 units, the highest such total since September 2008. As we have for some time now, we will watch sales of units on which construction has not yet started for any hints that inventory constraints are starting to ease meaningfully – which we doubt is the case. Also, the mix of sales by price has been of interest to us for some time, as it has been atypically skewed to the higher price ranges and we question how much longer that can remain the case.
July Existing Home Sales Range: 5.400 to 5.651 million units Median: 5.525 million units SAAR	Wednesday, 8/23	Jun = 5.570 million	Down to an annual sales rate of 5.460 million units. As with new home sales, our forecast for July is not a "bad" number, it simply has the misfortune to follow an unsustainably strong June number. Also as with new home sales, unadjusted existing home sales typically decline in July and we look for the same thing here, with not seasonally adjusted sales of 548,000 units. This would leave the running 12-month total at 5.369 million, down slightly from June's total but nonetheless still in a range last seen in 2007. In yet another commonality with new home sales, inventories of existing homes for sale remain notably lean, which is clearly acting as a drag on sales. Even if we get the small increase in typically seen in the month of July, inventories will be down year-over-year for a 15th straight month.
July Durable Goods Orders Range: 1.0 to 5.0 percent Median: 3.3 percent	Thursday, 8/25	Jun = -3.9%	Up by 4.6 percent, soaring higher on the wings of non-defense aircraft, for which orders rose significantly in July. No, oddly enough, we're not even remotely embarrassed by the prior sentence, even though we probably should be. In any event, non-transportation orders will be more down to earth, rising by 0.2 percent. As always, the most significant number to watch for will be core capital goods orders which despite having logged a modest gain in June continue to hover at levels last seen in 2011. This is a reflection of what has been, and we think will remain, persistently weak business investment spending.
July Advance Trade Balance: Goods Range: -\$65.1 to -\$61.0 billion Median: -\$63.0 billion	Friday, 8/26	Jun = -\$63.3 billion	Widening to -\$65.1 billion, as imports simply have more momentum at present than do exports.
Q2 Real GDP – 2nd estimate Range: 0.9 to 1.3 percent Median: 1.1 percent SAAR	Friday, 8/26	1st est = +1.2%	Up at an annual rate of 1.1 percent, slightly below the initial estimate. Many of the underlying details will be revised with the net effect being little change in the top-line estimate of real GDP growth.
Q2 GDP Price Index – 2nd estimate Range: 2.2 to 2.2 percent Median: 2.2 percent SAAR	Friday, 8/26	1st est = +2.2%	Up at an annual rate of 2.2 percent, matching the initial estimate.

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