ECONOMIC PREVIEW

REGIONS

Week of July 25, 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%	With no chance of a hike in the Fed funds rate target range at this week's meeting, the focus will be on the FOMC's post-meeting policy statement. The Committee will likely continue to stress the downside risks, mainly global in nature, to their outlook. At the same time, however, with two monthly employment reports at their disposal between now and then, they will want to keep open the possibility of action on the funds rate at their September meeting. One thing complicating the FOMC's task is that even as they hold the line on the funds rate, the U.S. dollar could be prone to further appreciation on factors out of the FOMC's control. We see it as a toss-up as to whether the B of J will make another easing move this week (decision comes Friday) as they yet again revise down their inflation forecast. Friday will also see the release of the ECB's stress tests of European banks. In addition to already widespread concerns over the health of the Italian banking system, it's anyone's guess as to what else the stress tests may uncover. As such, we could see renewed turmoil in the financial markets sustain demand for dollar denominated assets. More generally, downside global risks will likely persist for some time and weigh on the FOMC.
July Consumer Confidence Range: 91.5 to 97.7 Median: 96.0	Tuesday, 7/26	Jun = 98.0	Down to 96.1. June brought sizeable increases in both components of the overall index – current conditions and expectations, and we look for some of these gains to have been given back in July, which is common in this series.
June New Home Sales Range: 510,000 to 570,00 units Median: 557,000 units SAAR	Tuesday, 7/26	May = 551,000	Up slightly to an annualized sales rate of 557,000 units. In what has become a common theme in the discussion of home sales, new and existing, we suspect supply constraints will continue to weigh on sales. But, as we have often pointed out, one release valve for new homes is units can be sold prior to construction being started. Sales of such units have been accounting for an atypically high share of total new home sales for the past several months, and we expect that to again have been the case in June. The other main trend we've been pointing to is the elevated share of new home sales accounted for by homes priced at or above $300,000 – we do expect to see this trend begin to reverse over coming months as builders pay more attention to the lower price points, particularly first-time buyers. We look for not seasonally adjusted sales of 52,000 units, which would mark the strongest June since 2007. This would leave the running 12-month sum of new home sales at 525,000 units, the highest since September 2008.
June Durable Goods Orders Range: -4.0 to 1.2 percent Median: -1.0 percent	Wednesday, 7/27	May = -2.3%	Down by 2.1 percent. We expect a decline in nondefense aircraft orders to drag the headline number down, with the rest of the report a mixed bag. We look for ex-transportation orders to be up by 0.2 percent, and as always the most important number to watch will be core capital goods orders which have been disturbingly soft for some time now, to the point that as of May the dollar volume of core capital goods orders was lower than at any time since April 2011. Though over the past few months the ISM and Markit surveys have shown some improvement in the manufacturing sector, we the prefer to follow the money, i.e., core capital goods orders, as a more telling sign of the health of the factory sector.
June Advance Trade Balance: Goods Range: -$62.1 to -$60.0 billion Median: -$61.0 billion	Thursday, 7/28	May = -$60.6 billion	Widening to -$60.2 billion.
Q2 Real GDP – 1st estimate Range: 2.1 to 2.9 percent Median: 2.6 percent SAAR	Friday, 7/29	Q1 = +1.1%	Up at an annualized rate of 2.7 percent. We look for real consumer spending to have grown at a better than 4.0 percent annualized rate in Q2, acting as the main support for top-line GDP growth. We also look for business investment spending to stand out, though for quite the opposite reason, as we expect another soft quarter for this category. Note that with this report the BEA will also release the results of its annual benchmark revision process to recent historical data. Though this year's revisions are expected to be minor, this nonetheless injects added uncertainty into any forecast for Q2 growth made ahead of the revised data.
Q2 GDP – 1st estimate Range: 1.0 to 2.1 percent Median: 1.9 percent SAAR	Friday, 7/29	Q1 = +0.4%	Up at an annualized rate of 2.0 percent.
Q2 Employment Cost Index Range: 0.4 to 0.7 percent Median: 0.6 percent	Friday, 7/29	Q1 = +0.6%	We look for the total ECI to be up by 0.6 percent with wages up 0.6 percent and benefits up 0.5 percent. On an over-the-year basis we look for the total ECI to be up 2.4 percent, with wages up 2.4 percent and benefits up 2.2 percent.

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