ECONOMIC PREVIEW

REGIONS

Week of May 23, 2016

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on June 14-15):* Target Range Midpoint: 0.375 to 0.625 percent Median Target Range Midpoint: 0.375 percent		0.375%	The *Cliffs Notes* version of the minutes to the April FOMC meeting is that conditions are supportive of a hike in the Fed funds rate at either the June or July FOMC meetings, unless of course they're not. Yes, the minutes had a more hawkish tone than had been anticipated, and, yes, many FOMC members have used public appearances to reinforce the notion that the June FOMC meeting is indeed "live." While all this talk seems to have rattled the markets a bit last week, there is still very much a "we'll believe it when we see it" attitude on the part of many market participants – at present the bond market is pricing in only about a 28 percent chance of a hike in June. This is to a large degree understandable as the FOMC has basically been prepping the markets for a higher Fed funds rate since the start of last year only to deliver a single 25-basis point hike in the funds rate target range in all this time. As Roseanne Roseannadana would say, it just goes to show you, it's always something – if it's not the twists and turns in the economic data, it's some global event that gives the FOMC cause to pause. Our sense is that this time they really mean it but, at the same time, the reality is that while the evolution of the U.S. economic data gives the FOMC the green light, structural headwinds at home and a still shaky global backdrop put clear limits on how far and how fast the FOMC can go.
April New Home Sales Range: 515,000 to 533,000 units Median: 520,000 units SAAR	Tuesday, 5/24	Mar = 511,000	<u>Up</u> to an annual sales rate of 533,000 units. Our forecast is for 50,000 sales on an unadjusted (i.e., not seasonally adjusted or annualized) basis, which would mark the strongest month for new home sales since October 2007. As such, our call may be a bit on the ambitious side, particularly given our stated concern that lack of inventory is acting as a brake on sales in both the new and existing home markets. One mitigating factor with new homes, however, is that sales can be booked before construction is actually started. Indeed, as we have been noting over the past several months, units on which construction has not yet started have been accounting for an atypically high share of total new home sales. Another trend we've been highlighting is the outsized share – hovering around 50 percent for the past several months – of sales accounted for by homes on the high end of the price spectrum. We've noted this is unlikely to persist, particularly since signs point to an acute supply-demand imbalance on the lower end of the price spectrum, which could lead builders to trade higher margins for higher volume. A shift in either one of these trends could easily result in our April sales forecast being off the mark.
April Adv. Trade Balance – Goods Range: -\$63.4 to -\$58.0 billion Median: -\$60.2 billion	Wednesday, 5/25	Mar = -\$56.9 bil	<u>Widening</u> to -\$60.6 billion. This is a hard one to judge given the notably large declines in both exports and imports of goods reported in March. Our suspicion is imports will show more of a bounce than exports, hence our expectation of a wider goods trade deficit (note the relatively new advance data capture the flow of goods, but not services) in April.
April Durable Goods Orders Range: -2.0 to 3.0 percent Median: 0.2 percent	Thursday, 5/26	Mar = +0.8%	<u>Up</u> by 1.2 percent. As is typically the case with this data series, there is considerable potential for nondefense aircraft to skew the headline sales number – unit orders jumped in March but revenue, as reported in the durable goods data, remained grounded, so we've built some payback into our April forecast. Aside from that, however, we look for a fairly solid report with broad based increases in orders. To this point, we look for <u>ex-transportation orders</u> to be <u>up</u> 0.5 percent.
Q1 Real GDP – 2nd estimate Range: 0.6 to 1.1 percent Median: 0.9 percent SAAR	Friday, 5/27	1st est = +0.5%	<u>Up</u> at an annualized rate of 1.1 percent. The upward revision we expect is partly good news and partly bad news. Based on the retail sales data we look for growth in consumer spending to be revised higher while the trade deficit could be revised lower. On the flip side, however, the rate of inventory accumulation in the nonfarm business sector is likely to be revised higher relative to the advance estimate. While this will contribute to faster top-line growth in Q1, it will at the same time act as a drag on current quarter growth.
Q1 GDP Price Index – 2nd estimate Range: 0.6 to 0.7 percent Median: 0.7 percent SAAR	Friday, 5/27	1st est = +0.7%	<u>Up</u> at an annualized rate of 0.7 percent, matching the initial estimate.

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