ECONOMIC PREVIEW

REGIONS

Week of February 27, 2017

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on March 14-15):* Target Range Midpoint: 0.625 to 0.625 percent Median Target Range Midpoint: 0.625 percent	0.625%	The minutes of the January31-February 1 FOMC meeting show "many participants expressed the view that it might be appropriate to raise the federal funds rate fairly soon" if the economy remains on track, with "fairly soon" of course not being defined. The minutes reveal few worries that the FOMC is behind the curve on inflation, but that could easily change if the FOMC waits too long for the next funds rate hike. It's a safe assumption that "fairly soon" means either March, May, or June (of 2017, that is), and while June has for some time been our baseline outlook, the May FOMC meeting looks increasingly in play with the March meeting not entirely out of the question.
January Durable Goods Orders Monday, 2/27 Range: -0.6 to 3.2 percent Median: 1.6 percent	Dec = -0.5%	Up by 3.2 percent. Our forecast is predicated on there being payback in the dollar volume of nondefense aircraft orders, which in December came nowhere near matching the increase in unit orders logged at Boeing. If this does not materialize then our forecast will be too high, but this is why we typically discount the headline orders number, as it is unduly skewed by nondefense aircraft. The details that matter far more are ex-transportation orders, which we expect to have risen by 0.5 percent, and core capital goods orders, which we also expect to have risen by 0.5 percent, which would be their fourth consecutive monthly increase.
Jan. Advance Trade Balance: Goods Tuesday, 2/28 Range: -\$68.4 to -\$64.0 billion Median: -\$65.9 billion	Dec = -\$64.4 billion	Widening to -\$68.4 billion. We expect exports to have risen but look for a larger increase in imports, resulting in a wider deficit in the goods account. Imports will have been fueled in part by post-holiday restocking amongst retailers, but also by front-loading of shipments from China in advance of the Lunar New Year, which typically shuts down manufacturing activity for up to three weeks. As such, we see the wider trade deficit more as one-off noise, but noise that will likely deflect attention from the far bigger story – the nascent rebound in exports of U.S. goods.
Q4 Real GDP – 2nd estimate Tuesday, 2/28 Range: 2.0 to 2.3 percent Median: 2.1 percent	1st estimate = +1.9% SAAR	Up at an annualized rate of 2.2 percent, with slight upward revisions to consumer spending and the rate of inventory accumulation pushing top-line growth slightly higher.
Q4 GDP Price Index – 2nd estimate Tuesday, 2/28 Range: 2.0 to 2.1 percent Median: 2.1 percent	1st estimate = +2.1% SAAR	Up at an annualized rate of 2.1 percent, unchanged from the initial estimate.
February Consumer Confidence Tuesday, 2/28 Range: 108.0 to 113.0 Median: 111.0	Jan = 111.8	Up to 112.7
February ISM Manufacturing Index Wednesday, 3/1 Range: 55.0 to 57.0 percent Median: 56.0 percent	Jan = 56.0%	Up to 57.0 percent. Regional surveys of manufacturing activity suggest a strong ISM report, and we look for continued strength in production and new orders. We do see some downside risk to our forecast, as movements in the regional surveys and the ISM survey aren't always synched. Either way, the ISM index will easily remain above 50 percent, a sign of steady improvement in the U.S. factory sector.
January Construction Spending Wednesday, 3/1 Range: 0.2 to 0.8 percent Median: 0.5 percent	Dec = -0.2%	Up by 0.5 percent.
January Personal Income Wednesday, 3/1 Range: 0.2 to 0.5 percent Median: 0.3 percent	Dec = +0.3%	Up by 0.3 percent. What was a hefty increase in nonfarm payrolls in January was accompanied by only a meager gain in average hourly earnings, which will hold down growth in aggregate wage and salary earnings. Rental income and interest income will support top-line growth, as will a larger than trend increase in transfer payments. Our call would leave total personal income up 3.8 percent year-on-year.
January Personal Spending Wednesday, 3/1 Range: 0.2 to 0.5 percent Median: 0.3 percent	Dec = +0.5%	Up by 0.2 percent. Spending on consumer durable goods will be fairly listless given the decline in unit motor vehicle sales, while sharply lower utilities outlays will hold down growth in spending on household services. This leaves spending on nondurable consumer goods, with higher retail gasoline prices chipping in, as the primary driver of growth in total consumer spending in January. But, a large increase in the PCE deflator (which we see rising by 0.5 percent, with the core PCE deflator up by 0.3 percent) will mean real consumer spending declined in January.
Feb. ISM Non-Manufacturing Index Friday, 3/3 Range: 56.0 to 57.0 percent Median: 56.5 percent	Jan = 56.5%	Up to 56.7 percent.

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