ECONOMIC PREVIEW

REGIONS

Week of February 6, 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%	After last week's full slate of releases this week is much quieter on the data front. As such, this week's *Preview* isn't as much a look ahead as it is a look back on what we've learned over the past few weeks. We've stated our view that the U.S. economy entered 2017 with more momentum than was implied by the so-so headline print on the Q4 GDP report. While real GDP grew at an annualized rate of just 1.9 percent in Q4, real private domestic demand, or, combined consumer spending, business investment spending, and residential investment spending, grew at an annualized rate of 2.8 percent. For the first time since Q3 2015 each of the three components of private domestic demand logged solid growth in Q4. Both business and consumer sentiment have improved over the past several weeks, which bodes well for sustaining the momentum apparent in late-2016. It is notable that business orders for core capital goods have been on the rebound over the past few months, which is encouraging on two fronts. First, business investment spending has been atypically weak over the course of the current expansion so there is plenty of catching up to do, which will obviously help firm up GDP growth. Second, we have for some time argued that underinvestment on the part of firms is the primary culprit of what has become an anemic trend rate of productivity growth, so stronger investment spending now will contribute to improved productivity growth down the road. This will be a positive for both firms and workers while also giving the economy a larger buffer against inflation pressures. The headline job growth number on the January employment report easily beat expectations and hiring was broad based across the private sector. The details of the report, however, were mixed. Seasonal adjustment noise boosted reported job gains in retail trade and construction, but even accounting for this leaves a very healthy underlying trend rate of job growth. At the same time, however, growth in average hourly earnings disappointed to the downside, though it was more in line with our below-consensus forecast. Our view is that there is substantially more slack in the labor market than is implied by the headline unemployment rate, and this slack remains a drag on wage growth. To be sure, this slack will dissipate over the course of 2017, though at a pace that will mean wage growth will be slower to accelerate meaningfully than many analysts seem to expect. We think the FOMC is satisfied with the evolution of the labor market and the broader economy as captured in the body of the economic data of the past several weeks. At last week's meeting, the Committee gave no hints as to the timing of the next hike in the Fed funds rate – we did not expect them to do so but some analysts thought the FOMC may try to warm the markets up to the notion of a March funds rate hike. Our view was there are plenty of opportunities for the Committee to do so if they wish, including Dr. Yellen's February 14-15 testimony before Congress, though the wage growth detail in the January employment report probably lessens the odds of her making any such hints while before Congress. More significantly, as are the rest of us, the FOMC is waiting to see how the policy landscape – fiscal, regulatory, and trade – will shift over coming months. While market participants seem to be expecting some mix of faster economic growth and faster inflation, not yet having the details of looming policy changes makes it hard for the FOMC, as well as the rest of us, to our adjust forecasts accordingly. We see more upside potential than downside potential from the likely changes to fiscal, regulatory, and trade policy, but getting this mix right will be critical to sustaining the improved sentiment and momentum apparent over the past several weeks.
December Trade Balance Tuesday, 2/7 Range: -\$46.0 to -\$44.0 billion Median: -\$45.0 billion	Nov = -\$45.2 billion	<u>Narrowing</u> very slightly, to -\$45.1 billion on a slightly smaller deficit in the goods account with little change in the size of the surplus in the services account.

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