

ECONOMIC PREVIEW



REGIONS

Week of March 27, 2017

Indicator/Action Economics Survey:

Last Actual:

Regions' View:

Fed Funds Rate: Target Range Midpoint <i>(After the FOMC meeting on May 2-3):</i> Target Range Midpoint: 0.875 to 0.875 percent Median Target Range Midpoint: 0.875 percent		0.875%	<p>Starting with an unnerving early-morning elevator ride with, well, an executive who will remain unnamed, the day after last November's election, we've been very consistent in our message as to what the outcome of the election might mean for the U.S. economy. We saw considerable upside risk in the form of changes to fiscal and regulatory policy and downside risk in the form of changes to trade policy, with more upside than downside risk. At the same time, however, we noted any changes to policy were likely to be neither as clear-cut nor to happen as quickly as might be implied by Republican control of both houses of Congress and the White House, and even identified some specific areas where the new President did not seem closely aligned with the Republican Congress. As such, we thought it would be late-2017 at best before any policy changes had a meaningful impact on the U.S. economy and noted that we saw more upside potential for 2018 than for 2017.</p> <p>We say all of this not as proof of any keen analytical insight on our part, as there is way too much empirical evidence to the contrary for us to make any such claim. Indeed, those who know the workings of DC far better than us had pretty much the same view of how messy and protracted the legislative process was likely to be. That did not, however, stop many market participants from pricing in the best case outcome for policy and, in turn, U.S. economic growth. The intra-party battle over what after all is only the first step in the health care bill comes as a reminder of the point we and others have been making since the day after the election. This is by no means to say that, in the end, policy changes won't spark a faster pace of U.S. economic growth, we still think they will. It is, however, a reminder that no one will get everything on their wish list and that what they do get won't come as quickly as they would like. What remains unclear, however, is whether or not this message has registered with many market participants.</p>
Feb. Advance Trade Balance: Goods Range: -\$67.8 to -\$65.0 billion Median: -\$67.0 billion	Tuesday, 3/28	Jan = -\$68.8 billion	<p><u>Narrowing</u> to -\$66.1 billion. January's spike in imports, which led to a sharp widening of the deficit in the goods account, was in part a timing issue pertaining to the Lunar New Year. That effect will be reversed in the February data which, along with what we expect to be a rebound in U.S. exports, will lead to a smaller deficit in the goods account. Still, trade will be a drag on Q1 real GDP growth.</p>
March Consumer Confidence Range: 110.0 to 115.5 Median: 113.6	Tuesday, 3/28	Feb = 114.8	<p><u>Down</u> to 113.0</p>
Q4 Real GDP – 3rd estimate Range: 1.8 to 2.1 percent Median: 2.0 percent SAAR	Thursday, 3/30	2 nd estimate = +1.9% SAAR	<p><u>Up</u> at an annualized rate of 2.0 percent. Modest upward revisions to consumer spending and fixed investment outlays will send real GDP growth rocketing ahead at a sizzling pace. Okay, it won't. Not even close. But, you can't blame us for trying to muster up some enthusiasm for yet another quarter of middling real GDP growth. Then again, 2.0 percent growth is better than the prior estimate of 1.9 percent growth, so, there's that . . .</p>
Q4 GDP Price Index – 3rd estimate Range: 2.0 to 2.0 percent Median: 2.0 percent SAAR	Thursday, 3/30	2 nd estimate = +2.0% SAAR	<p><u>Up</u> at an annualized rate of 2.0 percent.</p>
February Personal Income Range: 0.3 to 0.4 percent Median: 0.4 percent	Friday, 3/31	Jan = +0.4%	<p><u>Up</u> by 0.4 percent. Private sector wage and salary earnings will be the main support for growth in total personal income, with assists from rental income and interest income. Our call would leave total income up 4.5 percent year-on-year, with private sector labor earnings up 5.9 percent, both easily above recent trend rates of growth. This mainly reflects low base effects, as both total income and private sector labor earnings actually declined in February 2016. More generally, income growth continues to run easily ahead of inflation but there is room to the upside as average hourly earnings growth firms up over the months ahead.</p>
February Personal Spending Range: 0.1 to 0.3 percent Median: 0.2 percent	Friday, 3/31	Jan = +0.2%	<p><u>Up</u> by 0.1 percent. This is shaping up to be a weak report across the board. Another month of low outlays on utilities will weigh down spending on household services. Unit sales were down slightly in February but a more revenue friendly sales mix should mean motor vehicles were a neutral factor in spending on consumer durables, which we expect to be little changed. Spending on nondurable consumer goods should be modestly higher. Put it all together and you get an unimpressive gain in nominal consumer spending in February. After accounting for inflation – we expect the <u>PCE deflator</u> to be <u>up</u> 0.1 percent and the <u>core PCE deflator</u> to be <u>up</u> 0.2 percent – real consumer spending should be flat to slightly lower.</p>

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