ECONOMIC PREVIEW

REGIONS

Week of April 24, 2017

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the May 2-3 FOMC meeting):* Target Range Midpoint: 0.875 to 0.875 percent Median Target Range Midpoint: 0.875 percent	0.875%	To paraphrase Pete Townshend, meet the new New Normal, same as the old New Normal. Okay, maybe not, but what will be a lousy Q1 GDP report (see below) will do nothing to dissuade those inclined to think that, despite repeated promises of fiscal and regulatory relief, the U.S. economy is doomed to remain in the slow lane. We do not agree, but we have been quite consistent in our view that policy changes would be slower and less sweeping than the markets seem to have been expecting and that the biggest impacts from policy changes will be felt in 2018, not 2017. For now, the economy continues to plug along at a trend rate of growth neither as weak as the Q1 GDP report will imply nor as strong as the Q2 GDP report will imply. Clearly there is room for policy to help, but what we get and when we get it remains to be seen.
April Consumer Confidence Tuesday, 4/25 Range: 115.0 to 126.0 Median: 123	Mar = 125.6	<u>Down</u> to 122.3 as we expect a retracement of some of the hefty gains seen in recent months, which would nonetheless leave confidence at a high level. As always, what we'll watch most closely is the appraisal of labor market conditions; as of March the spread between those who feel jobs are plentiful and those who feel jobs are hard to get was at its widest since August 2001. "Soft" data or not, changes in this spread have long been a useful indicator of changes in the unemployment rate.
March New Home Sales Tuesday, 4/25 Range: 540,000 to 624,000 units Median: 585,000 units SAAR	Feb = 592,000 units SAAR	<u>Up</u> to an annualized sales rate of 624,000 units. The March report on new residential construction was widely panned as a flop, but that was on the basis of the seasonally adjusted annualized data. Anyone looking at the raw, i.e., neither seasonally adjusted nor annualized, data would have seen surprising strength in single family permits, starts, and completions. We think this will extend into new home sales, particularly given how purchase mortgage applications held up in March even as mortgage interest rates rose through the middle of the month. We look for sales of 58,000 units on a not seasonally adjusted basis, which would be the strongest month for sales since August 2007. This would leave the running 12-month sum of raw sales, our preferred gauge of underlying trends, at 574,000 units, the highest such total since July 2008.
March Durable Goods Orders Wednesday, 4/26 Range: -3.0 to 4.3 percent Median: 1.2 percent	Feb = +0.1%	<u>Up</u> by 1.3 percent, with <u>ex-transportation</u> orders <u>up</u> 0.5 percent. Our main focus will be on orders for <u>nondefense capital goods excluding aircraft</u>, or, core capital goods, which we expect to be <u>up</u> 0.5 percent after February broke a string of four straight monthly advances. Core capital goods orders are a barometer of business investment spending, which has been notably weak over much of this expansion. The recent run of gains had been encouraging but a second consecutive decline in March would pretty much dash any hope of meaningfully stronger capital spending.
March Advance Trade Balance: Goods Thursday, 4/27 Range: -\$66.8 to -\$62.6 billion Median: -\$65.0 billion	Feb = -\$63.9 billion	<u>Widening</u> to -\$66.3 billion as growth in imports outruns growth in exports.
Q1 Real GDP: Advance Estimate Friday, 4/28 Range: 0.7 to 1.9 percent Median: 1.3 percent SAAR	Q4 2016 = +2.1% SAAR	<u>Up</u> at an annualized rate of 1.1 percent. There's a lot going on beneath what will be a weak headline growth number which virtually no one sees as an accurate portrayal of the state of the U.S. economy. The GDP data have long been plagued by the issue of residual seasonality (the presence of clear seasonal patterns in data which have been seasonally adjusted) which is reflected by growth in Q1 of any given year being, on average, significantly slower than growth in other quarters. As for the data, a slower pace of growth in real consumer spending, a slower pace of inventory accumulation in the nonfarm business sector, and a wider trade deficit will combine to offset faster growth in business fixed investment. Seasonal adjustment noise wreaked havoc on much of this year's Q1 data, making it difficult to interpret and leaving it of little use. Indeed, we've said that in many ways Q1 was a quarter to forget, and that's exactly what we intend to do – forget it, particularly the Q1 GDP report.
Q1 GDP Price Index: Advance Estimate Friday, 4/28 Range: 1.5 to 2.6 percent Median: 2.0 percent SAAR	Q4 2016 = +2.1% SAAR	<u>Up</u> at an annualized rate of 2.5 percent.
Q1 Employment Cost Index Friday, 4/28 Range: 0.5 to 0.6 percent Median: 0.6 percent	Q4 2016 = +0.5%	<u>Up</u> by 0.6 percent, with the wage component up 0.6 percent and the benefits component up 0.5 percent. This would leave the total ECI up 2.2 percent year-on-year, with wages up 2.2 percent and benefits up 2.1 percent. We see the ECI as the best measure of growth in labor compensation costs, in part because it is not biased by the mix of jobs, as is the more widely followed average hourly earnings metric. Growth in the ECI, particularly the wage component, has picked up at only a very gradual pace, which is consistent with our view that there is considerably more slack in the labor market than implied by the headline unemployment rate.

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