

# ECONOMIC PREVIEW



Week of May 15, 2017

## Indicator/Action Economics Survey:

## Last Actual:

## Regions' View:

<p><b>Fed Funds Rate: Target Range Midpoint</b> (After the June 13-14 FOMC meeting): Target Range Midpoint: 0.875 to 1.125 percent Median Target Range Midpoint: 1.125 percent</p>	<p>0.875%</p>	<p>Last week's inflation data sent mixed messages, with larger than expected increases in the total and core Producer Price Index while the core Consumer Price Index surprised to the downside. Core CPI inflation fell to 1.9 percent, the first print below 2.0 percent since October 2015. The CPI data suggest the year-on-year increase in the core PCE deflator, the FOMC's preferred gauge of inflation, slipped to 1.5 percent in April. Given the improvement seen in the Q2 data available at this point, we don't think the April CPI data would be nearly enough to deter the FOMC from raising the Fed funds rate at their June meeting, as we and most analysts expect them to do. The PPI data could actually help affirm the FOMC's view that inflation is moving towards their target rate, at least if the types of increases seen in the April data are sustained over coming months. Should prices for raw and intermediate goods continue to rise at a faster pace, particularly in conjunction with steadily rising labor costs, firms would be forced to choose between accepting thinner profit margins or attempting to pass along higher costs to consumers. While it is much easier for providers of services to pass along higher costs to consumers than it is for producers of goods, should global economic growth continue to improve, producers of goods may find themselves with more pricing power than they have had for some time. As such, soft retail level inflation in April will not lead the FOMC to relax on the inflation front.</p>
<p><b>April Housing Permits</b> Range: 1.220 to 1.290 million units Median: 1.270 million units SAAR</p>	<p>Tuesday, 5/16 Mar = 1.267 million units SAAR</p>	<p><u>Down</u> to an annual rate of 1.241 million units. We expect an increase in single family permits and a decline in multi-family permits. One wild card in our forecasts for both housing permits and housing starts is the extent to which atypically mild weather pulled construction activity forward into Q1. To the extent this was the case, the bounce typically seen in April construction activity would smaller than usual this year. Of more significance, however, is what we believe will be an increasingly pronounced shift away from multi-family activity to single family activity. While thus far multi-family activity has tapered off at a gradual pace, we think as a clogged supply pipeline begins to clear at a faster rate, that will add a sense of urgency to the retreat in multi-family construction. That won't be established in the April data but we do expect to see that more pronounced shift at some point in 2017. On a not seasonally adjusted basis, we look for a total of 110,500 total permits in April, which would leave the running 12-month total at 1.213 million units. Our not seasonally adjusted forecast puts the running 12-month total of single family permits at 781,400 units, the highest such total since April 2008.</p>
<p><b>April Housing Starts</b> Range: 1.215 to 1.275 million units Median: 1.250 million units SAAR</p>	<p>Tuesday, 5/16 Mar = 1.215 million units SAAR</p>	<p><u>Up</u> to an annualized rate of 1.252 million units with an increase in single family starts and a decline in multi-family starts, but our caveat about activity being pulled forward into Q1 applies here too. On a not seasonally adjusted basis, we look for 110,200 total starts, which would put the running 12-month total at 1.198 million units, the highest since April 2008. To our earlier point about a shift away from multi-family construction toward single family construction, that will turn up in the starts data later than will be the case in the permit data, but nonetheless we expect that shift to be more apparent in the starts data over the remainder of 2017. Our forecast for not seasonally adjusted single family starts in April is 80,100 units, which would be the best month for single family starts since August 2007 and would leave the running 12-month total at 799,800 units.</p>
<p><b>April Industrial Production</b> Range: 0.2 to 1.1 percent Median: 0.4 percent</p>	<p>Tuesday, 5/16 Mar = +0.5%</p>	<p>Up by 0.3 percent. March's pop in industrial production was fueled, literally, entirely by higher utilities output; the 8.6 percent increase in March was the largest monthly increase in utilities output in the life of the data. We think April will see a considerable decline in utilities output, but this will be offset by a rebound in manufacturing output, which fell 0.4 percent in March. Motor vehicle output fell by three percent in March and while the payroll employment data suggest a rebound in April, the longer-term trend here looks weaker than it has for some time given that a tapering off in sales is leading to undesirably high inventory levels. Our call on the headline index would leave total IP up 1.57 percent year-on-year, which doesn't sound like much until you consider it would be the largest year-on-year increase since February 2015.</p>
<p><b>April Capacity Utilization Rate</b> Range: 76.2 to 76.7 percent Median: 76.3 percent</p>	<p>Tuesday, 5/16 Mar = 76.1%</p>	<p>Up to 76.3 percent.</p>
<p><b>April Leading Economic Index</b> Range: 0.2 to 0.5 percent Median: 0.3 percent</p>	<p>Thursday, 5/18 Mar = +0.4%</p>	<p><u>Up</u> by 0.4 percent.</p>

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