ECONOMIC PREVIEW

REGIONS

Week of October 7, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the October 29-30 FOMC meeting):* Target Range Mid-point: 1.625 to 1.875 percent Median Target Range Mid-point: 1.875 percent	Range: 1.75% to 2.00% Midpoint: 1.875%	The September employment report wasn't great, but that's okay because it didn't need to be great, it just needed to not be terrible. After all, the report came amidst rising fears of recession in the wake of two surprisingly weak reports from the ISM. So, while a net gain of 136,000 nonfarm jobs doesn't suggest an economy firing on all cylinders, neither does it suggest an economy on the verge of slipping into recession. To be sure, job losses in manufacturing and segments of transportation highlight the economy's soft spots, but firms in the majority of private sector industry groups continue to add workers, even if at a slower pace. We don't read too much into average hourly earnings being flat, as weak prints on wage growth are common in months in which the survey period ends prior to the 15th of the month, as was the case in September. The details of the household survey were strong, with the unemployment rate falling to a 50-year low of 3.5 percent. Though the pace of job growth has slowed, it remains more than sufficient to absorb new entrants into the labor force. The September employment report does not settle the question of whether or not the FOMC will again cut the Fed funds rate at this month's meeting. It does, or at least should, allay fears that the U.S. economy is on the verge of recession.
September PPI: Final Demand Tuesday, 10/8 Range: -0.2 to 0.2 percent Median: 0.1 percent	Aug = +0.1%	Down by 0.1 percent, which yields a year-on-year increase of 1.6 percent.
September PPI: Core Tuesday, 10/8 Range: 0.1 to 0.2 percent Median: 0.2 percent	Aug = +0.3%	Up by 0.2 percent, leaving the core PPI up by 2.4 percent year-on-year.
September Consumer Price Index Thursday, 10/10 Range: -0.1 to 0.2 percent Median: 0.1 percent	Aug = +0.1%	Up by 0.1 percent, good for an over-the-year increase of 1.8 percent. As was the case in August, gasoline will be a drag on the September CPI; our forecast anticipates lower pump prices will take one-tenth of a point off of the month-to-month change in the total CPI. After that, we'll toss out what has become the standard caveat, which is that your guess as to what will be reported for apparel prices and used car prices is as good as ours, which isn't very good as these two series have been notably volatile since BLS adapted methodological changes in measuring these series, which can move the needle on the monthly change in the core CPI. More substantively, food prices have been notably subdued over recent months, and our forecast anticipates some firming in September. By the same token, both primary and owners' equivalent rents posted below-trend increases in August, and our forecast assumes more trend-like increases in the September data. Finally, medical care costs posted their biggest monthly jump in three years in August, and our forecast anticipates some payback in the September data. The bottom line is that there seems to be a higher than usual degree of uncertainty around our forecast of the September CPI.
Sept. Consumer Price Index: Core Thursday, 10/10 Range: 0.1 to 0.2 percent Median: 0.2 percent	Aug = +0.3%	Up by 0.2 percent. Our forecast would leave the core CPI up 2.5 percent year-on-year, which would be the fastest rate of core inflation as measured by the CPI since March 2007. What is noteworthy about the acceleration in core CPI inflation is that inflation pressures have become more broad based, contrary to the past several years when rent growth was the primary driver of core CPI inflation. One thing that stands out is that core goods prices have firmed up, ending a better than three-year run in which core goods prices declined year-on-year, with tariffs contributing to rising goods prices. Medical care costs are also helping drive core CPI inflation. Keep in mind, however, that the FOMC's preferred gauge of inflation is the PCE Deflator, and core PCE inflation continues to run well behind core CPI inflation – the August data show core PCE inflation running at 1.8 percent. What is notable is that the disparity between the two measures is much wider than has historically been the case. From 2000 through 2018, core CPI inflation ran ahead of core PCE inflation by an average of 27 basis points, but over the past six months the disparity has averaged 56 basis points. Medical care costs and core goods prices account for much of this growing disparity. The CPI and the PCE deflator measure medical care costs differently, and the acceleration in health care inflation apparent in the CPI has yet to appear in the PCE deflator, nor has the firming in core goods prices that we see in the CPI data. That said, the broadening of inflation pressures apparent in the CPI will eventually make its way into the PCE Deflator, and it is reasonable to assume that by early 2020 core PCE inflation will be above the FOMC's 2.0 percent target. At that point, the conversation shifts from why inflation remains stubbornly below the FOMC's target to when the FOMC becomes concerned by inflation running ahead of their target.

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