ECONOMIC PREVIEW

REGIONS

Week of February 12, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 20-21 FOMC meeting):* Target Range Midpoint: 1.625 to 1.625 percent Median Target Range Midpoint: 1.625 percent	Range: 1.25% to 1.50% Midpoint: 1.375%	Meanwhile, back at the ranch . . . Last week's absence of top-tier economic data releases left considerable time for watching the dizzying twists and turns in the financial markets. Well, at least for anyone who could stand the ride. It is common, quite understandably, for us to get questions in such times of market turmoil as to whether or not that is a reflection of shifts in the underlying economic fundamentals. In this instance, the answer is a resounding "no," to the point that our outlook on the economy is no different right now than was the case at 8:29 AM on February 2, i.e., the minute before the January employment report was released. The wage details in the January employment report are cited as one trigger for the subsequent frenzy in the financial markets, despite the fact that there was less to the reported growth in wages than meets the eye, let alone there being a flimsy empirical basis for the premise that wage growth triggers faster inflation in the broader economy. Be that as it may, if nothing else the events of the last couple weeks suggest market participants have been forced out, and somewhat rudely at that, of a prolonged period of slow growth, low inflation complacency. With the U.S. economy on solid ground and what for the first time in over a decade is synchronized global economic growth, it is only natural that inflation pressures will begin to build. Inflation is only a big story, however, if it accelerates significantly faster than the FOMC anticipates. There is, at present, little in the way of actual evidence that this is the case. At the same time, though, there is now at least greater uncertainty on the part of many market participants as to the path of inflation, and this is at least in part driving the moves in equity prices and market interest rates. There was a time, as those of a sufficient vintage can attest, when uncertainty and volatility were actually considered normal characteristics of asset markets. Some are now re-learning and others are learning for the first time what that's like and, somewhat predictably, the learning process is not necessarily pretty. If nothing else, this week's full slate of economic data will at least give us a chance to go back to our normal routine, i.e., trying to sift through the noise in the monthly data and focus on the underlying trends which, to us, remain solid.
January Consumer Price Index Wednesday, 2/14 Range: 0.3 to 0.4 percent Median: 0.3 percent	Dec = +0.1%	Up by 0.4 percent, which translates into an over-the-year increase of 1.9 percent. The increase in not seasonally adjusted gasoline prices will be amplified by seasonal adjustment, thus boosting the headline CPI. In addition, we look for a repeat of the odd pattern in apparel prices seen in recent years – a spike in January followed by a string of declines over the course of the year – for which a satisfactory, let alone logical, explanation eludes us. To our point, though, even with the sizeable increase we've built into our January forecast, apparel prices would still be down year-on-year. Vehicle prices are a source of uncertainty to us; it is not unusual to see new car prices jump in January of any given year, but what is different this time is that new car prices finished 2017 on a much stronger note than had been the case. This may take the steam out of any January price increases, though our forecast anticipates higher prices for both new and used vehicles.
January CPI: Core Wednesday, 2/14 Range: 0.1 to 0.3 percent Median: 0.2 percent	Dec = +0.3%	Up by 0.3 percent, for a year-on-year increase of 1.7 percent. As noted above, we don't have a high degree of confidence in our forecast for vehicle prices, and if they come in softer than we anticipate, so too will core inflation. Though our forecast anticipates solid rent growth for January, we expect rent growth will slow as we move through 2018. This will be a significant counter to rising prices in other categories and thus act as a drag on core CPI inflation in 2018.
January Retail Sales Wednesday, 2/14 Range: 0.0 to 0.4 percent Median: 0.2 percent	Dec = +0.4%	Up by 0.3 percent. As always, we're shooting at a moving target here given what are typically large revisions to the initial estimate of the prior month's sales, and there is no reason to think the initial estimate for December will be any different. That said, given how strong the holiday sales season looks to have been, as we discussed in our February *Monthly Economic Outlook*, it is logical to ask whether consumers had anything left in the tank in January. We do know motor vehicles should be a drag on top-line retail sales given the decline in unit sales. We will, however, again note the mapping of unit sales into the dollar volume of sales (the latter of which is reported in the retail sales data) remains a closely guarded state secret, but it also bears noting that the mix of sales in January was heavily skewed toward higher priced SUVs/light trucks, which will help alleviate the dip in unit sales. As with the CPI data, higher gasoline prices will support top-line retail sales. We think weather will have held down restaurant sales, and a big wild card is the extent to which online sales will have taken a breather after setting a torrid pace during the holiday season.

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

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Indicator/Action Economics Survey:	Last Actual:	Regions' View:
January Retail Sales: Ex-Auto Wednesday, 2/14 Range: 0.1 to 0.8 percent Median: 0.5 percent	Dec = +0.4%	Up by 0.5 percent.
January Retail Sales: Control Group Wednesday, 2/14 Range: 0.0 to 0.5 percent Median: 0.4 percent	Dec = +0.3%	Up by 0.4 percent.
December Business Inventories Wednesday, 2/14 Range: 0.2 to 0.4 percent Median: 0.3 percent	Nov = +0.4%	We look for total business inventories to be up by 0.3 percent, while total business sales will increase by 0.9 percent.
January PPI – Final Demand Thursday, 2/15 Range: 0.2 to 0.4 percent Median: 0.3 percent	Dec = -0.1%	Up by 0.4 percent, which yields a year-on-year increase of 2.5 percent.
January Core PPI Thursday, 2/15 Range: 0.1 to 0.2 percent Median: 0.2 percent	Dec = -0.1%	Up by 0.2 percent, for a year-on-year increase of 2.0 percent.
January Industrial Production Thursday, 2/15 Range: -0.3 to 0.4 percent Median: 0.2 percent	Dec = +0.9%	Up by 0.4 percent, with a modest increase in manufacturing output and higher mining output leading the way. After surging in December, utilities output could be expected to soften but the spell of unusually harsh weather likely provided some support. Our forecast would leave total IP up 4.3 percent year-on-year, which would be the largest such increase since March 2011.
January Capacity Utilization Rate Thursday, 2/15 Range: 77.6 to 78.2 percent Median: 78.0 percent	Dec = 77.9%	Up to 78.1 percent.
January Housing Permits Friday, 2/16 Range: 1.230 to 1.3420 million units Median: 1.340 million units SAAR	Dec = 1.300 million units SAAR	Up to an annualized rate of 1.342 million units. The effects of post-hurricane rebuilding will have largely faded from the permit data by now, but, as if to show that it's always something, atypically harsh winter weather may cloud the January data, though to a far lesser extent in the permit data than in the starts data. We look for 89,200 total permits on a not seasonally adjusted basis, with higher single family permit totals and a decline in multi-family permits. Our forecast would leave the running 12-month total of not seasonally adjusted permits at 1.256 million units. That total has flattened out over the past several months, which reflects steadily rising single family permit issuance while multi-family permit issuance drifts lower.
January Housing Starts Friday, 2/16 Range: 1.170 to 1.275 million units Median: 1.227 million units SAAR	Dec = 1.192 million units SAAR	Up to an annualized rate of 1.248 million units. Harsh winter weather will have had a greater effect on housing starts than on housing permits, which poses a threat to our forecast. The same mix issues we see in the permit data, i.e., steady increases in single family activity as multi-family activity fades, is apparent in the starts data, which is better reflected in the not seasonally adjusted data. We look for 82,300 total starts on a not seasonally adjusted basis, which would leave the running 12-month total at 1.202 million units.

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