ECONOMIC PREVIEW

REGIONS

Week of April 9, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the May 1-2 FOMC meeting):* Target Range Midpoint: 1.625 to 1.625 percent Median Target Range Midpoint: 1.625 percent	Range: 1.50% to 1.75% Midpoint: 1.625%	As a general rule, no single data point in any single month tells you anything meaningful about what it is intended to measure. As another general rule, in any given year proper seasonal adjustment of the economic data is far more difficult to achieve in the first quarter than at other times of the year. Sure, we get this as well as anyone, but, come on, man, would a little bit of clarity be too much to ask for? The Q1 economic data have been nothing short of maddening, and not because they haven't behaved as we thought they would or that they haven't been particularly upbeat. We'd argue that they actually have been fairly positive, but in order to see that one has to look beyond the swings in the monthly headlines and focus on the underlying trends, which often means sifting through the not seasonally adjusted data that get little or no attention in most quarters. The nonfarm employment data are a prime illustration – total nonfarm employment rose by 103,000 jobs in March after an increase of 326,000 jobs in February. Neither figure, however, is an accurate reflection of the state of the labor market. Beneath the noisy headlines, the raw data show that over the past 12 months, job growth has averaged 188,000 per month. The trend rate of job growth remains solid, and the U.S. economy has a considerable degree of positive momentum, even if that is not apparent in the headline numbers.
March PPI: Final Demand Tuesday, 4/10 Range: 0.0 to 0.2 percent Median: 0.1 percent	Feb = +0.2%	<u>Up</u> by 0.1 percent, for a year-on-year increase of 1.9 percent.
March PPI: Core Tuesday, 4/10 Range: 0.2 to 0.3 percent Median: 0.2 percent	Feb = +0.2%	<u>Up</u> by 0.2 percent, which yields a year-on-year increase of 2.6 percent.
March Consumer Price Index Wednesday, 4/11 Range: -0.2 to 0.2 percent Median: 0.0 percent	Feb = +0.2%	<u>Down</u> by 0.1 percent, for an over-the-year increase of 2.3 percent. Gasoline prices once again wreak havoc upon the CPI data, thus rendering the headline CPI for March virtually useless as a signal of underlying inflation pressures. Retail gasoline prices fell in mid-February and remained flat through mid-March before rising sharply in late-March, leaving them flat on a monthly average basis. Which in and of itself is fine, but the CPI seasonal adjustment factors are geared for a sizeable increase in gasoline prices in the month of March in any given year. This combination will prove lethal for the March CPI; on a seasonally adjusted basis, gasoline prices will be down almost five percent, knocking two-tenths of a point off of the monthly change, hence our forecast of a modest decline in the headline CPI. And for those of you who just can't get enough of seasonal noise in the data, don't worry, because with the March data apparel prices should begin to unwind the hefty increases seen in the data for January and February. Additionally, it was March 2017 that the effects of the precipitous decline in prices for cell phone service began to intrude on the inflation data, meaning base effects will bias the year-on-year increases higher beginning with the data for March 2018. While the noise from gasoline prices will partially mute the noise from cell phone service prices in the headline CPI, the latter will be more apparent in the year-on-year print for the core CPI. And, to make matters worse, we can't keep track of who that "can you hear me now?" guy even works for these days. In short, anyone looking for clarity as for the extent of inflation pressures in the U.S. economy need not bother looking in the March CPI data.
March Consumer Price Index; Core Wednesday, 4/11 Range: 0.1 to 0.2 percent Median: 0.2 percent	Feb = +0.2%	<u>Up</u> by 0.1 percent, which yields a year-on-year increase of 2.1 percent. The year-on-year increase in the core CPI will reflect the base effects of last year's precipitous decline in prices for cell phone services which first appeared in the March 2017 data. Our focus, however, will remain on our "big three" drivers of core inflation for 2018, i.e., rents, medical costs, and core goods prices. Both primary rents and owners' equivalent rents posted oddly small increases in the February data, and while we look for larger increases in March, we still expect rent growth to decelerate over the course of 2018. Core goods prices should post a modest monthly advance, but this will still leave them down year-on-year for the 58th time in the last 60 months. As for medical costs, honestly, your guess is as good as, if not better than, ours. After all, just when we thought medical costs were gaining traction after sizeable increases in December and January, the February data showed medical costs declining, and we simply remain confused by it all. We think, however, the overriding theme in the March inflation data (and that for the next few months) is that base effects will distort the signal being sent in the inflation data, which is why we'll remain focused on our big three, even if we continue to be vexed by one of our big three.

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