ECONOMIC PREVIEW

REGIONS

Week of March 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%	The good news is that lots of people got jobs in February, the even better news is that no one got a raise in February. While by no means is that our take on the February employment report, that seems to be how many are reacting to nonfarm payrolls rising by 313,000 jobs while average hourly earnings notched only a puny 0.1 percent increase. And, under the "oh by the way" heading, the initial estimate of January hourly earnings, you know, the one that incited the Great Inflation Scare of 2018, was revised lower. Just as many saw the initial January print as "cementing the case" for four Fed funds rate hikes this year, many are now taking the February wage data as keeping the FOMC on course for "only" three rate hikes in 2018. Good grief, it's early-March and nothing at all is settled. Just as is the case with inflation in the broader economy, the FOMC is expecting to see wage growth pick up over the course of 2018, meaning wage growth only becomes a story if it surprises the FOMC to the upside but, as with inflation, there is nothing to suggest that is the case at present. If that changes, so too will the FOMC's view of the appropriate path of funds rate hikes.
February Consumer Price Index Tuesday, 3/13 Range: -0.1 to 0.3 percent Median: 0.2 percent	Jan = +0.5%	Up by 0.1 percent, yielding a year-on-year increase of 2.2 percent. The February CPI report has something for everyone no matter how concerned, or not, they are about inflation. Those with a more sanguine view can take comfort in the fact that the month-to-month change will be much smaller than in January, while the inflation alarmists can, well, sound the alarm over the fact the year-on-year change will have increased from January's 2.1 percent print. Either way, energy prices should be a drag on the headline CPI and the more relevant story will be told by the core CPI.
February Consumer Price Index: Core Tuesday, 3/13 Range: 0.1 to 0.3 percent Median: 0.2 percent	Jan = +0.3%	Up by 0.2 percent, for a 1.8 percent year-on-year increase. As usual, we'll focus on our "big three" core inflation drivers, i.e., rents, medical costs, and core goods prices. We look for both primary rents and owners' equivalent rents to print 0.3 percent, but expect these to be "soft" 0.3 percent prints, i.e., to round up to 0.3. We still look for growth in primary rents to decelerate over the course of this year. Medical costs are starting out 2018 more strongly than they started out 2017. The question remains whether these larger gains will be sustained over the entire year, we think probably they will. Core goods prices should be more or less flat for the month following a spike in January, but in keeping with patterns of recent years, apparel prices should post another hefty increase (though not as hefty as in January) before turning lower over coming months. Our forecast would leave core goods prices down yet again on a year-on-year basis – February would be the 58th time in the last 59 month core goods prices were lower year-on-year. In short, while core inflation may be firming, there are simply no signs that it is advancing more rapidly than the FOMC expects.
February Retail Sales Wednesday, 3/14 Range: 0.1 to 0.6 percent Median: 0.4 percent	Jan = -0.3%	Up by 0.4 percent. As is the case in any given month, we have virtually no confidence in our forecast of February retail sales, but we are highly confident that, whatever the number we're told Wednesday, it won't be the number a month from now. While we get the notion of a post-holiday pause and that transitory factors such as the bomb cyclone and the flu distorted the January data, by no means do we believe consumer spending was as weak as implied by the initial estimate of January retail sales. Hence, either that initial estimate will be revised higher or February's increase will be larger than our forecast anticipates. It makes sense that sales at furniture and appliance stores, for instance, will have been held down in January by transitory factors, which would imply sizeable increases in February. But, the initial estimate of January sales by nonstore retailers looked oddly weak so we expect some upward revision to that estimate and a more trend-like increase for February. Additionally, as gift cards are booked as retail sales when the cards are redeemed, not when the cards are purchased, to the extent the weather and/or the flu kept people out of the stores in January gift card redemption could pose an upside risk to our forecast for February sales.
February Retail Sales: Ex-Auto Wednesday, 3/14 Range: 0.2 to 0.7 percent Median: 0.4 percent	Jan = 0.0%	Up by 0.5 percent.
Feb. Retail Sales: Control Group Wednesday, 3/14 Range: 0.3 to 0.7 percent Median: 0.4 percent	Jan = 0.0%	Up by 0.6 percent.
February PPI: Final Demand Wednesday, 3/14 Range: 0.0 to 0.3 percent Median: 0.1 percent	Jan = +0.4%	Unchanged, which would leave the headline PPI up 2.7 percent year-on-year.

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February PPI: Core Wednesday, 3/14 Range: 0.0 to 0.3 percent Median: 0.2 percent	Jan = +0.4%	Up by 0.1 percent, which would translate into a 2.6 percent year-on-year increase..
January Business Inventories Wednesday, 3/14 Range: 0.3 to 0.7 percent Median: 0.6 percent	Dec = +0.4%	We look for total business inventories to be up by 0.6 percent and for total business sales to have fallen by 0.3 percent.
February Housing Permits Thursday, 3/15 Range: 1.280 to 1.392 million units Median: 1.328 million units SAAR	Jan = 1.377 million units SAAR	Down to an annualized rate of 1.337 million units. For both housing permits and housing starts, the lower headline numbers anticipated by our forecast reflect multi-family activity settling back after an oddly large increase in the January data as single family activity continues to grind higher. The January increases in multi-family starts and permits in part reflect the generous seasonal adjustment factors typically applied to the January data in any given year, but the raw data also show jumps in both permits and starts in the South region which could, at least to some extent, reflect ongoing rebuilding after the hurricanes in Florida and Texas. We don't expect to see that same level of multi-family activity in the February data. On a not seasonally adjusted basis, we look for total housing permits of 94,900 units, reflecting higher single family and lower multi-family permit issuance. Our forecast would leave the running 12-month total of not seasonally adjusted permits at 1.274 million units and the running 12-month total of unadjusted single family permits at 833,000 units.
February Housing Starts Thursday, 3/15 Range: 1.250 to 1.325 million units Median: 1.290 million units SAAR	Jan = 1.326 million units SAAR	Down to an annualized rate of 1.296 million units which reflects a decline in multi-family starts offsetting an increase in single family starts. On a not seasonally adjusted basis, we look for total housing starts of 89,700 units, which would leave the running 12-month total of not seasonally adjusted starts at 1.213 million units. Our forecast would leave the running 12-month total of unadjusted single family starts at 856,000 units, the highest since May 2008. Though the data on completions get little attention, they are worth watching on two fronts. First, we expect the unadjusted data to show the running 12-month total of single family completions pushed over 800,000 units for the first time since year-end 2008. Second, we'll be looking for signs that the rate of multi-family completions is increasing. We look for February to be the 15th consecutive month in which there were more than 600,000 multi-family units under construction, a backlog the magnitude of which has not been seen since the mid-1970s. At some point the rate of multi-family completions is bound to pick up, which is one reason we look for rent growth to slow as we move through 2018. Though it is possible that persistently lean inventories in the for-sale segment of the housing market could induce some developers to undertake apartment-to-condo conversions, thus diminishing the extent of the backlog of apartment units under construction, we don't see this as being a number nearly big enough to tame the looming wave of supply of rental apartments.
February Industrial Production Friday, 3/16 Range: 0.0 to 0.6 percent Median: 0.3 percent	Jan = -0.1%	Up by 0.3 percent. Utilities output is likely to be down sharply, largely offsetting the strong bounce back our forecast anticipates in mining output after a weak January, but we look for a decent gain in manufacturing output to push the overall index higher. Our forecast would leave total IP up by 3.6 percent year-on-year.
February Capacity Utilization Rate Friday, 3/16 Range: 77.4 to 77.9 percent Median: 77.7 percent	Jan = 77.5%	Up to 77.7 percent.

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