ECONOMIC PREVIEW

REGIONS

Week of May 7, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 12-13 FOMC meeting):* Target Range Midpoint: 1.875 to 1.875 percent Median Target Range Midpoint: 1.875 percent	Range: 1.50% to 1.75% Midpoint: 1.625%	It's the "all inflation all the time" edition of our *Economic Preview;* while this week's slate of data may be light, it is heavy on inflation data. While it has been well noted that quirks in the data related to last year's plunge in prices for cell phone service plans are biasing year-on-year comparisons of consumer prices higher, it is much harder to dismiss accelerating growth in prices of raw materials and intermediate goods. Though some of this can be tied to tariffs on certain metals, that is not a general explanation. It is telling that the "prices paid" component of the ISM's indexes for both the manufacturing and nonmanufacturing sectors have pushed progressively higher over the past several months, beginning well before any tariff effects. To us, this is simply a reflection of faster global economic growth having considerably pared down remaining slack, thus putting upward pressure on prices for materials and commodities. Our view is that slower global growth in Q1 is much more transitory than structural, which means upward pressure on input prices will persist at the same time labor costs are poised to rise at a faster pace over coming quarters. It is interesting that against this backdrop the FOMC noted in last week's post-meeting statement that their inflation objective is "symmetric." Symmetry, however, has its limits, and those limits may tested sooner rather than later.
April PPI: Final Demand Wednesday, 5/9 Range: 0.2 to 0.6 percent Median: 0.2 percent	Mar = +0.3%	<u>Up</u> by 0.3 percent, for a year-on-year increase of 2.9 percent.
April Core PPI Wednesday, 5/9 Range: 0.1 to 0.3 percent Median: 0.2 percent	Mar = +0.3%	<u>Up</u> by 0.1 percent, which yields a year-on-year increase of 2.4 percent.
April Consumer Price Index Thursday, 5/10 Range: 0.1 to 0.4 percent Median: 0.3 percent	Mar = -0.1%	<u>Up</u> by 0.3 percent, leaving the headline CPI up 2.5 percent year-on-year. While retail gasoline prices typically rise in the month of April, this April's increase was larger than normal for the month, meaning it will overwhelm the seasonal adjustment factors. As such, gasoline will add one-tenth of a point to the change in the total CPI. Also keep in mind that, as was the case with the March data, the April year-on-year comparisons will be biased higher by last year's plunge in prices for cell phone service. One interesting dynamic is that prices of raw materials and intermediate goods are rising at a faster pace than are prices for consumer goods and services which, along with what has been some acceleration in the growth of labor costs, is putting pressure on profit margins. What remains to be seen is the extent to which sellers of consumer goods and services will attempt to push higher input costs on to consumers. It has been and remains the case that service providers have more success in doing so than do sellers of consumer goods, but what to watch over coming months is whether, or to what extent, sellers of goods are able to exercise more pricing power.
April Core Consumer Price Index Thursday, 5/10 Range: 0.1 to 0.3 percent Median: 0.2 percent	Mar = +0.2%	<u>Up</u> by 0.2 percent, for a year-on-year increase of 2.2 percent. As with the total CPI, there is an upward bias in the over-the-year comparison. As usual, our main focus will be on what we have referred to as our "big three" drivers of core inflation in 2018, i.e., rents, core goods prices, and medical care costs. Growth in apartment rents is slowing and will slow further as a monster pipeline of units under construction begins to clear and more units come on line. That, however, will be offset to some extent by still-robust growth in rents on single family homes, which now comprise a larger share of the rental housing stock than has been the case in the past. As rents are by nature somewhat sticky, the behavior of single family rents pretty much ensures that the deceleration in overall rent growth will remain very gradual over the near term. As for core goods prices, after a run of three monthly increases came to an end in March we expect another modest decline in the April data, leaving core goods prices down year-on-year for a 59th time in the past 61 months. A firmer U.S. dollar could easily blunt the little upward momentum there was in core goods prices. As for medical care costs, well, making sense to us isn't a requirement for inclusion in our big three. We look for a moderate increase in the April data, and beneath the month-to-month noise in this series, the rate at which medical care costs are rising is picking up, though at nothing resembling a steady pace. As rents make up over 40 percent of the core CPI, gradually softening rent growth will counter at least some of the upward pressure from rising core goods prices and medical care costs. Keep in mind, though, that rents have a much lower weight in the core PCE deflator, which is the FOMC's preferred gauge of inflation, but the core PCE deflator will be plagued by the same upward bias in the over-the-year comparisons over coming months.

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