ECONOMIC PREVIEW

REGIONS

Week of November 5, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 7-8 FOMC meeting):* Target Range Midpoint: 2.125 to 2.125 percent Median Target Range Midpoint: 2.125 percent	Range: 2.00% to 2.25% Midpoint: 2.125%	A sparsely populated data calendar makes for a quiet week, and even this week's FOMC meeting should be a fairly quiet gathering, with no change in the Fed funds rate, no post-meeting press conference, and few, if any, changes to the Committee's post-meeting policy statement. There is no reason, however, to think the FOMC will back away from raising the funds rate at their December meeting. That said, it is somewhat striking that many market participants, more than a few members of our profession, and even a couple of FOMC members are making a case for the FOMC to hit the pause button. Some are citing the recent turmoil in equity markets as grounds for a pause. Our view is that the FOMC is not, at least not yet, uncomfortable with the tightening in financial conditions brought about by lower equity prices. Indeed, Fed Chairman Powell has frequently pointed out that, rather than inflation heating up, unduly loose financial conditions may pose a bigger threat to the expansion, and the focus on financial conditions is consistent with what Mr. Powell has described as a risk management approach to setting monetary policy. Even so, others make a case for the FOMC pausing on the basis that inflation and inflation expectations remain anchored, hence there is little rationale for the FOMC to continue pushing the Fed funds rate higher. That is true, but the relevant question is for how much longer. It is, or should be, quite clear that rising input costs – labor and non-labor – and rising shipping costs are putting pressure on profit margins, and tariffs on imported goods are only adding to pressure on margins. At some point this is bound to embolden firms to pass along these higher costs in the form of price increases on final goods and services – we'd argue firms have already begun to do so to a greater extent than is being captured in measured inflation. We can make an even more fundamental argument against the FOMC hitting the pause button. The real, or, inflation-adjusted, effective Fed funds rate is still negative, as it has been since late-2009, and we can think of absolutely no justification for that to still be the case in an expansion now in its tenth year with increasingly less slack in the labor market and in the industrial sector. In other words, even accounting for the funds rate hikes already on the books, monetary policy remains accommodative, and we get the sense that many, though certainly not all, FOMC members are uncomfortable with this policy stance. Though we see no reason for the FOMC to move at a faster pace, there is every reason for them to continue moving policy to a neutral stance. Where we think the Committee has gotten it wrong, however, is in communicating its intentions. That a negative inflation-adjusted effective funds rate is not appropriate at this point in the economic cycle is a fairly easy case to make, but we think this point has been reduced to background noise amidst talk from some Committee members of pushing the funds rate past neutral. That this has spooked market participants is not surprising. How about we decide what we think neutral is, get there, see what the world looks like at that point, and then decide whether or not going further is warranted.
October ISM Non-Manufacturing Index Monday, 11/5 Range: 57.5 to 62.0 percent Median: 59.3 percent	Sep = 61.6%	Down to 58.6 percent. We've argued that the ISM's gauge of manufacturing activity had been artificially boosted over the past several months by firms, domestic and foreign, pulling activity forward in response to anticipated changes in trade policy. To the extent such effects have also been present in the non-manufacturing sector survey data, they will not have been nearly as pronounced, but at the same time the non-manufacturing survey data have been a bit volatile of late. For instance, sizeable increases in a few key components pushed the headline non-manufacturing index higher in September, and the decline anticipated by our October forecast simply reflects payback. What is more relevant, however, is that our forecast would still leave the headline index at a level consistent with solid growth in the non-manufacturing sector. That growth is settling into a slower but more sustainable pace should be neither surprising nor alarming.
October PPI: Final Demand Friday, 11/9 Range: 0.1 to 0.4 percent Median: 0.3 percent	Sep = +0.2%	Up by 0.2 percent, which would yield a year-on-year increase of 2.5 percent.
October PPI: Final Demand Friday, 11/9 Range: 0.2 to 0.4 percent Median: 0.2 percent	Sep = +0.2%	Up by 0.2 percent, good for a year-on-year increase of 2.3 percent.

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