# ECONOMIC PREVIEW

REGIONS

Week of January 7, 2019

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint**<br>*(After the January 29-30 FOMC meeting):*<br>Target Range Midpoint: 2.375 to 2.375 percent<br>Median Target Range Midpoint: 2.375 percent | Range:<br>2.25% to 2.50%<br>Midpoint:<br>2.375% | In a sign of just how absurd things have gotten, in a live interview prior to the release of the December employment report, Cleveland Fed President Loretta Mester was asked – in all seriousness – if it's true that the Fed wants to throw people out of work and slow the economy. Rather than giving this question the answer it deserved, Dr. Mester exhibited more tact and self-control than we've been able to put together over the course of a lifetime, explaining that she sees no urgency in raising rates given that inflation remains tame, and noting that where monetary policy goes from here depends on where the data, particularly the inflation data, take it. All of which sounded perfectly reasonable to us, but her interviewers seemed intent on exacting a promise from Dr. Mester that the FOMC would never, ever raise interest rates again. Any such promise would have looked somewhat silly upon the release of the December employment report, which showed nonfarm payrolls rose by 312,000 jobs and wage growth matched the cycle high. While the unemployment rate did tick up to 3.9 percent, that was due to a jump in the participation rate and, as such, is not concerning. To be sure, we think reported December job growth was a bit overstated, but even allowing for that the December employment report is, or at least should be, a much needed reminder that the U.S. economy is on firm footing |
| **November Factory Orders** Monday, 1/7<br>Range: -1.2 to 1.0 percent<br>Median: 0.4 percent | Oct = -2.1% | <u>Down</u> by 0.7 percent. While civilian aircraft orders pushed durable goods orders higher, we expect the steep decline in crude oil prices did a (negative) number on orders for nondurable goods, thus pulling total orders lower. Perhaps one day we'll actually know – with the Commerce Department on ice due to the partial shutdown of the federal government, this is one of the releases that will be delayed. |
| **Dec. ISM Non-Manufacturing Index** Monday, 1/7<br>Range: 56.0 to 60.3 percent<br>Median: 59.0 percent | Nov = 60.7% | <u>Down</u> to 59.1 percent. Given the surprisingly sharp decline in the December ISM Manufacturing Index, many will be bracing for the worst prior to the release of the Non-Manufacturing Index. But, to the extent we are correct in our view that trade policy has been wreaking havoc on the manufacturing and trade data over recent months, there will have been much less impact in other areas of the economy, which is why we think the ISM's gauge of non-manufacturing activity will hold up fairly well. Energy, however, is likely to be a soft spot in the December data. |
| **November Trade Balance** Tuesday, 1/8<br>Range: -$55.5 to -$51.6 billion<br>Median: -$54.0 billion | Oct = -$55.5 billion | <u>Narrowing</u> to -$53.8 billion. Lower crude oil prices will impact both sides of the ledger here, but on net we look for a modest narrowing in the deficit in the goods account along with a slightly larger surplus in the services account. The net result should be a smaller overall trade deficit for November, but trade will nonetheless be a drag on Q4 real GDP growth. As with factory orders, the release of the November trade data will be delayed due to the partial government shutdown. |
| **December Consumer Price Index** Friday, 1/11<br>Range: -0.2 to 0.2 percent<br>Median: -0.1 percent | Nov = 0.0% | <u>Down</u> by 0.2 percent, for a year-on-year increase of 1.9 percent. Sharply lower retail gasoline prices knocked three-tenths of a point off of the monthly change in the total CPI, and while there are offsets, the net result will be a decline. But, given that our unrounded forecast is -0.15 percent, a headline print of either -0.1 or -0.2 percent won't surprise us. Gasoline will exact a similar toll on the January CPI, and this will pull headline inflation further below 2.0 percent in the early months of 2019. This is one reason we, not to mention the FOMC, will be more keenly focused on patterns in core inflation over coming months. Keep in mind that, with the BEA idled by the partial government shutdown, there will be no data on the PCE deflator – the FOMC's preferred gauge of inflation. As such, the CPI, which will be released as scheduled, will be the only available source of data on retail level inflation. |
| **December Consumer Price Index: Core** Friday, 1/11<br>Range: -0.2 to 0.2 percent<br>Median: 0.2 percent | Nov = +0.2% | <u>Up</u> by 0.2 percent, which would yield a year-on-year increase of 2.2 percent. Our forecast is basically a rounding error away from showing a 0.1 percent increase, leaving a number of "swing factors" that could determine the headline print. One such swing factor is prices for used motor vehicles, which have been on a wild ride of late as a change in the BLS's methodology has led to increased volatility in this series, which of course tells us nothing useful about underlying inflation pressures (come back soon, PCE deflator). Rents, medical care costs, and apparel prices (depending on the extent of holiday season discounting) could also sway the core CPI. Of more significance than whether we'll see a 0.1 or 0.2 percent print on the core CPI is that while energy prices will weigh on headline inflation early in 2019, we don't rule out a modest acceleration in core inflation (core CPI inflation has run about 25-basis points higher than core PCE inflation over the past two years) over coming months, though not to the point that the FOMC would be alarmed. |

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