ECONOMIC PREVIEW

REGIONS

Week of February 11 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 19-20 FOMC meeting):* Target Range Midpoint: 2.375 to 2.375 percent Median Target Range Midpoint: 2.375 percent	Range: 2.25% to 2.50% Midpoint: 2.375%	It will take several more weeks to clear the backlog of economic data releases delayed by the partial government shutdown. That said, the data that have been released show the labor market remains rock solid, the long-running and broad based expansion in the factory sector continues, and inflation remains notably muted (see below). That latter point is important, as muted inflation pressures give the FOMC the latitude to remain patient in assessing the proper course of monetary policy.
January Consumer Price Index Wednesday, 2/13 Range: 0.0 to 0.2 percent Median: 0.1 percent	Dec = -0.1%	Up by 0.1 percent, good for a year-on-year increase of 1.5 percent. Further declines in retail gasoline prices were a drag on the total CPI in January, by our estimate taking roughly one-tenth of a percentage point off of the change in the total CPI. While energy will bias headline inflation lower in the near term, there are few signs of meaningful inflation pressures elsewhere in the CPI data, which will give the FOMC latitude to remain on a patient pause over coming months.
January CPI: Core Wednesday, 2/13 Range: 0.1 to 0.3 percent Median: 0.2 percent	Dec = +0.2%	Up by 0.3 percent, yielding a year-on-year increase of 2.1 percent. We see apparel prices and rents as the main risks to our forecast. There is always a good deal of seasonal noise in apparel prices in the January CPI data, in part because the extent of holiday season discounting varies from one year to the next. Discounting in apparel prices was less pronounced this holiday season than in recent years. This should set up a smaller than typical January increase in apparel prices on a seasonally adjusted basis, which is what we've incorporated into our forecast. Either way, this is little more than transitory noise, and the path of rents is of much more significance given that rents account for over 40 percent of the core CPI. While we've for some time been on record as expecting rent growth to slow, both market rents and owners' equivalent rents posted notably small increases in December. Our forecast anticipates somewhat of a bounce in January, but this doesn't at all change our outlook for decelerating rent growth in 2019, which in turn will restrain core CPI inflation.
January PPI: Final Demand Thursday, 2/14 Range: -0.1 to 0.4 percent Median: 0.1 percent	Dec = -0.2%	Up by 0.1 percent, which translates into a year-on-year increase of 2.0 percent.
January PPI: Core Thursday, 2/14 Range: 0.1 to 0.3 percent Median: 0.2 percent	Dec = -0.1%	Up by 0.2 percent, which would leave the core PPI up 2.5 percent year-on-year.
December Retail Sales: Total Thursday, 2/14 Range: -0.2 to 1.2 percent Median: 0.1 percent	Nov = +0.2%	Up by 0.1 percent. As with November retail sales, sharply lower prices mean gasoline will be a material drag on growth in total retail sales. Motor vehicle sales will be a support for top-line sales, but only a modest one, hence our matching prints on total and ex-auto retail sales. Price effects pose some upside risks to our forecasts of grocery store sales and restaurant sales, at least based on the price increases in these categories reported in the December CPI data. Sales by nonstore retailers, which includes online sales, should post a solid gain but not on the order of the increase seen in the November data. This also raises an ongoing issue with the retail sales data, specifically, what are often sizeable revisions to the initial estimate of sales in the prior month. We suspect the decline in gasoline station sales and the increase in sales by nonstore retailers in the initial November data were both too small, and if we are correct then our forecasts for December sales in these categories could be too low in the case of gasoline and too high in the case of nonstore retailers. Which of course is why we never get all that wrapped up in the initial estimate of sales in any given month. That said, when all is said, done, revised, and released, we think Q4 2018 will have proven to be another quarter of solid growth in consumer spending, which would be even more impressive given the beating equity prices took and the seemingly endless parade of "the end is nigh" headlines during Q4. NOTE: This release, originally scheduled for January 16, was delayed by the partial government shutdown. The report on January retail sales was scheduled for February 15 but is delayed and an updated release date has not yet been announced.
December Retail Sales: Ex-Auto Thursday, 2/14 Range: -0.3 to 0.8 percent Median: 0.0 percent	Nov = +0.2%	Up by 0.1 percent.
December Retail Sales: Control Group Thursday, 2/14 Range: 0.1 to 0.8 percent Median: 0.4 percent	Nov = +0.9%	Up by 0.6 percent, which would put Q4 growth in nominal control sales at an annualized rate of 6.0 percent. Given how tame inflation was, this poses some upside risk to our forecast for growth in real consumer spending in the Q4 GDP data.

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November Business Inventories Range: 0.0 to 0.5 percent Median: 0.3 percent	Thursday, 2/14	Oct = +0.6%	Total business inventories will be up by 0.2 percent, and total business sales will be down by 0.4 percent. NOTE: This release, originally scheduled for January 16, was delayed by the partial government shutdown. The report on December business inventories was scheduled for February 15 but is delayed and an updated release date has not yet been announced.
January Industrial Production Range: -0.3 to 0.3 percent Median: 0.2 percent	Friday, 2/15	Dec = +0.3%	Down by 0.1 percent. Manufacturing output rose by 1.1 percent in December, but we look for some payback in the January data, particularly given that the January employment report shows a decline in aggregate hours worked in manufacturing. Additionally, while January ended with a brutal cold spell, keep in mind that weather earlier in the month was atypically mild. Such sharply divergent intra-month weather patterns make forecasting utilities output tricky. Our sense is that the cold spell came so late in the month that it will not be captured, at least not fully, in the industrial production data, and the effects of the mild weather earlier in the month could easily be exaggerated to the downside in the seasonally adjusted data. The bottom line is that if our forecast of utilities output misses the mark, our forecast for total industrial production will also miss the mark, perhaps significantly so.
January Capacity Utilization Rate Range: 78.5 to 78.9 percent Median: 78.7 percent	Friday, 2/15	Dec = 78.7%	Down to 78.6 percent.

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