ECONOMIC PREVIEW

REGIONS

Week of March 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%	We may not know what "the" right number is, but we do know that 20,000 isn't the right number, nor is 311,000 the right number. We are of course referring to the underlying trend rate of job growth and, just as the estimate of January job growth is much too high, the estimate of February job growth is much too low. The average of the two, however, is right in line with our forecast of full-year 2019 job growth. We, and almost everyone else, expected the February data to bring payback for what were exaggerated estimates of job growth in December and January (thank you, seasonal adjustment noise), so in that sense the estimate of February job growth is not concerning. What does matter is that the pace of U.S. economic growth is slowing, just as we, and almost everyone else, has expected all along. This is not something that happens in a straight line, so the monthly changes in any given data series can take on added volatility. This simply illustrates our point that the underlying trends are what matter the most, and for the labor market, those trends are still quite healthy.
January Retail Sales: Total Monday, 3/11 Range: -0.2 to 0.5 percent Median: 0.1 percent	Dec = -1.2%	<u>Up</u> by 0.1 percent. The first order of business here will be the revisions to the initial estimate of December retail sales, which we've made quite clear we do not buy. The problem, however, is that is what we had to work with when we made our forecast for January retail sales, so suffice it to say we have a much lower than normal degree of confidence in our forecast. What we do know is that, courtesy of a sharp decline in unit sales, motor vehicles should be a meaningful drag on top-line sales. We also know that a steep decline in retail prices means gasoline should also be a material drag on top-line sales. What we don't know is the extent to which these factors will be picked up in the initial estimate of January retail sales. One wild card in the initial estimate of January retail sales is what becomes of the reported 3.9 percent decline in sales by nonstore retailers in December, which we find nonsensical. By all rights, there should be an upward revision to that initial estimate for December, but, if not, then there should be a significant increase in the January data – this factor alone could easily push our forecast for top-line sales off line. We also expect a rebound in apparel sales thanks in part to more seasonal winter weather. Depending on whether, or to what extent, the initial estimate of December retail sales is revised, our forecast of January sales could be way off the mark in terms of the monthly percentage change, but on or close to the mark in terms of the dollar volume of sales, and it is the latter, not the former, that matters. Either way, by no means is consumer spending on as flimsy ground as implied by that initial estimate of December retail sales.
January Retail Sales: Ex-Auto Monday, 3/11 Range: -0.1 to 0.9 percent Median: 0.5 percent	Dec = -1.8%	<u>Up</u> by 0.4 percent.
January Retail Sales: Control Group Monday, 3/11 Range: -0.3 to 1.1 percent Median: 0.6 percent	Dec = -1.7%	<u>Up</u> by 0.9 percent.
December Business Inventories Monday, 3/11 Range: 0.4 to 0.8 percent Median: 0.6 percent	Nov = -0.1%	We look for total <u>business inventories</u> to be <u>up</u> by 0.6 percent. Total <u>business sales</u> will be <u>down</u> by 0.8 percent – on top of the dismal retail sales data, sales on the manufacturing and wholesale levels also fell in December.
February Consumer Price Index Tuesday, 3/12 Range: 0.1 to 0.3 percent Median: 0.2 percent	Jan = 0.0%	<u>Up</u> by 0.2 percent, which would yield a year-on-year increase of 1.6 percent. With the February data, gasoline transitions from being a drag to being a support for the total CPI, which will put upward pressure on headline inflation over coming months. Elsewhere in the data, however, there are few signs that inflation pressures are becoming more intense. One wild card in the February data is apparel prices, as there tends to be a good deal of seasonal adjustment noise in this category in January and February of any given year. Medical care costs are another wild card in the February data though, admittedly, for some time now we have been looking for a more pronounced pick-up in medical care cost inflation than has turned up in the CPI data. The one item in the entire CPI report we will be the most interested in is core goods prices. After years of core goods price deflation, core goods prices reversed course over the final months of 2018, and this momentum carried over into the January data. That said, the cumulative effects of a stronger U.S. dollar in late-2018 may have caught up to core goods prices. Our inflation outlook is in part based on the expectation that rising core goods prices will offset slowing rent growth and thus act as a source of modest upward pressure on core inflation as 2019 progresses, which is why we'll be eager to see the February print for this category.

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

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February Consumer Price Index: Core Tuesday, 3/12 Range: 0.2 to 0.3 percent Median: 0.2 percent	Jan = +0.2%	Up by 0.2 percent, leaving the core CPI up 2.2 percent year-on-year.
February PPI: Final Demand Wednesday, 3/13 Range: 0.1 to 0.3 percent Median: 0.2 percent	Jan = -0.1%	Up by 0.3 percent, which translates into a year-on-year increase of 2.0 percent.
February PPI: Core Wednesday, 3/13 Range: 0.0 to 0.3 percent Median: 0.2 percent	Jan = +0.3%	Up by 0.2 percent, for a year-on-year increase of 2.6 percent.
January Durable Goods Orders Wednesday, 3/13 Range: -2.0 to 3.5 percent Median: -0.8 percent	Dec = +1.2%	Up by 1.2 percent. In any given year, orders for nondefense aircraft typically decline sharply in the month of January, but the decline this January was less harsh than is normal. As such, we look for the seasonal adjustment factors to overcompensate, thus pushing headline orders higher. If we're wrong on this point, our forecast for headline orders will be too high, but, either way, this is nothing more than fretting over meaningless noise in the interest of trying to nail a forecast of a number that doesn't really matter. Umm, that wasn't out loud, was it? As always, the more relevant numbers will be ex-transportation orders, which we expect to be up by 0.3 percent, and core capital goods orders, which we expect to be up by 0.6 percent.
January Construction Spending Wednesday, 3/13 Range: 0.2 to 1.0 percent Median: 0.6 percent	Dec = -0.6%	Up by 0.5 percent.
January New Home Sales Thursday, 3/14 Range: 575,000 to 647,000 units Median: 623,000 units SAAR	Dec = 621,000 units SAAR	Up to an annualized sales rate of 647,000 units. On a not seasonally adjusted basis, we look for 50,000 new home sales. This would be the best monthly total since July, which simply reflects the degree to which sales softened over the final months of 2018. Lower mortgage interest rates should provide a modest tailwind for new home sales – you will see any such effects in new home sales before you will see it in existing home sales, as new home sales are booked at the signing of the sales contract while existing home sales are booked at closing. The January data on single family permits and starts point to solid new home sales in the South region but suggest new home sales could underperform our scaled down forecast for the Midwest region. Our forecast would put the running 12-month total of not seasonally adjusted sales at 624,000 units.
February Industrial Production Friday, 3/15 Range: -0.2 to 1.1 percent Median: 0.4 percent	Jan = -0.6%	Up by 0.4 percent. Our forecast anticipates output in the manufacturing and mining sectors to be more or less flat, but a spike in utilities output should push the total IP index higher. Our forecast would leave total industrial production up 3.6 percent year-on-year, but would leave manufacturing output up just 1.4 percent year-on-year.
February Capacity Utilization Rate Friday, 3/15 Range: 77.9 to 79.0 percent Median: 78.5 percent	Jan = 78.2%	Up to 78.5 percent.

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