Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on January 31-February 1):* Target Range Midpoint: 0.625 to 0.625 percent Median Target Range Midpoint: 0.625 percent		0.625%	Granted, in a 42-page report, 42 pages full of numbers at that, there will generally be something for everyone. In other words, any one person can pull out any one number and run with it, and use it as "proof" of whatever point they want to make. Still, we're somewhat bemused to hear some analysts tout the December employment report as proof the FOMC needs to move at a much faster pace in the process of normalizing the Fed funds rate. The particular number these particular analysts are running with is the reported 0.4 percent increase in average hourly earnings in December, good for a year-on-year increase of 2.9 percent. This puts hourly earnings growth right on the doorstep of the 3.0-to-3.5 percent growth that would be seen in a fully healthy labor market. Except of course that it doesn't. There is what by now is a well-known calendar quirk in the data that makes earnings look stronger for months in which the 15th of the month falls in the establishment survey week, and look weaker when the 15th falls outside of the survey week. In December the 15th fell in the survey week; in November it did not and earnings are reported to have slipped two cents an hour in November. Apparently this quirk is not as well-known as we thought but, seriously, this is why there are underlying trends to analyze. Yes, earnings growth has picked up but is neither as strong as implied in the December data nor as week as implied in the November data. Yes, there has been considerable progress in the labor market but, no, we are not at full employment. We see the December employment report as in line with the FOMC's gradual approach to normalizing the funds rate.
December Retail Sales Range: 0.3 to 0.9 percent Median: 0.7 percent	Friday, 1/13	Nov = +0.1%	Up by 0.7 percent. Motor vehicles, gasoline, online sales, and restaurants should provide much of the support for total retail sales. That said, we do see some downside risk to our call. In any given month, initial estimates for sales by motor vehicles dealers, nonstore retailers, and restaurants have proven notoriously unreliable so, as always, the revisions will ultimately tell the "real" story. Case in point is nonstore retailers, which includes but is not limited to online sales. By all accounts, online sales rose significantly during the holiday sales season, at the expense of brick and mortar stores. While the December retail sales report may bring evidence of the latter, it will say nothing about the former, as online sales are reported with an additional one-month lag. So, the initial estimate for December sales by nonstore retailers will be revised, likely significantly so, once more data on online sales is available (online sales account for roughly 88 percent of sales by nonstore retailers). Another source of downside risk to our forecast is that what has for some time been a weak retail pricing environment will have been even weaker under the weight of heavy holiday discounting. This will be most apparent in sales at electronics, apparel, and department stores. These caveats aside, we still expect a healthy headline number. Our call would leave nominal Q4 total retail sales up at an annualized rate of 6.4 percent over Q3. Improved consumer confidence, ongoing improvement in labor market conditions, and rising household net worth mean consumer spending should remain a key driver of overall economic growth in 2017. The question, however, is how much additional support business investment and residential investment will provide.
December Retail Sales: Ex-Auto Range: 0.1 to 0.9 percent Median: 0.5 percent	Friday, 1/13	Nov = +0.2%	Up by 0.4 percent.
December Retail Sales: Control Range: 0.2 to 0.6 percent Median: 0.4 percent	Friday, 1/13	Nov = +0.1%	Up by 0.5 percent. This would leave nominal Q4 control retail sales, a direct input into the GDP data, up at an annualized rate of 4.3 percent over Q3. This suggests consumer spending on goods will be supportive of Q4 GDP growth.
December PPI – Final Demand Range: 0.1 to 0.5 percent Median: 0.3 percent	Friday, 1/13	Nov = +0.4%	Up by 0.3 percent, which yields a year-on-year increase of 1.6 percent.
December Core PPI Range: 0.0 to 0.3 percent Median: 0.2 percent	Friday, 1/13	Nov = +0.4%	Up by 0.2 percent, which would translate into a year-over-year increase of 1.5 percent.
November Business Inventories Range: 0.2 to 0.7 percent Median: 0.5 percent	Friday, 1/13	Oct = -0.2%	We think total business inventories will be up by 0.5 percent, while total business sales will be up by 0.1 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