ECONOMIC PREVIEW

REGIONS

Week of April 10, 2017

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on May 2-3):* Target Range Midpoint: 0.875 to 0.875 percent Median Target Range Midpoint: 0.875 percent	0.875%	As was the case with the January and February reports, the March employment report is clouded by seasonal adjustment noise stemming from an atypically mild winter. The difference, however, is that noise boosted reported job growth in the first two months of this year but held down reported growth for March. Sort through this noise and you see that the underlying trend rate of job growth remains quite healthy. Speaking of noisy data, this week's CPI and retail sales reports will come with their own issues, and what we expect to be soft headline numbers will have no bearing on our view of the underlying trends in either series.
March PPI – Final Demand Thursday, 4/13 Range: -0.2 to 0.2 percent Median: 0.0 percent	Feb = +0.3%	<u>Down</u> by 0.1 percent, which leaves the headline PPI up 2.3 percent year-on-year.
March Core PPI Thursday, 4/13 Range: 0.0 to 0.3 percent Median: 0.2 percent	Feb = +0.3%	<u>Up</u> by 0.2 percent, which translates into a year-over-year increase of 1.8 percent.
March Consumer Price Index Friday, 4/14 Range: -0.1 to 0.3 percent Median: 0.0 percent	Feb = +0.1%	<u>Down</u> by 0.1 percent, which nonetheless yields a 2.6 percent year-on-year increase. Gasoline prices will be a significant weight on the headline CPI in the seasonally adjusted data. From 2011 through 2016, the average March increase in retail pump prices on a not seasonally adjusted basis was 7.8 percent, but this March the increase was less than one percent. As a result, this modest increase in the raw data will turn into a sizeable decrease in the seasonally adjusted data, which in our estimate will take two-tenths of a point off the change in the total CPI. Even without the drag from gasoline, however, inflation pressures remain fairly tame. That may seem an odd thing for us to say given the hefty year-on-year increase we are expecting, but that is more a reflection of easy comparisons than mounting inflation pressures. Over coming months the over-the-year comparisons will get harder, meaning headline inflation will decelerate.
March Core CPI Friday, 4/14 Range: 0.1 to 0.2 percent Median: 0.2 percent	Feb = +0.2%	<u>Up</u> by 0.2 percent, for a year-on-year increase of 2.3 percent. To our point above about inflation pressures remaining fairly tame, it took some upward rounding for us to get to 0.2 on the core CPI. One of the key things to watch here is the behavior of rents, which account for over 40 percent of the core CPI. Growth in market rents is easing, but only gradually – while apartment rents are clearly softening, rents on single family homes continue to rise at a rapid clip, and with single family homes accounting for a larger share of the BLS's sample of rental units, this is providing support for the overall measure of market rents. Owners' equivalent rent growth has also slowed, which is a bit puzzling given that house price appreciation has accelerated over recent months. We look for apparel prices to have retreated in March after oddly large increases in both January and February, while increases in medical care costs remain modest, at least as measured in the CPI data.
March Retail Sales Friday, 4/14 Range: -0.3 to 0.3 percent Median: 0.0 percent	Feb = +0.1%	<u>Down</u> by 0.1 percent. There's a lot going on underneath what we expect to be a lousy headline number. Motor vehicle sales fell sharply in March and, as such, should be a sizeable drag on top-line retail sales, and we look for gasoline and building materials to also have been drags on March sales. Delayed tax refunds and credits held down spending in February but a good part of that should have been made up for in March. One wild card – with the floating timing of Easter, it is inherently difficult to seasonally adjust the March and April retail sales data, and this year's mid-April Easter means sales at apparel and general merchandise stores could come up weaker in March than we are anticipating, though any such shortfall would be made up for in April.
March Retail Sales: Ex-Auto Friday, 4/14 Range: -0.1 to 0.7 percent Median: 0.2 percent	Feb = +0.2%	<u>Up</u> by 0.2 percent.
March Retail Sales: Control Group Friday, 4/14 Range: 0.2 to 0.6 percent Median: 0.3 percent	Feb = +0.1%	<u>Up</u> by 0.5 percent. As noted above, this year's late Easter poses some downside risk to our forecast here. Either way, Q1 will go down as a quarter to forget for consumer spending, but the reality is that the trend rate of growth of consumer spending is neither as weak as Q1 will look nor as strong as Q4 2016 was.
February Business Inventories Friday, 4/13 Range: 0.2 to 0.4 percent Median: 0.3 percent	Jan = +0.3%	Total business inventories were <u>up</u> by 0.3 percent, while total business <u>sales</u> were <u>up</u> by 0.2 percent.

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