ECONOMIC PREVIEW

REGIONS

Week of September 11, 2017

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 19-20 FOMC meeting):* Target Range Midpoint: 1.125 to 1.125 percent Median Target Range Midpoint: 1.125 percent	1.125%	While Hurricane Harvey may seem the obvious explanation for what is expected to be a jump in the headline CPI and only a middling gain in retail sales, Harvey had nothing to do with the former and little to do with the latter, as we explain below. While we expect a more immediate impact on the industrial production data, the full effects of Harvey won't be felt until the September data begin to roll in next month.
August PPI – Final Demand Wednesday, 9/13 Range: 0.1 to 0.4 percent Median: 0.3 percent	Jul = -0.1%	Up by 0.4 percent, yielding a 2.6 percent year-on-year increase.
August PPI – Core Wednesday, 9/13 Range: 0.0 to 0.3 percent Median: 0.2 percent	Jul = -0.1%	Up by 0.2 percent, which translates into a 2.1 percent year-on-year increase.
August Consumer Price Index Thursday, 9/14 Range: 0.2 to 0.4 percent Median: 0.3 percent	Jul = +0.1%	Up by 0.4 percent, for a year-on-year increase of 1.9 percent. Retail gasoline prices were up almost six percent on a seasonally adjusted basis in August, and that is before the spike in pump prices in the wake of Hurricane Harvey. We also look for a sharp bounce back in lodging fares following what in July was the largest monthly decline on record. These two factors alone will add over two-tenths of a point to the change in the total CPI in August. While we look for a modest increase in August, coming months could see steady downward pressure on food prices as the grocery industry comes to know, though clearly not love, the new kid on the block, i.e., Amazon.
August Consumer Price Index – Core Thursday, 9/14 Range: 0.1 to 0.2 percent Median: 0.2 percent	Jul = +0.1%	Up by 0.2 percent, which yields a year-on-year increase of 1.6 percent. We look for further gentle deceleration in year-on-year growth in rents, and though we expect a modest increase in core goods prices, that would still leave them down year-on-year. Medical costs are somewhat of a wild card; increases in June and July were well above trend, and while our forecast anticipates a smaller increase in August, we're not sure how confident we are in that call, which probably means we're not all that confident in it. We look for ex-shelter core inflation to post another paltry 0.6 percent year-on-year increase, indicating the ongoing lack of meaningful inflation pressure.
August Retail Sales Friday, 9/15 Range: -0.3 to 0.7 percent Median: 0.1 percent	Jul = +0.6%	Up by 0.2 percent. Motor vehicle sales will be a significant drag on top-line retail sales for August. While the tendency will be to blame that on Hurricane Harvey, which took about a week of sales days off line in a large market, we think there are two more significant factors. First and foremost, sales had already been trending lower and there was no reason to have expected that to change in August. Second, an unfriendly calendar – none of the Labor Day weekend fell into August this year – combined with an unfriendly seasonal adjustment factor made the seasonally adjusted annualized sales rate look worse than is actually the case, as not seasonally adjusted sales were up almost five percent in August. Elsewhere, price effects mean gasoline should provide a boost to top-line sales, and we may see some effect from Hurricane Harvey in higher sales at building material stores. It is also worth noting that if July sales by nonstore retailers are revised higher as we expect, given the initial estimate likely failed to capture the full effect of *Amazon Prime Day*, that could push August's growth in total, ex-auto, and control sales below our forecasts due to base effects.
August Retail Sales: Ex-Auto Friday, 9/15 Range: 0.0 to 0.9 percent Median: 0.5 percent	Jul = +0.5%	Up by 0.5 percent.
August Retail Sales: Control Group Friday, 9/15 Range: 0.2 to 0.6 percent Median: 0.3 percent	Jul = +0.6%	Up by 0.4 percent. Back-to-school spending should help control sales build on the solid increase posted in July. Real consumer spending is on course to post a solid gain in Q3, even if not matching Q2's robust growth rate.
August Industrial Production Friday, 9/15 Range: -0.4 to 0.6 percent Median: 0.1 percent	Jul = +0.2%	Up by 0.4 percent. We look for a sizeable increase in manufacturing output after a soft July. We expect the August data, specifically the mining sector, to show some effects of Hurricane Harvey, but the September data will show a much larger impact.
August Capacity Utilization Rate Friday, 9/15 Range: 76.3 to 77.1 percent Median: 76.8 percent	Jul = 76.7%	Up to 76.9 percent. Hurricane Harvey will lead to a significant decline in utilization in the mining sector, but as with the data on industrial production we expect this to be more fully reflected in the September utilization data than in the August data.
July Business Inventories Friday, 9/15 Range: 0.1 to 0.3 percent Median: 0.2 percent	Jun = +0.5%	We look for total business inventories to be up by 0.2 percent with total business sales posting an increase of 0.3 percent.

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