ECONOMIC PREVIEW

REGIONS

Week of November 13, 2017

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 12-13 FOMC meeting):* Target Range Midpoint: 1.375 to 1.375 percent Median Target Range Midpoint: 1.375 percent	Range: 1.00% to 1.25% Midpoint: 1.125%	The feast or famine pattern in economic data releases continues – for the second time in three weeks we've had to super-size our weekly *Preview* by adding a second page while there was no *Preview* in the middle week as there was nothing to preview. Oh well, we don't make the schedule, we just take the data as they come. In any event, as was the case with the data for the month of September, the data for October show the effects of Hurricanes Harvey and Irma. For the most part, however, this takes the form of unwinding of the effects seen in the September data. For instance, just as September's spike in gasoline prices boosted the headline CPI, gasoline prices reversing course in October will act as a drag on the headline CPI. We expect similar reversals, to varying degrees, in the October data on retail sales and industrial production. As we've noted before, however, after sorting through the hurricane related noise in the data nothing we've seen changes our view that the U.S. economy remains on a path of solid growth.
October PPI – Final Demand Tuesday, 11/14 Range: -0.1 to 0.3 percent Median: 0.1 percent	Sep = +0.4%	Unchanged, which would leave the headline PPI up 2.3 percent year-on-year.
October Core PPI Tuesday, 11/14 Range: 0.0 to 0.3 percent Median: 0.2 percent	Sep = +0.4%	Up by 0.2 percent, which yields a year-on-year increase of 2.3 percent.
October Consumer Price Index Wednesday, 11/15 Range: 0.0 to 0.2 percent Median: 0.1 percent	Sep = +0.5%	Up by 0.1 percent, for a year-on-year increase of 2.0 percent. October saw retail gasoline prices reverse about half of September's post-hurricane spike, meaning gasoline will be a drag on the headline CPI. We look for lodging prices to have also reversed a portion of their post-hurricane increase. Other elements of the data we'll be watching are medical costs, which have been all over the map the past several months, food prices, which we expect to be firmer than in the prior two months, and primary rents, which posted an oddly small increase in September.
October Core CPI Wednesday, 11/15 Range: 0.1 to 0.3 percent Median: 0.2 percent	Sep = +0.1%	Up by 0.2 percent, for a year-on-year increase of 1.7 percent. The oddly small increase in primary rents in September could reflect post-hurricane noise. We think it overstates what had been gentle deceleration in rent growth over the past several months and our forecast anticipates some payback in the October data. More fundamentally, we're keenly watching non-shelter core inflation, which has been running at 0.6 percent (year-on-year) for the past several months. If there is going to be a meaningful turn in the inflation data, this series will be an early indicator.
October Retail Sales Wednesday, 11/15 Range: -0.3 to 0.4 percent Median: 0.1 percent	Sep = +1.6%	Unchanged. Our degree of confidence in our forecast is low, given the sizeable revisions that are common for the initial estimate of retail sales in any given month – we won't be surprised to see the initial estimate for September sales revised higher. That said, the initial estimate for September was heavily influenced by Hurricanes Harvey and Irma, as seen in the large increases in motor vehicle sales, gasoline sales (thanks to a better than 10 percent jump in prices), and grocery store sales. To varying degrees, we look for these effects to be reversed in the October data. Unit motor vehicle sales fell from 18.6 million units in September to 18.1 million units in October (annual rates) but the impact on revenue, which is what is reported in the retail sales data, will be mitigated by higher priced SUVs/light trucks capturing a higher share of total sales. Retail gasoline prices gave back about half of September's gain in October, meaning gasoline sales will act as a drag on total sales. We do look for grocery sales to fall back from September's sizeable increase, but price effects should cushion the decline. Elsewhere in the data, we look for support from building materials, electronics, home furnishings, and sales by nonstore retailers. Our forecast anticipates a solid gain in control retail sales, a direct input into the GDP data on consumer spending, which puts Q4 growth in inflation adjusted consumer spending on course to top Q3 growth by a comfortable margin.
October Retail Sales: Ex-Auto Wednesday, 11/15 Range:-0.1 to 0.4 percent Median: 0.3 percent	Sep = +1.0%	Up by 0.2 percent.
Oct. Retail Sales: Control Group Wednesday, 11/15 Range: 0.2 to 0.5 percent Median: 0.3 percent	Sep = +0.4%	Up by 0.5 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

ECONOMIC PREVIEW

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
September Business Inventories Wednesday, 11/15 Range: 0.0 to 0.4 percent Median: 0.0 percent	Aug = +0.7%	We look for total business inventories to be unchanged, and for total business sales to increase by 1.4 percent. Although inventories were flat in September, upward revisions to prior months mean inventories rose more in Q3 than BEA incorporated into their advance estimate of Q3 GDP. The flip side, however, is that this ups the chances of inventories being a drag on current quarter growth.
October Industrial Production Thursday, 11/16 Range: 0.3 to 1.0 percent Median: 0.5 percent	Sep = +0.3%	Up by 0.7 percent. Our forecast anticipates a hefty increase in manufacturing output, which to some measure reflects more refinery capacity coming back on line. But, this is by no means the only factor in our forecast for manufacturing output, given the steady increase in capital spending seen over the past several months. One notable outlier in the factory sector is motor vehicle production which, as measured in the industrial production data, has been trending lower over the past several months. Given how high motor vehicle inventories still are, even with the post-hurricane spike in sales, we look for further declines in motor vehicle output going forward, though these declines will be heavily concentrated in the production of smaller automobiles as opposed to SUVs/light trucks. Our forecast would leave total industrial production up 2.0 percent year-on-year.
October Capacity Utilization Rate Thursday, 11/16 Range: 76.1 to 76.9 percent Median: 76.3 percent	Sep = 76.0%	Up to 76.4 percent.
October Housing Permits Friday, 11/17 Range: 1.225 to 1.290 million units Median: 1.250 million units SAAR	Sep = 1.225 million units SAAR	Up to an annualized rate of 1.276 million units. On a not seasonally adjusted basis, we look for total housing permits of 106,800 units, up from September's total of 101,400 units thanks to what we expect will be a sizeable increase in single family permits in the South region. If we're wrong on this point, then our forecast for the "headline" (i.e., seasonally adjusted and annualized) number will be too high. We think the devastating fires in California will have held down, at least to some extent, both permits and starts in the West region. While we don't pretend to be able to accurately quantify any such effect ahead of time, it is nonetheless worth noting and it lessens our confidence in our forecasts for October permits and starts.
October Housing Starts Friday, 11/17 Range: 1.140 to 1.240 million units Median: 1.186 million units SAAR	Sep = 1.127 million units SAAR	Up to an annualized rate of 1.184 million units. Our forecast of 101,200 starts on a not seasonally adjusted basis would leave unadjusted starts flat from September, but reflects a shift in the mix of starts, with an increase in single family starts offsetting a decline in multi-family starts. This shift was one of the main underlying themes of our 2017 housing market outlook, and we expect it to persist through 2018. Again, though, we have a low degree of confidence in our forecasts for October housing starts. This is due in part to uncertainty surrounding the West region, but also in part due to considerable uncertainty surrounding the pace of post-hurricane rebuilding in Florida and Texas. We expect that pace to be significantly slower than has been the case in past episodes given that even before Harvey and Irma struck builders had been contending with shortages of labor and materials. Still, our forecast of 73,600 single family starts (not seasonally adjusted) would leave the running 12-month total at 835,700 units, the highest such total since May 2008, when single family starts were hastily heading in the opposite direction.

This Economic Preview may include opinions, forecasts, projections, estimates, assumptions and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Preview. The Contents of this Economic Preview reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Preview or with respect to any results arising therefrom. The Contents of this Economic Preview shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial or other plan or decision.

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