Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 20-21 FOMC meeting):* Target Range Midpoint: 1.625 to 1.625 percent Median Target Range Midpoint: 1.625 percent	Range: 1.25% to 1.50% Midpoint: 1.375%	As expected, the FOMC left the Fed funds rate unchanged at their January meeting. But, by adding one simple word to their post-meeting statement, the Committee is now perceived by many to have turned more hawkish. Specifically, the FOMC went from ". . . with gradual adjustments in the stance of monetary policy . . ." to ". . . with further gradual adjustments in the stance of monetary policy . . .". A similar change was made later in the statement (''. . . conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate . . ."), again with the only difference being the insertion of the word "further." Unlike some analysts, we don't see this change as signaling a more hawkish posture amongst Committee members. Neither do we agree that, as some have offered, the change in wording was meant to prepare market participants for a hike in the funds rate at the March FOMC meeting, as that outcome was already widely anticipated in the markets (and has for some time been incorporated into our baseline forecast). It generally takes way more than one word to get us to change our view on anything, including our view of the likely course of monetary policy. The three funds rate hikes in 2018 implied by the December 2017 dot plot are premised on the FOMC being confident that inflation will move toward their 2.0 percent target, and nothing in last week's post-meeting statement suggests any loss of confidence on the FOMC's part. Indeed, there are numerous signals, such as rising commodity prices and the sharp increase in the "Prices Paid" component of the ISM Manufacturing Index – which historically has had a nice correlation with inflation as measured by the Producer Price Index – that inflation is firming. Where things could get messy, however, is if inflation accelerates far more rapidly than the FOMC and foreign central banks are anticipating. Admittedly, even though our model is yielding a similar outcome, it does seem a little too nice and neat to expect inflation will perk up and then just settle in at or slightly above 2.0 percent. After all, by stubbornly refusing to reach the FOMC's target rate for so long, inflation has shown it has a mind of its own, so is there really any reason to expect it to suddenly be better behaved on the other side of that 2.0 percent target? As we discussed in our *2018 Economic Outlook*, we think a, if not the, main downside risk to our baseline outlook is that inflation picks up more than the FOMC and market participants (and us for that matter) anticipate will be the case, and this in turn prompts the FOMC to raise the Fed funds rate at a faster than anticipated pace. We think such a scenario would have potentially significant adverse impacts on asset prices and the broader economy. We do not, however, think last week's FOMC statement was an attempt to prep the markets for such an outcome. But, with a new batch of FOMC economic and financial projections to be released in conjunction with the March 20-21 FOMC meeting, we'll all have a better sense of the extent to which the FOMC is concerned about such a scenario playing out. As if on cue, the January employment report fits right into the narrative that the FOMC will be thrust into boldness by rapidly rising wages and prices. More specifically, January's 0.3 percent increase in average hourly earnings leaves them up 2.9 percent year-on-year, the largest such increase since April 2009. We'd caution against reading too much into this. Higher minimum wages across much of the U.S. and voluntary bumps in entry level wages by many firms biased earnings growth higher. Just as significantly, average hours worked fell by two-tenths of an hour in January, mainly due to weather effects, but this biased the calculation of hourly earnings higher, a point which seems to have escaped notice. By no means are we saying the labor market hasn't tightened considerably, only that it hasn't tightened to the degree implied by the earnings data in the January employment report.
January ISM Non-Manufacturing Index Monday, 2/5 Range: 55.5 to 57.5 percent Median: 56.6 percent	Dec = 55.9%	<u>Up</u> to 57.2 percent.
December Trade Balance Tuesday, 2/6 Range: -$53.0 to -$51.0 billion Median: -$52.0 billion	Nov = -$50.5	<u>Widening</u> to -$52.2 billion. We look for what would be the largest deficit in the goods account since July 2008 to have pushed the overall trade deficit wider in December. If our forecast is correct, then the trade deficit will be larger than was incorporated into the BEA's initial estimate of Q4 GDP, meaning trade will have been a bigger drag on top-line real GDP growth than built into the BEA's initial estimate.

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