# ECONOMIC PREVIEW

REGIONS

Week of November 12, 2018

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint** *(After the December 18-19 FOMC meeting):* Target Range Midpoint: 2.375 to 2.375 percent Median Target Range Midpoint: 2.375 percent | Range: 2.00% to 2.25% Midpoint: 2.125% | The latest round of corporate earnings calls back data on input costs and shipping costs in suggesting it is a matter of when, not if, the inflation data will show core inflation picking up. Our sense is that corporations have begun testing their pricing power more so than is implied in the various measures of inflation. Margin pressures only figure to intensify in 2019, and inflation pressures figure to do the same. |
| **October Consumer Price Index** Wednesday, 11/14 Range: 0.2 to 0.4 percent Median: 0.3 percent | Sep = +0.1% | Up by 0.4 percent, leaving the total CPI up 2.6 percent year-on-year. The October CPI is all about used cars and the gas that goes into them. Unless, of course, it isn't. A ridiculously large decline (3.0 percent) in used car prices in September flattened our CPI forecast. Naturally, then, the questions become whether, or to what extent, there will be payback in the October data that will impact both the total and core CPI, and whether or not you incorporate that into your forecast. These are the type of questions you (sadly) spend hours agonizing over until it finally sinks in on you that, in the grand scheme of things, it's just noise that doesn't say anything about the underlying trends in the data. Whatever. In any event, we opted to include payback, hence our above-consensus forecasts of the total and core CPI. We do know, at least to the extent you can ever actually know these things, that higher gasoline prices (up over 3.0 percent on a seasonally adjusted basis) alone will add roughly one-tenth of a point to the change in the total CPI for October. Elsewhere in the data, however, there are few signs of intensifying inflation pressures, though, as noted above, that may say more about the inflation data than it does about the inflation pressures. |
| **October CPI: Core** Wednesday, 11/14 Range: 0.2 to 0.3 percent Median: 0.2 percent | Sep = +0.1% | Up by 0.3 percent, which would yield a year-on-year increase of 2.2 percent. Regardless of what BLS tells us happened with used car prices, our focus will be on the "big three" drivers of core inflation. After a notably below-trend increase in September, we look for a larger increase in rents in the October data. At some point, tariffs will become apparent in core goods prices, but we don't think we'll see that in the October data and, as such, look for core goods prices to be down year-on-year for the 65th time in the past 67 months. We've been stumped by the behavior of medical care costs over the past several months, so while our October forecast anticipates the largest monthly increase since June, we're not all that convicted. |
| **October Retail Sales** Thursday, 11/15 Range: 0.2 to 0.7 percent Median: 0.5 percent | Sep = +0.1% | Up by 0.7 percent. The initial estimate of retail sales in any given month says very little about actual retail sales in that month and is virtually useless as a base for a forecast of retail sales in the subsequent month. The September data are no exception; the initial estimate of just a 0.1 percent increase in retail sales looks too low, in particular the line items for motor vehicle dealers, restaurants, and gasoline (even allowing for the effects of Hurricane Florence on the latter two categories), so we won't be at all surprised to see an upward revision. As such, we toned down our forecast for the growth in retail sales during October. Motor vehicle sales should be either neutral or a slight drag on total retail sales in October, and we look for sizeable increases in restaurant and gasoline sales (even if the initial September estimates are revised up as we expect). We don't expect much from sales at nonstore retailers, which would simply reflect a pre-holiday lull rather than something more ominous. Bottom line here: Q4 will be another quarter of solid growth in consumer spending. |
| **October Retail Sales: Ex-Auto** Thursday, 11/15 Range: 0.3 to 0.8 percent Median: 0.5 percent | Sep = -0.1% | Up by 0.6 percent. |
| **October Retail Sales: Control Group** Thursday, 11/15 Range: -0.2 to 0.5 percent Median: 0.4 percent | Sep = +0.5% | Up by 0.5 percent. |
| **September Business Inventories** Thursday, 11/15 Range: 0.3 to 0.4 percent Median: 0.3 percent | Aug = +0.5% | We look for total business inventories to be up by 0.3 percent and total business sales to be up by 0.7 percent. |
| **October Industrial Production** Friday, 11/16 Range: -0.4 to 0.4 percent Median: 0.2 percent | Sep = +0.3% | Up by 0.2 percent. Lower motor vehicle assemblies should be a drag on growth in manufacturing output, and we look for a below-trend in growth in output in the mining sector. Our forecast would leave total IP up 3.7 percent year-on-year. |
| **October Capacity Utilization Rate** Friday, 11/16 Range: 77.9 to 78.4 percent Median: 78.2 percent | Sep = 78.1% | Up to 78.2 percent. |

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