ECONOMIC PREVIEW

REGIONS

Week of January 14, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 29-30 FOMC meeting):* Target Range Midpoint: 2.375 to 2.375 percent Median Target Range Midpoint: 2.375 percent	Range: 2.25% to 2.50% Midpoint: 2.375%	The partial government shutdown will continue to impede the flow of economic data, with this week's scheduled releases on retail sales, residential construction, and business inventories delayed for the duration. While there is never a good time for a disruption in the flow of economic data, this particular instance comes at a most inopportune time given increased uncertainty over the course of the U.S. economy. From the data that have been released, we feel comfortable in saying the labor market remains rock solid (though the January employment report could be materially impacted by the shutdown), and this puts a firm floor under consumer confidence and, in turn, consumer spending. The CPI data show inflation pressures remain fairly muted though, with falling energy prices pulling headline inflation down, reads on core inflation take on added significance. While faster wage growth could be passed through in the form of higher services prices, we nonetheless do not expect core inflation to stray from the FOMC's comfort zone, making a patient pause a viable option for the FOMC over the first half of 2019.
December PPI: Final Demand Tuesday, 1/15 Range: -0.2 to 0.1 percent Median: -0.1 percent	Nov = +0.1%	Down by 0.1 percent, for a year-on-year increase of 2.5 percent. The PPI data are produced by the Bureau of Labor Statistics and, as such, the December data will be released as scheduled.
December PPI: Core Tuesday, 1/15 Range: -0.2 to 0.2 percent Median: 0.2 percent	Nov = +0.3%	Up by 0.2 percent, which would leave the core PPI up 3.0 percent year-on-year.
December Retail Sales: Total Wednesday, 1/16 Range: 0.0 to 0.5 percent Median: 0.2 percent	Nov = +0.2%	Up by 0.1 percent. As the retail sales data are produced by the Census Bureau, the release of the December data will be delayed by the partial government shutdown. When the data actually are released, we think they will show solid details beneath a rather bland headline number. As with November retail sales, sharply lower prices mean gasoline will be a material drag on growth in total retail sales. Motor vehicle sales will be a support for top-line sales, but only a modest one as the prints on total and ex-auto sales will match. Price effects pose some upside risks to our forecasts of grocery store sales and restaurant sales, at least based on the price increases in these categories reported in the December CPI data. Sales by nonstore retailers, which includes online sales, should post a solid gain but not on the order of the increase seen in the November data. This also raises an ongoing issue with the retail sales data, specifically, what are often sizeable revisions to the initial estimate of sales in the prior month. We suspect the decline in gasoline station sales and the increase in sales by nonstore retailers in the initial November data were both too small, and if we are correct then our forecasts for December sales in these categories could be too low in the case of gasoline and too high in the case of nonstore retailers. Which of course is why we never get all that wrapped up in the initial estimate of sales in any given month. That said, when all is said, done, revised, and released, we think Q4 2018 will have proven to be another quarter of solid growth in consumer spending, which would be even more impressive given the beating equity prices took and the seemingly endless parade of "the end is nigh" headlines during Q4.
December Retail Sales: Ex-Auto Wednesday, 1/16 Range: -0.2 to 0.4 percent Median: 0.1 percent	Nov = +0.2%	Up by 0.1 percent.
Dec. Retail Sales: Control Group Wednesday, 1/16 Range: 0.2 to 0.6 percent Median: 0.4 percent	Nov = +0.9%	Up by 0.6 percent, which would put Q4 growth in nominal control sales at an annualized rate of 6.0 percent. Given how tame inflation was, this poses some upside risk to our forecast for growth in real consumer spending in the Q4 GDP data.
November Business Inventories Wednesday, 1/16 Range: 0.0 to 0.5 percent Median: 0.3 percent	Oct = +0.6%	Up by 0.3 percent.
December Housing Permits Thursday, 1/17 Range: 1.250 to 1.335 million units Median: 1.288 million units SAAR	Nov = 1.328 million units SAAR	Down to an annualized rate of 1.319 million units. As the data on housing permits and starts are produced by the Census Bureau, the release of the December data will be delayed by the partial government shutdown. For both permits and starts, we look for overly generous seasonal adjustment factors to make decent unadjusted numbers look way better than they actually are. On a not seasonally adjusted basis, we look for total permits of 98,400 units, bringing the total for 2018 as a whole to 1.315 million units, the highest annual total since 2007, and our forecast would leave single family permits up 4.8 percent for 2018 with multi-family permits down 1.5 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

REGIONS

Week of January 14, 2019

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
December Housing Starts Range: 1.200 to 1.304 million units Median: 1.256 million units SAAR	Thursday, 1/17	Nov = 1.256 million units SAAR	Up to an annualized rate of 1.304 million units. As with housing permits, we think the unadjusted data for December will be fairly solid, particularly if we are correct in thinking relatively mild weather will have allowed for payback for harsh weather having held down construction in November. We look for a typically generous December seasonal adjustment factor to make the headline (or, seasonally adjusted and annualized) starts number look much better than is actually the case. On a not seasonally adjusted basis, we look for 90,000 total housing starts, which would put the annual total for 2018 at 1.269 million units. As with permits, this would make 2018 the best year for housing starts since 2007, and our forecast would leave single family starts up 4.1 percent and multi-family starts up 8.9 percent. We do not expect a repeat of the strength in multi-family starts in 2019, and that multi-family permits tailed off over the second half of 2018 is consistent with our view, though admittedly we were taken by surprise at how strong multi-family starts were in 2018.
December Industrial Production Range: -0.1 to 0.5 percent Median: 0.2 percent	Friday, 1/18	Nov = +0.6%	Up by 0.4 percent, bolstered by a 0.5 percent increase in manufacturing output. Our forecast would leave total IP up 3.8 percent year-on-year, with manufacturing output up 2.5 percent. As the data on industrial production and capacity utilization are produced by the Federal Reserve, the December data will be released as scheduled.
December Capacity Utilization Rate Range: 78.4 to 78.9 percent Median: 78.5 percent	Friday, 1/18	Nov = 78.5%	Up to 78.7 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