ECONOMIC PREVIEW

REGIONS

Week of May 6, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 18-19 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%	Okay, so "have a press conference in May and go away" may not actually be the guiding principal for the FOMC right now, but it easily could be. The reality is that the economic data are not sending a signal that a change in the Fed funds rate – in either direction – is warranted, and this is unlikely to change any time soon. Inflation pressures remain muted, which for now rules out further increases in the funds rate, and the economy continues to grow at a solid pace, which should put to rest the notion that a funds rate cut is warranted. Obviously a meaningful and sustained movement, higher or lower, in inflation would be a signal that a change in the Fed funds rate is in order, but it will be months before there is a clear signal on inflation. This week's batch of inflation data may spark the debate but will settle nothing.
April PPI – Final Demand Thursday, 5/9 Range: 0.1 to 0.3 percent Median: 0.2 percent	Mar = +0.6%	Up by 0.2 percent, which would yield a year-on-year increase of 2.3 percent.
April PPI – Core Thursday, 5/9 Range: 0.1 to 0.3 percent Median: 0.3 percent	Mar = +0.3%	Up by 0.1 percent, good for a year-on-year increase of 2.4 percent.
March Trade Balance Thursday, 5/9 Range: -$54.2 to -$48.8 billion Median: -$50.0 billion	Feb = -$49.4 billion	Widening to -$50.2 billion.
April Consumer Price Index Friday, 5/10 Range: 0.2 to 0.5 percent Median: 0.4 percent	Mar = +0.4%	Up by 0.4 percent, which would translate into a year-on-year increase of 2.1 percent. Right off the bat, apparel prices pose a risk to our forecast after March saw the largest monthly decline ever recorded for this series, which had less to do with actual apparel prices and more to do with a change in the methodology used to measure apparel prices. Either way, the reported 1.94 percent decline in apparel prices took roughly one-tenth of a point off of the change in both the total CPI and the core CPI in March, and while we incorporated a modest rebound into our forecast, there is just no telling what the April data will bring. An added source of uncertainty here is whether, or to what extent, this year's late Easter will inject seasonal adjustment noise into the April data on apparel prices. What we do feel confident in saying is that, as was the case in March, gasoline will be a main support for the April change in the total CPI. As reported by the EIA, gasoline prices rose by 11.1 percent in April, following up on an 8.4 percent increase in March. This should translate into a roughly 6.7 percent increase in the seasonally adjusted data for April, which would itself push the total CPI up almost three-tenths of a point. But, even with this boost from gas prices, our forecast anticipates the total CPI rising by 0.4 percent, which suggests there are very few sources of inflation pressure lurking beneath the surface. Keep an eye on food prices, which have showed renewed vigor over the past two months. What is notable here is that this has been driven not by prices for food consumed away from home (think restaurant prices) but instead by prices for food consumed at home (think grocery store prices), which in February and March posted the strongest two-month gain since April/May 2014. What is not yet clear is whether, or to what degree, this run of pricing power will be sustained over coming months, but our hunch is that it has some staying power.
April Consumer Price Index – Core Friday, 5/10 Range: 0.1 to 0.4 percent Median: 0.2 percent	Mar = +0.1%	Up by 0.2 percent, leaving the core CPI up 2.1 percent year-on-year. After notably large increases in March, we look for more trend-like increases in rents in April, but rents nonetheless account for over half of our forecasted increase in the core CPI. Though March's decline was overstated due to the measurement issues around apparel prices, we look for core goods prices to have fallen again in April, further challenging our premise that core goods prices would be a modest support for core inflation in 2019. It is interesting to note that while core inflation as measured by the CPI tends to run ahead of core inflation as measured by the PCE Deflator (the FOMC's preferred gauge), the 49-basis point disparity in March is the largest gap between the two since 2016. The outsized weight of rents in the core CPI means that measure is overstating core inflation, but at the same time core PCE inflation is being held down by some curious, but likely not lasting, behavior of components such as prices for financial services (as a side note, the PCE deflator uses the CPI measure of apparel prices, so is subject to the same noise from this source as is the CPI). Either way, we look for core inflation to begin accelerating as we get into the fall, which could rattle the financial markets if it brings the FOMC back into play.

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