ECONOMIC PREVIEW

REGIONS

Week of May 8, 2017

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 13-14 FOMC meeting):* Target Range Midpoint: 0.875 to 1.125 percent Median Target Range Midpoint: 1.125 percent	0.875%	As a general rule, when the employment data and the GDP data seem to be at odds, go with the employment data. The April employment report was largely free of the seasonal adjustment issues that clouded the first three monthly reports of 2017, and the healthy underlying trend rate of job growth remains intact. The April employment report will leave the FOMC at ease with their messaged pace of Fed funds rate hikes.
April PPI – Final Demand Thursday, 5/11 Range: 0.0 to 0.4 percent Median: 0.2 percent	Mar = -0.1%	Up by 0.2 percent, for a 2.2 percent year-over-year increase.
April Core PPI Thursday, 5/11 Range: -0.1 to 0.3 percent Median: 0.2 percent	Mar = 0.0%	Up by 0.2 percent, which translates into a year-on-year increase of 1.6 percent.
April Consumer Price Index Friday, 5/12 Range: -0.3 to 0.3 percent Median: 0.2 percent	Mar = -0.3%	Up by 0.2 percent, which yields a year-on-year increase of 2.3 percent. March's decline in the headline CPI mainly reflected sizeable declines in prices for gasoline, lodging, and wireless phone services, none of which will be repeated in the April data. Instead, gasoline and lodging will be positives for the headline index. After a run of nine consecutive monthly declines, we look for a third consecutive month of higher prices for food consumed at home, though this category is still down year-on-year. We also look for further declines in prices for both used and new motor vehicles. All in all, inflation pressures remain modest, and we've noted before that as 2017 progresses, the over-the-year comparisons will get harder, so headline inflation will settle back towards 2.0 percent.
April Core Consumer Price Index Friday, 5/12 Range: 0.1 to 0.3 percent Median: 0.2 percent	Mar = -0.1%	Up by 0.2 percent, for a year-on-year increase of 2.0 percent. The two things we'll be watching most closely here are rents and prices for core goods. We look for a smaller decline in core goods prices in April than the 0.3 percent drop posted in March, but our forecast would still leave core goods prices down year-on-year for the 48th time in the last 49 months. As for rents, which account for over 40 percent of the core CPI, our forecast has been for slowing growth in market rents to help contain core inflation. We have seen some deceleration in the growth of market rents, but solid growth in rents on single family homes has partly offset weakening apartment rents. What we did not count on, however, is the pronounced slowdown in owners' equivalent rents, which to us seems at odds with accelerating house price appreciation. In any event, core inflation remains tame, and if we are correct on rents, this will remain the case, as ex-shelter core inflation is running at just 1.2 percent over the past six months.
April Retail Sales Friday, 5/1 Range: 0.4 to 0.7 percent Median: 0.6 percent	Mar = -0.2%	Up by 0.6 percent. Let's start with some bookkeeping – the Census Bureau recently released the benchmark revisions to the retail sales data, and both total and control retail sales were revised down for each of the past four quarters, in the case of control sales the revisions were significant. Those revisions were not incorporated into the BEA's first estimate of Q1 GDP, so an already weak consumer spending number will look even weaker with the second pass at Q1 GDP. As for the monthly reports, we've often noted the March and April retail sales data are inherently difficult to properly seasonally adjust due to Easter falling on different dates, and this year's atypically late Easter only compounded that problem. We think that was a factor behind the weak March report, and it could also make the April data look a bit stronger than is actually the case. As such, the "truth" on retail sales lies somewhere between the March and April numbers. We look for gasoline, restaurants, auto dealers, building materials stores, and general merchandise stores to have posted solid gains in April.
April Retail Sales: Ex-Auto Friday, 5/12 Range: 0.2 to 0.6 percent Median: 0.4 percent	Mar = 0.0%	Up by 0.6 percent.
April Retail Sales: Control Group Friday, 5/12 Range: 0.2 to 0.5 percent Median: 0.4 percent	Mar = +0.6%	Up by 0.5 percent. Control sales are a direct input into the GDP data, and our forecast would put control sales on a solid platform for faster growth in Q2 than was seen in Q1. Save for an abnormally weak February, control sales have been fairly strong over the past several months, which should alleviate concerns over the state of U.S. consumers sparked by the weak consumer spending number in the Q1 GDP report that is totally at odds with the strength of the underlying fundamentals.
March Business Inventories Friday, 5/12 Range: 0.0 to 0.4 percent Median: 0.2 percent	Feb = +0.3%	We look for total business inventories to be up by 0.1 percent, with total business sales unchanged.

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