ECONOMIC PREVIEW

REGIONS

Week of June 11, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 12-13 FOMC meeting):* Target Range Midpoint: 1.875 to 1.875 percent Median Target Range Midpoint: 1.875 percent	Range: 1.50% to 1.75% Midpoint: 1.625%	The FOMC shifting the Fed funds rate target range up by 25 basis points, leaving the mid-point at 1.875 percent, at this week's meeting is virtually a done deal. That said, there are plenty of other questions to be answered at the two-day meeting which concludes on Wednesday. First, in their updated economic and financial projections, will the Committee lower their estimate of the "longer run" (or, full employment) unemployment rate, which now stands at 4.5 percent. Almost surely they will, so the question becomes to what extent. Second, given the unemployment rate stands right at the Committee's March median projection for where it would be at year-end 2018, how much will the forecasted Q4 2018 unemployment rate fall in the updated projections. Third, given that many FOMC members remain tethered to the Phillips Curve, will a lower unemployment rate forecast be matched by a higher forecasted rate of inflation. Fourth, given that the long-standing forward guidance in the post-meeting statement – the Fed funds rate "is likely to remain, for some time, below levels that are expected to prevail in the longer run" – is now outdated, how will the FOMC alter their forward guidance and will they explicitly state they expect to push the funds rate over its "neutral" value in the current cycle. Fifth, will the updated "dot plot" imply a total of three or four 25-basis point funds rate hikes for 2018. While the March 2018 dot plot implied a total of three hikes, keep in mind that it would only take one Committee member in the three-hike camp moving to the four-hike camp to shift the median dot up so that the dot plot implies four hikes in 2018. Regardless of how these questions are resolved by the Committee, Fed Chairman Powell will have no shortage of topics to cover in his post-meeting press conference, which figures to be one of the most lively post-meeting press conferences of any Fed Chair seen to date. Okay, sure, that's a fairly low bar to clear – mostly by design – but nonetheless this week's presser will definitely be one to not miss.
May Consumer Price Index Tuesday, 6/12 Range: 0.1 to 0.3 percent Median: 0.2 percent	Apr = +0.2%	Up by 0.2 percent, for a year-on-year increase of 2.7 percent. Gasoline will be neither a drag on nor a driver of the headline CPI; the increase in retail pump prices last month was right in line with the typical May increase and hence will be neutralized by seasonal adjustment, but gasoline prices are sharply higher year-on-year. Apparel prices rose in April, defying the seasonal patterns seen over the past several years, so either those patterns have been flipped or the May data will show apparel prices resuming their downward drift – our forecast anticipates the latter. We do, however, look for a larger increase in medical care costs that seen in April. Though not to the extent seen in April, we look for motor vehicle prices to have declined again in May. We were wrong-footed by the outsized increase (the largest since October 2012) in primary rents in the April CPI data, but we expect a more mild increase in the May data. Finally, we look for a further modest decline in core goods prices in the May data, leaving core goods prices down year-on-year for the 60th time in the past 62 months. All in all, while a 2.7 percent print on headline CPI inflation would be an attention grabber, that is mainly the result of higher energy prices and there is little in the data to suggest core inflation is set to break out to the upside any time soon.
May Consumer Price Index: Core Tuesday, 6/12 Range: 0.1 to 0.2 percent Median: 0.2 percent	Apr = +0.1%	Up by 0.2 percent, good for a year-on-year increase of 2.2 percent.
May PPI: Final Demand Wednesday, 6/13 Range: 0.1 to 0.5 percent Median: 0.3 percent	Apr = +0.1%	Up by 0.3 percent, leaving the headline PPI up 2.9 percent year-on-year.
May PPI: Core Wednesday, 6/13 Range: 0.1 to 0.3 percent Median: 0.2 percent	Apr = +0.2%	Up by 0.1 percent, which translates into a year-on-year increase of 2.3 percent.
May Retail Sales: Total Thursday, 6/14 Range: 0.2 to 0.6 percent Median: 0.4 percent	Apr = +0.2%	Up by 0.4 percent. Motor vehicle sales should be a modest drag on top-line retail sales thanks to the combination of lower unit sales, further downward pressure on vehicle prices (new and used), and higher priced SUVs/light trucks capturing a slightly smaller share of overall sales. Price effects mean gasoline will add to top-line sales, but lower goods prices will remain a drag on growth in nominal retail sales, as has been the case for some time now. All in all, aside from the obvious caveat that there's no telling what the revisions to the first estimate of April sales will look like, the May report should show another decent gain in retail sales, keeping consumer spending on track for much better growth in Q2 than was the case in Q1.

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Indicator/Action Economics Survey:		Last Actual:	Regions' View:
May Retail Sales: Ex-Auto Range: 0.3 to 0.7 percent Median: 0.5 percent	Thursday, 6/14	Apr = +0.3%	Up by 0.5 percent.
May Retail Sales: Control Range: 0.2 to 0.5 percent Median: 0.4 percent	Thursday, 6/14	Apr = +0.5%	Up by 0.4 percent.
April Business Inventories Range: 0.2 to 0.4 percent Median: 0.3 percent	Thursday, 6/14	Mar = 0.0%	We look for total business inventories to be up by 0.3 percent, and look for total business sales to be up by 0.4 percent.
May Industrial Production Range: -0.1 to 0.6 percent Median: 0.2 percent	Friday, 6/15	Apr = +0.7%	Down by 0.1 percent. After having powered growth in total industrial production over the prior two months, utilities output was likely a drag on overall IP in May. We also look for manufacturing to have been a modest drag on total IP in May; lower motor vehicle assemblies were a drag on factory sector output and, more broadly, the decline in aggregate hours worked in manufacturing points to a weak print on factory output in the IP data. We do look for another sizeable increase in output in the mining sector in May, continuing the recent run coinciding with higher energy prices. Our forecast would leave total industrial production up 3.5 percent year-on-year.
May Industrial Production Range: 77.8 to 78.5 percent Median: 78.1 percent	Friday, 6/15	Apr = 78.0%	Down to 77.8 percent.

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