ECONOMIC PREVIEW

REGIONS

Week of January 13, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 28-29 FOMC meeting):* Target Range Mid-point: 1.625 to 1.625 percent Median Target Range Mid-point: 1.625 percent	Range: 1.50% to 1.75% Midpoint: 1.625%	This week's slate of releases will help put the finishing touches on our estimate of Q4 2019 real GDP growth, which at present we have tracking at just over 2.0 percent. The December retail sales data bear watching in light of the notably, not to mention surprisingly, weak earnings details in the December employment report. Prior estimates of average hourly earnings and average weekly hours were marked down which, combined with soft December readings, resulted in a sharp deceleration in growth in aggregate wage and salary earnings in Q4. This is the largest single component of total personal income, and that growth in labor earnings slowed markedly in Q4 could help account for the slower pace of growth in real consumer spending, which will be visible in the Q4 GDP data. If the weak earnings details in the December employment report survive the annual benchmark revisions, the results of which will be incorporated into the January employment report, that sets a weaker base for growth in real consumer spending in 2020 than we had anticipated.
December Consumer Price Index Tuesday, 1/14 Range: 0.1 to 0.3 percent Median: 0.3 percent	Nov = +0.3%	Up by 0.3 percent, which would yield a year-on-year increase of 2.4 percent. Gasoline will be a support for the total CPI, accounting for one-third of the monthly increase in our forecast. Aside from the by now usual noise in the series on apparel prices and used car prices, core goods prices, shelter costs, and medical care costs will be the key series to watch. Core goods prices weakened after having mounted a comeback during the summer months, so it will be interesting to see how they ended 2019. Rent growth appeared to have lost some steam during Q4, making the December print of more interest, at least to us given the moderation in rent growth that we have expected for some time now. Medical care costs were very erratic over 2H 2019, which injects added uncertainty into our forecast of the December data. Our forecast would leave the total CPI up 1.8 percent for 2019 as a whole, and the question is whether the momentum built over the back half of 2019 carried over into 2020.
December Consumer Price Index: Core Tuesday, 1/14 Range: 0.2 to 0.2 percent Median: 0.2 percent	Nov = +0.2%	Up by 0.2 percent, for an over-the-year increase of 2.3 percent. Our forecast would leave the core CPI up 2.2 percent for 2019 as a whole. Keep in mind, however, that the gap between core CPI inflation and core PCE inflation, the latter being the FOMC's preferred gauge of inflation, has been wider than normal for some time now, and core PCE inflation was running at a 1.6 percent pace for full-year 2019.
December PPI: Final Demand Wednesday, 1/15 Range: 0.0 to 03 percent Median:0.2 percent	Nov = 0.0%	Up by 0.3 percent, which translates into an over-the-year increase of 1.5 percent.
December PPI: Core Wednesday, 1/15 Range: 0.1 to 0.4 percent Median: 0.2 percent	Nov = -0.2%	Up by 0.2 percent, leaving the core PPI up 1.3 percent year-on-year.
December Retail Sales: Total Thursday, 1/16 Range: 0.2 to 0.6 percent Median: 0.3 percent	Nov = +0.2%	Up by 0.5 percent. Our view that this year's late Thanksgiving and Cyber Monday falling into December were largely responsible for the tepid gain in November retail sales will be put to the test by the December data. Given the inherent unreliability of the initial estimate of retail sales in any given month, you'll understand if we're not walking into this test with a whole lot of confidence. In any event, if we're correct, there should be payback in the form of a strong increase in December retail sales. This will be more visible in ex-auto and control sales, as motor vehicle sales will be a drag on total retail sales. Our forecast anticipates sizable increases in sales at apparel stores and general merchandise stores, and sales by nonstore retailers after smaller than normal increases in November. That said, it is highly unlikely that the initial estimate of December retail sales will capture the full force of online sales; this is an issue with the retail sales data in any given month, and it is only compounded when it comes to measuring holiday season sales.
December Retail Sales: Ex-Auto Thursday, 1/16 Range: 0.4 to 0.8 percent Median: 0.5 percent	Nov = +0.1%	Up by 0.7 percent.
December Retail Sales: Control Group Thursday, 1/16 Range: -0.2 to 0.6 percent Median: 0.3 percent	Nov = +0.1%	Up by 0.6 percent.

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November Business Inventories Thursday, 1/16 Range: -0.2 to 0.4 percent Median: -0.1 percent	Oct = +0.2%	We look for total <u>business inventories</u> to be <u>down</u> by 0.1 percent, and for total <u>business sales</u> to be <u>up</u> by 0.7 percent.
December Building Permits Friday, 1/17 Range: 1.400 to 1.500 million units Median: 1.460 million units SAAR	Nov = 1.482 million units SAAR	<u>Up</u> to an annualized rate of 1.483 million units. On a not seasonally adjusted basis, our forecast anticipates 108,000 total housing permits, basically unchanged from the November count but with a slight shift in the mix between single family and multi-family permits. Our forecast would leave total permit issuance at 1.353 million units in 2019, up from 1.329 million units in 2018. Single family permit issuance started out 2019 on a weak note but gathered pace as the year progressed, and we expect that momentum to have carried into 2020.
December Housing Starts Friday, 1/17 Range: 1.330 to 1.419 million units Median: 1.390 million units SAAR	Nov = 1.365 million units SAAR	<u>Up</u> to an annualized rate of 1.393 million units. On a not seasonally adjusted basis, we look for total starts of 93,300 units, and if the seasonal adjustment factors are as generous as is typical for the month of December, our forecast would mark a cycle high for headline (i.e., seasonally adjusted and annualized) starts. That said, the Census data on housing starts have not fully captured the strength in orders reported by the larger homebuilders, which left builder confidence at a two-decade high at year-end 2019. Our forecast would leave total housing starts at 1.274 million units for 2019 as a whole, with single family and multi-family starts both topping their 2018 totals. As with building permits, single family housing starts got off to a horrid start in 2019 but got stronger as the year progressed, and we see further upside room for single family starts in 2020.
December Industrial Production Friday, 1/17 Range: -0.6 to 0.2 percent Median: -0.1 percent	Nov = +1.1%	<u>Down</u> by 0.4 percent, dragged lower by manufacturing and mining.
December Capacity Utilization Rate Friday, 1/17 Range: 76.9 to 77.4 percent Median: 77.1 percent	Nov = 77.3%	<u>Down</u> to 76.9 percent.

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