ECONOMIC PREVIEW

REGIONS

Week of January 8, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 30-31 FOMC meeting):* Target Range Midpoint: 1.375 to 1.375 percent Median Target Range Midpoint: 1.375 percent	Range: 1.25% to 1.50% Midpoint: 1.375%	There is a difference between inflation being dormant and inflation being dead. This difference is worth keeping in mind upon this week's release of the December CPI report. The December data should paint another picture of fairly tame inflation pressures, and though higher energy prices will have pushed headline CPI inflation above 2.0 percent for 2017 as a whole, core inflation will fall short of that mark. Perhaps swayed by recency bias, some take the recent run of fairly soft inflation data to mean inflation has been vanquished. As we discuss in our 2018 economic outlook, we think it would be most unwise to dismiss out of hand the possibility of inflation surprising, perhaps significantly so, to the upside in 2018. This would lead the FOMC to move at a much faster pace than they, not to mention market participants, now anticipate, which we see as a main downside risk to our baseline 2018 outlook.
December PPI – Final Demand Thursday, 1/11 Range: -0.1 to 0.3 percent Median: 0.2 percent	Nov = +0.4%	Up by 0.2 percent for a year-on-year increase of 3.1 percent. Our call would leave the headline Producer Price Index up 2.4 percent for 2017 as a whole.
December Core PPI Thursday, 1/11 Range: 0.1 to 0.2 percent Median: 0.2 percent	Nov = +0.3%	Up by 0.1 percent, which translates into a year-on-year increase of 2.6 percent. For 2017 as a whole, the core PPI will be up by 2.0 percent.
December Consumer Price Index Friday, 1/12 Range: 0.0 to 0.4 percent Median: 0.1 percent	Nov = +0.4%	Up by 0.1 percent, for a year-on-year increase of 2.1 percent. Lower retail gasoline prices in December will be a modest drag on the headline CPI. Our forecast anticipates another modest increase in food prices and a larger increase in medical care costs than that seen in the November data. Our forecast would leave the headline CPI up 2.1 percent for 2017 as a whole, the largest annual increase since 2012.
December Core CPI Friday, 1/12 Range: 0.1 to 0.3 percent Median: 0.2 percent	Nov = +0.1%	Up by 0.2 percent, leaving the core CPI up 1.7 percent year-on-year. Though we look for the December data to show a modest firming in core goods prices, our forecast would nonetheless leave core goods prices down year-on-year for the 56th time in the past 57 months. As has been the case for some time, rents will be the primary support for core inflation, but that support is gradually fading as rent growth continues to gently decelerate. One of the main questions for 2018 is whether the deceleration in rent growth becomes more pronounced; given that rents account for over 40 percent of the core CPI a more pronounced slowdown in rent growth would clearly weigh on core CPI inflation. It is worth noting, however, that rents have a much smaller weight in the core PCE deflator, which is the FOMC's preferred gauge of inflation. Our forecast would leave the core CPI up by 1.8 percent for 2017 as a whole.
December Retail Sales Friday, 1/12 Range: 0.2 to 0.7 percent Median: 0.5 percent	Nov = +0.8%	Up by 0.6 percent. While gasoline will be a modest drag, strong motor vehicle sales will give a boost to headline sales. Unit motor vehicle sales came in at an annualized rate of 17.8 million units, reflecting very light fleet sales and notably strong sales on the retail level. Moreover, the mix of December sales was very revenue friendly, with higher priced SUVs/light trucks accounting for 65.9 percent of all sales, the highest share in the life of the data (which go back to 1993). We think ongoing rebuilding in those areas impacted by the hurricanes will support sales at building materials stores. We also think restaurant sales will provide support for total retail sales, though the initial estimate in this category is of little value given the typical revisions. Still, the main story in the December retail sales data will be the strength of holiday sales, which is better reflected in our forecast for control retail sales (see below). The combination of confident consumers with the wherewithal to spend and retailers having been more disciplined on pricing led to a very strong holiday sales season.
December Retail Sales: Ex-Auto Friday, 1/12 Range: 0.2 to 0.5 percent Median: 0.4 percent	Nov = +1.0%	Up by 0.5 percent.
December Retail Sales: Control Group Friday, 1/12 Range: 0.3 to 0.7 percent Median: 0.4 percent	Nov = +0.8%	Up by 0.7 percent. Our forecast would leave control retail sales, a direct input into the GDP data on consumer spending, up over seven percent, annualized, in Q4. Combined with the strength of motor vehicle sales, this would put annualized growth in real consumer spending above 3.0 percent for Q4 despite ongoing weakness in spending on services (which is not accounted for in the retail sales data).
November Business Inventories Friday, 1/12 Range: 0.2 to 0.5 percent Median: 0.3 percent	Oct = -0.1%	Total business inventories will be up by 0.5 percent, while total business sales will be up by 0.9 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