ECONOMIC PREVIEW

REGIONS

Week of March 14, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 15-16 FOMC meeting):* Target Range Mid-point: 0.125 to 0.625 percent Median Target Range Mid-point: 0.375 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	As measured by the Consumer Price Index (CPI), inflation hit 7.9 percent in February and will be higher still in March. What is perhaps more concerning is the extent to which inflation pressures have broadened, meaning that it isn't sharp swings in a few categories driving headline inflation higher (one in a long list of explanations offered by those who used to dismiss higher inflation as "transitory"). For instance, the CPI series on prices for consumer goods excluding food, energy, and used motor vehicles shows prices up 7.8 percent year-on-year as of February; by way of reference, the year-on-year increase in February 2021 was 0.2 percent. At the same time, services price inflation has picked up pace, hitting 4.4 percent in February, and will accelerate further in the months ahead. As we discussed in the March edition of our *Monthly Economic Outlook*, higher goods prices account for almost the entire increase in the dollar volume of retail sales over the past year, and these price effects will again be on full display in this week's release of the February retail sales data (see below). It is against this backdrop that the FOMC convenes this week. A 25-basis point hike in the Fed funds rate is all but a given and at this point will be almost a non-event. Market participants will be much more focused on the updated economic projections and the updated "dot plot" to be issued this week. For instance, how much higher will the median projection of the Q4/Q4 rate of inflation be than the 2.6 percent in the December 2021 projections, how much lower will the projected Q4/Q4 rate of real GDP growth be, and how many funds rate hikes will the updated dot plot imply in 2022 and 2023? The FOMC is walking a fine line here; it is past time for dialing back the degree of monetary accommodation and inflation figures to be easily ahead of the 2.0 percent target rate for some time to come, yet the Committee must be mindful of the gathering downside risks to growth and the increased risks to financial stability. As such, the FOMC will tread lightly until there is more clarity as to the economic and financial fallout of Russia's invasion of Ukraine.
February PPI: Final Demand Tuesday, 3/15 Range: 0.5 to 1.3 percent Median: 0.9 percent	Jan = +1.0%	Up by 1.3 percent, which would yield a year-on-year increase of 10.3 percent.
February PPI: Core Tuesday, 3/15 Range: 0.3 to 0.9 percent Median: 0.6 percent	Jan = +0.8%	Up by 0.7 percent, good for a year-on-year increase of 8.7 percent.
February Retail Sales: Total Wednesday, 3/16 Range: -0.7 to 1.2 percent Median: 0.4 percent	Jan = +3.8%	Up by 0.2 percent. The last two monthly retail sales reports have been no signal, all noise. Seasonal adjustment noise, that is. Going back to October, typical seasonal patterns in retail sales have been significantly distorted, as indeed has been the case with much of the economic data since the onset of the pandemic. These distortions in the raw, i.e., not seasonally adjusted, data have led to some implausibly large swings in the seasonally adjusted retail sales data. Along those lines, keep in mind that February is a seasonally weak month for retail sales; the last time unadjusted total or control retail sales rose in the month of February was 2016. It has been noted that beneath the wild swings in total retail sales in December and January lies a "nice upward trend," to borrow a term from one analyst. While true, that nice upward trend is almost solely a function of the not so nice upward trend in prices for core consumer goods, which goes way beyond the mammoth increase in prices for used motor vehicles. For instance, as of January, total retail sales were up 13.0 percent year-on-year, and while that sounds impressive, the CPI measure of consumer goods prices was up 12.4 percent, leaving inflation-adjusted sales up a paltry 0.5 percent year-on-year. At 13.1 percent in February, goods price inflation continues to accelerate, meaning price effects will figure even more prominently in the over-the-year increases in retail sales, which are reported in nominal (i.e., unadjusted for price changes) terms. It is too soon to know whether, or to what extent, consumers are pulling back discretionary spending due to elevated inflation, particularly food, energy, and shelter inflation, and sliding consumer sentiment. It is, however, worth noting that consumers remain notably confident in labor market conditions, wage growth remains robust, and household balance sheets remain quite healthy. All of which should put a floor under consumer spending in the months ahead.

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February Retail Sales: Ex-Auto Range: 0.2 to 2.4 percent Median: 0.9 percent	Wednesday, 3/16	Jan = +3.3%	Up by 1.0 percent.
February Retail Sales: Control Group Range: -1.1 to 1.6 percent Median: 0.3 percent	Wednesday, 3/16	Jan = +4.8%	Up by 0.5 percent.
January Business Inventories Range: 1.0 to 1.5 percent Median: 1.1 percent	Wednesday, 3/16	Dec = +2.1%	We look for total business inventories to be up by 1.4 percent and for total business sales to be up by 1.8 percent.
February Building Permits Range: 1.775 to 1.914 million units Median: 1.850 million units SAAR	Thursday, 3/17	Jan = 1.895 million units SAAR	Up to an annualized rate of 1.892 million units. The headline numbers for starts and permits will be flattered by seasonal adjustment, helping account for our above-consensus forecasts. As always, the real story will be told by the unadjusted data. On a not seasonally adjusted basis, we look for total permits of 132,300 units, down slightly from January's total. Worsening supply chain issues and substantial backlogs of unfilled orders have been weighing on single family permits over the past several months, and our forecast anticipates that remaining the case. To that point, our forecast of unadjusted single family permits would leave them 24.1 percent below the recent peak reached last March, but over that same time span the number of single family units permitted but not yet started has risen significantly. Until builders have made meaningful progress in clearing order backlogs, single family permit issuance will remain lower than where it otherwise would have been, even allowing for higher mortgage interest rates.
February Housing Starts Range: 1.590 to 1.800 million units Median: 1.700 million units SAAR	Thursday, 3/17	Jan = 1.638 million units SAAR	Up to an annualized rate of 1.742 million units. On a not seasonally adjusted basis, we look for total starts of 123,100 units; while that is up from 117,600 units in January, recall that harsh winter weather held down single family starts in January and our forecast allows for some catching up in the February data. That should be enough to break a streak of seven straight monthly declines in unadjusted single family starts, which is a reflection of intensifying supply chain constraints. Even with recent increases in mortgage interest rates, many builders report that demand remains robust, with lengthy waiting lists in many communities as many builders continue to cap new sales until they've made progress in working down order backlogs. Still, completion times continue to stretch; while weather played a role, January saw the lowest number of single family completions in any month since January 2020. Even should higher mortgage rates take a bigger bite out of demand, builders will remain busy for some time to come given the order backlogs many are sitting on.
February Industrial Production Range: -0.2 to 2.0 percent Median: 0.5 percent	Thursday, 3/17	Jan = +1.4%	Up by 0.5 percent. A sizable increase in aggregate hours worked in the manufacturing sector point to a healthy increase in factory output which, along with higher mining output, will more than offset a steep decline in utilities output.
February Capacity Utilization Rate Range: 77.5 to 79.0 percent Median: 77.9 percent	Thursday, 3/17	Jan = 77.6%	Up to 77.9 percent.
February Leading Economic Index Range: 0.1 to 0.6 percent Median: 0.3 percent	Friday, 3/18	Jan = -0.3%	Up by 0.5 percent.
February Existing Home Sales Range: 5.850 to 6.560 million units Median: 6.100 million units SAAR	Friday, 3/18	Jan = 6.500 million units SAAR	Down to an annualized rate of 6.090 million units. January sales were nowhere near as strong as implied by the headline sales number, which was nothing more than seasonal adjustment on steroids. On a not seasonally adjusted basis, we look for sales of 362,000 units, up from 352,000 units in January but nonetheless down year-on-year. Lack of inventory remains a severe drag on sales, and while February is typically the month in which inventories start to build in advance of the spring selling season, this year's February increase in listings is likely to be smaller than is typical for the month. Our forecast would leave inventory down almost 13.0 percent year-on-year, suggesting there may be little spring in this year's sales season.

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