# ECONOMIC PREVIEW

REGIONS

Week of April 11, 2022

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint** *(After the May 3-4 FOMC meeting):* Target Range Mid-point: 0.625 to 0.875 percent Median Target Range Mid-point: 0.875 percent | Range: 0.25% to 0.50% Midpoint: 0.375% | The inversion of the 10/2 Treasury yield curve proved to be, well, transitory, as yields on longer-term Treasury securities rose sharply in the wake of continued aggressive commentary by FOMC members and some insight into the path of the Fed balance sheet. What has largely escaped notice, however, is that real interest rates have risen rather sharply of late and, if this continues, market participants may start dialing back expectations of just how far the FOMC will, or will have to, go. |
| **March Consumer Price Index** Tuesday, 4/12 Range: 0.9 to 1.4 percent Median: 1.2 percent | Feb = +0.8% | Up by 1.3 percent, which would yield a year-on-year increase of 8.6 percent, the largest such increase since December 1981. Gasoline prices rose by 19.4 percent in March on a not seasonally adjusted basis, which will leave them up better than 18 percent on a seasonally adjusted basis in the CPI data. This alone will account for seven-tenths of a point of the monthly change in the headline CPI. Our forecast anticipates another substantial increase in food prices, with an already hefty rate of food price inflation boosted further by the impacts of Russia's invasion of Ukraine. The acceleration in primary rent growth in the CPI data over the past few months has lagged other measures of rent growth, so even with the fastest growth since February 2002, primary rent growth will be even faster in the months ahead. Meanwhile the recent acceleration (re-acceleration?) in the pace of house price appreciation suggests faster growth in owners' equivalent rents over coming months. While higher fuel costs will to some degree be passed along in higher air fares, there was nothing to suggest higher inflation had put a dent in travel, at least through March, suggesting another stiff increase in lodging costs. On the wholesale level, prices for used motor vehicles fell sharply in February and March, and the March decline in the CPI data should be considerably larger than the 0.2 percent decline in February. This will check the increase in the core CPI, though this still leaves a dizzying year-on-year increase. March should reflect the peak rate of CPI inflation, and while that may mean the worst is behind us, it doesn't mean there is much relief in sight. Our April baseline U.S. forecast anticipates CPI inflation running slightly above 6.0 percent in Q4 2022 and running at just over 3.0 percent in 2023. To be sure, things can change quickly, but for now the outlook is for higher and more persistent inflation than anyone would have imagined a few months ago. That includes us, even though our inflation forecasts have for some time been above consensus forecasts. |
| **March Consumer Price Index: Core** Tuesday, 4/12 Range: 0.1 to 0.7 percent Median: 0.5 percent | Feb = +0.5% | Up by 0.4 percent, which would translate into a year-on-year increase of 6.6 percent, the fastest rate of core CPI inflation since August 1982. |
| **March PPI: Final Demand** Wednesday, 4/13 Range: 0.6 to 2.0 percent Median: 1.1 percent | Feb = +0.8% | Up by 1.4 percent, which would yield an over-the-year increase of 10.9 percent. |
| **March PPI: Core** Wednesday, 4/13 Range: 0.3 to 1.2 percent Median: 0.5 percent | Feb = +0.2% | Up by 0.6 percent, good for an over-the-year increase of 8.4 percent. |
| **March Retail Sales: Total** Thursday, 4/14 Range: -0.5 to 2.2 percent Median: 0.6 percent | Feb = +0.3% | Up by 0.5 percent. With the sharp decline in unit sales in March, motor vehicles will be a drag on total retail sales, though this will be more than countered by a substantial increase in gasoline station sales, reflecting the spike in gas prices, which will prop up ex-auto sales. This will bring control retail sales (retail sales excluding motor vehicle, gasoline, building materials, and restaurant sales) into sharper focus as a guide to how consumer spending held up but, even then, the view may not be all that clear. A late Easter this year likely pushed some spending back from March into April, and in most categories the March seasonal adjustment factors are somewhat punitive. While both of these factors will bias March spending lower, there will be some offset in the form of higher prices as the retail sales data are reported in nominal terms. One key question, which will not be settled by the March data, is the extent to which higher prices for food, energy, and shelter are siphoning spending away from discretionary spending, though this may be a matter of composition rather than the level of spending. Along those same lines, we have argued that shifting consumer spending patterns would favor services spending over goods spending, which would lead to some softening in retail sales. The BEA's data on total consumer spending, due out on April 29, may shed more light on whether such a shift is underway. |

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| **March Retail Sales: Ex-Auto**<br>Range: 0.2 to 2.6 percent<br>Median: 1.0 percent | Thursday, 4/14 | Feb = -0.4% | Up by 1.3 percent. |
| **March Retail Sales: Control Group**<br>Range: -0.7 to 1.2 percent<br>Median: 0.0 percent | Thursday, 4/14 | Feb = -1.2% | Up by 0.2 percent. |
| **February Business Inventories**<br>Range: 0.8 to 1.5 percent<br>Median: 1.3 percent | Thursday, 4/14 | Jan = +1.1% | We look for total business inventories to be up by 1.4 percent and for total business sales to be up by 0.9 percent. |
| **March Industrial Production**<br>Range: -0.1 to 1.1 percent<br>Median: 0.4 percent | Friday, 4/15 | Feb = +0.5% | Up by 0.5 percent. |
| **March Capacity Utilization Rate**<br>Range: 77.4 to 78.5 percent<br>Median: 77.8 percent | Friday, 4/15 | Feb = 77.6% | Up to 78.0 percent. |



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