ECONOMIC PREVIEW

REGIONS

Week of October 10, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 1-2 FOMC meeting):* Target Range Mid-point: 3.625 to 3.875 percent Median Target Range Mid-point: 3.875 percent	Range: 3.00% to 3.25% Midpoint: 3.125%	While many market participants are treating each and every data release as though it determines the path of the Fed funds rate, the reality is that the FOMC remains singularly focused on inflation, and inflation is now and will for some time be far too high for the FOMC to take their collective foot off the gas. While absolutely no one likes that message, accepting it would at least make for calmer financial markets.
September PPI: Final Demand Wednesday, 10/12 Range: -0.4 to 0.4 percent Median: 0.2 percent	Aug = -0.1%	Unchanged, which would yield a year-on-year increase of 8.2 percent.
September PPI: Core Wednesday, 10/12 Range: 0.0 to 0.5 percent Median: 0.2 percent	Aug = +0.4%	Up by 0.2 percent, which would translate into a year-on-year increase of 7.3 percent.
September Consumer Price Index Thursday, 10/13 Range: -0.1 to 0.4 percent Median: 0.2 percent	Aug = +0.1%	Up by 0.1 percent, for a year-on-year increase of 8.0 percent. Once again, lower gasoline prices will be a meaningful drag on the monthly change in the total CPI (that will change, beginning with the October data). Our forecast anticipates a sizable decline in prices for used motor vehicles, but, then again, so did our August forecast, which didn't work out all that well. The CPI series on used vehicle prices lags other indicators, and those measures were showing sizable declines in August while the CPI data had used vehicle prices falling by just 0.1 percent, which was one reason core CPI inflation surprised us to the upside in August. That the CPI may not yet have caught up to these other measures and the potential for seasonal adjustment noise pose upside risks to our forecast, which would be more visible in the core CPI data than in the total CPI data. In addition to lower prices for used motor vehicles, discounting amongst retailers should lead to a smaller increase in core goods prices (consumer goods excluding food and energy) than the 0.5 percent increase in August. Core services prices, however, are another story. While we look for lodging costs to have fallen in September, continued hefty increases in rents will lead to another substantial increase in shelter costs. As we've noted before, the CPI measure of market rents lags market-based measures, which have showed a meaningful deceleration in rent growth over recent months. Until the CPI data pick that up, core CPI inflation will be biased to the upside, though keep in mind that rents have a much higher weight in the core CPI than in the core PCE Deflator, the FOMC's preferred gauge of inflation. We also look for further acceleration in medical care cost inflation even after August saw the largest over-the-year increase since December 1993.
September Consumer Price Index: Core Thursday, 10/13 Range: 0.3 to 0.6 percent Median: 0.4 percent	Aug = +0.1%	Up by 0.3 percent, for a year-on-year increase of 6.4 percent.
September Retail Sales: Total Friday, 10/14 Range: -1.1 to 0.8 percent Median: 0.2 percent	Aug = +0.3%	Up by 0.4 percent. This one is shaping up as a battle between favorable seasonal adjustment and lower prices, which could render the initial estimate of September retail sales little more than noise. That of course wouldn't stop the markets from attaching outsized importance to whatever the headline number turns out to be. Historically, September has been a weak month for retail sales – after the back-to-school shopping season but before the holiday season. In the life of the current series which dates back to 1992, there has never been a September increase in total, ex-auto, or control retail sales on a not seasonally adjusted basis. While this year should be no exception, with the seasonal adjustment factors designed to boost the estimates of unadjusted sales, what matters is how large this September's declines are relative to recent historical averages. For instance, over the past five years, not seasonally adjusted control retail sales have fallen by an average of 5.7 percent in the month of September. Our sense is that this year's decline will be smaller than that, which could provide an artificial boost to the seasonally adjusted change (see Page 2). More broadly, lower prices mean gasoline will be a material drag on total retail sales, and we think price effects will weigh on other categories such as apparel store and general merchandise store sales. Higher unit sales and higher new vehicle prices will support revenue at motor vehicle dealers, but lower used vehicle prices will act as somewhat of an offset. Save for restaurant sales, the retail sales data do not capture services spending, so we won't have a fuller picture of the state of U.S. consumers until the October 28 release of the BEA's data on total consumer spending in September.

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September Retail Sales: Ex-Auto Friday, 10/14 Range: -1.3 to 0.4 percent Median: -0.1 percent	Aug = -0.3%	Up by 0.3 percent.
September Retail Sales: Control Group Friday, 10/14 Range: -0.2 to 0.8 percent Median: 0.3 percent	Aug = 0.0%	Up by 0.5 percent.
August Business Inventories Friday, 10/14 Range: 0.6 to 1.0 percent Median: 0.9 percent	Jul = +0.6%	We look for total business inventories to be up by 0.8 percent, and for total business sales to be up by 0.2 percent.

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