ECONOMIC PREVIEW

REGIONS

Week of November 7, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 13-14 FOMC meeting):* Target Range Mid-point: 4.375 to 4.375 percent Median Target Range Mid-point: 4.375 percent	Range: 3.75% to 4.00% Midpoint: 3.875%	In many ways, the October employment report can be considered to be a "yes, but" report. Yes, the unemployment rate rose, but nonfarm job growth beat expectations. Yes, the pace of job growth has slowed over recent months, but job growth remains more than sufficient to absorb growth in the labor force. Yes, the pace of wage growth has slowed, but wage growth remains considerably faster than was the case prior to the pandemic. Yes, we could go on, but we think we've made our point. Even with the pace of job growth having slowed, keep in mind that as of September there were 10.717 million open jobs across the U.S. economy, equivalent to 1.9 open jobs for each unemployed person. So, even with a slowing pace of job growth, it seems clear that labor supply still remains no match for labor demand.
October Consumer Price Index Thursday, 11/10 Range: 0.5 to 0.8 percent Median: 0.6 percent	Sep = +0.4%	Up by 0.6 percent, which would yield an over-the-year increase of 7.9 percent. After a three-month run in which falling gasoline prices were a meaningful drag on the headline CPI, rising gasoline prices will be a support in the October data, by our estimate adding around two-tenths of a point to the monthly change on a seasonally adjusted basis. At the same time, however, what could be a significant decline in the CPI measure of health insurance prices will weigh on the headline and, to a greater degree, core CPI. This change has less to do with actual out of pocket costs to consumers and more to do with the CPI methodology in estimating prices for health insurance, largely based on profits of health insurance providers, which tend to be reported with a lengthy lag. October is the month in which the updated data are introduced into the CPI, and whatever baseline is established in the October data will basically set the trend rate of change in the CPI measure of health insurance prices for the subsequent eleven months. With profits of insurance providers having come under considerable pressure in 2021, as consumers "caught up" on delayed medical procedures, both preventive and elective, the CPI data will likely show a steep decline in health insurance costs. How steep of a decline remains to be seen, but this is a main factor in our below-consensus forecast for the increase in the core CPI. This methodological quirk injects added uncertainty into forecasts of the October data and, more importantly, could make core CPI inflation look softer than is actually the case over the next several months. We will note that the PCE Deflator, the FOMC's preferred gauge of inflation, is not similarly impacted. The bigger story in the inflation data is the ongoing moderation in core goods price inflation (consumer goods excluding food and energy), only part of which is accounted for by falling prices for used motor vehicles. Core goods prices were basically flat in September, and we would not be surprised to see sequential declines in each of the last three months of 2022, particularly to the extent retailers continue to resort to aggressive discounting to clear out unwanted inventories. Conversely, however, core services price inflation continues to gather pace, only part of which is due to the faster rent growth being reported in the CPI data. This is where, at least in the CPI data, the methodological quirk in measuring prices for health insurance will come into play, but even so core services price inflation is likely to accelerate further. With services accounting for a much higher weight in measures of inflation (which simply reflects spending shares), faster core services inflation will offset further slowing in core goods inflation, thus sustaining overall core inflation at an uncomfortably high pace.
October Consumer Price Index: Core Thursday, 11/10 Range: 0.3 to 0.6 percent Median: 0.5 percent	Sep = +0.6%	Up by 0.4 percent, for an over-the-year increase of 6.4 percent.

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