ECONOMIC PREVIEW

REGIONS

Week of December 12, 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%	This week's FOMC meeting figures to be an eventful one, with a likely downshift into a slower pace of Fed funds rate hikes, an updated set of economic and financial projections, and the usual post-meeting press conference with Chair Powell. We do expect the Committee to follow through on the signals they've sent over the past few weeks and raise the funds rate by fifty basis points, ending a run of four straight hikes of seventy-five basis points. Those thinking that the November employment report, particularly the data on average hourly earnings, puts a seventy-five basis point on the table for this week's meeting should go back and look at the details of the data in the November employment report, particularly the data on average hourly earnings. Aside from the standard updates to the assessment of current economic conditions, we expect the post-meeting statement to keep the phrasing regarding subsequent rate hikes intact, i.e., "the Committee anticipates that ongoing increases in the (Fed funds rate) target range will be appropriate . . ." in contrast to some who think the language may be softened a bit, with "some further increase" taking the place of "ongoing increases." While such a change may be more in keeping with current thinking amongst a growing number of Committee members, making such a change now would be at odds with the overarching message the Committee wants to send at this week's meeting, which is that while a slower pace of rate hikes lessens the risks of over-tightening, the FOMC is not yet close to the finish line. The updated economic projections are likely to show slower real GDP growth, a higher unemployment rate, and slightly lower inflation in 2023 relative to the September projections. Market participants will of course be more focused on the updated dot plot, and our expectation is that the December edition will show a higher terminal funds rate than did the September edition, in which the upper end of the Fed funds rate target range topped out at 4.75 percent. At the same time, we expect the updated dot plot to show fewer funds rate cuts in 2024 than implied in the September edition. This combination – a higher terminal rate with the funds rate kept higher for longer – will reinforce the Committee's view that policy will need to remain more restrictive for longer to bring inflation back to the 2.0 percent target rate. This is a point we expect Chair Powell to make in his post-meeting press conference, early and often, while he also leaves all options for the February FOMC meeting open.
November Consumer Price Index Tuesday, 12/13 Range: -0.1 to 0.4 percent Median: 0.3 percent	Oct = +0.4%	Up by 0.2 percent, which would translate into an over-the-year increase of 7.2 percent. On a seasonally adjusted basis, gasoline will be a modest drag on the total CPI, and we look for further moderation in food price inflation, though this would nonetheless still leave food prices up double-digits year-on-year. After a 0.4 percent decline in October, our forecast anticipates a further decline in core goods prices (consumer goods excluding food and energy) in November, and while falling prices for used motor vehicles are playing a part, they are far from the only factor. The BLS's measure of core goods prices excluding used motor vehicles was flat in October and we look for it to have fallen in November, particularly given the extent to which many retailers have engaged in aggressive discounting in order to move unwanted stocks. While we also look for further (slight) moderation in services price inflation in the November data, the CPI measure of health insurance prices looms as a source of uncertainty around our forecast. Recall that a methodological change which took effect with the October data led to a 4.0 percent decline in prices for health insurance (that was the monthly change, not the year-on-year change), which dragged down the broad index of medical care services prices. It isn't yet clear to us how the methodological change will impact the monthly changes in health insurance prices beyond October, and while we anticipate a much smaller decline than that seen in October, that call doesn't come with much conviction. More fundamentally, the October data showed rent growth decelerated, and we look for further slowing in the November data, with the deceleration in rent growth gathering pace in the months ahead. Note that to the extent we are correct in our expectations for the paths of health insurance prices and rents, the effects of the former won't turn up and the effects of the latter will be much less pronounced in the PCE Deflator, the FOMC's preferred measure of inflation. But, should growth in spending on discretionary services spending slow in the months ahead as we expect, services price inflation could slow by more than is now anticipated, and keep in mind that services prices carry much more weight in measures of inflation than do goods prices.

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Indicator/Action Economics Survey:		Last Actual:	Regions' View:
November Consumer Price Index: Core Range: 0.0 to 0.6 percent Median: 0.3 percent	Tuesday, 12/13	Oct = +0.3%	Up by 0.3 percent, which would yield a year-on-year increase of 6.1 percent.
November Retail Sales: Total Range: -1.1 to 1.1 percent Median: -0.1 percent	Thursday, 12/15	Oct = +1.3%	Unchanged. Much like that Mayhem guy in the insurance commercials, one never knows what the monthly reports on retail sales will bring. That could be especially true of the report on November retail sales, as evidenced by forecasts that are all over the map. The combination of heavy discounting by many retailers and what in most of the broad sales categories are tough November seasonal factors could yield a report that makes November sales look much weaker than was actually the case (and, oh by the way, these effects will be even more pronounced in the December data, so there's that to look forward to). Two categories in which the November seasonal factors will be supportive are motor vehicle dealers and gasoline stations, and both can use the help. Unit sales of new motor vehicles fell in November, and pricing for both new and used vehicles was likely softer in November than in October. While this adds up to an over-the-month decline in sales revenue at motor vehicle dealers, favorable seasonal adjustment will mitigate the extent of the decline reported in the retail sales data. By the same token, retail gasoline prices fell last month, but the November seasonal factor used in this category is exceptionally generous, meaning the seasonally adjusted data could look much better than was actually the case. In most of the other categories, the seasonally adjusted data are likely to look weak, reflecting discounting and punitive seasonal adjustment. In some cases, such as electronics and appliance stores, this is likely to result in a decline in reported sales while in other categories, such as nonstore retailers, this is likely to result in a more modest increase in reported sales than you'd expect for November. Another thing to keep in mind when processing the November retail sales data is the shift in consumer spending patterns, with some portion of spending being shifted away from goods and toward services, as services are not accounted for in the retail sales data. And, as if we need another reason to not know what to make of the report on November sales, the November data incorporate the Census Bureau's revised retail trade sample, intended to make the sample pool more representative of the industry and enhance the quality of the data. While in principal the results across samples are linked so that they are comparable, there could still be some jumps in individual categories that are more about sampling changes than about actual changes in sales. The bottom line here is that it will be important to put the report on November retail sales in proper context, which means accounting for price effects, seasonal adjustment, and potential methodological noise, as opposed to simply spinning a convenient though not necessarily accurate narrative about the state of U.S. consumers based on whatever the headline retail sales number turns out to be.
November Retail Sales: Ex-Auto Range: -0.8 to 1.2 percent Median: 0.2 percent	Thursday, 12/15	Oct = +1.3%	Up by 0.3 percent.
November Retail Sales: Control Group Range: -0.9 to 0.8 percent Median: 0.1 percent	Thursday, 12/15	Oct = +0.7%	Up by 0.2 percent.
November Industrial Production Range: -0.5 to 0.3 percent Median: 0.1 percent	Thursday, 12/15	Oct = -0.1%	Down by 0.1 percent.
November Capacity Utilization Rate Range: 79.5 to 80.2 percent Median: 79.8 percent	Thursday, 12/15	Oct = 79.9%	Down to 79.7 percent.
October Business Inventories Range: 0.2 to 0.5 percent Median: 0.4 percent	Thursday, 12/15	Sep = +0.4%	We look for total business inventories to be up by 0.3 percent, and for total business sales to be up by 0.8 percent.

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