ECONOMIC UPDATE

REGIONS

January 17, 2020

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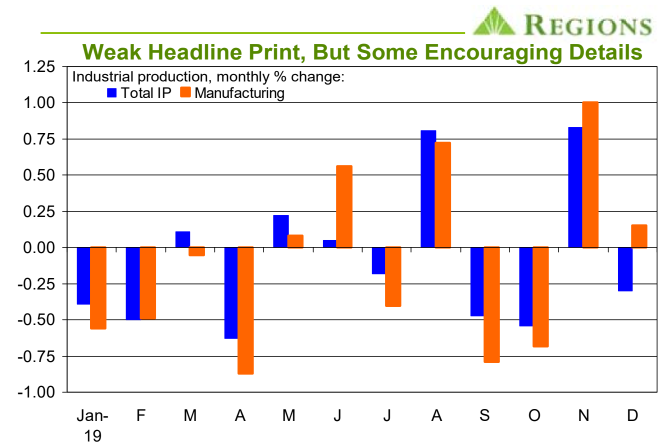
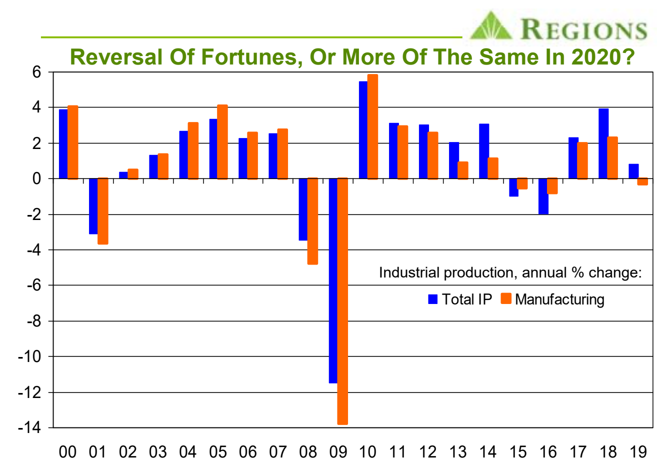
December Industrial Production: Some Encouraging Details Beneath A Weak Headline Print

- Industrial production fell by 0.3 percent in December, with manufacturing output up by 0.2 percent
- The overall capacity utilization rate fell to 77.0 percent, while the utilization rate in manufacturing rose to 75.2 percent
- On a year-over-year basis, total industrial production was down by 1.0 percent in December, with manufacturing output down by 1.3 percent

Total output amongst the nation's factories, mines, and utilities fell by 0.3 percent in December, matching the consensus forecast and a touch milder than the 0.4 percent decline our forecast anticipated. Manufacturing output rose by 0.2 percent and mining output rose by 1.3 in December while utilities output plummeted by 5.6 percent. The sharp decline in utilities output is the flip side of the spike in residential construction activity in December, each a reflection of unseasonably warm weather, Mother Nature apparently not having gotten the memo explaining that it's always cold in the winter. In any event, that manufacturing output notched out a modest gain despite a decline in factory sector payrolls amidst continued abysmal readings from the ISM Manufacturing Index is somewhat encouraging. Even more encouraging is that the increase in total manufacturing output came despite a sharp decline in motor vehicle production during the month; excluding production of motor vehicles and parts, manufacturing output was up by 0.5 percent in December, the best monthly gain since August. Progress on the trade front and global economic growth in the process of firming up offer hope that conditions in the manufacturing sector will improve over the course of 2020, but keep in mind that Boeing's decision to halt production of the 737 Max will act as a meaningful drag on the manufacturing sector in the first part of 2019.

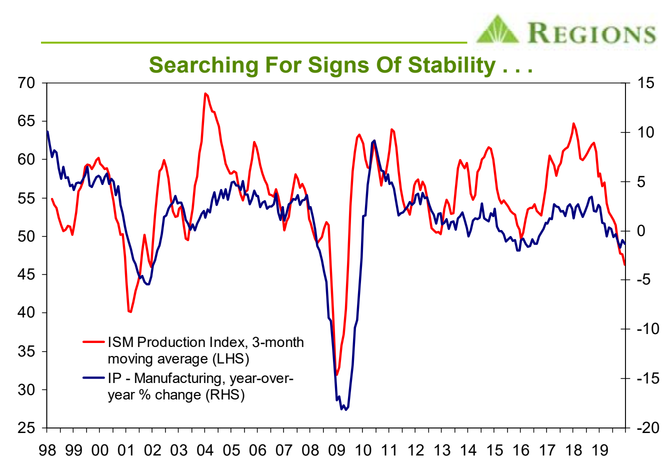


Assemblies of automobiles and light trucks fell to an annualized rate of 10.296 million units in December, down from November's pace of 11.175 million units. The monthly production data were quite erratic over the final months of 2019, which simply reflects the effects of the GM strike and its ultimate resolution. Looking ahead to 2020, however, we expect the pace of motor vehicle assemblies to drift lower, in line with what we see as a modest pullback in motor vehicle sales. Automobile assemblies will bear the brunt of this decline in 2020, as was the case in 2019 – total automobile assemblies fell by 8.4 percent in 2019, while assemblies of SUVs/light trucks fell by 1.4 percent. While assemblies of medium/heavy trucks rose by 6.6 percent in 2019, assemblies weakened over the back half of the year and will likely drift lower in 2020.



As noted above, excluding motor vehicles and parts, manufacturing output rose by 0.5 percent in December. The details of the December industrial production data pertaining to business investment spending were favorable. Production in the broad business equipment category rose by 0.4 percent, following up on a 0.5 percent increase in November; production of computers and office equipment was up sharply, with better than 3.0 percent increases in both November and December. Core capital goods orders ended 2019 on firmer footing, which should carry through to the industrial production data. That said, to the extent growth does continue into 2020, it is more likely to be modest growth rather than robust growth.

For 2019 as a whole, total industrial production was up by 0.8 percent, with output in the manufacturing sector down by 0.1 percent, output in the utilities sector down by 1.3 percent, and output in the mining sector up by 7.8 percent. Sustaining that growth in mining output in 2020 will be challenging, given a tame pricing outlook, logistics constraints such as inadequate pipeline capacity, and what will likely be more pressing labor supply constraints. For the manufacturing sector, the main question mark as 2020 begins is whether we are seeing a repeat of 2015-16, i.e., a contracting manufacturing sector amidst the broader economy continuing to grow, or whether we are seeing something more ominous, such as a downturn in manufacturing presaging a downturn in the broader economy. There is little reason to suspect we are seeing the latter, and perhaps the better question is whether the rebound from a weak 2019 will be listless or vigorous. The jury is very much still out on that count; while there is upside from trade, Boeing poses downside risk, and our sense is that any rebound in the manufacturing sector this year will be somewhat restrained.



Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com