ECONOMIC PREVIEW

REGIONS

Week of September 7, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 15-16 FOMC meeting):* Target Range Mid-point: 0.000 to 0.125 percent Median Target Range Mid-point: 0.125 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	Even after allowing for the 238,000 temporary Census jobs and accounting for the seasonal adjustment noise that inflated measured job gains in retail trade and leisure and hospitality services, the August employment report was a solid report. Though perhaps having escaped notice, the sharp decline in the number of those working part-time for economic reasons helped push the broad U6 measure down to 14.5 percent in August from 16.2 percent in July. Still, even with the addition of 10.473 jobs over the past four months, private sector payrolls remain 10.718 million jobs below the level as of February, and there are reasons to think that the road to a labor market recovery is getting bumpier and longer. The rising duration of unemployment is concerning, and even more concerning is the rising duration of unemployment for those classified as being on temporary layoff – as of August, 67.1 percent of those on temporary layoff had been out of work for 15 weeks or longer. With each passing month, the line between "temporary" and "permanent" job losses is becoming more and more blurry, which is a sign of a slow and uneven recovery in the broader economy.
August PPI: Final Demand Thursday, 9/10 Range: 0.1 to 0.4 percent Median: 0.2 percent	Jul = +0.6%	<u>Up</u> by 0.1 percent, which would leave the PPI <u>down</u> 0.4 percent year-on-year.
August PPI: Core Thursday, 9/10 Range: 0.0 to 0.3 percent Median: 0.2 percent	Jul = +0.5%	<u>Up</u> by 0.3 percent, which would translate into an over-the-year increase of 0.5 percent.
August Consumer Price Index Friday, 9/11 Range: 0.2 to 0.4 percent Median: 0.3 percent	Jul = +0.6%	<u>Up</u> by 0.4 percent, good for an over-the-year increase of 1.3 percent. Gasoline prices will be a modest support for the total CPI; instead of declining on a not seasonally adjusted basis as is typical in the month of August, pump prices were flat this August, meaning that the seasonally adjusted data will show a roughly 2.0 percent increase. Elsewhere in the data, motor vehicle prices, new and used, will again provide support for the total and core CPI. Sales continue to increase while inventories remain limited – recall that prior to the pandemic, motor vehicle inventories were somewhat bloated – which is supporting pricing. While other measures continue to show much sharper increases in prices for used motor vehicles than does the CPI measure, the latter is at least closing some of that gap. Our forecast anticipates another increase in apparel prices, but a smaller increase than seen in the July data, and the same should be the case for air fares. One notable element of the data over the past few months is the sharp deceleration in rent growth. That growth in primary rents has softened reflects the hit to demand stemming from the weakness in the labor market. That growth in owners' equivalent rents has slowed may seem curious in light of what remains robust house price appreciation – recall this category measures owners' perceptions of what they could charge were they to put their home up for rent, and while it may seem that these perceptions would be shaped by the rate of house price appreciation, the link between the two has typically been weak. One wild card in the August CPI data could be college tuition, which lands in the broad "education and communication" category. With the increased incidence of online, as opposed to in-class, instruction, there has been pressure on colleges to reduce tuitions, and many have done so. Whether the collective reduction is large enough to impact the CPI remains to be seen – college tuition accounts for roughly two percent of the Core CPI – and it could be that any such effect is not picked up until the September data. At the same time, however, upward pressure on hardware prices, i.e., computers/tablets, telecommunications equipment, could provide an offset to any downward pressure from college tuition. As such, our forecast does the only reasonable thing for a forecast to do in this situation, i.e., assumes prices in the broad education and communications category are flat. Really, it didn't set out to do so, it just ended up doing so. In any event, changes in consumer spending patterns – heavier on goods, lighter on services – stemming from the pandemic continue to impact the CPI data, which could lead to increased volatility in the CPI in the months ahead. The broader point, however, is that it is likely to be some time before inflation is a concern for the FOMC, particularly in light of the recent shift in the FOMC's inflation strategy.
August Consumer Price Index: Core Friday, 9/11 Range: 0.1 to 0.4 percent Median: 0.3 percent	Jul = +0.6%	<u>Up</u> by 0.3 percent, which would leave the core CPI up 1.6 percent year-on-year.

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