ECONOMIC PREVIEW

REGIONS

Week of March 8, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 16-17 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%	It seems somewhat apropos that, amid considerable angst over an acceleration in inflation, the featured releases on this week's schedule are the reports on consumer and producer prices for the month of February. To us, the relevant question isn't whether inflation will pick up in but instead whether inflation will pick up to the point that the FOMC will feel compelled to respond. Between base effects that will significantly amplify inflation in March and April, services prices normalizing as the economy more fully reopens, and what could be a run of increases in energy prices, there were plenty of reasons to expect faster inflation in 2021, as we for some time have. For each of theses factors, however, the FOMC would have a response – they will look past base effects, normalization in services prices is likely a one or two month process rather than a sustained series of price hikes, and the focus is on core, not headline, inflation. What doesn't fit as neatly into the equation, however, is the extent to which supply chain and logistics issues are driving up production and delivery costs, and the extent to which such cost increases will be passed along in the form of higher prices for intermediate and final goods. Our sense is that producers and wholesalers have more pricing power at present than has been the case over the past several years, and if we are correct on this point, it could be that retail level inflation picks up more than many are anticipating will be the case. That said, we still see it as highly unlikely that inflation will pick up to the point that the FOMC will feel compelled to respond, particularly as they have made it quite clear that they are far more intensely focused on labor market conditions and are less worried about price stability. While it could turn out that the FOMC is underestimating the extent to which inflation could pick up or how much staying power higher inflation could have, we still see that as a story for 2022 or beyond, not 2021.
February Consumer Price Index Wednesday, 3/10 Range: 0.1 to 0.5 percent Median: 0.4 percent	Jan = +0.3%	Up by 0.5 percent, which would yield a year-on-year increase of 1.8 percent. Our forecast anticipates steep hikes in energy prices and a jump in food prices. It could be, however, that most of the weather-related increases in these areas will not be fully captured in the February data, which poses a downside risk to our forecast. Either way, however, higher energy and food prices will turn up in the retail level inflation data at some point, and the increases seen in late-February won't be the end of the story. As such, headline inflation will climb higher in the months ahead, and keep in mind that base effects will amplify headline inflation in March and April, as those were the months in which prices tumbled last year as the economy largely shut down. While many put less emphasis on headline inflation and instead focus on core inflation, coming months should see a robust rebound in services inflation as the economy more fully reopens. So, while our forecast anticipates core CPI inflation remaining tame in February, that will change in the months ahead.
February Consumer Price Index: Core Wed., 3/10 Range: 0.1 to 0.3 percent Median: 0.2 percent	Jan = +0.3%	Up by 0.2 percent, which would translate into a year-on-year increase of 1.3 percent. The main elements of the core inflation data we'll be watching are core goods prices, core services prices, and market rents. As measured in the CPI data, core goods inflation hit an almost eight-year high in January, and we expect core goods prices to have firmed further in February. In contrast, we expect growth in core services prices and market rents to have remained fairly listless; while core services prices will rebound as the economy more fully reopens, any rebound in market rents will be longer in coming and will be closely aligned with the rate at which remaining slack in the labor market is pared down.
February PPI: Final Demand Friday, 3/12 Range: 0.3 to 0.8 percent Median: 0.5 percent	Jan = +1.3%	Up by 0.8 percent, for an over-the-year increase of 3.1 percent.
February PPI: Core Friday, 3/12 Range: 0.1 to 0.6 percent Median: 0.3 percent	Jan = +1.3%	Up by 0.4 percent, good for a year-on-year increase of 2.8 percent.

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