ECONOMIC PREVIEW

Week of December 6, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 14-15 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%	The inflation formerly known as transitory is still with us, and figures to be with us for a while longer. We had long expected January 2022 would mark the peak of the over-the-year increases in the Consumer Price Index (CPI), and still look for that to be the case. Beyond that, our expectation was that inflation would decelerate but nonetheless remain easily above the FOMC's 2.0 percent target rate through 2022. The Omicron variant of the COVID virus, however, looms as a considerable wild card in the inflation outlook. What to date has been a sharp decline in crude oil prices could result in a significant reduction in retail gasoline prices, which would drag down headline inflation. At the same time, should new COVID outbreaks lead to another round of shutdowns of global manufacturing and shipping hubs, any progress made to date in clearing supply chain and logistics bottlenecks would be at once erased, adding renewed upward pressure to goods prices, while another shift in consumer spending patterns – away from services, toward goods – would reinforce the upward pressure on goods prices, thus helping keep core inflation elevated. All of this made for a most interesting backdrop for Chairman Powell's comments last week, in which he suggested a faster pace of tapering the Fed's monthly asset purchases might be appropriate and noted it is time to retire the word "transitory" in describing inflation. Several other FOMC members have come out in favor of speeding up the pace of tapering, and we expect such an announcement at this month's FOMC meeting. An earlier end to the Fed's asset purchases would clear the path for Fed funds rate hikes, and market participants are adjusting expectations of the timing and the number of rate hikes there will be in 2022. Still, clearing a path and actually heading down that path are two different things. As such, it remains to be seen how much of an appetite for rate hikes there will be within the FOMC, particularly given the looming turnover of Committee membership.
Q3 Nonfarm Productivity -- revised Tuesday, 12/7 Range: -5.3 to -3.0 percent Median: -4.9 percent SAAR	Q3 (prelim) = -5.0% SAAR	Down at an annualized rate of 5.2 percent. While the revised Q3 GDP data show a faster rate of growth in real nonfarm business output, upward revisions to prior estimates of job growth yielded faster growth in aggregate private sector hours worked. With the latter more than offsetting the former, the net result should be an even larger contraction in nonfarm labor productivity than was originally reported.
Q3 Unit Labor Costs -- revised Tuesday, 12/7 Range: 7.0 to 9.6 percent Median: 8.3 percent SAAR	Q3 (prelim) = +8.3% SAAR	Up at an annualized rate of 9.5 percent. Revised data show faster growth in labor compensation in Q3 than originally reported which, along with what should be a larger decline in productivity, will yield faster growth in unit labor costs relative to the initial estimate.
October Trade Balance Tuesday, 12/7 Range: -$70.5 to -$65.4 billion Median: -$67.0 billion	Sep = -$80.9 billion	Narrowing to -$66.5 billion. Double-digit growth in U.S. exports in October led to a significantly smaller deficit in the goods account, which will drag the overall trade deficit lower.
November Consumer Price Index Friday, 12/10 Range: 0.4 to 1.0 percent Median: 0.7 percent	Oct = +0.9%	Up by 0.8 percent, for a year-on-year increase of 7.0 percent. "Transitory" proved to be more transitory than did transitory inflation, and our forecast would mark the highest rate of CPI inflation since June 1982. While food and energy will make sizable contributions to November's increase – gasoline alone will add two-tenths of a point to the monthly increase in the total CPI – it is also the case that inflation pressures have broadened over the past few months. The pace of rent growth has picked up considerably, and we expect the November data to show hefty increases in both primary rents and owners' equivalent rents, with faster rent growth likely to be sustained for some time to come. Additionally, while October brought a 0.5 percent increase in medical care costs, it's too soon to know whether that was a one-off jump or the start of the normalization in medical care costs we'd been expecting for some time. While there are early signs that the supply-side bottlenecks that have contributed to faster inflation are beginning to ease, it is far too soon for any such progress to be reflected in core goods prices (i.e., consumer goods excluding food and energy). As such, we look for another sizable increase in core goods prices, aided by further sharp increases in prices for new and used motor vehicles.
November Consumer Price Index: Core Friday, 12/10 Range: 0.2 to 0.8 percent Median: 0.5 percent	Oct = +0.6%	Up by 0.6 percent, which would translate into a year-on-year increase of 5.0 percent.

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

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