ECONOMIC PREVIEW

REGIONS

Week of December 13, 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%	In light of further progress in the labor market while inflation remains elevated, several FOMC members, including Chairman Powell, have suggested a faster pace of tapering the Fed's asset purchases would be appropriate. It is widely expected that the FOMC will announce plans to do just that at the conclusion of this week's meeting. We expect the pace of tapering to be doubled beginning in January, with asset purchases ending in March. In bringing about an earlier end to the Fed's asset purchases, the FOMC is clearing a path to begin raising the Fed funds rate sooner than would otherwise have been the case. This week's meting will also bring the release of updated economic and financial projections, including an updated "dot plot." Market participants will be keenly interested in the Committee's forecast of inflation, and it is expected that the updated dot plot will imply two 25-basis point funds rate hikes in 2022, up from the single hike implied in the September dot plot. Still, a sooner start in raising the funds rate doesn't necessarily mean the FOMC will go farther than would otherwise have been the case. As such, the cumulative increase in the funds rate implied by the updated dot plot will be of considerable interest.
November PPI: Final Demand Tuesday, 12/14 Range: 0.3 to 0.7 percent Median: 0.5 percent	Oct = +0.6%	Up by 0.5 percent, which would yield an over-the-year increase of 9.1 percent.
November PPI: Core Tuesday, 12/14 Range: 0.3 to 0.6 percent Median: 0.4 percent	Oct = +0.4%	Up by 0.4 percent, which would translate into an over-the-year increase of 7.2 percent.
November Retail Sales: Total Wednesday, 12/15 Range: 0.2 to 1.5 percent Median: 0.8 percent	Oct = +1.7%	Up by 0.3 percent. The November retail sales report will be the battle royale, with higher prices and consumers with the wherewithal to spend on one side going against supply constraints and seasonal adjustment factors that are anything but festive. While it might seem as though the odds are stacked in favor of higher spending, one should never underestimate the degree to which seasonal adjustment issues can flip a data release on its head, making good (bad) numbers look much worse (better) than is actually the case. Anyone needing a reminder of this need only look back at the retail sales data from last November and December when, on a seasonally adjusted basis, total, ex-auto, and control retail sales fell in both months. For instance, while the not seasonally adjusted data show control retail sales rose by 4.5 percent last November, that was much smaller than the typical November increase, hence the 0.9 percent decline reported in the seasonally adjusted data. We look for similar patterns this year, with the seasonally adjusted data showing a modest decline in control retail sales (see Page 2). To be sure, higher goods prices will support sales volumes, as the retail sales data are reported in nominal terms, i.e., they are not adjusted for price changes. Grocery store, motor vehicle, and gasoline sales figure to get big boosts from higher prices (the latter two are not included in the control group). And, for the most part consumers have ample capacity to spend on the basis of what has been notably strong growth in labor earnings and a significant amount of excess saving. At the same time, however, supply constraints are weighing on some categories, such as apparel and appliances, which could be a drag on spending growth. Supply constraints, or fears of such constraints, helped pull forward some spending that would have taken place during the November/December holiday sales season. To that point, not seasonally adjusted control retail sales posted a larger gain in October than is typical for the month. And, it could be that higher prices and limited supplies have led consumers to divert spending away from goods and toward services, which are not captured in the retail sales data. So, higher prices notwithstanding, our forecast anticipates that the increase in retail sales on a not seasonally adjusted basis will be smaller than is typical for the month of November, which will make the seasonally adjusted data look weaker than is actually the case. Our degree of confidence in our forecast, however, is lower than normal, which in the case of the retail sales data is pretty low to start with. And, even if the November data come in better than we anticipate, the issues we've outlined here will apply to the December data. The difference is that the December seasonal adjustment factors are far more punitive than are the November factors, raising the possibility of even larger distortions in the seasonally adjusted data for December.

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November Retail Sales: Ex-Auto Range: 0.4 to 1.6 percent Median: 0.9 percent	Wednesday, 12/15	Oct = +1.7%	Up by 0.4 percent.
November Retail Sales: Control Group Range: -0.1 to 1.5 percent Median: 0.7 percent	Wednesday, 12/15	Oct = +1.6%	Down by 0.1 percent. Clearly, the risk is that our forecast of November sales is too low, but our uncertainty revolves around when, and how, consumers will spend more so than how much they will spend. Our sense is that if November sales are stronger than our forecast anticipates, that will set the stage for a really weak December report.
October Business Inventories Range: 0.5 to 1.2 percent Median: 1.1 percent	Wednesday, 12/15	Sep = +0.7%	We look for total business inventories to be up by 1.2 percent and for total business sales to be up by 2.4 percent.
November Building Permits Range: 1.566 to 1.690 million units Median: 1.661 million units SAAR	Thursday, 12/16	Oct = 1.653 million units SAAR	Up to an annualized rate of 1.683 million units. Like retail sales, there could also be a high degree of seasonal adjustment noise in the November data on residential construction. In contrast to retail sales, however, seasonal adjustment may make the construction data look better than was actually the case. November is typically characterized by significant declines in housing permits and starts, but the declines this year could be meaningfully smaller than normal. Single family permits and starts are each more than 20 percent below the highs seen earlier this year (based on the not seasonally adjusted data), which is more a reflection of supply-side issues than demand-side issues. As such, our forecast anticipates smaller than normal November declines in unadjusted permits and starts, which will make the seasonally adjusted data look better, hence our above-consensus forecasts of the headline numbers. It could be that single family starts hold up better than single family permits, as builders remain focused on clearing backlogs of unfilled orders, including a sizable backlog of single family units which have been permitted but not yet started. As such, our forecast anticipates November being the seventh consecutive month in which single family starts are higher than single family permits in the not seasonally adjusted data.
November Housing Starts Range: 1.510 to 1.638 million units Median: 1.566 million units SAAR	Thursday, 12/16	Oct = 1.520 million units SAAR	Up to an annualized rate of 1.636 million units. In addition to the data on permits and starts, we'll also be watching single family completions, which have begun to lag amid ongoing supply-side stresses. As of October, there were 726,000 single family units under construction, the largest backlog since May 2007. There were also 725,000 multi-family units under construction as of October, and while this is the highest number since August 1974, that is nothing new as an outsized backlog of under-construction units has been a trait of the multi-family segment of the housing market for the past few years. Unlike the single family segment of the market, however, this backlog seems to have had little impact on the pace of multi-family permits and starts, certainly not on the order that we would have expected.
November Industrial Production Range: -0.2 to 1.0 percent Median: 0.6 percent	Thursday, 12/16	Oct = +1.6%	Up by 0.4 percent.
November Capacity Utilization Rate Range: 76.2 to 77.1 percent Median: 76.8 percent	Thursday, 12/16	Oct = 76.4%	Up to 76.7 percent.

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