ECONOMIC PREVIEW

REGIONS

Week of May 9, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 14-15 FOMC meeting):* Target Range Mid-point: 1.375 to 1.625 percent Median Target Range Mid-point: 1.375 percent	Range: 0.75% to 1.00% Midpoint: 0.875%	In his press conference following last week's FOMC meeting, Chairman Powell downplayed the possibility of a 75-basis point hike in the Fed funds rate, stating that "is not something we are actively considering." While that does not slam the door shut on such a move, it does raise the bar considerably higher. This week's inflation data will likely keep that debate alive, at least amongst analysts and market participants if not within the FOMC. While there may not be much of a consensus as to what constitutes a "neutral" Fed funds rate, there is no question that the funds rate is a very long way from whatever neutral is. With inflation significantly elevated and likely to remain that way for some time to come, it is more than reasonable to ask why not get back to neutral, or at least the range within which neutral can plausibly be seen as lying, sooner rather than later.
April Consumer Price Index Wednesday, 5/11 Range: 0.0 to 0.5 percent Median: 0.2 percent	Mar = +1.2%	Up by 0.2 percent, which would translate into a year-on-year increase of 8.0 percent. Retail gasoline prices fell by 2.5 percent in April, but the BLS's seasonal adjustment factor for gasoline assumes prices went up by 5.5 percent. The net result is that the seasonally adjusted CPI data will show gasoline prices down by almost 8.0 percent in April, which will knock three-tenths of a percentage point off the monthly change in the headline index, with the broader energy index adding to that drag. Our forecast also anticipates another hefty decline in prices for used motor vehicles, which will weigh on the change in core goods prices. The magnitudes of the declines we expect in prices for energy and used motor vehicles will negate much of the upward pressure on the headline CPI from another significant increase in food prices, trend-like increases in market and owners' equivalent rents, and further sharp increases in air fares and lodging costs. Also, the April CPI data will incorporate a methodological change around prices of new motor vehicles. Rather than being based on survey data, the index of new vehicle prices will be based on transactions data provided by J.D. Power. Over the past several quarters, prices of new motor vehicles measured on this basis have risen at a faster rate than has been the case in the BLS's old methodology, and while we've adjusted our forecast to account for this change, there could still be some upside risk to our call. Upon the release of the March CPI data, which showed inflation running at 8.5 percent, we noted that would likely prove to be the peak for inflation during this cycle. The very next thing we said, however, was, in essence, "so what," our point being that while inflation was likely to slow, it will nonetheless remain significantly elevated for some time to come. We've seen nothing thus far that would lead us to change our view, on either one of those points. Any "relief" from lower but still high gasoline prices in April proved to be, well, transitory, as prices have turned higher over recent weeks. There is seemingly little, if any, relief on the horizon from rapidly rising food prices. As we've noted, the lift to food price inflation stemming from Russia's invasion of Ukraine figures to be more persistent than the corresponding lift to energy price inflation. Outside of new motor vehicles, where higher but still low production rates have helped blunt price pressures, we're not yet seeing any such relief in prices of other consumer durable goods such as furniture and appliances, where supply chain entanglements continue to push prices higher, which is likely also the driving force behind what have been sizable increases in apparel prices over the past several months. If we are correct in expecting shifting consumer patterns to result in less demand for consumer durables, with the possible exception of motor vehicles, that would result in some relief from price pressures, though more meaningful relief will not come until supply chains are functioning more normally.
April Consumer Price Index: Core Wednesday, 5/11 Range: 0.3 to 0.5 percent Median: 0.4 percent	Mar = +0.3%	Up by 0.4 percent, which would yield a year-on-year increase of 6.0 percent.
April PPI: Final Demand Thursday, 5/12 Range: 0.0 to 0.9 percent Median: 0.5 percent	Mar = +1.4%	Up by 0.6 percent, good for a year-on-year increase of 10.8 percent.
April PPI: Core Thursday, 5/12 Range: 0.4 to 0.8 percent Median: 0.6 percent	Mar = +1.0%	Up by 0.7 percent, which would yield a year-on-year increase of 8.9 percent.

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