ECONOMIC PREVIEW

REGIONS

Week of September 12, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 20-21 FOMC meeting):* Target Range Mid-point: 2.875 to 3.125 percent Median Target Range Mid-point: 2.875 percent	Range: 2.25% to 2.50% Midpoint: 2.375%	While many see the August read on the Consumer Price Index as being the deciding factor in the FOMC raising the Fed funds rate by 50 or 75 basis points at next week's meeting, we don't see it that way at all. Even if the headline CPI declined in August as we expect, that would still yield an over-the-year change of around 8.0 percent, while core CPI inflation will come in at or around 6.0 percent. Our view is that while the recent softening of the month-to-month changes is of course welcome by FOMC members (recall the headline CPI was flat in July), they will nonetheless remain focused on the year-on-year increases, which we expect will remain bloated for some time to come. As such, even when the Committee reaches a stopping point for funds rate hikes, a reversal of course won't come until well after that point. While FOMC members are now in the communications blackout period ahead of next week's meeting, their most recent public comments have given us no reason to expect anything other than a 75-basis point funds rate hike this month. As for this week's crowded docket of data releases, while lower energy prices will be a heavy weight on the headline prints on both the Consumer Price Index and the Producer Price Index, they will have a similar effect on August retail sales. At the same time, aggressive discounting on the part of retailers looking to clear inventories is also expected to weigh on retail sales, which are reported in nominal terms. Though the monthly data on business inventories do not typically garner much attention, the July print (see Page 2) will merit notice. Recall that a slower pace of inventory accumulation acted as a significant drag on real GDP over 1H 2022, and if our forecast is on or near the mark, growth in inventories will be even slower in Q3. While that would mean that inventories would again be a drag on real GDP, we do not expect that drag to be nearly as powerful in Q3 as was the case in Q2, when slower growth in inventories knocked 1.83 percentage points off the quarterly change in real GDP.
August Consumer Price Index Tuesday, 9/13 Range: -0.4 to 0.2 percent Median: -0.1 percent	Jul = 0.0%	Down by 0.2 percent, which would nonetheless leave the headline index up 7.9 percent year-on-year. Gasoline will be a significant weight on the headline index; on a seasonally adjusted basis, retail gasoline prices were down by around eleven percent in August, which will take between four and five tenths of a point off the monthly change in the total CPI. At the same time, retail discounting and lower used vehicle prices will weigh on core goods prices as further declines in air fares and lodging rates will act as drags on core services prices. Food, rents, and new motor vehicles will be among the few sources of upward price pressures in the August data.
August Consumer Price Index: Core Tuesday, 9/13 Range: -0.2 to 0.6 percent Median: 0.3 percent	Jul = +0.3%	Up by 0.3 percent, which would yield a year-on-year increase of 6.0 percent.
August PPI: Final Demand Wednesday, 9/14 Range: -1.0 to 0.5 percent Median: -0.1 percent	Jul = -0.5%	Down by 0.4 percent, which would translate into a year-on-year increase of 8.3 percent.
August PPI: Core Wednesday, 9/14 Range: -0.2 to 0.6 percent Median: 0.3 percent	Jul = +0.2%	Up by 0.2 percent, yielding a year-on-year increase of 7.0 percent.
August Retail Sales: Total Thursday, 9/15 Range: -0.5 to 0.6 percent Median: -0.1 percent	Jul = 0.0%	Down by 0.4 percent. As with the August CPI, lower gasoline prices will act as a material drag on August retail sales, with intensive discounting also working to hold down sales volumes – recall that retail sales are not adjusted for price changes. To that point, by all accounts back-to-school spending was quite strong in August, but that may be more apparent in unit sales than in the dollar volume of sales. Unit sales of new motor vehicles fell in August, which will more than offset the increase we expect in prices of new vehicles, with lower used vehicle prices also weighing on sales revenue at motor vehicle dealers. It is also worth noting that the August seasonal adjustment factors in most categories are a bit punitive, so to the extent that lower prices help hold down the dollar volume of sales, that will be compounded in the seasonally adjusted data. Between price effects and still-strong services spending, the August retail sales data will not be a meaningful gauge of the state of U.S. consumers, though some will not be able to resist the urge to interpret it as such.

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August Retail Sales: Ex-Auto Range: -0.6 to 0.7 percent Median: 0.0 percent	Thursday, 9/15	Jul = +0.4%	Down by 0.2 percent.
August Retail Sales: Control Group Range: -0.1 to 1.1 percent Median: 0.5 percent	Thursday, 9/15	Jul = +0.8%	Up by 0.3 percent.
August Industrial Production Range: -0.4 to 0.5 percent Median: -0.1 percent	Thursday, 9/15	Jul = +0.6%	Down by 0.2 percent. Seasonal quirks tied to motor vehicle production patterns account for a good portion of the 0.4 percent decline in manufacturing output that our forecast anticipates. That said, the pace of expansion in the factory sector has clearly slowed, making the details on output of business equipment, which presages changes in business investment as reported in the GDP data, of interest in the August industrial production data. We also look for a decline in mining output to weigh on the top-line index.
August Capacity Utilization Rate Range: 79.8 to 80.6 percent Median: 80.3 percent	Thursday, 9/15	Jul = 80.3%	Down to 79.9 percent.
July Business Inventories Range: 0.5 to 1.0 percent Median: 0.6 percent	Thursday, 9/15	Jul = +1.3%	We look for total business inventories to be up by 0.6 percent and for total business sales to be down by 1.0 percent.

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