ECONOMIC PREVIEW

REGIONS

Week of January 9, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 31-February 1FOMC meeting):* Target Range Mid-point: 4.625 to 4.875 percent Median Target Range Mid-point: 4.875 percent	Range: 4.25% to 4.50% Midpoint: 4.375%	In a quiet week for data releases, the Consumer Price Index report for December is front and center. Though not free of noise, such as the BLS's methodological change to estimating prices for health insurance, the December CPI will add to a growing body of evidence that inflation is past its peak. Combine this with signs that labor demand is cooling and that the broader economy is slowing, and the tough tone of the minutes to the December FOMC meeting will likely soften when the Committee convenes later this month.
December Consumer Price Index Thursday, 1/12 Range: -0.2 to 0.3 percent Median: 0.0 percent	Nov = +0.1%	<u>Down</u> by 0.2 percent, which would yield a year-on-year increase of 6.3 percent. On a not seasonally adjusted basis, retail gasoline prices posted a double-digit decline in December which, in the seasonally adjusted data will knock three-tenths of a point off the monthly change in the headline CPI, with declines in other components of the energy index acting as further drags. The reading on the core CPI (see below) will be of more significance as a signal of the extent to which inflation pressures eased further in December. That signal will be somewhat distorted by ongoing noise around health care services, reflecting the methodological change that took effect in October, a change which does not impact the PCE Deflator, the FOMC's preferred gauge of inflation. Beyond that, we look for some moderation in the CPI measures of rents on a month-to-month basis, but even if we are correct on this point, the over-the-year increases won't peak until late-spring. The FOMC has made much of core services excluding shelter as a source of persistent inflation pressures given that they see this as being the segment of the economy in which prices are most closely tied to labor costs. Their argument of insufficient progress on inflation in this segment is put to the test by the data showing the rate of price increases over the second half of 2022 was slower than the rate seen over the first half of 2022, and we expect further deceleration as 2023 progresses. At the same time, core goods prices continue to soften, and we look for December to have seen a third straight monthly decline and for over-the-year changes turning negative later this year. Clear and compelling is of course in the eye of the beholder, but even allowing for the drag from energy prices, it seems clear to us that inflation is past its peak. To be sure, that inflation is slowing but remains above the FOMC's target rate is by no means an argument for cuts in the Fed funds rate, but it is an argument for at least discussing the end of funds rate hikes.
December Consumer Price Index: Core Thursday, 1/12 Range: 0.2 to 0.6 percent Median: 0.3 percent	Nov = +0.2%	<u>Up</u> by 0.2 percent, leaving the core CPI up 5.6 percent year-on-year.

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