ECONOMIC PREVIEW

Week of February 13, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 21-22FOMC meeting):* Target Range Mid-point: 4.875 to 4.875 percent Median Target Range Mid-point: 4.875 percent	Range: 4.50% to 4.75% Midpoint: 4.625%	One thing that we've noted since the onset of the pandemic is the degree to which what were once typical seasonal patterns in economic activity have been significantly distorted. While that is by no means surprising, reflecting both the pandemic and the policy response to it, these distortions have made it more difficult to get a clear sense of where the economy actually is, let alone where it may be going. To be sure, there are other sources of disruptions in seasonal patterns not tied to the pandemic or the policy response, such as the glut of housing units under construction, shifting patterns in consumer spending, and the old, reliable stand-by – the weather. Regardless of the source(s), these distortions are clouding the signal in a host of data series, including data on employment, consumer spending, construction, industrial production, and trade. We take care to be mindful of how deviations from normal seasonal patterns are impacting the high frequency data, but even so what we're left with at present is a mishmash of data sending seemingly contradictory messages, to the point that no matter what one's outlook for the economy, there's seemingly something in each data release to support their take. This week's slate of data releases is unlikely to break from this pattern.
January Consumer Price Index Tuesday, 2/14 Range: 0.3 to 0.6 percent Median: 0.5 percent	Dec = +0.1%	Up by 0.4 percent, yielding a year-on-year increase of 6.2 percent. Ahead of the release of the January report, the BLS issued the results of the annual revisions to the recent historical CPI data (going back to 2018). While there are no major changes, it is worth noting that the December 2022 prints on the headline and core CPI were revised higher, which is contributing to growing doubts that the recent deceleration in inflation will persist. Higher retail gasoline prices in January contributed to those doubts, though it should be noted that this largely reflected refinery outages and, with those resolved, gasoline prices have headed lower again in February. That said, higher gasoline prices in January were a reminder of the potential for the reopening of China's economy to put upward pressure on energy and commodity prices which could, in turn, push headline inflation higher. Along with the revisions to the recent historical data, BLS also unveiled new expenditure weights for the calculation of the CPI in 2023. Rents will have a higher share (and account for over 41 percent of the core CPI) while used vehicle prices have a notably smaller share. Keep in mind that the CPI data continue to show hefty increases in rents and that it will be a few more months before the CPI data reflect falling market rents. When that happens, though, the deceleration in CPI inflation will pick up pace, particularly core CPI inflation. At the same time, falling used vehicle prices have been a drag on CPI inflation over the past several months, but any such drag would be smaller going forward given the smaller weight attached to used vehicle prices. That will matter in the January data; while market-based measures show used vehicle prices rising in January, the CPI tends to lag these market-based measures, so our January forecast incorporates a modest decline. If used vehicle prices continue to rise, the smaller expenditure weight means the impact on headline and core CPI inflation will be far less pronounced than has often been the case over the past few years. As to the rest of the January forecast, we look for smaller increases in primary and owners' equivalent rents than those seen in December. We look for a fourth straight monthly decline in core goods (consumer goods excluding food and energy) prices, particularly to the extent the oddly large increase in appliance prices reported in the December data reverses as we expect. Recall that falling core goods prices have been a material drag on CPI inflation over recent months, but there is some question as to how much longer core goods prices will continue to fall. Medical care services will, after a jump in prices for hospital services in December, return to its role as a drag on health care cost inflation and, in turn, core CPI inflation. Services excluding shelter will be closely watched given the FOMC's recent emphasis on core services excluding housing and that this composite increased at a faster pace in December. FOMC members argue this block of prices is closely aligned with labor costs, but data from differing sources show growth in labor costs moderating. At the same time, however, the ISM Non-Manufacturing Index shows prices paid for non-labor inputs in the broad services sector continue to rise, so perhaps this is the more relevant indicator of when we may expect steady deceleration in the rate at which prices for core services excluding housing are rising.

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Indicator/Action Economics Survey:		Last Actual:	Regions' View:
January Consumer Price Index: Core Range: 0.3 to 0.5 percent Median: 0.4 percent	Tuesday, 2/14	Dec = +0.4%	Up by 0.3 percent, which would translate into a year-on-year increase of 5.4 percent.
January Retail Sales: Total Range: 0.5 to 2.9 percent Median: 1.9 percent	Wednesday, 2/15	Dec = -1.1%	Up by 2.6 percent. It's kind of like November and December, only in reverse, but with a twist. Or something like that. Recall that on a seasonally adjusted basis, total and control retail sales fell in both November and December, which reflects nothing more than the increases sales in the not seasonally adjusted data being smaller than the typical increases for those months. For instance, unadjusted control sales rose by 8.1 percent in November and by 12.2 percent in December but in the seasonally adjusted data these smaller than typical increases translated into declines of 0.2 percent and 0.7 percent, respectively. Not surprisingly, on a not seasonally adjusted basis, retail sales decline in January – neither total nor control sales have ever increased in the month of January in the unadjusted data – and in a big way – an average January decline in control sales of 24.0 percent over the past five years. Our above-consensus forecast is predicated on this January's decline in unadjusted sales being smaller than is typical for the month, meaning seasonal adjustment would make sales appear much stronger than was actually the case. We'll note that we expected this to be the case even before the arrival of the data on January motor vehicle sales, which show unit sales jumped by 17.7 percent (itself a product of a smaller than normal January decline in unadjusted sales and favorable seasonal adjustment), meaning vehicle sales will be a significant boost to headline retail sales. Gasoline sales should also be a boost to top-line sales, reflecting higher prices and a generous January seasonal adjustment factor for gasoline station sales. That is the case, i.e., a generous January seasonal adjustment factor, in each of the main categories for which sales are reported, going to our point about the data looking better than was actually the case. As a side note, this is nothing new, as 2022 was the fourth time in the past five years the seasonally adjusted data show retail sales fell in the month of December, and in the prior three instances sales snapped back in the subsequent January. While we of course could be wrong about the magnitudes – the decline in unadjusted sales, the boost from seasonal adjustment – there is no reason to think the underlying patterns will differ from any other January on record. Given the ongoing shift in consumer spending patterns over the past several months – away from goods, toward services – it's been hard enough to get an accurate read on the state of U.S. consumers, and the considerable degree of noise in the seasonally adjusted retail sales data over the past few months only complicates that endeavor. Consumer spending on goods remains well above its pre-pandemic trendline, we continue to expect the two to come closer in the months ahead, even if the spending data (or any economic data for that matter) don't move in straight lines.
January Retail Sales: Ex-Auto Range: 0.1 to 2.0 percent Median: 0.8 percent	Wednesday, 2/15	Dec = -1.1%	Up by 1.8 percent.
January Retail Sales: Control Group Range: 0.0 to 2.4 percent Median: 0.8 percent	Wednesday, 2/15	Dec = -0.7%	Up by 1.9 percent.
December Business Inventories Range: 0.2 to 0.4 percent Median: 0.3 percent	Wednesday, 2/15	Nov = +0.4%	We look for total business inventories to be up by 0.3 percent and for total business sales to be down by 1.0 percent.
January Leading Economic Index Range: -0.8 to 0.0 percent Median: -0.3 percent	Friday, 2/17	Dec = -0.8%	Down by 0.3 percent.
Jan. Industrial Capacity Utilization Rate Range: 78.3 to 79.5 percent Median: 79.1 percent	Wednesday, 2/15	Dec = 78.8%	Up to 79.1 percent.

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January Industrial Production Wednesday, 2/15 Range: -0.5 to 1.4 percent Median: 0.5 percent	Dec = -0.7%	Up by 0.4 percent. We normally rely on the industry-level data on aggregate hours worked from the monthly employment reports to inform our forecasts of industrial production. That is less helpful than normal in this instance given the significant degree of seasonal adjustment noise in the January employment report, with the series on employment and hours worked made to look meaningfully stronger than was the case. For instance, the unadjusted January data show a decline in aggregate hours worked in the manufacturing sector, with both employment and average hours down, but that they were down by less than is typical for the month of January led to overstated increases in the seasonally adjusted data. Moreover, job gains were highly concentrated amongst producers of non-durable goods such as food and apparel manufacturers, while employment amongst producers of transportation equipment, including motor vehicles, fell sharply. Given the relative weights in the industrial production data, the increase in manufacturing output could be softer than would be implied by the data on aggregate hours worked for the factory sector as a whole in the January employment report. In contrast, the not seasonally adjusted data show atypical January increases in both job counts and hours worked in the mining sector, leading to even larger increases in the seasonally adjusted data. As such, it seems reasonable to expect mining to make a healthy contribution to growth in overall industrial production, but we expect utilities to be a drag. Even if the January data show a larger increase in manufacturing output than we anticipate, the January level of the manufacturing index will still be below the Q4 average, leaving the industrial production data on manufacturing output in concert with the signal from the ISM Manufacturing Index showing a factory sector in contraction.
January PPI: Final Demand Thursday, 2/16 Range: 0.2 to 0.7 percent Median: 0.4 percent	Dec = -0.5%	Up by 0.3 percent, which would yield a year-on-year increase of 5.4 percent.
January PPI: Core Thursday, 2/16 Range: 0.1 to 0.5 percent Median: 0.3 percent	Dec = +0.1%	Up by 0.2 percent, good for a year-on-year increase of 4.8 percent.
January Building Permits Thursday, 2/16 Range: 1.290 million to 1.425 million units Median: 1.350 million units SAAR	Dec = 1.337 million units SAAR	Up to an annual rate of 1.364 million units. On a not seasonally adjusted basis, we look for total permits of 103,700 units, down 0.7 percent from December with single family permits rising and multi-family permits down. While this isn't to say single family permits hit bottom, December was the first month since December 1985 in which the number of multi-family permits issued topped the number of single family permits (not seasonally adjusted), and industry commentary suggests builders saw a pick-up in activity in January as mortgage rates further receded from October's peak. To be sure, any such pick-up comes off a significantly depressed level of activity and no one expects a rush of buyers back into the market, but up is still up, on top of which seasonal adjustment will reward any "up" in single family permits in the unadjusted January data, which factors into our forecast of the headline number.
January Housing Starts Thursday, 2/16 Range: 1.265 million to 1.460 million units Median: 1.353 million units SAAR	Dec = 1.382 million units SAAR	Up to an annual rate of 1.416 million units. On a not seasonally adjusted basis, we look for total starts of 103,500 units, up 6.3 percent from December as multi-family starts rebound from a sharp decline while single family starts fall. Keep in mind, though, that single family starts have held up much better than have single family permits, as builders work down what were sizable backlogs of unfilled orders which, by the way, has helped sustain construction employment, thus contributing to the seasonal adjustment issues in the employment data. Indeed, to the extent builders did see orders pick up in January, some of that demand may have been met by spec units already under construction, which tempers our expectations for single family starts. It is worth noting that the pace of single family completions picked up over the back half of 2022 – builders started less and finished more – to the point that they at least made a dent in the sizable backlog of under construction units. In contrast, the ginormous backlog of multi-family units under construction just keeps getting more and more ginormouser. Okay, sure, that's both a grammatical no-no and a made-up word, but we're trying to make a point here, so just work with us. In any event, the January data on completions and units under construction will also bear watching.

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