ECONOMIC PREVIEW

REGIONS

Week of April 10, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the May 2-3 FOMC meeting):* Target Range Mid-point: 4.875 to 5.125 percent Median Target Range Mid-point: 5.125 percent	Range: 4.75% to 5.00% Midpoint: 4.875%	A soft headline print on the March CPI report and a downright lousy print on the March retail sales report will frame up Wednesday's release of the minutes of the March FOMC meeting. If our forecasts of the March CPI and retail sales data are on or near the mark, the data would likely bolster expectations of Fed funds rate cuts later this year, but we'd caution that the April CPI data will not look as benign as the March data while the March retail sales data will look worse than is actually the case (see Page 2). The FOMC minutes will be scoured for hints of how much sentiment there was amongst Committee members to pause ongoing Fed funds rate hikes and/or pare down or pause the run-off of the Fed's balance sheet. As we know, neither happened at the March meeting, but the discussion in March may offer a roadmap to the FOMC's response should there be further and more broadly based stress in the banking system over coming months. Still, should there be lasting effects on headline inflation from the recent spike in oil prices – thus far in April retail gasoline prices are up sharply – and should core inflation prove to be more persistent, there may be more Fed funds rate hikes in store than many are now anticipating.
March Consumer Price Index Wednesday, 4/12 Range: 0.1 to 0.4 percent Median: 0.2 percent	Feb = +0.4%	Up by 0.1 percent, for a year-on-year increase of 5.1 percent. Energy will be a material drag on the headline CPI. Though retail prices rose on an unadjusted basis during March, the increase was much smaller than the typical March increase, such that gasoline prices will be down by nearly five percent on a seasonally adjusted basis. At the same time, lower natural gas prices will add to the drag from energy. Our forecast also anticipates further moderation in the monthly increases in food prices, though this would still yield hefty year-on-year increases. Under the heading of "who the heck knows," our forecast anticipates another decline in prices for used motor vehicles, though smaller than that seen in the February data but, in keeping with our general theme, who the heck knows given that the CPI data do not track market based measures in anything close to a regular manner. More interestingly, despite the CPI data showing monthly declines in used vehicle prices, the increases in core goods prices excluding used vehicles have gotten larger over the past two months, which will be something to watch for in the March data. What will be watched even more closely will be the behavior of services prices excluding housing, which have been the more persistent sources of inflation pressures and which many see as being more closely aligned with labor costs than are other prices. Though growth in labor costs amongst the services providing industry groups has slowed, that hasn't yet translated into the inflation data. While we do look for some moderation in the monthly increases in primary and owners' equivalent rents, that would still yield larger over-the-year increases than those seen in February, and we're still a few months away from those over-the-year increases beginning to slow.
March Consumer Price Index: Core Wednesday, 4/12 Range: 0.3 to 0.5 percent Median: 0.4 percent	Feb = +0.5%	Up by 0.4 percent, which would yield a year-on-year increase of 5.6 percent.
March Producer Price Index Thursday, 4/13 Range: -0.3 to 0.3 percent Median: 0.0 percent	Feb = -0.1%	Down by 0.1 percent, which would translate into a year-on-year increase of 2.8 percent.
March Producer Price Index: Core Thursday, 4/13 Range: 0.0 to 0.4 percent Median: 0.2 percent	Feb = 0.0%	Up by 0.3 percent, good for a year-on-year increase of 3.5 percent.
March Industrial Production Friday, 4/14 Range: -0.3 to 0.8 percent Median: 0.2 percent	Feb = 0.0%	Up by 0.1 percent.
March Capacity Utilization Rate Friday, 4/14 Range: 77.8 to 79.7 percent Median: 79.0 percent	Feb = 79.1%	Up to 79.2 percent.
February Business Inventories Friday, 4/14 Range: 0.1 to 0.4 percent Median: 0.3 percent	Jan = -0.1%	We look for total business inventories to be up by 0.3 percent and for total business sales to be down by 0.1 percent.

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March Retail Sales: Total Friday, 4/14 Range: -1.3 to 0.4 percent Median: -0.4 percent	Feb = -0.4%	Down by 0.8 percent. Right off the bat, seasonal adjustment will work against the March retail sales data, making sales look worse than was the case. To that point, our forecast would yield double-digit increases (month-on-month) in both total and control retail sales. A relatively late Easter may have worked to hold down March sales, but to the extent that was the case the April data will bring payback. More fundamentally, we've for some time expected demand for consumer goods, particularly consumer durables, to soften further, and many higher frequency spending trackers suggest that was the case in March, a month in which consumer sentiment wavered. Though with the exception of restaurant sales the retail sales data do not capture consumer spending on services, our proxy for discretionary services spending has declined in four of the past five months, a trend we expect to persist. Our outlook for consumer spending has been predicated on the cumulative effects of a prolonged period of elevated inflation, higher interest rates, dwindling deposit balances, and slowing growth in labor earnings at a time when there is increasingly less pent-up demand, all of which leads us to expect little net change in total consumer spending on an inflation adjusted basis over the next several months.
March Retail Sales: Ex-Auto Friday, 4/14 Range: -1.7 to 0.5 percent Median: -0.4 percent	Feb = -0.1%	Down by 0.9 percent.
March Retail Sales: Control Group Friday, 4/14 Range: -1.1 to 0.6 percent Median: -0.5 percent	Feb = +0.5%	Down by 0.6 percent.

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