# ECONOMIC PREVIEW

REGIONS

Week of May 8, 2023

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint**<br>*(After the June 13-14 FOMC meeting):*<br>Target Range Mid-point: 5.125 to 5.375 percent<br>Median Target Range Mid-point: 5.125 percent | Range:<br>5.00% to 5.25%<br>Midpoint:<br>5.125% | It may or may not be a pause, and if it is a pause, it isn't a pivot, at least not yet. For anyone who had been seeking clarity from last week's FOMC meeting, that's about the best we can do. A change in the wording of the post-meeting policy statement suggests the FOMC is set to hit the pause button on its series of Fed funds rate hikes. Still, Chair Powell pointed out in his post-meeting press conference that no such decision was made at this meeting but did concede that "we fee like we're getting closer or maybe even there." What seemed less ambiguous is that, even if they do pause, the FOMC isn't ready to pivot to rate cuts, despite what is being priced in the futures markets, given how slowly they expect inflation to return to their 2.0 percent target rate. Indeed, given how slowly that process is taking place, Chair Powell left the door open to further rate hikes, stating that the Committee is "prepared to do more if greater monetary policy restraint is warranted." That said, with signs the economy is slowing and growing concern over the economic fallout from stress in the banking system, the possibility that rate cuts could come sooner than the FOMC is at present anticipating cannot be dismissed out of hand. At the very least, these concerns seem to raise the bar for further rate hikes higher, Chair Powell's remarks in his post-meeting press conference notwithstanding. The upcoming inflation data are likely to offer little in the way of clarity. After acting as a drag on headline inflation in March, energy pivoted to a support in the April data, but with crude oil and retail gasoline prices falling of late, energy will likely be a sizable drag on headline inflation in May. As such, the FOMC will place more emphasis on core inflation, which is proving to be more persistent than many had thought would be the case at this point. Signs of progress on core inflation would likely fend off further funds rate hikes but, with inflation remaining so far above the FOMC's target, rate cuts seem unlikely any time soon barring a meaningful deterioration in overall economic conditions. |
| **April Consumer Price Index** Wednesday, 5/10<br>Range: 0.2 to 0.5 percent<br>Median: 0.4 percent | Mar = +0.1% | Up by 0.4 percent, which would yield a year-on-year increase of 5.0 percent. Gasoline prices, up by almost three percent on a seasonally adjusted basis, will be a support for the headline CPI. Prices for food consumed at home posted a surprising dip in March, and while we would not be surprised to see another, albeit milder, decline in the April data, that would still leave prices up over seven percent on an over-the-year basis. While we expect the April increases in owners' equivalent rents and primary rents to be in line with the more moderate increases seen in March, that will not yet translate into meaningful relief in the over-the-year changes, which is still a few months down the road. While this will bias core services inflation higher, the ongoing drag in the form of sizable declines in prices for health care services will provide partial offset. As such, the focus will be on prices of discretionary services, and it is worth noting that the BEA's data on consumer spending shows discretionary services spending has weakened over the past several months. It would follow that this will eventually translate into considerably more moderation in core services inflation than has been seen to date. At the same time, however, core goods prices reversed course in March, posting their largest monthly increase since last August. To that point, our forecast anticipates the CPI data will begin catching up with market-based measures and show higher prices for used motor vehicles to go along with a further increase in new vehicle prices. Support for core goods prices, however, goes beyond vehicle prices. The prices paid component of the ISM's survey of the manufacturing sector leads us to believe core goods prices will continue to firm up in the months ahead, a rather rude dismissal of our premise that core goods price disinflation would act as a moderating force for overall inflation in the months ahead. |
| **April Consumer Price Index: Core** Wednesday, 5/10<br>Range: 0.3 to 0.4 percent<br>Median: 0.3 percent | Mar = +0.4% | Up by 0.4 percent, which would yield a year-on-year increase of 5.5 percent. |
| **April Producer Price Index** Thursday, 5/11<br>Range: 0.1 to 0.6 percent<br>Median: 0.3 percent | Mar = -0.5% | Up by 0.4 percent, for a year-on-year increase of 2.5 percent. |
| **April Producer Price Index: Core** Thursday, 5/11<br>Range: 0.1 to 0.4 percent<br>Median: 0.2 percent | Mar = -0.1% | Up by 0.3 percent, which would translate into a year-on-year increase of 3.3 percent. |

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