ECONOMIC PREVIEW

Week of September 11, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 19-20 FOMC meeting):* Target Range Mid-point: 5.375 to 5.375 percent Median Target Range Mid-point: 5.375 percent	Range: 5.25% to 5.50% Midpoint: 5.375%	Though not necessarily tipping the scales to the side of a Fed funds rate hike at this month's FOMC meeting, the August CPI data figure to make that discussion at least a bit awkward. As we note below, it is possible that both headline and core inflation could pick up pace over the next few months. A reacceleration in inflation would be most unwelcome news for those households already struggling with the cumulative effects of a prolonged period of elevated inflation. At the same time, this week's release of the August retail sales report (see Page 2) will reinforce our point that the pace of consumer spending seen in July was by no means sustainable.
August Consumer Price Index Wednesday, 9/13 Range: 0.4 to 0.7 percent Median: 0.6 percent	Jul = +0.2%	Up by 0.7 percent, which would yield a year-on-year increase of 3.7 percent. Retail gasoline prices rose sharply from mid-July through late-August, and on a seasonally adjusted basis will be up by around 10.5 percent in the August CPI data. This alone will add just under four-tenths of a point to the monthly change in the total CPI. We also look for a larger increase in food prices than those seen over the past few months. Many, perhaps including the FOMC, will skip past the jump in headline CPI inflation and focus on core inflation, which in the August and September data will be flattered by favorable base effects pushing the over-the-year changes much lower. As for the monthly changes, we look for the August data to bring reversals of what over recent months have been oddly large declines in air fares and lodging costs. If we're wrong on this point, however, our forecasts for both the headline and core CPI will prove to be too high. While we look for further slight moderation in market rents, owners' equivalent rent may prove to have more staying power, at least to the extent house prices proving to be somewhat resilient are biasing owners' perceptions of rental values. The pace of decline in prices of used motor vehicles has eased which, to the extent this carries into the CPI data, means less of a drag on the core CPI. For those thinking it appropriate to skip past higher energy prices on the grounds that the recent increases are of brief duration, tending to pass away (what, you thought we were going to say "transitory"?), further production cuts by OPEC figure to keep oil prices elevated, which means that, in turn, retail gasoline prices could also remain elevated. At the least, higher crude oil prices could help water down the extent of the declines in retail gasoline prices we typically see going into the fall, thus yielding exaggerated increases in the seasonally adjusted data. And, for those thinking that the focus should be on core inflation, the extent of increases in diesel fuel prices seen to date is already putting upward pressure on the costs of shipping goods, and further diesel fuel price increases will only exacerbate those upward pressures. It is also worth noting the potential UAW strike looming over each of the Big 3 domestic producers. Vehicle production had only recently begun to normalize after prolonged disruptions due to supply chain snarls, and a new disruption would, if it persists for any length of time, threaten to send prices of both new and used vehicles higher until any disruptions in production and inventories are cleared. Additionally, recall that since the October 2022 data, each month has seen a significant decline in prices for health insurance as measured in the CPI, which has acted as a drag on medical care price inflation. Come this October, health insurance prices are likely to rise significantly, an increase that will persist for a year and, as such, act to boost medical care price inflation. This is all courtesy of a quirk in the CPI methodology, and this effect is not present in the PCE Deflator but, either way, this could nudge core CPI inflation higher, the optics of which would not be ideal. The bottom line here is that both headline and core inflation could easily turn higher over coming months, which is why we continue to argue that it is too soon to relegate the FOMC to the sidelines.
August Consumer Price Index: Core Wednesday, 9/13 Range: 0.2 to 0.3 percent Median: 0.2 percent	Jul = +0.2%	Up by 0.3 percent, which would translate into a year-on-year increase of 4.4 percent.
August Producer Price Index Thursday, 9/14 Range: -0.1 to 0.7 percent Median: 0.4 percent	Jul = +0.3%	Up by 0.6 percent, which would yield a year-on-year increase of 1.4 percent.
August Producer Price Index: Core Thursday, 9/14 Range: 0.0 to 0.3 percent Median: 0.2 percent	Jul = +0.3%	Up by 0.3 percent, for an over-the-year increase of 1.2 percent.

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Indicator/Action Economics Survey:		Last Actual:	Regions' View:
August Retail Sales: Total Range: -0.7 to 0.6 percent Median: 0.2 percent	Thursday, 9/14	Jul = +0.7%	Up by 0.1 percent. Retail sales were surprisingly strong in July, particularly control retail sales. The first order of business upon the release of the August data will be checking the revisions to the July data, and while the strength of the initial estimate may make it seem that any revision would be to the downside, that isn't necessarily the case. Though the initial estimate showed sales by nonstore retailers, the bulk of which are accounted for by online sales, to have risen by 1.9 percent in July, that seemed a bit light to us given how strong *Amazon Prime Day(s)* sales were. There is also the question of whether there will be a (Prime) hangover in the August retail sales data, i.e., whether, or to what extent, spending was pulled forward into July by the online extravaganza. It is interesting to note that the initial estimate of July retail sales showed sharp declines in sales at furniture, appliance, and electronics stores, while the BEA's data on July spending showed hefty increases in sales of these products (the retail sales data report where, while the BEA data report what). The difference could be accounted for by Amazon's promotion, and other retailers offering online deals to keep pace, having diverted spending from physical stores to online sales. To the extent that was the case, it would be unlikely that the August retail sales data would show rebounds in these categories, while at the same time the strength of July sales by nonstore retailers would leave a big hole in August sales. It could also be that some portion of back to school spending which normally would have taken place in August got pulled forward and took place online in July. If so, any shortfall in August spending will be punished in the seasonally adjusted data, with the seasonal factors geared toward healthy increases in the not seasonally adjusted data for August. It is also worth noting that consumer confidence took a spill in August, and while that may mostly reflect a sharp rise in gasoline prices, that consumers' assessments of labor market conditions deteriorated markedly. Trying to work through all these gyrations may be an exercise in futility, and what matters is how much was spent, not where it was spent, but these factors could easily enter into the August retail sales data and/or revisions to the July data. As to the "how much" question, though the strength of July consumer spending set a high floor under consumer spending, and in turn real GDP, for Q3, we still expect Q3 spending to end on a very soft note, setting up a flattish trajectory for real consumer spending in Q4. Indeed, the most recent edition of the Federal Reserve's *Beige Book* suggests further softening in discretionary spending, and we've long been on record with our view that spending on travel, tourism, recreation, and entertainment (none of which is captured in the retail sales data) would slow meaningfully after the summer months. If our forecast of August retail sales is anywhere near to the mark, real consumer spending will have declined in August, going to our point about fading momentum in spending as Q3 wears on.
August Retail Sales: Ex-Auto Range: -0.2 to 1.0 percent Median: 0.4 percent	Thursday, 9/14	Jul = +1.0%	Up by 0.2 percent.
August Retail Sales: Control Group Range: -0.6 to 0.4 percent Median: -0.2 percent	Thursday, 9/14	Jul = +1.0%	Down by 0.2 percent.
July Business Inventories Range: 0.0 to 0.3 percent Median: 0.1 percent	Thursday, 9/14	Jun = 0.0%	We look for total business inventories to be up by 0.1 percent and for total business sales to be up by 0.7 percent.
August Industrial Production Range: -0.2 to 0.5 percent Median: 0.1 percent	Friday, 9/15	Jul = +1.0%	Up by 0.1 percent. Our forecast anticipates flat manufacturing output and higher mining output. While it was still hot in August, it wasn't as hot as in July, leading us to expect a modest decline in utilities output. If the UAW does call a strike against the domestic producers later this month, that will leave a big hole in industrial production for the duration of any strike.
August Capacity Utilization Rate Range: 79.1 to 79.8 percent Median: 79.3 percent	Friday, 9/15	Jul = 79.3%	Unchanged at 79.3 percent.

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