ECONOMIC PREVIEW

REGIONS

Week of November 13, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 12-13 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%	Sure, we get the whole "if at first you don't succeed, try, try again" thing, but market participants have taken that to a whole other level. Despite the FOMC having for some time been steadfastly consistent in communicating their view that they are not at all confident inflation is firmly on a path back to their 2.0 percent target rate, market participants continue to position themselves for a dovish pivot on the FOMC's part, pulling expectations of rate cuts closer in despite the FOMC signaling fewer rate cuts starting further out into the future. Indeed, at his press conference after the November 1 conclusion of the FOMC meeting, Chair Powell stated, more than once, the Committee was still trying to answer the question of whether policy is sufficiently restrictive to push inflation back down to their target rate, which many market participants apparently took to mean "here come the rate cuts." Though not the sole source, markets pricing dovish pivots in and then out has accounted for at least some of the volatility in market interest rates and equity prices over the past several months. To be sure, whereas in past instances robust economic data has led market participants to rethink their positioning, the softer tone of the more recent data may offer validation of the view that rate cuts are coming sooner rather than later. For their part, however, FOMC members seeing the same data as everyone else continue to stick to their message that they may not yet be finished raising the Fed funds rate. But, even if they are finished raising the funds rate, they will need to see much more progress on core inflation before even beginning to discuss rate cuts.
October Consumer Price Index Tuesday, 11/14 Range: 0.0 to 0.2 percent Median: 0.1 percent	Sep = +0.4%	Up by 0.1 percent, for a year-on-year increase of 3.3 percent. Gasoline will be a heavy weight on the October CPI, with lower pump prices taking two-tenths of a point off the monthly change in the total CPI. Demand for gasoline dropped off sharply into the fall, well beyond the typical seasonal decline, putting downward pressure on prices while rising gasoline inventories have in turn led to diminished demand for crude oil. Along with weaker demand in Europe and China, this has led to a sharp decline in crude oil prices over recent weeks despite heightened tensions in the Middle East. With retail gasoline prices having declined further in early-November, gasoline is on course to also be a meaningful drag on the November CPI. At the same time, setting aside the outsized impact of declining prices for used motor vehicles, core goods prices have either been flat or down in six consecutive months, a streak which we anticipate will be extended with the October data. Services remain the main source of inflation pressures, though to some extent that is exaggerated in the CPI due to the lengthy lag between changes in market rents and changes in the CPI measure of primary rents. That said, with house prices being more resilient than many had expected, there may not be much more downside room for owners' equivalent rents in terms of the month-to-month changes, but the over-the-year increases should begin to ease. Obviously, energy prices can, and often do, reverse on a dime (or would that be a quarter these days, what with all of this inflation), but, absent such a reversal to the upside, what we anticipate will be a sharp slowdown in the pace of economic activity should keep a lid on broader inflation pressures.
October Consumer Price Index: Core Tuesday, 11/14 Range: 0.2 to 0.4 percent Median: 0.3 percent	Sep = +0.3%	Up by 0.4 percent. Our above-consensus forecast hinges on four factors. One, the October CPI data incorporate the once-a-year adjustment of health care insurance premiums, with the significant declines reported in each of the past twelve months acting as a material drag on health services inflation. This year's adjustment is likely to show steep increases which will prevail for the coming year and thus act to push up health services inflation. Though our forecast could anticipate too large of an increase, we nonetheless see this as a source of upward pressure on the October core CPI reading. Second, we see potential for seasonal adjustment noise to, well, inflate the CPI measure of lodging costs, which could push the shelter index higher. Third, on a related point, we do not see much relief in the monthly changes in owners' equivalent rents, making them a source of persistent upward pressure on shelter costs. Fourth, the CPI's measure of used vehicle prices has been all over the map since the onset of the pandemic and has lagged market-based measures of prices, and while our forecast anticipates a much more moderate decline than that reported in the September data, that's by no means a given. Of these four factors, only one – owners' equivalent rents – says anything about what's actually going on in the economy, while the others are merely measurement issues. So, even if our above-consensus forecast is on the mark, that would very likely reflect more noise than signal.

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October Producer Price Index Wednesday, 11/15 Range: -0.3 to 0.4 percent Median: 0.1 percent	Sep = +0.5%	Unchanged, which would yield an over-the-year increase of 1.9 percent.
October Producer Price Index: Core Wednesday, 11/15 Range: 0.1 to 0.3 percent Median: 0.3 percent	Sep = +0.3%	Up by 0.3 percent, which would translate into an over-the-year increase of 2.8 percent.
October Retail Sales: Total Wednesday, 11/15 Range: -0.6 to 0.3 percent Median: -0.3 percent	Sep = +0.7%	Down by 0.1 percent. While most saw the report on September retail sales as a sign of the resilience of U.S. consumers, we saw it more as a gift from generous seasonal adjustment as the decline in unadjusted retail sales was smaller than the typical September decline. Either way, though certain categories face different fates, on the whole the October data will be largely free of seasonal adjustment noise. Between lower prices and unfavorable seasonal adjustment, gasoline sales will be a drag on top-line retail sales. Motor vehicle sales should also be a drag on top-line sales. Unit sales were lower in October, and while prices were mixed – higher prices for new vehicles, lower prices for used vehicles – any hit to motor vehicle dealer revenue will be softened by favorable seasonal adjustment in this category. Elsewhere in the data, October sales should be uneven, and it isn't clear that any savings from lower outlays on gasoline will be put to use in other areas, particularly in the wake of what on the whole was a very uninspired batch of retail earnings releases. Online sales could be bolstered by the year's second *Amazon Prime Day* event (okay, *Prime Big Deal Days*), but last year's October event (which had yet another name) left much less of an impression on the retail sales data than did the original July event, which we're expecting to be the case in this year's data. And, to the extent this year's October event was more meaningful, it will likely have taken away from holiday season (i.e., November/December) sales, meaning that in the end it will have been pretty much of a wash. In addition to seasonal adjustment, we often point to pricing as another factor which can color the view of the retail sales data in any given month. In general, the pricing environment around consumer goods is significantly weaker this year than has been the case the past two years. To be sure, that favors consumers but, as we discussed in our holiday sales outlook, how much of a spending mood consumers are actually in is a different matter entirely. Early holiday promotions may have flattered October retail sales, but to the extent that was the case, that will come at the expense of sales in November/December. As a final point, restaurant sales offer the only glimpse into services spending in the monthly retail sales reports, and our forecast anticipates a much more moderate increase than that seen in September.
October Retail Sales: Ex-Auto Wednesday, 11/15 Range: -0.4 to 0.5 percent Median: -0.2 percent	Sep = +0.6%	Unchanged.
October Retail Sales: Control Group Wednesday, 11/15 Range: -0.3 to 0.3 percent Median: 0.2 percent	Sep = +0.6%	Up by 0.2 percent.
September Business Inventories Wednesday, 11/15 Range: 0.3 to 0.4 percent Median: 0.4 percent	Aug = +0.4%	We look for total business inventories to be up by 0.4 percent and for total business sales to be up by 1.1 percent.
October Industrial Production Thursday, 11/16 Range: -1.1 to 0.1 percent Median: -0.3 percent	Sep = +0.3%	Down by 0.6 percent. While there is no disputing that the UAW strike will have acted as a drag on manufacturing output in October, the extent to which that was the case is unclear. Though limited in scope, strike targets were selected in a manner that would amplify disruptions in parts production and distribution and final vehicle assembly. Moreover, any shortfall in vehicle assemblies during the month will be treated harshly by seasonal adjustment, as October has typically been a notably strong month for production. Regardless of the impact on the October data, with workers back on the job pending ratification of the deals reached between the UAW and the Big Three domestic producers, vehicle and parts production should rebound in November. As for October, we also expect declines in the mining and utilities sectors to help drag overall industrial production lower.

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October Capacity Utilization Rate Thursday, 11/16 Range: 78.6 to 79.7 percent Median: 79.4 percent	Sep = 79.7%	Down to 79.1 percent.
October Building Permits Friday, 11/17 Range: 1.323 to 1.498 million units Median: 1.450 million units SAAR	Sep = 1.471 million units SAAR	Down to an annualized rate of 1.386 million units. On a not seasonally adjusted basis, we look for total permits of 115,900 units, down 0.7 percent from September with a drop in single family permits negating an increase in multi-family permits. It helps to recall unadjusted single family permits fell by 13.4 percent in September, but the seasonally adjusted data showed single family permits rising, reflecting what was very favorable seasonal adjustment. The October seasonal factor will be far less generous, so if we are correct in expecting another decline in unadjusted single family permits, that decline will be exaggerated in the seasonally adjusted data. More broadly, the sharp run-up in mortgage interest rates likely took a toll on single family activity, but it could be that permits were impacted more than starts, which is what our forecast anticipates. Keep in mind that builders are still sitting on sizable backlogs of units which have been permitted but not yet started, so it would make sense that rather than add to that backlog amid a sharp increase in mortgage rates they'd instead work on whittling it down a bit. That we look for multi-family permits to have increased reflects no more than a bounce up amid a downward trend in an always volatile series. To that point, unadjusted multi-family permits rose by 30.8 percent in August then fell by 24.9 percent in September but have nonetheless been trending downward over the past several months, with a much more pronounced downward trend in multi-family starts.
October Housing Starts Friday, 11/17 Range: 1.250 to 1.430 million units Median: 1.347 million units SAAR	Sep = 1.358 million units SAAR	Up to an annualized rate of 1.368 million units. On a not seasonally adjusted basis, we look for total starts of 115,300 units, down two percent from September with both single family and multi-family starts down. As noted above, however, we look for the (latest) jump in mortgage interest rates to have taken more of a toll on single family permits than on single family starts, owing to the sizable backlog of permitted units awaiting start. It is also the case that builders have been able to cushion the blow of higher interest rates by using rate buydowns to facilitate sales, but the higher rates go, the less feasible that strategy becomes, at least in the absence of more meaningful concessions on price. Multi-family starts are down sharply over the past several months, which is at least in part a concession to the unwieldy backlog of multi-family units under construction. Our October forecast would leave the running twelve-month total of not seasonally adjusted multi-family starts, our preferred gauge of the trend rate of starts, below the 500,000 unit mark for the first time since March 2022, and we expect it to continue to fall in the months ahead. In addition to permits and starts, we'll also be watching the data on completions and units under construction. Single family completions have been fairly stable over the past several months, largely in line with single family starts, leaving little change in the backlog of single family units under construction. At the same time, multi-family completions have been trending higher, albeit at an uneven pace, while starts have eased, with the net result being barely a dent in what remains a sizable backlog of multi-family units under construction.

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