ECONOMIC PREVIEW

REGIONS

Week of December 11, 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%	With no change in the Fed funds rate on tap at this week's meeting, the FOMC will face a communications challenge. Amid what has been a significant easing in overall financial conditions, the Committee will clearly want to push back against market expectations of over one hundred basis points of funds rate cuts in 2024. There is, however, only so hard they can push while remaining credible in the context of an economy that is clearly slowing while inflation has decelerated at a faster rate than had been anticipated. The post-meeting policy statement will retain the reference to "determining the extent of additional policy firming that may be appropriate to return inflation to two percent over time," and Chair Powell will use his post-meeting press conference to reiterate that message while once again noting that it would be premature for the Committee to be discussing funds rate cuts at this point. While we don't expect him to wink as he says those words, market participants will be trying to determine whether his heart is really in it as he makes that point. We will, however, be interested in whether Chair Powell lends any credence to the premise that further slowing in inflation could warrant funds rate cuts in order to keep the real funds rate steady. The updated financial projections will likely show real GDP growth slowing in 2024 with a lower rate of inflation than in the September projections. The updated dot plot will obviously take out the additional 2023 rate hike present in the September edition but will likely again imply fifty basis points worth of funds rate cuts in 2024. To the extent the updated projections show real GDP growth slowing and lower inflation, Chair Powell may find himself repeatedly having to explain why the Committee does not anticipate a more aggressive course of rate cuts in 2024. As he is doing so, he may find himself wondering just who it was that thought these post-meeting press conferences would be a good idea. Not saying that out loud may be the sternest communications challenge he faces at this week's press conference.
November Consumer Price Index Tuesday, 12/12 Range: -0.1 to 0.3 percent Median: 0.0 percent	Oct = 0.0%	<u>Unchanged</u>, which would leave the total CPI up 3.1 percent year-on-year. For a second straight month, lower retail gasoline prices will knock two-tenths of a point off the monthly change in the total CPI, though on an unrounded basis the hit to the November change will be larger than was the case in October. Shelter costs are a bit of a wild card in the November data, given the surprisingly large decline in lodging costs and the smaller than expected increase in owners' equivalent rents seen in the October data. Firmer November prints than our forecast anticipates could easily be the difference between the total CPI being flat or being up by one-tenth of a point. While we look for a further decline in prices for used motor vehicles, we expect that decline to be more moderate than those seen over the prior several months, while seasonal adjustment should push prices for new vehicles higher. We think it worth noting that while falling gasoline prices acted as a considerable drag on the total CPI in both October and November, we could easily see the reverse in the December data. Though still edging lower, the magnitude by which retail gasoline prices decline this December will likely be far short of that typically seen in the month. Think about it this way – prices have fallen so sharply for so long now that there isn't as much downside room in December as is usually the case. If we're correct on this point, seasonal adjustment will yield an increase in gasoline prices large enough to add one-tenth of a point to the monthly change in the total CPI.
November Consumer Price Index: Core Tuesday, 12/12 Range: -0.1 to 0.4 percent Median: 0.3 percent	Oct = +0.2%	<u>Up</u> by 0.3 percent, which would translate into a year-on-year increase of 4.0 percent.
November Producer Price Index Wednesday, 12/13 Range: -0.2 to 0.1 percent Median: 0.0 percent	Oct = -0.5%	<u>Down</u> by 0.1 percent, yielding a year-on-year increase of just 0.8 percent.
November Producer Price Index: Core Wednesday, 12/13 Range: -0.1 to 0.3 percent Median: 0.2 percent	Oct = 0.0%	<u>Up</u> by 0.1 percent, which would yield a year-on-year increase of 2.2 percent.
October Business Inventories Thursday, 12/14 Range: -0.1 to 0.4 percent Median: 0.0 percent	Oct = +0.4%	We look for total <u>business inventories</u> to be <u>down</u> by 0.1 percent and look for total <u>business sales</u> to be <u>down</u> by 1.0 percent.

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November Retail Sales: Total Range: -0.6 to 0.3 percent Median: -0.1 percent	Thursday, 12/14	Oct = -0.1%	Down by 0.4 percent. If our below-consensus forecast proves to be on or near the mark, it won't warrant the reaction, i.e., a flood of narratives telling tales of woe about U.S. consumers, that it would almost surely trigger. What many, if not most, of those spinning such tales would almost surely overlook is how tough the November seasonal factors are and what that means for the estimates of seasonally adjusted sales. To that point, on a not seasonally adjusted basis, our forecast would leave total retail sales up 1.3 percent and control retail sales up 6.8 percent from October. But, as those would be smaller than the typical November increases, they'd be treated harshly by seasonal factors geared for larger increases. Most spending trackers we've seen show somewhat lackluster spending in November, with many showing notably strong online sales coming at the expense of spending in physical stores. Even so, the seasonal factor for sales by nonstore retailers, the vast majority of which are online sales, is particularly tough, so much so that our forecast anticipates the seasonally adjusted data showing sales by nonstore retailers declining. Admittedly, this is a key upside risk to our forecast, and if we're wrong on this point our forecasts will prove to be far too low. But, if we're correct on this point, it sets a high hurdle for control sales to overcome, as online sales account for over twenty-seven percent of control sales. Sharply lower gasoline prices will be a weight on top-line sales, but this raises the question of what consumers did with any extra cash freed up by lower gas prices. We will note that gasoline prices have been falling steadily since late-September, but in stark contrast to historical norms, falling gas prices did nothing to improve consumer sentiment over most of that span. Indeed, the first evidence of improving consumer sentiment came in the University of Michigan's early-December survey. To be sure, that consumers weren't feeling better doesn't mean they didn't spend more, so this is another upside risk to our forecast. Our forecast also assumes pricing will be a negative for November retail sales given the string of declines in core goods prices seen over the past several months. Tuesday's release of the November CPI will either confirm or contradict our assumption, so this is another source of uncertainty around our forecast. While we'd contend that our forecast says more about seasonal adjustment than about the state of U.S. consumers, even the highest forecast doesn't imply consumers went on a spending binge in November. To the extent that lower gasoline prices are helping consumers to finally feel less stressed by inflation and making them more inclined to spend, the sentiment surveys suggest that will be more of a boost to December sales than it was to November sales. And, not to be the bearers of bad news, or at least bad forecasts, but we'll note that the December seasonal factors are even more punitive than are those for November. In other words, should the increase in unadjusted December sales fall short of typical December increases, that miss would be treated much more harshly than would a November miss. This is yet another illustration of why we stubbornly insist on putting the month-to-month movements in the economic data into the context of normal seasonal patterns. To be sure, we could be way off base here and November sales may come in much stronger than we're expecting, and that'd be great, but a "bad" headline number may not be as bad as it seems. You'd just have to go beyond the headline number to know that.
November Retail Sales: Ex-Auto Range: -0.5 to 0.4 percent Median: -0.1 percent	Thursday, 12/14	Oct = +0.1%	Down by 0.5 percent.
November Retail Sales: Control Group Range: -0.4 to 0.4 percent Median: 0.2 percent	Thursday, 12/14	Oct = -0.1%	Down by 0.4 percent.
November Industrial Production Range: -0.1 to 0.8 percent Median: 0.3 percent	Friday, 12/15	Oct = -0.6%	Up by 0.6 percent. Recall that, courtesy of the UAW strike, motor vehicle output fell by ten percent in October. We look for much of that decline to have been reversed in November, with both mining and utilities output also contributing to overall growth.
November Capacity Utilization Rate Range: 78.8 to 79.7 percent Median: 79.1 percent	Friday, 12/15	Oct = 78.9%	Up to 79.4 percent.

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