ECONOMIC PREVIEW

REGIONS

Week of February 12, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 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%	After an unusually quiet week, this week brings a full slate of economic data. While these releases will be closely watched by analysts, market participants, and policy makers, each comes with some caveats. Newly estimated seasonal adjustment factors, some methodological changes, and some inherent jumpiness in the January data could impact the Consumer Price Index data. Unusually harsh winter weather could impact the data on industrial production (see below), retail sales (see Page 2), and residential construction (see Page 3). Whether, or to what extent, there were weather-related disruptions in the January data and whether, or to what extent, seasonal adjustment will adequately account for any such disruptions will impact the January headline numbers on these data releases but won't have any impact on the underlying trends in the data. That will be a useful point to keep in mind when processing this week's slate of releases.
January Consumer Price Index Tuesday, 2/13 Range: 0.0 to 0.3 percent Median: 0.2 percent	Dec = +0.2%	Up by 0.2 percent, for a year-on-year increase of 3.0 percent. For the third time in the past four months, lower gasoline prices will be a drag on the total CPI, taking one-tenth of a point off the January change. Very little else about the January CPI data may be as clear; we see the potential for seasonal adjustment to provide a meaningful boost to the January CPI, though with lower gasoline prices and better behaved food prices any seasonal adjustment noise will be more apparent in the core CPI. We can point to lodging, air fares, recreation goods and services, and apparel as categories in which the increases shown in the seasonally adjusted data may be overstated. This in part helps account for our above-consensus call on the core CPI (see below). That said, the relative weightings mean that if the January data show slower growth in owners' equivalent rents, that would likely be more than sufficient to counter any boosts from seasonal adjustment. To be sure, many have been waiting for the CPI data to show slower rent growth, and while that is happening with primary (or, market) rents, owners' equivalent rents are proving to be a bit more stubborn, which could reflect house prices being surprisingly resilient. While our forecast would yield the smallest over-the-year increase in the total CPI since last June, many remain anxious about the path of inflation going forward, with good reason perhaps. Given the increases in retail gasoline prices over recent weeks, gasoline will transition from being a drag on to a support for the total CPI starting with the February data. We're on record as saying we do not expect core goods prices being a persistent drag on core inflation in 2024 as they were in 2023, but with upward pressure on shipping costs core goods prices could be firmer than we and most others have expected. Also, the ISM's January surveys of the manufacturing and services sectors showed surprisingly large increases in the prices paid indexes, and whether this proves to be no more than seasonal noise or genuine upward pressure on input prices, the ISM's January prints fed into general unease over the path of inflation. This plays into the FOMC's narrative that while there has been considerable progress in reining inflation in, it is too soon to be confident that inflation is on firmly a one-way path back to the FOMC's 2.0 percent target rate.
January Consumer Price Index: Core Tuesday, 2/13 Range: 0.1 to 0.4 percent Median: 0.3 percent	Dec = +0.3%	Up by 0.4 percent, which would translate into a year-on-year increase of 3.8 percent.
January Industrial Production Thursday, 2/15 Range: -0.4 to 0.9 percent Median: 0.3 percent	Dec = +0.1%	Up by 0.5 percent. The January data on weekly hours worked suggest some softness in output in the manufacturing and mining sectors. At the same time, however, motor vehicle assemblies did increase in January, which we expect will lead to a modest increase in overall manufacturing output. By far the bigger driver of our forecast, however, is what we expect will be a hefty increase in utilities output thanks to unusually harsh winter weather across most of the nation.
January Capacity Utilization Rate Thursday, 2/15 Range: 78.3 to 79.2 percent Median: 78.8 percent	Dec = 78.6%	Up to 79.0 percent.
December Business Inventories Thursday, 2/15 Range: 0.3 to 0.5 percent Median: 0.4 percent	Nov = -0.1%	We look for total business inventories to be up by 0.4 percent and for total business sales to be up by 0.5 percent.

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January Retail Sales: Total Thursday, 2/15 Range: -1.2 to 0.3 percent Median: -0.1 percent	Dec = +0.6%	Down by 0.7 percent. Anyone looking to the report on January retail sales for a clear-cut read on U.S. consumers should probably look elsewhere, as regardless of whether headline sales are closer to our forecast or to the consensus forecast, the January data will be considerably noisy. Right off the bat, motor vehicle sales will be a significant drag on headline sales. While vehicle sales always fall in January on a not seasonally adjusted basis, the decline this January was larger than the typical decline for the month, which to some degree reflects unusually harsh winter weather across much of the nation last month. That weather will have also held down foot traffic in physical stores, though grocery stores and building materials stores may have picked up more traffic than would otherwise have been the case. Of course, being snow-bound, ice-bound, or otherwise stuck at home doesn't mean one can't still shop, providing one's internet connection holds up. While it seems reasonable to think nonstore retailers would have been the beneficiary of depressed traffic in physical stores, various spending trackers suggest January was also a down month for nonstore retailers, and our forecast anticipates a decline in this category. With all due respect to Mother Nature, we think the biggest impact on the January retail sales data will be a change in the seasonal factors used by Census to arrive at the estimate of seasonally adjusted sales. Over recent years, residual seasonality has been a significant issue in the retail sales data for the months of December and January, which has made sales in the former look weaker and sales in the latter look stronger than has actually been the case. Shifts in holiday shopping patterns have been a primary factor; in short, December has accounted for a significantly smaller share of holiday season spending, which has yielded smaller December increases in not seasonally adjusted sales than had historically been the case. These smaller December increases have in turn given way to smaller January declines in unadjusted sales than had historically been the case. It has taken time for seasonal adjustment to catch up to these changes, but Census has begun to address this issue, hence the adjustment in the seasonal factors. This is one reason our forecast of December retail sales was so much higher than the consensus and helps account for why our forecast of January sales is so much lower than the consensus. If we're interpreting this shift correctly, the seasonal factors for this January will be significantly smaller than has historically been the case, to the point that even though our forecasts of unadjusted sales yield smaller January declines than have historically been the case, there won't be nearly as much help from seasonal adjustment as we would have seen in the past. None of this should change anyone's assessment of the state of U.S. consumers or the strength of their spending, the operative word here being "should." To be sure, we could be off in our assessment of the shift in seasonal factors, and we could be off in our assessment of potential weather effects, particularly when it comes to sales by nonstore retailers. It could be that January's unusually harsh winter weather simply shifted the composition of spending on goods, motor vehicle sales aside, and took a bigger toll on discretionary services spending. Our assessment of consumers won't change either way. As long as the labor market holds up and growth in labor earnings continues to outpace inflation – as it has over this entire episode of elevated inflation – the risks to forecast of consumer spending remain tilted to the upside.
January Retail Sales: Ex-Auto Thursday, 2/15 Range: -0.4 to 0.6 percent Median: 0.2 percent	Dec = +0.4%	Down by 0.2 percent.
January Retail Sales: Control Group Thursday, 2/15 Range: -0.5 to 0.5 percent Median: 0.2 percent	Dec = +0.6%	Down by 0.3 percent.
January Producer Price Index Friday, 2/16 Range: -0.1 to 0.3 percent Median: 0.1 percent	Dec = -0.1%	Up by 0.2 percent, which would yield a year-on-year increase of 0.7 percent.

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January Producer Price Index: Core Friday, 2/16 Range: 0.0 to 0.3 percent Median: 0.1 percent	Dec = 0.0%	Up by 0.2 percent, which would leave the core PPI up 1.7 percent year-on-year.
January Building Permits Friday, 2/16 Range: 1.465 to 1.550 million units Median: 1.515 million units SAAR	Dec = 1.493 million units SAAR	Up to an annualized rate of 1.517 million units. On a not seasonally adjusted basis, we look for total permits of 110,800 units, up 5.1 percent from December with a jump in single family permits more than offsetting a decline in multi-family permits. Building permits tend to be far less prone to weather-related disruptions than is the case with housing starts, and we expect this general rule will hold in the January data. While we expect unusually harsh winter across most of the nation to have held down January housing starts, we expect few, if any, disruptions in the permits data. With mortgage rates having fallen sharply over the back half of December, many builders reported interest amongst prospective buyers increased significantly, which no doubt contributed to a marked improvement in builder sentiment in January. We expect that to have prompted a jump in single family permit issuance in January, particularly given the sharp declines seen over the final two months of 2023. At the same time, despite the typical month-to-month volatility, multi-family permits continue to trend lower, and the decline we expect for January is consistent with that trend.
January Housing Starts Friday, 2/16 Range: 1.334 to 1.500 million units Median: 1.460 million units SAAR	Dec = 1.460 million units SAAR	Down to an annualized rate of 1.334 million units. On a not seasonally adjusted basis, we look for total starts of 95,800 units, down 5.3 percent from December with both single family and multi-family starts lower. We expect unusually harsh winter weather across much of the nation, including the South region which accounts for well over one-half of all single family starts, held down starts in January. While seasonal adjustment will account for weather-related effects, we'll make the following two points here. First, seasonal adjustment is geared toward "typical" weather-related effects, and what most of the nation saw over much of January was anything but typical, thus seasonal adjustment is unlikely to adequately account for it. Also, in a typical year, single family housing starts tend to be flat in January, as builders typically ramp down activity sharply in November and December ahead of the worst winter weather. As such, the support from seasonal adjustment is typically far stronger for the December data than for the January data. So, while our forecast anticipates only a 3.9 percent decline in unadjusted single family starts, that turns into a much larger decline in our forecast of the seasonally adjusted data. That we expect a larger decline in unadjusted multi-family starts reflects some weather-related effects on top of the clear downward trend in this space. Obviously, our forecast is well outside of the mainstream. It could be that there is less of a weather-related disruption than we anticipate, or we could be wrong about the extent to which seasonal adjustment will account for any such disruptions. Neither of which really matters, as neither would change where we expect single family or multi-family starts to be a few months down the road. Any weather-related disruptions in the January data will be made up for in the months ahead, so we'd arrive at the same point in our forecast, it's just a matter of how bumpy or smooth the path there will be. If we're wrong about the January seasonal adjustment factors, that's no more than window dressing, which goes to our point that the not seasonally adjusted data are all that matters when it comes to the data on residential permits, construction, and sales. We continue to expect single family starts to trend higher and multi-family permits to trend lower in the months ahead.

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