ECONOMIC PREVIEW

REGIONS

Week of March 11, 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%	The details of the February employment report told a story different than that told by the headline numbers, particularly the increase in the unemployment rate. The same may apply to this week's releases of the February data on the Consumer Price Index and retail sales. In both instances, we see considerable potential for seasonal adjustment issues to distort the signals being sent by the data but, to that extent is the case, it will almost surely be lost in the immediate reactions to the headline numbers. As always, our focus will be on the underlying patterns in the unadjusted data which, regardless of what the headline numbers have to say, are where the real stories lie.
February Consumer Price Index Tuesday, 3/12 Range: 0.3 to 0.5 percent Median: 0.4 percent	Jan = +0.3%	<u>Up</u> by 0.5 percent, yielding a year-on-year increase of 3.2 percent. After falling retail gasoline prices had acted as a drag on the headline CPI in three of the prior four months, rising gasoline prices added more than one-tenth of a point to the monthly change in the total CPI in February. We expect higher gasoline prices will be a source of upward pressure on the headline CPI over the next several months. Of more immediate interest, however, will be the path of the core CPI, particularly after the January print came in hotter than most had anticipated. As we noted at the time, there was some degree of residual seasonality in the January data, which contributed to the larger than expected increase in the core CPI. Though not to the same degree as in January, we expect this residual seasonality to be present in the February data, and if we are correct on this point, it will be most apparent in prices for discretionary services. Another potential perpetrator of mischief in the February data is owners' equivalent rent (OER). For reasons that may or may not have had anything to do with actual rents, OER rose by 0.6 percent in January after what had been more moderate increases over prior months. Two issues were in play in the January data, one being a change in the mix of owner-occupied units in the CPI survey (an increased weight on detached single family units), the other being a sizable increase in the weighting of OER, particularly in the core CPI, meaning that a given increase in OER will have had a more pronounced impact on the January data than it would have had on the December data. Our forecast anticipates OER rising by 0.5 percent, smaller than in January but still easily able to sway the core CPI given the heavier weight. A much more fundamental, though less widely discussed, element of the February data to watch will be the read on prices of core goods excluding used motor vehicles. Continued, though less intense, declines in prices for used motor vehicles remain a drag on overall core goods prices, so excluding them gives a more reliable read on trends in goods prices. Core goods prices excluding used motor vehicles rose by 0.1 percent in January, and while that may not seem like a big deal, it ended a run of seven months in which prices in this category were either flat or lower. With rising costs of non-labor inputs in the manufacturing sector and rising shipping costs, our worry is that goods prices may be embarking on a run of steady, even if moderate, increases. If so, that would mean core inflation being higher than we had anticipated coming into this year, for reasons that actually reflect changing price dynamics.
February Consumer Price Index: Core Tuesday, 3/12 Range: 0.2 to 0.4 percent Median: 0.3 percent	Jan = +0.4%	<u>Up</u> by 0.4 percent, which would translate into a year-on-year increase of 3.8 percent. As was the case with the January data, our forecast of the February core CPI is above the consensus forecast, though it's a much closer call this month than last as our forecast is little more than a rounding error away from printing at 0.3 percent. As such, our take on the February data won't likely be that different one way or the other, though we doubt most market participants would have such a sanguine reaction to the higher print.
February Producer Price Index Thursday, 3/14 Range: 0.0 to 0.5 percent Median: 0.3 percent	Jan = +0.3%	<u>Up</u> by 0.4 percent, which would yield a year-on-year increase of 1.3 percent.
February Producer Price Index: Core Thursday, 3/14 Range: 0.0 to 0.4 percent Median: 0.2 percent	Jan = +0.5%	<u>Up</u> by 0.1 percent, good for a year-on-year increase of 1.8 percent.
January Business Inventories Thursday, 3/14 Range: 0.0 to 0.4 percent Median: 0.2 percent	Dec = +0.4%	We look for total <u>business inventories</u> to be <u>unchanged</u> and for total <u>business sales</u> to be <u>down</u> by 1.3 percent.

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February Retail Sales: Total Range: 0.3 to 1.7 percent Median: 0.8 percent	Thursday, 3/14	Jan = -0.8%	<u>Up</u> by 0.7 percent. As with the February CPI data, we think that seasonal adjustment issues will factor heavily into the February data on retail sales. Mind you, if we are correct on this point, that won't have anything to do with how much consumers actually spent in February but, unfortunately, will be the basis for narratives on the state of U.S. consumers spun around the headline print. Keep in mind that retail sales typically decline in the month of February but, as with the January data, Census has considerably scaled back the extent to which seasonal adjustment will boost the raw February spending data. Our sense is that this will lead to smaller increases in the seasonally adjusted estimates of total and control retail sales than the consensus forecasts are anticipating, but even if we're right on this point, the proper question would be "so what?" as, once again, this would have nothing to do with how much consumers actually spent last month. As for what the February data may show, given the jump in unit sales, revenue at motor vehicle dealers should make a sizable contribution to total retail sales. The same should be true of gasoline station sales, which will have been boosted by meaningfully higher prices in February. Having been held down by unusually harsh winter weather in January, sales at building materials stores should have rebounded in February. These, however, are, or at least should be, the easy parts of the February data to get right, with most of the other main categories subject to being made to look weaker by less favorable seasonal adjustment. One additional point to keep in mind that higher prices for consumer goods excluding used motor vehicles could be modestly supportive for February retail sales, as the retail sales data are not adjusted for price changes. Given the potential for seasonal adjustment to have an undue impact on the seasonally adjusted data, our assessment of consumer spending will be based on what we see in the not seasonally adjusted data. We continue to note that growth in aggregate labor earnings continues to easily outpace inflation, which we believe is acting as a meaningful support for consumer spending.
February Retail Sales: Ex-Auto Range: 0.0 to 1.1 percent Median: 0.5 percent	Thursday, 3/14	Jan = -0.6%	<u>Up</u> by 0.3 percent.
February Retail Sales: Control Group Range: 0.1 to 1.0 percent Median: 0.4 percent	Thursday, 3/14	Jan = -0.4%	<u>Up</u> by 0.2 percent.
February Industrial Production Range: -0.5 to 0.5 percent Median: 0.0 percent	Friday, 3/15	Jan = -0.1%	<u>Up</u> by 0.1 percent. Despite the reported decline in manufacturing sector payrolls in February, aggregate hours worked amongst manufacturing production workers rose smartly, particularly amongst durable goods manufacturers. While much, if not most, of that may simply be a reaction to weather-related declines in January, it should nonetheless translate into increased manufacturing output in the February industrial production data. Our forecast anticipates an increase in manufacturing output sufficient to offset what should be sharply lower utilities output.
February Capacity Utilization Rate Range: 77.5 to 78.8 percent Median: 78.5 percent	Friday, 3/15	Jan = 78.5%	<u>Unchanged</u> at 78.5 percent.

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