ECONOMIC PREVIEW

REGIONS

Week of October 7, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 6-7 FOMC meeting):* Target Range Mid-point: 4.375 to 4.625 percent Median Target Range Mid-point: 4.625 percent	Range: 4.75% to 5.00% Midpoint: 4.875%	It was just two months ago that many analysts and observers reacted to a surprisingly soft July employment report by calling for the FOMC to implement "emergency" Fed funds rate cuts on the order of fifty or seventy-five basis points. Last Friday, many analysts and observers reacted to a surprisingly strong, at least seemingly, September employment report by arguing the FOMC had made a mistake by cutting the Fed funds rate by fifty basis points at last month's meeting, while market pricing shows expectations of further funds rate cuts have been sharply curtailed. Though perhaps not as intense as the reaction to the July report, the reaction to the September employment report was just as striking and, at least to us, just as confounding. Just as we argued that job growth was not as soft as implied by the July employment report, neither do we think job growth was as strong as implied by the September employment report. Aside from another notably low initial collection rate to the BLS's monthly establishment survey – the lowest for the month of September since 2002 – the September job growth number was significantly bolstered by friendly seasonal adjustment. To that point, our forecast of September job growth was the second highest of any analyst which, rather than us thinking job growth had suddenly perked up, simply reflected our expectation of a significant boost from seasonal adjustment in construction, retail trade, and leisure and hospitality services. That turned out to be the case, most notably in the latter instance. Moreover, the reported decline in the unemployment rate was also a gift from seasonal adjustment stemming from a far greater than normal share of the annual end of summer outflow amongst the 16-to-24 year-old cohort having taken place in August rather than in September. We expect a high degree of distortion in the October employment report, scheduled for release on November 1. Between the effects of the Boeing strike if that is not settled sometime this week, the effects of Hurricanes Helene and Milton, and what we expect will be very punitive seasonal adjustment, the October employment report could look notably weak. If so, that all of this is knowable in advance likely won't fend off an outsized reaction amongst many analysts and market participants. As for the September funds rate cut, Wednesday's release of the minutes of that FOMC meeting may shed more light on: 1) the rationale for a fifty-basis point funds rate cut, and 2) just how on board members were with the larger cut – the minutes could show a sharper divide than implied by the lone dissenting vote. Also, the September core CPI (see Page 2) could inject further uncertainty into the outlook for the funds rate.
August Trade Balance Tuesday, 10/8 Range: -$76.4 to -$73.3 billion Median: -$70.5 billion	Jul = -$78.8 billion	<u>Narrowing</u> to -$70.3 billion.
September Consumer Price Index Thursday, 10/10 Range: 0.0 to 0.2 percent Median: 0.1 percent	Aug = +0.2%	<u>Up</u> by 0.1 percent, which would yield a year-on-year increase of 2.3 percent. Lower retail gasoline prices will knock just over one-tenth of a point from the monthly change in the total CPI. Our forecast anticipates a trend-like 0.1 percent increase in the overall index of food prices, reflecting flat-to-slightly lower prices for food consumed at home being offset by rising prices for food consumed away from home. Though we look for a modest decline in new vehicle prices, we expect rising prices on the wholesale level over recent months to translate into an increase in the CPI measure for used motor vehicles prices, though the links between the two are not exactly straightforward, thus posing downside risk to our forecast of the core CPI. Along those same lines, we look for sizable increases in air fares and lodging rates on a seasonally adjusted basis to bolster the monthly change in the core CPI. Though these components carry relatively small weights, outsized changes in them, which often happen in tandem, can be the difference between a smaller/larger change in the core CPI. After owners' equivalent rents surprised to the upside in the August data, rising 0.5 percent, our forecast anticipates the September data will show a more moderate increase. Looking ahead a bit, that strikes amongst workers at East and Gulf coast ports ended quickly, at least for now, means that the recent run of weakness in core (non-food, non-energy) goods prices excluding used motor vehicles should remain intact in the months ahead. But, should the recent increases in crude oil prices in response to rising tensions in the Middle East stick, or intensify, the recent run of falling retail gasoline prices will likely reverse, meaning energy would contribute to headline inflation after having acted as a net drag over recent months.

Regions Financial Corporation, 1900 5th Avenue North, 17h Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

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Indicator/Action Economics Survey:		Last Actual:	Regions' View:
September Consumer Price Index: Core Range: 0.2 to 0.3 percent Median: 0.2 percent	Thursday, 10/10	Aug = +0.3%	Up by 0.3 percent, which would result in a year-on-year increase of 3.2 percent. That our forecast of the monthly change in the core CPI is above the consensus forecast while our forecast of the year-on-year percentage change matches the consensus forecast suggests we and most others expect a close call between a 0.2 and a 0.3 percent monthly increase. To that point, if air fares, lodging rates, and prices for used motor vehicles don't advance as we expect, our forecast will be too high, but if the increase in owners' equivalent rents does not moderate as we expect, that would almost surely mean a 0.3 percent increase in the core CPI given the weight attached to rents.
September Producer Price Index Range: -0.2 to 0.2 percent Median: 0.1 percent	Friday, 10/11	Aug = +0.2%	Up by 0.1 percent, which would translate into a year-on-year increase of 1.6 percent.
September Producer Price Index: Core Range: 0.1 to 0.2 percent Median: 0.2 percent	Friday, 10/11	Aug = +0.3%	Up by 0.1 percent, for a year-on-year increase of 2.6 percent.

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