ECONOMIC PREVIEW

REGIONS

Week of November 11, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 17-18 FOMC meeting):* Target Range Mid-point: 4.375 to 4.625 percent Median Target Range Mid-point: 4.375 percent	Range: 4.50% to 4.75% Midpoint: 4.625%	The effects of Hurricanes Helene and Milton will continue to impact the economic data, including the October read on industrial production (Page 3). We also look for seasonal adjustment to leave its mark on the October retail sales data (Page 2) and, as such, will be far more interested in what the unadjusted data have to say. We'll also look to the Federal Reserve's latest survey of commercial bank lending officers, due on Tuesday, for any signs banks are beginning to ease, even if only slightly, lending standards, particularly in the commercial space.
October Consumer Price Index Wednesday, 11/13 Range: 0.1 to 0.3 percent Median: 0.2 percent	Sep = +0.2%	Up by 0.2 percent, yielding a year-on-year increase of 2.5 percent. Energy prices will be a drag on the headline CPI, led by a further decline in retail gasoline prices. Though our forecast anticipates a more moderate increase in food prices after the well above trend 0.4 percent increase in September, we do see some upside risk to our forecast, in part reflecting the potential for adverse weather events to have disrupted supply flows in certain segments. Though we look for the October increases in primary and owners' equivalent rents to be on par with the more moderate increases seen in the September data, it's hard for us to have much faith in that call given how jumpy the CPI measures of rents have been over recent months. As such, this is a source of upside risk to our below-consensus forecast of the core CPI. Still, even with the more moderate increase in rents, our forecast anticipates a larger increase in the overall index of shelter costs than that seen in September, which reflects what we expect to be another wide swing in lodging rates on a seasonally adjusted basis. The September data show an outsized drop in lodging rates on a not seasonally adjusted basis, meaning that the typical seasonal decline in lodging rates came a month earlier this year than is usually the case. This should, in turn, lead to a smaller October decline than is typical for the month and, if so, seasonal adjustment will overcompensate, leading to a sizable increase in lodging rates on a seasonally adjusted basis. We also look for seasonal adjustment noise in the apparel category, but in the opposite direction as atypically large increases in unadjusted apparel prices in both August and September open the door for a weaker than normal October print being further weakened by seasonal adjustment. Prices for used motor vehicles on the wholesale level have firmed up over the past few months, which began to be incorporated into the CPI data in September. While we'd expect to see the same type of jump in used vehicle prices typically seen in the wake of hurricanes as demand for replacement vehicles spikes, we'll note that the October seasonal factor for used vehicle prices is somewhat punitive, which could mitigate the increase seen on a seasonally adjusted basis. Finally, a change in the methodology used to measure health insurance premiums acts as somewhat of a wild card in the October data, which will impact the services component of overall medical costs.
October Consumer Price Index: Core Wednesday, 11/13 Range: 0.2 to 0.4 percent Median: 0.3 percent	Sep = +0.3%	Up by 0.2 percent, leaving the core CPI up 3.3 percent year-on-year. As discussed above, there are a number of variables in play in the October data that could easily send our forecast for the core CPI off course. Note, however, that while our forecast of the monthly change is below the consensus forecast, our forecast for the year-on-year increase matches the consensus forecast. This shows that most forecasts, ours included, are not far from a 0.25 percent increase on an unrounded basis, meaning that for the monthly change it's just a matter of which side of that line a given forecast falls on. The relevant points here are that core CPI inflation has settled in at a faster pace than the FOMC would be comfortable with, the annualized three-month change in the core CPI is accelerating, and base effects will be much more challenging over the next few months. All of this, by the way, is also true of the core PCE Deflator, the FOMC's preferred gauge of inflation. This could complicate the debate over the appropriate course of the Fed funds rate at the December and January FOMC meetings even before the potential policy implications of the election come into play.
October Producer Price Index Thursday, 11/14 Range: -0.4 to 0.4 percent Median: 0.2 percent	Sep = 0.0%	Up by 0.3 percent, yielding a year-on-year increase of 2.4 percent.
October Producer Price Index: Core Thursday, 11/14 Range: 0.1 to 0.3 percent Median: 0.3 percent	Sep = +0.2%	Up by 0.2 percent, which would translate into a year-on-year increase of 3.0 percent.

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Indicator/Action Economics Survey:		Last Actual:	Regions' View:
October Retail Sales: Total Range: 0.0 to 0.6 percent Median: 0.3 percent	Friday, 11/15	Sep = +0.4%	Unchanged. Based on our forecasts of October retail sales, one might be tempted to conclude that we've thrown in the towel after for some time having a more constructive view of U.S. consumers than have many other analysts, or that we think consumers took October off to rest up for the upcoming holiday shopping season. Neither, however, is the case. In any given month, our forecast of retail sales is based on two components: how much we think consumers actually spent in that month, as measured by not seasonally adjusted retail sales, and how accommodating/punitive the seasonal factors used to convert unadjusted sales into the seasonally adjusted estimates will be. As our regular readers are by now well aware, only one of those components is important to us, and that is the not seasonally adjusted data. While it is obviously the seasonally adjusted numbers that are the basis of most of the reactions to and coverage of the data, it is often the case that many are reacting to perceptions of the data based on seasonal adjustment. Consider the September retail sales data, made to look much stronger by generous seasonal adjustment, which we anticipated and, in turn, incorporated into our forecast. Thus, while we looked for not seasonally adjusted retail sales to decline by 7.2 percent (the actual decline was 7.5 percent) our forecast of seasonally adjusted sales was above the consensus forecast, with similar disparities in our forecasts for ex-auto and control retail sales. We go into this detail only because we expect the opposite effects to be on display in the October data. If we're correct, the headline (i.e., seasonally adjusted) sales prints will be misleadingly weak, which will be what most will react to. In reality, we expect unadjusted retail sales to be up by over 6.5 percent and unadjusted control retail sales to be up by over seven percent, each larger than the typical October advance. At the same time, however, we look for October seasonal adjustment to be quite punitive, far more so than was the case with last October's data. The nonstore retailers category, the bulk of which is accounted for by online sales, will be a good test of our premise. October has become an increasingly important month for online sales promotions to give retailers with an online presence an early jump on the holiday sales season. As such, we look for the unadjusted data to show a significant jump in sales by nonstore retailers, but at the same time look for harsh seasonal adjustment to wash away much of this increase. Obviously, if we're wrong on either front, our forecast of control retail sales will prove to be far too low, and we can make the same points about many of the remaining sales categories. Also working against headline retail sales will be the further decline in retail gasoline prices. More broadly, we do not look for meaningful upward pressure on core goods prices in October, but not having the CPI data at our disposal when striking our retail sales forecast makes this a source of added uncertainty around our forecast. Another source of uncertainty will be effects related to the hurricanes. Historically, hurricanes tend to alter the timing and composition of retail sales, leaving only muted effects on total retail sales. The severity of Hurricane Milton, however, could lead to a break in this general pattern. Higher unit sales mean motor vehicle dealer revenue should make a positive contribution to top-line sales, though the mapping of unit sales into the retail sales data remains an unsolved mystery to us, so, there's that . . . Our forecast of October retail sales says far more about how we expect seasonal adjustment to play out than about how we view household financial conditions. The unadjusted data will tell us if our take on household financial conditions is off track.
October Retail Sales: Ex-Auto Range: -0.3 to 0.6 percent Median: 0.3 percent	Friday, 11/15	Sep = +0.5%	Down by 0.1 percent.
October Retail Sales: Control Group Range: -0.3 to 0.5 percent Median: 0.3 percent	Friday, 11/15	Sep = +0.7%	Down by 0.3 percent.

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October Industrial Production Friday, 11/15 Range: -1.4 to 0.1 percent Median: -0.3 percent	Sep = -0.3%	Down by 0.7 percent. While the Boeing strike acted as a drag on manufacturing output in September, the timing of the strike suggests there could be knock-on effects in the October data. At the same time, output in the mining and utilities sectors will have been adversely impacted by Hurricane Milton. The net result of these factors should be a sizable decline in overall industrial production.
October Capacity Utilization Rate Friday, 11/15 Range: 76.5 to 77.6 percent Median: 77.1 percent	Sep = 77.5%	Down to 76.8 percent.
September Business Inventories Friday, 11/15 Range: 0.1 to 0.4 percent Median: 0.2 percent	Sep = +0.3%	We look for total business inventories to be up by 0.1 percent, with total business sales also up by 0.1 percent.

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