ECONOMIC PREVIEW

REGIONS

Week of January 13, 2025

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 28-29 FOMC meeting):* Target Range Mid-point: 4.375 to 4.375 percent Median Target Range Mid-point: 4.375 percent	Range: 4.25% to 4.50% Midpoint: 4.375%	In a crowded week for data releases, we see considerable room for seasonal adjustment to wreak havoc across much of the data. For instance, the December CPI data could be made to look worse than will actually be the case if we are correct in expecting the seasonally adjusted data to show exaggerated increases in gasoline prices and lodging rates. That would be a bad look to markets already on edge about inflation reaccelerating. Conversely, we see the downside risk to our forecast for control retail sales (see Page 2) if punitive seasonal adjustment of online sales waters down the increase in control sales which would not, by the way, have any impact on how much consumers actually spent on online sales in December. Finally, generous seasonal adjustment could make the December data on residential construction (see Page 3) look better than will actually be the case. Our forecasts of and our reactions to the economic data are almost always driven by the patterns in the not seasonally adjusted data, and this week's set of releases goes straight to why this is the case. Just something to keep in mind as you process this week's stream of data releases.
December Producer Price Index Tuesday, 1/14 Range: 0.1 to 0.5 percent Median: 0.4 percent	Nov = +0.4%	Up by 0.4 percent, which would result in a year-on-year increase of 3.5 percent.
December Producer Price Index: Core Tuesday, 1/14 Range: 0.1 to 0.3 percent Median: 0.3 percent	Nov = +0.2%	Up by 0.3 percent, which would yield a year-on-year increase of 3.8 percent.
December Consumer Price Index Wednesday, 1/15 Range: 0.2 to 0.4 percent Median: 0.3 percent	Nov = +0.3%	Up by 0.4 percent, which would translate into a year-on-year increase of 2.9 percent. Don't look now, but if you do want to look, headline CPI inflation is moving in the wrong direction no matter how you choose to look at it. December will mark the third straight month in which headline CPI inflation accelerated, and our forecast would push the annualized three-month percentage change, which became a popular way to look at inflation when it was running amok back in 2021-22, up to 3.9 percent, the highest such reading since April. That said, even if our forecast is on the mark, there would be less to the December print than meets the eye. For instance, while the not seasonally adjusted data show retail gasoline prices declined in December, that decline was smaller than is typical for the month, which means the increase will be exaggerated on a seasonally adjusted basis. We look for the seasonally adjusted data to show gasoline prices up by around four percent, which will add around 0.13 percentage points to the unrounded monthly change in the total index. Lodging costs are another potential source of a boost from seasonal adjustment. December is typically a seasonally weak month for lodging rates, but we've seen reports of lodging rates being atypically firm in December. If this is picked up in the CPI measure, the seasonally adjusted data will show a sizable increase. One caveat is that the November data showed lodging costs to be up 3.2 percent on a seasonally adjusted basis, and after a monthly change that large – in either direction – there tends to be payback in the following month. So, if the increase in seasonally adjusted lodging costs is smaller than our forecast anticipates, our forecasts for the total and core CPI could prove too high. We expect that further increases in prices for both new and used motor vehicles will have supported core goods prices, but to the extent that retailers resorted to aggressive discounting to lure consumers in December, that could counter the upward pressure from vehicle prices (note that the extent of discounting will also be a factor in the December retail sales data). Our forecast anticipates another hefty increase in food prices, specifically prices for food consumed at home, which have been rising at a meaningfully faster rate over the past four months than had been the case for some time prior. We were a bit suspicious of the extent to which growth in owners' equivalent rents moderated in the November data and, as such, expect a bit of a bounce in the December data. Finally, insurance costs – home, auto, health – have been notably jumpy over the past few months, and should they combine forces and move uniformly in the December data, that could be the difference between the change in the core CPI printing at 0.2 or 0.3 percent.
December Consumer Price Index: Core Wednesday, 1/15 Range: 0.2 to 0.3 percent Median: 0.2 percent	Nov = +0.3%	Up by 0.3 percent, yielding a year-on-year increase of 3.3 percent.

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November Business Inventories Range: 0.1 to 0.2 percent Median: 0.1 percent	Thursday, 1/16	Nov = +0.1%	We look for total business inventories to be up by 0.1 percent and for total business sales to be up by 0.6 percent.
December Retail Sales: Total Range: 0.3 to 1.0 percent Median: 0.6 percent	Thursday, 1/16	Nov = +0.7%	Up by 0.7 percent. By all accounts, spending was strong in December, though many retailers resorted to aggressive discounting to drive sales, while reports we've seen suggest online sales outperformed in-store sales. Both of these factors will impact the December retail sales data. Discounting poses some downside risk to our forecast given that retail sales are reported in nominal terms, but we think the bigger threat to our above-consensus forecast, particularly for control retail sales, comes from seasonal adjustment tied to online spending. With Thanksgiving having fallen so late in 2024, "Cyber Monday" was pushed into December, and while that will have supported online sales, the seasonal factor used to estimate seasonally adjusted online sales will reflect the calendar shift and will be much more punitive than the December 2023 seasonal factor for this category. Though we have shaded our forecast of sales in the nonstore retailers category, the bulk of which consist of online sales, down to reflect tougher seasonal adjustment, it may still be too high which, in turn, would mean our forecast of control retail sales is too high given that sales by nonstore retailers account for roughly thirty-one percent of control sales. This, of course, has nothing at all to do with how much consumers actually spent in December so, as always, we'll look to the not seasonally adjusted data as a better guide. Elsewhere in the data, apparel stores, general merchandise stores, restaurant sales, and gasoline sales should be key supports for December spending. Again, though, we'll assess our forecast on the basis of the not seasonally adjusted data, and while we think pricing will, on net, be a modest drag, retail sales likely turned in a solid performance in December. It will be the unadjusted data that will tell us whether or not our assessment is correct. Our forecast would leave not seasonally adjusted control retail sales up by just over twelve percent from November, in line with the average December increase over the prior three years.
December Retail Sales: Ex-Auto Range: 0.2 to 0.8 percent Median: 0.5 percent	Thursday, 1/16	Nov = +0.2%	Up by 0.7 percent.
December Retail Sales: Control Group Range: 0.2 to 0.8 percent Median: 0.4 percent	Thursday, 1/16	Nov = +0.4%	Up by 0.8 percent.
December Industrial Production Range: -0.3 to 0.6 percent Median: 0.3 percent	Friday, 1/17	Nov = -0.1%	Down by 0.2 percent. Aggregate hours worked in manufacturing declined by 0.4 percent in December, with the decline concentrated amongst producers of durable goods. As such, our forecast anticipates the industrial production data will show a decline in manufacturing output. One looming wild card in the data is Boeing bringing production back online after the strike by machine workers. Though the strike was settled in early November, it took time for production to be brought back up to speed, which should be reflected in the December industrial production data. At the same time, however, we look for motor vehicle production to have declined after a sizable increase in November. Given what could be a good deal of noise from these components, we'll be the most interested in output in ex-transportation business equipment, which is a better indicator of underlying trends in capital spending. Warmer than normal temperatures for much of the month should result in utilities being a drag on total industrial production.
December Capacity Utilization Rate Range: 76.6 to 77.4 percent Median: 77.0 percent	Friday, 1/17	Nov = 76.8%	Down to 76.7 percent.

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December Building Permits Friday, 1/17 Range: 1.425 to 1.523 million units Median: 1.460 million units SAAR	Oct = 1.493 million units SAAR	Up to an annualized rate of 1.523 million units. There were two elements of the November residential construction data that threw most forecasts, ours included, off course – steep declines in single family housing permits and multi-family housing starts. Making a forecast of the December data means having to assess whether those declines were one-off happenstances or were saying something more fundamental about underlying market conditions. The not seasonally adjusted data show that the decline in single family permits in November, 21.1 percent, was the largest decline in any month since November 2014. To be sure, with mortgage rates rising sharply through the month, an already sizable backlog of single family units previously permitted but not yet started, and what for many builders are uncomfortably high levels of spec inventories of new homes for sale, a decline in single family permits in November was to have been expected. While it may be tempting to think that the impacts of two major hurricanes pummeling the South region may have also been a factor, the reality is that (unadjusted) single family permits declined in each of the four broad Census regions in November and the decline in the South was smaller (in percentage change terms) than the decline in each of the other regions. Our sense is that the decline in single family permits was at least a bit exaggerated, having heard nothing from builders that would be consistent with such a large decline. As such, our forecast anticipates a modest "bounce" in not seasonally adjusted single family permits, though this would still, in conjunction with November's decline, leave single family permits on the downward trajectory you'd expect given the path of mortgage interest rates and elevated spec inventories. We expect multi-family permit issuance to have been little changed in December, with the question here being whether we're seeing a bottom forming after a steep and prolonged decline. Our forecast would leave multi-family permits virtually unchanged for a third straight month, and given the path we expect for mortgage interest rates, we won't be surprised to see multi-family permit issuance start to move higher in the months ahead. For December, we look for total permit issuance of 114,300 units on a not seasonally adjusted basis, up 3.6 percent from November solely due to the bounce we expect in single family permits. Keep in mind, however, that the December seasonal factors for housing permits and starts are most generous, which plays a role in our above-consensus forecast of the headline permits number.
December Housing Starts Friday, 1/17 Range: 1.274 to 1.482 million units Median: 1.323 million units SAAR	Oct = 1.289 million units SAAR	Up to an annualized rate of 1.482 million units. On a not seasonally adjusted basis, we look for total starts of 105,300 units, up 7.5 percent from November, an increase entirely accounted for by what we anticipate will be a rebound in multi-family starts after the steep decline seen in November. The not seasonally adjusted data show sharp declines in three of the four broad Census regions in November, the Midwest region being the exception, and while we've chronicled the downward trend in multi-family starts for some time now, we nonetheless thought November's decline to be somewhat exaggerated. After all, multi-family starts are inherently volatile, and the increase we expect to see in the December data would, in conjunction with November's decline, leave them on the downward trend that has been in place. We look for single family starts to be little changed from November but, if we are correct in expecting little, if any, relief on the mortgage interest rate front in 2025, single family starts may begin to fall at a faster rate. We'll also note that, as with housing permits, the December seasonal factors applied to housing starts are very generous, which will flatter the headline starts print. Historically, December was the month with the largest decline in not seasonally adjusted single family starts, and while that pattern has shifted since the onset of the pandemic, it isn't clear that the seasonal adjustment process has adequately adjusted. Our general rule is that if our forecast ends up being off because we're wrong about the seasonal adjustment factor, we could not possibly care less, as it is on the basis of the not seasonally adjusted data that we assess how our forecasts fare. That general rule applies to the December residential construction data.

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