ECONOMIC PREVIEW

REGIONS

Week of February 10, 2025

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 18-19 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%	This week brings Fed Chair Powell to Capitol Hill for his semi-annual monetary policy testimony, appearing before the Senate Banking Committee on Tuesday and the House Financial Services Committee on Wednesday. The latter appearance could be made more interesting by that morning's release of the January CPI data. Look for Chair Powell to reiterate the message from his press conference that followed the January FOMC meeting – with the economy and labor market on firm footing and uneven progress on inflation, the FOMC need not be in a hurry to cut the Fed funds rate further. That, by the way, is a message being adopted by growing numbers of FOMC members. Chair Powell will no doubt try to avoid being drawn into specific discussions around potential impacts of changes in trade and immigration policy
January Consumer Price Index Wednesday, 2/12 Range: 0.2 to 0.4 percent Median: 0.2 percent	Dec = +0.4%	Up by 0.4 percent, which would yield a year-on-year increase of 3.0 percent. For both the total CPI and the core CPI, we think the difference between 0.3 percent and 0.4 percent increases will come down to rounding, with a close call either way. One easy way to tell that is that even though we look for both to be up by 0.4 percent, the 3.2 percent year-on-year increase in the core CPI we expect matches the consensus forecast predicated on a smaller monthly increase. One uncertainty around any forecast of the January data is whether, or to what extent, the updated seasonal factors applied to the raw data will remove the residual seasonality that has biased the early-year increases in the CPI higher over recent years. That is a question that cannot be answered in advance, as BLS does not release the updated seasonal factors ahead of the release of the January data. While we expect progress to have been made on this front, our forecast is nonetheless biased higher as we expect some degree of residual seasonality will remain in the data. If we're wrong on this point, our forecasts of the monthly changes in the total and core CPI will be too high. Another source of uncertainty around forecasts of the January data is that the expenditure weights used to construct the CPI will be updated, which could skew the monthly changes. Retail gasoline prices rose by 1.5 percent in January on a not seasonally adjusted basis, which we expect to translate into a modest increase on a seasonally adjusted basis that would have only a negligible impact on the total CPI. Other energy prices, however, could be up more sharply given the extent to which atypically harsh winter weather across much of the U.S. (yes, we're aware that it's always cold in the winter, but the point is that it isn't always this cold) drove up demand. Our forecast has prices for food consumed at home up 0.4 percent, though we do see some upside risk here. While we look for new and used vehicle prices to have risen in January, other components of core goods prices (consumer goods excluding food and energy) could come in on the soft side (which would also have been a weight on January retail sales). While the CPI measures showed rent growth moderating over the final months of 2024, we don't take that as a given in the January data given how jumpy the CPI measures of rent tend to be. Moreover, with detached single family homes likely being assigned higher weights as of the January data, this could pose upside risk to our forecast of January rent growth. One area of potential seasonal adjustment mischief will be travel services, particularly lodging rates and air fares. By all accounts, demand was much stronger in December than is typically the case for the month, and it could be that prices did not give as much ground in January than is typical for the month, which would be amplified in the seasonally adjusted data. Whether the monthly changes in the total and core CPI print at 0.3 or 0.4 percent is not, to us, the most relevant matter. Either way, the three-month annualized change in the total CPI will be more than four percent while that for the core CPI will be around 3.6 percent, each up sharply from December. Even if these changes are a bit overstated, they are a reminder of how stubborn inflation pressures are proving to be, with changes in trade and immigration policy potentially adding to these pressures.
January Consumer Price Index: Core Wednesday, 2/12 Range: 0.2 to 0.4 percent Median: 0.3 percent	Dec = +0.2%	Up by 0.4 percent, which would translate into a year-on-year increase of 3.2 percent.
January Producer Price Index Thursday, 2/13 Range: 0.2 to 0.6 percent Median: 0.3 percent	Dec = +0.2%	Up by 0.5 percent, which would yield a year-on-year increase of 3.5 percent.

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

ECONOMIC PREVIEW

REGIONS

Week of February 10, 2025

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
January Producer Price Index: Core Thursday, 2/13 Range: 0.2 to 0.5 percent Median: 0.3 percent	Dec = 0.0%	Up by 0.4 percent, yielding a year-on-year increase of 3.4 percent.
January Retail Sales: Total Friday, 2/14 Range: -1.0 to 0.4 percent Median: -0.1 percent	Dec = +0.4%	Down by 0.5 percent. In any given year, January is a challenging month for retail sales, which simply reflects the usual post-holiday lull in consumer spending. The challenge for retail sales this January, however, figures to have been more daunting than in most years. Unusually harsh winter weather across much of the nation likely weighed on spending, but the effects could have been more pronounced on spending on services such as lodging and dining out and on purchases of consumer durable goods than in any other areas. Aside from restaurant sales, the retail sales data do not capture services spending, which may limit weather-related impacts in the retail sales data. That said, we do expect restaurant sales to have declined sharply. We also expect motor vehicle sales to be a heavy weight on top-line retail sales. More so than weather effects, that unit sales were so strong in December figured to make January a tough month for vehicle sales. While unit sales did fall sharply in January, higher prices for new and used vehicles will cushion the impact of the drop in unit sales. It is interesting to note that the surveys of consumers conducted by the University of Michigan showed some consumers pulling vehicle purchases forward into late-2024 to avoid any tariff-induced price hikes in 2025, which could help account for why unit sales were notably strong in December and then fell sharply in January. We'll be paying particular attention to sales by nonstore retailers, roughly ninety-three percent of which consist of online sales. With Cyber Monday having fallen into December in 2024, we anticipated a bigger increase in sales by nonstore retailers (online sales lag the rest of the retail sales data by a month), not so much in the seasonally adjusted data, where tougher seasonal factors would have accounted for the calendar shift, but in the unadjusted data. So, we'll be watching for revisions to the initial estimate of unadjusted December sales in this category which, if this does prove to be the case, could throw our forecast of January sales off track. More broadly, while January is still a challenging month for retail sales, the bar has gotten lower. As we've discussed over the past few months, there has been a clear shift in shopping pattens around the holiday season, with October capturing a larger share of total Q4 control retail sales than had historically been the case, thanks in no small part to more aggressive online promotions during that month, which has come at the expense of November and December sales. One implication of what have become smaller December increases in not seasonally adjusted control sales is that the subsequent January declines have gotten smaller. To be sure, seasonal adjustment will ultimately catch on to and adapt to such changes, and we expect this January's seasonal factors to be less generous than was the case last year, which comes into play in our forecasts of the seasonally adjusted data. To our point, our forecast would leave not seasonally adjusted control retail sales down just under twenty-one percent from December, and while, sure, that's a big decline, the average January decline over the five years prior to the pandemic was 27.1 percent. Still, calendar shift aside, this January's atypically harsh winter weather will pose an additional hurdle for seasonal adjustment and for our forecast.
January Retail Sales: Ex-Auto Friday, 2/14 Range: -0.4 to 0.8 percent Median: 0.3 percent	Dec = +0.4%	Down by 0.2 percent.
January Retail Sales: Control Group Friday, 2/14 Range: -0.2 to 1.0 percent Median: 0.3 percent	Dec = +0.7%	Down by 0.2 percent.
December Business Inventories Friday, 2/14 Range: -0.2 to 0.5 percent Median: -0.1 percent	Nov = +0.1%	We look for total business inventories to be down by 0.2 percent and look for total business sales to be up by 0.7 percent.

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

ECONOMIC PREVIEW

REGIONS

Week of February 10, 2025

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
January Industrial Production Friday, 2/14 Range: -0.4 to 0.8 percent Median: 0.3 percent	Dec = +0.9%	Down by 0.3 percent. There are lots of moving parts here, and our forecast comes with a higher than normal degree of uncertainty. Resumption of production after the resolution of the Boeing strike added around two-tenths of a point to December's increase, and there could be some payback in the January data. More broadly, orders for core capital goods began to show signs of life over the final two months of 2024 after having been oddly rangebound since early-2023, which at some point should be supportive of production. Whether or not that began to materialize in January, however, remains to be seen given the extent to which economic activity in January was hampered by atypically harsh winter weather. For instance, the not seasonally adjusted data show the largest January decline in average weekly hours in the (admittedly somewhat limited) life of the current series. Within the manufacturing sector, the seasonally adjusted data look fairly benign, with aggregate hours worked down by just two-tenths of a percent from December, but here's where it gets strange, as aggregate hours worked amongst production/nonsupervisory workers fell by 0.6 percent. This would imply a significant increase in aggregate hours amongst non-production workers, including supervisory workers, raising the obvious question of if the production workers weren't working, then who exactly were the supervisory workers supervising? In any event, our forecast anticipates the sharp decline in hours worked amongst production workers will contribute to a decline in manufacturing output in the industrial production data, and we also look for a decline in mining output. If we're correct on these two points, the combined decline will more than offset what should be a substantial increase in utilities output, dragging total industrial production lower.
January Capacity Utilization Rate Friday, 2/14 Range: 77.3 to 78.1 percent Median: 77.7 percent	Dec = 77.6%	Down to 77.3 percent.

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