ECONOMIC PREVIEW

REGIONS

Week of October 12, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 4-5 FOMC meeting):* Target Range Mid-point: 0.000 to 0.125 percent Median Target Range Mid-point: 0.125 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	As data for the month of September continue to roll in, a more complete picture of Q3 GDP emerges. Our forecast anticipates annualized real GDP growth of just over 30 percent for Q3, which of course comes off of an annualized contraction of 31.4 percent in Q2. Our forecast would leave the level of real GDP roughly four percent below the level as of Q4 2019, a gap which it will take some time to fill.
September Consumer Price Index Tuesday, 10/13 Range: 0.0 to 0.3 percent Median: 0.2 percent	Aug = +0.4%	Up by 0.2 percent, yielding a year-on-year increase of 1.4 percent. Gasoline will be a drag on the headline index, and our forecast anticipates only a modest increase in prices for food consumed at home. The broader message in the September CPI data will be that inflation pressures remain muted.
September Consumer Price Index: Core Tuesday, 10/13 Range: 0.1 to 0.3 percent Median: 0.2 percent	Aug = +0.4%	Up by 0.3 percent, which would translate into a year-on-year increase of 1.8 percent. Our above-consensus forecast may prove too high, but here are a few of what we think will be the deciding factors. After August saw the smallest monthly increase since October 2010, we look for a modestly larger increase in primary rents in September, as with owners' equivalent rents. As rents account for over 40 percent of the core CPI, whether or not our call on rents proves correct could easily be the difference between the monthly change in the core CPI rounding up to 0.3 percent or rounding down to 0.2 percent. Also, though not matching the magnitude of August's increase, we look for further increases in prices for used motor vehicles in September. Our forecast also anticipates a larger increase in medical care costs than seen in August, a larger increase in prices for new motor vehicles, and another hefty increase in prices in the household furnishings & operations group. The relative increases in prices for core goods and prices for core services will be of interest; August saw the biggest disparity in favor of core goods prices in any month since December 1982, which to some extent reflects the divergent fortunes of goods producers and services providers. We'll be interested to see whether, or to what extent, this divergence persists.
September PPI: Final Demand Wednesday, 10/14 Range: 0.1 to 0.3 percent Median: 0.2 percent	Aug = +0.3%	Up by 0.1 percent, good for an over-the-year increase of 0.2 percent.
September PPI: Core Wednesday, 10/14 Range: 0.1 to 0.4 percent Median: 0.2 percent	Aug = +0.4%	Up by 0.3 percent, yielding a year-on-year increase of 1.1 percent.
September Retail Sales: Total Friday, 10/16 Range: -0.2 to 2.3 percent Median: 0.8 percent	Aug = +0.6%	Up by 1.8 percent. The narrative around consumer spending seems solely focused on the effects of the supplemental unemployment insurance (UI) benefits provided by the CARES Act having expired in late-July. While we are by no means dismissive of the plight of those impacted by this reduction in cash flows, we do think it helpful to note there is more to the (consumer spending) story. For instance, while disposable personal income fell by 3.2 percent in August, reflecting the run-off of the supplemental UI benefits, disposable personal income excluding transfer payments rose by 1.2 percent thanks to a hefty increase in wage and salary earnings, and the September personal income data will show a like-sized increase in ex-transfers disposable income, providing support for consumer spending. To be sure, spending on services remains well below pre-pandemic levels, but some of the foregone spending on services has been diverted to spending on goods – the retail sales data capture spending on goods but not spending on services. All of this helps account for our above-consensus forecast of September retail sales, and top-line sales will get a big lift from motor vehicle sales and online sales. We also think there could be a considerable degree of seasonal adjustment noise in the September data, which would bias the seasonally adjusted estimates higher. More specifically, the not seasonally adjusted data over the 1992-2019 period show average September declines of 6.4 percent in total retail sales and 5.7 percent in control retail sales, meaning the seasonal adjustment factors are geared for significant declines in the month of September. A common theme in the recent economic data, however, is that what in the past have been typical seasonal patterns in the data have been disrupted by the effects of the pandemic. We think that could be the case with the September retail sales data, i.e., the unadjusted data are unlikely to show the typical September declines. Obviously, if we're wrong on this point, then our forecasts of September retail sales will be far too high. We've made this same point in the context of other data, particularly the September labor market data, but times such as these illustrate the importance of looking at the raw data rather than simply accepting the seasonally adjusted headline numbers at face value.

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September Retail Sales: Ex-Auto Range: -0.5 to 2.1 percent Median: 0.4 percent	Friday, 10/16	Aug = +0.7%	Up by 1.0 percent.
September Retail Sales: Control Group Range: -0.9 to 1.5 percent Median: 0.3 percent	Friday, 10/16	Aug = -0.1%	Up by 0.9 percent.
September Industrial Production Range: 0.1 to 1.2 percent Median: 0.7 percent	Friday, 10/16	Aug = +0.4%	Up by 0.6 percent.
September Capacity Utilization Rate Range: 71.3 to 72.5 percent Median: 71.9 percent	Friday, 10/16	Aug = 71.4%	Up to 71.9 percent.
August Business Inventories Range: -0.2 to 0.5 percent Median: 0.4 percent	Friday, 10/16	Jul = +0.1%	We look for total business inventories to be up by 0.4 percent, and for total business sales to be up by 0.6 percent.

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