ECONOMIC PREVIEW

REGIONS

Week of December 7, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 15-16 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%	Things will get better, but not before things get worse. So, while we continue to get encouraging news on a vaccine against the COVID-19 virus, there are growing signs that the ongoing surge in cases is weighing on the economy, an unsettling reminder that the pandemic remains in the driver's seat. Last week's ISM surveys indicate the surge in COVID-19 cases is impacting employment and output and leading to supply chain issues. Consumer confidence has begun to falter and some of the higher frequency indicators of consumer spending indicate consumers have begun to pull back. Moreover, with an increasing number of state and local governments imposing new restrictions on economic and social activity, the toll on the economy can be expected to mount in the weeks ahead. While there is some evidence, such as the loss of 17,400 restaurant jobs, of the impact of the surge in the November employment report, the effects will be much more visible in the December report. And, given that the seasonal factors are likely to be most unkind to seasonally adjusted December job counts, a decline in nonfarm employment cannot be ruled out. All of this comes as there continues to be encouraging news on the vaccine front, but the near-term risks to the economy are weighted to the downside.
Q3 Nonfarm Productivity – 2nd Estimate Tuesday, 12/8 Range: 4.6 to 5.3 percent Median: 4.9 percent SAAR	Q3 – 1st Est. = +4.9% SAAR	Up at an annualized rate of 5.2 percent.
Q3 Unit Labor Costs – 2nd Estimate Tuesday, 12/8 Range: -9.1 to -7.8 percent Median: -8.9 percent SAAR	Q3 – 1st Est. = -8.9% SAAR	Down at an annualized rate of 7.6 percent.
November Consumer Price Index Thursday, 12/10 Range: 0.0 to 0.3 percent Median: 0.1 percent	Oct = 0.0%	Up by 0.1 percent, for an over-the-year increase of 1.1 percent. Retail gasoline prices were flat on a seasonally adjusted basis, so will be a neutral factor for the headline CPI. Our forecast anticipates a second consecutive decline in prices for used motor vehicles, partially unwinding the furious advance seen over the July-September period. Our forecast anticipates rent growth will remain on the soft side, and would yield the smallest over-the-year increase in primary rents since March 2012 and the smallest over-the-year increase in owners' equivalent rents since November 2013. Given the outsized weights attached to them (more than 40 percent) in the core CPI, the softness in rent growth is a primary factor behind the deceleration in core CPI inflation. One of the more puzzling elements of the CPI data over the past two months has been the behavior of medical care costs, which declined slightly in September and then much more sharply in October. The declines in costs have come on the goods (medical equipment, prescription and non-prescription drugs) and services (health insurance premiums, in-patient and out-patient hospital services) sides. The degree to which the upward trends in most of these series have reversed is somewhat curious, as is the speed with which they have done so. Keep in mind that the CPI measures medical care costs on an out-of-pocket basis, i.e., what consumers actually pay out of pocket for services, drugs, and medical care supplies/equipment, regardless of the total costs of services/goods, whereas the PCE Deflator measures medical care costs on a total cost basis, regardless of who pays. While our forecast anticipates a modest rebound in medical care costs in the November CPI data, it's hard to have much faith in that forecast. But, given that our forecasts for both the total CPI and the core CPI are basically rounding errors away from printing as 0.2 percent increases, medical care costs could easily be a swing factor. Still, even if medical care costs change course and surprise us to the upside, the broader takeaway from the November CPI data will be that inflation pressures are rather muted and are likely to remain so for some time.
Nov. Consumer Price Index: Core Thursday, 12/10 Range: 0.1 to 0.3 percent Median: 0.1 percent	Oct = 0.0%	Up by 0.1 percent, which yields a year-on-year increase of 1.6 percent.
November PPI: Final Demand Friday, 12/11 Range: -0.1 to 0.4 percent Median: 0.1 percent	Oct = +0.3%	Up by 0.1 percent, good for a year-on-year increase of 0.7 percent.
November PPI: Core Friday, 12/11 Range: -0.1 to 0.3 percent Median: 0.2 percent	Oct = +0.1%	Up by 0.2 percent, for an over-the-year increase of 1.5 percent.

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