ECONOMIC PREVIEW

REGIONS

Week of January 11, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 26-27 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%	Nonfarm payrolls fell by 140,000 jobs in December, much worse than expectations. The details of the December employment report, however, told a much more constructive story about where the U.S. economy was at year-end 2020. For starters, prior estimates of job growth in October and November were revised higher by a net 135,000 jobs for the two-month period. Additionally, the decline in total nonfarm employment was more than accounted for by leisure and hospitality services, where payrolls fell by 498,000 jobs, of which 372,000 came from restaurants. This, along with payrolls in private education services declining by 62,500 jobs, clearly reflects the effects of rising COVID-19 case counts and new limitations on activity, but masks what elsewhere in the economy was broad based hiring. The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, came in at 61.0 percent in December, indicating many more industry groups were adding workers than were letting workers go. To be sure, the labor market is far from healed, with nonfarm payrolls in December 9.839 million jobs below February's level and labor force participation down significantly from where it was at the start of 2020. Two-thirds of the shortfall in nonfarm employment, however, comes in leisure and hospitality services, education and health services, and government, with much of the economy on firmer footing. This should serve as a road map for how to direct any additional financial assistance to be provided to businesses and displaced workers.
December Consumer Price Index Wednesday, 1/13 Range: 0.2 to 0.4 percent Median: 0.4 percent	Nov = +0.2%	Up by 0.4 percent, which would yield a year-on-year increase of 1.3 percent. On a seasonally adjusted basis, retail gasoline prices were up by over 7 percent in December and this alone will add three-tenths of a point to the change in the headline index. As evidenced by the gap between our forecasts for the headline and core indexes – we had to coax our forecast for the core CPI into showing a 0.1 percent increase – there were few sources of inflation pressure outside of energy prices in December. We anticipate a decline in lodging costs, lower motor vehicle prices, lower apparel prices, and another listless increase in rents. We've allowed for a modest rebound in medical care costs, which have been notably weak over recent months, but even if there is a stronger snapback in medical care costs than we anticipate, it likely won't be enough to yield a larger increase in the core CPI than our forecast anticipates. Our forecast would mean that, on an annual average basis, the total CPI rose by 1.25 percent in 2020.
Dec. Consumer Price Index: Core Wednesday, 1/13 Range: 0.1 to 0.3 percent Median: 0.2 percent	Nov = +0.2%	Up by 0.1 percent, which would yield an over-the-year increase of 1.6 percent. On an annual average basis, our forecast would mean the core CPI rose by 1.71 percent in 2020. This will be around 30 basis points higher than the increase in the core PCE Deflator, which is the measure that matters most to the FOMC.
December Retail Sales: Total Friday, 1/15 Range: -0.7 to 1.1 percent Median: 0.0 percent	Nov = -1.1%	Up by 0.7 percent. Given that December was characterized by the ongoing surge in COVID-19 case counts, rising layoffs, the looming expiration of supplemental unemployment insurance benefits, restaurants either being forced to close or resort to take-out only service, and numerous reports of deserted stores, one could be excused for having low, or no, expectations for December retail sales. But, gasoline should provide a boost to top-line sales given the spike in retail pump prices, even if demand was softer due to less traveling around the holidays. Motor vehicle sales rebounded smartly in December after a surprisingly weak performance in November, which will provide a substantial boost to top-line retail sales. While our forecast does anticipate a sizable decline in restaurant sales, the flip side of that is a larger increase in grocery store sales than would have otherwise been the case. To the extent that in-store traffic was down in December, the flip side of that is what by all accounts was another strong increase in online sales. Moreover, what was strong hiring in retail trade in December suggests physical stores may not have been so deserted after all. The jump in retail trade payrolls was not a gift from generous seasonal adjustment – on a not seasonally adjusted basis, retail trade payrolls rose by 230,000 jobs in December, with broad based increases amongst the various components. Hiring at warehouse/club stores was particularly strong, in line with reports of strong sales. Note that this category, which rolls up into the broader general merchandise stores category, likely benefitted from both increased sales of food and from higher gasoline prices. While there are several reasons to think that December retail sales were stronger than the expected by the consensus forecast, the one thing working against us is, well, the retail sales data. The initial estimate of retail sales in any given month tends to be highly unreliable and prone to sizable revision, and a consistent weakness in the data has been the failure to adequately capture online sales. To that point, we would not be surprised to see an upward revision to the initial estimate of November retail sales.

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December Retail Sales: Ex-Auto Range: -1.0 to 1.0 percent Median: -0.2 percent	Friday, 1/15	Nov = -0.9%	Up by 0.2 percent.
December Retail Sales: Control Group Range: -1.2 to 0.8 percent Median: 0.0 percent	Friday, 1/15	Nov = -0.5%	Up by 0.8 percent.
December PPI: Final Demand Range: 0.0 to 0.6 percent Median: 0.3 percent	Friday, 1/15	Nov = +0.1%	Up by 0.5 percent, for an over-the-year increase of 0.9 percent.
December PPI: Core Range: -0.1 to 0.3 percent Median: 0.1 percent	Friday, 1/15	Nov = +0.1%	Up by 0.2 percent, which would yield a year-on-year increase of 1.4 percent.
December Industrial Production Range: -0.1 to 1.4 percent Median: 0.4 percent	Friday, 1/15	Nov = +0.4%	Up by 1.0 percent. Our forecast anticipates manufacturing output was up by 0.8 percent, with support from motor vehicle, civilian aircraft, and food production. If our forecast is on the mark, manufacturing output would still be 3.1 percent below the pre-pandemic peak. At one point this gap was more than 20 percent but filling in this last three percent will take at least the first half of 2021 to accomplish.
December Capacity Utilization Rate Range: 73.0 to 74.1 percent Median: 73.5 percent	Friday, 1/15	Nov = 73.3%	Up to 74.0 percent.
November Business Inventories Range: 0.4 to 1.0 percent Median: 0.5 percent	Friday, 1/15	Oct = +0.7%	We look for total business inventories to be up by 0.5 percent, and for total business sales to be up by 0.1 percent.

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