ECONOMIC PREVIEW

REGIONS

Week of February 8, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 16-17 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%	To us, the January employment report was a stark reminder that, however much promise is offered by progress on the vaccination front and by the prospect of further fiscal policy support, the near-term risks to the U.S. economy remain weighted to the downside. Still, it seems that many analysts and more than a few market participants are heavily discounting any such downside risks and instead focusing in on the latter part of this year, when the economy should be performing more strongly. Many analysts are hastily ramping up forecasts for 2021 growth on the prospect of a $1.9 trillion fiscal policy bill, though we see less bang for the buck, or for the 1.9 trillion bucks, than many others think will be the case. At the same time, it almost seems as though bad data, even something as uniformly lousy as the January employment report, only adds fuel to the financial markets on the premise that more bad news means more fiscal policy support. We can't help but think of the line from *The Boxer*, by Simon and Garfunkel – "a man hears what he wants to hear and disregards the rest." While we do anticipate the economy will be performing better at the end of 2021 than it is at the beginning, we're mindful of the near-term risks and are less certain as to the timeline of more widespread distribution of the vaccine than some others seem to be. Things will get better, that part seems certain; when things will get better seems far less certain, at least to us.
January Consumer Price Index Wednesday, 2/10 Range: 0.1 to 0.4 percent Median: 0.3 percent	Dec = +0.4%	Up by 0.3 percent, for a year-on-year increase of 1.5 percent. On a seasonally adjusted basis, retail gasoline prices were up by more than 5.0 percent in January, and this increase accounts for most of our expected increase in the total CPI. On Monday, ahead of the release of the January CPI data, the BLS will release the annual revisions to the recent historical CPI data, with the seasonally adjusted data going back to 2016 subject to revision. While the revisions do not typically yield material changes to prior estimates of inflation, at present where inflation is heading is a bigger question than where it has been. We continue to expect inflation to pick up over the course of 2021, though not to the extent that the FOMC will respond. Core goods prices have firmed up considerably over the past several months, reflecting the growth in consumer spending on goods at a time when retail inventories are notably lean, while a weaker U.S. dollar has also made a contribution. We see core goods prices continuing to push higher, even if at a slightly more restrained pace. In contrast, services prices have been somewhat listless over the past several months, reflecting much of the services sector being effectively shut down, which has acted as a meaningful drag on overall inflation. If the economy reopens later this year as is generally anticipated, service providers are likely to use a burst of demand as a chance to "normalize" pricing. True, this is more likely to take the form of one-off price hikes rather than a sustained period of price increases, but nonetheless this will add to measured inflation. It is also worth noting that the ISM's surveys of the manufacturing and non-manufacturing sectors show significant price pressures building, and it figures that this will eventually make its way into the broader inflation gauges. So, even beyond the spikes in inflation likely to be seen in March and April due to base effects, there are reasons to expect inflation to pick up over the course of 2021. Again, given their emphasis on the labor market and last September's change in their inflation targeting approach, the FOMC is not likely to respond to any acceleration in inflation in 2021. Still, though they are not likely to move, inflation could pick up to the point that sitting still becomes a bit more uncomfortable for the FOMC.
January Consumer Price Index: Core Wednesday, 2/10 Range: 0.0 to 0.3 percent Median: 0.2 percent	Dec = +0.1%	Up by 0.1 percent, which would yield an over-the-year increase of 1.5 percent.

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