ECONOMIC PREVIEW

Week of April 12, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the April 27-28 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%	Last week's release of the March Producer Price Index (PPI) data offered a glimpse of what this week's release of the March Consumer Price Index (CPI) data will bring. The March PPI came in hotter than expected, with the headline index up 4.2 percent year-on-year, the largest such increase since September 2011. Headline CPI inflation increased sharply in March, and we expect the April and May data to show it topping 3.0 percent. This in part reflects base effects, with prices having fallen last March, April, and May. Another factor which will push inflation higher is that, as the services sector reopens more fully in the months ahead, there will likely be a "normalization" of services prices, which have been pretty listless over the past year. Additionally, supply chain/logistics issues are adding to costs on the producer/wholesale levels, and this will almost surely filter down to retail-level inflation. None of these factors comes as a surprise, as we and many others have been discussing them for months now. The debate, however, is over whether these are all transitory factors that will abate later in 2021, thus mitigating inflation pressures, or whether they are more lasting. The FOMC is firmly in the "transitory" camp, and with their willingness to "allow" inflation to run ahead of their 2.0 percent target for "some time" the bar for them to react to faster inflation is set higher. Many market participants, however, see higher inflation on a more sustained basis, and we're more aligned with this view. Somewhat lost in the debate, however, is that there seems very little about rising prices for food, energy, and shelter that is transitory, and the effects of higher costs in these areas fall more heavily on lower-income households.
March Consumer Price Index Tuesday, 4/13 Range: 0.3 to 0.6 percent Median: 0.5 percent	Feb = +0.4%	Up by 0.6 percent, which would yield a year-on-year increase of 2.6 percent. With the arrival of the March data, along come the base effects that will bias inflation higher for the next few months, reflecting the declines in the headline and core CPI last March, April, and May. For instance, were the consensus forecast of a 0.5 percent increase in March to prove correct, even if the headline CPI were flat in April and May that would still push the over-the-year change above 3.0 percent. There is of course more to our March forecast than base effects. On a seasonally adjusted basis, retail gasoline prices will be up by around 10 percent in the March data, which alone accounts for half of the increase we expect in the total CPI. We also look for food prices to make a meaningful contribution to the increase in the total CPI. That still leaves us with an above consensus forecast for the increase in the core CPI (see below). We look for motor vehicle prices to push higher, in part because production cuts are weighing on the supply of new vehicles. Rent growth picked up a bit in February, and the question is whether that was a one-off bounce or the start of more sustained firming in market rents. This matters given that rents account for over 40 percent of the core CPI. Additionally, as the economy continues to reopen and consumer spending on services picks up, so too will services prices, and we expect to see some evidence of this in the March data.
March Consumer Price Index: Core Tuesday, 4/13 Range: 0.1 to 0.3 percent Median: 0.2 percent	Feb = +0.1%	Up by 0.3 percent, yielding a year-on-year increase of 1.6 percent, and base effects will push core CPI inflation over 2.0 percent in the April and May data. This leaves the same question posed above, i.e., how much of the increase in inflation we will see over the next few months will be transitory, and how much will be lasting.
March Retail Sales: Total Thursday, 4/15 Range: 3.5 to 12.0 percent Median: 5.4 percent	Feb = -3.0%	Up by 6.4 percent, as the wild ride for retail sales – up 7.6 percent in January, down 3.0 percent in February – continues. Between the third round of Economic Impact Payments, an increased flow of income tax refunds, and payback for sales having been held down in February by unusually harsh winter weather, the March data are likely to show a hefty increase in total retail sales. A surge in unit motor vehicle sales combined with price effects means sales at motor vehicle dealers will make a sizable contribution to top-line retail sales. The same will be true of gasoline station sales, which will be boosted by retail pump prices having risen by around ten percent on a seasonally adjusted basis. Our forecast also anticipates sales at building materials stores will bounce back strongly after February's steep decline. Higher frequency indicators of mobility and spending suggest a sizable increase in restaurant sales. Still, as our forecast of control retail sales – which strip out each of the categories cited above and which are a direct input into the GDP data on consumer spending – indicates (see Page 2), we expect broad based increases in March retail sales.

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March Retail Sales: Ex-Auto Thursday, 4/15 Range: 1.7 to 11.1 percent Median: 4.8 percent	Feb = -2.7%	Up by 5.8 percent.
March Retail Sales: Control Group Thursday, 4/15 Range: 4.0 to 11.3 percent Median: 6.9 percent	Feb = -3.5%	Up by 5.4 percent. If our March forecast is anywhere near the mark, nominal control retail sales grew at an annualized rate of better than 20 percent in Q1. Moreover, the level of control retail sales in March will be well above the Q1 average, which sets the base for another solid increase in Q2, even if well short of Q1 growth. Keep in mind that the retail sales data do not capture consumer spending on services – about two-thirds of all consumer spending – which is where we expect the biggest increases in spending in the months ahead.
March Industrial Production Thursday, 4/15 Range: 0.3 to 3.8 percent Median: 3.0 percent	Feb = -2.2%	Up by 3.1 percent. Recall that in February, unusually harsh winter weather acted as a severe drag on output in the manufacturing and mining sectors, offsetting what was a spike in utilities output. Our forecast anticipates the March data will largely be a reversal of the February data, i.e., we look for rebounds in manufacturing and mining output, as implied by the growth in aggregate hours worked in these sectors, to more than offset a sharp decline in utilities output. Recall that industrial production collapsed in March and April of 2020, and to the extent those declines shape the seasonal adjustment factors applied to the March and April 2021 data, that could provide an artificial boost to the seasonally adjusted data.
March Capacity Utilization Rate Thursday, 4/15 Range: 74.0 to 77.0 percent Median: 75.6 percent	Feb = 73.8%	Up to 75.8 percent.
February Business Inventories Thursday, 4/15 Range: 0.2 to 0.6 percent Median: 0.5 percent	Jan = +0.3%	We look for total business inventories to be up by 0.6 percent and for total business sales to be down by 2.0 percent.
March Building Permits Friday, 4/16 Range: 1.671 to 1.900 million units Median: 1.750 million units SAAR	Feb = 1.720 million units SAAR	Down to an annualized rate of 1.671 million units. Our forecasts for March housing permits and starts are well below the consensus forecasts, either the lowest (permits) or among the lowest (starts) in the surveys in which we participate. The same was true of our forecasts of the February data, which were much closer to the mark than were the consensus forecasts. Our February forecasts were premised on unusually harsh winter weather exacting a harsh toll on residential construction activity, most notably in the South region. It would seem to follow that we should be expecting the March data to bring payback, yet here we are back at the low end of the range of forecasts, We do expect some payback in the March data, as seen in our forecasts of not seasonally adjusted permits and starts, but there are two points to keep in mind. First, as single-family builders are already straining to keep up with demand, including growing backlogs of unfilled orders, that limits the degree to which they can add to March activity to make up for the ground lost in February. Second, in a typical year, March is the month with the largest increase not seasonally adjusted permits and starts. This is reflected in the seasonal adjustment factors used to arrive at the headline, i.e., seasonally adjusted and annualized, numbers, to the point that we think it highly unlikely the increases in unadjusted permits and starts will be large enough to arrive at the consensus forecasts of the seasonally adjusted and annualized numbers. On a not seasonally adjusted basis, we look for a total of 140,800 housing units to have been permitted in March, up from 120,100 units in February but in percentage change terms a smaller increase than is typical for the month of March.
March Housing Starts Friday, 4/16 Range: 1.492 to 1.760 million units Median: 1.602 million units SAAR	Feb = 1.421 million units SAAR	Up to an annualized rate of 1.529 million units. In keeping with the above discussion, our forecast anticipates not seasonally starts of 126,300 units, up from 100,700 total starts in February; on a percentage change basis, this is slightly above the typical March increase. We think it worth reiterating a point made above, which is that while it is reasonable to expect builders to make up for ground lost in February due to weather, that is far more likely to come gradually than all at once given that builders were already straining to keep up with demand. The degree to which we're correct on this point will go a long way toward determining if our March forecast is too low.

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