ECONOMIC UPDATE

REGIONS

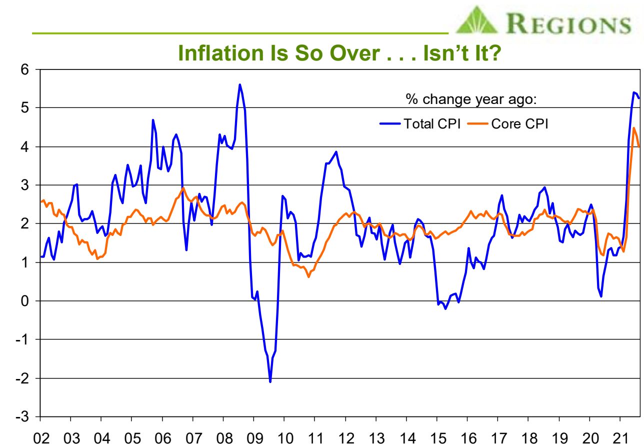
September 14, 2021

This Economic Update may include opinions, forecasts, projections, estimates, assumptions and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial or other plan or decision.

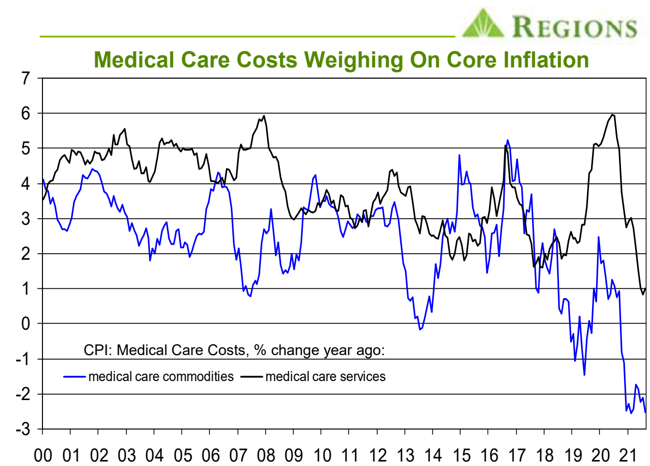
August Consumer Price Index: Thus Ends The Great Inflation Scare Of 2021. Or Does It?

- The total CPI rose by 0.3 percent in August (up 0.274 percent unrounded); the core CPI rose by 0.1 percent (up 0.102 percent unrounded)
- On a year-over-year basis, the total CPI is up 5.3 percent and the core CPI is up 4.0 percent as of August

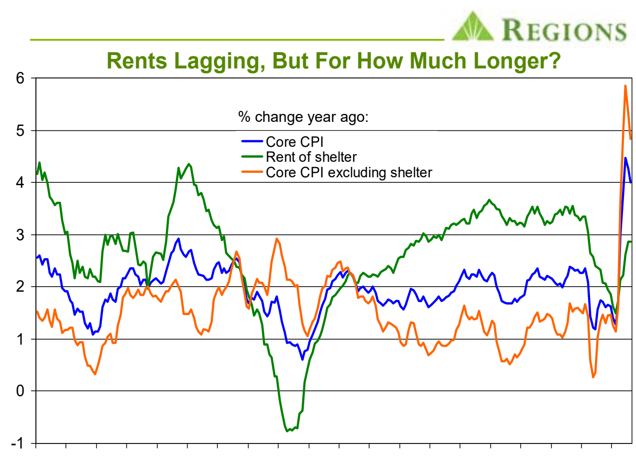
The total CPI rose by 0.3 in August, matching our below-consensus forecast, while the core CPI rose by 0.1 percent, falling short of our below-consensus forecast of 0.2 percent. On an over-the-year basis, the total CPI is up 5.3 percent while the core CPI is up 4.0 percent as of August. As we expected would be the case, there are several crosscurrents running below the top-line CPI numbers, with evidence of both COVID-related pullbacks in activity in August that weighed on the CPI and lingering supply chain and logistics bottlenecks that continue to boost the CPI. So, in that sense, the August CPI data settle very little in the ongoing debate as to just how transitory inflation pressures may prove to be. Well, at least to us, as there are some on team transitory doing a virtual victory lap in the wake of this morning's release. Additionally, ahead of next week's FOMC meeting, the August CPI data may provide support for those members who think it too soon to lay out a path for tapering the Fed's monthly asset purchases. Our view, however, hasn't changed, not out of sheer stubbornness on our part but instead because we've yet to see a compelling case for change. Global supply chain and logistics bottlenecks are showing signs of persisting well into 2022, which will continue to support upward pressure on goods prices, rent growth is accelerating, albeit to a greater extent in other measures than in the CPI data, and labor costs continue to rise at a rapid rate. Sure, the evolution of the CPI data over coming months will settle the score, at some point. In the interim, however, the bigger issue we have with those who consistently dismiss inflation pressures as transitory is that in so doing they fail to acknowledge the potential damage that even transitory inflation pressures can unleash. Even if they do moderate, monthly increases of just 0.15 percent would keep CPI inflation above 5.0 percent into 2022, a rate well ahead of wage growth, meaning workers' real wages would continue to decline. And, the longer such elevated rates of inflation persist, the greater the odds that higher inflation expectations become more embedded, with consumers having already ratcheted up their inflation expectations. Finally, even more moderate monthly increases in prices build on, not reverse, the price increases seen over the past several months. All of which makes inflation much less benign than implied by the "transitory" label many attach to it.



Air fares fell by 9.1 percent in August, while rental car rates fell by 8.5 percent, hotel rates fell by 3.3 percent, and entertainment admission fees fell by 0.6 percent, all of which are consistent with the pullbacks in demand for such services apparent during the month as COVID case counts rose. It could be, however, that we are falling into a pattern in which prices for such services rise (fall) as COVID case counts fall (rise), thus swaying the monthly CPI data while telling us nothing about underlying inflation pressures. Also weighing on services inflation in August were further declines in premiums for health and auto insurance, the latter down 2.8 percent in each of the past two months (surely our provider just forgot to let us know, while also forgetting to actually lower our premiums).



In contrast, prices for new motor vehicles rose by 1.2 percent in August and are up 7.7 percent year-on-year, reflecting strong demand and increasingly lean inventories. Prices for other consumer durable goods – furniture, appliances, televisions – are up sharply over the past year as well, all reflecting short supplies amid strong demand. Still, prices for core goods (i.e., consumer goods excluding food and energy) rose by just 0.3 percent in August, with a 1.5 percent decline in prices for used motor vehicles acting as a considerable weight. While supplies of used vehicles have increased, more and more demand is being funneled from new to used vehicles, so it remains to be seen whether August's decline in used vehicle prices will be extended.



Primary rents rose by 0.313 percent in August, the largest (unrounded) increase since January 2020, leaving them up just 2.1 percent year-on-year. It is worth noting that other measures show rent growth significantly faster than does the CPI, owing in part to the slow pace at which the CPI's sample population changes. Both owners' equivalent and primary rent growth will accelerate further, providing further support for CPI inflation.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com