ECONOMIC PREVIEW

REGIONS

Week of November 8, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 14-15 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%	This is how you know that transitory inflation has been around for a long time – it's no longer any fun to dismiss the notion of transitory inflation by asking things like just how long transitory can go on before transitory is no longer transitory. Well, okay, fine, that was a little fun. But, persistently elevated inflation that shows few, if any, signs of letting up is proving to be anything but fun, particularly to the extent that rising food, energy, and shelter prices are now playing more prominent roles in sustaining this transitory inflation. Our forecast of the October CPI (see below) would put headline CPI inflation at 6.0 percent year-on-year, and we expect it to remain above this mark through Q1 2022, and core CPI inflation could hit 5.0 percent. To be sure, inflation as measured by the CPI tends to run ahead of inflation as measured by the PCE Deflator, which is the FOMC's preferred gauge of inflation. Even so, PCE inflation is accelerating and will remain well ahead of the FOMC's 2.0 percent target through 2022. What should be concerning to those still clinging to the "transitory" narrative is that inflation pressures have broadened, and it is no longer large increases in a few categories driving inflation higher; the more broadly based they are, the more persistent inflation pressures are likely to be. Moreover, those still clinging to the "transitory" narrative should be more clear as to what specially they mean by that. After all, no one, at least not yet, expects inflation to persist at six percent, or even five percent for that matter, indefinitely, so, in that sense, we're all in the transitory camp. The more pertinent question is "then what?" Passing off inflation as being transitory makes it sound innocuous, when the reality is anything but. The reality is that when inflation does back off from current rates, prices won't magically start falling, they will simply rise at a slower rate than they have risen at over the past several months and will rise at over the next several months. That's not all that encouraging of an outlook for those households already feeling the impact from accelerating food, energy, and shelter inflation.
October PPI: Final Demand Tuesday, 11/9 Range: 0.4 to 0.9 percent Median: 0.6 percent	Sep = +0.5%	Up by 0.8 percent, yielding an over-the-year increase of 8.8 percent.
October PPI: Core Tuesday, 11/9 Range: 0.3 to 0.7 percent Median: 0.5 percent	Sep = +0.2%	Up by 0.6 percent, which would yield a year-on-year increase of 6.9 percent.
October Consumer Price Index Wednesday, 11/10 Range: 0.4 to 0.7 percent Median: 0.5 percent	Sep = +0.4%	Up by 0.7 percent, which would translate into a year-on-year increase of 6.0 percent. On a seasonally adjusted basis, retail gasoline prices were up almost six percent in October, which alone will account for about two-tenths of a point of the change in the total CPI. Food price inflation has picked up over recent months and we look for further acceleration in the October data. Though the September data showed a marked acceleration in rent growth, the CPI measures still lag far behind other measures of rent growth and house price appreciation. We look for sizable increases in market rents and owners' equivalent rents in the October CPI data. After two straight monthly declines, we look for the CPI's measure of used motor vehicle prices to reverse course in the October data based on movement in the Manheim Index, which tends to lead the CPI measure. Moreover, with the worst of the late-summer spike in COVID cases behind us, services spending picked up in October and we anticipate that being reflected in higher prices for lodging, air fares, rental cars, restaurant meals and recreation/entertainment. While we don't expect a repeat of the outsized increases seen earlier this year, these factors will nonetheless contribute to the increases we expect in the total and core CPI in October. Recall that for months, rent growth was the dog that didn't bark, i.e., we and others had been waiting for faster rent growth to contribute to faster inflation, which for several months did not occur. That dog did indeed bark in September, and rather loudly at that, and it is now medical care costs we're waiting to hear from. Medical care costs have been oddly restrained for some time, thus acting as a drag on headline and core inflation. At some point, however, medical care costs will contribute to faster inflation.
October Consumer Price Index: Core Wednesday, 11/10 Range: 0.2 to 0.5 percent Median: 0.4 percent	Sep = +0.2%	Up by 0.5 percent, good for a year-on-year increase of 4.5 percent.

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