ECONOMIC PREVIEW

REGIONS

Week of January 10, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 25-26 FOMC meeting):* Target Range Mid-point: 0.125 to 0.125 percent Median Target Range Mid-point: 0.125 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	The aggressive tone of the minutes to the December FOMC meeting took many market participants by surprise last week. The minutes raise the possibility of the Fed funds rate increasing "sooner or at a faster pace" than had been anticipated. Additionally, the minutes also raise the possibility that the FOMC will allow the Fed's balance sheet to begin unwinding "relatively soon" after they begin raising the funds rate. Obviously, there is no guarantee that words spoken last December will translate into action in 2022, as the pandemic has made it clear how quickly things can change. That said, the change in the FOMC's tone is quite noteworthy.
December Consumer Price Index Wednesday, 1/12 Range: 0.2 to 0.6 percent Median: 0.4 percent	Nov = +0.8%	<u>Up</u> by 0.5 percent, which translates into an over-the-year increase of 7.2 percent. While energy will be a drag on the headline index, we see no such relief from other sources of inflation pressures, such as food, rents, and vehicle prices. In the absence of the aggressive discounting that had come to be a holiday season tradition, core goods (consumer goods excluding food and energy) prices likely posted another stiff advance, with support from further price increases for new and used motor vehicles. Our forecast anticipates another sizable increase in food prices, particularly grocery store prices. Rent growth has kicked into a higher gear over the past few months and we don't expect that to have changed in December. With the pace of house price appreciation having picked up in late-2021, defying typical seasonal patterns, growth in owners' equivalent rents is likely to continue accelerating in the months ahead. Our forecast would reflect the highest rate of CPI inflation since June 1982, and while we do anticipate inflation slowing as we move through 2022, our January baseline forecast nonetheless anticipates the CPI rising by 5.4 percent in 2022.
December Consumer Price Index: Core Wednesday, 1/12 Range: 0.3 to 0.7 percent Median: 0.5 percent	Nov = +0.5%	<u>Up</u> by 0.6 percent, which would yield a year-on-year increase of 5.5 percent.
December PPI: Final Demand Thursday, 1/13 Range: 0.1 to 0.6 percent Median: 0.4 percent	Nov = +0.8%	<u>Up</u> by 0.3 percent, good for a year-on-year increase of 9.8 percent.
December PPI: Core Thursday, 1/13 Range: 0.2 to 0.8 percent Median: 0.5 percent	Nov = +0.7%	<u>Up</u> by 0.5 percent, which would translate into a year-on-year increase of 8.1 percent.
December Retail Sales: Total Friday, 1/14 Range: -2.0 to 0.6 percent Median: 0.0 percent	Nov = +0.3%	<u>Down</u> by 1.4 percent. For a second straight month, our forecast of retail sales is well below the consensus forecast, and our premise is pretty much the same. We expect the not seasonally adjusted data to show a smaller increase than is typical for the month of December which, in conjunction with what in most categories are brutal December seasonal factors, will yield seasonally adjusted numbers that will look much worse than is actually the case. To that point, our forecast would have not seasonally adjusted retail sales up by over eleven percent from November, and while that's a big number, it is nonetheless smaller than the typical December increase, hence the decline we anticipate in the seasonally adjusted data. While our November forecast was on the mark, that means nothing for our December forecast, but if sales do come in well below what the consensus forecast is expecting, the first order of business will be to look at the raw, or, not seasonally adjusted data. It is clear that consumers got an earlier than normal start to holiday shopping this year, and it is also clear that supply constraints have held down expenditures in certain categories of retail sales. And while the spread of the Omicron variant may have impacted how people shopped, i.e., online as opposed to going to physical stores, it will have had much less, if any, impact on how much they spent. Also, keep in mind that purchases of gift cards are not booked as retail sales until the cards are redeemed. So, to the extent people gave out gift cards, as opposed to actual gifts, as a means of working around supply constraints, that will have held down measured December retail sales. One thing working in favor of December retail sales will be higher prices, including the lack of the usual holiday season discounting, as retail sales are reported in nominal terms. Even if our forecast is on or close to the mark, retail sales will be up over 18 percent year-on-year, with higher goods prices accounting for almost half of that increase.

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Indicator/Action Economics Survey:		Last Actual:	Regions' View:
December Retail Sales: Ex-Auto Range: -2.3 to 1.0 percent Median: 0.2 percent	Friday, 1/14	Nov = +0.3%	Down by 1.8 percent.
December Retail Sales: Control Group Range: -3.0 to 0.9 percent Median: 0.0 percent	Friday, 1/14	Nov = -0.1%	Down by 2.3 percent. As noted on Page 1, our forecast has more to do with seasonal adjustment than it does about actual consumer spending. Anyone not convinced of the potential impacts of seasonal adjustment need only look at the December 2020 retail sales data, which show not seasonally adjusted control sales rose by 15.9 percent while showing seasonally adjusted control sales falling by 2.8 percent. Sure, as they say in the mutual fund game, past performance is no guarantee of future results, so it isn't a given that the patterns seen in the data from December 2020 and November 2021 will be apparent in the December 2021 data, and our forecast could prove wildly off the mark. We'll know soon enough, but keep in mind this isn't just an abstract forecasting question, as the seasonally adjusted data on control retail sales feed directly into the GDP data on consumer spending on goods. So, to the extent our forecast is on or near the mark, it poses a downside risk for Q4 2021 real GDP growth (the BEA's first estimate is due on January 27).
December Industrial Production Range: -1.0 to 0.8 percent Median: 0.2 percent	Friday, 1/14	Nov = +0.5%	Up by 0.1 percent. A further increase in motor vehicle production will contribute to higher manufacturing output, though performance across other manufacturing industry groups is likely to have been somewhat spotty given that aggregate hours worked in manufacturing declined in December. While mining output should post a moderate increase, warmer than normal winter weather means that utilities output will likely have declined in the seasonally adjusted data, thus acting as a drag on growth in total industrial production.
December Capacity Utilization Rate Range: 76.0 to 77.3 percent Median: 77.0 percent	Friday, 1/14	Nov = 76.8%	Unchanged at 76.8 percent.
November Business Inventories Range: 1.0 to 1.4 percent Median: 1.3 percent	Friday, 1/14	Oct = +1.2%	We look for total business inventories to be up by 1.4 percent and for total business sales to be up by 0.9 percent.

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