ECONOMIC PREVIEW

Week of March 13, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 21-22FOMC meeting):* Target Range Mid-point: 4.875 to 5.125 percent Median Target Range Mid-point: 4.875 percent	Range: 4.50% to 4.75% Midpoint: 4.625%	A week ago at this time, the center of attention was Fed Chair Powell's two days of Congressional testimony and any clues he may drop as to how high the FOMC would push the Fed funds rate at this month's meeting, as stronger than expected economic data had opened the door for a fifty basis point hike. The question today as we write this has changed to whether, in light of the recent stress in the banking system and questions/concerns as to the ultimate impact on the broader economy, the FOMC will opt to leave the funds rate unchanged at this month's meeting. The February CPI report will loom as a reminder that, up until a few days ago, few saw the FOMC's pushback against inflation as being anywhere close to done.
February Consumer Price Index Tuesday, 3/14 Range: 0.2 to 0.5 percent Median: 0.4 percent	Jan = +0.5%	Up by 0.5 percent, which would yield a year-on-year increase of 6.1 percent. Though gasoline prices fell throughout February, they will nonetheless add to the increase in the total CPI. This simply reflects monthly averaging – gas prices in the last week of January were well above the monthly average for January, and that last week in January set the base for February, so modest declines during February still left the monthly average higher than January's monthly average. The lift from gasoline prices, however, will be modest. The much bigger issue, for both the headline and core indexes, will be prices for used motor vehicles. Wholesale-level prices have risen sharply over the past two months but given that the CPI measure of used vehicle prices lags market-based measures, the question is how much of these increases will be picked up in the February CPI data. If less than we're assuming, then our forecasts for both the total and core CPI could be a tenth of a point too high. On the topic of lags in the CPI data, the CPI has yet to pick up on what over recent months has been a marked softening in rents, and while that won't happen in the February data, our forecast nonetheless anticipates a modestly lower monthly increase than seen in the January CPI data. The methodological change that has resulted in steep declines for health insurance prices as measured in the CPI data will once again mean that prices for medical care services act as a drag, which will be felt more acutely in the core CPI. January saw the largest monthly increase in prices for consumer goods excluding food, energy, and used motor vehicles since August, making this a category to watch in the February data to shed light on whether January's stiffer increase was a one-off or the start of a renewed round of upward pressure on goods prices. As for everyone's newest favorite key inflation metric that doesn't actually exist, we look for core services excluding housing to . . . well, we don't actually have a forecast given that this particular metric doesn't, you know, actually exist. But, if it did exist and it were truly closely aligned with changes in labor costs, then the clear deceleration in labor costs, even amongst the service providing industry groups, would suggest that so too would inflation pressures for core services excluding housing, at least if such a metric, you know, actually existed.
February Consumer Price Index: Core Tuesday, 3/14 Range: 0.3 to 0.5 percent Median: 0.4 percent	Jan = +0.4%	Up by 0.5 percent, which would yield a year-on-year increase of 5.5 percent.
February Retail Sales: Total Wednesday, 3/15 Range: -1.2 to 0.6 percent Median: -0.3 percent	Jan = +3.0%	Down by 0.1 percent. Our forecast is somewhat less downbeat than the consensus forecast across the board – total, ex-auto, and control sales. One reason is that the February seasonal factors will be supportive, even if to a lesser extent to which that was the case in January, when a 16.2 percent decline in not seasonally adjusted total retail sales turned into a 3.0 percent increase in seasonally adjusted sales. Our forecast would leave not seasonally adjusted total sales down 2.5 percent in February. Unit motor vehicle sales fell in February, which will be a drag on top-line retail sales, though much firmer pricing for used vehicles will mitigate the extent of that drag. Elsewhere, firmer core goods prices should be at least modestly supportive of February retail sales, which are reported on a nominal basis. As the retail sales data go, February tends to be a pretty uneventful month, which is what we expect this time around, with the retail sales report conveying little new information about the state of U.S. consumers. To the extent there is new information, that will be found in the unadjusted sales data, not the seasonally adjusted headline sales number.

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February Retail Sales: Ex-Auto Wednesday, 3/15 Range: -1.1 to 0.8 percent Median: -0.1 percent	Jan = +2.3%	Up by 0.4 percent.
February Retail Sales: Control Group Wednesday, 3/15 Range: -0.8 to 0.6 percent Median: -0.3 percent	Jan = +1.7%	Up by 0.3 percent.
February Producer Price Index Wednesday, 3/15 Range: -0.1 to 0.5 percent Median: 0.3 percent	Jan = +0.7%	Up by 0.3 percent, yielding an over-the-year increase of 5.4 percent.
February Producer Price Index: Core Wednesday, 3/15 Range: 0.0 to 0.5 percent Median: 0.4 percent	Jan = +0.5%	Up by 0.4 percent, for an over-the-year increase of 5.2 percent.
January Business Inventories Wednesday, 3/15 Range: -0.1 to 0.3 percent Median: 0.0 percent	Jan = +0.7%	We look for total business inventories to be down by 0.1 percent, and for total business sales to be up by 1.3 percent. Whether down slightly as we expect or flat as the consensus expects, the January data suggest that, after having been a powerful support for Q4 real GDP growth, inventories will likely be a material drag on Q1 real GDP growth.
February Building Permits Thursday, 3/16 Range: 1.300 to 1.420 million units Median: 1.345 million units SAAR	Jan = 1.339 million units SAAR	Up to an annual rate of 1.404 million units. On a not seasonally adjusted basis, we look for total permit issuance of 98,200 units, down 2.8 percent from January. After having fallen by roughly one hundred basis points from October's peak, mortgage interest rates reversed course in February, which sent applications for purchase mortgage loans sharply lower. We think that will have played a hand in holding down single family permit issuance, particularly with builders still contending with large backlogs of unfilled orders, albeit not as large as was the case a few months ago. To that point, our forecast would mark the eleventh consecutive month in which single family permits were lower than single family starts (on a not seasonally adjusted basis), as builders continue to work down order backlogs.
February Housing Starts Thursday, 3/16 Range: 1.250 to 1.367 million units Median: 1.310 million units SAAR	Jan = 1.309 million units SAAR	Up to an annual rate of 1.351 million units. On a not seasonally adjusted basis, we look for total starts of 96,100 units, up 0.5 percent from January. There are a few sources of added uncertainty around our forecast. First, atypically mild winter weather across much of the U.S. for much of the month could have provided more of a lift to single family starts than our forecast anticipates. Second, the share of new home sales accounted for by units not yet started jumped in January, and it could be that construction started on at least some of these units in February. Third, in our analysis of the January data, we noted that January marked the second straight month in which not seasonally adjusted multi-family starts came in well below what had been the run rate over the prior several months, and wondered if that reflected developers beginning to come to terms with the magnitude of the backlog of under construction multi-family units. Though our forecast anticipates a modest increase in unadjusted multi-family starts in February, our forecast would nonetheless keep multi-family starts easily below what had been the run rate. One never attaches too much confidence to any forecast of the always volatile but never dull multi-family segment of the housing market but, either way, this is something to watch for in the February data. Also worth watching will be completions, particularly as both single family and multi-family completions fell sharply in January – mild weather may have supported February completions – and whether there are any signs of progress in paring down the sizable backlog of multi-family units under construction. The single family backlog remains elevated but has at least come down, while the multi-family backlog continues to build.
February Industrial Production Friday, 3/17 Range: -1.2 to 1.1 percent Median: 0.2 percent	Jan = 0.0%	Down by 0.4 percent. The details on aggregate hours worked in the February employment report point to a decline in manufacturing output, and we do not expect the jump in output of nondurable goods seen in the January data to persist. At the same time, we expect some payback for the outsized increase in mining output reported in the January data.

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February Capacity Utilization Rate Range: 77.7 to 79.0 percent Median: 78.4 percent	Friday, 3/17	Jan = 78.3%	Down to 78.0 percent.
February Leading Economic Index Range: -0.7 to -0.1 percent Median: -0.3 percent	Friday, 3/17	Jan = -0.3%	Down by 0.5 percent.

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